

**2007-2008
BUDGET FOR
CURRENT OPERATIONS**

**NOVEMBER 2006
OFFICE OF THE PRESIDENT**

Teaching

Research

Public Service



**UNIVERSITY OF
CALIFORNIA**

PRESIDENT'S MESSAGE

The University of California has a long tradition, dating to its land-grant origins, of serving the public needs of California. Whether opening doors to educational opportunities for promising students, generating new discoveries that lead to new industries and jobs, providing health care for patients in the most dire of circumstances, or assisting K-12 schools in improving academic performance, the University has worked to expand the worldwide body of knowledge and to create new possibilities and new solutions for the people of California.

UC is, in many respects, a transformational institution — an institution that transforms lives and helps the people it touches achieve new potential. At the same time, the University is in the midst of its own transformation as it confronts the needs of a 21st century citizenry. Demography, technology, and global competitiveness are changing our state and the context within which we all live. For the last year, I have been encouraging people within the University community, both formally and informally, to think about the future of California and what that future will require of the University of California. What will the State's needs be 20 years from now? How should UC expect to contribute uniquely to addressing those public challenges? And what do we need to do today in order to ensure our maximum contribution to California, both tomorrow and in 20 years from now?

The report of a group I commissioned to make recommendations on these issues is expected to be released roughly simultaneously with this budget. The group's deliberations, as well as my own reflections and conversations with countless people across California and the UC community, suggest certain themes that should guide our priorities for the near term:

- We must act and plan as **one university** — drawing on the strengths of the individual campuses, but drawing them together in an interconnected, cross-campus, cross-disciplinary manner that brings the total strength of the UC system to bear on the public's needs. The size and scope of UC as an academic institution are unmatched. To serve California in the best possible way, we must ensure that the “whole” of UC is more than the sum of its parts.
- We must commit to research, development, and **delivery** as our model of problem-solving. I have always stated the mission of the University of California as the following: We create new knowledge (research), we teach the next generation of creators (teaching), and we take the creations of the institution out for the public good (public service). We have an obligation to translate knowledge into societal benefit. And we must continue to find new and even more effective means of doing so for California, the nation, and the world.

- We must continue to maintain the **quality** of the institution and its **accessibility** for qualified students. These represent the foundation of the contribution the University is able to make to California.
- We must continue to expand the **diversity** of the student body, the faculty, and the staff. If we are to be well-positioned to serve the state in the coming decades, the University itself must reflect the citizenry it serves.
- We must secure the fiscal stability and enhance the funding of our core **research** programs, including generating sufficient support for the state-of-the-art California Institutes for Science and Innovation. Through these Institutes, as well as through the world-class research being conducted throughout the University, the state has ready access to new discoveries that lead to new industries, enhanced economic progress, and the creation of jobs.
- We must focus on targeted areas of need and strategic opportunity. State **workforce shortages** in various fields, including in the **health sciences**, must be addressed — and we have work underway to do so. Over the next decade, the University must re-balance its undergraduate and graduate enrollments, increasing graduate enrollments in high quality programs critical to the state's continuing economic vitality, as well as its social and cultural development. The University must help in the improvement of **K-12 education** in the ways that draw on UC's expertise, including through continued implementation of our initiative to train more math and science teachers for California schools. And in an increasingly global marketplace, we must expand our **international presence**, working with scholars across the globe to address common problems and also working ourselves to better link our education and research activities abroad.
- We must sustain the **public trust** as an institution. We are, first and foremost, a public institution accountable to the State of California and its citizens. We have taken a wide range of actions to ensure public transparency and accountability, and we are in the process of re-organizing the Office of the President to improve business operations. I am committed to seeing through the necessary reforms to ensure that the public always has full confidence in UC.

To achieve our goals as an institution and for the people of California, we must achieve adequate resources. State funds provide the core support needed for the basic operations of the University. With that core support, we are able to leverage funds from a variety of other sources. The financial provisions of the Compact with the Governor express the University's needs for basic State support, and we are grateful for the support of the Governor and the Legislature these past two years. Our request under the Compact has been fully funded, and additional funds above the Compact have been provided to support student academic preparation

programs, including the expansion of community college transfer programs; increase funding for specified research programs; and to buy out planned student fee increases in the current year, for which our students and their parents were very grateful after several years of significant student fee increases. We are again basing our budget request for 2007-08 on the Compact, with funding requested as follows:

- An enrollment increase of 2.5%, or 5,340 FTE, at the revised marginal cost level. This rate of growth is consistent with the Master Plan goal of accommodating eligible undergraduate students and is sufficient to allow for planned increases in graduate academic programs as well as in the health sciences. With respect to the health sciences, emphasis is being placed on increasing the number of medical students who are prepared to serve medically underserved populations and who are able to provide health care through expanded use of telemedicine, as well as nursing enrollments needed to help meet the state's critical shortfall in practicing nurses and nursing faculty.
- An increase for graduate academic student support, including new funding provided under the Compact and redirection of funds from additional savings achieved through our Strategic Sourcing Initiative and other efficiencies. This effort is necessary to begin to regain the University's competitive position to attract the best graduate academic students.
- Funding to continue UC's multi-year plan to restore funds cut from the budget related to the student-faculty ratio. Support for this purpose in 2007-08 would constitute the third increment of funding over a three-year period directed toward improving the student-faculty ratio.
- A compensation package of 5% to fund cost-of-living increases, merit salary increases, market-based and equity salary increases, and cost increases in health and welfare benefits and non-salary budgets. Faculty salaries today are estimated to lag the average of our comparison institutions by 10%, and we have a similar problem with respect to average staff salaries.
- Funding related to the re-instatement of contributions to the University of California Retirement Program (UCRP). The Regents have made it a high priority to ensure the long-term viability of the retirement program for the benefit of all UC employees.

Funds are also being requested above the Compact for a research initiative that will both partially restore recent budget cuts to core research programs, such as agricultural research, Scripps Institution of Oceanography, and others, and will provide new funding for research initiatives important to the state's economic growth and job creation, including support for the California Institutes for Science

and Innovation. Campuses will be asked to use at least 50% to 60% of the funds for new research initiatives to help support graduate students as research assistants.

At this time, the University is making no proposal for an increase in student fees. Instead, we propose to delay action on student fees until more is known in January 2007 after the Governor's proposed budget for 2007-08 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to once again buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January 2007 meeting of the UC Regents. It should be noted that any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances. In the event student fee increases are implemented for the coming year, it would be the University's intention to offer a 33% return-to-aid for undergraduate students, including special emphasis on ensuring accessibility for needy middle-income students who traditionally have not qualified for grant aid; a 45% return-to-aid for graduate academic students to recognize the need to provide competitive graduate support packages and to cover collective bargaining agreements with teaching assistants; and a 33% return-to-aid for graduate professional school students.

Funding for the University's 2006-07 *and* 2007-08 capital budgets will require passage of the new General Obligation bond measure on the ballot for the November 7 election. Proposition 1D on the ballot would provide approximately \$690 million for general capital outlay over the two years. The measure also includes an additional \$200 million for expanding the University's medical school programs and its ability to deliver health care through telemedicine. Passage of this bond is critical to the University's ability to continue to accommodate enrollment growth through the remainder of this decade.

We remain strongly committed to the Master Plan for Higher Education and its tenets of providing access to a public university that is a high-quality, major research institution, thereby assuring that all qualified students, regardless of income or socioeconomic background, can attain one of the finest educations in the world. We are committed to looking forward ourselves to determine how we must transform ourselves to meet the needs of the next generation, and of generations to come. And we are committed to sustaining and maximizing our positive contributions to all the people of California. We greatly appreciate the continuing support of the Governor, the Legislature, and the citizens of California.

Robert C. Dynes, President
November 2006

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 ten campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, 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 two Department of Energy Laboratories and is a partner in a limited liability corporation that oversees a third Department of Energy Laboratory.

Organization of the Regents' Budget

The next chapter, *Overview*, provides an overall perspective on the major policy issues, specific objectives, and priorities for 2007-08. The following chapter, *Summary of the University's 2007-08 Budget Request*, outlines the University's budget plan for 2007-08. Subsequent chapters discuss programs in more detail and provide fuller justification of requests for funding increases. The budget is structured to accommodate readers who do not go beyond the *Overview* and *Summary* chapters as well as those who want information on selected topics only. Therefore, important themes are repeated throughout the document. Finally, an index appears at the end of this document to assist readers who are looking for a particular subject area.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| President's Message..... | i |
| Foreword | v |
| Table of Contents | 1 |
| 2007-08 Budget for Current Operations and Extramurally Funded Operations (Table) | 2 |
| Introduction to the 2007-08 Budget | 3 |
| Overview of the 2007-08 Budget | 5 |
| Summary of the University's 2007-08 Budget Request | 49 |
| Discussion of Operating Funds for 2007-08 | |
| General Campus Instruction | 95 |
| Health Science Instruction | 141 |
| Summer Sessions | 158 |
| University Extension..... | 159 |
| Research..... | 160 |
| Public Service | 182 |
| Academic Support-Libraries | 204 |
| Academic Support-Other..... | 215 |
| Teaching Hospitals..... | 218 |
| Student Fees..... | 235 |
| Student Services..... | 259 |
| Student Financial Aid | 263 |
| Institutional Support | 288 |
| Operation and Maintenance of Plant | 292 |
| Auxiliary Enterprises..... | 302 |
| Provisions for Allocation | 304 |
| Program Maintenance: Fixed Costs and Economic Factors (Salary and Benefit Increases, Price Increases, Productivity Improvements) | 306 |
| University Opportunity Fund and Special Programs..... | 315 |
| Income and Funds Available..... | 319 |
| Appendix (Tables) | |
| Budget for Current Operations: Expenditures by Program and Fund Type | 330 |
| General Campus and Health Sciences FTE Enrollments— Year Average..... | 331 |
| General Campus Headcount and FTE Enrollments—Year Average..... | 332 |
| Index | 333 |

UNIVERSITY OF CALIFORNIA
2007-08 BUDGET FOR CURRENT OPERATIONS AND EXTRAMURALLY FUNDED OPERATIONS

EXPENDITURES

INCOME

| | 2006-07 Budget (\$000s) | 2007-08 Proposed (\$000s) | Change Amount (\$000s) | % | | 2006-07 Budget (\$000s) | 2007-08 Proposed (\$000s) | Change Amount (\$000s) | % |
|--|-------------------------------|---------------------------------|------------------------------|-------------|--|-------------------------------|---------------------------------|------------------------------|-------------|
| <u>BUDGET FOR CURRENT OPERATIONS</u> | | | | | <u>BUDGET FOR CURRENT OPERATIONS</u> | | | | |
| Instruction: | | | | | General Fund | | | | |
| General Campus | \$ 2,240,714 | \$ 2,325,026 | \$ 84,312 | 3.8% | State of California | \$ 3,076,681 | \$ 3,324,584 | \$ 247,903 | 8.1% |
| Health Sciences | 840,675 | 859,495 | 18,820 | 2.2% | State of California / Possible Std Fee Incr | -- | 71,000 | 71,000 | -- |
| Summer Session | 12,905 | 12,905 | 0 | 0.0% | UC Sources | 560,594 | 576,777 | 16,183 | 2.9% |
| University Extension | 198,109 | 202,071 | 3,962 | 2.0% | | | | | |
| Research | 583,721 | 612,988 | 29,267 | 5.0% | Total General Funds | \$ 3,637,275 | \$ 3,972,361 | \$ 335,086 | 9.2% |
| Public Service | 210,024 | 213,524 | 3,500 | 1.7% | | | | | |
| Academic Support: | | | | | <u>Restricted Funds</u> | | | | |
| Libraries | 262,652 | 265,652 | 3,000 | 1.1% | State of California | \$ 63,752 | \$ 63,517 | \$ (235) | -0.4% |
| Other | 588,288 | 604,288 | 16,000 | 2.7% | U. S. Government Appropriations | 17,000 | 17,000 | 0 | 0.0% |
| Teaching Hospitals | 3,921,010 | 4,114,466 | 193,456 | 4.9% | Student Fees: | | | | |
| Student Services | 450,095 | 463,975 | 13,880 | 3.1% | Educational, Registration & Professional School Fees | 1,437,446 | 1,472,234 | 34,788 | 2.4% |
| Institutional Support | 601,648 | 614,648 | 13,000 | 2.2% | Extension, Summer Session & Other Fees | 417,889 | 430,126 | 12,237 | 2.9% |
| Operation and Maintenance of Plant | 529,946 | 544,146 | 14,200 | 2.7% | Teaching Hospitals | 3,869,119 | 4,062,575 | 193,456 | 5.0% |
| Student Financial Aid | 540,880 | 552,359 | 11,479 | 2.1% | Auxiliary Enterprises | 777,694 | 816,579 | 38,885 | 5.0% |
| Auxiliary Enterprises | 777,694 | 817,694 | 40,000 | 5.1% | Endowments | 188,648 | 201,853 | 13,205 | 7.0% |
| Provisions for Allocation | 73,667 | 69,850 | (3,817) | -5.2% | Other | 1,621,287 | 1,688,387 | 67,100 | 4.1% |
| University Opportunity Fund and Special Programs | 198,082 | 204,545 | 6,463 | 3.3% | | | | | |
| Program Maintenance: Fixed Costs, Economic Factors | -- | 247,000 | 247,000 | -- | Total Restricted Funds | \$ 8,392,835 | \$ 8,752,271 | \$ 359,436 | 4.3% |
| TOTAL BUDGET FOR CURRENT OPERATIONS | \$ 12,030,110 | \$ 12,724,632 | \$ 694,522 | 5.8% | TOTAL BUDGET FOR CURRENT OPERATIONS | \$ 12,030,110 | \$ 12,724,632 | \$ 694,522 | 5.8% |
| <u>EXTRAMURALLY FUNDED OPERATIONS</u> | | | | | <u>EXTRAMURALLY FUNDED OPERATIONS</u> | | | | |
| Sponsored Research | \$ 2,671,210 | \$ 2,774,879 | \$ 103,669 | 3.9% | State of California | \$ 221,089 | \$ 225,511 | \$ 4,422 | 2.0% |
| Other Activities | 1,474,633 | 1,526,205 | 51,572 | 3.5% | U.S. Government | 2,249,860 | 2,328,605 | 78,745 | 3.5% |
| | | | | | Private Gifts, Contracts & Grants | 1,089,110 | 1,143,610 | 54,500 | 5.0% |
| TOTAL EXTRAMURALLY FUNDED OPERATIONS | \$ 4,145,843 | \$ 4,301,084 | \$ 155,241 | 3.7% | Other | 585,784 | 603,358 | 17,574 | 3.0% |
| | | | | | TOTAL EXTRAMURALLY FUNDED OPERATIONS | \$ 4,145,843 | \$ 4,301,084 | \$ 155,241 | 3.7% |
| TOTAL OPERATIONS | \$ 16,175,953 | \$ 17,025,716 | \$ 849,763 | 5.3% | TOTAL OPERATIONS | \$ 16,175,953 | \$ 17,025,716 | \$ 849,763 | 5.3% |
| <u>MAJOR DEPARTMENT OF ENERGY</u> | | | | | <u>MAJOR DEPARTMENT OF ENERGY</u> | | | | |
| LABORATORIES | \$ 2,151,103 | \$ 2,151,103 | \$ 0 | 0.0% | LABORATORIES | \$ 2,151,103 | \$ 2,151,103 | \$ 0 | 0.0% |

INTRODUCTION TO THE 2007-08 BUDGET

The Pursuit of Excellence

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

The UC faculty is well-represented in the memberships of a variety of prestigious organizations, such as the National Academy of Sciences, and among winners of the Nobel Prize and Guggenheim Fellowships. Fifty faculty and scientists affiliated with UC have been awarded Nobel Prizes, the pinnacle of achievement for groundbreaking research; 18 of the Nobel Prizes have been won since 1995. In 2006, George F. Smoot, who has a dual appointment with the UC Berkeley physics department and Lawrence Berkeley National Laboratory, was awarded the Nobel Prize in physics. Two other researchers who received Nobel Prizes in 2006 earned degrees at the University of California. No public university has won more Nobel Prizes than the University of California.

In 2005, President Bush named three University of California researchers recipients of the National Medal of Science, the nation's highest award recognizing scientists whose pioneering research in the areas of physical, biological, mathematical, engineering, behavioral, or social sciences has led to a better understanding of our world. UC affiliated researchers have received 56 Medals of Science — more than 10% of the medals presented — since Congress created the award in 1959. In 2006, the National Academy of Sciences announced the election of 72 new members and 18 foreign associates in recognition of their achievements in scientific and engineering research — 14 of the new members are affiliated with the University of California. Membership in the Academy is considered one of the highest honors that can be accorded a scientist or engineer. Total active Academy membership is 2,013 — with this latest election, there are now 372 UC researchers who are members. The University of California has more active members than any other U.S. college or university.

In 2006, a UC faculty member, UCLA mathematics professor Terence Tao, received one of the nation's most coveted honors, a MacArthur Foundation Fellowship, which is often referred to as a "genius" grant. Since the first MacArthur Fellowships were bestowed in 1981, about 60 faculty, researchers, and others affiliated with UC have been awarded these prestigious no-strings-attached \$500,000 grants. Tao, 31, received another prestigious honor in 2006 when he was awarded the Fields Medal, often described as the "Nobel Prize in mathematics."

In 2006, 18 UC faculty were named Guggenheim Fellows by the New York-based John Simon Guggenheim Memorial Foundation. More Guggenheim fellowships have been awarded to UC faculty than to any other university or college. There have been approximately 1,440 Guggenheim fellows from UC since 1930, according to the Guggenheim Foundation. Guggenheim Fellows are appointed on the basis of distinguished achievement in the past and exceptional promise for future accomplishment. They include writers, painters, sculptors, photographers, filmmakers, choreographers, physical and biological scientists, social scientists, and scholars in the humanities.

In their 1997 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.

In September 2006, a new study of biotech-knowledge transfer by universities and colleges worldwide found that the University of California system averaged the highest level of licensing income annually — almost \$100 million — from its research discoveries in biotechnology. The study, commissioned by the Milken Institute of Santa Monica, called the UC system the most successful university in licensing income from its biotech discoveries and inventions from 1997 to 2003. It also found that UC ranked first for numbers of U.S. biotech patents issued, 723 patents between 2000 and 2004 and that one out of every five nanotech patents came from the UC system.

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.

Overview

The University of California makes a vital contribution to the state's economy and the quality of life of its citizens. Through its instruction, research, and public service programs, the University provides a wide range of benefits to the people of California:

- UC educates the workforce needed by business, agriculture, health care, education, and other sectors of the economy.
- UC conducts research that fuels the economy, creates jobs, and increases productivity, leading to higher standards of living.
- UC provides an unmatched combination of state-of-the-art patient care facilities and path-breaking research programs, which are integrated with medical education programs to improve the health of Californians.
- UC works with K-12 schools to improve the quality of instruction and expand educational opportunities.
- UC is a key source of innovation and entrepreneurs, which are essential to the industries that will be driving California's competitiveness.
- UC provides social, cultural, and economic benefits to the communities in which its campuses reside.

The excellence of the University's programs attracts the best faculty and students, leverages billions of dollars in federal and private funding, and promotes the discovery and dissemination of new knowledge that fuels economic growth. These benefits accrue not only to the University's students, faculty, and staff, but also to citizens in every part of the state and to the country as well. The University does more than educate over 210,000 students each year; it touches the lives of every Californian.

In 2003, the University commissioned ICF Consulting to quantify the University's impact on the state's economy, on the health of its residents, and on the vitality of its communities. In the resulting report entitled "California's Future: It Starts Here", the international management consulting and strategic analysis firm concluded, "*Considering UC's contributions across the board, it is no exaggeration to say that perhaps no other institution in the state benefits the quality of life of more Californians in every sphere of their daily life — learning, working, playing, living — than the University of California.*"

In September 2006 the *Washington Monthly* published a new version of college rankings that focused on indicators of how much an institution benefits the country. Specifically, the magazine explored how well a college performs as an engine of social mobility, fosters scientific and humanistic research, and promotes an ethic of service to the country. Based on these criteria, UC Berkeley was ranked as the top public university in the nation (and second in the overall rankings), UCLA ranked fourth, UC San Diego ranked sixth, and UC Davis ranked tenth. The Irvine, Riverside, Santa Barbara and Santa Cruz campuses were also included in the top 75 ranked campuses.

Modern research universities fulfill their multiple missions through complex interrelationships among teaching, research, and service functions. The University's total budget provides the resources needed to teach, conduct research, and perform those public services for which the institution is uniquely qualified. Adequate resources to perform these functions are critical to the University's ability to meet the high standards of quality that Californians have come to expect of their world-renowned university. Moreover, quality must be protected if this valuable asset is to continue to serve as an engine of economic growth.

However, dramatic cuts during the early 1990s and again during the initial years of the 21st century strained the University of California's ability to contribute to the economic and social welfare of the state. In times of stress, priorities must be set in order to make the best use of limited resources. The University has continuously addressed the State's highest priority for higher education — access for undergraduate students — by expanding as rapidly as possible to accommodate an exceptional increase in high school graduates, commonly called "Tidal Wave II." Other aspects of the University's mission, including research and public service, sustained disproportionate budget cuts; graduate and professional programs have not expanded rapidly enough to meet the state's growing needs. As a result, the University faces critical funding challenges that may well determine whether it remains an international center of academic excellence, with a deep impact on California's quality of life, or becomes just another university through gradual decline in quality over the coming years.

Fortunately, the Compact with Governor Schwarzenegger, reached in Spring 2004, recognized the importance of higher education in a knowledge-based economy and prevented further erosion of the University's research and advanced education programs. While the Compact stopped the decline in State funding, years of disinvestment have left academic support levels, the student-faculty ratio, and graduate and professional education significantly under-funded. Faculty and staff salaries, as well as graduate student financial support, are well below what competitor institutions provide. This budget document describes the resources needed to implement a multi-year plan to restore funding to competitive levels,

based upon goals and priorities established by The Regents of the University of California in January 2004.

This *Overview* describes the critical role the University plays in the economic, social, and cultural well-being of the State and the importance of adequate resources to enable the University to perform its tripartite missions of teaching, research, and public service. The *Overview* also provides a history of funding for the University and outlines the critical policy issues facing the University through the remainder of this decade. A detailed discussion of the University's budget plan for 2007-08 is contained in the next chapter of this document, *Summary of the 2007-08 Budget Request*.

Is the U.S. Losing Its Competitive Edge?

As revolutionary as the shift from an agrarian economy to one based upon manufacturing decades earlier, new technologies and global competition reshaped America's economy at the end of the 20th century. The United States has been a world leader in the transition to a knowledge-based economy because it has a legal system that protects intellectual property; a school system that fosters creativity, not just rote learning; more of the world's best research universities; and an environment that encourages entrepreneurship, including access to capital for starting new businesses.

Prominent in that list are America's world-class research universities, which are critical to economic development and global competitiveness. According to Alan Greenspan, former Chairman of the U.S. Federal Reserve Board:

"In a global environment in which prospects for economic growth now depend importantly on a country's capacity to develop and apply new technologies, our universities are envied around the world. If we are to remain preeminent in transforming knowledge into economic value, the U.S. system of higher education must remain the world's leader in generating scientific and technological breakthroughs and in preparing workers to meet the evolving demand for skilled labor." (Remarks before the National Governors' Association, July 2000)

America's leadership and economic success late in the 20th century did not, however, go unnoticed. Others throughout the world watched as the Internet boom created wealth, and they, too, wanted to start companies based on new technologies. In the past, new companies with global ambitions started in regions rich in natural resources with an infrastructure that supported trade. However, it became increasingly possible to compete in the global marketplace at the end of the 20th century, as powerful desktop computers, advanced software, and improved

communications lowered the barriers to entry for highly motivated entrepreneurs in other countries. Or, as Thomas Friedman says in his best selling book with a similar title, the world became flatter.

While the United States has led the world in the transition to a global, knowledge-based economy, several reports, such as those published by the Task Force on the Future of American Innovation (2005) and the Council on Competitiveness (2001), warn that other nations are making investments to improve their competitive positions while the U.S. is resting on its laurels. As evidence of increasing competition, these reports cite the growth in research and development investments by other nations, the growth of high-tech equipment production in China, the increase in patents filed by entrepreneurs outside the United States, and an increase in investments in higher education, as evidenced by the increase in scholarly publications by faculty in other nations.

Recent reports suggest that the United States has already lost the lead in education. Earlier this fall, the international Organisation for Economic Cooperation and Development released data indicating that while the U.S. has the highest proportion of adults age 25-64 with at least an associates degree (41%), among younger adults (age 25-34) the U.S. ranks seventh in terms of educational attainment, with 39% of this age group having an associate degree or higher. This compares to Canada with 53%, Japan with 52%, and South Korea with 47% of younger adults having an associate degree or higher. The U.S. remains among the leaders in the percentage — 35% — of its young adults (ages 18 to 24) who enroll in college, but it ranks in the bottom half of countries in terms of the proportion of students who complete college at 17%, compared to Japan with the highest ranking at 26%.

In addition, too few American undergraduates are majoring in science, engineering, and mathematics, and pursuing master's and doctoral degrees. Only one-third of U.S. bachelor's degrees are awarded in science and engineering, compared with much higher proportions in Japan, China, and South Korea. It could take the nation decades to recover if sufficient numbers of graduate students are not being trained in scientific and engineering fields as part of the educational infrastructure for a knowledge-based economy. In addition, U.S. spending on research and development (R&D) must increase if the country wants to remain technologically dominant.

Following on these concerns, in February 2006, the National Academy of Sciences commissioned a report, *Rising Above the Gathering Storm*. The report included four recommendations to help the nation compete and prosper; three of the four recommendations have direct implications for institutions of higher education:

- Improve K-12 science and mathematics education, in part by recruiting and training thousands of new K-12 teachers;
- Strengthen long-term basic research, particularly in the physical sciences, engineering, mathematics, and information sciences; and
- Enhance undergraduate and graduate education in the United States, again with specific focus on the sciences and engineering, in order to recruit and retain the best and brightest U.S. citizens and international students.

Another matter of growing concern is the financial condition of America's public research universities. The United States has the world's best private universities and they continue to improve, but America's leading public research universities are not keeping up financially. Over the past 25 years, the gap between public and private universities has grown based on several indicators such as average faculty salaries, student-faculty ratios, and average test scores for incoming students. Increased state spending on Medicaid is crowding out funding for higher education. With so many other pressing needs for limited government funding at the national and state levels, it has been difficult to convince political leaders that these are matters that threaten economic competitiveness and quality of life. California, which has a much smaller number and proportion of private research universities than most eastern states, has been more dependent on state investment in its public research universities to stimulate economic growth and meet other educational and service needs.

This is not to say that increasing government appropriations to colleges and universities is the single means to achieve future prosperity or that new government funding would yield proportionate increases in economic output. Other factors also affect economic competitiveness over the long term, such as access to capital for business expansion, transportation infrastructure for goods and information, government regulation, costs of doing business, and quality of life for employees. In a knowledge-based economy, however, government leaders and the general public must come to understand that investing in research and higher education is an important component of a region's economic development strategy. As *Fortune Magazine* concluded in its July 25, 2005 lead story on whether America can compete in the relentless, global, technology-driven, cost-cutting struggle for business, *"the greatest challenge will be changing a culture that neither values education nor sacrifices the present for the future as much as it used to — or as much as our competitors do."*

Is California Losing Its Comparative Advantage?

This state has had a long record of strong economic performance with a history of successful companies and high-paying jobs. If California were a country, its economy would be among the top 10 in the world. In comparison to other states, salaries in California have been well above the national average for the last three decades. However, there are signs that California is losing its comparative advantage.

The April 2006 report entitled “Keeping California’s Edge: The Growing Demand for Highly Educated Workforce” (prepared for the California Business Roundtable and the Campaign for College Opportunity by the Applied Research Center at the California State University, Sacramento) looks at whether California can maintain its current high share of the U.S. economic activity in future decades. California’s share of U.S. employment is gradually declining, peaking at 11.8% of U.S. employment in 1990 and declining to 11.3% of U.S. employment by 2000. In addition, California’s per capita personal income, relative to the U.S. average, declined continuously over the period from 1980 to 2000, from 118.2% of the U.S. average per capital personal income in 1980 to 108.8% of the U.S. average by 2000. According to the report:

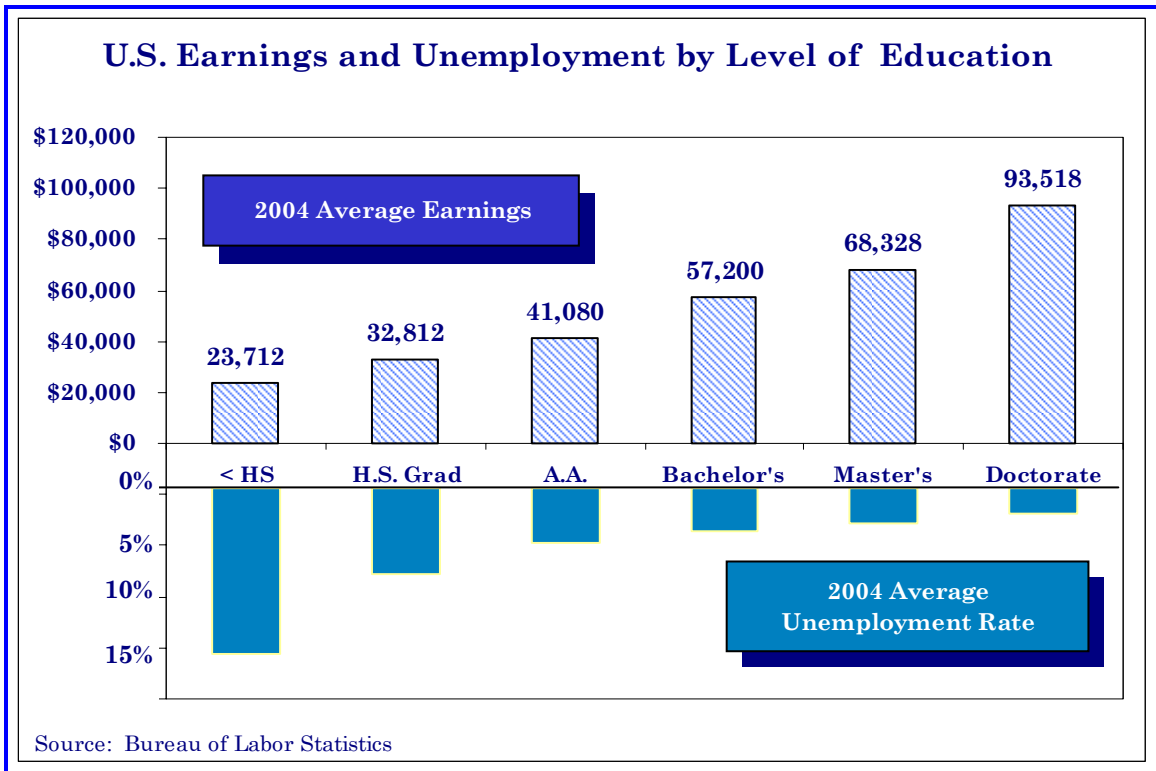
“In recent history, California’s education pipeline has always assured that the next cohort to enter the labor force would be better educated than current and previous cohorts. Employers could anticipate the ever-improving educational attainment of the labor force. Now, for the first time, projections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

California is struggling with low completion rates at all levels of education, including both secondary and postsecondary levels. This trend is just beginning to affect the quality of the workforce, causing alarm at shortages — both continuing and emerging — of skilled labor in key highly-educated occupations and in industry’s struggle to replace retiring employees. To make matters worse, we are seeing increasing business operating and housing costs beginning to affect our ability to attract highly skilled workers and firms from elsewhere.”

This report projects that occupations in California requiring a higher education degree (associates degree or higher) will grow by more than 46% between 2002 and 2022, while occupations not requiring higher education will grow by only 33.5% during this same period.

With the shift to a knowledge-based economy, individual income is more closely linked to level of education. As shown in Display 1, average earnings are higher and unemployment rates are lower for those with more advanced levels of education.

Display 1



The industries that will be driving California's economic longer-term competitiveness will be knowledge-based industries. Computers and software, biotechnology and pharmaceuticals, microelectronics and nanotechnology, communications, and entertainment companies tend to form industry clusters in regions, such as the high technology industries in Silicon Valley, the aerospace industry in Los Angeles, the entertainment and interactive media industries in the corridor from San Diego to Los Angeles, and the biotechnology and pharmaceutical industries in San Diego. Several factors are important to the location decisions of these companies that will be creating good jobs: excellent research universities, highly educated and skilled workers, access to capital, efficient infrastructure, and a high quality of life.

In a recent study looking at how universities can foster a creative economy, Richard Florida, a professor of public policy at George Mason University, indicates that growth of the creative economy is propelled by three interrelated forces: technology, talent, and tolerance. He highlights the university's role in producing and

attracting talent and in establishing an open and tolerant social climate, as well as in developing technological advances. According to Florida:

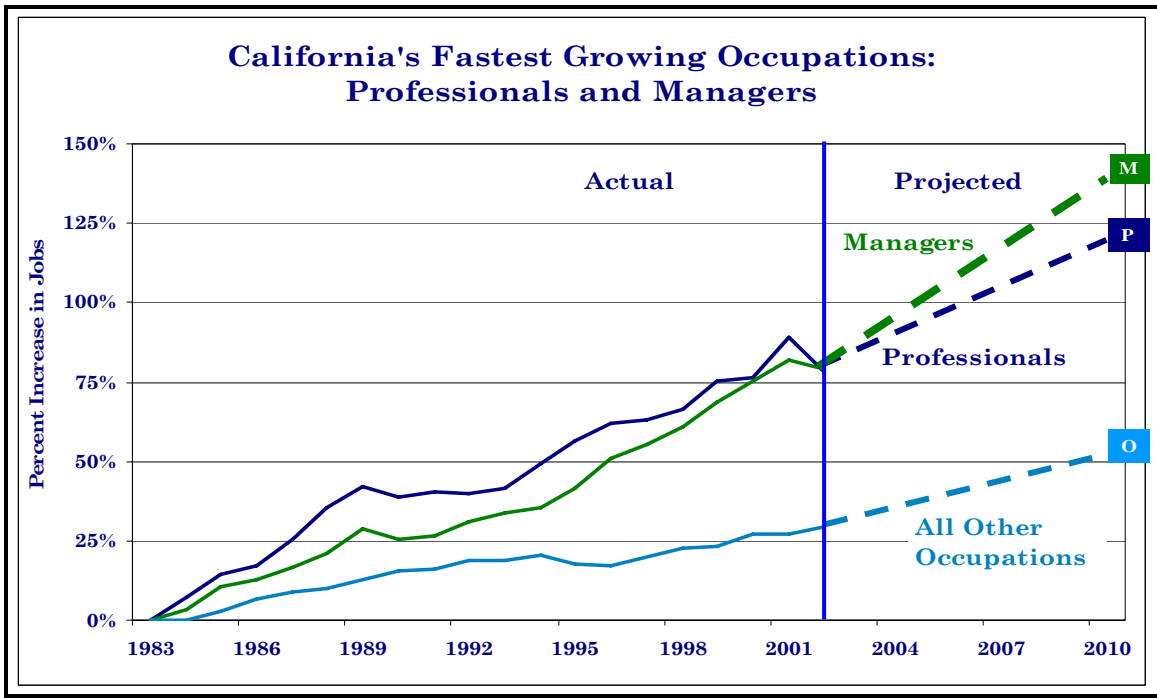
“In the past few decades, human creativity has replaced natural resources and physical capital as the predominant driver of economic growth. The creative sector — which includes science and technology; the arts, culture and entertainment; and knowledge-based professions like law, finance, health care, and education — employs some 40 million Americans. It accounts for almost one-third of total employment and more than \$2 trillion dollars in wages and salaries, or as much as the manufacturing and service sectors combined. It has generated roughly 20 million new jobs between 1980 and 2004, and is projected to add another 10 million between 2004 and 2014.” (The Chronicle of Higher Education, September 15, 2006)

Knowledge-based industries that will be driving economic competitiveness can locate anywhere in the world because they are not tied to the land, like natural resource-based industries. These companies typically say that one of the most important factors in their location decision is the quality of the workforce in the region. In this new age, the critical factor is the availability of “knowledge workers” — a term coined by Peter Drucker, the noted management consultant, for those individuals with advanced formal and continuing education who can apply theoretical and analytical knowledge, create new product ideas, and add value through ingenuity. Knowledge workers are key to the success of brainpower industries because intellectual capital is a technology-generating company’s most important asset.

As Display 2 indicates, California’s fastest growing occupational categories are professional and managerial jobs. In the early 1980s, one-fourth of all jobs in California were held by professionals and managers. Today, that fraction has grown to one-third of all jobs in the state. Most of these new professional and managerial jobs require at least a bachelor’s degree and often a master’s or doctorate.

The State’s investment in higher education will impact the future of knowledge-based industries in California. The respected UCLA Anderson Forecast looked long-term at California’s demography and economy in its September 2004 report. The Forecast attributed California’s relative drop in income to a growing “education gap” with the rest of the United States. *“Those with 4 years of college or more rose by 8 percentage points in the rest of the U.S. (between 1985 and 2003), from 18.6% to 26.8% of the population 25 years and older. Here in California, the proportion only rose by 5 percentage points, from 24.7% to 29.8%.”* They concluded that a lack of investment in education and infrastructure will continue to erode the economic advantages that California has enjoyed and impact the quality of life in the state.

Display 2



According to the 2006 report, “Measuring Up — The State Report Card of Higher Education” produced by The National Center for Public Policy and Higher Education, a fairly low percentage of higher education students in California complete certificates and degrees relative to the number of students enrolled, largely due to the huge numbers of students enrolled in community colleges. For California, the measure is 14 certificates, degrees, and diplomas awarded per 100 undergraduate students enrolled at all colleges and universities; this compares to 20 per 100 for the top-performing states. When compared internationally, California ranks very low on this measure — behind such low-performing nations as the Czech Republic, Hungary, and Spain.

In addition, a study conducted by the Public Policy Institute of California in 2000 estimated that half of the college graduates in California filling new positions and replacing knowledge workers were educated in other states. California companies have been willing to pay the extra price to recruit professionals and managers from out-of-state in the past; however, today they have other alternatives, such as locating new plants out-of-state and moving jobs offshore.

An important factor in keeping these good jobs in California is to have an appropriately educated workforce with the knowledge and skills to compete in the global marketplace. Global competitiveness requires continuous cycles of birth and maturation of strong knowledge-based companies which, in turn, depend critically upon the institutions that produce the essential steady stream

of research innovations, the research and development leaders, and a highly educated workforce.

California has been under-investing in higher education in recent years, as evidenced by these facts about the State's funding of the University of California.

- The University's share of the State budget has decreased from 7% to 3.1% over the last 35 years.
- The State contributed about \$15,260 to the cost of education for each UC general campus student in 1990, and now contributes only about \$9,970 per student per year, a reduction of 35% over a 16-year period (figures in 2006-07 constant dollars).
- Enrollment in the University grew by 19% from 2000-01 to 2004-05 while State support declined by 15%.
- Despite the need for more health care professionals to meet the needs of a growing and aging population, there has been almost no increase in UC health sciences enrollments in nearly 30 years.
- The University's graduate and professional programs have not been keeping pace with California employers' workforce needs. UC graduate enrollment did not increase proportionately with undergraduate growth in the 1980s and early 1990s.
- Even though basic research is critical to knowledge-based industries, State support for UC research declined by \$73 million (25%) during the State's recent budget crisis.

A renewed commitment to funding for higher education in California is essential to meeting future economic challenges and improving the quality of life for the citizens of California. The quality of the University of California must be protected while it increases both the production of new knowledge and the number of students it graduates, if it is to continue to be an engine of economic growth for the State.

The California Master Plan for Higher Education

The California Master Plan for Higher Education has been the blueprint for higher education in this state for more than 45 years. It specifies the mission of each public higher education segment and defines the pool of high school graduates from which each segment will admit its undergraduate students. Consistent with the Master Plan, the University has a three-fold mission:

- ⇒ **Teaching**, which consists of undergraduate, professional, and graduate academic education through the doctoral degree. Students develop analytic and communication skills, gain exposure to a wide range of intellectual traditions and emerging concepts, and develop in-depth knowledge in a particular area of study, all of which help prepare them for an increasingly knowledge-based society. Under the Master Plan, UC has sole responsibility in public higher education for doctoral education and for professional education in law, medicine, veterinary medicine, and dentistry, with the exception that CSU can offer a specific Ed.D. in educational leadership as well as joint doctoral degree programs with UC or independent institutions.
- ⇒ **Research.** The Master Plan designates UC as the primary State-supported academic agency for research. As one of the world's preeminent research universities, UC provides an environment in which leading scholars, researchers, and students (undergraduate and graduate) work together to discover new knowledge and train California's future workforce in state-of-the-art technologies necessary to keep California on the cutting edge of economic, social, and cultural development. Teaching and research are inextricably tied together at the graduate level, and increasingly at the undergraduate level. This synergy helps to build the continuing and evolving critical thinking skills so important to successful professionals. University research also provides a vital link for the private sector to the development of new knowledge and the innovations that lead to new industries and the creation of more jobs.
- ⇒ **Public Service.** The University's public service mission is to contribute to the well-being of the community, state, and nation. The University fulfills its public service mission by providing a broad range of services important to the state. Student academic preparation programs are designed to bolster academic performance and improve a student's chance of success in pursuing higher education. UC Agricultural Extension and Cooperative Extension programs benefit agriculture, consumers, and local communities by bringing them new technologies and the latest research findings. Health science programs, including UC's five major teaching hospitals and the outpatient clinical care programs they operate, provide state-of-the-art patient care. University Extension programs help retrain and expand learning for nearly 325,000 students a year. Public service programs allow state policy makers to draw on the expertise of UC's faculty and staff to address important public policy issues.

Current Perspective

The Master Plan has produced the best system of public higher education in the world. Every year, visitors from many countries come to learn how they can change their system of higher education to be more like California's. The past investment in UC's development into a world-renowned institution cannot alone preserve the University's excellence. Continued adequate financial support for the University of California is essential if UC is to fulfill its missions under the California Master Plan for Higher Education, contributing to a higher standard of living and better quality of life for citizens of the state.

The State has undergone fiscal crises in the beginning of each decade for at least the last 40 years — the early years of each decade have been characterized by funding shortfalls and budget cuts, and then economic recovery and progress have occurred in the rest of the decade. The University has weathered these fiscal crises and prospered during better economic times. Unfortunately, budget cuts during the early 1990s and again in the early 2000's were very deep; better economic times in the late 1990s resulted in improved budgets, but did not permit full recovery from the devastating effects of earlier major funding shortfalls in the University's core operating budgets.

By 2000-01, some progress had been made in closing the funding gaps in core areas of the budget critical to the academic program — instructional technology, libraries, maintenance, and instructional equipment. However, once the most recent fiscal crisis began, progress that had been made was lost. Core research programs had been particularly hard hit by targeted cuts in the early 1990s and had not recovered these losses, even though funding had been provided for new research initiatives during the State's prosperous years. Administrative budgets had not been increased in decades and yet demands from increased regulatory and reporting requirements at the federal and state level continued to grow. The University benefited from significant funding increases during the late 1990s and in 2000-01 (as explained in the next section of this *Overview*), but much of the funding was for special initiatives rather than for restoring earlier budget cuts in many core functions, and thus could not adequately sustain the University's infrastructure that is the foundation of academic quality.

Four years of further major reductions as part of the State's response to the latest fiscal crisis again took a heavy toll on the University's ability to perform its missions under the Master Plan and contribute to the state's economic development:

- base budget reductions totaled about \$490 million during the four-year period covering 2001-02 through 2004-05;
- another \$420 million in budget cuts were offset by student fee increases;

- another \$550 million represents unfunded costs associated with a normal workload budget, including salary and merit increases, employee health and welfare benefits, facilities maintenance, energy costs, non-salary price increases, and other costs. Many of these costs have been escalating dramatically, requiring the University to make even further internal cuts to keep pace with rising costs. Faculty salaries are estimated to lag the average of comparison institutions by approximately 10% — there is a similar problem with respect to staff salaries.

In the midst of the most recent State fiscal crisis, the University clearly found itself at a crossroads. It was no longer possible to maintain quality and accommodate all eligible students wishing to attend, or continue to recruit the highly-qualified graduate students needed to help conduct research and meet the state's workforce needs for highly-skilled workers in knowledge-based industries. Base budget cuts were straining the ability of the University to perform its basic missions. Yet the State appeared to be facing several more years of severe budgets. Something had to change.

Governor Schwarzenegger, too, was concerned about the future of higher education in the state. Recognizing the importance of the University of California and the California State University systems to the economic and social well-being of the State, in May of 2004 the Governor entered into a new long-term Compact with the four-year institutions for the six-year period 2005-06 through 2010-11.

The funding agreement is a comprehensive statement of the *minimum* resources needed for the University to accommodate enrollment growth and sustain the institution to which students seek admission. In addition, the agreement is a statement of the State's expectations of the University in terms of accountability and performance, based on measures that have historically been important to both the State and the University. The Compact provides a sensible budgetary framework from which to plan for the future.

The University had similar agreements with the last three Governors, and these agreements served both the University and the State well. Until the onset of the State's fiscal crisis in 2001-02, the State provided the resources necessary to adequately fund the University's missions, and in fact often exceeded the minimum level of funding in order to support initiatives of high priority to the Governor and the Legislature. For its part, the University met, and often exceeded, its goals under the accountability portion of these agreements. Moreover, the University brought economic development and enhanced prosperity to the State – for example, for every State dollar specifically invested in research, UC leverages nearly \$6 more from the federal government and other non-state sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

The Compact was intended to provide fiscal stability and stop further erosion to the University's budget in the early years and allow the University to begin recovering lost ground in the later years. As with similar past accords, it is an agreement with the Governor for which the University and the Governor must seek the support of the Legislature through the normal budget process each year.

The fiscal provisions of the Compact are designed to provide necessary resources for base budget adjustments to help fund salary, health benefit, and non-salary price increases; enrollment growth consistent with the Master Plan at the agreed-upon marginal cost of instruction; beginning in 2008-09 and continuing through 2010-11, funding to address chronic budgetary shortfalls in State funding for core areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance; and continued support for bond financing of at least \$345 million annually to meet capital outlay needs. The Compact also specified fee increases for undergraduates and graduate academic students for 2004-05 through 2006-07. Following that period, the Compact envisions fee increases equivalent to the annual increase in California per capita personal income or more — up to 10% per year — if fiscal circumstances require increases that exceed the rate of growth in per capita personal income to provide sufficient funding for programs and preserve quality. The Compact also calls for the University to develop a long-term plan for increasing professional school fees. Revenue from student fees will remain with the University and will not be used to offset reductions in State support. The specific provisions of the Compact are described in more detail later in this *Overview* beginning on page 33.

The Compact also includes accountability measures relating to issues that are high priorities for the State. Thus, the University agrees to maintain and improve where possible performance outcomes in a variety of areas, including maintaining student access and program quality, implementing predictable and moderate fee increases, enhancing community college transfer and articulation, improving graduation rates and time-to-degree, helping the State address the shortage in science and math K-12 teachers, returning to paying competitive salaries, closing long-term funding gaps in core areas of the budget, and maximizing funds from the federal government and other non-State sources. The University provided a report to the Administration and the Legislature on its progress in these areas in November last year and will do so again this year.

The agreement with the Governor staved off the possibility of further budget cuts beyond those originally proposed in the Governor's Budget for 2004-05 and provided the basis for the University's budget plan for 2005-06. The Compact will continue to provide the University with a solid basis from which to plan through 2010-11. This is vital, since it is anticipated the State will continue to experience financial constraints in 2006-07 and perhaps beyond. Estimates of the State's ongoing structural deficit are in the multi-billion dollar range. Some of this can be offset on

a one-time basis by using up existing reserves. In addition, based on projections of revenue and expenditures into future years, the structural deficit does improve over time. In the meantime, it is projected that the 2007-08 State budget will again be constrained.

Because of these continuing fiscal constraints on the State's budget as well as other fund sources, the University's budget plan for 2007-08, as described in more detail in the next chapter of this document, "*Summary of the 2007-08 Budget Request*," remains modest. It calls for sufficient increases in revenue from State funds, student fee revenue, and non-State revenue, to fund the following:

- a compensation package of 5% that will be used to fund cost-of-living increases, merit salary increases, market-based and equity salary increases, and cost increases in health and welfare benefits and non-salary budgets. The compensation package would begin to close the salary gap of approximately 10%;
- re-instatement of employer contributions to the University of California Retirement Program (UCRP) to ensure the fiscal viability of the program;
- an enrollment increase of 2.5%, or 5,340 FTE, at the revised marginal cost level;
- increases for graduate academic student support including new funding provided under the Compact and redirection of funds from additional savings achieved through strategic sourcing. This is necessary to begin to regain the University's competitive position to attract the best academic graduate students;
- continuation of one-time funding for Merced needed for start-up costs as the campus continues to ramp up enrollments;
- funding to continue UC's multi-year plan to restore funds cut from the budget related to the student-faculty ratio;
- a research initiative to be funded above the Compact that will both partially restore recent budget cuts to core research programs and provide seed funding for new initiatives now under development that will help boost the State's economy and create jobs.

The University also intends to request one-time funding for deferred maintenance and capital renewal.

As noted previously, funding for the University's 2007-08 budget plan will come from a variety of sources. The Compact includes the following funding provisions from State General Funds for 2007-08:

- base budget adjustment of 4% to be used to help fund increases for salaries, employee health and welfare benefits, and other cost increases.
- enrollment funding growth of 2.5%, or 5,340 FTE students, at the revised marginal cost of instruction. This rate of growth is consistent with the Master Plan goal of accommodating all eligible students, and is sufficient to allow for planned increases of general campus and health sciences students.

The University is proposing no increase in mandatory student fees at this time. Instead, the University proposes to delay action on student fees until more is known in January after the Governor's proposed budget for 2007-08 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to once again buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January meeting. It should be noted that any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances. Thus, if student fee increases are instituted, the University would propose a return-to-aid of 33% for undergraduates, including special emphasis on ensuring accessibility for middle-income students, a 33% return-to-aid for graduate professional school students, and a higher return-to-aid (45%) for graduate academic students.

The Compact agreement with the Governor allows the University to once again move forward and rebuild its academic and programmatic infrastructure so that students have access to the high quality education Californians have come to expect from UC.

Historical Perspective

Historically, the University's State-funded budget has reflected the cyclical nature of the State's economy. During times of recession, the State's revenues have declined and appropriations to the University either held constant or were reduced. When the State's economy has been strong, there have been efforts to "catch up." The last four decades have all begun with significant economic downturns followed by sustained periods of moderate, and sometimes extraordinary, economic growth.

The University has met this challenge several times in the last four decades. The University experienced budget reductions of about 20% in real dollars during the late 1960s and early 1970s. Faculty positions and research funding were cut, and the student-faculty ratio deteriorated by about 20%.

In the late 1970s and early 1980s, the University again experienced a number of budget cuts. By the early 1980s, faculty salaries lagged far behind those at the University's comparison institutions and top faculty were being lost to other institutions; buildings needed repair; classrooms, laboratories, and clinics were poorly equipped; libraries suffered; and the building program virtually came to a halt.

The situation improved significantly in the mid-1980s when a period of rebuilding was initiated. Faculty and staff salaries were returned to competitive levels; funds became available for basic needs such as instructional equipment replacement and building maintenance; and research efforts were expanded. The capital budget also improved dramatically. There was significant growth in private giving, and the University once again became highly competitive for federal research funds. By the late 1980s, however, the situation began to change. Fiscal problems at the State level led to a growing erosion of gains made during the mid-1980s. By 1989-90, UC was struggling with the early stages of a fiscal problem that subsequently turned into a major crisis.

The Budget Crisis in the Early 1990s

The University experienced dramatic shortfalls in State funding during the first four years of the 1990s. Although State funding increased in 1990-91, it was below the level needed to maintain the base budget and fund a normal workload budget. Over the next three years, State funding for 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 made budget cuts totaling \$433 million, equivalent to roughly 20% of its State General Fund budget in 1989-90, as depicted in Display 3.

Display 3

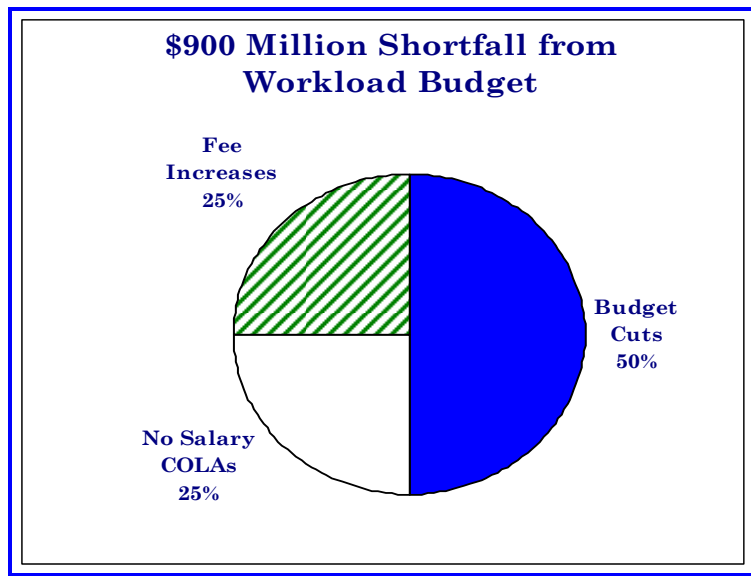
| Permanent Cuts to Campus and Office of the President Budgets | | |
|---|---|---------------|
| 1990-91 through 1994-95 | | |
| (\$ in Millions) | | |
| 1990-91 | 5% cut in research, public service, and administration. | \$ 25 |
| 1991-92 | Workforce reduction in both instructional and non-instructional programs; cut in non-salary budgets; undesignated cut. | 120 |
| 1992-93 | Permanent cut of \$200 million phased in over two years. | 200 |
| 1993-94 | Reductions in campus and Office of the President budgets, resulting in further workforce reductions. | 35 |
| 1994-95 | Reductions in campus and Office of the President budgets in order to fund restoration of salary funds cut temporarily in 1993-94. | 53 |
| TOTAL | | \$ 433 |

In addition, employees received no general cost-of-living increases for three years and salaries were reduced on a one-year basis. Student fees were raised, though significant increases in financial aid helped to mitigate the impact on financially needy low- and middle-income students.

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 in the interim there had been inflation, other cost increases, and enrollment growth of 6,200 students (4.3% increase) between the years 1987-88 and 1993-94. Another way is to consider that the University's budget would have been 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 this shortfall in ways that reflected the limited nature of its options in the short term.

As illustrated in Display 4 about half of the loss was taken through budget cuts, approximately another quarter by providing no cost-of-living increases for employees, and the remaining quarter was made up through student fee increases accompanied by increases in student financial aid.

Display 4



While regrettable, the fee increases were necessary to address budget cuts of such significant magnitude. At the same time, the University mitigated the impact of these fee increases on financially needy low- and middle-income students through a significant increase in financial aid grants (as opposed to loans). Over five years, through 1994-95, financial aid grants and other gift aid funded from University

sources increased by approximately \$118 million, or nearly 170%, to help mitigate the impact of increased fees.

During the early 1990s, the University's General Fund workforce declined by a net total of approximately 5,000 full-time equivalent (FTE) employees. While much of this decline occurred through early retirements — an approach preferred to layoffs — the result was that the University had many fewer staff 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 facilities maintenance. Administration, especially, was assigned deep cuts both on the campuses and in the Office of the President. In addition, the 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 Master Plan by continuing to offer a place to all eligible California resident students who sought admission at the undergraduate level and providing students with the classes they needed to graduate in a timely manner.

In 1994-95, after years of steady erosion, the University's budget finally stopped losing ground. For the first time in four years, the State provided the University with a budget increase over the prior year totaling about 3% (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 of about 3% was provided for the first time since 1990-91. The student fee increase was held to 10% through a compromise agreement to fund deferred maintenance with debt financing. Once again, increases in financial aid accompanied the fee increase, helping to offset the impact on needy students.

While the 1994-95 budget represented a substantial improvement over previous years, the University nonetheless remained in precarious financial condition. The University's share of the State General Fund budget had declined to 4.3% (before the 1990s fiscal crisis began, the University's share was 5.3%). Faculty salaries lagged the average of the University's comparison institutions by 7%, the workforce had been reduced by 5,000 FTE without a corresponding decline in workload, and the budget was severely underfunded in several core areas that have a direct relationship to the quality of instructional programs — building maintenance, instructional equipment, instructional technology, and libraries, for example.

Funding During the Second Half of the 1990s Based on the Compact with Governor Wilson: 1995-96 through 1999-2000

A major turning point came with the introduction of Governor Wilson'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 for 1995-96 included a Compact with Higher Education that ultimately was operational through 1999-2000. Its goal was to provide fiscal stability after years of budget cuts and allow for enrollment growth through a combination of State General Funds and student fee revenue.

The Compact included provision of State General Fund budget increases averaging 4% per year over the four-year period. The Compact also anticipated general student fee increases averaging about 10% a year as well as additional fee increases for students in selected professional schools. At least one-third of new student fee revenue was to be earmarked for financial aid, with the remainder used to help fund the University’s budget. Additional financial aid was to be provided through the State’s Cal Grant Program. The Compact also provided additional funds to cover debt service related to capital outlay projects and deferred maintenance. Based on the premise that there was a continuing need for efficiencies in order to maintain student access and program quality within available resources, the Compact included a \$10 million budget reduction each year for four years, reflecting \$40 million in savings to be achieved through productivity improvements. For the capital budget, the Compact provided \$150 million a year, with priority given to seismic and life-safety projects, infrastructure, and educational technology.

The funding provided under the Compact was to be sufficient to prevent a loss of further financial ground as the University entered into a time of moderate enrollment growth (1% per year). It did not provide restoration of funding that had been cut during the early 1990s, but it did provide the institution with much-needed fiscal stability after years of budget cuts as well as a framework to begin planning for the future.

The Compact was remarkably successful. During the four years beginning in 1995-96 and ending in 1999-2000, the State funding under the Compact allowed the University to maintain the quality, accessibility, and affordability that are the hallmarks of California’s system of public higher education. The University enrolled more students than the Compact anticipated, and the State provided funding to support them, although a priority was placed on providing access for undergraduate students. Graduate enrollments grew only modestly, exacerbating

the imbalance between graduate and undergraduate enrollments that has occurred over the last two decades. Faculty salaries were restored to competitive levels, allowing the University to once again recruit the nation's best faculty. Declining budgets were stabilized and further deterioration of the University's budget was halted.

In fact, the Legislature and the Governor not only honored the funding principles of the Compact, but also provided funding above the levels envisioned in the Compact. This additional funding eliminated the necessity for increases in student fees, allowed for reductions in student fees for California resident students, helped restore UC faculty salaries to competitive levels more quickly, provided \$35 million for a number of high priority research efforts (including the Industry-University Cooperative Research Program, the UC San Diego Supercomputer Center, and a variety of other legislative research initiatives), and increased funding for K-14 and graduate outreach by \$38.5 million to expand existing programs and develop new ones. In all, the State provided nearly \$170 million in funding above the level envisioned in the Compact for high priority programs. In addition, general obligation bonds and/or lease revenue bonds were provided each year for high priority capital projects.

A New Partnership Agreement with Governor Davis

Governor Davis entered office in January 1999 with a commitment to improve California public education at all levels. For UC, his commitment manifested itself in a new Partnership Agreement, the funding principles of which were developed in time to guide development of the 2000-01 budget. The Partnership Agreement was a comprehensive statement of the minimum resources needed for the University to maintain quality and accommodate enrollment growth projected throughout the decade, accompanied by the expectation that the University would manage these resources in such a way as to achieve certain outcomes outlined in very specific accountability principles.

Specifically, the Partnership Agreement expressed a commitment on the part of the Governor to support a 4% increase to the base budget each year to provide adequate funding for salaries and other cost increases; funding for enrollment growth at the agreed-upon marginal cost consistent with the Master Plan; and a further 1% annual increase to the base budget to address chronic underfunding of State support for core areas of the budget (building maintenance, instructional technology, instructional equipment, and library materials). It also included an acknowledgement of the need to either increase fees or provide revenue equivalent to that which would be generated from a student fee increase to provide adequate support for student fee funded programs, as well as a commitment to provide State support for summer instruction at each of the University's general campuses.

The accountability measures included in the Partnership Agreement covered a wide range of issues, including goals related to maintaining quality (such as preventing further deterioration in the student faculty ratio); improving relationships with K-12 schools (including major initiatives in outreach and K-12 teacher professional development); increasing community college transfer; and phasing in State-supported summer instruction at each of the campuses, as well as a variety of other issues. The Partnership specified performance data and reporting requirements for each goal, to be reviewed by the Administration on an annual basis.

Funding During the First Year of the Partnership Agreement — 2000-01

For the first year of the Partnership, the University's basic budget request was fully funded, consistent with the funding principles of the Partnership. Funding was also provided within the Partnership to support the first year of the University's initiative to improve undergraduate education.

In addition to this basic funding, support above the Partnership level was provided for other high priority needs, including funding to: replace foregone revenue related to a second fee reduction of 5% for resident undergraduate students and a 5% fee reduction for resident graduate academic students; provide salary increases beyond normal cost-of-living and merit increases, primarily for lower paid staff; augment several outreach programs and significantly expand K-12 teacher professional development programs; support research initiatives (in the areas of Industry-University Cooperative Research, AIDS, alcohol and substance abuse, brain injury, neurological disorders, engineering and computer science, UC-Mexico collaboration, Internet2, Lupus, spinal cord injury, and labor policy); expand the California Digital Library; augment Cooperative Extension; initiate the Teacher Scholars and Principal Leaders programs; expand the California State Summer School for Mathematics and Science; begin planning for a regional center in the Santa Clara Valley; development of K-12 high-speed Internet connections; and reduce summer term fees to a level equivalent to what students pay during the regular academic year.

The State also provided \$108 million in one-time funding for deferred maintenance, instructional equipment and libraries; endowed chairs and new initiatives in aging and geriatrics; teaching hospital equipment; and several research initiatives.

Augmentations over this period totaled \$476 million in permanent and \$108 million in one-time funds. The total State General Fund Budget for UC in 2000-01, before the State's fiscal crisis began, was \$3.2 billion. The significant infusion of State funding over this two-year period was welcome support for the University. Faculty salaries had once again reached competitive levels, the University was beginning

to address salary lags for staff employees, enrollment growth was fully funded, progress was being made to reduce shortfalls in funding for core areas of the budget, student fees were kept low, and support was provided for a variety of research and public service initiatives of importance to the State and the University.

Funding During the Recent State Fiscal Crisis – 2001-02 through 2004-05

Unfortunately, by 2001-02, the State's fiscal situation was beginning to deteriorate. The University based its budget request on the Partnership Agreement and included information on other high priorities for the University and the State to be funded when the State's economic situation improved. The Governor's Budget, released in January 2001, proposed full funding for the University's budget request as well as additional funds for initiatives beyond the Partnership Agreement. However, by the time the May Revise was issued, the State's financial situation had weakened to the point of requiring reductions to funding levels the Governor had originally proposed and the State was fully engaged in a major fiscal crisis that was to last four years.

The final 2001-02 budget was the first budget in seven years that did not provide full funding of the Partnership Agreement (or the preceding Compact). Partnership funds totaling \$90 million were eliminated from the University's proposed budget, thereby significantly reducing the funding available for compensation and other fixed costs and eliminating the additional 1% (\$30 million) originally proposed for core needs. However, the budget did provide an increase of \$131 million, including partial funding of the Partnership as well as funding above the Partnership for initiatives representing high priorities for the Governor and the Legislature. This funding allowed the University to fund merit and COLA salary increases for faculty and staff, employee health and welfare benefit costs, and funding for maintenance of new space that came on line during the budget year. Funds for strengthening the quality of undergraduate education were not provided and UC funding available for debt financing for deferred maintenance projects was reduced from \$6 million to \$4 million to help fund compensation increases. Enrollment growth of 7,100 FTE was also funded (including an additional 1,400 FTE proposed in the May Revise). Cost adjustments to student-fee-funded programs were provided, avoiding student fee increases for the seventh consecutive year, and funding was provided to convert summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses to State-support.

Several initiatives also were funded above the level called for under the Partnership, totaling \$75 million in one-time and \$3 million in permanent funds. These included energy costs, Internet2 access for faculty and students, faculty start-up costs associated with accelerated hiring at the Merced campus, increases in research requested by the Governor and/or the Legislature, and one-

time clinical teaching support funds for teaching hospitals, neuropsychiatric institutes, and dental clinics.

The final budget also reduced funding for the California Professional Development Institutes and redirected \$5 million from K-12 School-University Partnership Programs to increase funds for the Mathematics, Engineering, and Science Achievement Program (MESA), Puente, and Early Academic Outreach programs; provide funds for student-initiated outreach; and help fund campus costs associated with the implementation of comprehensive review of admissions applications. The University's State General Fund budget for 2001-02 totaled \$3.3 billion.

By the time development of the 2002-03 budget began, the State's fiscal situation had deteriorated markedly, necessitating the unusual action on the part of the Governor and the Legislature to adopt mid-year budget reductions for UC of \$40.8 million for the 2001-02 budget. One-time funds provided for energy costs were reduced, and support for the California Professional Development Institutes for K-12 teachers and the Digital California Project (K-12 Internet) was reduced. An unallocated reduction of \$5 million was also included in the mid-year reductions. The State's budget deficit for 2002-03 eventually grew to \$23.5 billion.

The final budget act for 2002-03 budget provided funding to the University for a 1.5% increase to the basic budget — instead of the 4% called for in the Partnership Agreement — to fund compensation, health and welfare benefits, and other increases. It also included funding for enrollment growth of 7,700 new FTE students and State support for summer instruction at the Davis campus. Increases to UC's State General Fund budget totaled \$149 million.

While the increases to the budget were welcome, the budget also included base budget reductions totaling \$322 million, including a 10% across-the-board cut to research programs; elimination of the "bonus" that was provided to financial aid in 1998-99 and 1999-2000, when student fees were reduced without a corresponding reduction in financial aid; reductions to the California Subject Matter Projects, K-12 Internet connectivity, and outreach programs; elimination of all State General Funds for the California Professional Development Institutes; and a one-time reduction of \$29 million for core needs, including deferred maintenance, libraries, instructional equipment, and instructional technology. State General Funds provided to the University in the 2002-03 Budget Act totaled \$3.2 billion.

Under the authority granted to the Department of Finance in Control Section 3.90 and with the ultimate approval of the Legislature in March 2003, mid-year cuts were instituted in December, 2002, that included \$70.9 million in further base budget cuts for the University. These cuts were targeted at UC College Preparatory Initiative (which provides online courses for K-12 students), savings from prior years related to several research programs that had received large augmentations in the late 1990s, public service programs, the K-12 Internet program, academic

and institutional support, and student services. In addition to cuts targeted at specific programs, \$19 million was designated as an unallocated reduction, which the University offset by instituting an increase in mandatory systemwide student fees of \$135 approved by the Board of Regents in December effective with the Spring 2003 term. When annualized, this fee increase totaled \$405.

By the time the mid-year budget cuts were being approved for 2002-03, the State was facing a deficit for 2003-04 that was unprecedented in magnitude. With the release of the May Revision, the Governor estimated the deficit to total \$38.2 billion. The final budget for 2003-04 addressed the State's shortfall through a combination of actions, including borrowing, assumptions about increased federal funding, an increase in the vehicle license fee, fund shifts, and spending reductions and savings.

For the University, cuts proposed by the Governor in January totaling \$373.3 million were all approved in the final budget act. These reductions affected nearly every area of the budget and included another 10% cut to research as well as targeted reductions to the University of California College Preparatory program (on-line courses to K-12 students), outreach, the California Subject Matter Projects, K-12 Internet, other public service programs, academic and institutional support, and student services. Also included in the total reduction to the University's budget was \$179 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. The Regents adopted an increase in mandatory systemwide student fees of \$1,150, or 30%, to offset this reduction in 2003-04. Also, \$34.8 million of the total cut proposed to be targeted at increasing the University's student-faculty ratio was instead taken by the University as an unallocated reduction. In addition to cuts proposed by the Governor, the Legislature proposed \$98.5 million in unallocated cuts that ultimately were included in the final budget. Of the total, \$80.5 million was designated as one-time and \$18 million was designated as permanent.

The final budget did include some funding increases as well, including one-time start-up funds for the Merced campus, funding for 13,000 additional FTE students at the agreed-upon marginal cost of instruction, funding for health and welfare benefits for annuitants and debt service, and other routine one-time budget adjustments. However, most of the Partnership was not funded, including funding for the 4% annual adjustment to the base budget, funding for core needs (including instructional equipment, instructional technology, maintenance, and libraries), and restoration of the \$29 million reduction in 2002-03 to core areas of the budget that had previously been specified as a one-time cut. The 2003-04 State General Fund budget approved in the budget act for the University was \$2.87 billion, \$282 million less than the State General Fund budget for 2002-03 adopted in September, 2002.

Another round of mid-year reductions occurred in December, 2003 totaling \$29.7 million. Originally, mid-year cuts were targeted at outreach (\$12.2 million) and the Institute for Labor and Employment (\$2 million), with another \$15 million designated as an unallocated reduction. While these mid-year reductions originally were intended by the Governor to be permanent reductions, the budget agreement for 2004-05 restored funding for outreach and for the Institute for Labor and Employment. Consequently, the mid-year reductions were taken on a temporary basis in 2003-04 and only the \$15 million associated with the unallocated reduction was ultimately approved as a permanent reduction. That reduction was taken as a temporary unallocated reduction for 2003-04 and offset on a permanent basis as part of the student fee increases approved for 2004-05.

The State remained in fiscal crisis for 2004-05 and the reductions to the University's budget were once again significant. State General Funds for 2004-05 totaled \$2.721 billion, \$147 million less than the funding level provided in the previous year.

Base budget reductions included another 5% cut to research (\$11.6 million) and a 7.5% reduction to academic and institutional support (\$45.4 million). Another \$34.8 million cut had originally been targeted at increasing the University's student-faculty ratio, but was instead taken by the University as an unallocated reduction.

Also included in the total reduction to the University's budget was \$183.5 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. While the Governor had originally proposed a 10% increase in undergraduate student fees and a 40% increase in graduate academic student fees to help offset these cuts, as part of the negotiation of the Compact the Governor agreed to a three-year plan for student fee increases requiring undergraduate students to pay a slightly higher fee increase in 2004-05 in order to help moderate the fee increase for graduate students.

Thus, in 2004-05, undergraduate fees increased by \$700, a 14% increase over 2003-04 rather than the 10% proposed in January, and graduate fees increased by \$1,050, an increase of 20% rather than the 40% proposed in January. As specified in the Compact, in the second and third year of this plan, undergraduate students will pay increases of 8% per year in order to achieve an average increase over the three-year period of 10% per year, and graduate fees will rise by 10% per year.

The 2004-05 budget also included an average increase of 30% for most professional school students (at the request of the Governor, nursing professional school fees did not increase in 2004-05), which generated \$5 million less in revenue than the Governor had originally assumed in his budget. The University believed that the increases needed to achieve the level of revenue proposed by the Governor would have been too steep to accomplish all in one year. As a result of the shortfall,

campuses were asked to absorb an unallocated reduction of \$5 million on a temporary basis until fees could be raised in 2005-06 to cover the shortfall. Nonresident tuition was also increased by 20% in 2004-05 for undergraduate and graduate academic students. It should be noted that nonresident students pay mandatory systemwide student fees and campus-based fees in addition to nonresident tuition.

One of the most difficult issues facing the University in the 2004-05 budget related to funding for enrollment. For the first time in recent history, the University was asked to reduce enrollment to help meet budget reductions. The Governor's January budget had proposed a 10%, or 3,200 FTE, reduction in University freshman enrollments and called for the University to redirect these students to the California Community Colleges for their first two years of study. Upon successful completion of their lower division work, as specified by the UC campus that originally accepted and redirected them, these students would enroll for their upper division work at that UC campus. The University implemented the Governor's proposal in the spring and called the redirection program the Guaranteed Transfer Option, or GTO. The University initially offered GTO to 7,600 eligible freshman applicants.

As part of the actions taken on the final budget for 2004-05, the Governor and the Legislature reached a compromise that lowered the reduction in enrollment from 3,200 FTE to 1,650 FTE. This compromise allowed the University to offer freshman admission to all students who originally received the GTO offer. Because the offers were made very late in the admissions process, many students had already made other plans. Nevertheless, the actions taken by the Governor and the Legislature on enrollments were important for preserving the Master Plan guarantee of access for eligible students.

Following the compromise, the University immediately sent offers for freshman admission to all eligible students who had not yet received a UC freshman offer. Among the roughly 7,600 applicants initially offered GTO and later offered freshman admission, approximately 1,854 enrolled at UC during 2004-05. Another 500 remained as GTO students and will later transfer to the University as upper division students.

Funding for student academic preparation programs was also a challenging issue in the 2004-05 budget. In his January budget, the Governor proposed eliminating funding for these programs. Ultimately, after significant negotiation, all but \$4 million of the funds for these programs was restored on a one-time basis, leaving the program with a total of \$29.3 million for 2004-05.

The Governor's January budget had also proposed elimination of all State funds (\$4 million) for the Institute for Labor and Employment, a multi-campus research unit housed on the Berkeley and Los Angeles campuses. As part of the final budget

package, the Governor and the Legislature agreed to restore \$3.8 million of these funds, leaving the program with a \$200,000 reduction, equivalent to the 5% reduction to the overall research budget that year.

The final budget eliminated all remaining funding for the Digital California Project (K-12 Internet) from the University's budget. Instead, the State budget included a total of \$21 million in Proposition 98 funding specifically designated for schools to contract with providers for access to the high-speed Internet.

Consistent with the last several years, the 2004-05 budget again provided one-time funding to allow the Merced campus to continue its preparations to open the campus by Fall 2005. The budget increased one-time funding by \$2.7 million to \$10 million. This funding was provided for faculty start-up costs and to help establish the systems and core infrastructure needed to ready the campus for its opening in September, 2005.

In addition, the one-time reduction of \$80.5 million from 2003-04 was also restored, consistent with the prior year budget act and, consistent with past practice, funding for annuitant health benefits and lease revenue bond payments was provided.

The University did not receive funding for increases to salaries, employee health and welfare benefits, maintenance, energy, inflation, core needs, and other cost increases. Faculty salaries were about 8-10% behind the average of other comparison institutions — a similar problem existed with respect to staff salaries. Employee benefit costs were skyrocketing, energy costs were increasing significantly, new space was coming on line with no funds to support maintenance, and funding for core needs that provide the infrastructure to support the academic program, such as libraries, instructional equipment, and instructional technology, was falling further behind.

With the 2004-05 budget, as a result of the State's fiscal crisis, the University's State General Fund budget was nearly \$1.5 billion below what it would have been if a normal workload budget had been funded for the previous four years. A little more than 1/3 of this shortfall was accommodated through base budget cuts to existing programs; a little more than 1/4 was addressed through student fee increases; and the remainder represented foregone salary and other unfunded cost increases.

A New Compact with Governor Schwarzenegger

For 2004-05, the State was facing its fourth year of the budget crisis, with estimates of the deficit reaching \$15 billion in December, 2003. In his January budget, Governor Schwarzenegger proposed further significant reductions to the University's budget, including over \$140 million in additional base budget

reductions, another \$200 million in reductions to be offset by student fee increases, and an unprecedented enrollment reduction of 3,200 FTE. For the first time since the adoption of the California Master Plan for Higher Education more than 40 years ago, the University was being asked to turn away eligible students from freshman enrollment.

As the State's economic recovery remained slow, prospects for further cuts in the May Revise grew. Moreover, while the Governor's proposed solution to the overall deficit included major budget reductions in most areas of the budget, it also included heavy borrowing and several one-time actions that would only delay further cuts into future years. The University was gravely concerned about the future of the institution and the potential long-term effect on quality of the academic enterprise as the State fought its way out of its economic crisis over the next several years.

Governor Schwarzenegger was equally concerned about the University's future and asked his administration to work with the University and with the California State University on a new long-term funding agreement for the four-year institutions, similar to those developed with Governors Deukmejian, Wilson, and Davis in the past. The new higher education Compact was announced by Governor Schwarzenegger in May, 2004.

The fiscal provisions of the Compact are designed to provide sufficient resources for the following:

- **Block Allocation for Salaries, Employee Benefits, and Other Basic Support** — adjustments of 3% in 2005-06 and 2006-07, and adjustments of 4% for 2007-08 through 2010-11. The importance of this element of the Compact cannot be overstated. Faculty salaries are estimated to be about 10% behind the average of comparison institutions; there is a similar problem related to staff salaries. The Compact has allowed the University to stop the erosion in salaries in the first two years, and, in subsequent years as the State's fiscal situation improves, begin to close the gap and address salary inequities that exist between newly-hired faculty and staff and longer-term employees. Returning to paying competitive salaries is one of the University's highest priorities and is critical to our ability to maintain academic quality and restore the University's — and California's — competitive edge.
- **Core Academic Support Needs** — beginning in 2008-09 and continuing through 2010-11, an additional 1% adjustment to the base to be used to address annual budgetary shortfalls in State funding for core areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance.

- **Enrollment** — funding for enrollment growth consistent with the Master Plan at the agreed-upon marginal cost of instruction. UC estimates enrollment will grow by about 2.5% a year through this decade.

- **Student Fees** — undergraduate fee increases of 14% in 2004-05 and 8% in both 2005-06 and 2006-07; graduate fee increases of 20% in 2004-05 and 10% in both 2005-06 and 2006-07. Beginning in 2007-08, the University is to develop its budget plan each year based on the assumption that fees will be increased consistent with the Governor's proposed long-term student fee policy. That policy states that increases in student fees should be equivalent to the rise in California per capita personal income. However, in years in which the University determines that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, UC may decide that fee increases of up to 10% are necessary to provide sufficient funding for programs and preserve academic quality. Revenue from student fees will remain with the University and will not be used to offset reductions in State support. The Compact also calls for the University to develop a long-term plan for increasing professional school fees that considers the following factors: average fees at other public comparison institutions, average cost of instruction, total cost of attendance, market factors, the need to preserve and enhance the quality of the professional programs, the State's need for more graduates in a particular discipline, and financial aid requirements of professional school students. Revenue from professional school fees will remain with the University and will not be used to offset reductions in State support.

- **Other Budget Adjustments** — annual adjustments for debt service, employer retirement contributions, and annuitant health benefits.

- **One-time Funds and New Initiatives** — consideration of additional resources for one-time purposes and new initiatives when the State's fiscal situation improves.

- **Capital Outlay** — continued support for bond financing of at least \$345 million annually to meet capital outlay needs.

The Compact also includes accountability measures relating to issues that traditionally have been high priorities for the State. Thus, the University has agreed to maintain and improve where possible performance outcomes in a variety of areas, including maintaining access and quality; implementing predictable and moderate fee increases; enhancing community college transfer and articulation; maintaining persistence, graduation rates, and time-to-degree; assisting the State in addressing the shortage in science and math K-12 teachers; returning to paying competitive salaries and closing long-term funding gaps in core areas of the budget; and maximizing funds from the federal government and other

non-State sources. The University will report to the Administration and the Legislature on its progress in these areas by October of each year.

Funding in 2005-06: A Turning Point

As mentioned earlier, negotiation of the Compact with Governor Schwarzenegger late in the budget process for the 2004-05 budget helped stem the tide of budget cuts that had prevailed for four years. Further cuts that were likely to be targeted at UC in the May Revision were avoided. With the 2005-06 budget, the Compact represented a true turning point. For the first time since the State's recent fiscal crisis began, the State provided the University with a normal workload budget.

The budget assumed student tuition and fee revenue from increases as follows:

- an 8% increase in undergraduate student fees;
- a 10% increase in graduate academic student fees;
- increases ranging from 3% - 10% in professional school fees;
- a 5% increase in nonresident tuition for undergraduate students.

Fee revenue from these increases were combined with State General Funds and UC General Fund income to support the following:

- a total compensation package of 4% to fund merit salary increases, cost-of-living adjustments (COLAs), health and welfare benefit cost increases, and market-based and equity salary increases for faculty and staff;
- funding to support 5,000 FTE growth in enrollment (\$38 million), representing a 2.5% increase, at the agreed-upon marginal cost;
- \$10 million as a first step toward a multi-year effort to restore unallocated reductions to instructional budgets;
- a 2.25% increase (\$23 million) for inflation adjustments on non-salary portions of the budget;
- maintenance of new space (\$16 million) for core instruction and research space and for the California Institutes for Science and Innovation;
- \$750,000 in State funds, matched by \$750,000 in University funds, to support the initial infrastructure needed to implement the new science and math initiative, *California Teach: One Thousand Students – One Million Minds*, intended to provide students the opportunity to complete in four years and one summer both a bachelor's degree in science, mathematics, or engineering and the coursework required to become a K-12 science or math teacher. The State

also authorized an additional 300 additional APLE warrants (Assumption Program for Loans for Education), which provide loan forgiveness funds for teachers.

- \$14 million in one-time funds needed to open the Merced campus in 2005, an increase of \$4 million over the one-time funds provided in 2004-05.

Funding for student academic preparation programs was once again a major issue in the budget process for 2005-06. The Governor's January budget proposed eliminating \$17.3 million that had been provided on a one-time basis for these programs in the 2004-05 budget, leaving only the University's \$12 million in support for student academic preparation as called for in the Compact. The Regents adopted a resolution at the January 2005 meeting affirming that student academic preparation programs are a fundamental part of the University's mission. Convinced of the importance of funding these programs at an adequate level, the University worked diligently throughout the process to arrive at an agreement with the Governor and the Legislature to provide State support for student academic preparation. The final budget act for 2005-06 restored the \$17.3 million in State support once again on a one-time basis with the understanding that the University work with the Administration to fully evaluate the effectiveness of each program and redirect funding from those that cannot demonstrate an adequate return on investment to those that can. The final budget act also specifies that the University will report on the outcomes and effectiveness of these programs consistent with an accountability framework developed in April 2005 with the participation of representatives from the Legislature, the Department of Finance, as well as the University.

The budget also provided increases for annuitant health benefits and lease revenue bond payments, consistent with past practice. The State-funded budget for 2005-06 totaled \$2.845 billion, which was a 5% increase over the prior year. While the 2005-06 budget helped keep further erosion from happening, it provided very little relief against the significant reductions that occurred during the State's fiscal crisis.

Funding in the Current Year, 2006-07 – Second Year of the Compact

The University is very grateful for the support of the Governor and the Legislature in providing full funding of the Compact in 2006-07, as well as additional funds above the Compact. The 2006-07 budget includes the following:

- a 3% basic budget adjustment as called for under the Compact to help fund cost-of-living adjustments, continuation costs for salary and benefit increases from 2005-06, merit salary increases, market-based and equity salary adjustments, health and welfare benefit cost increases, and non-salary price increases;

- funding for enrollment growth of 5,299 students at a revised marginal cost. The number of students reflects a 2.5% enrollment growth over the previous year. The revised marginal cost was a result of a lengthy debate and resulted in a compromise figure of \$9,900 per student. The new methodology more appropriately recognizes the actual cost of hiring faculty and includes a component for maintenance of new space, which has not been adequately funded by the State in recent years.
- funding to avoid planned increases in student fees. At the November 2005 meeting, the Board adopted the following resolution related to student fees:

“ . . . the expenditure plan included in the document, 2006-07 Budget for Current Operations, be approved, provided, however, that student fees as proposed will be reduced or rescinded prior to implementation if the Governor and the Legislature provide the funding to reduce or eliminate the fee increases and the remaining portions of the Compact with the Governor remain in place.”

Therefore, no student fee increases were implemented for 2006-07. The State’s action to buy out planned increases provides welcome relief to students and their parents after several years of significant student fee increases. The University is particularly grateful for the reduced pressure on students from needy middle-income families. The student fee buy-out also meant no increase in financial aid was available in the current year, as it was to be funded from fee revenue associated with the planned increases.

- \$375,000 to complete the State’s share of funding for the infrastructure needed to implement the University’s Science and Math Initiative. This is in addition to \$750,000 provided in the previous year. State dollars are matched by UC, for a total of \$2.5 million for resource centers on each campus (\$250,000 per campus) to implement the program. The Governor’s Budget also includes an authorization for an additional 100 APLE warrants for students enrolled in these programs. These are loan forgiveness grants that will help participants in the Science and Math Initiative pay down their student loans.
- an additional \$2 million for community college programs within the Student Academic Preparation and Education Program (SAPEP) portfolio. The new funds will be used primarily to support additional counselors to work directly with community college students to encourage and facilitate their transfer to UC. In addition, the budget makes permanent the \$17.3 million in one-time State funds that had been appropriated for student academic preparation programs in the prior year. The Governor’s January budget had proposed elimination of these funds. However, the final budget reflected an agreement between the Legislature and the Governor to make these funds a permanent

part of the University's budget. The total funding for student academic preparation programs for 2006-07 will consist of \$19.3 million in State General Funds and \$12 million in University resources, for a total of \$31.3 million. The University anticipates that the new accountability framework developed in 2005-06, and used as the basis for the University's first annual report on the framework in April, 2006, will permit the University to provide information for many years to come that can be used to assess the effectiveness of these programs;

- \$6 million to restore funding for labor and employment research. Funding for this program has been a topic of major discussion during budget negotiations for several years. The 2005-06 budget had eliminated all State funds for this program and, despite the University's request, the 2006-07 Governor's Budget included no restoration of funds for this program. The Legislature reached agreement with the Governor at the end of the budget process to restore funds to this program, returning State funding back to its original 2000-01 level. Budget language accompanying the appropriation calls for 40% to be used for labor education programs and 60% for research on labor and employment;
- \$4 million for the Gallo Substance Abuse Program at the San Francisco campus;
- \$16 million for debt service payments on lease revenue bonds, in keeping with past practice.

The budget also continues one-time funding of \$14 million for Merced. These funds are in addition to the ongoing base appropriation of \$10 million in permanent funds, the enrollment growth funding for the campus' 1,286 students, and student fee revenue the campus receives from its students. One-time funds continue to be needed to help support faculty salaries and recruitment costs, instructional technology, library materials, student services, and expanded general support needed to fully operate the campus until the campus enrollment reaches a critical mass sufficient to support ongoing operations.

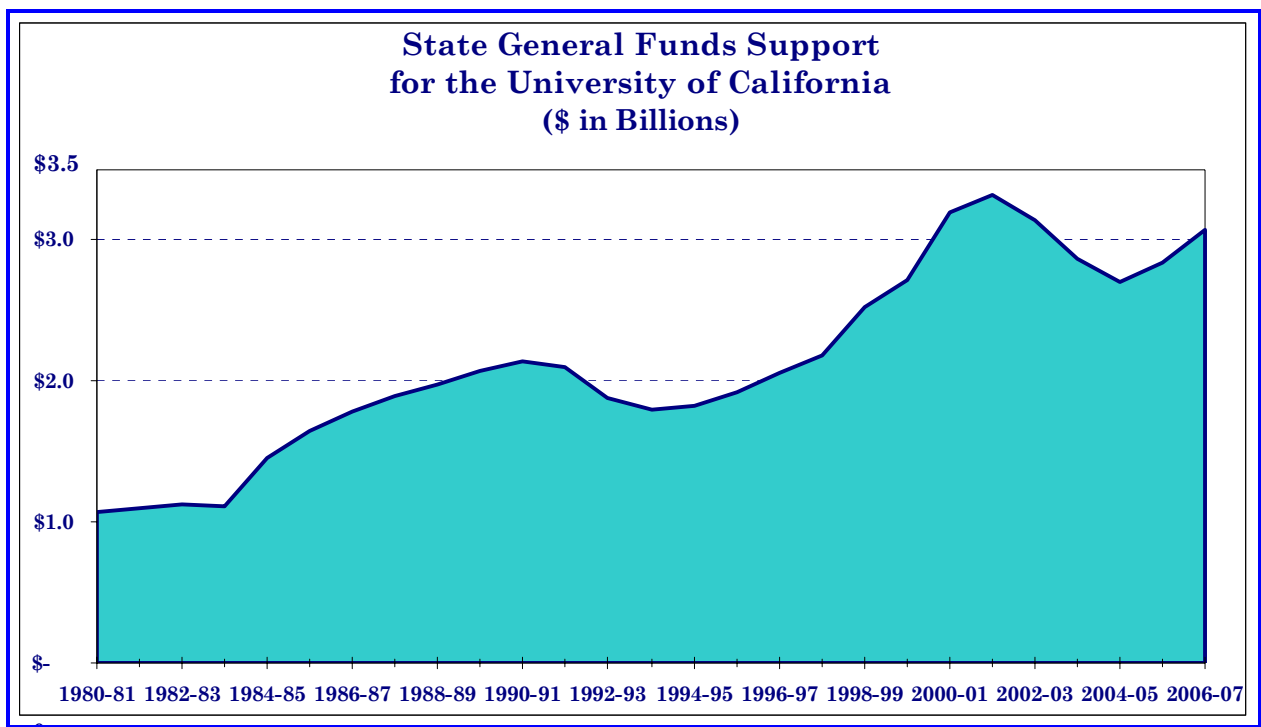
In addition to funding increases, the 2006-07 budget package includes two legislative language items that are particularly noteworthy. The first relates to reporting on UC compensation, accountability, and transparency. The budget language calls for UC to submit an annual report to the Legislature on its progress in reforming its compensation policies and practices consistent with the recommendations of the Task Force on UC Compensation, Accountability, and Transparency. The second item is supplemental language asking the University to report on the comprehensive review and analysis of the Office of the President and its functions that the University is already undertaking. This review is intended to enhance the performance of the University's management and oversight mechanisms.

The final budget act provides \$3.077 billion in State General Funds for the University's budget, which equates to an 8.4% increase over the previous year.

State Funding for UC Depicted Over Time

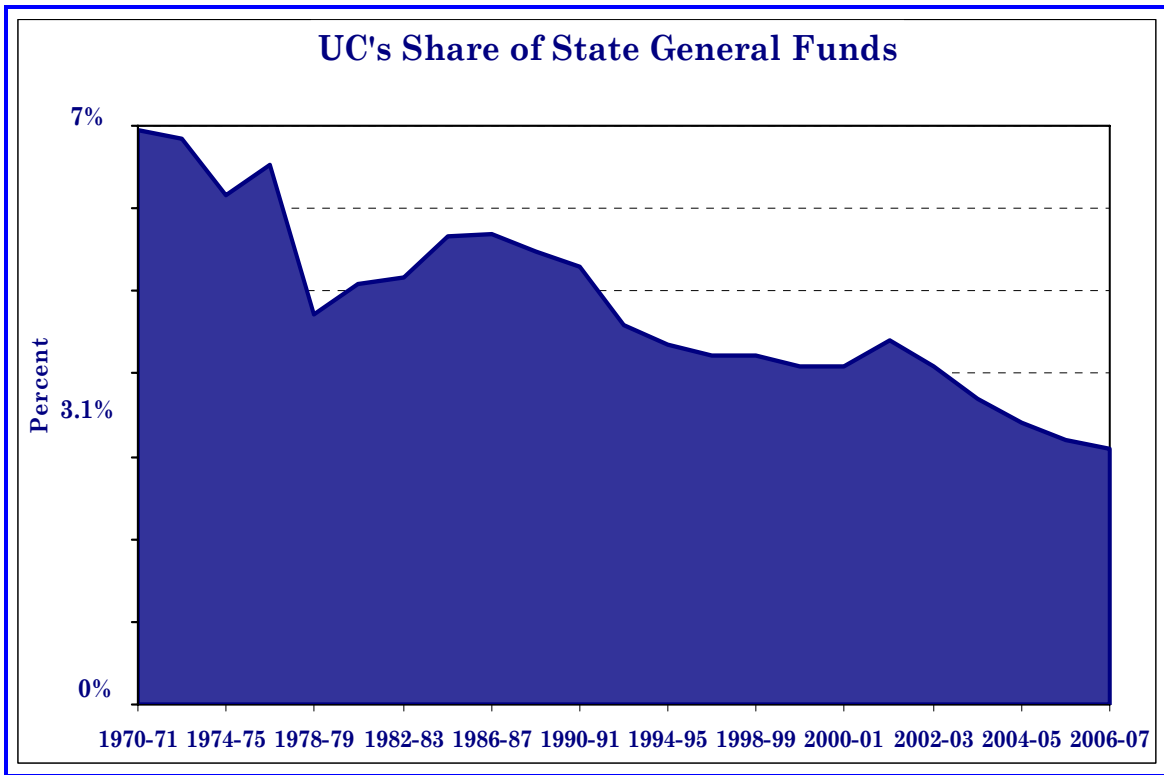
The “ups and downs” shown in Display 5 have largely coincided with changes in the State's economy. In the 1980s, there were large increases in State funding due to the high priority placed on the University of California by Governor Deukmejian and the Legislature. During that time, State funding for UC essentially doubled. Declines occurred during recessionary years. Beginning with the first year of the first Compact with Governor Wilson (1995-96) through 2001-02 (including the first two years of the Partnership with Governor Davis), the State provided increased funding for the University's budget every year until the most recent fiscal crisis, again reflecting the high priority the State placed on funding for the University during that period.

Display 5



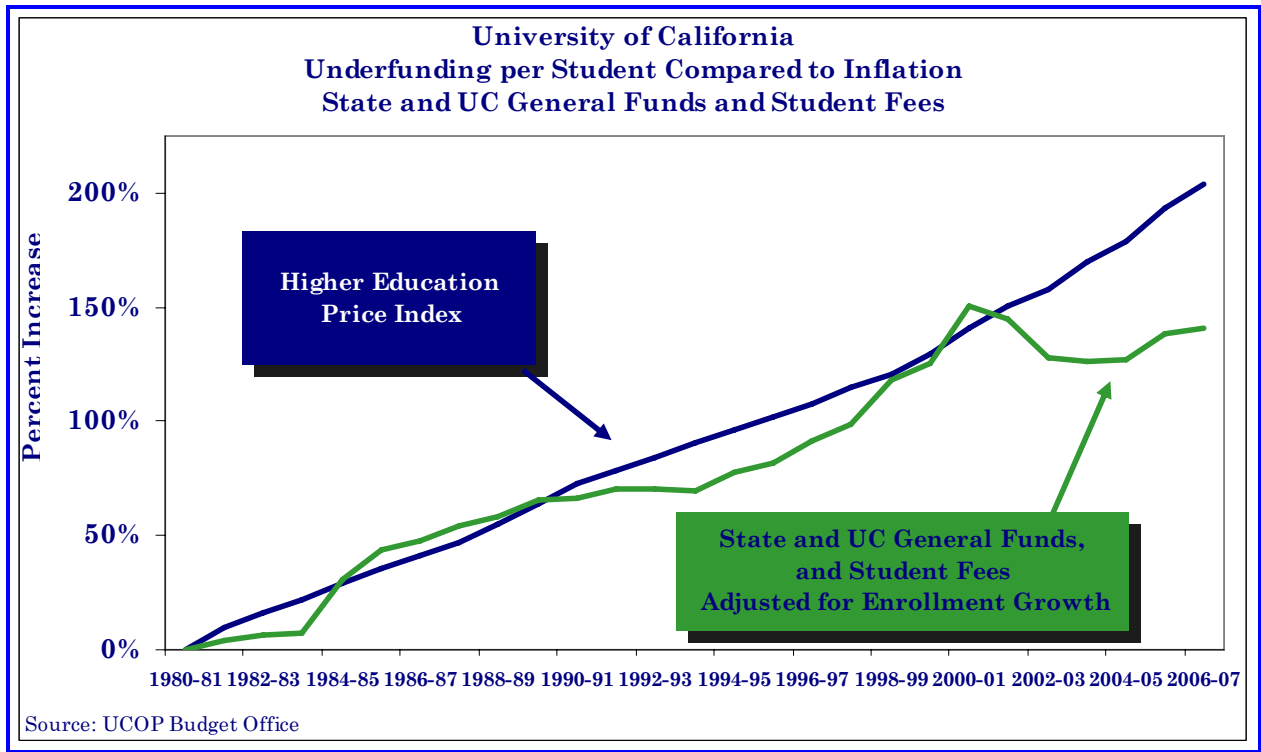
Looking at State support another way, Display 6 (next page) shows the University's share of the State General Fund budget over time. Thirty years ago, the University's share was 7%. It has declined markedly over the last three decades and is currently at a low point of 3.1%. Large decreases in support for UC, and higher education in general, coincided with the passage of Proposition 13 and the State's need to significantly increase support for K-12 and local government to replace lost property tax revenue.

Display 6



Yet another way to look at the University's budget over time is shown in Display 7, which shows the underfunding of the University's budget on a per student basis relative to inflation as gauged by the Higher Education Price Index. It reflects the primary sources of funds used to support the University's basic operations — State and UC General Funds and student fee revenue. The graph shows that the University has fared better in some years and worse in others, when compared to inflation, but has remained relatively steady in terms of funding per student, until the last several years. After 2000-01, the graph shows a precipitous decline over several years in funding per student when compared to the price index. While this decline has leveled off recently, the gap between funding per student and the increase in inflation has widened considerably. The University is deeply concerned about this trend and hopes the Compact with the Governor will help to reverse it over the next several years. The importance of having sufficient funds to maintain quality cannot be overstated. The erosion of the University's resources must be halted if the educational quality of the University is to be preserved.

Display 7



Planning for the Longer Term

While the point has been reached where, after years of budget cuts, the University is optimistic that some stability can be achieved in the State-funded budget, it is imperative that the University look beyond the annual budget cycle to take a longer view, looking at least twenty years into the future. The University must consider what the State of California will need from the University in the coming decades and identify the ways in which the University can contribute to meeting those needs. As part of this process, consideration should be given to, among other things, the changing nature of the state's economy and demographics, the balance of the University's missions and roles, and global competition for intellectual capital.

The knowledge-based economy means that higher education is more important than ever to economic competitiveness and the quality of life. Higher education is a pathway to upward social mobility for a changing population. More Californians will want and need a university education for tomorrow's jobs. Innovations that result from the University's research and the creative solutions and visionary thinking of its graduates lead to new products, better processes, new companies, and sometimes entirely new industries. Both access to the University and

protection of its quality are imperative if this valuable public asset is to continue to keep California competitive.

For example, consider the balance between undergraduate and graduate education. For several decades, a compelling State priority was placed on providing undergraduate access for the rapidly growing high school graduate population. Undergraduate enrollments have increased dramatically in the last 40 years, from approximately 49,000 FTE in 1965-66 to 160,000 in 2006-07. However, adherence to this priority has not been without some consequences for the overall academic balance of the University and its impact on the State's supply of highly-skilled workers needed in California's knowledge-based economy. Graduate enrollments grew, but at a slower pace, from 20,000 students in 1965-66 to 33,000 in 2006-07. Thus, while the University has expanded access for undergraduates, graduate and professional enrollments have not kept pace, as was intended in the Master Plan. Graduate enrollments in high quality programs are critical to the state's continuing economic vitality, as well as its social and cultural development. In addition, UC graduate students play a vital role as future faculty in higher education in California, as well as serving a key function in enhancing the quality of the instructional and research enterprise while enrolled at UC.

California's under-investment in graduate education can also be seen in degree production by state. California ranked 36th in the United States during 2003-04 in the number of graduate degrees awarded per population age 25-44, below the national average. In addition, California ranked 20th in the U.S. in the number of doctoral degrees awarded per population age 25-44, and compared to other high-technology and science-oriented states, California was 6th out of 10 in the number of doctoral degrees awarded. Not maintaining the proportion of graduate enrollments has had implications for undergraduate education, research, and the state's economic and social well-being. The University is mindful of the importance of regaining and maintaining balance among all its missions.

Around the world, nations such as China, India, Singapore, Ireland, and Australia, are aggressively boosting their economic competitiveness. These countries are investing heavily in higher education. In California, it cannot be assumed that investments made 20 or 30 years ago will be sufficient in the future to maintain the quality of life and standard of living that Californians have enjoyed in the past. The investments that California makes over the next 10 years in California's competitiveness may well determine the state's economic fortunes for the next 40 or 50 years, just like the investments California made in the 1960s. To keep California competitive, the state must ensure that the University has the intellectual capital to stay competitive in a global economy.

In this context, the University is engaged in an on-going long-range planning process, designed to create a vision of the University of California in twenty years and how it will best serve the State. Careful consideration is being given to what

will be the intellectual capital and other needs of the State and how the University can help to meet those needs in 2025 and beyond. Recognizing the State's current financial difficulties, this budget, and those that will follow, will be consistent with the Compact with the Governor through 2010-11 and will be informed by the longer-term perspective as well.

Enrollment Projections

Under the California Master Plan for Higher Education, UC is to offer access to all eligible applicants in the top 12.5% of the statewide public high school graduating class who choose to attend. University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class and to guarantee admission to all applicants who meet the eligibility requirements and apply on time. In addition, the Master Plan calls for UC to guarantee a place for all California Community College transfer applicants who meet eligibility requirements. Framers of the Master Plan further envisioned maintaining or enhancing the proportion of graduate student enrollment at UC. To enable the University to fulfill these access provisions, the Master Plan calls for the State to provide adequate resources to accommodate undergraduate and graduate student enrollment.

The University remains committed to the Master Plan and believes it is the underpinning for one of the finest higher education systems in the world. There is continued interest in replicating the California model in developing economies throughout the world and the Master Plan is the envy of other states. The interests of the State, its citizens, and the higher education segments in California have been well-served by the Master Plan for over 45 years. Legislative reviews of the Master Plan in 1989 and 2002 have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students.

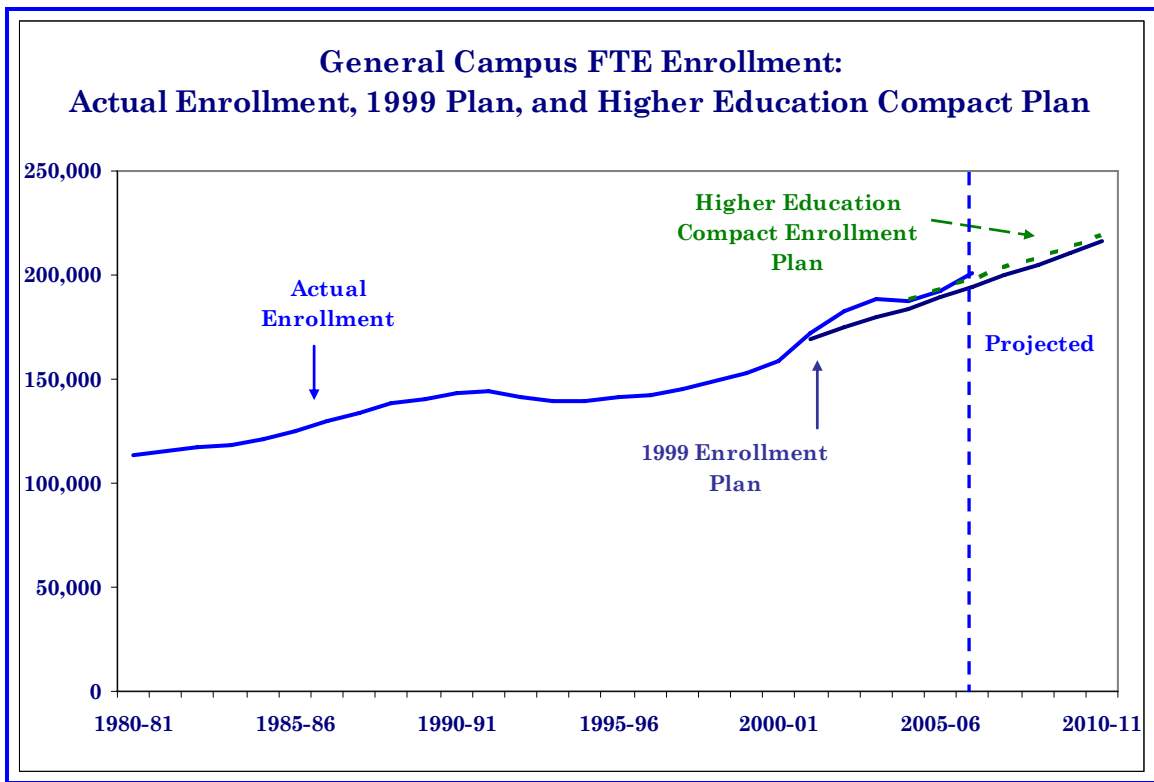
UC's long-term enrollment projections for general campus programs are based on consideration of four primary factors:

- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class, but generally about 7.8% actually enroll);
- assumptions about community college transfer rates, consistent with the University's commitment to continue to improve these rates; and

- increases in graduate and professional enrollment needed to meet workforce needs in academia, industry, and other areas.

The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of 2.5%, or about 5,000 FTE, over this decade; by 2010-11, the University would reach its planned target of 216,500 FTE. As shown in Display 8, between 2000-01 and 2003-04, the University experienced far more rapid enrollment growth than projected in the 1999 plan, averaging closer to 8,000 FTE student growth per year in recent years rather than the 5,000 FTE growth projected earlier. In the current year, total enrollment remains 6,000 FTE over the level envisioned in the 1999 plan for 2006-07. The Compact with Governor Schwarzenegger calls for UC to return to its earlier estimates of 2.5% enrollment growth per year.

Display 8

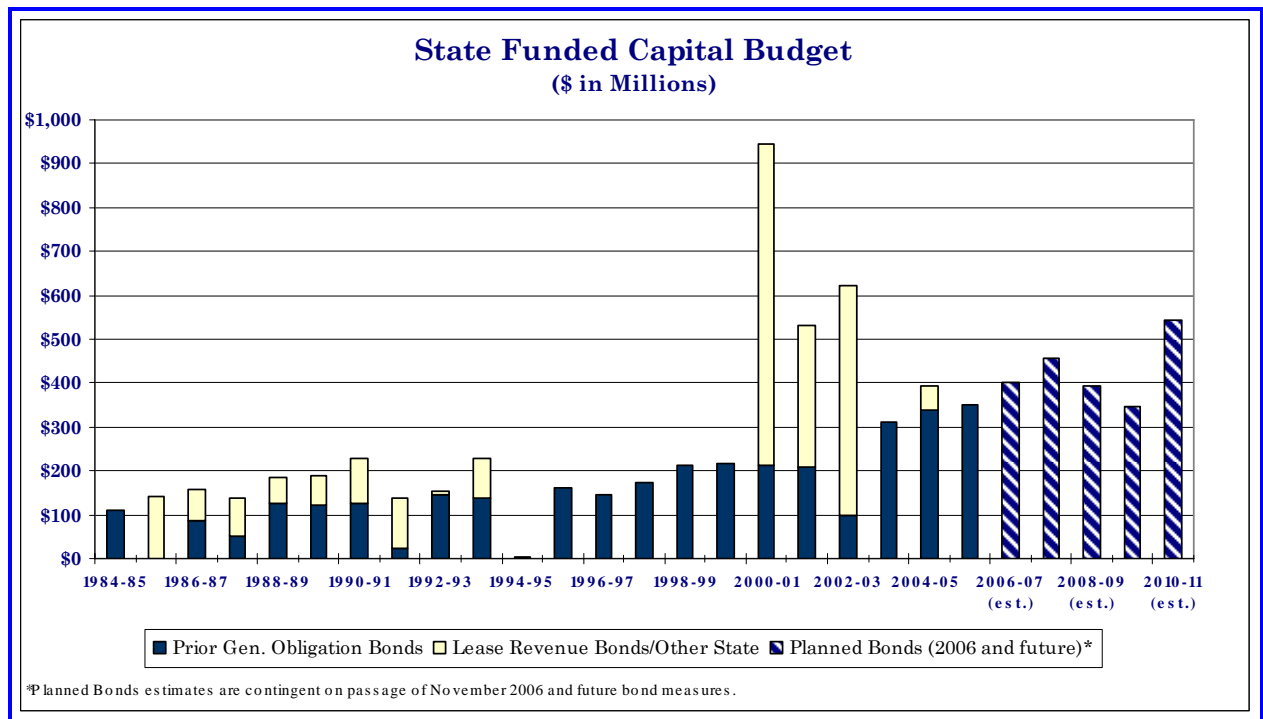


Therefore, the 2007-08 budget request includes workload funding at the marginal cost for 5,340 students. The Merced campus opened its doors officially in 2005-06 and to date has enrolled 1,286 students. In the coming years of this decade, the campus plans to enroll approximately 675 additional students each year, reaching enrollment of 4,000 FTE students in 2010-11. In 2007-08, the campus will enroll 2,000. A portion of the new enrollment growth will also be directed to continued phasing of increases in medical school and nursing programs.

Facilities Needs to Accommodate Enrollment Growth and Maintain Quality

Adequate facilities are a critical factor in the University's ability to accommodate the expected rapid growth of students and maintain the quality of the academic program. As Display 9 indicates, the State provided funding for capital outlay within the range of \$100 million to \$250 million per year for more than a decade from the mid-1980s to the late 1990s. Since then, the level of capital outlay funding has fluctuated significantly.

Display 9



In November 1998, voters overwhelmingly approved Proposition 1A, which provided higher education with \$2.5 billion in general obligation bonds over four years through 2001-02. The University's share was about \$210 million per year.

In Spring of 2002, the Legislature and the Governor agreed on a new general obligation bond package for education, embodied in Assembly Bill 16 (Chapter 33, Statutes of 2002). This package proposed two public education facilities bond two-year measures, one for 2002 and one for 2004, authorizing a total of \$27 billion in general obligation bond funds over four years to help fund K-12 and higher education facility needs. Proposition 47, the 2002 bond measure, was approved in November 2002 and authorized more than \$13 billion for K-12 and \$1.65 billion for higher education. UC received \$90.2 million in Proposition 47 funds in 2002-03 and \$307.5 million in 2003-04. The second bond measure, approved by voters in March

2004, authorized \$10 billion for K-12 and \$2.3 billion for higher education for the two-year period 2004-05 and 2005-06, with UC receiving approximately \$345 million per year from the bonds.

The University also received capital funds from other State sources in recent years, including both State General Funds and lease revenue bonds. A total of \$650 million in lease revenue bonds and State General Funds was provided for hospital seismic projects required by SB 1953 and hospital infrastructure needs; \$261 million for planning and construction of the initial buildings for the Merced campus; \$400 million for the California Institutes for Science and Innovation, which was matched at a rate of at least 2:1 by non-State funds (the Science and Innovation Institutes are discussed in more detail in the *Research* chapter of this document); \$282 million for miscellaneous other projects that were high priorities for the Governor and the Legislature; and approximately \$205.6 million of “Garamendi financing” authorized for four research projects pursuant to Government Code Section 15820.21. (In 1990, the State approved legislation [SB 1308, Garamendi] authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, ongoing maintenance, financing, and related infrastructure of certain research facilities.)

Funding for the University’s 2006-07 and 2007-08 capital budgets will require passage of the new General Obligation bond measure on the ballot for the November 7 election. Proposition 1D on the ballot would provide approximately \$690 million for general capital outlay over the two years. The measure also includes an additional \$200 million for expanding the University’s medical school programs and its ability to deliver health care through telemedicine. The capital budget request for 2007-08 is discussed in more detail at the end of this *Overview* and in a companion document, *2007-2008 Budget for State Capital Improvements*.

Future funding for capital outlay continues to be a major issue facing the University. Continued enrollment growth presents significant challenges. However, even without enrollment growth, the University has significant capital needs related to seismic and life-safety requirements, modernization of out-of-date facilities that no longer adequately serve the academic programs they house, new infrastructure for growing campuses, and renewal of infrastructure and other facility systems that are worn out and cannot accommodate even present needs.

The University’s capital program is particularly challenged by recent changes in the construction market that have resulted in an extraordinary increase in building cost. Prices for certain materials, such as steel and cement, have increased dramatically and there is great concern that the reconstruction effort required on the Gulf Coast may trigger a new round of increases in materials and labor costs. Further, California is experiencing a major increase in the volume of construction, resulting in fewer bidders and less competition for University contracts, much

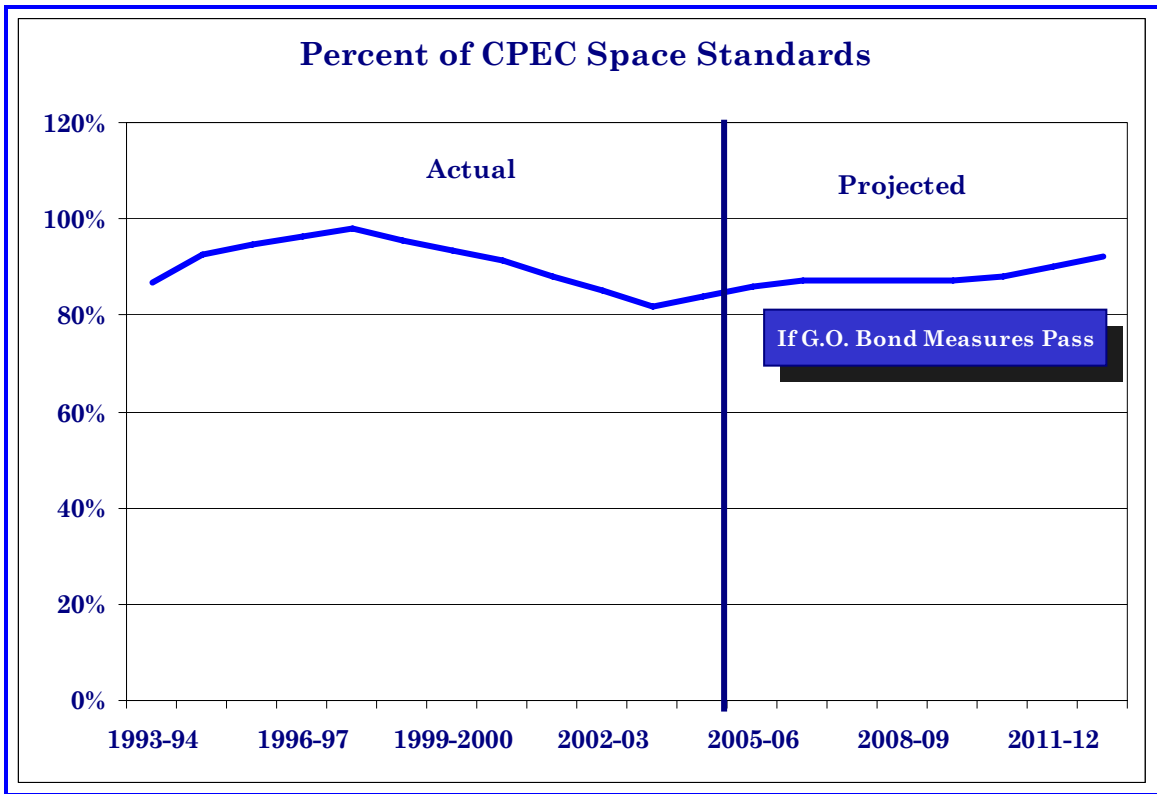
higher bid proposals, and great volatility in bids. In response, the University has dramatically increased its emphasis on management of cost and cost risk, and the importance of improving the way projects are implemented. That said, it is clear that with the current volatility in the construction market, the \$345 million per year in State financing called for in the Compact does not support as many projects as originally envisioned, exacerbating the already difficult challenge of meeting projected enrollment growth, essential seismic correction, and renewal needs.

It is in this context that the University has prepared its annual five-year capital outlay plan that will address needs related to enrollment growth, seismic, and other life-safety requirements, and renovation of obsolete facilities and infrastructure based on the funding levels called for in the Compact. The State-funded program includes the projects and budget proposed for approval in 2007-08, along with future State funding requirements by campus for the next four years, 2008-09 through 2011-12. The State-funded 2007-08 Budget for Capital Improvements will be presented to the Board for approval at the November Regents meeting, consistent with usual practice. In addition, both the five-year State and non-State capital plans will be presented for discussion in November.

The University estimates that it will require more than \$800 million per year (up from the estimate of \$500 million per year included in the Compact in 2004-05) over the next five years to address its most pressing facilities needs for core academic and support space traditionally funded by the State. Recognizing the State's difficulty in funding the full annual State-supportable capital outlay need, the University has committed to meeting a portion of this annual need through significant efforts in private fundraising and devoting a portion of the increase in UC General Funds to pay for debt service on long-term financing for capital renewal and deferred maintenance. In addition, there are other urgent needs in areas traditionally not supported by the State, such as student and faculty housing, parking, and other facilities that serve public as well as University needs. Unfortunately, the magnitude of these non-State funded facilities needs is creating significant pressure on the University's debt capacity. Moreover, the current financial context and a volatile construction cost market seriously constrains all fund sources available to the University, limiting what can be done.

While State funding does not meet all the University's needs, the \$345 million per year proposed in the Compact is critical to the University's ability to respond to facilities needs related to enrollment growth, life-safety, seismic, and renovation. If that level of funding continues each year, the University estimates it will construct sufficient space to achieve almost 92% of the standards for instruction and research space set by the California Postsecondary Education Commission (CPEC space standards) by 2011-12, as shown in Display 10 (next page). Passage of future bond measures is key to the University's ability to accommodate enrollment and maintain adequate facilities.

Display 10



The Compact states that, as the State’s fiscal situation permits and one-time funds become available, the State may provide “one-time funds to address high priority infrastructure needs, such as capital renewal of facilities and deferred maintenance.” The Compact goes on to state that “for UC, at least \$200 million per year is needed for systematic capital renewal of existing facilities and utilities, and the deferred maintenance backlog for high-priority projects exceeds \$500 million.” These estimates are based on a sophisticated model developed by the University to project normal renewal costs for facilities. The model, which is updated annually, includes a detailed inventory of all State-maintained facilities at each campus and breaks down campus infrastructure and each building into subsystems with predicted life cycles of between 20 and 50 years. These systems include components such as roofs, fire alarm systems, heating and ventilation systems, central plant chillers, and underground utility cabling. The model assumes standard life cycles and costs for renewing each system, and from these elements develops a profile for each building or system, projecting the renewal date and cost for a 50-year period. The model also estimates the deferred maintenance backlog by tracking those systems that have deteriorated to the point that they currently need major repair, replacement, or renewal. The University welcomes the acknowledgement in the Compact of these serious deficiencies and as funds become available, will seek investments from the State in these critical areas of infrastructure.

Summary of the University's 2007-08 Budget Request

While State funding provides essential core support, the University's overall operating budget is funded from a variety of sources, including State General Funds, revenue from student fees, UC General Funds, federal funds, teaching hospital revenue, gifts and endowments, and income from self-supporting enterprises. The University's annual budget plan is based on the best estimates of funding available from each of these sources.

Revenue from non-State sources, such as federal funds and private giving, is critical to the University's ability to do research, support students, and operate its teaching hospitals. Over half of the University's research expenditures and nearly one-third of the net operating revenue of the teaching hospitals is from federal funds. In addition, federal funds represent an estimated 19% of grant aid received by UC students in 2005-06.

State funds that support the University's core operations make it possible to attract funds from other sources. The University has done very well in terms of attracting more private and federal funds for research, capital outlay, and other support. For example, for every State dollar specifically invested in research, UC leverages nearly \$6 more from the federal government and other non-state sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries. Many of the funds leveraged from other sources are restricted in nature, but such sources provide the means for faculty and students to create and disseminate new knowledge, meet workforce needs of the state, and help fuel economic prosperity. The University remains optimistic that there are continued opportunities for raising private funds. For federal funds, however, projections for the next several years show very little growth, if any. In fact, current projections indicate increases will only be sufficient to cover inflation, if that. Federal and private funds are discussed more fully at the end of this *Summary*.

Since the Compact with Governor Wilson was developed in 1995-96, it has been the practice of the University to premise its annual budget request on the funding agreement with the present Governor. With the third year of the Compact before us, the University is again basing its request for 2007-08 on the agreement with the Governor.

This chapter discusses general support for the University's budget, including State General Funds, UC General Fund income, and student fee revenue based on the Compact Agreement with the Governor. A more complete discussion of the existing base budget, other fund sources, and associated policy issues within the major functional areas of the budget is contained in the following chapters of this document.

In addition, this chapter includes a discussion of the University's needs for restoration of its fiscal health, once the State's financial circumstances permit. Years of devastating cuts have reduced the University's competitiveness and have destabilized the quality of the academic program. The historic investment the State has made to develop one of the finest public university systems in the world must be preserved if the University is to continue to provide the State with the economic and social benefits that derive from a great institution of research and learning. Restoration of funds for high priority needs will be a critical step in preserving and nurturing the State's investment for the future.

Planning for the University's 2007-08 budget is occurring in the context of priorities identified by The Regents, including honoring the University's commitment to access, improving the University's academic competitiveness, and maintaining its affordability to students. Consistent with past practice, the University's budget plan for 2007-08 incorporates projections for funds from all sources, including federal funds, student fee revenue, UC general funds, and State funds. As discussed in more detail at the end of this chapter and in the *Research* chapter of this document, the budget plan reflects continuing constraints on federal funding brought on by the federal deficit. It also reflects continuing constraints on revenue and reimbursements for academic medical centers, described in more detail in the *Teaching Hospitals* chapter of this document.

Display 1 identifies the components of the 2007-08 budget plan, with increases totaling \$373.7 million. In order to meet The Regents' highest priorities, as endorsed at the January 2004 meeting, it is the University's plan to achieve sufficient increases in revenue from State funds and non-State revenue to fund the following:

- a compensation package of 5% that will be used to fund cost-of-living increases, merit salary increases, market-based and equity salary increases, and cost increases in health and welfare benefits and non-salary budgets. This would begin to close the salary gap of approximately 10%;
- funding related to re-instatement of contributions to the University of California Retirement Program (UCRP). The Regents have made it a high priority to ensure the long-term viability of the retirement program for the benefit of all UC employees;
- an enrollment increase of 2.5%, or 5,340 FTE, at the revised marginal cost level. This rate of growth is consistent with the Master Plan goal of accommodating eligible students, and is sufficient to allow for planned increases in the health sciences, including increases in medical school and nursing enrollments;

Display 1

**University of California
2007-08 Budget Request
(\$ in millions)**

2006-07 Operating Budget

| | | |
|--|----|---------|
| Estimated State General Funds (excluding one-time funds and lease revenue payments) | \$ | 2,900.0 |
| Estimated State and UC General Funds plus student fee income (excluding one-time funds and lease revenue payments) | \$ | 4,900.0 |

PROPOSED INCREASES IN EXPENDITURES

(Based on the Compact)

Fixed Costs

| | | |
|---|----|-------|
| Compensation and benefit increases for faculty and staff for merit, COLA, employee benefits, and equity increases (equivalent to 5% of total salaries and benefits) | \$ | 157.0 |
| Price increase for nonsalary budgets (2.25%) | | 23.5 |
| Professional school cost increases | | 6.5 |
| Employer retirement contributions | | 60.0 |

Workload and Program Growth

| | | |
|--|--|------|
| Enrollment growth of 5,340 FTE students (includes \$9.2 million related to maintenance of new space factor in marginal cost formula) | | |
| State funds | | 56.9 |
| Student fee funds (includes \$11.5 million related to financial aid for new enrollment) | | 34.8 |
| Graduate student support | | |
| Redirection of \$10 million in savings from Strategic Sourcing and other sources | | -- |
| Additional new support | | 10.0 |
| Restoration of unallocated cuts related to Governor's previously proposed increase to the student-faculty ratio | | 10.0 |
| Research Initiative | | 15.0 |

Total Increase Under the Compact

\$ 373.7

% increase in State and UC General Funds, and Student Fee Income

7.6%

PROPOSED INCREASES IN INCOME

| | | |
|---|----|-------|
| State General Funds (4% increase to the base, excludes debt service for capital outlay) | \$ | 116.0 |
| State General Funds for enrollment growth (revised marginal cost rate) | | 56.9 |
| State General Funds for employer retirement contributions | | 60.0 |
| State-funded research initiative | | 15.0 |
| State funds/possible student fee increase | | 71.0 |
| Increase in fee income related to increase in enrollment | | 34.8 |
| UC General Funds income (including 5.0% increase in undergraduate nonresident tuition) | | 20.0 |

Total Increase in State and UC General Funds, and Student Fee Income

\$ 373.7

- an increase for graduate academic student support including new funding provided under the Compact and redirection of funds from additional savings achieved through the Strategic Sourcing Initiative. This is necessary to begin to regain the University's competitive position to attract the best graduate academic students;
- a research initiative that will both partially restore recent budget cuts to core research programs, such as agricultural research, Scripps Institution of Oceanography, and others, and will provide new funding for research initiatives important to the state's economic growth and job creation, including support for the California Institutes for Science and Innovation. Campuses will be asked to use at least 50% - 60% of the funds for new research initiatives to help support graduate students as research assistants;
- funding to continue UC's multi-year plan to restore funds cut from the budget related to the student-faculty ratio. Support for this purpose in 2007-08 would constitute the 3rd increment of funding over a three-year period directed toward improving the student-faculty ratio.

The budget plan assumes continuation of one-time funding for Merced needed for start-up costs as the campus continues to ramp up enrollments. In addition, the University intends to request one-time funding for deferred maintenance and capital renewal. The Compact says that as the State's fiscal situation permits and one-time funds become available, the University may request one-time funds to address high priority infrastructure needs, including deferred maintenance and capital renewal. No funding has been provided for deferred maintenance since the State's recent fiscal crisis began. The University's deferred maintenance backlog for high priority projects now exceeds \$800 million, reflecting the lack of predictable and adequate capital renewal funding to replace building and infrastructure systems that have reached the end of their useful life. This is a critical unmet need. If one-time funds are available from the State, the University can begin to address the highest priority deferred maintenance and capital renewal projects and help protect its capital assets.

As noted previously, funding for the University's 2007-08 budget plan will come from a variety of sources. The Compact includes the following funding provisions from State General Funds for 2007-08:

- base budget adjustment of 4% to be used to fund increases for salaries, employee health and welfare benefits, and other cost increases; and
- enrollment funding for growth of 2.5%, or 5,340 FTE students, at the agreed-upon marginal cost of instruction.

The budget plan also contains assumptions about revenue from non-State sources.

- \$34.8 million in student fee income related to enrollment growth; and
- \$20 million in UC General Funds, including a 5% increase in undergraduate nonresident tuition.

With regard to student fees, the Compact states the Governor's intent that increases in student fees should be based on the rise in California per capita personal income. However, in years in which UC determines fiscal circumstances require increases that exceed that rate of growth, UC may, in consultation with the Governor, decide that fee increases of up to 10% are necessary to provide sufficient funding for programs and to preserve quality.

With regard to professional school fees, the Compact provides that UC is to develop plans for professional school fees while considering several factors, including average fees at other public comparison institutions, total cost of attendance, market factors, the need to preserve and enhance the quality of graduate academic programs, the State's need for more graduates in a particular discipline, and financial aid requirements of graduate academic students.

For 2006-07, planned fee increases were avoided with the provision of sufficient State funds to "buy out" the proposed student fee increases. This was welcome relief for students and their parents, given the significant fee increases that have occurred in recent years. In fact, following the State's fiscal crisis in the early 1990s, when fees also went up dramatically, the State provided funds to avoid student fee increases for seven consecutive years.

At this time, the University is making no proposal for an increase in student fees. Instead, the University proposes to delay action on student fees until more is known in January 2007 after the Governor's proposed budget for 2007-08 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to once again buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January 2007 meeting of the UC Regents. It should be noted that any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances. In the event student fee increases are implemented for the coming year, it would be the University's intention to offer financial aid initiatives that include the following:

- a 33% return-to-aid for undergraduate students including special emphasis on providing assistance to needy middle-income students who traditionally have not qualified for grant aid;
- a higher return-to-aid of 45% for graduate academic students to recognize the need to provide competitive graduate support packages and to cover collective bargaining agreements with teaching assistants; and
- a 33% return-to-aid for graduate professional school students;

The \$373.7 million increase in revenue to support the general budget from the sources described above is an increase of about 7.6%, when calculated on a base that includes programs funded from State and UC General Funds and student fees (Educational Fee, University Registration Fee, and the Fee for Selected Professional School Students).

The next sections provide an explanation of the specific expenditure components that make up the budget request, followed by a discussion of student fees and financial aid. Near the end of the chapter, future funding needs, federal and private funds, and the capital budget are addressed.

Expenditures

Fixed Costs — Compensation Increases for Academic and Staff Employees

One of the areas of greatest concern resulting from years of underfunding of the University's budget is the growing lag in faculty and staff salaries compared to the market. UC faculty salaries currently lag the market by about 10% and there is a similar problem with respect to average staff salaries. The University's goal has been to maintain a market-based competitive total compensation program for its employees. With respect to cash compensation, this means providing sufficient funds — through a combination of merit increases, COLAs, and market and equity adjustments — to keep UC faculty salaries at the average of the salaries provided at the eight comparison institutions, and to provide salary increases for other employees that, on average, remain competitive with the relevant labor market.

It is impossible to overstate the critical nature of the problems created by salary lags. Paying competitive salaries is a key component in the University's ability to recruit and retain the best faculty. The University needs to recruit 6,000 faculty during this decade of Tidal Wave II growth to accommodate increases in enrollment and replace faculty who retire or leave for other reasons. Additional staff will also be needed. We are also beginning to experience a generational wave of retirements,

as the largest age cohort (the “baby boom” generation) begins to retire. This further exacerbates the already serious challenge presented by dramatic growth.

It is difficult to recruit a significant number of high quality faculty and staff even if there are no fiscal challenges. However, a persistent inability to pay competitive salaries has had an impact on the University’s recruitment and retention efforts. In addition, the lag in competitive salaries is exacerbated by the high cost of housing in many of the University’s campus communities. To the extent that new recruits are compensated at higher market rates, an inequity is created among those who have worked at the University for many years while little or no salary increases have been provided. The disparity in salaries among similarly-situated faculty and staff is becoming an urgent issue for the University to address.

A lag in faculty salaries sends a negative message about the University across the nation. Nothing is more certain to undermine quality than a persistent inability to offer competitive salaries. The University must be able to compete for and retain the best faculty if its program quality is to be maintained. This is particularly important during a time of unprecedented enrollment growth.

As part of the State’s actions to reduce the University’s budget in 2001-02 and 2002-03, the University did not receive funding increases that had been targeted for general salary and equity increases for faculty and staff. As a result, the University was only able to fund a combination of merit and COLA increases averaging 2% in 2001-02 and merit increases of 1.5% in 2002-03 for faculty and staff. No State funding was provided in 2003-04 or 2004-05 for COLA, merit salary, or health and welfare benefit cost increases. Faculty merits and some health benefit cost increases were funded in those years by instituting additional internal budget cuts, but no employees received a general increase or COLA and staff employees received no merit increases. The result of years of underfunding for compensation increases is the 10% lag noted above.

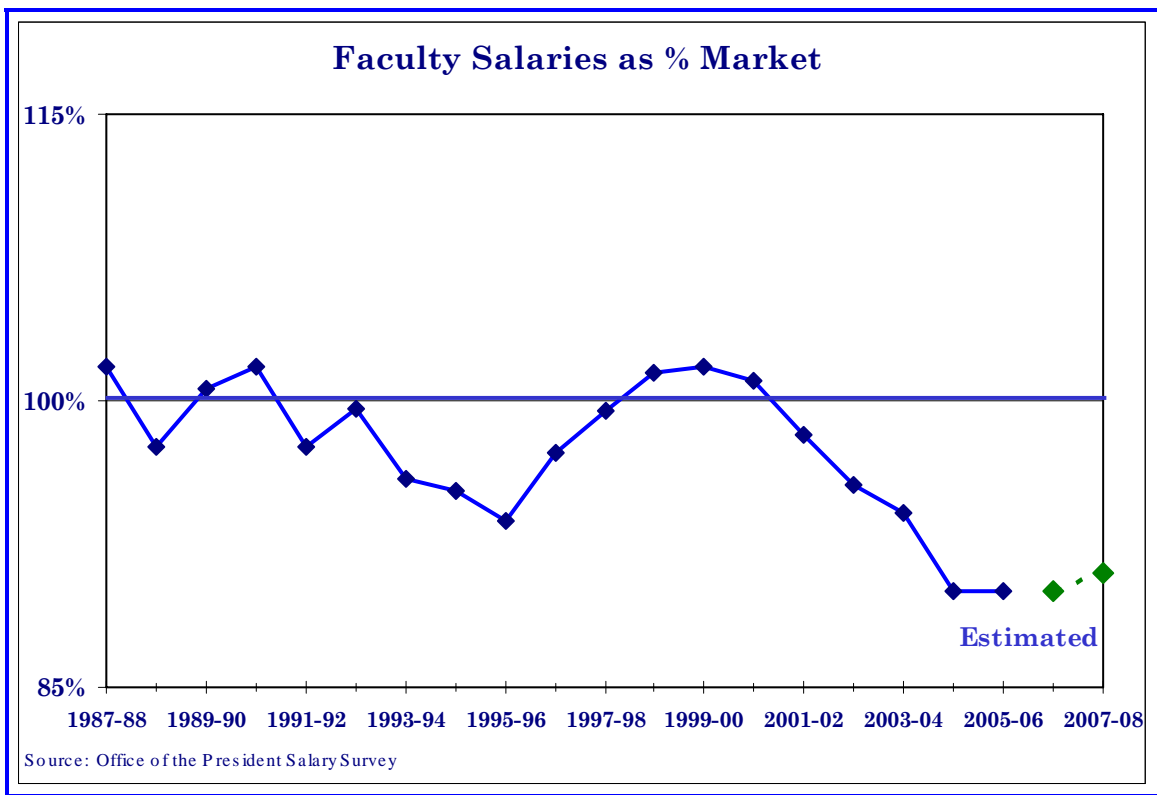
For the first time in several years, funding was provided in the University’s 2005-06 budget, and then again in 2006-07, for merit salary increases, cost-of-living adjustments (COLAs, where applicable), health and welfare benefit cost increases, and market-based equity salary increases for faculty and staff. Eligible faculty received normal merit increases effective July 1 plus a 2% COLA effective October 1 in both years. Staff compensation differs from faculty compensation in that many staff are represented by unions and therefore subject to collective bargaining agreements. In addition, most non-represented staff are paid entirely on a merit-based system, with no differentiation between COLA and merit salary adjustments. Staff salary adjustments were made as appropriate, generally effective October 1 in both years. Funding was also provided for health benefit cost increases and equity adjustments to help address the inequities that have occurred as new faculty and staff have been brought in at market rates, which are higher than the salaries of

existing employees who have had low or no salary increases for several years. Equity funding has been insufficient to address all inequities throughout the system; therefore, priority for these funds has been targeted at significant recruitment and retention efforts. The increase for the compensation program averaged about 3% in 2005-06 and 4% in 2006-07.

These increases for faculty and staff were welcome; however, they helped only to prevent further erosion in salaries compared to the marketplace. No progress has been made in reducing existing salary lags.

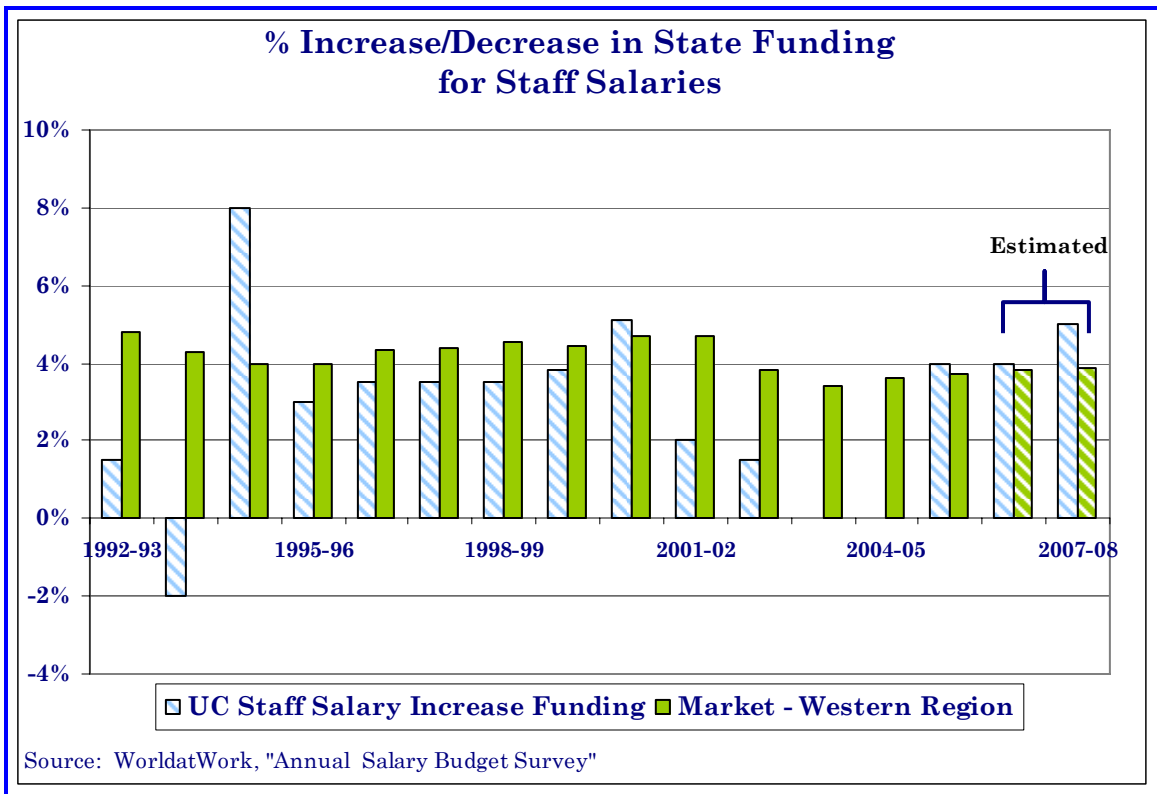
Display 2 shows how faculty salaries compare to the average salaries at the University's faculty salary comparison institutions over time, and points out the gap that has occurred in recent years.

Display 2



The funding gap with respect to staff salaries presents a similar problem for the University. Display 3 compares the annual State salary increase funding for UC staff employees to market data from over 800 employers of all sizes and industries, including the public sector, in the western United States. As the chart shows, market salaries over the period have been increasing at approximately 4% per year, but funding for UC staff salary increases have not kept pace, both in the early

Display 3



1990s and currently, as the State's recent fiscal crisis has prevented full funding of a normal workload budget.

Additional funds of \$19 million were appropriated by the State in 2000-01 to provide higher than normal salary increases (an additional 1% - 2%) for lower-paid workers. Unfortunately, because of the underfunding of normal workload costs that has occurred since the State's fiscal crisis began, salaries have not kept up with inflation or the market, so further ground has been lost.

The University is deeply concerned about the widening gap between funds available to support salary increases and the resources needed to fund more competitive salaries. The Regents have been informed of recent surveys indicating market lags for faculty and staff, with severe market lags in salaries for Chancellors, Deans, and other high-level administrators. These lags make it difficult to attract and retain senior leadership in the University, which is particularly important during this period of significant enrollment growth.

On the other hand, the University has acknowledged the importance of ensuring its compensation policies and practices are transparent and that the institution is fully accountable for decisions made in recruiting and retaining all staff, but particularly those in senior management. The University has adopted new oversight and

reporting mechanisms intended to reform and strengthen compliance with University policy and best practice. These reforms include policies that clarify the approval requirements for exceptions to policy, require public disclosure of compensation for University senior management, the development of new guidelines for reporting compensation information, the development of a comprehensive policy review and competitive compensation benchmarking, strengthening oversight of travel and entertainment expenditures, and the development of a new human resources information system in order to better track, manage, and report compensation data.

A proposal will be presented to The Regents in November 2006 recommending further reforms, including a new definition of total compensation, a statement of consequences relating to serious violations of compensation policies, bylaw changes to clarify and simplify the authority and responsibilities among The Regents and the president regarding compensation decisions, and defining a group of positions for whom the regents shall retain direct authority to approve compensation. In addition, the University will report to the Legislature by next March on the steps it has taken to improve transparency and accountability of its compensation policies and practices. The University is strongly committed to public accountability and major reforms are underway to ensure it lives up to that commitment.

Two years ago, The Regents commissioned a study to review the University's total compensation program. The results of the study indicate that in general, salaries are substantially below that of the market average. However, the total compensation package, including salaries, health and welfare benefits for active employees and annuitants, and retirement system benefits, is close to the market average. The fact that employees have not had to contribute to the retirement system since 1990, because of the fiscal strength of the University of California Retirement Program (UCRP) has helped keep total compensation packages competitive. However, it is anticipated that the value of the benefit package will decrease in the next few years as employer and employee contributions to the retirement system are phased-in, as required, to ensure the solvency of the retirement program. The reinstatement of contributions to the retirement system is discussed in more detail below. In addition, funding over the next several years likely will not be adequate to match the inflationary cost increases in health and welfare benefits, requiring that employees pick up a larger share of their medical insurance premiums.

The University's long range plan is to rebalance the components of the benefit package to approach the market average concomitant with salaries also approaching the market average. In order to maintain the quality of its programs, the University is determined to remain competitive in the market. The University cannot continue to accommodate all students wishing to

attend and maintain its program excellence unless sufficient resources are provided for faculty and staff salaries.

2007-08 Proposed Compensation Increases for Faculty and Staff. As specified by The Regents, one of the University's highest priorities has been to stop the erosion in competitive salaries in the short run and, to the extent possible, begin to close the gap that exists between UC salaries and those of the market. The University's budget plan for 2007-08 includes a compensation package of 5% for faculty and staff funded from State and UC General Funds and student fee income. Consistent with past practice, compensation increases for employees funded from other fund sources, including teaching hospital income, auxiliary enterprises, federal funds, and other sources, must be accommodated from within those fund sources and must conform to the university's established systemwide salary programs for State-funded employees. The 5% package will narrow the competitive salary gap by approximately 1%. Depending upon funding availability, the University plans to close the salary gap at a rate of at least 1% per year.

The 5% compensation package proposed for 2007-08 includes the following elements:

- continuation costs for salaries and health and welfare benefits that were provided in the previous year, but effective for only part of the year;
- funding for merit salary increases for eligible employees;
- a cost-of-living-adjustment (COLA) effective October 1 for employees eligible for COLAs;
- market-based and equity salary increases; and
- health and welfare benefit cost increases

Salary continuation costs occur because the 2006-07 budget included salary increase funding for only 9 months of the year (they were effective October 1, 2006). Therefore, the 2007-08 budget includes the remaining 3 months of funding needed to support the annualized salary increases for 2006-07. Similarly, the 2006-07 budget provided funding for health and dental insurance increases, effective December 1. Thus, the five-month continuation costs for these benefits must be provided in 2007-08.

Funding for normal merit salary and COLA increases continues to be among the University's highest budget priorities. COLA increases help keep salaries from falling further behind the market in terms of purchasing power. The merit salary

programs recognize and reward excellence and are critical to the preservation of the quality of the University. Merit salary increases are not automatic — academic merit salary increases are awarded only once every two-to-three years following extensive review of individual achievements. Similarly, most non-represented staff receive increases that are totally merit-based.

Funding will be provided for a second year to address salary inequities that have occurred among longer-term faculty and staff who have seen low or no increases in recent years while new employees have been hired at market rates. This has created serious market lags and issues of equity where newly-hired faculty and staff are paid significantly more than individuals with similar experience, skills, and knowledge who have been employed at the University during the extended periods of low, or no, salary increases. Unfortunately, funding is not sufficient to address all inequities that may exist throughout the University, so emphasis will be placed on using equity funding for significant retention purposes.

Funding will also be provided for health and welfare benefits cost increases; however, it is expected that some of the increases in cost will continue to be borne by employees themselves. Notwithstanding UC's success in reducing the cost of health and welfare benefits in the 1990s, and a continuing commitment to control costs, the University is impacted by California and nationwide trends toward dramatically increasing employee health benefit costs in recent years; they are expected to increase significantly again next year. On the other hand, in comparing UC health and welfare benefits with other institutions' health benefit plans, the University's plans historically have been very competitive.

The University will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market. In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical plan premiums on lower-paid employees. While UC continues to pay the greater portion of monthly medical premiums for all employees, UC covers an even larger portion of the premium for those in the lower salary brackets.

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

Fixed Costs – Non-Salary Price Increases

To offset the impact of inflation on the non-salary budget and maintain the University's purchasing power, \$23.5 million in funding within the Compact is proposed to cover non-salary price increases averaging 2.25%, although the Higher

Education Price Index (HEPI), an index which reports changes in cost for the goods and services employed for education, is a more accurate indicator for colleges and universities than the Consumer Price Index (CPI) and is expected to again exceed the CPI in 2007-08. During the State's recent budget crisis, funds provided for this purpose fell significantly short of what was needed. Consequently, the University estimates a shortfall of over \$40 million in this area of the budget for 2006-07. Funding provided in 2007-08 will not restore any of this lost ground, but rather will prevent further deterioration in the University's purchasing power.

Professional School Cost Increases

To offset the cost increases in salary and non-salary programs for the professional schools, funds need to be provided similar to that provided for programs funded from State and UC general funds. The budget plan assumes \$6.5 million will be needed for these purposes in 2007-08.

Reinstatement of Retirement Contributions

Prior to November 1990, both University (employer) contributions and member (employee) contributions to the University of California Retirement Program (UCRP) were required. In 1990, The Regents suspended University contributions to UCRP after the actuaries and auditors confirmed that UCRP was adequately funded to provide plan benefits for many years into the future. At the same time, The Regents directed that all contributions from members participating in Social Security, and a portion of the contributions from members not participating in Social Security and from Safety members (active law enforcement and fire fighters — these employees have separate terms for retirement from other employees), be redirected to individual accounts in the Defined Contribution (DC) Plan, subject to The Regents' reservation of the right to reinstate such contributions in UCRP to maintain the Plan's funded status. Under the DC Plan, contributions from employees have been held in accounts and invested at an employee's direction. DC Plan accumulations are available for distribution starting at retirement or termination of employment. In July 1993, The Regents suspended the remaining portion of UCRP contributions from members without Social Security and from Safety members.

At the November 2005 meeting, The Regents were presented with the results of the July 1, 2005 UCRP annual actuarial valuation by The Segal Company, the current actuary to UCRP. This report indicated that the funded status of UCRP is projected to decline well below 100% unless contributions are restarted or extraordinary market gains occur. A 100% target funded status for UCRP over the long term will sustain the viability of the Plan.

At the March 2006 meeting, The Regents approved the following goals:

- a targeted funding level of 100% over the long term along with employer and employee contributions at rates sufficient to maintain that level within a range of 95% - 110%;
- a multi-year contribution strategy under which contribution rates will increase gradually over time to 16% of covered earnings, based on UCRP's current normal cost;
- resumption of UCRP contributions effective July 2007, subject to the availability of funding, the budget process, and for represented employees, the collective bargaining process.

An advisory group to the President on this issue is evaluating alternative strategies for resuming contributions, including development of total UCRP contributions and examination of options for how contributions will be shared between the employer and employee. Information is being provided to employees about the need to re-start contributions and sessions are being scheduled with collective bargaining representatives. One issue still under discussion is a proposal to halt the redirection of UCRP contributions to individual employee accounts through the DC Plan and instead use those payments as the employee contribution beginning July 2007, when contributions to UCRP are slated to resume. If implemented, this would mean employee take-home pay would not be affected in the first year of reinstatement.

Workload and Other Budget Adjustments

Funding for Enrollment Growth of 5,340 FTE Students. The Compact calls for UC to accommodate all eligible undergraduate students under the Master Plan who wish to attend. In addition, the University is embarking on multi-year initiatives to re-balance the proportion of graduate and undergraduate students enrolled to better meet State workforce needs, and to help meet state workforce needs in health science disciplines. To accomplish these goals, it is estimated that University enrollment will grow by about 2.5% per year, consistent with the Compact, through the end of the decade. The University is planning for substantial growth in graduate and professional enrollments after 2010-11, when demographic projections indicate there will be a significantly slower rate of growth in undergraduates. For 2007-08, the University is seeking \$56.9 million in State funds to support an increase of 5,340 FTE students, representing a 2.5% increase over 2006-07 budgeted enrollments.

The majority of these funds will be used to support undergraduate and graduate enrollment growth based on a revised marginal cost of instruction, which is the

level of support the State provides for each new budgeted FTE student, using a negotiated formula agreed to by the State. This formula was revised in 2006-07 to more appropriately recognize the actual salaries paid to hire faculty and to include funding for the cost of maintaining new space. The University estimates the marginal cost to be approximately \$10,500 per FTE student for 2007-08. This reflects a \$600 per student increase in the marginal cost compared to the \$9,900 per student approved in the 2006-07 Budget Act. The increase is related to normal cost increases and the fact that the State bought out planned student fee increases in the current year. Enrollment workload funding will provide salary and benefits for additional faculty positions; related instructional support such as clerical and technical personnel, supplies and equipment; support for teaching assistant positions; institutional support; support for libraries and student services; and, as already mentioned, support for maintenance of new space, which for 2007-08 is estimated to be \$9.2 million associated with 983,000 gross square feet of new space to be placed in service during 2007-08. It should be noted that several campuses are overenrolled in the current year — most notably, Davis, Irvine, and San Diego.

The Merced campus opened for its second year of full operation in Fall 2006 with total enrollment of 1,286 students. For 2007-08, the campus plans to enroll a total of 2,000 students. These totals are down slightly from original estimates of 2,600 FTE by 2007-08. While enrollment during these initial years has been lower than planned, the campus has taken a variety of measures to step up recruitment and improve the curricular and physical environment to attract more students. In addition, planning estimates have been revised to reflect a slightly slower annual growth than originally anticipated — approximately 675 students per year, down from 800 FTE annually as originally projected. By 2010-11, the campus expects to have a total of 4,000 FTE and will plan to reach 5,000 students by 2012-13.

A total of \$1,053,000 is for expanded medical school enrollment through PRIME programs (Programs In Medical Education), designed to attract and prepare more medical students into serving underserved populations in the state. PRIME-LC (PRIME for the Latino Community) was launched in 2004 on the Irvine campus and currently enrolls 32 students. The University is proposing to fund the next cohort of 12 students in the Irvine program and to begin PRIME expansion on three other campuses — Davis, San Diego, and San Francisco. The Los Angeles campus plans to include its PRIME proposal in the 2008-09 budget. The PRIME programs on the Davis and San Diego campuses are proposing to enroll 12 students each for 2007-08, and the San Francisco campus program, operated jointly with the Berkeley campus, will enroll 10 students next year. These programs are described in more detail in the *Health Sciences Instruction* chapter of this document.

This planned expansion of medical school enrollments through PRIME programs is consistent with recommendations included in an April 2005 report issued by the

University's universitywide Health Sciences Committee (HSC), "Workforce Needs and Enrollment Planning," to guide future health sciences decision-making and help plan health sciences enrollment growth over the coming decade.

For each profession, a set of findings and recommendations regarding the steps UC might take in meeting state needs was developed. As a result of this work, the University has embarked on a four-year plan to increase the number of undergraduate and graduate nursing students by over 70% — from 823 enrolled students in 2005-06 to a total of roughly 1,440 by 2009-10 in order to help the state address an expected major shortage in nurses and nursing faculty. The plan would increase the annual number of UC graduates proportionally, from approximately 300 to over 500 graduates. As part of this plan, the University enrolled an additional 193 students in the current year, of whom 85 were graduate students and the remainder was undergraduate enrollment. In response to the state's nursing shortage, UCLA is reinstating and expanding its undergraduate nursing program beginning in the current year. In addition, the Irvine campus introduced an undergraduate nursing program in 2006-07. In 2007-08, the University plans to enroll an additional 108 undergraduate students and 95 graduate students.

Funding for nursing program increases will be provided primarily through the normal enrollment workload funding received each year under the Compact. However, in 2005-06, in recognition of the urgent need to expand the State's nursing workforce, the University received \$1.7 million in General funds over and above funds received through the Compact to expand its involvement in nursing education (SB73, Committee on Budget and Fiscal Review, 2005). The first year of funding was to be used for one-time expenditures for instructional equipment, classroom and laboratory renovations, curriculum development, and faculty recruitment. Beginning in 2006-07, the funding was to support at least 130 additional graduate students in the University's nursing education programs. The University's program only grew by 85 graduate students in 2006-07. Therefore, in the final budget act, \$757,000 was removed from the University's budget to reflect the difference in actual enrollment growth and the 130 FTE growth specified in the bill. The University's budget plan for 2007-08 includes a request to restore these funds, given the fact that the University will meet and exceed the 130 FTE threshold established in the bill in the coming year. The nursing initiative is discussed in more detail in the *Health Sciences Instruction* chapter of this document.

Graduate Student Support. Graduate education and research at the University of California have long fueled California's innovation and development, helping establish California as one of the ten largest economies in the world. Indeed, UC is charged by the California Master Plan for Higher Education with the responsibility to prepare professional and doctoral students to help meet

California's and the nation's workforce needs. However, over the last forty years, while well-justified attention has been paid to the accommodation of undergraduate enrollment growth as a result of Tidal Waves I and II, inadequate attention has been paid to graduate growth.

A key problem inhibiting growth in graduate enrollments is the availability of financial support for graduate students. In order to attract the best graduate students, the University must provide competitive financial support to students. The Regents have identified securing adequate support for graduate students as one of their highest priorities. Several initiatives in the 2007-08 budget plan help address this issue.

One initiative is to provide additional funding for graduate student support on a matching basis to campuses based upon their success at utilizing the Strategic Sourcing Initiative and other campus efforts to achieve savings through efficiencies. Campus funds redirected from savings to graduate student support would be matched by funding provided from within the Compact. Beginning in 2006-07, campuses began to provide additional graduate student support using savings in General Fund and student fee revenue expenditures produced by Strategic Sourcing. It is estimated that \$10 million in redirected savings will be used from these fund sources for graduate student support in 2006-07 and another \$10 million in savings for these purposes is anticipated for 2007-08. Over a four-year period, the amount redirected through Strategic Sourcing for graduate student support is expected to grow to \$40 million per year. For 2007-08, the University would provide additional matching funds to campuses as a further incentive to utilize Strategic Sourcing and to make graduate student support a high priority. These funds will help campuses compete for top students – including talented international students – and will help campuses achieve their graduate enrollment goals. The budget plan for 2007-08 anticipates matching funds of \$10 million will be needed for this purpose.

Another component in the set of graduate student support initiatives is the development of a State-funded research initiative (described below) that will both partially restore recent budget cuts to core research programs and provide new funding for research initiatives important to the state's economic growth and job creation. Campuses will be asked to use at least 50% - 60% of the funds for new research initiatives to help support graduate students as research assistants.

The University also proposes to freeze nonresident tuition for graduate academic students for the third consecutive year and for graduate professional students for the fourth year in a row. Graduate nonresident tuition levels continue to be of great concern to the University. Earlier this year, members of the Academic Senate overwhelmingly supported a Memorial to eliminate nonresident tuition

for academic graduate students, and an advisory committee to the Provost recommended that the University eliminate nonresident tuition for academic doctoral students or provide additional graduate student support to mitigate the effect of nonresident tuition on these students. State policy constrains the extent to which the University can reduce nonresident tuition levels. Nevertheless, by forgoing any increase in graduate nonresident tuition, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

Funding to Restore Unallocated Reductions to Instructional Budgets.

The University of California is known for its academic program excellence. It is the reason so many work hard to become eligible and seek admission to the University each year. Yet, as a result of the recent fiscal crisis, students are being asked to pay more and are receiving less. The University must make a special effort to ensure that instructional programs remain at the level of quality all have come to expect, particularly as students and their families pay a greater share of their educational costs.

The Governor's Budgets for both 2003-04 and 2004-05 proposed increases in the budgeted student-faculty ratio as part of the targeted reductions needed to help address the State's fiscal crisis. In both years, The Regents established a high priority for maintaining quality, including avoiding any further deterioration in the student-faculty ratio. Instead, campuses were asked to absorb unallocated reductions totaling \$70 million over the two-year period.

Consistent with the high priority placed on maintaining quality in the instructional program and preventing further deterioration in the student-faculty ratio, the University's 2005-06 and 2006-07 budgets included a first and second increment of \$10 million each toward a multi-year effort to recover some of the ground lost in the instructional program during the State's fiscal crisis. The University proposes once again to include \$10 million in the 2007-08 budget plan to continue to address this critical shortfall. Funding will be used to strengthen the student-faculty ratio, permitting the University to offer both smaller classes in some subjects and a wider range of courses which will help students complete requirements and graduate more quickly. A sufficient student-faculty ratio also increases opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service. With the funding provided in 2007-08, the University will have restored \$30 million of the \$70 million cut from the budget related to instructional programs.

Research Initiative for 2007-08

The University's research program forms the basis for new knowledge and innovation that creates new products, new companies, new jobs, and entire new industries. University researchers are on the forefront of discoveries that lead to cures for diseases, improve the food we eat, help buildings withstand earthquakes, improve transportation systems, develop techniques for addressing global climate change, identify best practices for K-12 educational improvement, and strengthen ties to Mexico and Asian countries, along with a wide variety of other benefits to the state.

State funds for University research are a good investment: for every State dollar specifically invested in research, UC leverages nearly \$6 more from the federal government and other non-state sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries. Some of these funds are used for direct student support for graduate students who work on research projects with faculty.

The Compact states, "Depending on the State's fiscal situation, there may be initiatives mutually agreed upon by the segments, the Governor, and the Legislature . . . that may be funded in addition to the basic budget funds provided . . . in order to meet high priority needs of the University and the State." As explained later in this chapter, in the subsection, "*Funds to Restore Research Cuts and Provide for New Research Initiatives Important to the State's Economic Development*," as well as in the *Research* chapter of this document, the University is planning for a major research initiative that will ultimately grow to \$50 million per year. Funding will be phased in over several years, with the first phase beginning in 2007-08 at a level of \$15 million to be provided as State funding above the Compact. Funds would be used for the following kinds of purposes.

California Institutes for Science and Innovation (Cal ISI). Six years ago, the State provided funding to create three major world-class research facilities intended to engage faculty and students in cutting edge research in emerging science and technology fields. Funding for a fourth institute was provided the following year. While the facilities for the Institutes have only recently been completed, or are nearly completed, the Institutes have been conducting multi-disciplinary research for several years in information technology, telecommunications, nanotechnology, and biology — industries where the new jobs of the future will be created. The four Institutes engage UC's faculty directly with California companies in attacking large-scale issues critical to California's economy and its citizens' quality of life — health care, traffic congestion, environmental management, homeland security, and novel energy systems are among the areas of focus for new research within the Institutes.

The \$100 million in capital invested by the State for each Institute has not only returned the required two-to-one match from federal and private sources within the required four years, but is continuing to yield additional returns on the State's investment. The 275 partner companies that have invested over \$200 million in these Institutes come from all parts of the economy — entertainment, transportation, information technology, biotech, nanotech, aerospace, and more. The Institutes are expected to increase the state's capacity for creating the new knowledge and highly skilled workforce that will drive entrepreneurial business growth and expand the California economy into new industries and markets.

While the facilities needs of the Institutes have been largely met, the core support for research in the Institutes is inadequately funded. The University will use funding from this initiative to ensure that each Institute has a minimum level of support with which to operate, which in turn will act as seed money to continue to attract funds from industry and governmental sources. The potential of these Institutes is immeasurable, but adequate support is critical if they are to succeed in generating the economic benefits to the state they are well poised to create.

Restoration of Previous Research Cuts. Despite the direct connection between University research and economic development, State funding for research has significantly declined in recent years — by nearly 25% (\$70 million) in the most recent budget crisis, and this is on top of an additional 20% in cuts to research that occurred during the early 1990s. The University's research initiative would permit restoration of cuts that have occurred to some of the core research programs or research institutes critical to the State such as agricultural research, Scripps Institution for Oceanography, and others.

New Research Initiatives. Funding will also build on the foundation already laid by programs such as the Industry-University Cooperative Research Program (IUCRP) and Cal ISI programs, and thus be used to begin new initiatives in research that hold promise for significant returns to the State's economic prosperity. Since 1996-97, the IUCRP has worked with 501 California R&D firms to collaboratively develop 1,764 research projects, involving UC researchers and students as well as employees from partner companies. These projects have resulted in an investment of \$327 million (including private sector contributions of \$193 million). Studies of the IUCRP's impact on California's economy indicate that participating companies created thousands of net new high wage jobs in California and 54 young startup companies raised \$1.7 billion in venture capital.

An example of the kinds of new research initiatives the University will be pursuing is the national competition for building and operating a petascale computing facility. The National Science Foundation (NSF) has launched a national bidding process for the design and management of a \$200 million petascale computer which

would become operational in 2011. The University of California and its UC-managed national laboratories have formed the National Petascale Applications Resource (NPAR), a consortium of several California institutions, Georgia Tech, and IBM, to prepare a final bid for the proposal. The California-based consortium will leverage its unique combination of world-class scientists and engineers, powerful supercomputing infrastructure, and outstanding technical and management capabilities to ensure a winning strategy for the NSF proposal. NPAR's California-based partners include: Lawrence Livermore National Laboratory (LLNL), San Diego Supercomputer Center (SDSC) on the San Diego campus, and the Lawrence Berkeley National Laboratory.

The NSF plans to invest \$200 million to develop and deploy the petascale facility over a five-year period (during years 2006 - 2011); an additional \$100 million will be allocated for operation of the petascale facilities over a five-year period, once the system becomes operational in 2011. While no direct match is required, the three other expected bidders are each backed by substantial resources from their states.

The NPAR proposal includes an investment of \$56 million over a 10-year period to fund both UC campus researchers for applications and software development, capital investments (prototype system, networking, data infrastructure), and service and support professionals. A State appropriation in support of the bid will be needed to help the UC-led proposal win the competition. The exact phasing by year for this funding, and the degree to which State funds will be needed in 2007-08, will be negotiated with the Department of Finance through normal budget negotiations in Fall 2006. It should be noted that Georgia Tech has agreed to commit an additional \$21 million deriving from both state and non-state funds to support efforts related to the project both in Georgia and in California. The University will work with the Governor's Office on the materials and documentation necessary to complete the NPAR proposal.

Because of the important role University research can play in California's future, particularly in terms of fueling economic recovery after years of fiscal crisis, the University is developing new initiatives for future years that will help address the State's need to strengthen California's economic competitiveness by infusing industry with new knowledge and discoveries that lead to the creation of new ideas, products, and more jobs.

One-Time Funding for Merced

The development of UC Merced is part of the University's strategy to increase enrollment capacity that will serve the entire state, enhance access for students in the San Joaquin Valley, and provide the benefits of an additional research university to all Californians. The campus is already making valuable contributions to the region as a powerful economic engine. In addition to

the influx of students, faculty, and staff, the San Joaquin Valley can expect a surge in investment from knowledge industries attempting to tap into the intellectual resources brought by a UC campus.

UC Merced officially opened its doors to 865 FTE students in 2005-06, enrolling a mixture of freshmen, community college transfer students, and graduate students. In Fall 2006, 1,286 headcount students are enrolled. While this represents a nearly 50% increase in students, this enrollment falls somewhat short of earlier growth projections. To provide some context for this shortfall, it is important to know that other UC campuses enrolled more students than they intended for Fall 2006. It is also the case that UC Merced does not currently have sufficient housing to guarantee that freshmen can live on-campus.

The University's core academic programs are being offered through three schools: Engineering; Natural Sciences; and Social Sciences, Humanities and Arts. New faculty members have been drawn from all over the world and are helping the campus offer more fields of study. For Fall 2006, students may choose from 15 majors, with the addition of courses in the new fields as well as new courses for sophomores and seniors.

One-time funding has been provided in the last six budgets, including \$14 million in 2006-07, for faculty hiring and other start-up costs. Supplemental funds are again required in 2007-08 for faculty salaries and recruitment costs, as well as instructional technology, library materials, student services, and expanded general support needed to fully operate the campus. As specified in the Compact, the State will continue to support one-time funds needed for initial development of the UC Merced campus. The University is requesting that the \$14 million in one-time funds be continued for the budget year. Beginning in 2008-09, this amount would begin to phase down until one-time funds are eliminated in 2010-11.

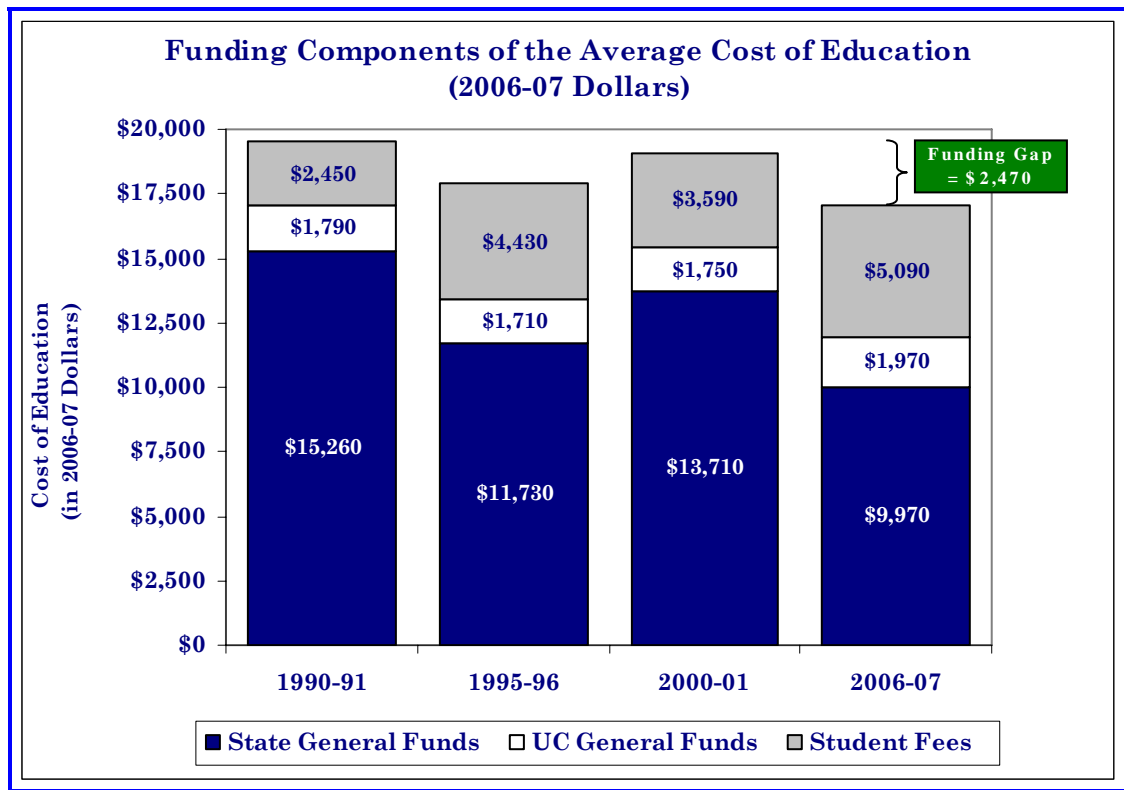
Student Fees and Financial Aid

Revenue from student fees is a major source of funding for the University's core educational program. While UC fees remained very low until the State's fiscal crisis in the early 1990s, since that time revenue from student fees, or equivalent support from the State to avoid increases in student fees, has been critical to the University's ability to maintain access and preserve quality. Now UC student fee levels are about in the middle of the range when compared to other public institutions. In total, student fees provide approximately \$1.5 billion to help support the University's basic operations.

While no student fee increases are being proposed at this time, it is important to consider student fees and student financial aid in the context of the entire budget.

Historically, the State has heavily subsidized the cost of education. However, as with all public universities, student fees have tended to increase as the State's subsidy has declined. Display 4 shows the funding components of the average cost of a UC education from 1990-91 through 2006-07 (in 2006-07 dollars) and the funding gap that has developed between the cost of a UC education in 1985-86 and the resources available in 2006-07. Display 4 yields several findings.

Display 4



- The average expenditure per student for a UC education has declined. In 1990-91, the cost to educate a UC student was approximately \$19,500 in 2006-07 dollars. Over 16 years, funding per student in inflation adjusted dollars declined by 12.7%, from \$19,500 in 1990-91 to \$17,030 in 2006-07, resulting in a funding gap of \$2,470 per student.
- The State subsidy per student for the cost of a UC education has declined significantly — by 35% over a 16-year period. In 1990-91, the State contributed \$15,260 per student — 78% of the total cost. By 2006-07, the State share declined to \$9,970, just 59%.
- As the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening again now. While in

1990-91 students contributed 13% toward their education, they currently pay 30% of the cost of their education.

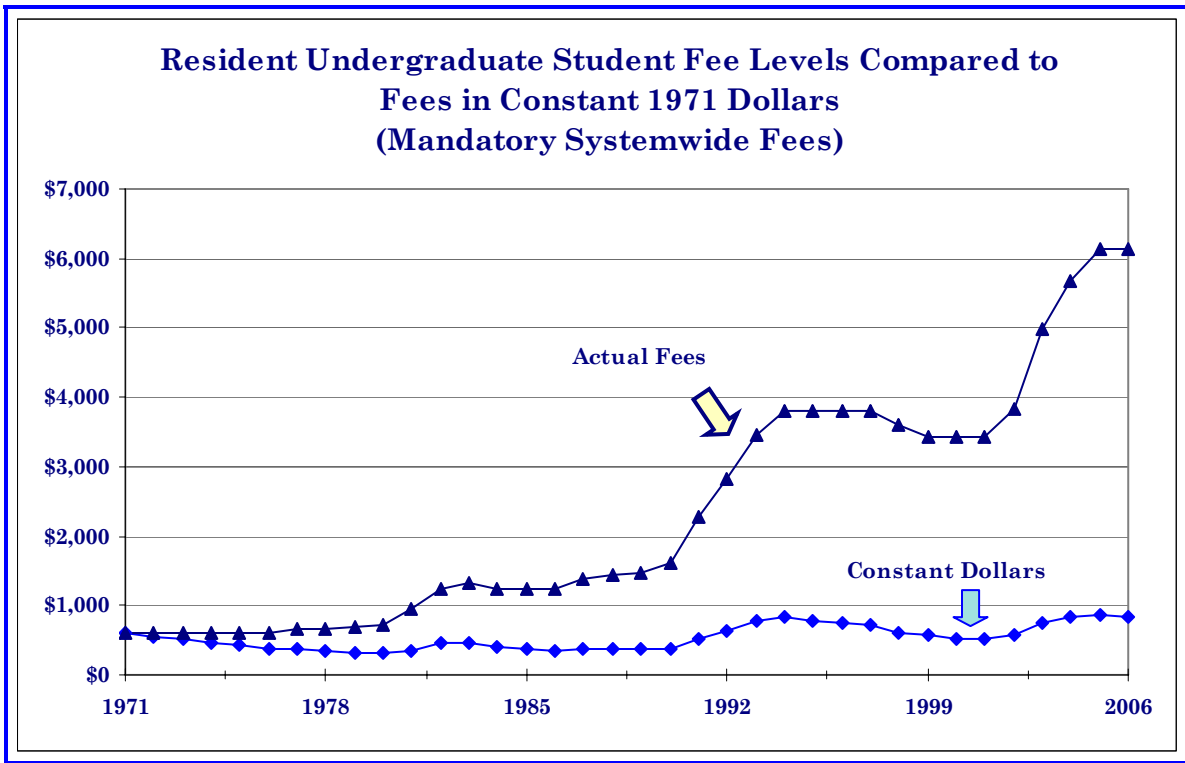
These findings raise several additional points. First, the funding gap that has developed since 1985-86 represents lost support totaling more than \$500 million. Although the University has struggled to meet the challenge presented by this substantial decline in state funding, it must be recognized that certain elements of the educational, research, and public service functions have been steadily sacrificed in order to preserve the core missions of the University. It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. When the State's financial situation permits, the University will seek support to reduce this funding gap, as discussed near the end of this chapter.

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

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

Display 5 presents the history of student fees. The wide fluctuation in student fees tracks fairly closely with changes in the State's economy. In good years, fees were held steady or reduced. In years of fiscal crisis, student fees increased dramatically. The display also shows that 2007-08 fee levels, when adjusted to reflect 1971-72 constant dollars, will be about the same as they were in 1994-95. As noted previously, from 1995-96 to 2001-02, the State provided additional funding to the University to avoid increases in mandatory student fees during those years. In addition, the State provided funding to reduce mandatory systemwide fees by 10% for resident undergraduate students and 5% for resident graduate students. Instead, if the University had adjusted mandatory systemwide fees by 4% annually beginning in 1995-96, total undergraduate fees would be \$6,743 — \$59 less than the actual UC systemwide average of \$6,852 for 2006-07 — and about \$1,611 less than the average of total tuition and fees (\$8,354) at the comparison institutions.

Display 5



Student Fees Historical Perspective

Undergraduate and Graduate Academic Student Fees. There were no increases in mandatory systemwide fees for seven consecutive years from 1995-96 through 2001-02. In fact, as a result of the State's actions in the late 1990s, fees were reduced by 10% for California resident undergraduates and by 5% for California resident graduate academic students.

Even though the State's fiscal situation began to deteriorate in 2001-02, student fees did not increase until mid-year cuts were instituted in 2002-03. As part of the University's effort to offset cuts targeted at instructional programs, systemwide student fees were raised by about 11% in 2002-03 (\$135 effective Spring term 2003, which when annualized totaled \$405) and another 30% for 2003-04 (\$1,150 for resident undergraduates). Professional school, graduate, and nonresident student fees also rose significantly. Again in 2004-05, student fees were raised to offset cuts that otherwise would have been directed at instruction: undergraduate fees rose by \$700 (14%), graduate fees rose by \$1,050 (20%), and professional school fees rose by an average of 30%, with increases varying by school. Nonresident students also paid an additional 20% in nonresident tuition (a \$2,746 increase for undergraduates).

Increases in student fees for undergraduate and graduate academic students implemented for 2005-06 were not as steep as in the previous three years: resident undergraduate student fee increases total 8% (\$457) and resident graduate academic student fees rose by 10% (\$628). For 2006-07, no student fee increases were instituted. Instead, the Governor proposed and the Legislature approved funds to avoid otherwise planned student fee increases for all resident students.

While increases in student fees have been regrettable, they have been necessary to address the dramatic decreases in State funding for the University's instructional programs. UC student fees were relatively low for many years because the State provided a sufficient subsidy to adequately fund the academic program. When the State was no longer able to provide the same level of subsidy because of the revenue deficits it faced, either student fees had to go up or quality had to decline — and in this recent fiscal crisis, both have occurred. Student fee increases have helped hold the line so that quality has not eroded beyond the point of no return, but quality in some areas has declined and we must be mindful that once lost, it is difficult to regain excellence. Student fees are discussed in more detail in the *Student Fees* chapter of this document.

Recognizing that student fee increases should not be a barrier to attendance for those who cannot afford it, the University remains deeply committed to ensuring that access is provided to needy students through a strong financial aid program, as discussed in the next section of this chapter and in the *Student Financial Aid* chapter of this document.

Display 6 compares UC fee levels with the average of four public salary comparison institutions for 2006-07. The University's average fees for 2006-07 for undergraduate resident students (excluding health insurance fees) are \$1,500 less than the average fees charged at the University's four public salary comparison institutions. In addition, University fees for resident graduate students continue to be well below (\$2,350) the average fees charged at the University's four public salary comparison institutions. Currently, only one of the four public comparison institutions charges lower fees to resident undergraduates; for resident graduate academic students UC charges the lowest fees of any of the public comparison institutions.

However, the comparisons for nonresident students are a different matter. In the past, the University's fees were among the lowest charged, for both nonresident undergraduate and graduate students, of any of the University's public comparison institutions. With the increases in mandatory systemwide fees and nonresident tuition approved by The Regents for 2005-06, for the first time since the mid-1980s, the University's fees for nonresident undergraduate and graduate students exceeded the average fees for the comparison institutions by \$2,718 and \$2,110 respectively. Even so, the University's tuition and fees for nonresident students

Display 6

| University of California and Public Salary Comparison Institutions Total Student Fees * | | | | |
|--|----------------------|------------------|-----------------|------------------|
| Public Salary Comparison Institutions 2006-07 Fees | <u>Undergraduate</u> | | <u>Graduate</u> | |
| | Resident | Nonresident | Resident | Nonresident |
| University of Illinois | \$ 9,522 | \$ 23,608 | \$ 10,152 | \$ 22,992 |
| University at Buffalo (SUNY) | \$ 6,129 | \$ 12,389 | \$ 9,448 | \$ 13,468 |
| University of Virginia | \$ 8,043 | \$ 26,143 | \$ 10,560 | \$ 20,560 |
| University of Michigan | \$ 9,723 | \$ 29,131 | \$ 14,991 | \$ 30,137 |
| 2006-07 Average Fees of Comparison Institutions | \$ 8,354 | \$ 22,818 | \$ 11,288 | \$ 21,789 |
| 2006-07 Average UC Fees | \$ 6,852 | \$ 25,536 | \$ 8,938 | \$ 23,899 |

* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident students

represent the mid-point among our public comparison institutions. The University is increasingly concerned about its ability to recruit high quality graduate students, as discussed in more detail in the *General Campus Instruction* chapter of this document. Nonresident tuition is a major factor in the degree to which the University's graduate student support packages are competitive with those of other institutions seeking the same high quality students.

The Compact includes an agreement about student fee increases over its six-year term. As noted earlier, student fees rose by 14% in 2004-05 for undergraduates and by 20% for graduates. For the following two years, 2005-06 and 2006-07, undergraduate fees were to increase by 8% per year and graduate student fees by 10% per year. At the end of the three-year period, fee increases for undergraduates would have averaged 10% per year. However, as already noted, the State provided funds to avoid the fee increases planned for 2006-07.

For the period after 2006-07, the Schwarzenegger Administration has proposed a long-term student fee policy that calls for increases in student fees based on the annual increase in California per capita personal income. However, in years in which The Regents determine fiscal circumstances require increases that exceed the rate of growth in per capita personal income, UC may decide, after consultation with the Governor, that fee increases of up to 10% are necessary to provide sufficient funding for programs and to preserve quality.

This fee policy is contingent on the provision of State resources for the basic budget at the level called for in the Compact. It also is contingent on no further erosion of

the University's base budget, and it assumes that revenue from student fees will remain with UC, rather than being used as an offset to reductions in State support.

This student fee policy preserves the concepts of predictable, moderate, and gradual student fee increases, as envisioned in past student fee policies adopted by The Regents and proposed in past years by the State. Importantly, it also recognizes the need to provide adequate funding for cost increases for student fee-funded programs and preserving the academic quality of the University.

Fees for Professional School Students. In general, UC professional schools have historically held a place of prominence in the nation, promising a top-quality education for a reasonable price. The funding cuts that have occurred, both in the early 1990s and during the more recent budget crisis, have decimated the resources available to the professional schools to such a degree that the schools are very concerned about their ability to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students — all of which are important components of excellence in these schools. Once started on a downward spiral, it is very difficult to recover previous levels of excellence. The professional schools see this as a crisis of quality and believe significant steps, including raising student fees, must be taken to regain the program quality that recent budget cuts have threatened.

Professional school fees were first instituted in 1994-95. For three years, revenue from professional school fee increases was used to help restore cuts from the early 1990s, maintain and enhance the quality of the schools' programs, and to provide for additional financial aid. AB 1318 (Ducheny) was enacted in 1997, freezing all fees for two years, including the Fee for Selected Professional School Students. This fee did not increase again until the 2002-03 budget year, when mid-year cuts resulted in mandatory systemwide student fee and professional school fee increases. In 2003-04 and 2004-05, professional school fees were increased to offset base budget cuts for the University that otherwise would have been targeted at instructional programs. For 2005-06, The Regents approved supplemental increases for some professional school degree programs to help maintain the quality of those programs and to be competitive with other professional schools. Finally, in 2005-06, The Regents approved new professional school fees for students enrolled in degrees in public health, public policy, and the San Diego campus program in International Relations and Pacific Studies. Fee increases proposed for 2006-07 were bought out by the State. Thus, in the early years of this decade, professional school fees increased significantly. In 2002-03, professional school fees ranged from \$1,950 – \$6,776. In 2006-07, the range is \$3,218 – \$17,371. When added together with other mandatory student fees paid by professional school students, the range increased from \$6,739 - \$11,411 in 2002-03 to \$12,153 - \$26,956 in 2006-07.

Fees for resident students enrolled in law, business, public health, public policy, and the IRPS program at UCSD are now approximately the same as the average of the tuition and fees charged by comparable public institutions for 2006-07. Fees remain well below the average of tuition and fees at comparison institutions for resident students enrolled in medicine (by \$2,925) and nursing (by \$1,879). However, UC fees are now higher than tuition and fees charged at comparable public institutions in all the remaining fields, including veterinary medicine (by \$3,039), dentistry (by \$3,513), pharmacy (by \$4,048), optometry (by \$1,179), and the theater, film, and TV program at UCLA (by \$3,206).

Since the initial implementation of professional school fees, professional schools have been largely supported by a combination of sources including State General Funds, Educational Fee revenue, and professional school fee revenue, among other sources. The last four years of sustained budget cuts have resulted in a dramatic reduction in State support for the University's professional schools, and the ability of the professional schools to maintain the quality of their academic programs and to be competitive with other professional schools of comparable quality has been significantly affected. Because fee increases have been used to offset budget cuts and have generated little or no additional revenue for the schools, they have fallen further behind in their ability to offer competitive salaries to their faculty and staff. UC's professional schools in the past have ranked among the top in the nation. However, because of the magnitude of recent budget cuts, they are losing prominence and, unless action is taken to reverse the downward trend, will no longer be able to provide the top-quality programs students who work hard to qualify expect from UC professional schools. The schools are deeply concerned about the recruitment and retention of excellent faculty, including meeting salary and employer retirement contribution costs, ensuring the development or maintenance of a high-quality curriculum, and improving the school's ability to recruit high-caliber students. At the same time, the schools also are committed to providing additional financial aid to students, including funding to develop new loan assistance programs or expand existing ones. Rebuilding the quality of the professional programs and providing more financial aid will require a multi-year effort.

Nonresident Tuition. While no increases in mandatory systemwide student fees are proposed at this time, the University's budget plan for 2007-08 does include an increase in nonresident tuition of 5%, or \$900, for undergraduate students. Total fees and tuition charged to nonresident undergraduate students at the University are estimated to be a little over \$2,700 above the average tuition and fees at the public higher education institutions that are used by the University for faculty salary comparison purposes, as presented earlier in Display 6.

However, as discussed in greater detail in the *Student Financial Aid* chapter of this document, the inadequacy of graduate student support is a serious issue for the

University. Therefore, nonresident tuition for graduate students will not be increased in order to avoid exacerbating an already difficult problem.

Earlier this year, members of the Academic Senate overwhelmingly supported a Memorial to eliminate nonresident tuition for academic graduate students, and an advisory committee to the Provost recommended that the University eliminate nonresident tuition for academic doctoral students or provide more graduate student support. State policy constrains the extent to which the University can reduce nonresident tuition levels.

Nevertheless, because of the high priority placed on enhancing the competitiveness of the University's graduate student support packages, the University is taking steps to address this issue. By forgoing any increase in graduate nonresident tuition as noted above, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

In addition, beginning in 2006-07, nonresident graduate academic students who have advanced to candidacy for their degree are not charged nonresident tuition. This benefit is available to eligible students for three years.

Lastly, in response to widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the University proposes to provide additional funding for graduate student support, on a matching basis, to campuses based upon their success at utilizing the Strategic Sourcing Initiative and other campus efforts to reduce costs so that savings can be redirected to provide additional graduate student support. Beginning in 2006-07, campuses are expected to provide additional graduate student support using savings in General Fund and fee revenue expenditures produced by Strategic Sourcing. Under this proposal, the University would provide additional matching funds to campuses as a further incentive to utilize Strategic Sourcing and to make graduate student support a high priority. These funds will help campuses compete for top students — including talented international students — and will help campuses achieve their graduate enrollment goals.

The University is concerned about future increases in nonresident tuition. Applications for admission from undergraduate nonresidents declined 25% during the State's recent fiscal crisis (Fall 2001 through Fall 2005). In the last two years, nonresident applications have recovered, but still remain slightly below the peak in 2001. The 5% increase in nonresident tuition proposed for undergraduate students

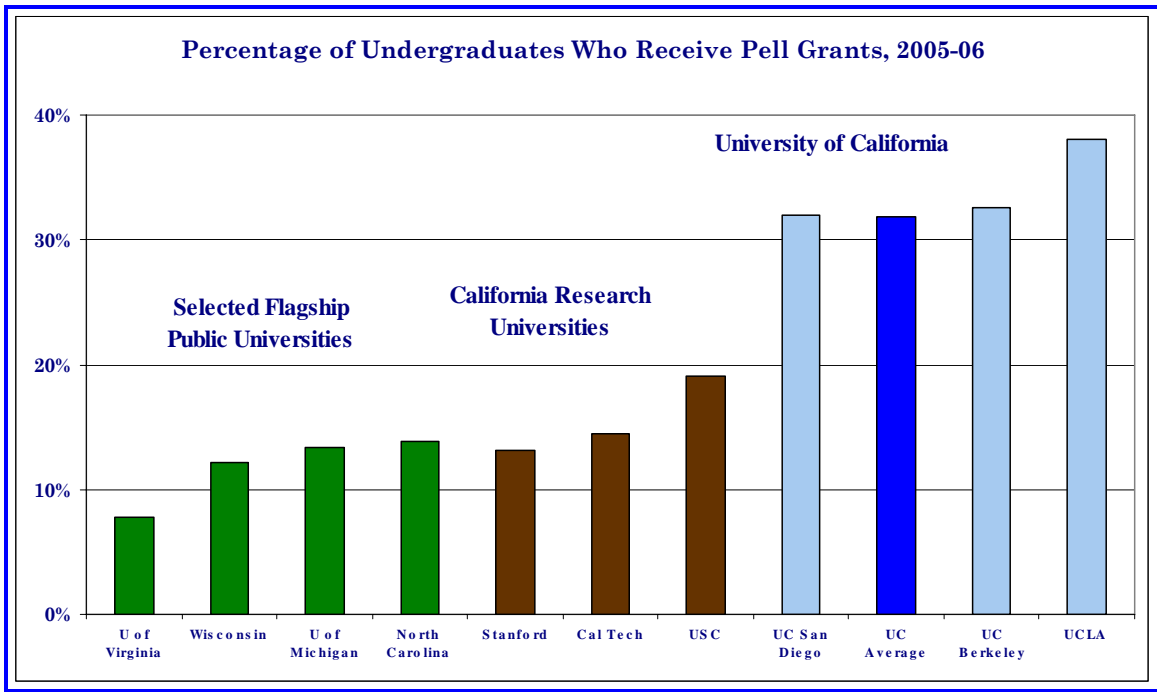
in 2007-08 is modest compared to the increases that occurred during the worst years of the State's budget crisis, reflecting the University's goal of avoiding further erosion in nonresident enrollment. When determining increases in nonresident tuition for future years, it will be important to consider the effects of recent tuition increases on nonresident enrollment. It should be noted that nonresident students pay mandatory systemwide student fees and campus-based fees in addition to nonresident tuition.

Student Financial Aid

In 1994, The Regents adopted a financial aid policy that established the guiding principles of the University's undergraduate and graduate financial aid programs. At the undergraduate level, the University's policy "is guided by the goal of maintaining the affordability of the University" for all students so that "financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree." At the graduate level, the policy calls upon the University to "attract a diverse pool of highly qualified students" by providing a competitive level of support relative to the cost of attending the University, informed by a periodic "assessment of the competitiveness of University support levels with those at comparable universities." Because graduate students are critical to the research enterprise, providing competitive support packages for graduate students is part of the bedrock upon which rests the University's ability to both conduct research that creates knowledge and innovations to fuel the State's economy and also to train the knowledge-based workforce needed in California today.

The success of the University's financial aid program in helping to ensure access for needy students is illustrated in a study by the James Irvine Foundation published in March 2002. This study examined enrollment of low-income undergraduate students at the nation's top 40 public and private universities (as designated by U.S. News & World Report College Guide). It showed that UCLA, UC Berkeley, and UC San Diego ranked first, second, and third among top universities in terms of enrolling low-income undergraduate students. Display 7 (next page) shows more recent data, indicating that UCLA still ranked first with 39% of its student body identified as low-income; UC Berkeley again ranked second with 35% low-income students; and UC San Diego, with 33% low-income students, ranked third. The UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (8%), the University of Wisconsin (14%), the University of Michigan (14%), and the University of North Carolina (15%). As a system, the University enrolled a higher percentage of low-income students (32%) than any other comparably selective institution on the list, public or private.

Display 7



Over half (54%) of UC undergraduates receive grant/scholarship aid averaging approximately \$8,100 per student; 60% of graduate students receive such aid averaging about \$11,900 per student. The difference in average grant level is attributable primarily to the different purposes of undergraduate and graduate assistance: while undergraduate awards are sized to make the university accessible, graduate awards must be sized to make the University accessible *and* to be competitive with the awards that prospective students receive from competing institutions. This competitive context reflects the fact that graduate students generally have a higher cost of attendance, are more likely to pay non-resident tuition, are generally financially independent and do not rely on parental support, and are more likely to be married and have dependents.

At the graduate level, the University's financial aid program plays an important role in the University's ability to compete with other universities for the most talented students. Enrolling these students benefits both the University and the state as a whole.

Funding for graduate student support increased significantly in recent years. Aggregate grant/fellowship funding for all graduate students increased by \$122 million (63%) between 1999-99 and 2004-05; per capita support increased by \$1,832 (34%). While this increased financial support is welcome, the fact remains that the University has a serious problem in terms of its ability to offer competitive support packages for graduate students. Surveys conducted in 2001 and 2004 of students admitted to the University's academic doctoral programs

indicated that the University’s financial support of graduate students was not fully competitive with the support offered by the institutions with which the University competes.

To mitigate the impact of fee increases on all students over the last four years, as well as increases in other educational expenses, the University has used a portion of the revenue raised from student fee increases to support financial aid.

As shown in Display 8, student grant aid increased by 50% (approximately \$400 million) over four years, from nearly \$800 million in 2002-03 to nearly \$1.2 billion in 2006-07. This included funding of \$180.3 million set aside from fee increases, in combination with an estimated \$139 million increase in funds awarded by the California Student Aid Commission and an estimated \$76.4 million increase in other scholarship, fellowship and grant funds.

Display 8

| University of California Scholarships, Grants, and Fellowships by Fund Source, 2002-03 to 2006-07 (\$ in Millions) | | | | | |
|---|-----------------|-----------------|-------------------|-------------------|-------------------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| <i>UC Funds</i> | | | | | |
| Student Fees and State | | | | | |
| General Funds | \$ 262.7 | \$ 330.8 | \$ 357.8 | \$ 421.8 | \$ 443.0 |
| Other University Funds | <u>125.4</u> | <u>159.1</u> | <u>164.3</u> | <u>168.1</u> | <u>172.0</u> |
| Subtotal | \$ 388.1 | \$ 489.9 | \$ 522.0 | \$ 589.9 | \$ 615.0 |
| <i>Other Funds</i> | | | | | |
| Student Aid Commission | \$ 148.7 | \$ 219.3 | \$ 259.6 | \$ 280.7 | \$ 287.7 |
| Federal | 203.2 | 214.5 | 223.4 | 214.8 | 231.9 |
| Private Agency Funds | <u>49.6</u> | <u>52.4</u> | <u>51.0</u> | <u>49.7</u> | <u>50.9</u> |
| Total | \$ 789.7 | \$ 976.0 | \$ 1,056.0 | \$ 1,135.1 | \$ 1,185.4 |
| Note: Numbers for 2005-06 and 2006-07 are estimates. Student Fees and State General Funds are based on budgeted amounts. | | | | | |

The current challenge is to maintain UC’s affordability and, at the graduate level, to improve UC’s competitiveness in the face of significant cost increases. In 2002-03 and 2003-04, the University used approximately one-third of new fee revenue for financial aid purposes. In the 2004-05 budget, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with the Governor’s proposal for financial aid. Beginning in 2005-06, the Compact provides the University with flexibility in determining what proportion of new fee revenue should be devoted to financial aid within a range of 20% to 33%. Had fee increases been implemented in

2006-07, it was the University's intention to use 33% of the new student fee revenue for financial aid purposes. However, the State provided funds to avoid student fee increases, so no set aside was necessary. There are no fee increases, or related financial aid proposals, submitted at this time. However, if fee increases are necessary in 2007-08, it would be the University's intention to set aside 33% of the new revenue for financial aid.

Financial aid is discussed in more detail in the *Student Financial Aid* chapter of this document.

Future Funding for High Priority Needs

The University of California is a key part of the State's economic engine. It helps train the workforce needed for California's knowledge-based economy, conducts research and creates new discoveries that lead to new industries and jobs, provides state-of-the-art health care for those who are most ill and in need of advanced medical care, and offers public services that add to the social well-being of California's citizens. Yet, the University's ability to contribute to the State's economic recovery and prosperity has been severely affected by the recent years of devastating cuts. Without adequate resources, it is a difficult task to maintain academic quality and provide the educational and research experience that undergraduate and graduate students expect from UC. Moreover, these recent difficult years have come on top of the fiscal crisis in the early 1990s that at the time led to unprecedented levels of budget reductions, most of which also have not been restored. As a result of two State fiscal crises and little progress toward restoring cuts that have occurred, the University has lost its competitive advantage among research universities and because of that, the quality of its academic programs is threatened. We must be mindful that once lost, excellence is difficult to regain.

Fortunately, the Compact with the Governor and the support of the Legislature for its funding principles have helped to stem the erosion in funding levels. However, halting the deterioration in the budget is not enough if the University is to meet the State's expectations for academic quality and productivity. The University has high priority needs that, if it is to return to being competitive, must be met when the State's fiscal situation improves.

The Regents first identified the University's highest priorities for recovering excellence when, at the November, 2003 meeting, the Board endorsed short-term and long-term budget priorities developed for the 2004-05 budget in response to the looming State fiscal crisis. The list of priorities endorsed by The Regents remains the same for 2007-08 and is shown as Display 9 on the next two pages.

Display 9
University of California
Primary Principles and Priorities for the 2004-05 Budget

The Regents are committed to two Primary Principles for the 2004-05 Budget as follows:

- I. The quality of the University shall be maintained and enhanced – quality is basic to delivering its mission and is the most important asset that the University of California offers the state.**
- II. The University shall maintain access and affordability, and honor the Master Plan. The state needs the highly-skilled, well-educated graduates that are produced by the University of California.**

In order to support these Principles, the University recognizes that, due to the current funding challenges, it is necessary to establish certain priorities. These priorities are as follows, organized within the context of the two Primary Principles:

- I. The quality of the University shall be maintained and enhanced – quality is basic to delivering its mission and is the most important asset that the University of California offers the state.**

SHORT TERM PRIORITIES

LONG TERM PRIORITIES

STUDENT/FACULTY RATIO

The University must maintain a viable student/faculty ratio to achieve its research and teaching mission and to attract high quality students.

- | | |
|---|---|
| <ul style="list-style-type: none"> 1. The University will not permit the student-faculty ratio to deteriorate further. | <ul style="list-style-type: none"> 1. The University will achieve a student/faculty ratio of 17.6:1. |
|---|---|

FACULTY & STAFF SALARIES

To attract quality personnel needed to maintain the effectiveness of the University and its ability to accomplish its mission, faculty and staff salaries must be competitive.

- | | |
|---|---|
| <ul style="list-style-type: none"> 2. The University will continue to pay faculty merit increases. | <ul style="list-style-type: none"> 2. The University will return to paying competitive salaries for faculty and staff. |
|---|---|

RESEARCH MISSION

The University's basic mission is that of a research institution. Adequate support of the research program is essential for the University to continue to be a quality research institution, to continue stimulate the economic vitality of the state, and to provide the human resources to meet this goal.

- | | |
|--|---|
| <ul style="list-style-type: none"> 3. Graduate student quality and ratios that exist today shall be maintained. That means that the net cost to attend and related financial support shall be maintained. 4. The instructional support of the University will be maintained at current levels. | <ul style="list-style-type: none"> 3. Restore research funding and instructional support to previous levels, and seek funding for new research initiatives that represent high priorities. 4. Depending on each campus' needs, specific ratios and support levels for graduate students necessary to meet the University's quality and research missions will be established. |
|--|---|

II. The University shall maintain access and affordability, and honor the Master Plan. The state needs the highly-skilled, well-educated graduates that are produced by the University of California.

ENROLLMENT

- | | |
|---|---|
| <p>5. Enrollment levels shall match the resources provided. Enrollment reductions may be necessary in the face of reduced financial support from the State. Any actions to reduce enrollments shall be implemented in such a way as to minimize the impact on UC's commitment to the access goals of the Master Plan and our promise to young people of California.</p> | <p>5. The University will adhere to the Master Plan, thus meeting its part of the promise to the youth of California.</p> |
|---|---|

FEES

- | | |
|--|--|
| <p>6. As student fees rise, financial aid will rise accordingly to mitigate the impact of fee increases on needy students.</p> | <p>6. A stable State funding formula shall be established that allows for the predictability of fees and revenues.</p> |
|--|--|

The University will continue to use a portion of the revenue raised from any increases in student fees in 2004-05 as necessary to offset increases for needy students.

7. The University's fee policy shall be based on established economic indicators, including State funding levels actually provided to the University, personal income growth, and other related items.

STUDENT ACADEMIC PREPARATION

- | | |
|---|---|
| <p>8. Cooperative efforts shall be made to achieve interim support.</p> | <p>8. Key aspects of the University's outreach programs shall be restored consistent with priorities identified by the Chancellors.</p> |
|---|---|

Display 10

| <i>Priorities for Restoring Cuts Critical to UC Academic Quality</i> | <i>Funding Needed to Close Shortfall</i> |
|--|--|
| Support to Close \$2,470 Education Funding Per Student Gap | (\$ in millions) |
| Restoring competitive salaries (General Fund and Student fee-funded portion) | \$290 |
| Restoring unfunded price increases for non-salary Budgets | 40 |
| Restoring the student-faculty ratio | 50 |
| Restoring funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) | 100 |
| Restoring student service reductions | 20 |
| Total Support Needed to Close Education Funding per Student Gap | \$500 |

The long-term priorities in Display 9 continue to reflect the University’s overall highest budget priorities. Understandably, even with a strong State economy, it could take years for the long-term priorities endorsed by The Regents to be fully realized. For the nearer term, the University has developed a list of budget priorities for restoration of cuts, shown in Display 10 which, if funded, would go a long way toward restoring the University’s competitiveness and ensuring its ability to maintain academic quality.

As shown in Display 10, the cost of funding the highest priorities totals \$500 million, which is about equivalent to the funding gap that has occurred in terms of State dollars per student over a 16-year period (as noted on page 71 of this *Summary*, funding per student in inflation adjusted dollars declined by 12.7%, from \$19,500 in 1990-91 to \$17,030 in 2006-07, resulting in a funding gap of \$2,470 per student). The Compact with the Governor provides that, “Depending on the State’s fiscal situation, there may be initiatives mutually agreed upon by the segments, the Governor, and the Legislature, either through legislation or through the budget process, that may be funded in addition to the basic budget funds provided as part of the Compact to meet high priority needs of the University and the State.” Some of the priorities identified above are being addressed to some degree in the Compact — the \$10 million targeted from within Compact funds in the current year and with a similar increment planned for 2007-08 to restore the cuts originally designated for increasing the student-faculty ratio will have a significant impact on

the campus' ability to recruit and retain faculty. The 4% base budget adjustment scheduled in the Compact to begin in 2007-08 will help to begin to address our need to return to paying competitive salaries. Similarly, the provision in the Compact that provides for an additional 1% for core needs beginning in 2008-09 will help as well. But progress would be very slow and other high priority areas, for example restoration of cuts to student services, are not addressed in the Compact.

Consequently, when the State's fiscal situation improves, the University will be submitting budget requests to restore lost funds over time and help close the funding gap resulting from years of underfunding and devastating budget cuts. This is critical to restoring and maintaining academic quality, which is in the best interest of all of California.

While the University's top priority has been and will continue to be providing access for students to the high quality education the University offers, the University is also strongly committed to its role in helping the State's economic development and prosperity. In order to continue to be able to enhance the contribution the University makes to the State's competitive edge in the global market, the University is in the process of identifying research initiatives for future years that will be targeted to areas of knowledge creation and workforce development that are key to California's future. Such initiatives will restore some of the funds cut in areas critical to the State (such as agriculture, Scripps Institution for Oceanography, and others) and begin new research initiatives that will develop new technologies and discoveries that lead to economic development and creation of jobs. The University strongly believes in the significant impact of UC research on the State's economy.

The following is a discussion of those needs that are among the University's highest priorities over the remainder of this decade.

Restoring Competitive Salaries

As noted earlier, the University's faculty salaries are estimated to lag the market of its comparison institutions by about 10%, based on the CPEC methodology. There is a similar problem with respect to staff salaries. Restoring the University's ability to pay competitive salaries is critical if the University is to recruit and retain the top quality faculty and staff needed to maintain excellence. It is estimated that closing the existing gap will require approximately \$290 million in State funds, which is about equivalent to 10% of the University's State-funded salary base. Other fund sources will have to bear their share of increases for faculty and staff paid from non-State funds.

Beginning in 2007-08, the Compact calls for 4% base budget adjustments, which, in combination with other additional funds, will *begin* to address salary lags. Unfortunately, progress would be very slow — too slow to restore competitiveness to the University in time to meet the demand for recruitment and retention of faculty and staff needed to accommodate enrollment growth through this decade. When the State’s fiscal situation permits, additional funds will be sought to quicken the pace of restoring competitive faculty and staff salaries.

Restoring Unfunded Price Increases for Non-salary Budgets

The University estimates that as a result of budget cuts and underfunding during the recent fiscal crisis in California, non-salary budgets have suffered a \$40 million shortfall. Regular price increases are necessary to offset the impact of inflation and to maintain the University’s purchasing power. The total shortfall that now exists already reflects savings that have occurred through efficiencies and productivity improvements. Shortfalls of the magnitude experienced by the University cannot be addressed entirely through such efficiencies. Eventually, these real costs must be funded if the University is to return to being competitive in the global marketplace.

Restoring the Student-Faculty Ratio

As noted earlier in this chapter, in the last several years the University has rejected proposals to further increase (i.e., degrade) the student-faculty ratio. Preserving and ultimately improving the student-faculty ratio at the University is among the highest priorities of The Regents. Currently, the University’s student-faculty ratio compares unfavorably to its eight comparison institutions, which average 17.0:1 at the public institutions and 10.4:1 at the private institutions. Before the cuts of the early 1990s, the University’s student-faculty ratio was 17.6:1. In 1994, the University and the Legislature agreed to phase in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University’s budgeted enrollment; the Legislature adopted supplemental budget language to this effect. This represented a significant deterioration in the budgeted ratio, equivalent to 500 FTE faculty members, and continued the erosion that has occurred over time.

The University simply must reverse this trend. Having a sufficient student-faculty ratio is one of the most critical factors in maintaining the quality of the instructional program. The fact that the University’s student-faculty ratio is so far behind the ratio at other institutions clearly illustrates the University’s weakened competitiveness.

The total in funding cuts that had originally been targeted at increasing the student-faculty ratio was \$70 million. While these cuts were absorbed as unallocated reductions and the budgeted student-faculty ratio of 18.7:1 was

not increased, these cuts mean the University does not have the resources to support the number of faculty reflected in the current budgeted student-faculty ratio. The University directed \$10 million toward this purpose in each of the 2005-06 and 2006-07 budgets. Over time, the University plans to restore the remaining \$50 million, including another \$10 million increment as part of the 2007-08 budget plan. The University's long-term goals call for returning to a student-faculty ratio of 17.6:1, which is the ratio that existed before the cuts of the early 1990s. The former Partnership Agreement with Governor Davis explicitly recognized this as an important goal tied to improving academic quality. The University must be able to compete effectively for the best faculty if it is to provide the top-notch education those who attend have come to expect and have worked hard to deserve. While salaries are critical to this effort, so, too, is the student-faculty ratio. This need must be addressed if the University is to return to maintaining academic quality and once again become competitive with other excellent institutions.

Restoring Funding for Core Academic Support

Several areas of the budget are critical to maintaining academic quality and yet have been historically underfunded, including ongoing building maintenance, instructional technology, instructional equipment replacement, and library resources. The Partnership Agreement with former Governor Davis recognized this shortfall and planned a 1% adjustment to the base each year to help address the gap. Funds were provided for this purpose for two years. Once the State's fiscal crisis began, however, not only were increases discontinued, but program cuts erased any of the progress that had been made from earlier funding increases. The shortage in these areas is estimated to be over \$100 million.

The Compact Agreement with Governor Schwarzenegger again recognizes the critical nature of the shortfall in these budget areas and proposes a 1% annual adjustment in the base budget beginning in 2008-09 to help address the shortfall. However, even if that rate were continued through the Compact and beyond, it would be 2012-13 before this shortfall will have been funded. If the State's fiscal situation permits, the University will request additional funding in the near term to address this shortfall sooner.

Restoring Student Services Reductions

Among the priorities identified for additional funding by students and staff on the campuses is restoring funds for student services. The University's enrollment grew by 19% between 2000-01 and 2004-05 (during the State's fiscal crisis), yet its State funded budget declined by 15% over that same period. Student services were hit hard by these cuts — a total of \$20 million in budget reductions was targeted specifically to this program area. As a result, students are paying more fees but

receiving fewer services. This inequity must be remedied by restoring the funds targeted directly at student service cuts. Student services are critical to student life on the campus. Campuses need more funding for academic support programs, such as tutoring and preparation for graduate school exams; increasing costs associated with services to students with disabilities; additional counselors to address both academic and mental health needs of our students; and upgrades for information technology systems so that students can access important web-based information such as registration, financial aid, accounting, and student service organizations. The University will seek restoration of these cuts once the State's fiscal situation improves.

Of special interest is the need for additional funds to address student mental health issues, which are a growing concern at UC as well as other higher education institutions across the nation. Psychological counseling has become an area of major importance, given the increasing numbers of students arriving annually who are on medications or who otherwise manifest behavioral or other psychological issues that negatively impact their wellness and academic performance or that of their immediate peers.

The University has just completed a comprehensive systemwide review of student mental health issues and the challenges associated with providing these services within the campus community. The final report included a number of findings and recommendations that are discussed more fully in the *Student Services* chapter of this document. Enhancing mental health services has become an urgent priority for the University. Campuses are in the process of assessing ways to improve these services, including the level of additional resources needed and the possible need for an increase in the Registration Fee to help fund enhanced services.

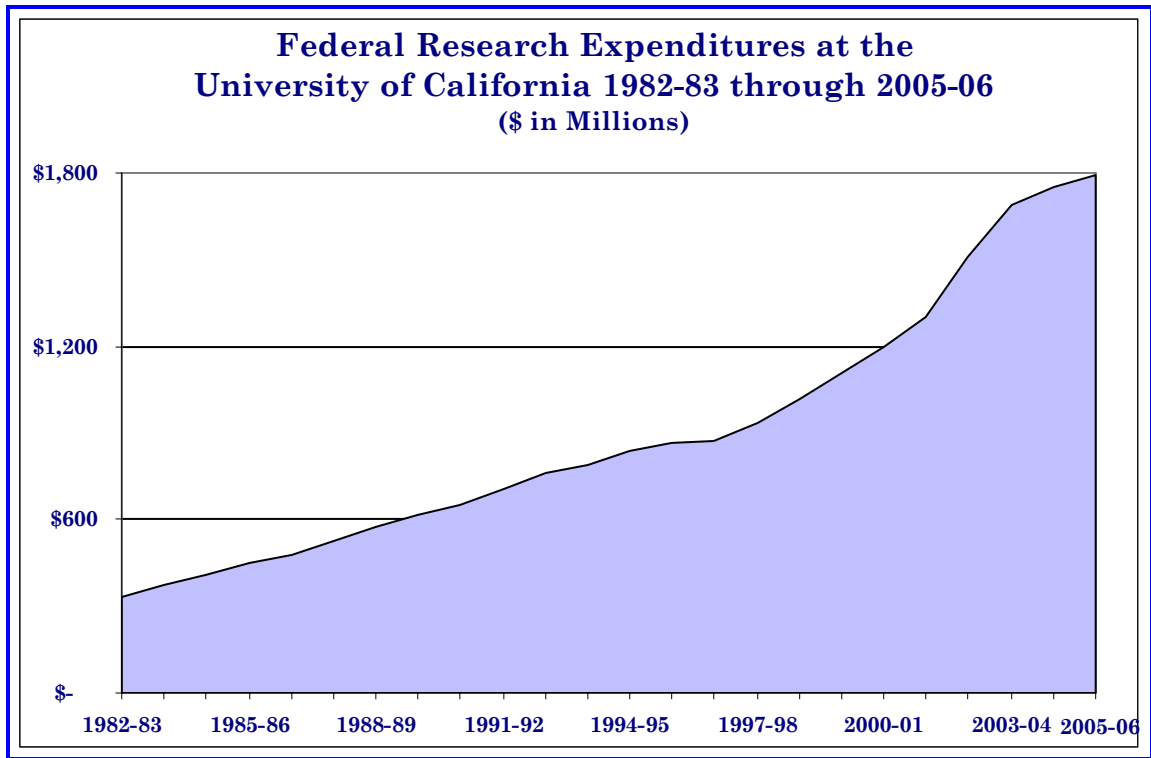
Federal Funds

Over half of the University's research expenditures and nearly one-third of the net operating revenue of the teaching hospitals is from federal funds. In addition, federal funds represent an estimated 19% of grant aid received by UC students in 2005-06. The two Department of Energy Laboratories for which the University has management responsibility are entirely supported by federal funds. (A third DOE laboratory at Los Alamos is now managed by a limited liability company, in which the University is a partner.)

State funds that support the University's core operations make it possible to attract funds from the federal government for research. The University remains highly competitive in terms of attracting federal research dollars, with fluctuations in the University's funding closely paralleling trends in the budgets of federal research granting agencies.

Display 11 illustrates trends in federal research funding for the University over the 18-year period between 1982-83 and 2005-06. In the decade between 1982-83 and 1992-93 and again from 1997-98 through 2003-04, federal support for research at UC grew dramatically, with annual increases averaging almost 10%. Between 1992-93 and 1995-96, in a pattern that may be repeating itself beginning in 2004-05, the focus of the federal government was on cutting taxes and reducing the deficit, which led to constraints on discretionary spending. Most of UC's federal research funds come from the discretionary portion of the federal budget. As a result, while total University federal research expenditures continued to increase, the rate of growth slowed. Between 1992-93 and 1995-96, federal research expenditures at the University increased by an average of about 4% per year, and in 1996-97, there was no increase over the previous year.

Display 11



But progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in new growth for funding. In 1997, after twenty years of deficits in federal government spending, the President and Congress reached an agreement to balance the federal budget over the five-year period from 1998 through 2002. Of specific concern to the University was a part of the budget plan that envisioned no increases in overall domestic discretionary spending during this period; most of UC's federal research funds come from the discretionary portion of the federal budget. This, in combination with tight spending caps, led to predictions of dramatically reduced funding for University research.

After the 1997 agreement, however, there was a dramatic turn-around due in large part to the sustained strength of the national economy. Revenues increased more rapidly than had been projected, and the budget was balanced three years ahead of schedule. As the federal budget went into its first surplus in more than 30 years in 1998, federal research and development (R&D) funding experienced rapid increases, due largely to a bipartisan commitment in 1999 to double the NIH budget over five years. Federal support for R&D continued to grow following the terrorist attacks of September 11, 2001, and the subsequent wars in Afghanistan and Iraq. The federal budget for FY2002, FY2003, and FY2004 contained record increases for federal R&D due mainly to new R&D spending on homeland security and defense.

After 1997-98, the University's federal research expenditures increased by 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, 8% in 2000-01, 8.5% in 2001-02, 16.3% in 2002-03, and 11.8% in 2003-04.

Beginning in 2004-05, however, the renewed concern over an escalating national deficit and the resulting political pressures to constrain federal domestic spending began to have an effect on the University's federal research expenditures, which increased by only 3.5% in 2004-05 and 2.3% during the past year. Over the next few years, it is likely that overall federal research funding will continue to be subject to spending cuts and constraints. Looking ahead, the federal budget situation will continue to be greatly influenced by the ongoing military commitment to Iraq and Afghanistan, and the growth of entitlement programs such as Medicare. These put enormous pressure on overall domestic discretionary spending, the source of most of UC's federal research funding.

President Bush's FY 2007 Budget Proposal does, however, include an initiative to begin remedying the underfunding of physical science R&D. Stating that sustained scientific advancement and innovation are key to maintaining the country's competitive edge, the President proposes to double over 10 years investment in key federal agencies that support basic research programs in the physical sciences — the National Science Foundation, the Department of Energy's Office of Science, and the Department of Commerce's National Institute of Standards and Technology labs.

For the fiscal year that began on October 1, only two of the ten appropriations bills that constitute the FY2007 federal budget have been signed into law (Defense and Homeland Security). The remaining bills will have to be acted upon after the midterm elections in November. A continuing spending resolution or temporary appropriations bill attached to the final Defense bill will keep the federal government in operation until the remaining bills are passed. The continuing resolution directs federal agencies to continue to fund programs through November 17 at the lower of the pending House or Senate bill recommendation or the previous year's funding.

As the House Appropriations Committee versions of the remaining bills currently stand, total R&D federal funding would increase by 3.1% next year, more generous than the Administration's proposed 1.8%. The Senate is proposing an overall 2.2% increase for total R&D. For the second year in a row, increases for NIH may fall short of inflation. However, both houses are supporting the President's American Competitiveness Initiatives which results in a proposed 8.3% increase for NSF in the House and a 7.8% increase in the Senate, and a 14.9% increase for the Department of Energy's Office of Science in the House and a 17.9% increase in the Senate. The DOE Office of Science is the largest Federal Agency supporter of the physical sciences. It funds research in the National Laboratories, as well as supporting researchers in universities, in fields such as high energy and nuclear physics, magnetic fusion, materials sciences and chemistry (including nanotechnology), biology including genetics work (DOE initiated the Human Genome Project), and advanced computation — particularly its applications to advancing research in the previously mentioned fields. The University of California is well situated, because of the capabilities and interests of its researchers as well as due to its deep involvement with DOE's Labs, to make real and valuable contributions to the Department's research program needs.

Private Funds

Private funds include gifts, private grants, and private contracts. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations, private foundations, and other nonprofit entities. Private contracts are entered into with for-profit and other organizations to perform research or other services. For 2006-07, expenditures from gifts and private contracts and grants to the University are estimated to be \$1.039 billion, an increase of 4% over 2005-06 expenditures. Expenditures from private gifts and grants have increased by over 140% in the ten-year period between 1995-96 and 2005-06.

The University continues to aggressively seek and develop non-State revenue sources, particularly private funds. Over the last two decades, the University has experienced large, steady increases in private funds received. More recently, private support for the University has exceeded \$1 billion a year for six years, even with the recent economic downturn.

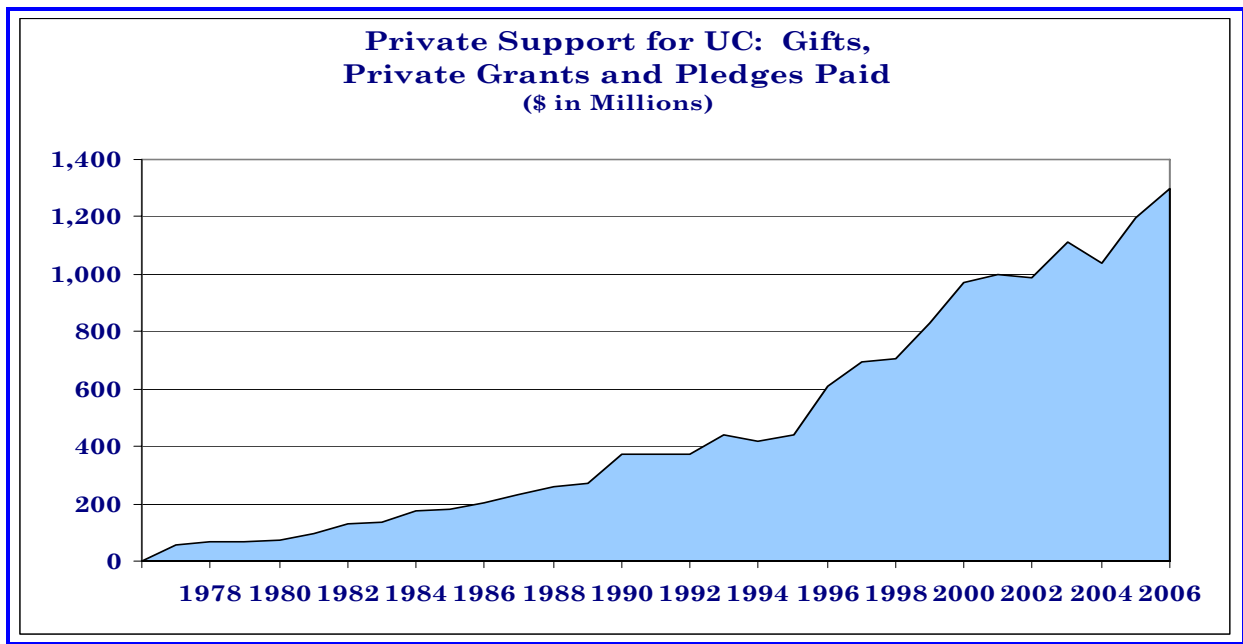
As of the 2004-05 fiscal year, the method of reporting private support changed. The University now employs the same cash reporting system used across the country by other educational institutions, a system which is the basis for inter-institutional comparisons. Included in the private support figures are outright gifts as well as pledge and grant payments received during the reporting period. Previously, the private support numbers included new pledges made during the reporting period,

but not yet paid, along with outright gifts and grants actually received during the period. In business terms, the new system is a cash-based system; the former system was an accrual system.

Private support for the University is derived from a number of sources. In 2004-05, gifts and grants from non-alumni individuals totaled \$248.9 million; from private foundations, \$462.5 million; corporations, \$247.6 million; alumni, \$132.5 million; and campus organizations and other sources, \$105.0 million.

Recent trend data show that receipts declined somewhat in 2003-04, then climbed again in 2004-05. As shown in Display 12, in 2005-06, alumni and other supporters committed almost \$1.3 billion in gifts, pledges, and grant payments to the University. New pledges totaled another \$367 million.

Display 12



Donors in 2005-06 directed \$756.4 million (58.4%) of support to University operations; \$211.2 million (16.3%) to campus improvement, \$295.5 million (22.8%) to endowments, and \$33.2 million (2.56%) as unrestricted general support. Of the total donations in 2005-06, \$559.9 million (43.2%) was specified for use in the health sciences. Just under 98% of the private support was restricted by the donors as to purpose.

The University’s remarkable achievement in obtaining funding in recent years — even during state and national economic downturns — is a testament to UC’s distinction as the leader in philanthropy among the nation’s colleges and

universities, and the high regard in which its alumni, corporations, foundations, and other supporters hold the University. Additionally, the results underscore the continued confidence among donors in the quality of UC's programs and the importance of its mission. At the same time, this year's private support totals reflect a slight improvement in the changes in the economy and financial markets.

Capital Improvements

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

Funding for the University's 2006-07 and 2007-08 capital budgets will require passage of the new General Obligation bond measure (Proposition 1D) on the ballot for the November 7 election. Proposition 1D would provide approximately \$690 million for general capital outlay over the two years. The measure also includes an additional \$200 million for expanding the University's medical school programs and its ability to deliver health care through telemedicine. As noted earlier, the Compact states the Governor's support for continued funding for capital outlay of about \$345 million per year either through general obligation bonds or other bond financing.

The University's 2007-08 State capital budget request of \$486.8 million includes \$456.1 million from general obligation bonds, \$30 million in State lease revenue bonds, and \$625,000 in State General Funds. The proposed budget includes funding to support construction or complete design and undertake construction for 19 projects, including 4 projects for telemedicine/medical education facilities as well as a research facility at the Lawrence Berkeley National Laboratory (the Helios project). Funds are also requested to begin or continue design on 8 projects, and to equip 5 buildings previously approved for construction.

Of the 27 major capital projects, 4 address serious seismic and other life-safety hazards; 15 projects construct new buildings, renovate existing space, or expand the campus infrastructure to accommodate enrollment growth, including expansion of enrollments in medical education; and facility modernization or infrastructure renewal is the focus of 8 additional projects.

The University's 2007-08 request for State funds for capital improvements is presented in more detail in a companion document titled, *2007-2008 Budget for State Capital Improvements*.

GENERAL CAMPUS INSTRUCTION

| 2006-07 BUDGET | |
|-------------------------|-------------------------|
| Total Funds | \$ 2,240,714,000 |
| General Funds | 1,575,180,000 |
| Restricted Funds | 665,534,000 |
| 2007-08 INCREASE | |
| General Funds | 63,783,000 |
| Restricted Funds | 20,529,000 |

Consistent with the California Master Plan for Higher Education, the University provides undergraduate, professional, and graduate academic education through the doctoral degree level and serves as the primary State-supported academic agency for research. This combination of educational opportunity and the discovery and delivery of new knowledge has helped build the economic diversity that keeps California one of the largest economies in the world. A fundamental mission of the University is to educate students at all levels, from undergraduate to the most advanced graduate level, and to offer motivated students the opportunity to realize their full potential. The University accommodates all qualified undergraduates and increasingly must provide graduate academic and professional instruction in accordance with standards of excellence, the growing needs of California, one of the ten largest economies in the world, and in the face of restricted resources. To do this, the University must maintain a core of well-balanced, quality programs and in addition provide support for rapidly developing and newly emerging fields of knowledge.

The University's 2007-08 budget plan is based on the Higher Education Compact with Governor Schwarzenegger. The Compact provides a long-term resource plan for UC that addresses base budget allocations, enrollment, student fees, and other key program elements for 2005-06 through 2010-11. In exchange for this long-term stability, UC commits to focusing resources to address long-term accountability goals for enrollment, student fees, financial aid, and program quality. The key funding provision of the Compact related to general campus instruction is support for enrollment growth of 2.5% per year through the end of the decade. This growth rate represents an increase of more than 5,000 full-time equivalent (FTE) students annually at UC and will allow UC to achieve enrollment levels consistent with earlier projections. The State will provide funding for this enrollment growth at the agreed-upon marginal cost of instruction as adjusted annually. For 2007-08, the University's budget plan includes \$56.9 million to support a budgeted

enrollment increase of 5,340 FTE students, including health sciences enrollment growth.

Included in the University's enrollment plan for 2007-08 is the continued expansion of the University of California at Merced. The campus officially opened its doors in 2005-06 and enrolled 865 students in its inaugural year, including freshmen, transfers, and graduate students. The campus will grow to approximately 1,300 students during 2006-07 and to 2,000 students 2007-08. Development of UC Merced is part of the University's strategy to increase statewide enrollment capacity, enhance access to students in the San Joaquin Valley, and provide the benefits of an additional research university to all Californians.

In addition to enrollment growth funding, the University proposes to use \$10 million from within the Compact for restoring instruction funding following undesignated cuts in the earlier part of the decade. These funds will be used to restore instructional resources and strengthen the student-faculty ratio.

Instructional Program Overview

The general campus Instruction and Research (I&R) budget includes direct instructional resources associated with schools and colleges located on the nine UC general campuses. The San Francisco campus offers health sciences programs exclusively. Health science programs are discussed in the *Health Science Instruction* chapter of this document. This chapter focuses on general campus instruction.

The general campus Instruction and Research base budget totals \$2.2 billion in 2006-07, of which \$1.5 billion is UC and State General Funds. The major budget elements and their proportions of the general campus I&R base budget are: faculty and teaching assistant salaries and benefits, 55%; instructional support, 40%, which includes salaries and benefits of instructional support staff such as laboratory assistants, supervisory, clerical, and technical personnel, and some academic administrators, and some costs of instructional department supplies; and funds for instructional equipment replacement and technology, 5%.

The University offers instructional programs spanning more than 150 disciplines from agriculture to zoology, as well as many emerging interdisciplinary fields. The Academic Senate of the University authorizes and supervises courses offered within instructional programs, and also determines the conditions for admission and the qualifications for degrees and credentials. Undergraduate, graduate, and professional schools and colleges offer bachelor's, master's, and doctoral degrees — over 800 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: growth of general analytical and communication skills; exposure to a range of intellectual traditions; development of an appreciation of the great ideas, concepts, and events that have shaped cultures throughout the world; and preparation to work in a world that is increasingly knowledge-based. After students complete their general education requirements, customarily during their first two years, they choose a major in a particular area that is administered by an academic department. A major is designed to develop depth of knowledge within a specialized area of study that will successfully prepare a student for employment in the California labor market, graduate study, or other endeavors.

Under the California Master Plan for Higher Education, the University has primary responsibility among publicly-supported institutions to prepare professional and doctoral students to help meet California's and the nation's workforce needs, although the California State University now has authority to offer a specific doctoral degree in Educational Leadership. The purpose of graduate programs is to demonstrate independence and originality of thought in the pursuit of knowledge. These programs also provide the core of individuals trained in California who constitute a significant part of the State's brain trust. Graduate degrees fall into two broad categories. Professional master's and doctoral degrees are awarded to students trained to embark on careers in such fields as education, business, engineering, architecture, public policy, social work, law, and the health sciences. Academic master's and doctoral degrees are awarded in recognition of a student's ability to advance knowledge in a given field of study, often in preparation for careers as high school teachers or faculty in higher education, or as scholars who further the State's and the nation's cultural, social, and economic development through discovery and innovation. In addition to the University's state-supported full-time master's and doctoral degree programs, the University offers a number of self-supporting, alternatively-scheduled programs in business administration, dentistry, education, law, and public health, and the Master of Advanced Study (MAS), which provides working adults an additional, convenient set of options for attaining an advanced degree congruent with their professional and personal interests in a manner that accommodates their schedules.

Enrollment Growth in 2007-08 (\$56,900,000 Increase)

The Higher Education Compact with Governor Schwarzenegger includes the commitment to provide UC with funding for enrollment growth consistent with access under the Master Plan for Higher Education at an agreed-upon rate per full-time equivalent (FTE) student, the "marginal cost of instruction." The University's budget plan includes a request for \$56.9 million to support budgeted enrollment growth of 5,340 FTE students in 2007-08, including growth in the health

sciences. Funding for enrollment growth provides the base resources necessary to recruit excellent faculty and maintain top quality instructional programs. Thus, funding for enrollment remains among the University's highest priorities.

State Support for Enrollment Growth

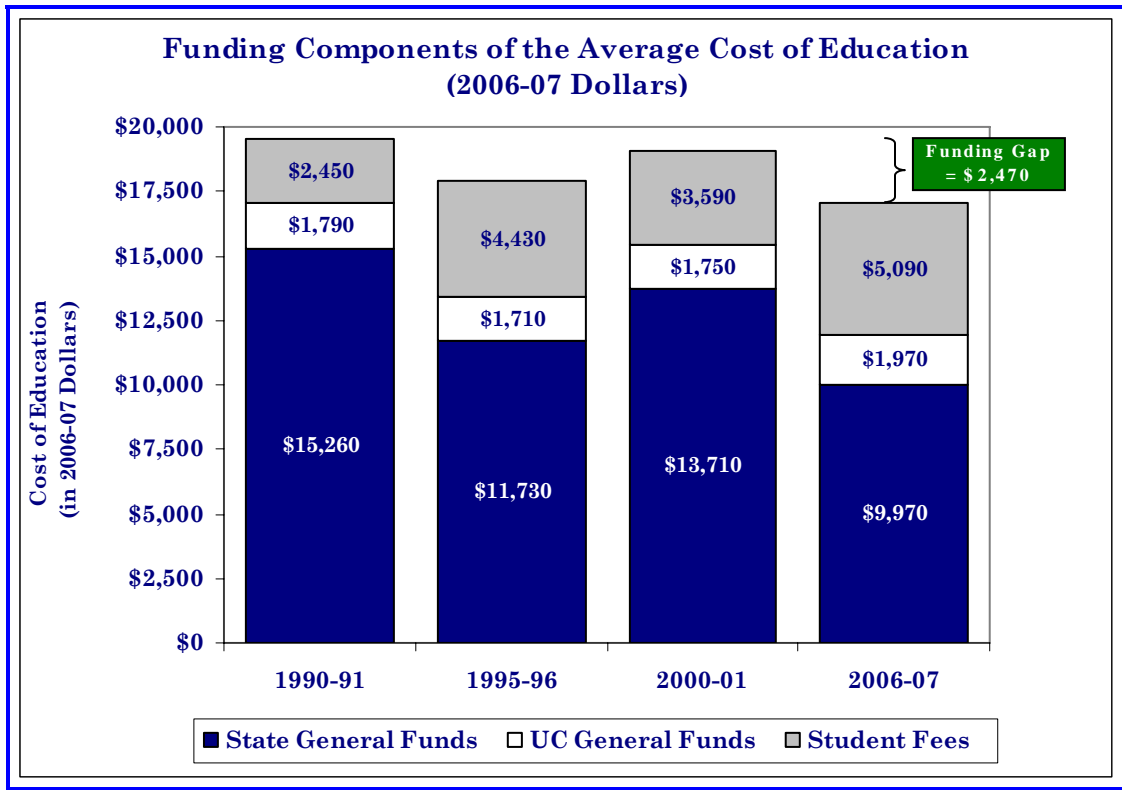
The State provides funding for each additional FTE student added to the University's current budgeted enrollment level based on an amount known as the marginal cost of instruction. The calculation reflects the State subsidy provided toward the cost of education as well as the portion of this cost that is paid from student fees.

In 2006-07, the Governor and the Legislature agreed to a State contribution of \$9,900 per FTE student. The University has developed its 2007-08 budget plan using a marginal cost estimate of \$10,500 per FTE student for 2007-08, which is based on the \$9,900 per student approved for 2006-07, adjusted for the 3% base budget adjustment and the buyout of the proposed fee increase in provided by the State in 2006-07. Enrollment workload funding totaling \$43.8 million for general campuses will provide salary and benefits for additional faculty positions (based on the current budgeted student-faculty ratio of 18.7:1); related instructional support such as clerical and technical personnel, supplies, and equipment; support for teaching assistant positions; institutional support; and support for libraries and student services. In addition, the State is expected to provide support for maintenance of new space, which for 2007-08 is estimated to be \$9.2 million. The *Operation and Maintenance of Plant* chapter of this document provides further information about new funding in this area.

Historically, the State has heavily subsidized the cost of education. However, as with all public universities, student fees have tended to increase as the State's subsidy has declined. Display 1 shows the funding components of the average cost of a UC education from 1990-91 through 2006-07 (in 2006-07 dollars) and the funding gap that has developed between the cost of a UC education in 1990-91 and the resources available in 2006-07. Display 1 yields several findings.

- The average expenditure per student for a UC education has declined. In 1990-91, the cost to educate a UC student was approximately \$19,500 in 2006-07 dollars. Over 16 years, funding per student in inflation adjusted dollars declined by 12.7%, from \$19,500 in 1990-91 to \$17,030 in 2006-07, resulting in a funding gap of \$2,470 per student.
- The State subsidy per student for the cost of a UC education has declined significantly — by 35% over a 16-year period. In 1990-91, the State contributed \$15,260 per student — 78% of the total cost. By 2006-07, the State share declined to \$9,970, just 59%.

Display 1



- As the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1990-91 students contributed 13% toward their education, they currently pay 30% of the cost of their education.

These findings raise several additional points. First, the funding gap that has developed since 1990-91 represents lost support totaling more than \$500 million. Although the University has struggled to meet the challenge presented by this substantial decline in state funding, it must be recognized that certain elements of the educational, research, and public service functions have been steadily sacrificed in order to preserve the core missions of the University. It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. When the State's financial situation permits, the University will seek support to reduce this funding gap, as discussed in the *Summary of the 2007-08 Budget* chapter of this document.

Second, recent national news coverage about skyrocketing costs of college tuition masks what has really happened at UC. University expenditures per student have not increased, but rather have fallen (in constant dollars). Instead, fees paid by

students have risen as funding from the State has declined. Student fee increases have helped maintain quality during times of fiscal crisis, but have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low.

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

Accommodating Enrollment Growth

The California Master Plan for Higher Education calls for UC to offer access to all eligible applicants in the top 12.5% of the statewide public high school graduating class who choose to attend. University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class and to guarantee admission to all applicants who meet the eligibility requirements and apply on time. In addition, the Master Plan calls for UC to guarantee a place for all California Community College transfer applicants who meet eligibility requirements. Framers of the Master Plan also envisioned maintaining or enhancing the proportion of graduate student enrollment at UC. To enable the University to fulfill these access provisions, the Master Plan calls for the State to provide adequate resources to accommodate this enrollment.

The University remains committed to the Master Plan and believes it is the underpinning for one of the finest higher education systems in the world. There is continued interest in replicating the California model in developing economies throughout the world and the Master Plan is the envy of other states. The interests of the State, its citizens, and the higher education segments in California have been well-served by the Master Plan for over 45 years. Legislative reviews of the Master Plan in 1989 and 2002 have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students.

In addition, the University has embarked on a multi-year initiative to re-balance the proportion of graduate and undergraduate students enrolled to better meet State workforce needs. For several decades, a compelling State priority has been placed on providing undergraduate access for the rapidly growing high school graduate population. However, adherence to this priority has not been without some consequences for the overall academic balance of the University and its impact on the State's supply of highly-skilled workers needed in California's knowledge-based economy. Thus, while the University has expanded access for undergraduates, graduate and professional enrollments have not always kept pace, as was intended in the Master Plan. The University is planning for continued

growth in undergraduate, graduate and professional enrollments through the remainder of this decade and continued growth in graduate and professional enrollments after 2010-11. In the next decade, demographic projections indicate there will be a significantly slower rate of growth in undergraduates, but the State's need for highly-skilled and specialized workers produced by UC graduate and professional programs will require continued enrollment growth at the graduate level.

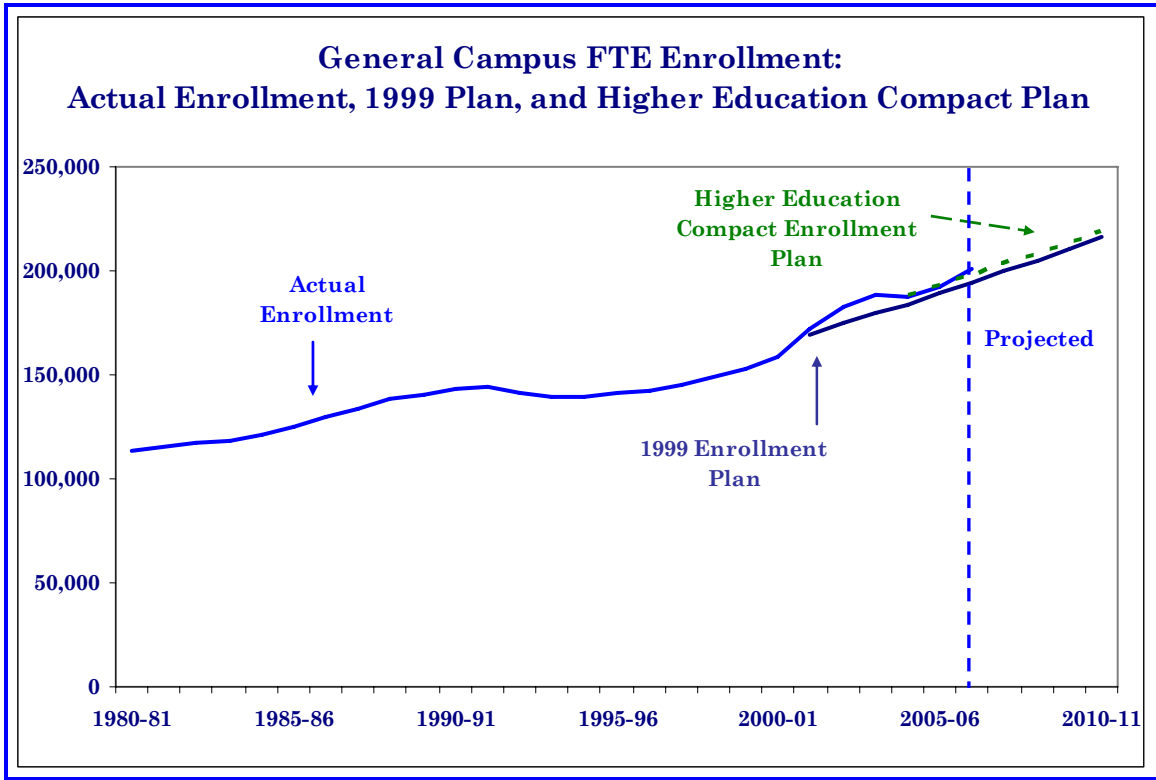
UC's long-term enrollment projections are based on consideration of four primary factors:

- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (University policy has been to establish eligibility criteria designed to identify the top 12.5% of the public high school class, but generally about 7.8% actually enroll);
- assumptions about community college transfer rates, consistent with the University's commitment to continue to improve these rates; and
- increases in graduate and professional enrollment needed to meet workforce needs in academia, industry, and other areas.

The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 FTE over this decade; by 2010-11, the University would reach its planned target of 216,500 FTE. As shown in Display 2 (next page), between 2000-01 and 2003-04 the University experienced far more rapid enrollment growth than projected in the 1999 plan, averaging closer to 8,000 FTE per year rather than the 5,000 FTE enrollment growth projected earlier.

Following a budgeted enrollment decrease in 2004-05, enrollment for the last two years has been closer to the 1999 plan. The Compact negotiated in 2004 with Governor Schwarzenegger called for UC to return to its earlier estimates of 2.5% enrollment growth per year, which has allowed the University to return to enrollment levels near those envisioned in the 1999 plan. This growth was included in the 2005-06 and 2006-07 budgets. However, in the current year (2006-07), the University is significantly overenrolled on the general campuses. While the Merced campus is undersubscribed, the Davis, Irvine, and San Diego campuses are all significantly over budget, resulting in a net overenrollment of approximately 2,000 FTE students. The University plans for additional budgeted enrollment growth of 5,340 FTE students in 2007-08.

Display 2



In addition to the tremendous enrollment growth experienced by the University over the last thirty years, the undergraduate student population has changed in dramatic ways.

- During the mid-1980s, women became the majority of UC undergraduate students.
- Since 1980, enrollment of Asian American and Chicano/Latino undergraduates has grown more than 300%, far exceeding the 64% growth in total undergraduate enrollment. Display 3 (on page 104) shows the headcount of undergraduate students enrolled at the University in Fall 1980 and, more than two decades later, in Fall 2005, the latest year available.
- More than half of entering undergraduates are immigrants to the United States or have at least one immigrant parent.
- More than one-third of freshmen are first-generation college students.

- Slightly more than two-thirds of entering undergraduates begin the University as freshmen. Among all UC undergraduates, 94% are California residents and only 2% are international students.
- Today's entering undergraduates are also better prepared for a University education and, as discussed later in this chapter, are more likely to graduate and graduate at a faster pace.

Shifts have also occurred in the graduate student population.

- Men remain the majority of UC graduate students, but graduate enrollment of women rose steadily from 38.9% in 1980 to 47.9% in 2005.
- While graduate enrollment grew only 38% between 1980 and 2005, graduate enrollment of Chicano/Latino students grew by more than 120% while Asian American enrollment grew by 240%, as shown in Display 4 (next page).
- In recent years, about 17% of graduate students have been international and another 8.5% have been nonresidents from another U.S. state. Enrollments of new international graduate students fell sharply in the past several years – down 26% between Fall 2001 and Fall 2005. While some of this decline reflects national patterns following changes in visa regulations and a perception by some foreign students that the U.S. is less welcoming, increases in nonresident tuition at UC also contributed to the drop in new international students at UC.
- Two-thirds of general campus graduate students are pursuing doctoral degrees, primarily in academic subjects. The other third are pursuing master's degrees, primarily in professional fields such as law (J.D.), business, public policy, and education.
- While the number of academic doctoral degrees awarded by the University has risen 42% since 1980-81, the number of master's degrees awarded has grown 56%. The number of first professional degrees awarded, such as the Juris Doctor and Doctor of Medicine, grew only 3% during the same period.
- Over a quarter of all UC doctoral students are in the physical and life sciences, and nearly another quarter are in engineering and computer sciences. In 2004-05, 57.5% of doctoral degrees were awarded in mathematics, sciences, and engineering.

Display 3

| Domestic Undergraduate Headcount | | | | |
|---|--------------|--------------|--------------|----------------|
| Fall 1980 - 2005 | | | | |
| | 1980 | 2005 | Change | Percent Change |
| African American | 3,474 | 4,780 | 1,306 | 38% |
| American Indian | 483 | 865 | 382 | 79% |
| Chicano | 3,816 | 16,639 | 12,823 | 336% |
| Latino | <u>1,539</u> | <u>5,582</u> | <u>4,043</u> | <u>263%</u> |
| Subtotal | 9,312 | 27,866 | 18,554 | 199% |
| Asian American | 10,700 | 46,754 | 36,054 | 337% |
| Filipino American | 1,304 | 7,493 | 6,189 | 475% |
| White/Other | 68,200 | 63,238 | (4,962) | -7% |
| Decline to State | <u>5,362</u> | <u>9,888</u> | <u>4,526</u> | <u>84%</u> |
| Subtotal | 85,566 | 127,373 | 41,807 | 49% |
| TOTAL | 94,878 | 155,239 | 60,361 | 64% |

Display 4

| Domestic Graduate Headcount | | | | |
|------------------------------------|--------------|--------------|----------------|----------------|
| Fall 1980 - 2005 | | | | |
| | 1980 | 2005 | Change | Percent Change |
| African American | 996 | 1,303 | 307 | 31% |
| American Indian | 132 | 323 | 191 | 145% |
| Chicano | 900 | 1,850 | 950 | 106% |
| Latino | <u>579</u> | <u>1,447</u> | <u>868</u> | <u>150%</u> |
| Subtotal | 2,607 | 4,923 | 2,316 | 89% |
| Asian American | 2,145 | 7,345 | 5,200 | 242% |
| Filipino American | 117 | 721 | 604 | 516% |
| White/Other | 20,394 | 25,516 | 5,122 | 25% |
| Decline to State | <u>5,354</u> | <u>3,880</u> | <u>(1,474)</u> | <u>-28%</u> |
| Subtotal | 28,010 | 37,462 | 9,452 | 34% |
| TOTAL | 30,617 | 42,385 | 11,768 | 38% |

Note: Includes general campus and health sciences enrollment.

The University of California, Merced

The development of UC Merced is part of the University's strategy to increase enrollment capacity that will serve the entire state, enhance access for students in the San Joaquin Valley, and provide the benefits of an additional research university to all Californians. The campus is already making valuable contributions to the region as a powerful economic engine. In addition to the influx of students, faculty, and staff, the San Joaquin Valley can expect a surge in investment from knowledge industries attempting to tap into the intellectual resources brought by a UC campus.

Educational Access

Student interest in UC Merced remains strong, as more than 9,000 students applied for admission in each of the first two years of operation. UC Merced officially opened its doors to 865 FTE students in 2005-06, enrolling a mixture of freshmen, community college transfer students, and graduate students. In Fall 2006, 1,286 headcount students are enrolled. While this represents a nearly 50% increase in students, this enrollment falls somewhat short of earlier growth projections. To provide some context for this shortfall, it is important to know that other UC campuses enrolled more students than they intended for Fall 2006. It is also the case that UC Merced does not currently have sufficient housing to guarantee that freshmen can live on-campus.

Enrollment at UC Merced was planned to increase by 800 FTE per year. Experience to date suggests that an average annual increase of 675 FTE is a more realistic target until the campus reaches a population of approximately 4,000 FTE students by 2010-11.

To ensure that enrollment grows at a healthy pace, six new majors have been added for Fall 2006, and more are planned for Fall 2007. This fall, the campus will open the J. E. Gallo Recreation & Wellness Center and begin club sports programs. Additional on-campus housing is scheduled to be completed by Fall 2007. These academic and student life enhancements should significantly improve the yield from the pool of admitted students.

In addition to attracting new students, it is crucial to retain students for sustained enrollment growth. Nationally, about 79% of freshmen in public institutions return for the second year. Of the 706 freshmen at UC Merced in Fall 2005, 582 have registered for the Fall 2006 semester. This represents a retention rate of 82%, and testifies to the tremendous commitment of the faculty and student services staff.

As a research university, UC Merced is particularly focused on adding to the number of students in California who complete advanced degrees. After one year of

full operation, UC Merced already awarded its first masters degree in May. For Fall 2006, the graduate student population on this campus will more than double from 37 to 76.

The UC system has enrolled more students than ever before, and UC Merced has helped ensure that every qualified student in California is offered a place. The campus plays a major role in fulfilling the goal of the Regents and the State to raise the college-going rate in the Central Valley. Over one-third of the inaugural undergraduate class at UC Merced came from this region. For Fall 2006, this figure is close to 40%. After two admission cycles since UC Merced opened, the number of students from the Central Valley who have applied to the UC system has increased by 22.6%, and the number who have gained admission has increased by almost 30%. Moreover, half of UC Merced's freshmen are first-generation college students, who will serve as role models for others and establish a college-going tradition in their families and communities.

UC Merced has a diverse student population, and it is not limited to students from the San Joaquin Valley. Approximately 31% of the class entering in 2006 comes from the Bay Area, and another 21% comes from southern California. The incoming freshman class is 29% Hispanic, 7% African American, 22% White, 30% Asian American, and 1% American Indian (the remaining 11% indicated "other" or declined to provide their ethnic background).

Academic Innovation and Excellence

UC Merced's core academic programs are being offered through three schools: Engineering; Natural Sciences; and Social Sciences, Humanities and Arts. New faculty members have been drawn from all over the world and are helping the campus offer more fields of study.

Nine broad-based majors were offered in the first year, with courses tailored to the inaugural class, mostly freshmen and some junior transfers and graduate students. For Fall 2006, students will be able to choose from 15 majors, with the addition of courses in the new fields as well as new courses for sophomores and seniors. The six additional majors approved for Fall 2006 include popular majors that are impacted throughout the UC system, such as psychology and mechanical engineering. Emphasis tracks within the majors allow students to delve deeper into areas such as air pollution, hydrology, or molecular biology. In addition, 10 minors are being offered in 2006-07 that will become majors as more faculty members are hired. Students entering as freshmen can look forward to greatly expanded curricula as they move toward graduation.

The distinctive stamp on research at UC Merced has begun in its signature organizations, the Sierra Nevada Research Institute, the Energy Center, the

Biological Systems Institute, and the World Cultures Institute. Topics currently under study include hydrology, solar power technologies, and migrant peoples. As with the academic programs, UC Merced's research institutes will foster collaboration across disciplinary lines — the relationship between environmental science and environmental policy is an obvious example, especially for the Central Valley. Partnerships with other UC campuses and with entities such as Lawrence Livermore National Laboratory, Sequoia and Kings Canyon National Parks, and Yosemite National Park enhance education and research at UC Merced.

Supplemental One-Time Funding

Supplemental funds are required in 2007-08 for faculty salaries and recruitment costs, as well as instructional technology, library materials, and expanded general support needed to fully operate the campus. As specified in the Higher Education Compact with Governor Schwarzenegger, the State will continue to support one-time funds needed for initial development of the UC Merced campus. The State is providing \$14 million in one-time funds during 2006-07. The Governor has agreed to another \$14 million in 2007-08 and this amount will phase down through 2010-11.

State Support for Summer Instruction

Year-round State funding for instruction is a key strategy for accommodating the enrollment growth campuses will continue to experience through the end of the decade. The 1999 enrollment plan indicated that UC would need to accommodate an additional 63,000 FTE by 2010-11 to meet the needs of the State. The expansion of campus capacity during the regular academic year and the opening of UC Merced will accommodate about two-thirds of this growth. The remaining growth will be accommodated by expansion of summer enrollments, which both makes more efficient use of facilities and accelerates time to degree for undergraduates, thereby making room for more students during the regular year.

Historically the State has provided funding for students enrolling in the fall, winter, and spring terms, but not summer. Through Summer 2000, summer sessions were supported entirely from student course and registration fees set by each UC campus and enrollment was limited because these constrained resources allowed only a narrow range of course offerings and support services and only minimal financial aid. The University began converting summer instruction from a self-supporting to a State-supported program in Summer 2001. As of Summer 2006, the University has converted all summer instruction for UC-matriculated students to state support.

In the six years from Summer 2000 to 2006, the University doubled its summer enrollments, as shown in Display 5. Enrollment grew by 6,900 FTE students over this period. In 2006, more than 67,000 students participated in summer instruction, including 39% of undergraduates.

Display 5

| Full-time Equivalent Summer Enrollment (UC-Matriculated) | | | | | | | | |
|---|--------------|--------------|---------------|---------------|---------------|---------------|---------------|------------------------------------|
| | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> | <i>2006</i> | <i>% Increase 2000 to 2006</i> |
| Berkeley | 1,390 | 1,925 | 2,126 | 2,282 | 2,155 | 1,966 | 1,930 | 39% |
| Davis | 824 | 933 | 1,533 | 1,885 | 1,842 | 2,040 | 1,822 | 121% |
| Irvine | 971 | 1,240 | 1,482 | 1,803 | 1,552 | 1,523 | 2,260 | 133% |
| Los Angeles | 1,222 | 2,099 | 2,515 | 2,608 | 2,525 | 2,586 | 2,599 | 113% |
| Riverside | 430 | 636 | 829 | 963 | 913 | 994 | 1,086 | 153% |
| San Diego | 775 | 906 | 1,085 | 1,159 | 1,219 | 1,227 | 1,275 | 65% |
| Santa Barbara | 854 | 1,446 | 1,689 | 1,793 | 1,902 | 2,040 | 1,999 | 134% |
| Santa Cruz | 351 | 502 | 584 | 643 | 638 | 679 | 742 | 111% |
| TOTAL | 6,817 | 9,687 | 11,843 | 13,136 | 12,746 | 13,055 | 13,713 | 101% |

The key to achieving significant enrollment growth in the summer is to offer students summer instruction that is critical to student progress, along with essential student support services, access to libraries, and student financial aid. State funding for summer instruction allows campuses to provide financial aid equivalent to support available during the regular academic year, fund adequate student services, and hire more regular-rank faculty to teach in the summer. In addition, with State funding, campuses can afford to offer greater breadth of courses during the summer to maximize efficiency and student progress toward the degree.

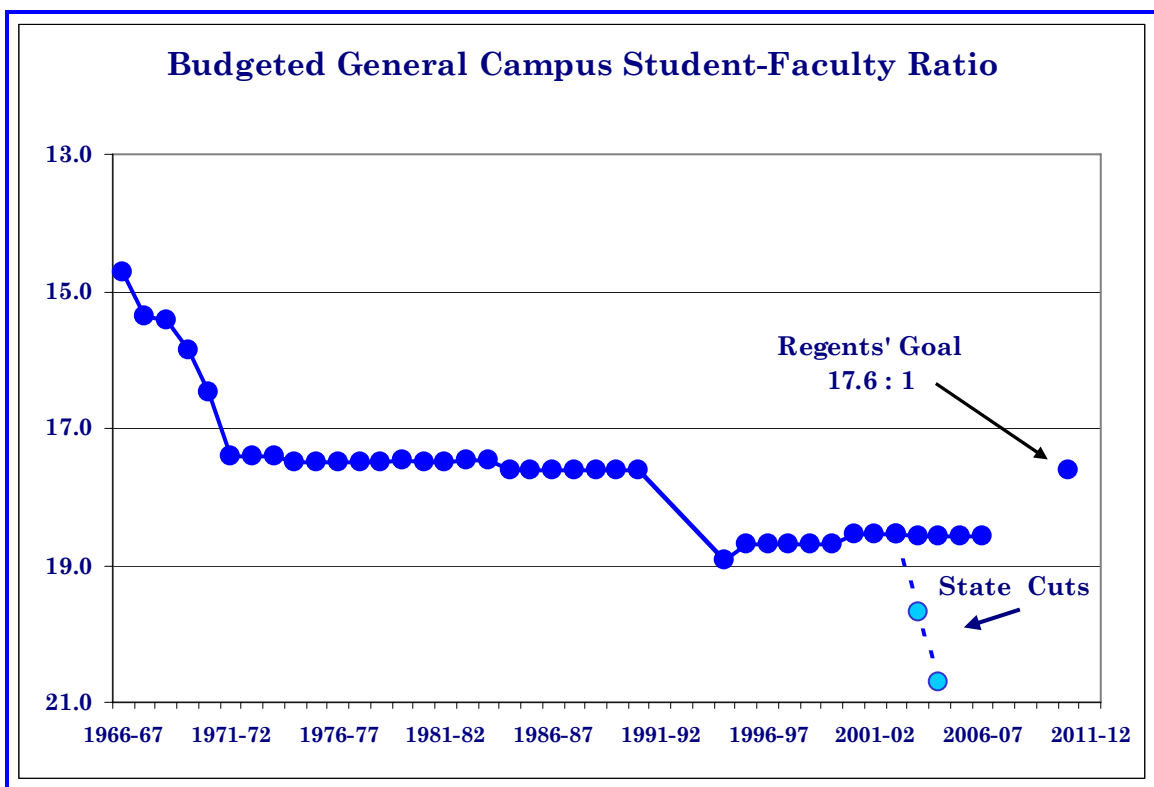
Improving Instruction

During the State's last fiscal crisis, the University took a series of budget cuts in academic programs. In 2002-03, funding for core needs (instructional equipment replacement, instructional technology, libraries, and operation and maintenance of plant) was reduced \$29 million. In 2003-04, the Governor's Budget included a \$34.8 million reduction in State funds targeted at increasing the University's student-faculty ratio; however, this cut was instead taken by the University as an unallocated reduction. In 2004-05, the Governor proposed a further 5% increase in the student-faculty ratio accompanied by a budget cut of \$35.3 million. Again, this cut was taken as an unallocated reduction, but by necessity, these cuts meant campuses did not have adequate funds to hire sufficient numbers of faculty or to

address continuously more critical areas of instructional and other core support needs. Such budget reductions made it difficult for campuses to maintain levels of instructional support necessary to provide a high quality education.

As noted above, in the last fiscal crisis, the University rejected proposals to increase further (e.g., degrade) the student-faculty ratio. Preserving and ultimately improving the student-faculty ratio at the University is among the highest priorities of The Regents. Currently, the University's student-faculty ratio compares unfavorably to its eight comparison institutions, which average 17.0:1 at the public institutions and 10.4:1 at the private institutions. Before the cuts of the early 1990s, the University's student-faculty ratio was 17.6:1, as shown in Display 6. In 1994, the University and the Legislature agreed to phase in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University's budgeted enrollment; the Legislature adopted supplemental budget language to this effect. This represented a significant deterioration in the budgeted ratio, equivalent to 500 FTE faculty members, continuing the erosion that has occurred over time.

Display 6



Improvement in student-faculty ratios would permit the University to offer both smaller class sizes in some subjects, thereby improving the quality of the educational experience, and a wider range of courses, which will help students complete requirements and graduate more quickly. A sufficient student-faculty

ratio also increases opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service.

With funding provided in 2005-06 as part of the Compact, the University committed \$10 million toward restoring the \$70 million that had been eliminated from the University's instruction budget over a two-year period; during 2006-07, the University committed another \$10 million from within the Compact. In 2007-08, the University will commit a third increment of \$10 million toward restoring instructional funds, which together with the \$20 million previously allocated will have restored \$30 million of the \$70 million reduction. Ultimately, it is the goal of the University to achieve a long-term student-faculty ratio of 17.6:1.

Faculty instructional workload policies at UC are similar to those at comparison institutions. It is critical for the quality of UC programs to maintain current workload policies to help the University stay competitive in its efforts to recruit and retain the highest quality faculty. The future of California is dependent on the ability of the University to remain competitive with the best universities in the nation. Over the last four years, the University has been reviewing its methodology for measuring faculty instructional effort. A forthcoming report to the Legislature will provide results of a systemwide survey for 2004-05 using a new methodology to measure faculty teaching activities in a way that reflects the special features of a research university experience for UC students and the different modes of teaching in which UC faculty are engaged. The new approach uses two traditional process measures (the number of classes taught and the total number of student credit hours), but is based on a new, Universitywide taxonomy of instructional activity types that capture the instructional goals for the students who are enrolled. The three categories in the new classification system are:

- Transmitting the Knowledge Base — Faculty provide instruction designed to transmit the knowledge base, skills, methodologies, analytical approaches, and techniques associated with a discipline or field, ranging from the basic to the advanced level;
- Initiating Intellectual Independence — Faculty develop students' abilities to pursue creative/professional/scholarly work as required by the discipline or field; and
- Emphasizing Independent Inquiry — Faculty guide, mentor, and monitor advanced students who are undertaking independent creative/professional/scholarly work, generally as a culmination to their degree program.

Results of the systemwide survey for 2004-05 using the new methodology show a 1.3% increase in the total number of classes offered to students when compared to

2003-04 despite a slight decrease in headcount and FTE enrollment. Over half (56%) of all classes taught were in the Transmitting the Knowledge Base category. Remaining classes were divided almost evenly between the Initiating Intellectual Independence (23%) and Emphasizing Independent Inquiry (22%) categories. This distribution of classes was unchanged from 2003-04. The number of average student credit hours per student increased slightly, from 42.5 in 2003-04 to 42.6 in 2004-05.

The new system counts all instructional activity as classes, and the result is a number of classes per FTE faculty member that is higher than the results obtained from using the old classification methodology, and more reflective of the actual workload of the faculty. Using the new methodology with instructional workload data for regular-rank faculty from 2004-05 results in calculations of 4.1 classes per FTE in the Transmitting the Knowledge Base category, 2.1 classes per FTE in the Initiating Intellectual Independence category, and 2.6 classes per FTE in the Emphasizing Independent Inquiry category.

Science and Math Initiative: California Teach

The Compact with Governor Schwarzenegger identified a critical shortfall in the number and quality of K-12 teachers in science and math in California. As the State's premier science and technology research institution, with highly regarded graduate and undergraduate science and math programs, UC is uniquely positioned to work in partnership with the State, K-12, and the business community to help reverse this trend. The Compact called on the University to develop, in collaboration with the California State University, a major initiative to improve the supply and quality of science and math teachers in the State of California and thus help provide the skilled workforce that California will require if it is to remain an economic leader in an increasingly more competitive global economy.

In response to the needs of California, UC and CSU launched a new program, "California Teach," to improve the quality of K-12 science and mathematics teachers in California. Not only will this program help California remain competitive in an increasingly knowledge-based global economy, it is serving as a national model to help the U.S. meet its workforce needs in science, technology, engineering, and mathematics (STEM) fields.

The University's program, *One Thousand Teachers, One Million Minds*, will quadruple the number of UC graduates who go on to teach K-12 science and mathematics by 2010, annually providing California with more than 1,000 additional highly qualified math and science teachers. To achieve this goal, UC's program:

- provides every UC student with the opportunity to complete a UC STEM major and the required courses to become an “intern credentialed” K-12 teacher in California within four years;
- introduces undergraduates to the K-12 classroom as freshmen and sophomores through mentored classroom assistantships and seminars taught by UC faculty and K-12 Master Teachers;
- provides new intensive summer institutes that will help students develop the skills required to be the most effective teachers in a specific STEM subject area;
- prepares teachers throughout pre-service, service, induction, and professional development experiences to become National Board Certified Teachers.

The UC program will help address California’s severe shortage of highly qualified mathematics and science teachers. Recent data illustrate the seriousness of the problem.

- National testing data (Trends in International Mathematics and Science Study) reveal that California’s children are among the worst in the U.S. in their knowledge and abilities in both mathematics and sciences. U.S. children are falling further behind children of other countries in their knowledge of and abilities in mathematics and sciences. This is a national prosperity and competitiveness issue that requires urgent action and a plan to correct these deficiencies.
- Statewide, 25%-35% of California’s science and mathematics teachers either have no credentials or are not qualified, i.e., they have neither a major nor minor in the subject area they are teaching. The situation is much worse in lower performing schools where as many as 80% of science and mathematics teachers are not qualified.
- Currently nearly 25,000 teachers in California are teaching with emergency credentials. These teachers will not be employable after 2006 due to requirements in federal No Child Left Behind legislation.
- Projections indicate that more than 30% of California’s teacher workforce will be eligible to retire in the next decade.
- For the first time in many years, California experienced a decrease in the number of credentialed teachers entering its workforce in 2005-06.
- This year, California has a shortage of more than 2,000 mathematics, 1,000 life sciences, and 1,000 physical science teachers.
- Little or no science is being taught in California’s K-5 classrooms.

The University of California is uniquely positioned to help California meet its shortage of science and mathematics teachers. UC is known internationally for

its outstanding STEM education and research programs, and it awards nearly 50% of all California STEM baccalaureate degrees annually (more than 10,000). In addition to producing highly qualified science and math teachers, the California Teach program may also help increase retention of UC students in sciences, mathematics, and engineering and increase the participation and retention of students from diverse social, ethnic, and racial backgrounds in STEM fields. The UC program is the largest program of its kind in the U.S. and may well serve as a model for other research universities. The California Teach program was launched on 7 of the 9 UC general campuses in 2005-06; the 8th and 9th campuses launched the program in 2006-07. During 2005-06, campuses will recruit and provide opportunities for freshmen to serve in elementary classrooms. In addition, individual campuses, their academic senates, and the systemwide UC Academic Council will work in concert to define curricula. In 2006-07, participating campuses are providing the early freshman field experience for students as well as a similar program for the sophomore students in middle school classrooms. In the summer of 2007, the University will launch the UC-wide summer institutes; development of curricula for these summer programs began during the 2005-06 academic year.

In 2005-06, the State provided \$750,000, which was matched by \$750,000 in University funds, to support the initial infrastructure needed to implement the new initiative. In 2006-07, the State provided an additional \$375,000, again matched by University funds, for a total of \$2.25 million for the program. These funds are being used to develop resource centers on UC campuses to operate the program. Using a combination of State and University funds, each campus resource center has at least \$250,000 for program operations.

In addition, UC has obtained funding from California business and industry to support freshman student field experiences and to support both mentor supervising teachers and Master teachers. Fundraising for the initiative has already topped \$4 million. In the initial year of this program, the University budgeted funds to support 600 classroom assistants, 300 mentor teachers, and 20 master teachers. Corporations that have provided funds to support this portion of the program have done so to support “named” classrooms. For example, Intel provided enough funding for nearly 100 Intel classrooms — providing support for a pair of UC classroom assistants and a mentor teacher for each classroom. In addition, two campuses were successful at obtaining funds for endowed chairs for faculty directing or participating in the new California Teach program. Additional fundraising for more classrooms and to support the summer institutes is ongoing.

Maintaining Freshman Student Access

The University is maintaining its commitment to the Master Plan for Higher Education to provide a place on one of the UC campuses for all eligible California

applicants who wish to attend. Campuses received applications for Fall 2006 admission from more than 70,000 California high school seniors, a one-year increase of 7.7%. Further, admissions of California high school seniors jumped 10.4%, and the University expects more than 35,000 new California freshmen to enroll during 2006-07.

Eligibility Policies

Consistent with the Master Plan for Higher Education, UC's policy is to provide access to students in the top one-eighth (12.5%) of the state's public high school graduating class who wish to attend, although a student may not be offered a place at the campus or within the major of first choice. Currently, the University offers three paths to eligibility as a freshman:

- Eligibility in the statewide context is achieved if a student completes at least 15 year-long courses in specified academic areas (commonly referred to as the "a-g" requirements) and meets or exceeds a minimum score on an eligibility index. The eligibility index includes high school grade point average (calculated on academic units for "a-g" courses) and a combination of scores on the ACT Assessment Plus Writing or the SAT Reasoning Test and two SAT Subject Tests (formerly SAT II: Subject Tests).
- Eligibility in the Local Context (ELC, or the 4% path), was implemented for the first time for students entering in Fall 2001. Students who complete the required "a-g" courses and standardized tests and who rank within the top 4% of their class (based on GPA earned in "a-g" courses) are UC-eligible under this path.
- Alternatively, students may achieve eligibility based on test scores alone, although less than 1% of UC students become eligible solely through this path. To be eligible by examination alone, a student must achieve a total score of at least 3450 on the SAT Reasoning Test and two SAT Subject Tests, with a minimum score of 580 on each individual exam. Students taking the ACT test must earn a minimum of 25 on each for the four ACT subparts as well as a minimum of 580 on each of the two SAT Subject Tests.

The requirements listed above reflect changes in the University's standardized testing policy that took effect for students applying for Fall 2006. Beginning in 2002, both the ACT and SAT national admissions examinations were reviewed and revised in response to questions raised by the University. The revised tests were offered for the first time in the spring of 2005 and, effective with the Fall 2006 admission cycle, UC accepts scores from the revised examinations only. Additionally, because material previously covered in the former SAT II: Subject Tests is now incorporated in the new tests, UC has reduced from three to two the number of required subject examinations and allows students to submit scores in

their choice of two different discipline areas. UC intends to review the results of the new examinations over the course of the next several years to determine whether the new examinations are consistent with the recommendations for appropriate admissions tests made by UC's Board of Admissions and Relations with Schools (BOARS). Effective with the Fall 2007 cycle, UC has also introduced a new form at for calculating total test scores to determine a student's eligibility. This new format, the "UC Score," is simply a new "look" for the eligibility index; it does not affect either the size or the composition of UC's eligibility pool.

On an annual basis, the University monitors key demographic and financial indicators, as well as policy changes that affect enrollment. In 2004, the California Postsecondary Education Commission (CPEC) completed a new high school eligibility study, based on 2003 high school seniors, which indicated that 14.4% of California public high school graduates were eligible for the University. In 2005, CPEC also completed an eligibility study for the graduating class of 2001, which showed that 14.2% of 2001 graduates were UC-eligible, essentially confirming the 2003 results. In order to keep the pool of UC-eligible students consistent with the target set in the Master Plan, effective for applicants for Fall 2005, the University tightened two of its rules for determining whether students are eligible for freshman admission. UC now calculates students' grade point averages (GPA) on all UC-required "a-g" courses taken in the 10th and 11th grades and requires ELC students to complete all course and testing requirements in order to be considered eligible. In addition, effective for students entering in Fall 2007, students will need to achieve a GPA of at least 3.0 to qualify for eligibility in the statewide or local (ELC) context. The President and the Board of Regents have agreed that, once data on the new standardized tests become available, BOARS will conduct additional analyses and return with further recommendations, if needed, to align the size of UC's eligibility pool to a figure consistent with the Master Plan.

The University remains committed to the Master Plan, which, following recent extensive reviews by the Legislature, continues to state the principle that UC should admit students from the top 12.5% of California's public high school graduating class.

Admission Policies

The University remains committed to offering a place to all eligible California high school graduates and eligible California Community College transfer students who apply for admission. However, this commitment does not extend necessarily to the student's choice of campus or major. At campuses where the number of UC-eligible students exceeds the number of spaces available, admission selection guidelines are employed to select the entering class.

In November 2001, The Regents of the University of California approved a modified selection process for freshman admissions that leads to a more thorough and complete review of the qualifications a student presents when applying to one of UC's undergraduate campuses. Called "comprehensive review," the process ensures the admission of highly-qualified students by allowing UC campuses to consider the broad variety of academic and supplemental qualifications that all students present on the application. The comprehensive review process took effect for the class applying for freshman admission for Fall 2002.

Applicants admitted under comprehensive review continue to be high-achieving students. All freshman applicants' records are analyzed not only for their grades, test scores and other academic criteria — important baseline indicators of academic potential — but also for additional evidence of such qualities as motivation, leadership, intellectual curiosity, and initiative. These qualities play an important role in student success in an academic environment as rigorous and challenging as that of UC, and they can be demonstrated in a variety of ways, through a variety of achievements and experiences. Comprehensive review enhances UC campuses' ability to select each year a class of thoroughly qualified students who demonstrate the promise to make significant contributions to the University community and to the larger society beyond. This policy sends a strong signal that UC is looking for students who have achieved at high levels and, in doing so, have challenged themselves to the greatest extent possible.

Transfer from California Community Colleges to UC

The Master Plan for Higher Education designates the missions for all three public higher education segments and affirms the principle that educational opportunities should be available to all students to help them meet their full potential. For those students not eligible or unable to attend a four-year university, the ability to transfer from a California Community College (CCC) to a four-year institution for their upper division coursework maintains that commitment to educational opportunity for all, whatever their individual circumstances may be. Therefore, the Master Plan calls for UC to accommodate all eligible CCC transfer students, and specifies that the University maintain a ratio of 60% upper division to 40% lower division within its undergraduate class. The University has exceeded the upper division enrollment goal in recent years because of its strong commitment to improve and enhance the transfer function, and maintain its commitment to the Master Plan. Since 1998-99, full-year transfer enrollment has grown 29%. In 2005-06, UC enrolled 13,535 new CCC transfer students, and the upper division-lower division ratio stands at 64:36.

Key elements for a successful transfer function include clearly-defined eligibility and selection criteria; availability of academic and financial aid counseling from

both CCC counselors and UC transfer advisors; and complete, accurate, timely, and available course articulation information identifying which California Community College courses are transferable to UC and how individual courses will advance students to a baccalaureate degree. The University continues to make efforts in all three of these areas to help promote transfer student access to UC.

Transfer Eligibility

Applicants seeking admission to UC as transfers may meet eligibility requirements in one of three ways:

- Students who were eligible for admission to the University when they graduated from high school — meaning that they satisfied the Subject, Scholarship, and Examination requirements, or were identified by the University during their senior year in high school as eligible under the Eligibility in the Local Context (ELC) Program and completed the remaining eligibility requirements (including the Subject and Examination requirements) — are eligible to transfer if they have earned a 2.0 GPA in transferable CCC coursework.
- Students who met the freshman GPA and examination requirements, but who lacked one or more of the "a-g" courses required for freshman admission must successfully complete transferable college courses in the required subjects, earning a grade of C or better, and have an overall GPA of 2.0 in all transferable CCC coursework.
- Students who were not eligible to enter the University when they graduated from high school because they did not meet the Scholarship requirement must complete 60 semester (90 quarter) units of transferable coursework with a GPA of 2.4, and complete seven specific transferable courses with a grade of C or better in each course, including two courses in English composition, one course in mathematical concepts and quantitative reasoning, and four courses chosen from at least two of the following subject areas: the arts and humanities, the social and behavioral sciences, and the physical and biological sciences.

Admission as a Transfer

All UC campuses are open to new transfer students for each fall term. Campus capacity for transfer students entering in the winter and spring terms varies from year to year. While some campuses may be open to all transfer applicants, others may be limited to a select number of majors or to only those applicants with transfer admission agreements, or may have no capacity at all in later terms. CCC transfer applicants who are California residents and who have met UC's eligibility requirements and lower division major requirements are given top priority in admission at all campuses. As with freshman applicants, campuses use comprehensive review criteria for transfer applicants to select students for

admission to majors and campuses (as discussed earlier in this chapter). When the number of eligible transfer applicants exceeds the space available for new transfer students, campuses consider a set of eight criteria, including both academic factors and additional evidence of such qualities as motivation, leadership, intellectual curiosity and initiative, to select from among the applicants. Academic criteria, including preparation in the student's intended major, are weighted most heavily in the process, but selective campuses draw upon all eight criteria in their review.

Transfer Advising

In order to promote the transfer process, the University provides admission advisors who regularly travel to community colleges to meet with students and staff regarding transfer admission and lower division preparation requirements. Additionally, admission advisors are located on UC campuses and meet with prospective transfer students in group and individual appointments. UC campuses have transfer centers and advisors available to assist new transfer students who enroll at UC. Other faculty, staff, and student peer advisors are available to all students, including new transfers, to help with academic, financial aid, administrative, personal, and other issues.

In 2006-07, State funds totaling \$2 million were added to the funds already provided for community college transfer programs to identify, prepare, support, and enroll more CCC transfer students at UC campuses in pursuit of baccalaureate degrees. The focus of the effort will be on community colleges with high numbers of educationally disadvantaged students, but historically low transfer rates to UC. The new funds will provide more advisors at each of the campuses to facilitate transfer. Another key component of the initiative is the development of the UC Virtual Transfer Center website providing improved guidance. The UC/Community College Transfer Initiative is discussed in greater detail in the *Public Service* chapter of this document.

Articulation

In order to plan for transfer, students must know how the courses they take at a community college will apply toward a degree at a particular UC campus. "Course articulation" refers to agreements between educational institutions that specify how a course a student completes at one institution (e.g., a community college) can be used to satisfy a requirement at a second institution (e.g., a UC campus). Curriculum articulation between CCC and UC campuses is the road map showing how the coursework students complete at a community college satisfies UC's general education, major preparation, and graduation requirements. Course articulation at UC falls into two categories:

- **Universitywide Articulation.** The curriculum of each California Community College is reviewed by the UC Office of the President annually to determine those courses transferable for unit credit to all campuses of the University. The resulting Transfer Course Agreements designate which courses can be transferred for credit to meet University admissions, general education, and graduation requirements. While transferable for unit credit, these courses may or may not satisfy lower division major degree requirements at a particular campus. That determination is made at the campus level.
- **Major Preparation Articulation.** Each UC campus then develops articulation agreements with each CCC campus that designate which courses at the community college are comparable to courses taught at the UC campus and, hence, will be accepted as transfer credit toward the requirements to graduate in a particular major. Articulation of courses needed for the major is critically important for students planning to transfer to UC.

Course articulation agreements are made available to students via ASSIST, a computerized student-transfer information system that can be accessed over the World Wide Web at www.assist.org. The ASSIST acronym stands for **Articulation System Stimulating Interinstitutional Student Transfer**. ASSIST is the official repository of articulation for California's colleges and universities and therefore provides the single most authoritative, accurate, and up-to-date information available about student transfer in California. ASSIST includes all official course articulation established among California Community College, California State University, and University of California campuses. During 2005-06, more than 880,000 different individuals used ASSIST to view more than 8 million course articulation reports.

In recent years, UC has increased the breadth of articulation agreements with California Community Colleges. The Higher Education Compact with Governor Schwarzenegger called for each UC campus to articulate all high demand majors with all 109 California Community Colleges by 2005, and the University has fully met that goal. All UC campuses are regularly updating articulation agreements with every CCC campus in the state, and all campuses (except Merced) have more than 60 majors articulated on average with all of the community colleges. Display 7 (next page) shows the number of community colleges with which UC campuses have established major articulation agreements (column 3) and the average number of majors articulated (column 4).

Display 7

| Major Articulation Agreements | | | |
|--------------------------------------|--|---------------------------------------|---|
| <i>Campus</i> | <i>Coverage in Campus Service Area</i> | <i>Number of CCCs with Agreements</i> | <i>Number of Majors per Agreement (average)</i> |
| Berkeley | Complete | 109 | 103 |
| Davis | Complete | 109 | 130 |
| Irvine | Complete | 109 | 68 |
| Los Angeles | Complete | 109 | 123 |
| Merced | Complete | 109 | 8 |
| Riverside | Complete | 109 | 81 |
| San Diego | Complete | 109 | 129 |
| Santa Barbara | Complete | 109 | 94 |
| Santa Cruz | Complete | 109 | 68 |

While all UC campuses now maintain a nearly complete set of articulation agreements with the CCCs, 100% articulation of every possible course is a daunting task as college and university curricula are constantly evolving to match expanding knowledge. With 109 CCCs, 9 undergraduate UC campuses, and approximately 900 distinct undergraduate majors offered in the UC system, more than 880,000 separate and annually maintained major-preparation articulation agreements would be needed for UC to be fully articulated with the CCCs. In an effort to streamline articulation processes, in 2005 the University faculty adopted Academic Senate Resolution 477 establishing the principle that if four campuses articulate a course or lower division sequence of courses for major preparation, then the course or sequence of courses would automatically be articulated at all other UC campuses as well (unless a campus specifically opts out of the agreement). This regulation will reduce the burden on departments willing to accept the articulation agreements specifically worked out by departments at other UC campuses and ensures that no gaps in articulation exist for common requirements in similar majors, even if a campus has not specifically reviewed the community college class (provided the class had already been reviewed and approved by other UC campuses for the same major).

Faculty remain concerned about major preparation, however, since even with all course articulation in place, students still face the challenge of deciding on a major from among over 900 different baccalaureate majors across the 9 general UC campuses and understanding the similarities and differences in preparation for each.

Specialization of UC Majors and the UC Transfer Preparation Paths

As California's premier research institution, UC majors tend to be highly specialized, positioned at the cutting edge of advancing knowledge in disciplines

across the curriculum. This hyper-specialization of UC majors reflects the cumulative and progressive nature of the advancement of knowledge, in particular scientific knowledge, in which new distinctions are being steadily established, as knowledge in a field increases. Despite this complexity, it is the University's challenge and responsibility to establish clear paths for students, leading from the more generalized, lower-division courses offered at the CCC system to more specialized courses defining UC majors.

Even though each University campus major may have its own unique academic focus, a key aspect of the SR 477 policy is that every year the University must identify all commonalities in similar majors across campuses. The University faculty are working to leverage this information by providing students and advisors with UC Transfer Preparation Paths for top University majors. The Transfer Preparation Paths establish a new framework to identify specific courses at every CCC that students can use to meet any of the lower division requirements. These UC Transfer Preparation Paths:

- provide students with general descriptions of each major;
- identify all lower division degree requirements that are common across UC campuses;
- identify all additional academic requirements at each UC campus;
- identify other, possibly unrelated, majors where the common preparation applies; and
- describe additional criteria (GPA, minimum grades, etc) that students must achieve to be selected for admission at each campus.

This information is being made available at the new www.UCTransfer.org web site in addition to all of the current, traditional major preparation articulation in ASSIST that the UC campuses maintain, covering all possible transfer options.

These Transfer Preparation Paths will greatly improve student advising, guidance, and course choice, allowing counselors and students to compare major requirements at each UC campus and quickly identify appropriate courses, both in terms of applicability to a variety of majors at a variety of campuses or to a narrow set, for students who feel certain about their academic interest and campus destination. This information will also help students understand which courses are broadly applicable to various majors and which apply only for certain majors at certain campuses. It will also allow students and advisers to determine quickly and accurately the best options for rapid progress to degree completion.

Another benefit for students will be the ability to identify which University majors and campuses are available to them based on coursework they have already completed. Commonalities in preparation across unrelated majors will be highlighted. For example, completing the Intersegmental General Education Transfer Curriculum (IGETC), along with a few other courses, may adequately prepare a student for majors they had not previously considered. They can then complete additional transferable coursework to meet a total of 60 semester units and transfer directly into available UC campus baccalaureate degree programs sooner than they might have originally expected.

Students will be able to see where the new Science Intersegmental General Education Transfer Curriculum (SciGETC) pattern can be used to make completing lower-division general education requirements easier for high-unit science majors. They will also be able to compare commonalities across UC majors with commonalities across California State University majors established via the CSU Lower Division Transfer Path initiative. In addition, the Streamlining UC Articulation and UC Transfer Preparation Paths initiatives will satisfy provisions of SB 1415 (Brulte, 2004), requiring common course numbering, and SB 652 (Scott, 2006), requiring improvements in articulation agreements.

The new UC Transfer Preparation Paths combined with the extensive and comprehensive traditional major preparation articulation will be a powerful resource so that students can make the most effective use of California's robust community college system, attain baccalaureate degrees without accumulating unnecessary course units, and have the flexibility to move seamlessly through the transfer process if/when they change their interest in majors or University campuses.

Graduate Student Enrollment

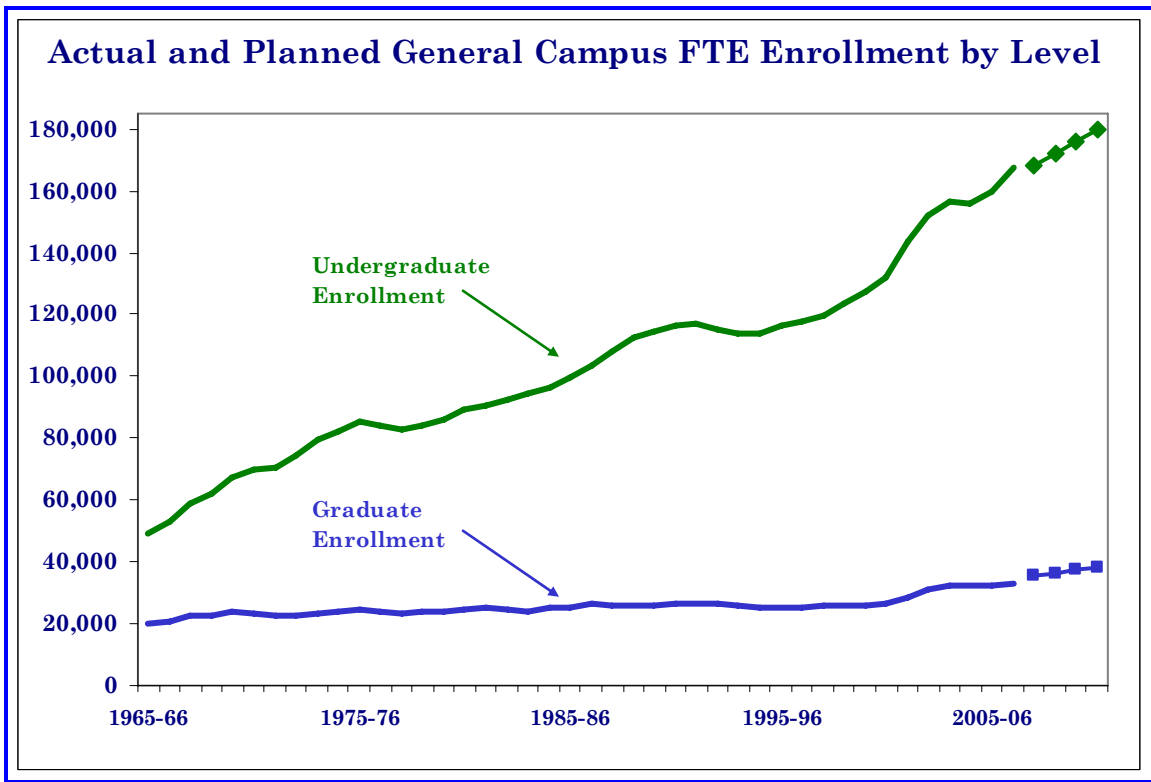
Graduate education and research at the University of California have long fueled California's innovation and development, helping establish California as one of the ten largest economies in the world. Indeed, UC is charged by the California Master Plan for Higher Education with the responsibility to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

Despite high-quality programs and many applicants, growth in graduate programs has been limited, creating an imbalance in University programs and failing to meet

the State's need. As a result, the University has reached a critical point in graduate and professional education. Unless immediate action is taken to build and expand graduate and professional programs, California's educational, economic, technological, and public welfare needs will not be met.

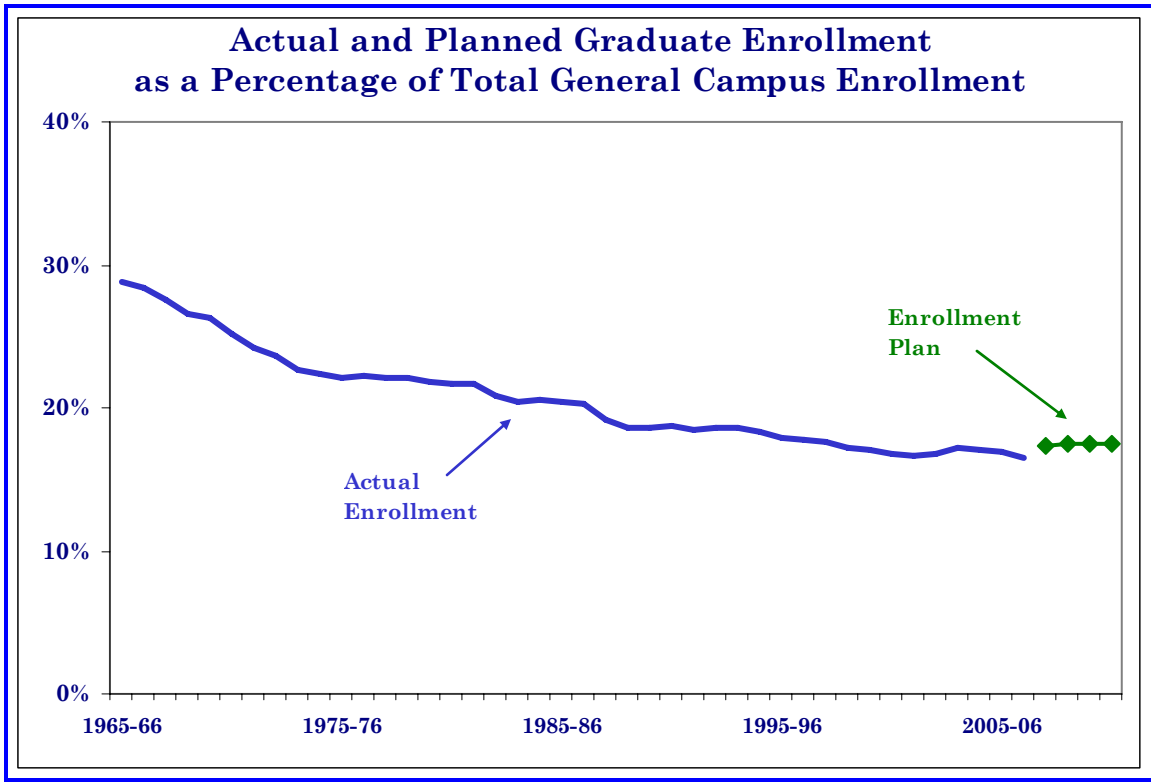
Since 1965-66, UC undergraduate enrollments have grown fairly steadily, from 49,000 FTE to 164,000 FTE, nearly 250% over forty years, to ensure undergraduate access for UC-eligible students, as shown in Display 8. General campus graduate enrollment has grown at a much slower rate, from 20,000 to 34,000 FTE, only 70%, during the same period. In fact, during the 1980s and early 1990s, graduate enrollment did not increase at all; much of this growth occurred during the last five years.

Display 8



As a consequence of this imbalance, the proportion of graduate students decreased from 28.8% of general campus enrollment in 1965-66 to 16.6% in 2001-02. Display 9 (next page) shows graduate students as a percentage of total general campus enrollments (excluding health sciences and self-supporting program enrollments). Although UC's graduate enrollments began to grow again in 1999-2000, by approximately 1,000 FTE students per year, they have largely kept pace with undergraduate growth, resulting in only a slight improvement in the graduate proportion. While the enrollment cut in 2004-05 and fee increases over several years prevented growth in graduate enrollments in 2004-05 and 2005-06, in

Display 9



2006-07, graduate enrollments again began to grow. The budgeted proportion of general campus graduate students is 17.2% and the University's current enrollment plan calls for graduate enrollments to continue to grow along with undergraduate enrollments over the next four years, by a total of 3,900 FTE students, raising the proportion of graduate students to 17.5%, still well below the proportion in the 1980s.

In Fall 2005, 22% of total UC enrollment was graduate students (including health sciences and self-supporting enrollments), compared to 33% at public comparison universities and 61% at private comparison universities. In fact, UC's graduate percentage is lower than the percentages at all of the eight comparison institutions.

California's under-investment in graduate education can also be seen in degree production by state. California ranked 36th in the United States during 2003-04 in the number of graduate degrees awarded per population age 25-44, below the national average. In addition, California ranked 20th in the U.S. in the number of doctoral degrees awarded per population age 25-44, and compared to other high-technology and science-oriented states, California was 6th out of 10 in the number of doctoral degrees awarded.

UC has fallen behind in graduate enrollments for several reasons. Because of State budget constraints in the 1980s and 1990s, graduate growth was held down

to ensure access to all eligible undergraduates who choose to attend UC. But graduate enrollment growth has also been slowed, in many cases, by the inability of graduate students or departments to secure adequate and competitive student financial support. More recently, the University has not been able to respond to recommendations of the Commission on the Growth and Support of Graduate Education in 2001 due to the State's financial crisis. In fact, dramatic increases in graduate student fees in recent years have exacerbated the problems. (Renewed initiatives to address this problem are discussed later in this section.)

While the University intends to continue to meet its commitment to accommodate all eligible California undergraduates who choose to attend, increasing graduate enrollments is also among the University's highest priorities. Graduate enrollments in high quality programs are critical to the state's continuing economic vitality, as well as its social and cultural development. In addition, UC graduate students play a vital role as future faculty in higher education in California, as well as serving a key function in enhancing the quality of the instructional and research enterprise while enrolled at UC.

Graduate Education and the California Economy

UC graduate education and research have a long history of fueling economic development in California. Starting with UC's founding in the 1800s, research in agriculture and related areas was a primary way the University transferred its knowledge to the public and industry. For example, in 1920, the modern canning industry was born as a result of UC research leading to the discovery of the process for killing the organism that causes botulism. More recently, UC graduate education and research spawned the biotechnology industry and UC graduates have been major movers in the development of the electronics industry, particularly in semiconductors and communications technologies.

Agriculture, California's largest industrial sector, relies heavily on science and technology, and the state's growing knowledge-based global economy makes investment in intellectual development even more critical. In the coming years, all sectors of California's economy will need many more highly-educated workers — engineers, scientists, business entrepreneurs, and others whose innovations will drive California's prosperity. In keeping with its charge under the Master Plan, the University will play a key role in helping to meet this need for these technically and analytically sophisticated workers.

Currently, UC plays a major role in California's growing biotechnology and communications industries.

- UC graduate programs directly contribute to California's R&D-intensive industry sectors: 85% of California biotechnology firms employ UC alumni

with advanced degrees, and 57% of California communications firms employ UC alumni in executive positions.

- UC's high quality graduate programs attract industry to California. Companies in knowledge-based industries tend to form clusters around major universities to take advantage of access to a pool of specialized workers and to benefit from knowledge transfers from the concentration of research, innovation, and specialization. UC attracts business: one in four U.S. biotechnology firms is within 35 miles of a UC campus.

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

- Professional and managerial jobs are California's fastest growth occupations, creating thousands of jobs for financial managers, marketing executives, computer scientists, engineers, consultants, nurses, and many other professionals. These professional and managerial jobs typically require at least a bachelor's degree and often a master's or doctorate.
- UC prepares highly-skilled and creative architects, doctors, lawyers, school administrators, public health and public policy analysts, social workers, urban planners, and other professionals who contribute to the state's economic and social well-being. (While CSU has recently been given authority to grant a specifically-defined doctorate in educational leadership independent of UC, the University remains committed to preparing educational leaders to serve the K-12 segment and higher education.)
- Recent reports show that the arts contribute \$5.4 billion to California's economy. Alumni of UC's graduate programs are represented in every sector of the arts world, leading and building programs and creating new ideas. California's entertainment and digital media industries are thriving precisely because of the many writers, musicians, visual artists, and actors the University trains.

Graduate Student Role in California Higher Education

No less important is the crucial role UC graduate students play in higher education in California, both as future faculty at UC, CSU, and other California colleges and universities and as teaching and research assistants while in graduate school. Both UC and CSU depend heavily on the graduates of UC's Ph.D. programs: more than

1 in 5 UC and CSU faculty members have a doctoral degree from UC. California colleges and universities will need to hire thousands of new faculty during the decade of Tidal Wave II, including 6,000 for UC, to teach the growing numbers of undergraduates and to replace retiring faculty. Because many doctoral institutions in other states are not planning graduate enrollment increases, even more of these new college faculty than in the past must come from UC's graduate programs — perhaps as many as one-third of faculty who will teach in California's public and private four-year institutions.

- Growth in graduate enrollments is necessary to maintain excellence in instruction and research, distinctly part of UC's mission. New faculty members are attracted to UC in part because of the high caliber of graduate students with whom they can work. While teaching assistants help meet UC's overall instructional needs, their primary importance lies in the ways they complement faculty roles: leading small discussion groups and laboratory sections, offering a wider range of perspectives and delivery modes, and serving as mentors for undergraduates.
- Graduate students are also vital to UC's discovery and innovation enterprise. Especially in the sciences and engineering, the research process entails research *teams*, and graduate student researchers, as key members of these teams, have been central to the creative breakthroughs that have made UC one of the world's greatest universities. Graduate students further amplify UC's research contributions by enabling greater involvement of undergraduates in primary research; graduate students supervise and mentor undergraduates engaged in research projects.

In addition to meeting the needs of the state's economy and higher education and maintaining the quality of the University, graduate enrollments must increase in order to extend the access provisions of the Master Plan to education at the graduate level. In the 21st century, access to an undergraduate education is no longer sufficient. While recent increases in undergraduate enrollments have served to provide access for Tidal Wave II, members of this second wave will seek to further their education beyond the baccalaureate level in the coming years. Following the extraordinary growth in high school graduates during the current decade, the population age 25-34 in California will grow 17% between 2010 and 2020. As a result, demand for graduate education will increase substantially, particularly from the University's own baccalaureate graduates – 83% of UC undergraduates state a desire to earn a graduate or professional degree. The University has an obligation to provide Californians with the opportunity to achieve at the highest levels.

Recognizing the need not only to increase graduate enrollments but to maintain UC's leadership role in contributing to new fields of graduate work and to ensure

adequate support for graduate students, the University has initiated multiple strategies in support of graduate education. One of these initiatives is the creation of a Universitywide working group to identify emerging fields for which graduates trained at the doctoral or professional level will be needed. In 2005, President Dynes established the systemwide Task Force on Planning for Doctoral and Professional Education, comprised of key administrators and Academic Senate members from across UC. The Task Force was charged with identifying existing fields in which workforce studies are needed to assess State needs for graduates with doctoral or professional training as well as identifying emerging fields in which UC will be expected to play a leading role in preparing a workforce with doctoral training in order to sustain the State of California's lead as an international economic force. During its first year, the Task Force reviewed and advised the Provost on emerging and changing needs in a number of doctoral and professional areas, including the health sciences, allied health fields (such as audiology and physical therapy), education (including needs in special education as well as potential changes to current UC/CSU Ed.D. programs), law, and interdisciplinary doctoral education. In addition, through conversations with campus communities as well as business and other leaders, the Task Force will examine the broad question of what graduate education at the University should be, including how to maintain quality and better prepare graduate students for the changing work environment. The Task Force's work is continuing through 2006-07.

Graduate Student Support

As mentioned earlier, a key problem inhibiting growth in graduate enrollments is the availability of financial support for graduate students. In order to attract the best graduate students, the University must provide competitive financial support to students. Securing adequate support for graduate students was identified by The Regents as one of their highest priorities, following the release of the report of the Commission on the Growth and Support of Graduate Education in 2001. The Commission noted that UC's support of graduate students was not competitive with the support offered by other institutions and that by 2010 a \$65 million annual gap between funding and student support need would exist unless new initiatives to increase federal, State, private, and University support were formed.

This conclusion was supported by surveys during 2001 and 2004 in which students admitted to University academic doctoral programs were asked about the financial support offered by UC and by their top-choice non-UC institution. Both surveys found that UC financial support offers made to these students were not competitive with offers from other institutions.

The Commission's report was released during a time of relative prosperity for California and for the University. The State's budget crisis over the last several years has exacerbated the problem of inadequate graduate support. The State

imposed reductions to the University's budget and required graduate fee increases totaling 45% between 2001-02 and 2003-04. Other costs, including campus fees and graduate health insurance premiums, increased as well. In addition, the current outlook for graduate student support from State, federal, and private funding sources is less positive than it was a few years ago. Consequently, the University faces a growing imbalance between the demand and supply for graduate student support that, if left unchecked, will further compromise the University's ability to compete successfully for talented students and, in turn, will seriously compromise UC's ability to attract and retain high quality faculty.

In 2005-06, the University also established the Graduate Student Support Advisory Committee (GSSAC) to advise the Provost and other senior University officials on matters related to graduate student support. Committee membership included one representative from each campus (Executive Vice Chancellors, Vice Chancellors for Research, Graduate Deans, etc.), representatives from the Academic Senate, senior UCOP administrators, and a student representative. The Committee's charge included establishing specific graduate support benchmarks, developing a short- and long-term strategy for enhancing graduate student support, and reviewing the methodology for allocating UC systemwide funding for graduate student support. The final report of the Committee included three principal findings:

1. Anticipated increases in traditional funding levels for graduate student support will be inadequate to allow the University to achieve its twin goals of closing the competitive gap and meeting its enrollment growth targets. The Committee estimated that an additional \$122 million of support would be necessary for the University to improve the competitiveness of its awards and to achieve its graduate academic enrollment goals by 2010-11.
2. The cost of covering tuition for first-year nonresident students and for international students who have not yet advanced to candidacy limits the extent to which UC graduate programs can compete for and enroll these students.
3. Research and training grants cannot be relied upon both to fully cover all future tuition and fee increases and help increase the University's competitiveness.

The 2007-08 budget plan includes several initiatives to help address this issue of graduate student support. One initiative is to provide additional funding for graduate student support on a matching basis to campuses based upon their success at utilizing the Strategic Sourcing Initiative and other campus efforts to generate savings that can be redirected to provide additional graduate student support. An estimated \$10 million in redirected savings from General Funds and student fee revenue is being used for graduate student support in 2006-07 and another

\$10 million in savings for these purposes is anticipated for 2007-08. Over a four-year period, the amount redirected through strategic sourcing for graduate student support will grow to \$40 million per year.

For 2007-08, the University would provide additional matching funds to campuses as a further incentive to utilize Strategic Sourcing and to make graduate student support a high priority. These funds will help campuses compete for top students – including talented international students – and will help campuses achieve their graduate enrollment goals. The budget plan for 2007-08 anticipates matching funds of \$10 million will be used for this purpose.

Another component in the graduate student support set of initiatives is the development of a State-funded research initiative (described in greater detail in the *Research* chapter) that will both partially restore recent budget cuts to core research programs and provide new funding for research initiatives important to the state's economic growth and job creation. Campuses will be asked to use at least 50% - 60% of the funds for new research initiatives to help support graduate students as research assistants.

The University also proposes to freeze nonresident tuition for graduate academic students for the third consecutive year and to freeze nonresident tuition for graduate professional students for the fourth year in a row. Graduate nonresident tuition levels continue to be of great concern to the University. Earlier this year, members of the Academic Senate overwhelmingly supported a Memorial to eliminate nonresident tuition for academic graduate students, and an advisory committee to the Provost recommended that the University eliminate nonresident tuition for academic doctoral students. State policy constrains the extent to which the University can reduce nonresident tuition levels. Nevertheless, by forgoing any increase in graduate nonresident tuition, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

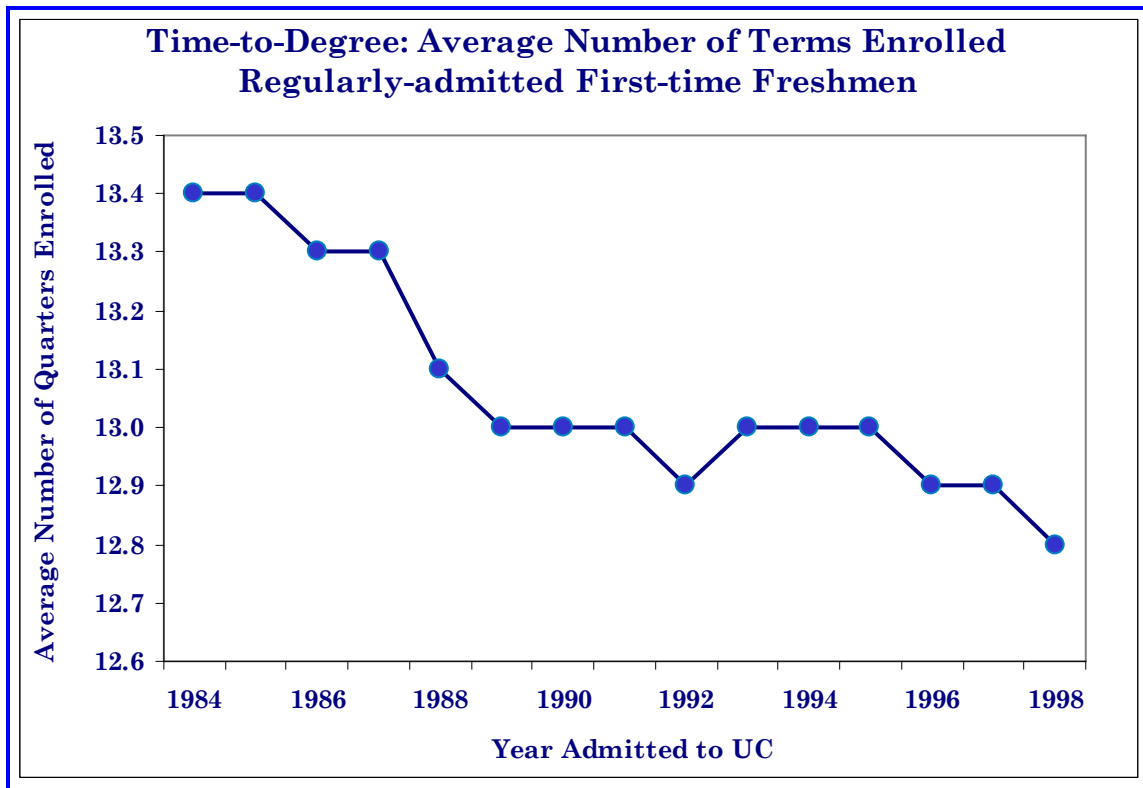
The issue of graduate student support is discussed further in the *Student Financial Aid* chapter of this document.

Timely Graduation

The University remains committed to maintaining its excellent record of improving graduation rates and reducing time to degree among all students. For UC undergraduates, the number of terms enrolled has dropped from 13.4 enrolled

quarters (where a four-year degree equals 12 quarters) for the 1984 regularly-admitted freshman class to 12.8 for the 1998 cohort (the most recent data available), as shown in Display 10.

Display 10

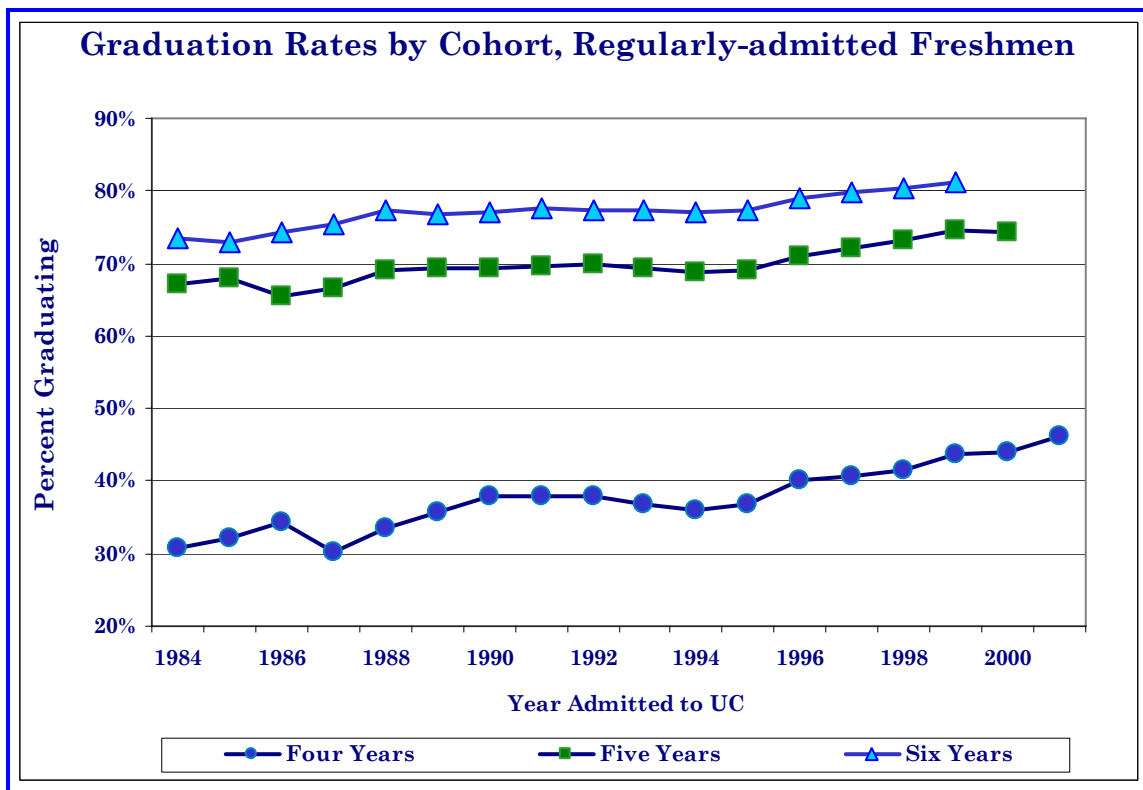


About half of the regularly-admitted, UC freshmen graduate in 12 or fewer registered quarters; they are able to do this by taking full academic loads each year and by not exceeding the 180 units required for graduation. Some students, however, do take more total units — for example, students with double majors, students who change majors after having already made substantial progress, and students in majors that require more units to graduate. In addition, some students take more time by taking lighter loads in some terms, often because they are working part-time. In recent years, campuses have worked to increase the average number of units taken during a term and reduce excess units taken over a student's career, enabling more students to graduate in four years and making room for other students.

In the 1950s, only half of the University's new freshmen graduated within six calendar years following matriculation. Thirty years later, among freshmen regularly admitted in 1984, 31% graduated in four years, 67% in five years, and 73% in six years. Graduation rates continue to rise among more recent cohorts, as

shown in Display 11. Among freshmen who were regularly admitted in 1999, 44% graduated in four years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 75% of the 1999 entering freshmen earned a baccalaureate degree within five years and 81% within six years. UC graduation rates far exceed the national average: among first-time students entering four-year institutions nationwide, only 58% earn bachelor's degrees within six years.

Display 11



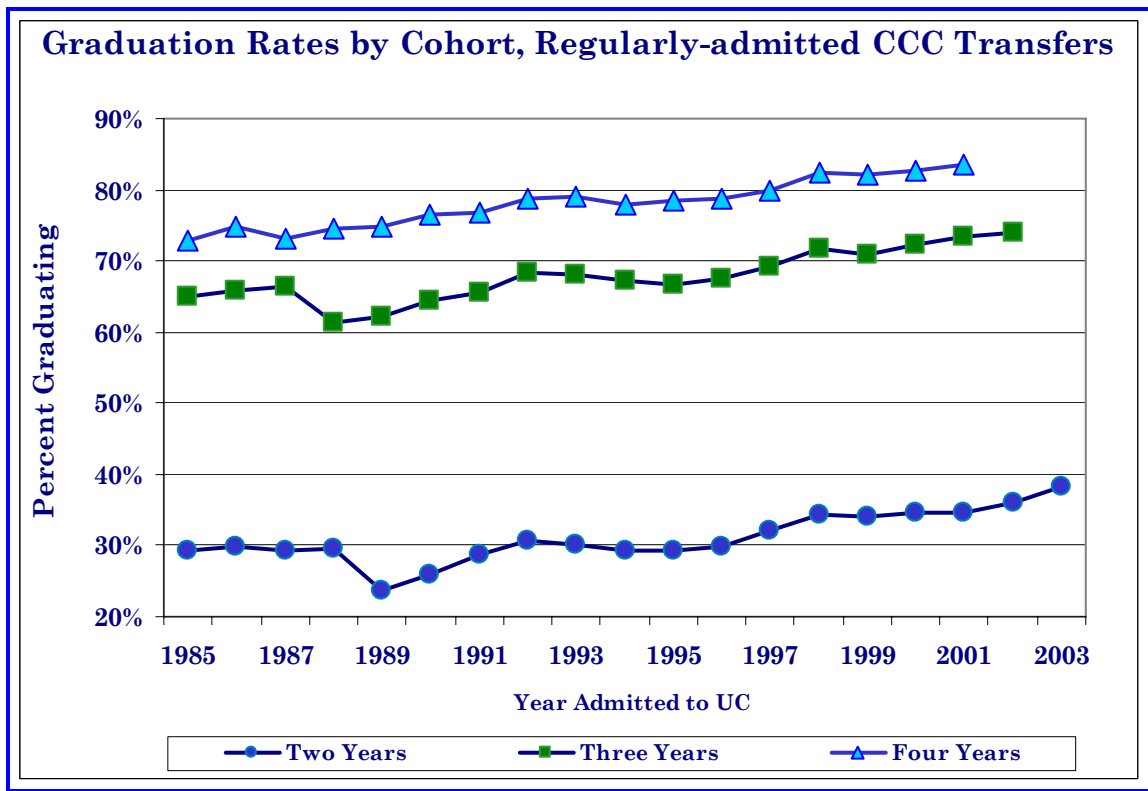
Persistence rates — the proportion of an entering class of students who return to enroll in their second and subsequent years — also have shown gains over the past decade. The proportion of freshmen who returned to enroll in their second year increased from about 88% of the 1984 cohort to 92% of the 2003 cohort. Two-year persistence increased from 76% of those entering in Fall 1984 to 84% of those entering in Fall 2003 (the most recent data available).

All UC general campuses are committed to ensuring that undergraduate students are able to complete their degrees in four years. Accordingly, the campuses have developed advising and administrative initiatives to facilitate four-year degree completion. Campuses continue to ensure course availability by sustaining increases in faculty teaching effort, creatively managing the curriculum and its

delivery (such as through expanded summer offerings and enrollment), recalling retired faculty, and making better use of instructional technology.

Students beginning their higher education at a community college have historically done very well after transferring to UC: more than a third of CCC transfer students graduate within two years, and 83% earn a UC degree within four years (equivalent to six years for a freshman entrant), as shown in Display 12. More than 90% of CCC transfer students persist to a second year and on average take 7.4 quarters at UC to complete their degree. Transfer students' UC grade point averages upon graduation are about the same as those who entered as freshmen.

Display 12



Silicon Valley Center

The UCSC Silicon Valley Center Initiative (SVC), led by the Santa Cruz campus on behalf of the University of California system, is an important element in the University's long range planning efforts to increase collaborative research with industry and with various agencies, including NASA; expand both undergraduate and graduate educational opportunities; develop collaborative relationships with the California State University (CSU) and the California Community Colleges (CCC); and expand student academic preparation programs with K-12 schools and

students, capitalizing on its location in the heart of the state's innovative technology development industry.

To date, the Santa Cruz campus has concentrated much of its efforts on building a research agenda for the Silicon Valley that will provide the foundation for other activities.

- Since September 2003, the campus has successfully managed the University Affiliated Research Center (UARC), a 10-year, \$330 million contract with NASA Ames to conduct collaborative research in nanotechnology, biotechnology, information sciences, aerospace operations, and fundamental space biology.
- Under the UARC, the Systems Teaching Institute (STI), a collaboration with San José State University, is ensuring that education programs are successfully integrated with research programs.
- The UARC's Aligned Research Program (ARP) has generated over \$1.3 million to date to support UC graduate students.
- The Santa Cruz campus is working with private industry and government to develop the Bio-Info-Nano Research and Development Institute (BIN-RDI), a proposal that is expected to generate significant private and public investment in research. BIN-RDI is expected to play a key role in making possible the technological innovations that will drive future economic growth in the Silicon Valley, in the State of California, and across the nation.
- The Collaborative for Higher Education (CHE), an intersegmental collaboration involving the Santa Cruz campus, San José State University, and Foothill-De Anza Community College district, is opening new opportunities for science, engineering, and math students by eliminating barriers that hinder their transition from high school to community colleges and on to four-year institutions.
- A \$2 million National Science Foundation grant (Developing Effective Engineering Pathways, or DEEP) awarded to UCSC's Baskin School of Engineering will provide funding for collaborative coursework, specialized counseling, summer bridge activities, online tutoring, mentoring, and distance learning opportunities.
- The Baskin School is currently seeking Academic Senate approval to deliver selected graduate courses at the SVC, which will enrich and strengthen the educational partnerships in the Silicon Valley. The Baskin School also has recruited faculty and is developing graduate courses in Technology and Information Management (TIM) that can be videocast from the Silicon Valley

Center for students both on campus and at the Center. Initial courses were delivered in 2005-06 and an expanded set of course offerings are scheduled for 2006-07.

Information Technology

Like all modern universities, information technology (IT) pervades the University of California. IT has become an overarching issue for the University, as every academic and administrative area and function of the University depends critically on information technology systems and services for communication, operations, analysis, and information storage and retrieval. Instruction increasingly relies on technology within classrooms and laboratories, but also to connect students, faculty, and instructional materials outside of these physical spaces. The research enterprise, having always relied on the most advanced technologies of the time, expands and innovates with the introduction of new technology. The University's public service mission has also been fundamentally reshaped by technology, as UC's libraries and student academic preparation programs now reach throughout the State electronically. Finally, UC's business operations increasingly rely on advanced systems to support the institution's administrative responsibilities. As the University pursues its mission in a world that increasingly depends on digital information and the systems supporting it, the University is working to identify strategic directions for IT investments that will enable UC campuses to meet their distinctive needs more effectively leveraging IT investments for operational efficiencies and cost savings. In 2006, the Provost launched a highly consultative, two-year systemwide planning process under an IT Guidance Committee (ITGC) in order to identify investment strategies that promise efficiently and cost effectively to:

- ensure a robust technology infrastructure and the tools for access to and protection of the University's vast repositories of information assets;
- enable researchers to compete and lead on an international scale with the computing and network capabilities required for success;
- advance learning and instruction via tools for the 21st century;
- enable UC students to work and live in a "wired" environment adapted to their lives and learning styles;
- support academic and administrative operations to ensure effective stewardship, accountability, and transparency; and
- expand the virtual presence of the University in California in the national and international communities.

The purview of the IT Guidance Committee is wide ranging. It is looking at administrative and business as well as academic applications of information technology. The ITGC's goals are straightforward: to rationalize wherever possible development and maintenance of those essential IT services that are commonly required, but not economically supplied by campuses, medical centers, or organized research units acting independently or in small groups. By realizing efficiencies in the supply of IT services, more support may be made available for local IT investments to support the distinctive and innovative work of campuses, departments, and individual scholars.

Infrastructure

While the University's missions and functions each involve specific IT needs, the need for infrastructure upgrades is cross-cutting. Among the critical components of an information technology infrastructure are the network services to accommodate the growing complexity and demands of the University's teaching, research, public service, and patient care missions. All UC campuses and facilities require access to a secure, highly configurable, high speed network in support of evolving needs for expanded services and connectivity for teaching faculty, greater bandwidth for researchers, and network-based services such as video-conferencing for the administrative community.

Instructional Technology and the Student Experience

Strategic investments in technology promise to enhance opportunities for instruction and enrich students' learning experience. Such investments are essential if the University is to compete effectively for the best undergraduate and graduate students and to prepare those students appropriately for employment in a global knowledge economy where facility with leading edge communication and collaboration tools is required. Investments will also support innovation in instruction, in academic preparation of California's K-14 students, and in the University's service to its graduates and more generally to the people of California. With such investments, strategically and judiciously made:

- faculty will be able to integrate into their courses perspective and expertise drawn in real time from across the system and from universities around the world;
- students will continue to have access to classroom-based instruction, but this will be augmented in ways that allow them to learn anywhere at anytime, and in ways that meet their needs as they evolve over a life time and throughout a career;

- students and faculty will take advantage of new networked technologies to build communities of interest around themes or assignments associated with a particular course, subjects taught in a particular department, or areas of inquiry pursued across a particular discipline. These communities need know no geographic boundaries, including, as appropriate, expertise and perspective drawn from across the University of California system and the global academic community;
- instructional materials developed for UC students, publications by UC faculty, and other information resources available from UC's libraries, museums, and archives will, where appropriate, be made available for use within California schools, community colleges, and the CSU, enabling UC to fulfill its historic role bolstering California's K-16 curricula while preparing more students, more effectively for entry into California Higher Education;
- such materials will also be available to the University's graduates, to the State's businesses, and to California's population more generally, encouraging the broadest possible engagement with the University's rich cultural, civic, economic, and educational resources.

Information Technology and the Research Enterprise

UC researchers increasingly rely on information technology as new frontiers in scientific and engineering research require computer simulation and modeling to bridge from theory to experimentation. As scientists focus on research involving critical problems in the biological and health sciences, or issues of major international concern such as earthquake analysis, climate change, population growth and change, natural resources planning, and energy production and conservation, they are increasingly called upon to collaborate in multi-disciplinary, cross-institutional, often international teams. In order to succeed, even to participate in these efforts, University researchers require advanced computational and network services, and a range of data sharing and scholarly collaboration tools that reduce the barriers thrown up by distance, language, and time.

Strategic investments in information technology are also essential if University researchers are to retain their ability to attract large-scale research funding from state, federal, philanthropic, and corporate entities. The National Science Foundation's current competition for a single \$200 million investment in a national petascale computing facility (discussed in more detail in the *Research* chapter of this document) exemplifies the environment in which research funding will be distributed in the future. Only universities that maintain the advanced network and computational capacity that such a facility will require will be poised to compete and win such competitions. The ITGC is consulting broadly with the research community to advance strategic directions that promise efficient

development of a research cyberinfrastructure that will keep the University, its campuses, and its researchers competitive.

Stewardship of Digital Information Resources

The vast collections maintained by the UC libraries provide an unequalled information resource that enables UC research and instruction to achieve and maintain world-class stature. UC scholars and students will continue to rely upon this ever-expanding resource. They will also come to exploit and depend upon a growing body of material that exists exclusively in digital form, but is not formally published and is not yet systematically collected or maintained by UC libraries or any other organization. This material includes scientific data, information culled from countless millions of websites, and the digital products of entertainment industries. In the future, scholarship will depend as heavily on this digital information as it depends today on the materials that are managed by libraries. Soon, the great universities will be those that are able to capture, organize, and support re-use of this vast and rapidly growing digital record of society's science, culture, economy, and governance.

The challenge of digital stewardship is considerable; digital information is voluminous, heterogeneous, complex, and notoriously volatile. It is for these reasons that digital stewardship emerged as a major source of concern for the IT Guidance Committee (ITGC). The ITGC is accordingly exploring whether and to what extent different digital asset management needs can be met by a common infrastructure and associated services.

Institutional Support and Business Operations

The ITGC has paid particular attention to basic IT services that enable the University to operate as both a business and an academic entity. Investments in information technology continue to produce significant efficiencies and to deliver critical new services in University business administration and operations. However, in recent years of budget cuts and fiscal constraints, the University has significantly under-invested in some key areas of administrative computing and related infrastructure. This has had, in turn, a negative impact on the University's ability to achieve productivity and labor cost savings and prevented it from addressing and solving critical issues and opportunities in a broad range of areas, such as medical record systems, research administration, student systems, e-procurement and employee self-service applications. Where the University has invested, its systems have enabled better levels of functionality, accuracy and accountability. For example, refinements to the University's corporate financial systems have produced more accurate and comprehensive financial reporting and analysis capabilities in an environment of tighter regulation and compliance.

The current lack of adequate human resources information system capabilities, both at the campus and systemwide levels, has proven to be a significant liability to UC in the face of mounting scrutiny of recruitment and compensation practices and demands for greater transparency and accountability. One by-product of long-term under-investment in HR systems has been a loss of confidence in the University's ability to collect and manage accurate information about UC employees. To address the University's HR information systems needs, a thorough examination of HR-related business processes and practices must result in greater standardization as a critical first step.

The ITGC has acknowledged the imperative to address this administrative systems need. As committed by the President's Implementation Team of the Task Force UC Compensation, Accountability and Transparency, the University must invest in a new HR Information System environment that will build upon current systems investments, exploit new technologies and service models, and improve the breadth and depth of employee-related data for reporting and analysis. A phased, multi-year project approach to these enhancements will ensure minimal disruption to the business environment and a gradual deployment of new capabilities. In 2006-07, the University is launching the UC HR Information Systems initiative with a focus on finalizing system requirements and architecture and providing access to employee data and transactions via the Web.

Funding Information Technology Advances

The Higher Education Compact with Governor Schwarzenegger includes provisions for 1% budget increases in 2008-09, 2009-10, and 2010-11 to address budgetary shortfalls in State funding for core areas of the budget critical to maintaining the quality of academic programs, including information technology. As discussed in the *Summary of the 2007-08 Budget Request* chapter, additional funding for core academic support (informational technology, instructional equipment replacement, building maintenance, and library resources) is one of the priorities for restoring UC academic quality.

Instructional Equipment Replacement

Obsolete equipment ranges from equipment that is functional but lacks the required capability and efficiency of current technology, to devices that are of limited use because replacement parts are not readily available or the equipment is costly to operate and maintain. Using an agreed-upon methodology for calculating need, the State began partially funding the instructional equipment replacement (IER) program in 1976-77, and provided full funding beginning in 1984-85 through 1989-90. Since 1990-91, funding for IER has been inconsistent, with annual permanent funding often falling short of each year's IER need, but

some one-time funding has been provided to help address the growing shortfall. As of 2006-07, the annual shortfall is \$56.5 million.

Instructional equipment is essential to maintain the high quality of UC's instructional programs, and the continuing funding shortfall prevents the University from offering the ideal learning environment for its students. New equipment is needed in student computer labs and for classroom use as an aid in teaching presentations. New equipment is also needed in science laboratories to help students learn how to operate the equipment itself and for use by students who are working independently or with faculty on research as part of their academic training. The need for adequate funding for equipment in engineering, the sciences, and digital media disciplines that are expected to grow significantly this decade is especially crucial because these disciplines require more instructional equipment, the equipment is more expensive, and technological advances occur more rapidly, which results in a need to upgrade as well as replace existing equipment.

Campuses must have current instructional equipment in order for students to receive a cutting-edge educational experience that will prepare them for the best jobs in today's high-technology marketplace. Employers expect graduates of the University to be expert in the equipment in their fields, and these expectations have never been greater. Graduates must be able to manage themselves in the information environment or run the risk of being obsolete themselves. With technology changing every 16 months to 3 years, it is imperative that the University replace obsolete equipment and offer students the most technologically-advanced education available. A persistent inability to keep up with equipment needs will weaken the University's instructional programs and reduce the University's ability to provide the highly-skilled personnel needed for California's high technology industries.

The State's fiscal situation prohibits reducing this shortfall at this time. However, the new Higher Education Compact with Governor Schwarzenegger includes provisions for 1% budget increases in 2008-09, 2009-10, and 2010-11 to address budgetary shortfalls in State funding for core areas of the budget critical to maintaining the quality of academic programs, including instructional equipment replacement. As discussed in the *Summary of the 2007-08 Budget Request* chapter, additional funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) is one of the priorities for restoring UC academic quality. Of the \$500 million total funding needed, \$100 million would be designated toward restoring funding for core academic support.

HEALTH SCIENCE INSTRUCTION

| 2006-07 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 840,675,000 |
| General Funds | 361,864,000 |
| Restricted Funds | 478,811,000 |
| 2007-08 INCREASE | |
| General Funds | 3,920,000 |
| Restricted Funds | 14,900,000 |

The University of California plays a critically important role in training health professionals, delivering essential healthcare services, and undertaking scientific research. UC operates the largest health sciences education and training program in the nation, training over 13,000 students and providing more than 138,000 inpatient admissions and 3.6 million outpatient visits annually. UC's schools of Dentistry, Medicine, Nursing, Optometry, Pharmacy, Public Health, and Veterinary Medicine are leaders in their fields. UC's research discoveries help prevent and cure diseases, and create new technologies for diagnosing and treating illness as well as new strategies for staying healthy. UC health sciences schools attract more research funding from the National Institutes of Health than their counterparts nationwide, a testament to their high levels of quality and productivity.

Beyond the millions of federal and philanthropic dollars invested in the state through UC's research grants, UC's advances in the prevention and treatment of chronic medical conditions such as cardiovascular disease, asthma, and diabetes help improve health outcomes, achieving savings in treatment and lost productivity costs. In addition, UC makes significant contributions to many community outreach programs, providing education, prevention, and early intervention services to thousands of Californians. The ultimate goal of all UC health sciences programs is to train knowledgeable, skilled, and compassionate health care professionals who deliver outstanding services to California and the world. Importantly, however, UC provides an unparalleled integration of research and education with patient care, preparing clinical leaders as well as leaders in research and academia — the foundation of the University's health sciences programs.

Health Sciences Initiatives for 2007-08

For 2007-08, the University is requesting State support for the following:

- the third year class of the PRogram In Medical Education — for the Latino Community (PRIME- LC) at Irvine and the first year class for three new PRIME programs at Davis, San Diego and San Francisco;
- year two of the University’s planned nursing enrollment expansion; and
- additional enrollment for the pharmacy program at San Diego.

The proposed enrollments and associated State General Fund support is summarized in Display 1 and each is discussed in more detail later in this chapter after a brief discussion of workforce needs.

Display 1

| Health Sciences Enrollment Increase and State-Fund Support, 2007-08 | | |
|--|----------------------------|----------------------|
| Program | Enrollment Increase | State Support |
| PRogram in Medical Education (PRIME) | 46 | \$ 1,053,000 |
| Nursing | 203 | 2,394,000 |
| Pharmacy | 45 | 473,000 |
| TOTAL | 294 | \$ 3,920,000 |

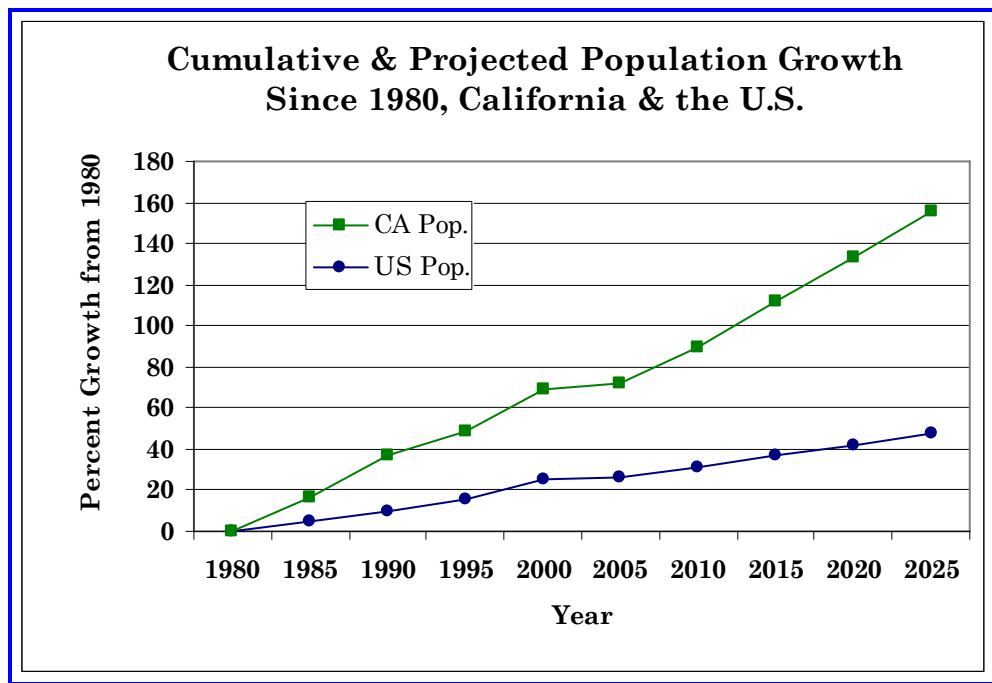
Underlying the Planning for Health Sciences Expansion: Assessment of State Needs

The University's long range academic planning for the health sciences is influenced by a variety of factors, including the state's need for health professionals, federal and State policies for funding health science education, access to and reimbursement for health services, and the overall state and federal economy. There is a continuing interest within the University in the broader aspects of health care, including public policy issues, allied health, and other emerging areas. The

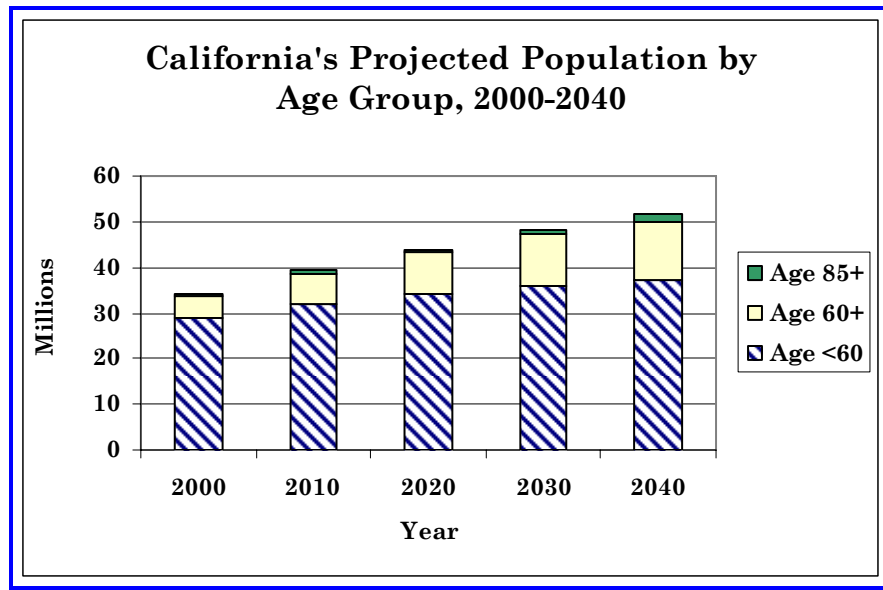
University is working to maintain California’s leadership role in the health sciences across a wide range of disciplines and activities.

The organization, delivery, and financing of health services continue to evolve, while the state population is rapidly increasing in size, age, and diversity. Already the most populous state in the nation, California is expected to grow at nearly twice the national average through 2025 (Display 2); California’s elderly population will grow at more than twice the rate of the state’s total population within the same period (Display 3, next page). California’s population is racially and culturally more diverse than any other state in the nation, with more than 1 in 4 Californians born outside the U.S. — more than twice the national average of 1 in 10. Despite these changes, for nearly three decades, the University has added virtually no new capacity in its health sciences programs. These and other factors have provided broad parameters for the internal, centralized planning process through which campuses are initiating proposals to address programmatic priorities.

Display 2



Display 3



In June 2005, the Universitywide Health Sciences Committee (HSC) issued a report, “Workforce Needs and Enrollment Planning,” to help guide enrollment planning over the coming decade. A set of findings and recommendations regarding the University’s role and capacity to help respond to current and future state needs were developed. In addition to an overall Health Sciences Committee report, profession-specific reports were issued for dentistry, medicine, nursing, pharmacy, public health, optometry, and veterinary medicine.

The overall HSC report documented demographic trends such as the growth, aging and diversity of California’s population; current and predicted shortages of key health professionals; faculty recruitment and retention; and UC’s role in health sciences education.

A major challenge for all health professions is that, while California is the most diverse state in the nation, its health workforce does not reflect the ethnic diversity of its citizens. By 2015, over half of the state’s population will be of Hispanic or Asian descent. Demand for culturally and linguistically competent health providers is growing as the State seeks to improve access to care, reduce disparities in health status, and improve health outcomes.

To meet the growing needs of the state, California’s health workforce must change in size, distribution, and preparation. As the largest health sciences instructional program in the nation, UC must revitalize and expand its health sciences programs to train health professionals to better meet societal needs.

Statewide shortages of health providers currently exist in several major health professions and looming shortages are projected in others.

California's nursing workforce crisis is serious and growing. The state currently ranks 49th in the nation in the number of nurses per capita, and predictions forecast a shortfall of 60,000 registered nurses by 2020. Efforts to address the State's shortfall by expanding nursing school enrollments in California's baccalaureate degree programs (currently offered by 23 California State University campuses, 9 private institutions, and 3 UC campuses) are hampered by significant shortages of nursing faculty.

In other fields, such as dentistry, pharmacy, and public health, the number of faculty is also currently insufficient to meet the needs of California educational institutions. These shortages will increase as a generation of senior faculty retires. UC faculty salaries lag national averages for comparison institutions, and UC health sciences programs are finding it increasingly difficult to compete with the private sector. Graduate enrollments must be expanded and new efforts made to recruit and retain faculty educators and researchers in all health sciences disciplines, particularly in those cited above.

The state will face a 15.9% shortfall of physicians (i.e., almost 17,000) by 2015. This shortage is expected as a result of rapid population growth, aging of the current physician workforce, and lack of growth in medical education programs in California — including virtually no growth within UC for nearly three decades. Regional shortages of health providers that exist currently will become more serious without effective intervention. In addition, changing accreditation requirements for certain health sciences professions are creating the need for changes in existing educational programs.

In response to the findings and recommendations contained in the Health Sciences Committee workforce report, President Dynes appointed the new Advisory Council on Future Growth in the Health Sciences to develop a multi-year systemwide implementation plan for growth in the health sciences by Fall 2006.

The council is reviewing the University's responsibilities under the Master Plan for Higher Education, the roles of other public and private institutions, issues related to educational opportunity for Californian students, and the detailed analysis of health workforce needs which the university completed in June 2005. As part of this work, the council received detailed information from UC chancellors and health sciences deans regarding their current and future interests in growth, including information about the level of growth that could be accommodated within the existing infrastructure on campus and that growth requiring new investment and new infrastructure. This effort will result in the development by the Council of a new health sciences enrollment plan, which will include annual targets for enrollment growth through the year 2020; planning priorities; and parameters for decision making about the levels, professions, and locations where growth should occur.

PRograms In Medical Education (PRIME): Focus on California's Medically Underserved Communities and Regions, (\$1,053,000 Increase)

California's physician workforce is vital to the health and well-being of the state's 35 million residents. As the most populous, and most ethnically and culturally diverse state in the nation, California faces unique challenges in improving access to care and health outcomes for its citizens.

In both urban and rural communities, challenges associated with inadequate access to care and resulting health disparities stem from multiple factors, including geographic maldistribution of clinicians, lack of insurance, low socioeconomic status, limited English proficiency, and low health literacy.

Without comprehensive strategies and focused teaching programs, current health disparities will persist and likely intensify in the years ahead as the state is facing a projected 15.9% shortfall of physicians (i.e., almost 17,000) by 2015.

This shortage is expected as a result of rapid growth and aging of the state's population, aging of the current physician workforce, and a comparative lack of growth in medical education and residency programs in California – *including virtually no growth within UC for nearly three decades.*

To help improve health outcomes and better serve patients who face limited access to care, California's health providers must acquire improved understanding of research findings pertaining to health disparities and improved skills with respect to the needs of underserved groups and communities.

Health sciences graduates must be prepared and better trained to consider the cultural and socioeconomic factors, health practices, and potential environmental hazards that affect health outcomes.

UC medical schools are committed to developing new programs that will offer students new educational opportunities to better prepare them as future leaders and experts in caring for California's underserved and increasingly diverse populations. PRograms In Medical Education (PRIME) build upon research showing that students who enter medical school with an interest in caring for underserved communities as part of their future career are more likely than other students to practice in such communities.

Over an eight-year period, as shown in Display 4, the PRIME programs will expand MD enrollments by about 10%, or by 268 students, and add 67 master's degree students. This increase in enrollment will be accommodated within the 2.5%

Display 4

| PRIME Programs in Medical Education (PRIME) Enrollment Growth 2005-06 to 2012-13 Cumulative by Year | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Program (Campus) | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| PRIME- Latino | | | | | | | | |
| Community (Irvine) | | | | | | | | |
| Masters | 0 | 0 | 8 | 12 | 12 | 12 | 12 | 12 |
| MD Program | 20 | 32 | 36 | 44 | 48 | 48 | 48 | 48 |
| PRIME- Urban | | | | | | | | |
| Underserved | | | | | | | | |
| San Francisco | | | | | | | | |
| Masters | | | 0 | 0 | 0 | 6 | 11 | 11 |
| MD Program | | | 6 | 17 | 28 | 43 | 52 | 52 |
| Berkeley | | | | | | | | |
| Masters | | | 0 | 0 | 4 | 4 | 4 | 4 |
| MD Program (Clinical years at UCSF) | | | 4 | 8 | 8 | 8 | 8 | 8 |
| PRIME- Rural | | | | | | | | |
| California (Davis) | | | | | | | | |
| Masters | | | 0 | 0 | 0 | 12 | 12 | 12 |
| MD Program | | | 12 | 24 | 36 | 36 | 48 | 48 |
| PRIME- Health Equity | | | | | | | | |
| (San Diego) | | | | | | | | |
| Masters | | | 0 | 0 | 0 | 12 | 12 | 12 |
| MD Program | | | 12 | 24 | 36 | 36 | 48 | 48 |
| PRIME- (Los Angeles) | | | | | | | | |
| Masters | | | | 0 | 0 | 0 | 16 | 16 |
| MD Program | | | | 16 | 32 | 48 | 48 | 64 |
| Total All Programs | | | | | | | | |
| Masters | 0 | 0 | 8 | 12 | 16 | 46 | 67 | 67 |
| MD Program | 20 | 32 | 70 | 133 | 188 | 219 | 252 | 268 |
| TOTAL | 20 | 32 | 78 | 145 | 204 | 265 | 319 | 335 |

annual enrollment increase provided under the Compact with the Governor. Support is provided at the MD marginal cost of instruction for four years of medical school training and at the general campus graduate academic marginal cost of instruction for a fifth masters year. The MD marginal cost of instruction is \$25,500 per student, or \$969,000 for 38 students in 2007-08. Support for eight master's students will be provided at the marginal cost of instruction or \$10,500 for a total of \$84,000.

The PRIME programs incorporate specific training and curriculum designed to prepare future practitioners to address disparities that exist in the provision of health care throughout the state, improving the quality of healthcare available for all Californians. The special training ranges from enhancing cultural sensitivities to the use of technology to overcome geographic barriers to quality care.

The PRIME-Latino Community program at the Irvine campus is the first of several new medical student education programs specifically developed to address the health needs and disparities of California's underserved groups and communities. The University is planning three additional programs at Davis, San Diego, and San Francisco-Berkeley, focusing on the special needs of urban and rural communities for 2007-08. A fourth program at UCLA in cooperation with Riverside and Drew University will be added in the Fall of 2008. All five of the PRIME programs will include a component for improved training and delivery of care through expanded use of telemedicine. Each of the PRIME programs is described below, followed by a discussion of the telemedicine component.

UC Irvine PRIME-LC (Latino Community), launched in 2004, focuses on the needs of the Latino/Hispanic community in Southern California. Present enrollment is 32 students in 2006-07; 12 more students are anticipated to enroll in the entering class of 2007. The program will reach its full planned enrollment of 60 students in 2009-10.

PRIME-LC students are selected for admission to the program because of their academic achievement and demonstrated commitment to working with underserved Latino communities. The program provides its students with training in Spanish language and Latino culture, as well as providing structured clinical experiences and research activities in the classroom, hospital and community. PRIME-LC graduates will earn both a medical and a master's degree with an emphasis on Latino health care disparities, public health, or health care policy.

UC San Francisco PRIME-US (Urban Underserved) will lead to the establishment of a new area of concentration in the care of urban underserved populations for students in San Francisco, Berkeley, and Fresno and will build upon the extensive resources of UCSF, its joint medical program with the UC Berkeley School of Public Health, and UCSF-Fresno. Faculty at the UCSF School of Medicine have been leaders in documenting the factors that contribute to health disparities in urban areas, and have been at the vanguard of analyzing issues and implementing programs to respond to the needs of the urban underserved. Initial enrollment for Fall 2007 is 6 students at San Francisco and 4 students at Berkeley, increasing to 75 students in the combined program by 2011-12.

PRIME-US will have a special focus on migrant and seasonal farm workers in Fresno, homeless individuals, and other medically underserved Bay Area residents. The curriculum will focus on caring for the urban underserved through the development of new and existing partnerships with community-based clinics and organizations as models of transdisciplinary collaboration needed to serve vulnerable populations. Each student will receive a longitudinal immersion in a neighborhood clinic in an underserved community that spans the full duration of medical school training.

UC Davis PRIME-RC (Rural California) will train physician leaders to serve medically underserved populations in the rural counties of Northern California by building on UCD's strong history of providing primary care and quality health services to suburban and Central Valley residents and will expand and refine its telemedicine programs serving remote rural areas. Initial enrollment for Fall 2007 is 12 students, increasing to 70 after seven years.

A key component to the Davis program is their award-winning model program in telemedicine (ranked in the top 10 in the nation) which allows the school to link rural primary care clinics to specialty clinics at UC Davis Medical Center, and also provides telemedicine training to rural and urban organizations throughout the State. The growing sophistication of medical technology and communication systems will permit consultation with experts in specific fields, long distance diagnosis of medical conditions, analysis of medical test results and diagnostic aids, and rapid communication of treatment methods and state-of-the-art approaches to curing disease.

The new PRIME program will enable UCD to implement a medical student teaching program that combines educational resources, telemedicine programs, primary care networks, and infrastructure to develop new courses focused on rural health policy, public health, language competency, and other topics relevant to rural health and health care delivery.

UC San Diego PRIME-HEq (Health Equity) will train physicians to serve immigrant and underserved populations in San Diego County. Initial enrollment for Fall 2007 is 12 students, increasing to 60 by 2011-12.

San Diego has one of the largest and most dynamic immigrant and migrant communities in the country. The city is in the top 15 metropolitan areas in terms of immigration rates, with almost 13,000 legal immigrants settling in the area in 2003. More refugees resettled in San Diego than any other metropolitan area in Southern California, and one-third of San Diego's households are now non-English speaking. San Diego County is also home to 18 Indian reservations – more than any other county in the U.S.

PRIME-HEq is a medical education program that emphasizes a multicultural, multidisciplinary approach to patient care, medical research, and health care advocacy. The program will emphasize culture and language studies and immersion experiences.

The program will offer students the flexibility to examine health equity in a particular area of interest that is consistent with one of the major objectives of the federal initiative "Healthy People 2010," which calls for the elimination of health disparities among all segments of the population.

UC Los Angeles is currently in the process of identifying options for its new PRIME program. The process involves consideration of the goals of the core UCLA program, as well as review and consideration of the goals and objectives of its two existing joint medical education programs, which are operated in conjunction with the UC Riverside campus and the Charles R. Drew University of Medicine and Science. As part of this effort, consideration of educational programs and clinical training sites in areas such as Bakersfield will also occur. Initial enrollment for Fall 2008 is 16 students, increasing to 64 after five years.

Telemedicine. A key component to the University's PRIME programs is expansion of telemedicine capability. Telemedicine is defined as the practice of healthcare delivery, diagnosis, consultation, treatment, transfer of medical data, and education through use of telecommunications. Essentially, it is the provision of health care by the provider at a distant location from the patient. Within these broad parameters, campuses will have both flexibility and latitude in determining how best to structure individual proposals.

Improved technology is permitting access for underserved populations in remote areas to world-class physicians who can help in the diagnosis and treatment of disease previously unavailable to these geographic areas.

The growing sophistication of medical technology and communication systems will permit consultation with experts in specific fields, long distance diagnosis of medical conditions, analysis of medical test results and diagnostic aids, and rapid communication of treatment methods and state-of-the-art approaches to curing disease.

The Governor's Strategic Growth Plan includes \$400 million over the next ten years for UC to provide facilities and state-of-the-art equipment needed to expand enrollment in UC's PRIME programs. The first installment of this initiative is included in AB 127 (Nunez, Perata, 2006), the education bond bill going before the voters for approval on November 7, 2006. If passed, the bond will provide \$200 million for capital improvements that expand and enhance medical education programs with an emphasis on telemedicine aimed at developing high-tech approaches to health care.

The proposed new funding for telemedicine and expansion of medical education programs marks an exceptional and unique opportunity to address statewide objectives for increasing medical student enrollments, expanding access to clinical services and creating a new systemwide network that will enable UC medical school campuses to link together for educational and other University purposes.

To be responsive to the initiative's intent, the University is developing capital projects for the medical schools that include telemedicine capabilities to address

both educational and clinical (or patient care) purposes. The first proposed phase of projects is discussed in a separate UC document, *the Budget for Capital Improvements for 2007-08*.

Nursing Student Enrollment: Phase 2 of Planned Expansion to Meet Statewide Shortages (\$2,394,000)

Virtually all Americans will require nursing care at some time in their lives. Whether this care involves maintenance of health, episodic care of a highly technical or less complex nature, care for a chronic condition or illness, or long-term supportive care, it is important to ensure that appropriate nursing care will be available. Therefore, continuing reports of a deepening nursing shortage raise serious concerns that must be addressed in California and nationwide.

Causes of the nursing shortage include rapid population growth (especially of those over age 65); an aging nursing workforce (California nurses are 5 years older than the national average and half are over age 50); and increasing mean age of nursing faculty nearing retirement. New nurse staffing ratios proposed for California hospitals and new national accreditation standards limiting the number of hours medical residents can work have created further demand. Recent studies have shown that without intervention, California's nursing shortage will worsen significantly through 2030.

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

- **Baccalaureate Nursing.** UC is re-establishing the UCLA undergraduate bachelor's degree program and adding a new undergraduate program at UC Irvine. College-bound high school graduates interested in nursing, but strongly committed to a UC undergraduate education, will once again have the opportunity to do both. Also, the former UCLA undergraduate nursing program was a strong pool for recruiting graduate nursing students; suspension of this program had the further adverse effect of reducing the number of students who might otherwise pursue advanced degrees and future nursing faculty careers.
- **Graduate Nursing.** The University also is expanding its graduate nursing programs and adding new ones. The State's capacity to increase enrollments in nursing programs is dependent on an adequate supply of qualified faculty, which in turn means a sufficient supply of nurses trained at the graduate level. Nurses with Ph.D.s are needed for nursing school faculty for BSN, MSN, and Ph.D.

programs, while masters-prepared nurse educators are in great demand as faculty for the community college associate degree in nursing (ADN) programs.

- UC's two existing Schools of Nursing (UCLA and UCSF) are ranked among the nation's top nursing schools in education, research and clinical practice, and play a central role in preparing future faculty for California nursing programs and in educating advanced practice nurses. Both schools are planning to expand at the graduate level, although the UCSF program is already UC's largest nursing program and has a more limited ability to expand in the short term. The University also plans to add graduate nursing programs to the new nursing education program at Irvine beginning in 2008-09.

For 2007-08, as the second phase of a planned four-year expansion in nursing enrollment, the University is proposing to add 95 graduate nursing students and 108 undergraduate nursing students. The University is requesting restoration of \$757,000 of SB 73 funds to support 57 of the increased graduate nursing students at the nursing marginal cost rate of \$13,230 per student; the remaining 38 graduate nursing students will be funded through the University's normal workload funding provided under the Compact, with a supplement to equal the nursing marginal cost rate of \$13,230 per student, for a total of \$503,000. Support is also proposed for 108 undergraduate nursing students at the general campus marginal cost rate (the same level is provided for all students) of \$10,500 or \$1,134,000. Additional support for the nursing program comes from fee revenue from mandatory systemwide student fees paid by all students, and for the graduate nursing program, from the professional fee charged to professional nursing degree students. Display 5 shows the planned *cumulative* enrollment growth for the University's nursing initiative through 2009-10.

Display 5

| NURSING ENROLLMENT GROWTH FROM 2006-07 TO 2009-10 | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| <i>Cumulative Totals by Year</i> | | | | |
| | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
| Total- All Levels | <u>193</u> | <u>396</u> | <u>527</u> | <u>612</u> |
| Graduate | 85 | 180 | 211 | 246 |
| Undergraduate | 108 | 216 | 316 | 366 |

SB 73 Funding. As part of the negotiations on the 2005-06 budget, the Legislature proposed adding \$4 million to the California State University (CSU) budget to expand master's degree enrollments in nursing. While sympathetic to the need, the Governor vetoed all but \$560,000 of the funding for CSU because of doubts that the full amount could be absorbed effectively in expanded enrollments during the 2005-06 budget year. The Governor did, however, set aside the vetoed amount (\$3,440,000), pending legislation proposing more effective approaches to address the nursing shortage and opening the possibility of involving UC as well as CSU. SB 73 (Committee on Budget and Fiscal Review, 2005), appropriated \$1.72 million each to UC and CSU specifying that the funds could be used for one-time costs related to expanding nursing programs in 2005-06, with the expectation that the funds be used on an ongoing basis to support the actual expansion of nursing enrollments in 2006-07. The legislation stated UC and CSU will increase nursing enrollments by at least 130 students each over the 2005-06 level in 2006-07.

The University added 85 master's students and 108 undergraduates for a total of 193 students in 2006-07, expecting to use the funding provided by SB 73. Instead, using a strict interpretation of the SB 73 legislation which limited the funding support to graduate enrollment increases, the State provided funding for 65 of the graduate nursing students (\$860,000) and stipend support for 20 additional graduate nurses (\$103,000), but withdrew \$757,000 of SB 73 funding from the University's budget. The University is requesting restoration of these funds in 2007-08, which are sufficient to support 57 of the proposed 95 graduate nursing enrollment increases.

Pharmacy: Enrollment Growth for the School at San Diego (\$473,000)

Across the nation, people are living longer. This longevity is attributable to healthier lifestyles, a well-trained health workforce, advances in science and understanding of human health and disease, and continuing discovery of new therapies for managing acute and chronic conditions. As the population ages, however, its interaction with the health care system increases. Larger patient populations in general, and increasing numbers with chronic diseases in particular, contribute to rapidly rising demands for health providers and facilities that must stretch to meet growing needs.

Within the pharmacy workforce, evidence of this demand is seen in the dramatic increase in prescriptions written and dispensed in the United States. During the 1990s alone, the number of retail prescriptions dispensed increased by 44%, from 1.9 billion in 1992 to almost 2.8 billion in 1999. By 2005, this number has increased to an estimated 3.7 billion prescriptions.

Among the factors fueling this growth are development of new medications and drug therapies, identification of new uses for existing medications, increased numbers of authorized prescribers, broader insurance coverage for some medications, and direct marketing to the public by pharmaceutical companies. Not surprisingly, this growth has generated a corresponding demand for pharmacists in hospitals and clinics, as well as in retail, government, and academic settings. Because growth of the workforce has not kept pace with the demand for services due in part to the lack of growth in educational opportunities – a nationwide pharmacist shortage has developed.

In California, this shortage is significant and well-documented in chain store pharmacies, hospital practices, and other clinical settings. The Aggregate Demand Index (ADI) Pharmacy Manpower Project ranks California, Minnesota, Wisconsin, Iowa, and Kentucky as the five states with greatest unmet demand. In 1998, 16,770 pharmacists and 16,600 pharmacy technicians and aides served approximately 32 million Californians. This ratio of 51.3 pharmacists and 51.0 pharmacy technicians per 100,000 population ranks California 48th and 41st, respectively, among all the states in the nation.

Building upon a 25-year partnership with the UCSF School of Pharmacy, the San Diego campus established a second UC school of pharmacy with its first Doctor of Pharmacy class in the Fall of 2002. At steady state, the school will have an entering class of 60 and a total of 240 students in the Doctor of Pharmacy program. This will represent a 53% increase in the number of Doctor of Pharmacy degrees conferred by UC. The San Diego program also offers the Ph.D. and a pharmacy residency program. For 2007-08, support is provided at the marginal cost of instruction rate of \$10,500 per student for an additional 45 students: 35 doctor of pharmacy (Pharm.D professional students); 5 Ph.D. students; and 5 residents. Additional support for the Pharmacy program comes from fee revenue from mandatory systemwide student fees paid by all students, and for the Doctor of Pharmacy program, from the professional fee charged to professional pharmacy degree students.

Health Science Enrollments in the University

After peaking in 1981-82, budgeted enrollments in the health sciences decreased over the next 10 years and did not increase again until the late 1990s, due primarily to budget cuts sustained by the University. Display 6 shows total budgeted University health science enrollment and the first-year class size for selected professional programs for the academic years 1970-71, 1981-82, 1990-91, 2000-01 and 2006-07.

Display 6

| Health Science Year-Average Headcount Enrollments: Total | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Enrollment And First-Year Class Size for Selected Programs | | | | | |
| | 1970-71 | 1981-82 | 1990-91 | 2000-01 | 2006-07 |
| | Budget | Budget | Budget | Budget | Budget |
| Total Enrollment | 7,015 | 12,750 | 12,022 | 12,186 (a) | 12,749 |
| First Year Class Size: | | | | | |
| Medicine | 429 | 652 | 622 | 622 | 644 |
| Dentistry | 175 | 216 | 176 | 168 | 170 |
| Veterinary Medicine | 83 | 129 | 122 | 131 (a) | 131 |
| Pharmacy | 93 | 120 | 117 | 117 | 177 |
| Optometry | 54 | 68 | 65 | 65 | 65 |

a) By agreement, the actual enrollment increase from 122 to the new budgeted level of 131 in Veterinary Medicine will be phased in over a multi-year period which began in 1998-99 and will end in 2007-2008.

Economic problems escalated in the early 1990s, eventually resulting in 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 FTE, including 412 health science students. Income from the Fee for Selected Professional School Students is being used to help fund a portion of faculty positions vacated through early retirements and, thus, to support student enrollments that have been restored to 1990-91 budgeted levels. The Fee for Selected Professional School Students is discussed in more detail in the *Student Fees* chapter of this document.

Before 2005-06, enrollment growth in the University's health sciences has been limited to: 1) an increase of nine students per year for each of the four years of the Doctor of Veterinary Medicine (DVM) program, for a total of 36 students, and an increase of 30 students in the veterinary residency program; 2) increases in graduate academic enrollments in the health sciences at the San Francisco (146) and San Diego (80) campuses for programs in select areas where strong academic and economic demand exists, such as medical information science and bioengineering; and 3) the establishment of a School of Pharmacy at the San Diego campus, which at steady state will have an entering class of 60 and a total of 240 students in the Doctor of Pharmacy program, 60 graduate academic students, and 80 residents. In 2005-06 UC initiated the first of its PRIME programs and in 2006-07, the State provided the first year of funding for a planned expansion of nursing enrollments.

To operate the instructional program, the health science schools require faculty, administrative and staff personnel, supplies, and equipment. Faculty requirements are determined in accord with student-faculty ratios that have been established for each profession and for each of the categories of students enrolled. As examples, the

historical budgeted student-faculty ratio for medical students is 3.5:1; for dentistry students, 4:1; for veterinary medicine students, 5.4:1; and for pharmacy students, 11:1.

The 2006-07 instructional budget for the Health Sciences is \$841 million, of which \$362 million is UC and State General Funds. Faculty salary and benefit costs constitute over half of the total expenditures for the health science instructional program. Instructional support costs represent approximately 42% of the budget. These costs include salary and benefits for non-faculty personnel, partial support of stipends paid to interns and residents, and supplies and equipment. The remaining 7% of the program's expenditures are for other expenses such as a portion of malpractice insurance premiums. Health sciences instructional programs are high cost programs and while the State subsidy for these programs is significant, revenues from professional school fees also are increasingly important. Professional school fees were charged to first-time students in Fall 1994 and became a permanent charge for all subsequent classes in medicine, dentistry and veterinary medicine. Since Fall 1996, a similar fee has been charged to professional graduate students in nursing, optometry, and pharmacy. For 2005-06, the Regents approved a new professional school fee for students enrolled in graduate professional degrees in public health. In charging the fee, the University reaffirmed its commitment to maintaining academic quality and enrollment in these programs. The revenue is used for financial aid and to sustain and enhance the quality of academic programs and student services.

As a result of four years of fiscal crisis in the State, the University sustained approximately \$520 million in base budget reductions, another \$420 million in cuts was offset with student fee increases, and about \$550 million reflects the absence of funding for cost-of-living adjustments, non-salary price increases, energy costs, employee health benefit costs, and maintenance during that period. Health sciences students, along with all other students in the University, shared in the student fee increases necessary to offset reductions in State support for all instructional programs.

Also during the State's fiscal crisis, State support for UC's professional schools declined significantly and professional school fees increased dramatically to offset lost State revenue. Thus, UC resident fees for health sciences students have moved from well below the average of fees charged to students in the same programs at UC's public comparison universities to above the average for all programs except medicine. The University is concerned about the impact of the fee increases on efforts to ensure that professional school enrollments, including those in the health sciences, are more representative of the diversity of the State's population as well as the impact high fees may have on graduates' ability to work in medically underserved areas of the State. This will be evaluated as data becomes available.

The professional school fees are discussed in more detail in the *Student Fees* chapter of this document.

In addition to the resources provided in the instructional budget, the costs of clinical training traditionally have been supplemented by physician and other professional fee income and by revenues generated by the medical centers. It is important to recognize, however, that financial support for medical education and clinical training has declined substantially as a result of both significant decreases in hospital revenues caused by growth of managed care and declining federal reimbursements from Medicare and Medicaid due to efforts to balance the federal budget.

SUMMER SESSIONS

| 2006-07 BUDGET | |
|-------------------------|----------------------|
| Total Funds | \$ 12,905,000 |
| General Funds | -- |
| Restricted Funds | 12,905,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | -- |

In addition to the University's course offerings during the regular academic year, both UC and non-UC students may enroll in courses during summer session on all nine general campuses. Historically the State has provided funding for UC students enrolling in the fall, winter, and spring terms, but not summer; through Summer 2000, summer sessions were supported from student course and registration fees set by each UC campus. The University began converting summer instruction for UC students from a self-supporting to a State-supported program in Summer 2001. For UC-matriculated enrollments, funding for summer has been shifted to the general campus instructional budget. Further discussion of State-supported summer instruction may be found in the *General Campus Instruction* chapter of this document.

Funding for non-UC students remains in the Summer Sessions budget. In 2006-07, the base budget for Summer Sessions is \$12.1 million, all of which is non-State Funds. In Summer 2006, 8,400 non-UC students registered for UC summer sessions. Many of these students are regularly enrolled at the California State University, California Community Colleges, and other institutions. Non-UC students pay fees that support the full cost of their education.

UNIVERSITY EXTENSION

| 2006-07 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 198,109,000 |
| General Funds | -- |
| Restricted Funds | 198,109,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 3,962,000 |

University Extension is the largest continuing education program in the nation, providing courses to nearly 325,000 registrants who are typically employed adult learners with a bachelor's degree. UC Extension is a self-supporting operation and its offerings are dependent upon user demand. In 2006-07, the base budget for University Extension is \$208.1 million in non-State funds.

The University offered its first Extension courses to students beyond the immediate campus community more than 100 years ago. Today, Extension divisions at each of UC's nine general campuses offer more than 18,000 different courses, programs, seminars, conferences, and field studies throughout California and in a number of foreign countries. Almost 60% of Extension's offerings are designed to serve the continuing educational needs of professionals. More than 400 certificate programs are offered in such areas as computing and information technology, environmental management, graphics and digital arts, and health and behavioral sciences. UC Extension offers a wide variety of online courses to students in California, the nation, and around the world ranging from undergraduate courses carrying UC academic credit to professional-level courses in subjects such as project management, computer programming, and technical writing. These courses extend the instructional resources of the University to the world community.

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

RESEARCH

| 2006-07 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 583,721,000 |
| General Funds | 283,267,000 |
| Restricted Funds | 300,454,000 |
| 2007-08 INCREASE | |
| General Funds | 15,000,000 |
| Restricted Funds | 14,267,000 |

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 seek to expand fundamental knowledge of the physical world, human nature, and society. The University's research forms the basis for new knowledge and innovation that creates new products, new companies, new jobs, and entire new industries. University researchers are at the forefront of discoveries that lead to cures for diseases, improve the food we eat, help buildings withstand earthquakes, improve transportation systems, develop techniques for addressing global climate change, identify best practices for K-12 educational improvement, and strengthen ties to Mexico, along with a wide variety of other benefits to the state.

The University is one of the primary engines that power the state's economy and is critical to keeping California competitive in the global market. The quality of the University's research and the skilled, entrepreneurial workforce produced by its educational programs, along with an ability to transfer new knowledge from the laboratory to the marketplace, helped lead to California's dominance in knowledge-intensive industries. It is no coincidence that the excellence of UC's research and academic programs occurs in the same places where private-sector growth and innovation appear strongest. Through its education, research and public service programs, the University of California has always played a key role as a center of innovation and technology development. By attracting research funds, enhancing employment and productivity, and producing business spin-offs, UC has been instrumental in the success of some of the most dynamic regional economies in the world, from Silicon Valley and Bay Area biotechnology to telecommunications in Southern California.

Unfortunately, State and federal support for the University and its research programs is declining at a time when global competition is increasing, raising concerns about the nation's ability to maintain its competitive edge. The cost of doing cutting edge research in science and engineering is increasing, and more research connected to economic competitiveness requires large interdisciplinary research teams. Research is increasingly more infrastructure dependent and the costs of compliance with extramural contract and grant requirements have risen rapidly, yet core support for the University's administrative research staff and infrastructure have not kept pace with the amount of funded research. The key to the University's research success is its faculty and students, but reduced resources and increasing costs to recruit and establish new faculty in all disciplines, as well as increases in graduate student fees and nonresident tuition and inadequate graduate student support packages, may undermine the University's success in attracting the best faculty and graduate students.

In its 2005 report, "The Knowledge Economy: Is the United States Losing its Competitive Edge?," the Task Force on the Future of American Innovation notes that:

"For more than half a century, the United States has led the world in scientific discovery and innovation. It has been a beacon drawing the best scientists to its educational institutions, industries and laboratories from around the globe. However, in today's rapidly evolving competitive world, the United States can no longer take its supremacy for granted. Nations from Europe to Eastern Asia are on a fast track to pass the United States in scientific excellence and technological innovation. Research, education, the technical workforces, scientific discovery, innovation and economic growth are intertwined. To remain competitive on the global stage, we must ensure that each remains vigorous and healthy. That requires sustained investments and informed policy."

Yet, U.S. funding for universities and research has not kept pace and is projected to decrease in the future at a time when other countries are increasing their investment. While the federal government made a concerted effort to double research and development funding for the biological sciences, the Task Force report notes that federal funding of basic research in engineering and physical sciences has experienced little to no growth over the last thirty years and, as a percentage of Gross Domestic Product (GDP), funding for physical science research has been in a thirty-year decline. In the evolving research environment, health science fields are inextricably linked to engineering and physical sciences, and the imbalance in funding undermines the effectiveness of health sciences research. President Bush's FY2007 Federal Budget proposal recognizes this and his "American Competitiveness Initiative (ACI)" would boost federal investments in physical sciences research (the ACI is discussed in more detail in the *Federal Research*

section of this chapter). A continuing cause for concern, however, is that federal support for biological sciences research actually decreased in FY2006 and may not keep pace with inflation, let alone increase in FY2007. Conversely, China for example, while starting from a smaller base, is doubling the percentage of its GDP invested in research and development and intends to increase the proportion of science spending devoted to basic research by more than 200%, to about 20% of its science budget in the next 10 years.

One of the key sources of support for the University's core research is funding provided by the State of California. The State provides a substantial portion of the funds for building and maintaining facilities, laboratories, and equipment that supports teaching, workforce development and technology transfer. State funding also provides seed money for research projects vital to California, whether the subject is earthquake engineering or improved crop varieties. Once a research program is up and running, UC leverages the initial investment of State funds by attracting grants from federal and private sources. The quality of UC's research attracts billions of dollars annually in funding from the National Institutes of Health, the National Science Foundation, the Department of Energy and other federal and private sources. For every State dollar specifically invested in research, UC leverages nearly \$6 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

The University's research mission is central to the foundation of the University's educational programs because new research programs lead to new knowledge, which in turn infuses educational programs with state-of-the-art information and technology at both the graduate and undergraduate levels.

State Funding for Research

State funding for organized research over the last fifteen years has reflected the ups and downs of the State's economy. In the early 1990s, when the State struggled through several recessionary years, State funds for research were cut by nearly 20%, which was deeper than other University program cuts. Once the State's economy began to recover, the State made research a priority by providing augmentations for specific research projects. UC received permanent budget augmentations of \$91 million dollars as well as one-time augmentations of \$79 million to the research budget over the period 1996-97 to 2000-01. To put the magnitude of these augmentations into perspective, in 1995-96 before the augmentations occurred, the total General Fund research base was \$183 million dollars. Thus, the permanent augmentations represented a 43% increase to the 1995-96 base. However, the new State funding was tied to the creation of new units or to specific research areas and, therefore, the improved state economy did not lead

to restoration of the funding for core research programs that had been severely cut during the early 1990s.

By 2002-03, the economy had deteriorated markedly and the State was once again headed into recession. UC's State funded research budget again absorbed major cuts and shouldered its share of the painful budget reductions suffered by all State-supported entities during the budget crisis. In 2002-03, all University research programs were cut across-the-board by 10%, for a total of \$32 million. As the State's fiscal situation continued to deteriorate, mid-year cuts became necessary. In December 2002, several University research programs were targeted for additional one-time cuts totaling \$18 million. In 2003-04, University research programs were reduced by another 10%, or \$28 million, and absorbed \$3.5 million of a \$30 million one-time, mid-year cut to the University's budget.

For 2004-05, University research programs were reduced by another 5%, or \$11.6 million, and shared in an undesignated cut to the University's budget of \$35.3 million. After two years of across-the-board budget cuts to research, the University determined that the new reductions could not be accommodated in the same manner. Core research programs that received disproportionate cuts in the early 1990s and never recovered those funds during the period of State budget augmentations in the late 1990s could not sustain further cuts and continue to maintain the quality of their programs. Furthermore, most of these core research programs already were contending with diminished funding for actual research related to the need to cover the significant fee increases proposed for graduate student researchers. Instead, over a two-year period, the reduction was distributed to programs that received large augmentations in the late 1990s.

Fortunately, the Compact with the Governor and the support of the Legislature for the Compact's funding principles have helped to stem the erosion in the University's budget. However, halting the deterioration in the budget is not enough, if the University is to meet the State's expectations for academic quality and productivity, funds for research must be restored.

Funds to Restore Research Cuts and Provide for New Research Initiatives Important to the State's Economic Development (\$15,000,000)

The Compact states, "Depending on the State's fiscal situation, there may be initiatives mutually agreed upon by the segments, the Governor, and the Legislature . . . that may be funded in addition to the basic budget funds provided . . . in order to meet high priority needs of the University and the State." Because of the important role University research can play in California's future, the University is planning for a major research initiative that will ultimately grow to \$50 million per year. Funding will be phased in over several years, with the first

phase beginning in 2007-08 at a level of \$15 million to be provided as State funding above the Compact. Funds would be used for the following kinds of purposes.

California Institutes for Science and Innovation (Cal ISI). Beginning in 2000-01, the State provided funding to create three major world-class research facilities intended to engage faculty and students in cutting edge research in emerging science and technology fields. Funding for a fourth Institute was provided the following year. While the facilities for the Institutes have only recently been completed, or are nearly completed, the Institutes have been conducting multi-disciplinary research for several years in information technology, telecommunications, nanotechnology, and biology – industries where the new jobs of the future will be created. The four Institutes engage UC's faculty directly with California companies in attacking large-scale issues critical to California's economy and its citizens' quality of life – health care, traffic congestion, environmental management, homeland security, and novel energy systems are among the areas of focus for new research within the Institutes.

The \$100 million in capital invested by the State for each Institute has not only returned the required two-to-one match from federal and private sources within the required four years, but is continuing to yield additional returns on the State's investment. The 275 partner companies that have invested over \$200 million in these Institutes come from all parts of the economy — entertainment, transportation, information technology, biotechnology, nanotechnology, aerospace, and more. The Institutes are expected to increase the state's capacity for creating the new knowledge and the highly skilled workforce that will drive entrepreneurial business growth and expand the California economy into new industries and markets.

While the facilities needs of the Institutes have been largely met, the core support for research in the Institutes is inadequately funded. The University will use funding from this initiative to ensure that each Institute has a minimum level of support with which to operate, which in turn will act as seed money to continue to attract funds from industry and governmental sources. The potential of these Institutes is immeasurable, but adequate support is critical if they are to succeed in generating the economic benefits to the state they are well poised to create.

Restoration of Previous Research Cuts. As already noted, despite the direct connection between University research and economic development, State funding for research has significantly declined in recent years — by 25% (\$70 million) in the most recent budget crisis and this is on top of an additional 20% in cuts to research that occurred during the early 1990s. The University's research initiative would permit restoration of cuts that have occurred to some — but not all — core research programs or research institutes critical to the State such as agricultural research, Scripps Institution for Oceanography, and others.

New Research Initiatives. Funding will also build on the foundation already laid by the Industry University Cooperative Research Program (IUCRP) and Cal ISI programs and thus be used to begin new initiatives in research that hold promise for significant returns to the State's economic prosperity. Since 1996-97, the IUCRP has worked with 501 California R&D firms to collaboratively develop 1,764 research projects involving UC researchers and students as well as employees from partner companies. These projects have resulted in an investment of \$327 million (including private sector contributions of \$193 million). Studies of the IUCRP's impact on California's economy indicate that participating companies created thousands of net new high wage jobs in California and 54 young start-up companies raised \$1.7 billion in venture capital.

An example of the kinds of new research initiatives the University will be pursuing is the national competition for building and operating a petascale computing facility. The National Science Foundation (NSF) has launched a national bidding process for the design and management of a \$200 million petascale computer which would become operational in 2011. The University of California and its UC-managed national laboratories have formed the National Petascale Applications Resource (NPAR), a consortium of several California institutions, Georgia Tech, and IBM, to prepare a final bid for the proposal. The California-based consortium will leverage its unique combination of world-class scientists and engineers, powerful supercomputing infrastructure, and outstanding technical and management capabilities to ensure a winning strategy for the NSF proposal. NPAR's California-based partners include: Lawrence Livermore National Laboratory (LLNL), San Diego Supercomputer Center (SDSC) on the San Diego campus, and the Lawrence Berkeley National Laboratory.

The winner of the competition will build the world's fastest supercomputer and will be the national leader for the next generation of NSF computer architectures and applications for years to come. One major advantage of winning the competition will be the dedication of 10% of the petascale system resources to the successful bidder, in addition to resources that California researchers would gain through normal grant processes. The UC-led consortium's strategy involves developing an early prototype system which will be available to UC and partner researchers to enable them to significantly accelerate development of key applications for petascale simulations. Such access to advanced computing and simulation capabilities is critical to California's economy and future competitiveness in such diverse areas as biological and medical science research, earthquake analysis, climate change and natural resource planning, engineering research, energy production and conservation, among many others. In scientific research, simulation has become the integrating element between theory and experiment. The unprecedented computing capability of the petascale system will potentially contribute to breakthroughs in such areas as: the design of a specialized synthetic vaccine for bird flu; the fabrication and integration of nanoscale systems targeted at

drug delivery in medical treatments; or, the design of new combustion systems that could yield significant improvement in energy efficiency.

The NSF plans to invest \$200 million to develop and deploy the petascale facility over a five-year period (during years 2006 - 2011); an additional \$100 million will be allocated for operation of the petascale facilities over a five-year period, once the system becomes operational in 2011. While no direct match is required, the three other expected bidders are each backed by substantial resources from their states. The NPAR proposal includes an investment of \$56 million over a 10-year period to fund both UC campus researchers for applications and software development, and capital investments (prototype system, networking, data infrastructure) and service and support professionals. A State appropriation in support of the bid will be critical to help the UC-led proposal win the competition. The exact phasing by year for this funding, and the degree to which State funds will be needed in 2007-08, will be negotiated with the Department of Finance through normal budget negotiations in Fall 2006. It should be noted that Georgia Tech has agreed to commit an additional \$21 million derived from both state and non-state funds to support efforts related to the project both in Georgia and in California. The University will work with the Governor's Office on the materials and documentation necessary to complete the NAPR proposal.

Because of the important role University research can play in California's future, particularly in terms of fueling economic recovery after years of fiscal crisis, the University is developing new initiatives for future years that will help address the State's need to strengthen California's economic competitiveness by infusing industry with new knowledge and discoveries that lead to the creation of new ideas, products, and more jobs.

Importance of University Research

Economists attribute at least 50% of this nation's economic growth since World War II to innovation resulting from research and development, with university research playing a key role. Many similarly believe that California's recovery from the recession of the early 1990s was due, in large part, to the commercial impacts of research and training conducted by major institutions like the University of California.

UC is an important generator of ideas and technologies, which can be measured in part by the number of inventions created by UC researchers with university resources. During the 12-month period ending June 30, 2005, faculty and researchers at the nine UC campuses disclosed a total of 1,304 inventions. This represents a 9% increase when compared with the 1,196 new inventions reported the prior year. The University of California has received more patents than any

other university in the world. As the foundation for start-up firms, many technologies developed in the UC system also serve as an important engine for economic growth. More than 160 companies have been founded on the basis of UC technology licensing agreements. An estimated 65% of these firms are in fields directly related to biotechnology, genomics, and pharmaceutical drug development.

The University is working to increase the effectiveness of its technology transfer operations by streamlining and making more effective the transfer of new knowledge through licensing, with the goal of increasing the public benefits of research through engagement with companies that can commercialize new products and technologies and create jobs. The University is giving local campus licensing offices more autonomy for managing industry relations and intellectual property portfolios while sustaining core University policy.

An example of streamlining is the negotiation process for creating clinical trials master agreements between the five University medical centers and private industry. Over the past 5 years, a concerted effort has been made to negotiate master agreements aligned with University of California policy and tailored to the requirements of individual pharmaceutical companies. Because a company's master agreement is developed cooperatively with all five medical centers rather than individually, the administration and negotiation processes are significantly streamlined, reducing the preparation of new clinical trial agreements to a matter of hours instead of the typical three to six months.

Multicampus and Organized Research at UC

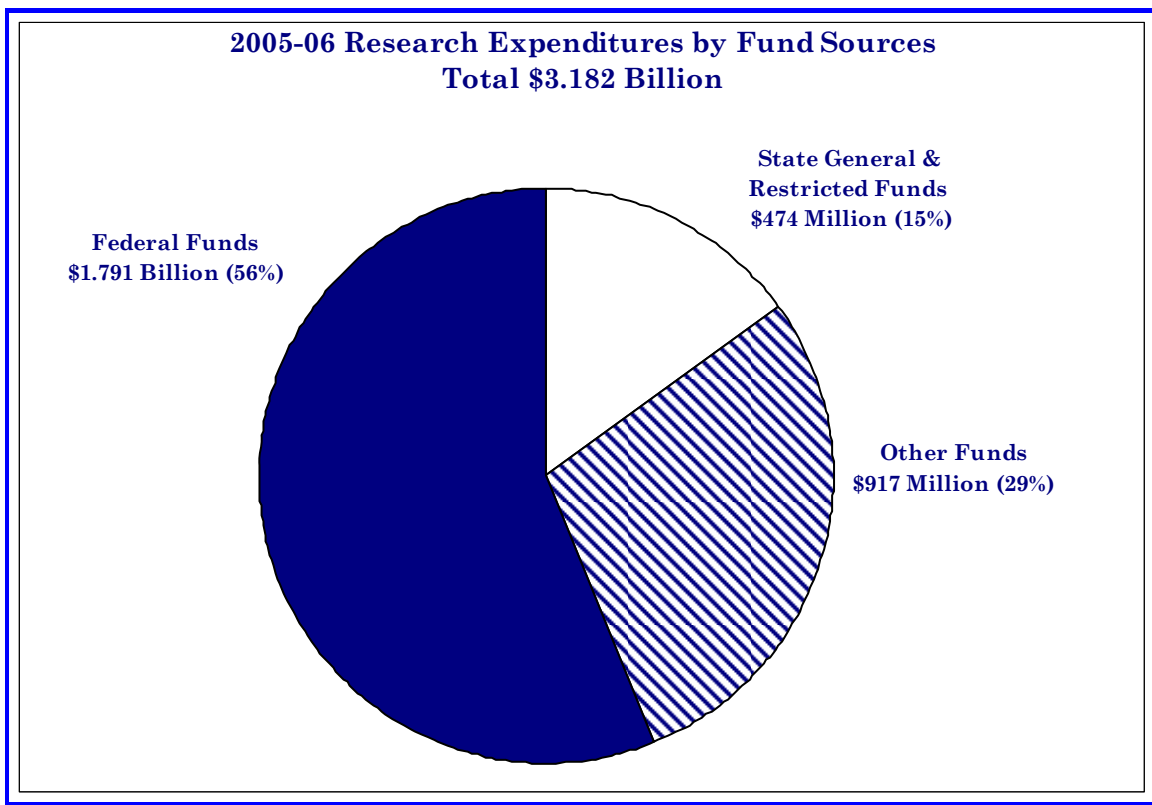
For many University research programs, State funds are the core that attracts extramural funds necessary to support major research projects. The University's research expenditures in 2005-06 included over \$2.7 billion in non-State funds and \$474 million in State General and restricted funds. Thus, for every State dollar specifically invested in research, UC leverages nearly \$6 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

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 merger, establishment, or

disestablishment of Organized Research Units (ORUs), Multicampus Research Units (MRUs), 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."

University research is supported from a variety of fund sources. Display 1 shows actual research expenditures by fund source for 2005-06. That year, research expenditures totaled \$3.182 billion, an increase of \$109 million, or 3.6%, over the prior year. For the first time in three years, expenditures from State funds increased (4%) and the rate of growth in expenditures from private gifts and grants remained strong (9.3%); however, the increase in federal funds slowed (2.3%).

Display 1



In 2006-07, funds for research will increase to \$3.4 billion, including \$2.67 billion from extramural sources (i.e., federal government, private individuals, foundations, industry), \$157 million from Regents' funds, \$283 million from State and UC General Funds, and \$300 million from restricted funds (State and non-State funds). The \$300 million in restricted funds includes special State funds to support a coordinated statewide program of tobacco-related disease research administered by the University (\$14.253 million for 2006-07). Another tobacco tax provides support for the Breast Cancer Research Program (\$12.776 million). The Breast Cancer

Research Program also receives special State funds from the California Breast Cancer Research Fund (\$473,000), which derives from the State personal income tax check-off.

Restricted funds also include performance fee revenue from the management of the Department of Energy (DOE) laboratories. Historically, one of the ways in which the UC management of the DOE national laboratories benefited the University is by providing support for the University's research programs, both indirect support through UC General Fund Income and direct support through the DOE Lab Management Fee.

The University's 2006-07 budget reflects a period of transition for the University's relationship with the three DOE national laboratories. The University was awarded a new management and operating contract for LBNL on April 19, 2005. This contract runs for five years and may be extended through an "award term" provision for additional years not to exceed twenty in all. The University's original LANL contract expired on May 31, 2006. The Los Alamos National Security (LANS) limited liability company, partially-owned by the University, was awarded a new management and operating contract for LANL on December 21, 2005 and commenced full operations on June 1, 2006. This contract runs for seven years and may be extended through an "award term" provision for additional years not to exceed twenty in all.

The University's LLNL contract expires on September 30, 2007. The University is part of a team that has made a competitive proposal to manage LLNL. If this team is awarded the contract, it would become effective on October 1, 2007 for a term of seven years with an "award term" provision that could extend that contract for a period not to exceed twenty years.

The University receives indirect cost reimbursement for LBL and, under the terms of the current contract which will expire September 30, 2007, for LLNL. In accordance with a Memorandum of Understanding between the University and the State Department of Finance, this indirect cost reimbursement contributes to the UC General Fund income and helps to support the University's operating budget, in particular its research programs. In 2006-07, management fees from these two contracts will provide \$5.3 million to fund the UC General Fund budget. Since UC no longer directly manages LANL, it no longer receives indirect cost reimbursement for LANL, and therefore, UC General Fund income is \$5.7 million lower than in previous years.

Performance management fees from LBL and LLNL are gross earned amounts before the University's payments of unreimbursed costs. In contrast, net income to UC from LANS reflects fee income remaining after payment of unreimbursed costs at LANL. In total, \$27.6 million, which represents the University's estimated share of the LANS net income (\$14 million) as well as performance management fees from

LBL and LLNL (\$13.6 million), is budgeted as restricted funds. Of the \$14 million expected as the University's estimated share of the LANS net income from the LANL contract, \$1 million will be used to provide supplemental income to select LANS employees for whom it was the University's responsibility to recruit to LANS employment, \$3.4 million will cover unreimbursed oversight and post-contract costs, with \$9.6 million remaining. Of the \$13.6 million from LBL and LLNL, \$2.9 million will also cover unreimbursed oversight and post contract costs, with \$10.7 million remaining. Thus, of the total \$27.6 million in restricted funds, about \$7.3 million will be used to cover costs associated with the Vice President of Laboratory Management and bid and proposal costs for the LLNL contract. The remaining \$9.6 million of the LANS net income and the \$10.7 million LBL/LLNL performance management fees, for a total of \$20.3 million in restricted funds, is designated for research programs, reserves for future claims, and unallowable costs associated with LBL and LLNL. A proposal will be presented to The Regents in an upcoming meeting for approval of an expenditure plan for the funds available for research. The budgets based on the DOE lab management fees remain unchanged for 2007-08 because of the uncertainty of the outcome of the competition for the LLNL contract. The budget will be adjusted once the results of the competition are known.

Of the \$283 million in State and UC General Funds, approximately 30% is allocated to Agriculture; 17% to ORUs; and 31% to a combination of MRUs and systemwide programs to support research on AIDS, microelectronics, the Industry-University Cooperative Research Program, biotechnology, and toxic substances research. The remaining 22% is related to permanent and one-time funding for other research activities not formally constituted as MRUs, including, among others, Internet2, universitywide programs in substance and alcohol abuse prevention, neuro-developmental disorders, spinal injury research, and individual faculty research.

While they have relatively modest budgets, typically in the range of \$30,000 to \$1.5 million, the University's MRUs dynamically link the work of the ten campuses and three national labs into a network of shared information, resources, dissemination, and public engagement. MRUs provide seed-funding on a peer-reviewed basis for innovative new research, provide support for graduate student traineeships, and work directly with state agencies to disseminate the expertise of the UC faculty and their research. The Institute for Transportation Studies, the UC Marine Council, the UC Energy Institute, and the Toxic Substances Research and Teaching Program work respectively with CalTrans, the California Resources Agency, the California Energy Commission, and the California Environmental Protection Agency to bring research to bear on the needs of California and to train students to move into leadership roles in public policy and resource management.

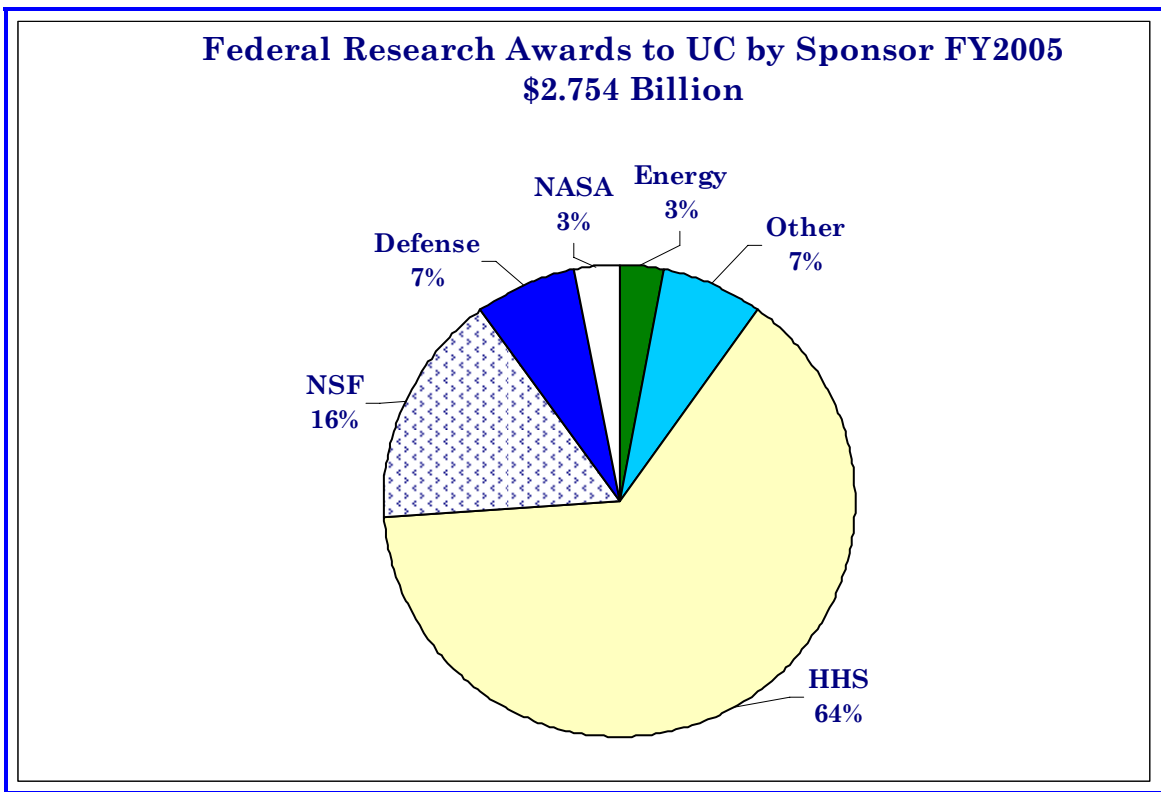
State funds for research provide the core funding that enables UC to develop in new areas and position itself to continue to compete successfully for new federal research initiatives. These funds will be especially important as the increases in federal research funds slow and competition for those funds increases. State funds also help support State-private sector partnerships which offer potential direct economic benefits for California. Restoration of State support for research eliminated during the recent fiscal crisis and for new initiatives that hold promise for significant returns to the State's economic prosperity will be a very high priority for the University when the economy improves.

Federal Funding for Research

Federal funds are the University's single largest source of support for research, accounting for approximately 56% of all University research expenditures in 2005-06.

As shown in Display 2, about 80% of the University's federal research awards in FY2005 (the most recent year for which data are available) came from just two federal agencies, Health and Human Services (HHS), primarily through

Display 2



the National Institutes of Health (NIH), and the National Science Foundation (NSF). Other agencies that figure prominently in the University's awards are the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Department of Energy (DOE).

The University remains highly competitive in terms of attracting federal research dollars, with fluctuations in the University's funding closely paralleling trends in the budgets of federal research granting agencies. Thus, the outcomes of the annual federal budget process and the changes in the federal research budget have important ramifications for the University's research budget.

As noted previously, the University manages the Lawrence Berkeley Laboratory (LBL), the Lawrence Livermore National Laboratory (LLNL), and is a partner in the Los Alamos National Security Limited Liability Company that manages the Los Alamos National Laboratory. With combined expenditures of \$4.19 billion in 2005-06, the Labs conduct research important to the State and the nation, including research on bioterrorism, nuclear nonproliferation, and energy efficiency and new energy resources. While the Laboratories are separate entities, research at the Labs has direct and indirect benefits for University faculty and students (as discussed in more detail in the *Multicampus and Organized Research* section of this chapter).

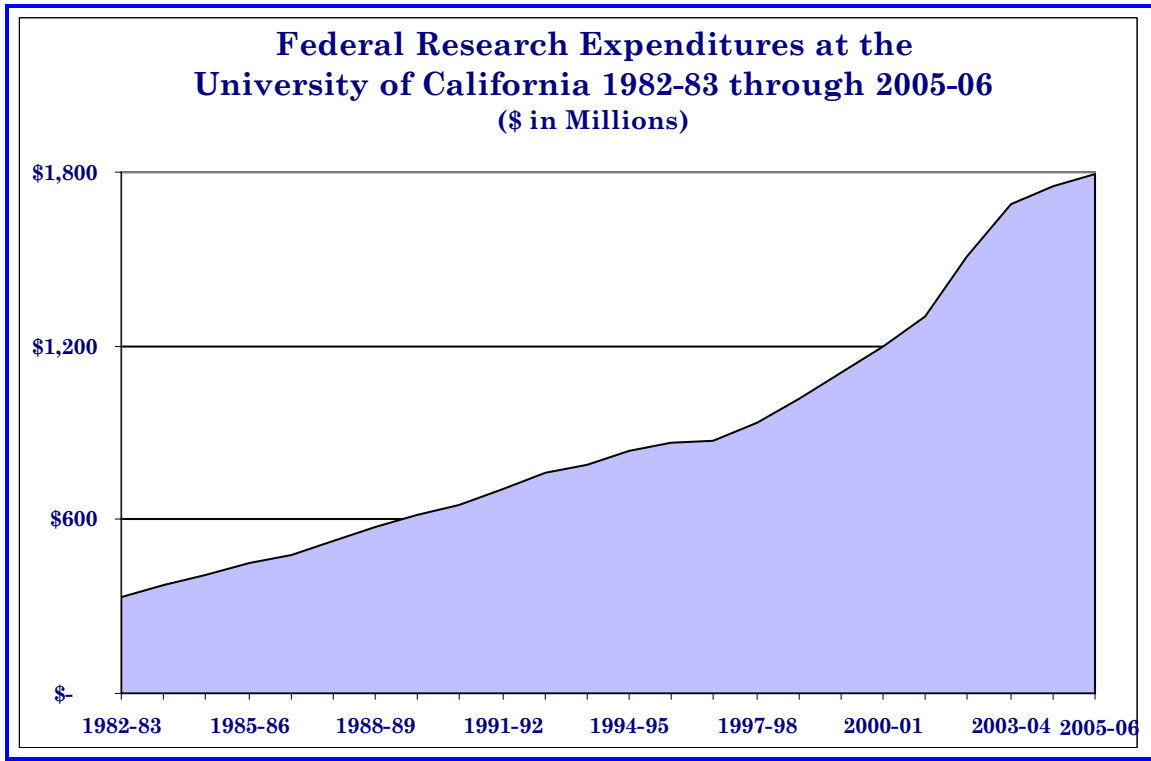
Historical Trends in Federal Funding of University Research

Display 3 illustrates trends in federal research funding for the University over the 18-year period between 1982-83 and 2005-06. In the decade between 1982-83 and 1992-93 and again from 1997-98 through 2003-04, federal support for research at

UC grew dramatically, with annual increases averaging almost 10%. Between 1992-93 and 1995-96, in a pattern that may be repeating itself beginning in 2004-05, the focus of the federal government was on cutting taxes and reducing the deficit, which led to constraints on discretionary spending. Most of UC's federal research funds come from the discretionary portion of the federal budget. As a result, while total University federal research expenditures continued to increase, the rate of growth slowed. Between 1992-93 and 1995-96, federal research expenditures at the University increased by an average of about 4% per year, and in 1996-97, there was no increase over the previous year.

But progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in new growth for funding. In 1997, after twenty years of deficits in federal government spending, the President and Congress reached an agreement to balance the federal budget over the five-year period from 1998 through 2002. Of specific concern to the University

Display 3



was a part of the budget plan that envisioned no increases in overall domestic discretionary spending during this period. This, in combination with tight spending caps, led to predictions of dramatically reduced funding for University research.

After the 1997 agreement, however, there was a dramatic turn-around due in large part to the sustained strength of the national economy. Revenues increased more rapidly than had been projected, and the budget was balanced three years ahead of schedule. As the federal budget went into its first surplus in more than 30 years in 1998, federal research and development (R&D) funding experienced rapid increases, due largely to a bipartisan commitment in 1999 to double the NIH budget over five years.

Federal support for research and development (R&D) continued to grow following the terrorist attacks of September 11, 2001, and the subsequent wars in Afghanistan and Iraq. The federal budgets for FY2002, FY2003, and FY2004 contained record increases for federal R&D due mainly to new R&D spending on homeland security and defense.

After 1997-98, the University's federal research expenditures increased as follows: 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, 8% in 2000-01, 8.5% in 2001-02, 16.3% in 2002-03, and 11.8% in 2003-04.

Beginning in 2004-05, however, the renewed concern over an escalating national deficit and the resulting political pressures to constrain federal domestic spending began to have an effect on the University's federal research expenditures, which increased by only 3.5% in 2004-05 and 2.3% during the past year. Over the next few years, it is likely that overall federal research funding will continue to be subject to spending cuts and constraints. Looking ahead, the federal budget situation will continue to be greatly influenced by military commitment to Iraq and Afghanistan, and the growth of entitlement programs such as Medicare. These put enormous pressure on overall domestic discretionary spending, which as previously noted, is the source of most of UC's federal research funding.

Outlook for FY2006 and Beyond

Display 4 shows the percent change in federal appropriations for total research and development and for selected federal research agencies that are major sources of the University's federal contracts and grants awards — the National Institutes of Health (NIH), and the National Science Foundation (NSF). It documents the extraordinary increases for NIH between 1999 and 2003 as a result of the now completed campaign to double the NIH budget. While the overall R&D budget

Display 4

| Federal Appropriations for Research and Development (R&D) Total and Selected Agencies Percent Change over Prior Year | | | |
|---|---|--|--|
| Federal Budget Year | Total Research and Development (R&D) | National Institutes of Health (NIH) | National Science Foundation (NSF) |
| 2007 (Proposed) | % of Change | % of Change | % of Change |
| <i>President's Budget</i> | 1.8 | 0.0 | 8.3 |
| <i>House Version</i> | 3.1 | -0.3 | 8.3 |
| <i>Senate Version</i> | 2.2 | 0.7 | 7.9 |
| 2006 | 2.4 | -0.3 | 1.8 |
| 2005 | 3.9 | 2.3 | -0.5 |
| 2004 | 7.0 | 3.2 | 5.0 |
| 2003 | 14.6 | 16.2 | 11.4 |
| 2002 | 12.6 | 14.7 | 6.2 |
| 2001 | 9.3 | 14.9 | 13.3 |
| 2000 | 4.5 | 14.9 | 9.8 |
| 1999 | 5.6 | 14.4 | 6.8 |
| 1998 | 2.7 | 7.3 | 3.2 |

Source: Based on AAAS tables from OMB and agency budget data, and Congressional appropriations bills.

continued to increase after that point, the rate of increase slowed dramatically — to 2.4% in 2006, and NIH actually experienced a decrease in its R&D funding.

President Bush's FY 2007 Budget Proposal does, however, include an initiative to begin remedying the underfunding of physical science R&D. Stating that sustained scientific advancement and innovation are key to maintaining the country's competitive edge, the President proposes to double over 10 years investment in key federal agencies that support basic research programs in the physical sciences — the National Science Foundation, the Department of Energy's Office of Science, and the Department of Commerce's National Institute of Standards and Technology labs.

For the fiscal year that began on October 1, only two of the ten appropriations bills that constitute the FY2007 federal budget have been signed into law (Defense and Homeland Security). The remaining bills will have to be acted upon after the midterm elections in November. A continuing spending resolution or temporary appropriations bill attached to the final Defense bill will keep the federal government in operation until the remaining bills are passed. The continuing resolution directs federal agencies to continue to fund programs through November 17 at the lower of the pending House or Senate bill recommendation or the previous year's funding.

As the House Appropriations Committee versions of the remaining bills currently stand, total R&D federal funding would increase by 3.1% next year, more generous than the Administration's proposed 1.8%. The Senate is proposing an overall 2.2% increase for total R&D. For the second year in a row, however, increases for NIH may fall short of inflation. However, both houses are supporting the President's American Competitiveness Initiatives which results in a proposed 8.3% increase for NSF in the House and a 7.8% increase in the Senate, and a 14.9% increase for the Department of Energy's Office of Science in the House and a 17.9% increase in the Senate. The DOE Office of Science is the largest Federal Agency supporter of the physical sciences. It funds research in the National Laboratories, as well as supporting researchers in universities in fields such as high energy and nuclear physics, magnetic fusion, materials sciences and chemistry (including nanotechnology), biology including genetics work (DOE initiated the Human Genome Project), and advanced computation — particularly its applications to advancing research in the previously mentioned fields. The University of California is well situated, because of the capabilities and interests of its researchers as well as its deep involvement with DOE's Labs, to make real and valuable contributions to the Department's research program needs.

Benefits of Research

Recent national studies of research universities confirm the research excellence of the University of California.

- In their 1997 book, *The Rise of American Research Universities*, Hugh D. Graham and Nancy Diamond quantitatively measured and compared 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 led 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 institutions.
- Another indicator of how well UC does relative to other research universities is the National Science Foundation study on American patents. UC produced more research leading to patented inventions than any other public or private research university or laboratory during the periods studied.

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 2005-06, for every State dollar UC spent nearly \$6 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

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 Corporation 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. Two key programs fostering University cooperative efforts with the private sector, the Industry-University Cooperative Research Program and the California Institutes for Science and Innovation, are discussed at the beginning of this chapter.

UC's museums, performing arts venues, and nationally ranked arts and humanities instruction programs and organized research programs are key components in making California a leader in the arts and culture industries. A 2004 report by the California Arts Council concluded that the total annual impact of the California arts and culture sector totaled \$5.4 billion, up 152% from \$2.15 billion in 1994. The study demonstrated that arts and culture generate billions annually, support a workforce of more than 160,000, and produce nearly \$300 million in state and local taxes. Education, cultural tourism, and California's creative industries contribute significantly to State's economic well-being and status as one of the world's largest economies, and the University is an important contributor to these efforts.

Agriculture

California farmers and ranchers produce nearly 350 commodities and the state's agricultural industry accounts for more than 1 million jobs. California is the nation's leading agricultural state, grossing nearly \$32 billion in farm receipts and generating more than \$8 billion in export revenues in 2004. Over half of the nation's fruits, nuts and vegetables are grown on California farms, and during certain times of the year almost all of the fresh produce consumed in the United States is California grown. Ten commodities — milk and cream, grapes, nursery products, almonds, cattle and calves, lettuce, strawberries, tomatoes, hay and flowers - each generate more than \$1 billion a year.

Scientists from the University of California have been at the forefront of agricultural research since the College of Agriculture was established in Berkeley in 1868. By the early 1900s, UC scientists discovered how to remove alkali salts from Central Valley soils, and helped transform California into one of the most productive farming regions in the world. Over the past century, California farmers and ranchers have increasingly looked to UC for the cutting-edge research discoveries and scientific breakthroughs they need to stay competitive and farm responsibly. In a recent study on the payback of the State's investment

in agricultural research, it was shown that farm production increased nearly 300% from 1949 to 1985, with almost half of this growth directly related to research.

The UC Division of Agriculture and Natural Resources (ANR), through the Agricultural Experiment Station (AES) and Cooperative Extension (CE), its public service arm, continues to help growers maintain a competitive edge in domestic and export markets through the development, delivery and adoption of new technologies and innovative farming practices. A few examples include:

- development of new varieties of strawberries, walnuts, citrus, and other fruit, nut, field and vegetable crops have contributed to California's dominance as the leading agricultural producer in the nation;
- discovery of the basic principles of biological control and integrated pest management (IPM) have led to the control of a myriad of insect pests found in agricultural, urban and natural systems, reduced pesticide use and improved environmental quality;
- improved land reclamation practices, more efficient irrigation methods, and enhanced drainage techniques have made California agriculture more productive while conserving natural resources.

In the natural resources area, AES and CE academics are addressing challenges and opportunities associated with land, air, and water resources. Some recent successes include:

- effective ways to reduce the adverse impacts of wastes on land, water, and air resources;
- strategies for the protection of rangelands, watersheds, and water quality by helping ranchers reduce the impacts of livestock production; and
- innovative agricultural and forestry practices to improve wildlife habitat — e.g. modification of rice production techniques to support migratory waterfowl populations.

With its land grant mission orientation and direct link to clientele through county- and campus-based programs, the Division of Agriculture and Natural Resources is uniquely positioned within UC to be responsive to the needs of Californians. Recent examples are the mobilization of AES and CE to address Pierce's disease and sudden oak death. ANR scientists and advisors are working to develop methods to control Pierce's disease, a devastating disease of grapes, ornamentals, and other crops, and its insect vector, the glassy-winged sharpshooter. ANR scientists have also responded with critical field research to identify hosts for the pathogen that causes sudden oak death, and measures to slow its destructive spread to coastal

oaks, redwoods, and other trees and shrubs. The remarkable successes achieved by UC researchers, specialists and advisors in addressing these invasive species threats were possible, in large part, because an existing workforce could be rapidly mobilized. However, with cuts of 25% in agricultural research, and comparable reductions in UC Cooperative Extension, ANR's ability to respond to new pest or disease outbreaks has been seriously impaired.

Medicine

UC medical research has led to dramatic improvements in the diagnosis and treatment of disease. The University assumed a major leadership role in the battle against AIDS, and its researchers were among the first to describe the AIDS 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 the 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 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; a simple, inexpensive blood test to determine the risk for having a Down's syndrome baby; and a wide variety of other important advances.

In the late 1990s, the State funded several new initiatives in medical research, including funds for research on substance and alcohol abuse, operating and annual debt service support for a facility to house basic science research on various neurodevelopmental disorders, and funding for geriatric research, among other augmentations.

Coordinated by the UCSF campus, the substance and alcohol abuse funds are being used to study the effects of alcohol on the brain, to develop ways to identify alcoholics and individuals at risk for developing alcoholism because of genetic vulnerability, and to develop new therapies for the prevention and management of alcoholism and alcoholic neurologic disorders.

The funds provided for the Medical Investigation of Neurodevelopmental Disorders (M.I.N.D.) Institute at UC Davis support research, education, and the assessment and clinical care of children and adult patients with such neurodevelopmental disorders as autism and autism spectrum disorders, pervasive developmental disorders, cerebral palsy, developmental delays, and communication disorders.

The Institute enables leading scientists, physicians, and educators in fields as diverse as molecular genetics and clinical pediatrics to conduct research projects directed toward better understanding of development and brain function. The educational component includes programs for medical students and residents; physicians in practice (continuing medical education); allied health professionals who work with patients suffering from neurodevelopmental disabilities; and patients, parents, and other caregivers. The Institute includes an interdisciplinary, neurodevelopmental clinic created to translate laboratory research into practice and provide the newest medical diagnostic and treatment methods for patients. Institute staff also collaborate with state departments and local agencies in improving the state of knowledge and the standard of care for neurodevelopmental disabilities.

In the 2000-01 budget, the University of California also received \$2 million in one-time funds for its long-standing Academic Geriatric Resource Program (AGRP) and \$4 million in one-time funds to create new endowed chairs in geriatrics at UC medical school campuses. The \$2 million of funding was used to fund a wide range of AGRP activities, including medical education curriculum development, focusing on the health needs of the state's aging population. Other programs funded in the late 1990s and early 2000s by the State support research on the diagnosis, treatment, and prevention of lupus, a disease of the auto-immune system; and brain and spinal cord injury treatment and cure.

Other Research Areas

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

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

In the humanities, research at the University of California has flourished across the system, placing many programs at the top of the National Research Council rankings. The systemwide Humanities Research Institute is spearheading a transformative effort to bring technology to bear on cultural issues and has worked closely with scientists and engineers to develop new approaches to interdisciplinary scholarship and collaborative research. The UC Humanities Technology Council brings together the top thinkers within UC from the California Digital Library, UCTV, the California Institutes for Science and Innovation, the San Diego Supercomputer Lab, the UC Digital Arts Research Network, the Museum Online Archive of California, and other major projects to promote collaboration and develop new ways of linking humanities resources around the state, across the country, and internationally.

PUBLIC SERVICE

| 2006-07 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 210,024,000 |
| General Funds | 102,702,000 |
| Restricted Funds | 107,322,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 3,500,000 |

Public service includes a broad range of activities organized by the University to serve state and local communities, students, teachers and staff in K-12 schools and community colleges, and the public in general. Consistent with its mission as a land grant institution, the University's public service programs help improve the quality of life in California by focusing on major challenges — whether in business, education, health care, community development, or civic engagement — that impact the economic and social well-being of its citizens. State funds support a variety of public service programs. This chapter describes four major State-supported public service efforts: Student Academic Preparation and Educational Partnerships, California Subject Matter Projects, Cooperative Extension, and the Charles R. Drew University of Medicine and Science. Campuses conduct other public service programs supported by State funds, student fees, user fees, and other non-State fund sources, such as arts and lecture programs and student- or faculty-initiated community service projects.

Student Academic Preparation and Educational Partnerships (SAPEP) work collaboratively with schools, industry, and other partners to help talented but educationally disadvantaged students meet rigorous standards of academic preparation needed to be successful in higher education and the workforce. The California Subject Matter Projects provide standards-aligned professional development for K-12 teachers based on student, teacher, and school-identified needs. Cooperative Extension, the largest State-funded public service program, provides applied research and educational programs in agriculture and natural resources, family and consumer sciences, community resource development, and 4-H youth development for Californians. The Charles R. Drew University of Medicine and Science, jointly operated with the Los Angeles campus, is a program of clinical health science education, research, and public service. Each of these major program areas is discussed in more detail below.

Student Academic Preparation and Educational Partnerships

The economic and social future of California will be shaped by the extent to which children from all sectors of society are educated to compete in a global, knowledge-based economy. This is especially important in California since in many ways it competes as a nation economically, rather than as a state. The University of California is committed to working in collaboration with other higher education segments, K-12 colleagues, business and government leaders, and community-based organizations to help maintain California's competitive edge through education of its citizenry.

As early as 1872, President Daniel Coit Gilman called on the University to collaborate with schools in enhancing student preparation for a college education so that the "work of the university shall clearly forward the welfare of the state, of the whole body politic." Today that vision takes concrete form in the University's Student Academic Preparation and Educational Partnerships.

These programs are important not only to the future of the students they serve, but to the preparation of the workforce California needs to sustain its position of leadership in the global economy. California's economic success relies on the availability of a workforce in which Californians from all backgrounds and all regions of the state are prepared to contribute to a knowledge-based society. Immigration reforms, coupled with other nations' efforts to bolster their science and technology infrastructure, mean that California must focus intensively on educating its youth for the global economy while it contends with changing demographics and an existing educational achievement gap that encompasses a large proportion of students who have been part of the minority population and will soon be the majority population of the state.

Raising K-12 achievement levels and closing achievement gaps between groups of students is critical to keeping the state's economy competitive in the long run. In national comparisons of 8th graders, California scored last in the country in science and 8th from the bottom in mathematics (National Science and Engineering Indicators, 2006). In high schools with the lowest Academic Performance Index (API) scores, 56% of physical science teachers do not have a credential in their subject area, compared with just 4% in high-API schools. Over one-third (35.2%) of California high school students are successfully completing a rigorous college preparatory curriculum; however, the rates are lower for students in many regions of the state and for students in educationally disadvantaged environments. At UC today, 57% of public high school students enrolled at UC come from just 20% of the state's high schools. In recognition of these needs, The Regents adopted a resolution in 2005 affirming this work as a fundamental part of the University of California's mission. At the July 2006 meeting, The Regents agreed on the need for a study of

actions the University can take to increase diversity in undergraduate and graduate enrollments and faculty hiring and foster a climate that is welcoming and inclusive. A study group has been appointed to review these issues.

Higher education plays a critical role in helping students from all sectors of our diverse society prepare for the opportunity to earn a college degree and to obtain the skills needed to become leaders in the state and nation. For many schools in low-income communities, university representatives and electronic links to UC resources are the only source of current and accurate information on and assistance with college admissions and financial aid. Likewise, in many rural communities, geographic distance from any four-year college or university discourages many students from pursuing higher education, whereas contact with university representatives makes a college-going dream a realistic possibility.

Beyond providing direct services to these students, university links with school personnel are essential. University faculty possess unique capabilities to work in tandem with teachers and principals to analyze complex factors that can make higher student achievement possible and assist in building new models for teaching and learning. Moreover, changing the conditions in schools serving poor, disadvantaged communities is a complex, long-term challenge that cannot be addressed without applying the expertise of scientists, mathematicians, economists, and educators from all disciplines in California's universities. The University's Student Academic Preparation and Educational Partnerships engage university expertise with that of K-12, so that throughout the educational pipeline, students, teachers, and parents have a clear sense of academic expectations and goals. Research has shown that the basic resources needed for learning by students in all communities (rich and poor, urban and rural) are:

- competent, well-trained teachers and school leaders;
- rigorous, standards-based curricula;
- safe and adequate facilities;
- a college-going culture of excellence;
- academic support systems; and
- access to textbooks and other learning resources.

The overriding purpose of the University's Student Academic Preparation and Educational Partnerships is to decrease the impacts of disparity in educational opportunity in California schools. This is addressed in four ways by:

- providing academic support, mentoring, information, and other services to individual disadvantaged students so that they may complete a rigorous college preparatory curriculum in high school and enroll in college;

- contributing to improvement in the school conditions that shape students' opportunity to learn, such as directing teachers and administrators to programs that provide effective high quality professional development, helping to build college-going cultures in middle and high schools, providing access to technology-based learning resources, and training parents to be more effective participants in their children's education;
- identifying through research what works — and doesn't work — in individual schools and throughout the state's educational system; and
- enhancing the academic preparation of undergraduates from educationally disadvantaged communities in order to promote their readiness for graduate and professional level training.

Student academic preparation programs concentrate on educationally disadvantaged students as well as low-performing schools throughout the state. Underrepresented minority students — African American, Latino, and American Indian — comprise the majority of students in these schools and the ethnic make-up of the University's program participants is generally reflective of the diversity pattern in schools UC serves and supports.

The impact of the University's student academic preparation programs on educationally disadvantaged and underrepresented minority students is significant. In Fall 2005, 22.6% of African Americans and 28.1% of Chicano and Latino students in the incoming freshman class at UC campuses had been participants in UC's student academic preparation programs. The most recent eligibility study (based on 2003 high school seniors) by the California Postsecondary Education Commission (CPEC) shows that 6.2% of African American students were eligible for UC, compared to just 2.8% in 1996. For Chicano and Latino students, eligibility gains were equally strong, with 6.5% eligible in 2003 compared with only 3.8% in 1996. Unfortunately, budget cuts have reduced opportunities for more than 50,000 students to participate in the University's student academic preparation programs, and fewer schools and teachers are served. Reduced funding has required new modes of engagement and utilization of resources with K-12 schools, businesses, and community-based organizations.

The following includes a detailed description of the expansion in the current year of the University's community college transfer programs, a brief description of each of the programs within the Student Academic Preparation and Educational Partnership portfolio, a description of the accountability framework for assessing program effectiveness, outcome highlights for the 2004-05 academic year, funding, and a history of UC's efforts to date.

UC/Community College Transfer Initiative for Access and Success

The University's community college transfer programs are designed to increase the opportunities for community college students to transfer to baccalaureate degree-granting institutions by providing comprehensive academic guidance and support to prospective transfers to UC and other four-year colleges. Services include: individual academic advising and educational planning, including assistance with course selection and monitoring of student programs; academic enrichment; informational workshops on academic requirements for transfer admissions; and professional development and training for community college counselors and faculty. The success of these programs is a very high priority for UC as well as the Legislature and Governor's Office. In recognition of the importance of this effort, the 2006-07 State budget included an augmentation of \$2 million in State funds, which when added to the funds already provided for community college transfer programs, will bring total funding available for these efforts to almost \$3.3 million. This initiative, the UC/Community College Transfer Initiative for Access and Success, was endorsed by California Assembly Speaker Nuñez, Assemblymember Dymally, UC President Dynes, and Chancellor Drummond from the California Community Colleges.

The funds will be used to add to existing programs a comprehensive set of long-term elements to increase the number and diversity of California Community College (CCC) students who transfer to the University of California. The focus of the effort will be on community colleges with high numbers of educationally disadvantaged students, but historically low transfer rates to UC. In particular, the funds will provide more advisors at each of the campuses to facilitate transfer. UC advisors meet regularly with community college students and counselors regarding transfer admission and lower division preparation requirements. In order to plan for transfer, students must know how the courses they take at a community college will apply toward a degree at a particular UC campus; advisors facilitate that process.

Another key component of the initiative is the development of the UC Virtual Transfer Center website, which will complement the articulation information provided through the Articulation System Stimulating Interinstitutional Student Transfer (ASSIST). A student can use ASSIST to access all of the official community college course articulation with UC, but there are no web-based programs that help a student compare university choices, plan/track their progress toward a UC baccalaureate degree while starting at a community college, and interact on-line with college and university advisors. Through the UC Virtual Transfer Center, a community college student interested in comparing requirements for the Davis, Berkeley, and Merced engineering majors, for example, will be able to easily compare articulation and major preparation requirements at

each individual campus. In addition, the UC Virtual Transfer Center website will provide:

- improved guidance information about UC-wide and campus transfer programs and policies;
- secure academic profiles for students to maintain personal and academic data to aid planning, advising, and admission;
- a UC Academic Transfer Planner/Tracker for students to use in planning and tracking their progress toward UC, including transfer admissions guarantees;
- a CCC/UC Advisor Center for any college and university advisor to view student information (including academic progress) and communicate with students and each other; and
- a secure messaging center for students and college/university advisors to communicate more effectively.

UC transfer advisors will support the student-advisor communication aspects of the UC Virtual Transfer Center website so that students can receive authoritative answers to questions asked online.

Program Descriptions

The Preuss School on the San Diego campus is a charter school which prepares students from low-income and educationally disadvantaged backgrounds to be competitively eligible for UC and other selective four-year institutions.

UC College Preparatory Initiative (online courses) provides online Advanced Placement, honors, and other college preparatory courses to students attending high schools that offer few or no such courses. The program also provides test preparation courses and online tutorial services.

The *Articulation System Stimulating Inter-Institutional Student Transfer* (ASSIST) is California's official statewide repository for course articulation and transfer information which provides counselors and students with detailed course transfer and articulation information to help facilitate a seamless transfer process.

Community College Articulation agreements are formal understandings between individual community colleges and individual UC campuses that define how specific college courses can be used to satisfy a subject matter requirement at a UC campus.

EAOP provides tutoring, skills building, mentoring, test preparation, and other services to individual disadvantaged students so that they may complete a rigorous college preparatory curriculum in high school and enroll in college. The University is also working in close collaboration with other higher education segments to implement college and student academic preparation initiatives in rural and remote counties of California, including the Summer Algebra Academies in Imperial County and 9 other rural counties, and College Options in Shasta and Siskiyou Counties.

Graduate and Professional School Programs help enhance the academic preparation of undergraduates from educationally disadvantaged communities to encourage them to pursue graduate and professional level training. UC LEADS (Leadership Excellence through Advanced Degrees Program) places educationally disadvantaged juniors and seniors in two-year intensive research experiences with faculty mentors. Summer research internship programs provide similar preparation. UC Law Fellows introduces educationally disadvantaged undergraduates to the study of law through case study and workshops conducted by law faculty, academic preparation, skills building, test preparation in Saturday academies, and through mentorships with practicing attorneys. Medical schools conduct a variety of successful programs, including post-baccalaureate reapplicant and applicant programs that support students who need to improve their competitiveness as applicants, undergraduate medical school preparation programs, and liaisons with local community colleges that focus on academic preparation for medical school.

The *Mathematics, Engineering, Science Achievement (MESA)* program helps prepare middle school, high school, and community college students to obtain four-year college degrees in engineering, the sciences, computer science, business, or mathematics.

Puente helps to prepare high school and community college students for four-year colleges and universities through rigorous academic instruction in writing and literature, intensive college-preparatory counseling, and mentoring from successful members of the community.

Student-Initiated Programs focus on mentorships aimed at high school juniors and seniors including: college information days, campus tours, conferences, workshops, and cultural activities for students and their parents.

UC Links is a multi-campus, intersegmental faculty-based initiative linking community and university partners in a network of after-school programs that provide academic preparation activities for K-12 youth in an effort to enable them to enroll in and complete the “a-g” high school course pattern to prepare for college.

K-20 (Kindergarten — University) Regional Intersegmental Alliances contribute to improvement in the school conditions that shape students' opportunity to learn by providing the necessary infrastructure support to develop alliances with other educational segments, businesses, and community organizations.

Detailed program descriptions for each of the University's Student Academic preparation and Educational Partnership programs can be found in the most recent legislative report at:

http://www.universityofcalifornia.edu/news/academicprep_report04-05.pdf

Accountability

The University's student academic preparation and educational partnership programs are committed to rigorous standards of assessment and to an accountability system that reports progress on a regular basis. The programs have entered a new five-year cycle (2004-05 to 2008-09), with required changes in program objectives and a revised accountability structure and the evaluation designs that support them. Budget bill language authorizing UC's Student Academic Preparation and Educational Partnerships for 2006-07 includes a specific requirement for reporting to the Legislature on details for individual programs, including goals and accountability data demonstrating program scope and effectiveness in accordance with the accountability framework developed in April 2005. The University's second annual report under the new framework, to be completed in April 2007, will include benchmarks and outcomes for all programs, including direct service programs and infrastructure programs for which the University serves as steward.

The accountability framework was developed with the participation of representatives from the Legislature and the Schwarzenegger administration to help forge a common approach to understanding and assessing the performance and accountability of the University's Student Academic Preparation and Educational Partnerships. The new framework defines the way that SAPEP assesses, evaluates, and reports the effectiveness and efficiency of its programs. It identifies SAPEP goals and aligns them with accountability mechanisms. Over time, use of the framework will ensure that programs are managed efficiently and effectively and in accordance with a common set of principles, policies, and stakeholder expectations. By placing emphasis on specific program goals, the framework also ensures that program planning across SAPEP is data-driven and results-oriented. Examples of goals and indicators used to measure outcomes under the framework include:

- completion of college preparatory "a-g" courses;
- readiness for four-year colleges other than UC;

- high school graduation and high school exit exam completion;
- community college transfer readiness;
- matriculation into graduate and professional schools; and
- establishment and maintenance of K-20 partnerships.

The entire text of the Student Academic Preparation and Educational Partnerships Accountability Framework can be found in the most recent legislative report at http://www.universityofcalifornia.edu/news/academicprep_report04-05.pdf

In support of this new Accountability Framework, the University has developed the Transcript Evaluation Service (TES), an expansion of its existing technology and supporting programmatic development that allows for better assessment of students' progress toward meeting college entrance requirements beginning with high school freshmen. TES permits electronic analysis of transcripts for individual students within an entire school or district. When data generated by TES are made available, the information will be useful to students for course selection, college planning, and financial aid development, and to K-12 schools for the assessment of "a-g" access patterns and strategic planning. TES has the technical capacity to be used as a longitudinal database for accountability, research, and program evaluation purposes. It can be used to assess leading indicators of progress as well as the scholarship requirements for UC and CSU eligibility. Currently, 55 high schools are using TES.

Outcome Highlights for the 2004-05 Academic Year

In April 2006, the University submitted its first legislative report under the new accountability framework and was able to demonstrate effectiveness in a number of program areas.

- Collectively, the SAPEP programs reach more than 116,000 students at 746 K-12 public schools and 109 community colleges. Most high schools served by SAPEP programs need assistance; the majority are among the lowest performing in the state, with 66% in the lowest half of Academic Performance Index rankings (API deciles 1-5).
- Data on the Class of 2005 show high college-going rates. Two out of three (66%) EAOP-MESA-Puente graduates and nine out of ten (90.3%) Preuss Charter School graduates enroll in a 2- or 4-year college in the fall semester following high school graduation. By comparison, 46% of California high school graduates enroll in the state's postsecondary institutions as first-time freshmen.
- Program participants graduate from high school better prepared for college. A higher proportion of EAOP-MESA-Puente students take the SAT-I or ACT than

do non-participants in the same schools. For example, three out of five (61%) EAOP-MESA-Puente students at API 1 and 2 schools take the SAT-I or ACT, compared to a little more than one out of four (29%) non-participants at those same API 1 and 2 schools.

- Program participants — in both cohort and school-wide programs — are prepared for and succeed in college preparatory (“a-g” courses). The “a-g” completion rates of program participants range from 53% in Puente to 73% in EAOP. These rates significantly exceed the statewide UC/CSU course completion rate of 34% as reported to the California Department of Education. A comparison group study of high school graduates from 13 high schools found that 94% of EAOP students were on-track or nearly on-track for completing 15 “a-g” courses (the minimum necessary for students to be college- or career-ready), compared to 62% of non-EAOP students.
- More students are passing the California High School Exit Exam (CAHSEE). For example, at three Los Angeles-area partner high schools, the CAHSEE-English passage rates of 10th graders more than doubled in two years. Puente 10th graders passed the California High School Exit Exam at a significantly higher rate than all economically disadvantaged students statewide: 96% versus 63% for the English section, and 92% versus 61% for the mathematics section.
- Programs have leveraged the State’s investment in SAPEP. In the aggregate, the K-20 Regional Intersegmental Alliances have leveraged the State and University investment of \$29.3 million in SAPEP by raising an additional \$40 million in support of K-14 efforts from the National Institutes of Health, the National Science Foundation, the U.S. Department of Education, private and corporate foundations, and business and industry.
- UC has established academic major course articulation agreements with all community colleges. All nine undergraduate campuses have established major preparation articulation agreements with all 109 community college campuses for their top 20 majors, as specified by the Compact with the Governor. Moreover, 99% of majors at all UC campuses are articulated with every community college in the state.
- More than three out of four (78%) of the participants in graduate and professional school academic preparation programs have enrolled in a graduate or professional school. By comparison, a UC San Diego study found that only 39% of its seniors enrolled within two years of graduation in graduate or professional school.
- Research on and evaluation of SAPEP programs exceeds the level of assessment of even large federal programs, and the findings for SAPEP programs are

empirically based and statistically significant. In addition, innovative and powerful new tools developed by the University, such as the Transcript Evaluation Service, will in the future allow for even more comprehensive evaluations of student academic progress and performance.

- SAPEP programs use State resources efficiently. The cost per student of most of the SAPEP programs is substantially less than the cost per student of comparable federally funded programs.

Funding

The University faces many challenges in carrying out this work, not the least of which is the effect of the State's fiscal crisis on funding for these efforts and the resulting instability in these programs. In 1997-98, after the adoption of SP-1 and Proposition 209, the University's budget for student academic preparation programs was \$18.1 million from State and University funds. The total grew to a high of \$85 million in 2000-01, but was reduced by \$55.7 million over the next several years, bringing the total budget to \$29.3 million in 2005-06, of which \$17.3 million was State General Funds provided on a one-time basis. In 2006-07, an augmentation of \$2 million was provided to expand community college transfer programs, bringing the budget to \$31.3 million, of which \$19.3 million is State General Funds provided on a permanent basis.

Display 1 shows the budget for each program in 1997-98 prior to the significant augmentations, funding in 2000-01, and the 2006-07 budget for each program.

The Governor's January 2004 budget had proposed elimination of all State and University funds for Student Academic Preparation and Educational Partnerships for 2004-05. However, as part of the final agreement on the budget, \$29.3 million in State General Funds was restored on a one-time basis for these programs. This total represented a decrease of \$4 million from the level of funding provided in the previous year.

As part of the negotiations on the Compact with Governor Schwarzenegger, the University and the Administration agreed that \$12 million of existing University resources would be redirected to support high priority, effective student academic preparation and educational partnership programs. The 2005-06 budget proposed by the Governor again recommended withdrawal of \$17.3 million in State General Funds for the University's student academic preparation programs, leaving only the University's \$12 million to fund these efforts. The University believed strongly that the State funding should be restored and worked throughout the budget process to arrive at an agreement with the Governor and the Legislature that ultimately restored the \$17.3 million in the final budget act for 2005-06, again on a one-time basis, with the understanding that the University would work with the Governor's

Display 1

**University of California
Student Academic Preparation and Educational Partnerships
1997-98, 2000-01, and 2006-07 Budgets
(\$000s)**

| | 1997-98 State & UC Funds | 2000-01 State & UC Funds | 2006-07 State & UC Funds |
|--|--------------------------------|--------------------------------|--------------------------------|
| Direct Instructional Programs | | | |
| Preuss Charter School | \$ - | \$ 1,000 | \$ 1,000 |
| UC College Preparation (online courses) | - | 8,400 | 3,106 |
| Statewide Infrastructure Programs | | | |
| ASSIST | 360 | 360 | 429 |
| Community College Articulation | - | - | 600 |
| Direct Student Services Programs | | | |
| Community College Transfer Programs * | 1,718 | 5,295 | 3,279 |
| EAOP | 4,794 | 16,094 | 8,914 |
| Graduate and Professional School Programs | 1,893 | 8,575 | 2,661 |
| MESA K-12 Programs | 4,169 | 9,355 | 4,861 |
| MESA Community College Programs | 22 | 1,309 | 327 |
| Puente High School | - | 1,800 | 1,051 |
| Puente Community College Programs | 162 | 757 | 450 |
| Student-Initiated Programs | - | - | 440 |
| UC Links | - | 1,656 | 694 |
| Longer-Term Strategies | | | |
| K-20 Regional Intersegmental Alliances (formerly School-University Partnerships) | - | 15,591 | 1,395 |
| Other Programs | | | |
| Evaluation | - | 1,386 | 1,180 |
| Other Programs (currently includes Community Partnerships, ArtsBridge, Other) | 203 | 3,887 | 936 |
| Programs that have been eliminated or consolidated into others, including Test Preparation, Dual Admissions, Gateways, Informational Outreach and Recruitment, Central Valley Programs, UC ACCORD | 4,750 | 9,717 | - |
| Total | \$ 18,071 | \$ 85,182 | \$ 31,323 |
| General Funds | [\$ 16,996] | [\$ 82,243] | [\$ 19,323] |
| University Funds | [\$ 1,075] | [\$ 2,939] | [\$ 12,000] |

*Includes an additional \$2 million beginning in 2006-07 for the UC/Community College Transfer Initiative for Access and Success.

Office to evaluate the effectiveness of each program and redirect funding from those that cannot demonstrate an adequate return on investment to those programs that can demonstrate effectiveness. The 2006-07 budget includes \$19.3 million in State funds on a permanent basis and \$12 million in University funds for a total budget of \$31.3 million. The final budget act also specifies that the University will provide a plan for expenditure of both State and university funds for SAPEP by September 2006 as well as a report due in April 2007 on the use of state and university funds provided for these programs, including detailed information on the outcomes and effectiveness of these programs consistent with the accountability framework developed in April 2005.

History

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

In the 1970's, the University began providing underrepresented students academic assistance and information to help them meet university admission standards. Campuses launched new programs to raise levels of student academic achievement. For example, the Mathematics, Engineering, Science Achievement (MESA) program, which originated on the Berkeley campus in 1970, was one of the first of its kind in the nation specifically designed to increase student academic preparation in science and mathematics.

During this same era, the University appointed five student affirmative action task groups to study ways to increase access and academic success for students underrepresented in the University. The Legislature passed the Meade Bill in 1975, marking the first time that State resources were devoted to increasing the number and persistence of eligible minority students. With it was born the concept of developing a pipeline of academic preparation programs beginning with students in the 7th grade and continuing through their college careers.

In the 1980's, soon-to-be UC President David Gardner chaired the commission that produced the report, *A Nation at Risk*. This ground-breaking report on the state of elementary and secondary education in the United States identified the major problems facing the nation's schools and made sweeping recommendations for addressing them. The University responded to *A Nation at Risk* with the expansion of teacher-centered initiatives, including the Bay Area Writing Project and the Mathematics and Science Subject Matter Projects, which were soon followed by the Literature Project (now the California Reading and Literature Project), the Foreign Language, the Arts, and History/Social Science Projects. In 1998, the Legislature

authorized funding for nine California Subject Matter Projects, described later in this chapter. UC campuses also launched a still successful summer research internship program that encouraged and prepared juniors and seniors to enter graduate and professional school programs.

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

The Outreach Task Force began its deliberations in February 1996 and proposed goals and strategies for UC outreach that were adopted by The Regents in July 1997. The primary numerical goals established by the Outreach Task Force were to double the number of educationally disadvantaged students participating in outreach programs who meet UC freshman eligibility requirements and to increase by 50% the number who are competitively eligible for admission to the most selective campuses. These targets were to be achieved in five years.

In 1998-99, in accordance with the recommendations and goals established by the OTF, the State provided \$33.5 million and the University \$5 million for a total increase of \$38.5 million in new funds for Student Academic Preparation and Educational Partnerships (most of which was to be matched on a dollar per dollar basis by K-12 partners). A total of \$62.2 million was available in 1998-99 to: a) increase program participation of students from disadvantaged backgrounds, b) provide special academic enrichment opportunities designed to increase significantly their preparation for the University, and c) establish partnerships with schools serving large numbers of educationally disadvantaged students. Over the next year, these programs took shape throughout the state.

By the end of the decade, the University's outreach programs were the strongest in their history. Nearly 100,000 students were being served and the University had developed robust partnerships with more than 250 low-performing schools. Through these partnerships, University faculty provided subject matter and content expertise to teachers and leadership development programs for principals in strengthening curricular offerings and building college-going cultures in their schools. In addition, with a new infusion of resources from then-Governor Davis, the University provided administrative oversight to a vastly expanded set of teacher professional development programs, the California Professional

Development Institutes (CPDIs), largely focused on enhancing reading and mathematics competency of elementary school teachers. The impact of this expansion was particularly evident in the increases over a four-year period in reading and mathematics test scores of students in large urban districts where teachers received the additional training. Unfortunately, funding for the CPDI's was completely eliminated from the University's budget in 2002-03 as a result of the State's fiscal crisis. Several schools from throughout California now contract with the University for these professional development services; others use county office of education or for-profit providers. Some larger districts use "in-house" staff to provide the same or similar services.

Despite tremendous fluctuations in funding, the University was making steady progress toward achieving the five-year goals set forth by the OTF in 1997 to increase by 100% and 50%, respectively, the eligibility and competitive eligibility of its program participants. By the end of the fifth year, UC eligibility of program participants had climbed from 4,200 in 1998-99 to over 6,800 in 2003-04.

The five-year Outreach Task Force timeframe has concluded and the University is transitioning to a new paradigm for effectively supporting educationally disadvantaged students and low-performing schools, one that emphasizes partnership and collaboration as the key ingredients to addressing the crisis of persistent disparities in students' opportunities to learn in California's schools.

In Fall 2002, then-President Atkinson convened a Strategic Review Panel (SRP) of experts from the business, community, and education sectors to study UC outreach programs and to recommend new directions for the future. The Panel lauded the success of the University's existing outreach programs in helping educationally disadvantaged students become UC eligible and recommended that the University establish closer alliances with other educational segments — especially K-12 — and with business, industry, and philanthropic partners in order to leverage the capacity of all stakeholders in addressing educational disparities in California's schools.

The University adopted the SRP recommendation to change the name of these efforts to Student Academic Preparation and Educational Partnerships. The SRP as well as other stakeholders noted that "the term outreach . . . has unintended negative connotations that may inhibit the formation of partnerships with K-12 and the community colleges." Others have suggested its many possible meanings may give the false impression that "outreach" is "recruitment." The University's State-funded programs are not recruitment efforts. Rather, they focus on academic preparation and achievement of students in underserved K-12 schools and among UC undergraduates interested in advanced degrees.

In January 2005, The Regents of the University of California voted to affirm the University's engagement in the preschool through postsecondary education system as fundamental to UC's mission as a land grant institution. The policy states in part:

“The University affirms that a fundamental part of its mission is to engage in efforts to promote the academic achievement and success of all students, including students who, because they are educationally disadvantaged and underrepresented, therefore need additional assistance. Toward these ends, the University seeks to work collaboratively with other key constituencies to enhance the educational capacity of California schools, to help close opportunity gaps that separate groups of students, and enhance access to those who have been underserved by the University.”

The SRP recommended that the University continue support for its successful student-centered programs, but that it also form a series of regional partnerships with senior leaders from K-12 school districts, including teacher and administrative representatives, county offices of education, colleges and universities, social service agencies, community-based organizations, labor groups, philanthropic groups, and businesses to develop improved curriculum, increase academic rigor, and enhance academic advising to help create a college-going environment in low-performing schools. The key to successful partnerships is trusting relationships developed and sustained over time so that stakeholders are positioned to seize programmatic opportunities as they emerge. UC is uniquely positioned to provide the stability and status for furthering such relationships.

Although \$15 million in State funding for the University's school partnerships — now called K-20 (Kindergarten to University) Regional Intersegmental Alliances — was significantly reduced in 2001-02 and completely eliminated in 2002-03, the University continued these efforts with its own resources, testament to the value of the State's original investment and to the strong collaborative relationships that have been established between the University and K-12 schools.

Other K-12 Public Service Programs

California Subject Matter Projects

In 1998, the California Legislature authorized funding for nine Subject Matter Projects based on the Bay Area Writing Project, which began at UC Berkeley in 1974. The California Subject Matter Projects (CSMPs) provide standards-aligned professional development for K-12 teachers based on student, teacher, and school-

identified needs. CSMPs engage K-12 leaders and faculty in the various disciplines from the University of California, California State University, and private higher education institutions to develop and deliver intensive institutes for education professionals. The institutes and workshops advance teachers' understanding of content knowledge and support their implementation of research-based instructional strategies to improve student achievement. In the 2005-06 school year, 98 CSMP projects provided extensive support to K-12 schools by serving over 42,000 educators and school leader participants with more than 6,000 activities for a total of 1.7 million participant hours. Evaluation research conducted by an independent evaluator, SRI International, reports a positive correlation between student achievement and the number of years students had teachers who participated in CSMPs in science, reading, writing, and mathematics.

The CSMPs were reauthorized in 2002 (AB 2950, Strom Martin, Chapter 463). In 2003, legislation (SB 611, Ducheny, Chapter 857) recognized that seven of the nine projects currently operate with content and skill standards approved by the State Board of Education and authorized the continuation of State funding support for those projects, including: reading and literature, writing, mathematics, science, history/social science, world history/international studies, and the arts. SB 611 recognized that the foreign languages and physical education/health projects were awaiting content and skill standards approval from the State Board of Education and authorized maintenance level funding for those programs. K-12 Physical Education standards were adopted by the State Board of Education in Spring 2005. SB 611 also authorized the CSMP to integrate instructional strategies for working with English learners into their professional development training.

Currently, the CSMPs are restructuring their work to support 11 regional service areas and to incorporate the regionalization plan envisioned by UC's K-20 Regional Intersegmental Alliances, which is part of the University's Student Academic Preparation and Educational Partnerships.

State funding for the CSMPs was reduced from a high of \$35.5 million in 2000-01, to \$20 million in 2002-03, and then to \$5 million in 2003-04 where it remains in 2006-07; an additional \$4.4 million from the federal No Child Left Behind, Title II, Part A program (NCLB) brings the total CSMP funding to \$9.4 million. NCLB funding requires the CSMPs to serve K-12 teachers who are not "highly qualified" and to provide technical assistance to low-performing schools. In 2005-06, CSMP projects leveraged an additional \$14.2 million in cash and \$837,000 in in-kind contributions for a total of \$15 million to support their work. This \$15 million is in addition to the \$9.4 million in State and federal funding. Research shows that intensive and ongoing professional development for teachers is critical to improving student achievement. CSMPs remain a vital part of the state's capacity to develop California's teacher workforce. The University will continue to seek additional funding to provide quality professional development programs for K-12 teachers.

Cooperative Extension

The University of California, through its programs in Agriculture and Natural Resources (ANR), is uniquely positioned to contribute significantly to solutions to complex problems and challenges facing Californians. The University has campus-based research capabilities on all 10 UC campuses and an “on the ground” presence in every county through UC Cooperative Extension.

California farmers and ranchers are among the most productive in the world, having achieved a steady record of economic growth over the past half century, while implementing new management and production practices that make their operations the most environmentally compatible and natural resource conscious in the nation. Much of this economic success can be traced to the impact and influence of the University of California’s research and extension programs.

About 225 county-based UC Cooperative Extension advisors team with 115 campus-based specialists and scientists in the Agricultural Experiment Station to deliver the latest research-based information, management practices, and technological advances to users across the state. UC Cooperative Extension advisors also conduct applied research in the field and adapt new technologies from campus labs to meet local and regional needs. UC Cooperative Extension represents a unique funding and educational partnership involving federal, state, and local entities, and is a key component in the fulfillment of the University’s commitment as California’s land grant university.

The Division also operates nine research and extension centers. The centers, representing different climates, landscapes, and cropping systems, are located from the Oregon to the Mexican borders and serve as outdoor laboratories for UC scientists conducting applied research and field tests. They also provide regional venues for UC Cooperative Extension advisors and specialists, and Agricultural Experiment Station scientists to conduct educational meetings for clientele, host field days, and demonstrate the latest research findings.

California farmers and ranchers generated nearly \$32 billion in gross cash receipts in 2004, and much of this success is the result of new technologies, better crop varieties, and environmentally-friendly farming practices developed and delivered by UC. A major employer and revenue generator in the state, agriculture accounts for over one million jobs and more than \$60 billion in personal income. California is the nation’s leader in agricultural exports, shipping over \$8 billion in food and agricultural products around the world. Among the more than 350 commodities produced in California, milk and cream, grapes, nursery products, cattle and calves, lettuce, and almonds each grossed more than \$1 billion a year.

In addition to bringing solutions from the University to bear on “real world” problems, Cooperative Extension involves over 30,000 trained 4-H Youth Development and Master Gardener volunteers across California. With their assistance, nearly 130,000 youth (ages 5-19) participate in UC Cooperative Extension-sponsored 4-H Club and after school activities in cities and rural areas alike, and thousands of homeowners have access to reliable, science-based information on gardening, water conservation, and ways to reduce pesticide use.

For 2006-07, budgeted funding for UC Cooperative Extension totals \$60.5 million, of which \$44 million is State and UC General Funds. In 2002-03 and 2003-04, State funding for UC Cooperative Extension was reduced by an unprecedented 25% (\$12 million). These cuts to UC Cooperative Extension are in addition to a 20% reduction to the program’s State funding during the fiscal crisis of the early 1990s. In addition, there were reductions to the ANR research budget and the Agricultural Experiment Stations between 2002-03 and 2004-05, and these reductions, together with the UC Extension reductions, resulted in a loss of more than 300 positions statewide.

The top priority for UC Cooperative Extension, under the new fiscal realities, is to maintain programs that directly serve local communities and local needs through links to campus research. Unfortunately, given the magnitude of the budget cuts, every program and unit has been affected. California is the nation’s leading dairy-producing state, but UC Cooperative Extension lost one-third of the advisors in dairy following the recent budget cuts. California also produces more than 50% of the nation’s fresh fruits, nuts, and vegetables; UC Cooperative Extension has already lost 8 advisors in this critical area. Over the past several decades, UC research and Extension have been instrumental in the prominence achieved by the California wine industry. The loss of several campus-based UC Cooperative Extension specialist positions puts into jeopardy UC’s ability to meet the emerging viticulture and enology needs of that industry, such as the recent spread of Pierce’s disease in the state (discussed below). Using resources made available by recent retirement and departures, UC has begun to fill some critical positions in these areas.

The reductions in State funding have had an immediate as well as long-term impact. A new pest or disease appears in California every 60 days, with Sudden Oak Death, Exotic Newcastle Disease, West Nile Virus, and Avian Influenza appearing in the news recently. Another recent introduction is the glassy-winged sharpshooter, which threatens to spread Pierce’s Disease to the state’s \$3 billion wine, raisin, and table grape industries. The Division has taken a leadership role with the U.S. Department of Agriculture, California Department of Food and Agriculture, the National Academy of Sciences, and the wine and grape industries to garner federal, state, and industry funds, leverage additional resources, and assemble research and extension teams to address both immediate responses and

long-term solutions. The University's tremendous success in addressing these formidable pest and disease problems were possible in the past because an existing workforce could be rapidly mobilized on campus and at the local level. With the cuts already taken, such a timely response is becoming increasingly difficult — further cuts would place in serious jeopardy the University's ability to respond. The state of California cannot afford to let eroding budgets halt this type of work, which helps to secure both the economic and environmental welfare of the state.

Charles R. Drew University of Medicine and Science

The Charles R. Drew University of Medicine and Science is a private, nonprofit corporation with its own Board of Trustees. Drew University conducts educational and research programs in south central Los Angeles in collaboration with Martin Luther King, Jr. County Hospital, also known as King-Drew Medical Center. Since 1973, the State has appropriated funds to the University to support a program of clinical health science education, research, and public service operated by the Los Angeles campus in conjunction with the Charles R. Drew University of Medicine and Science. State General Funds are provided to Drew under two separate contracts, both administered by the University. One contract relates to State support for medical instruction, including the Postgraduate Medical Education Program and the joint Drew/UCLA Undergraduate Medical Education Program. The second contract covers a separate public service program operated by Drew to provide funding for a prescribed list of health science educational, research, and clinical public service programs in the Watts-Willowbrook community. Drew University receives State funds for the training of 24 third-year and 24 fourth-year medical students, and for 170 of its 317 residents. State support for the resident training program is provided through the University of California's budget for Medical Education. The County of Los Angeles pays the salaries of all the residents (State-supported and non-State supported) and contributes to faculty salary support.

Over the last decade, Drew University has experienced financial problems and until more recently, difficulties involving the accreditation of its graduate medical education (or residency) programs.

In response to these problems, the California Legislature passed Assembly Concurrent Resolution 139 (Dymally, 2003), which requested that the University join with leadership at Drew and Los Angeles County to address several accreditation concerns regarding Drew residency training program; the University has been actively involved in a variety of efforts in this regard and much has been accomplished as a result.

A Graduate Medical Education (GME) Advisory Group, including the senior leadership of Drew, Los Angeles County, the UCLA campus and the UC Office of the President (Health Affairs), met on many occasions to address specific issues identified by the Accreditation Council for Graduate Medical Education (ACGME). Although UC has no direct responsibility for the accreditation or management of these programs, experts from throughout the University have consulted with Drew officials and assisted in reviewing program-specific problems and developing focused, corrective action plans. As a result of these efforts, Drew has successfully addressed most of these difficulties, with sixteen of its seventeen resident training programs now fully accredited, and only one program remaining on probation. Ten of these programs received full accreditation within the last two years. Similar progress has been made with respect to national board passing rates for Drew graduates, including: Family Medicine 100%, Dermatology 100%, Endocrinology 100%, Internal Medicine 92%, and Anesthesiology 100%.

The UCLA/Drew medical student program has a long record of achievement and was re-accredited in June 2005 as part of the overall UCLA School of Medicine (receiving a maximum 8 years full accreditation from the Liaison Council for Medical Education).

Over the last year, Drew University has also undergone a major transformation in governance and leadership. A new Board of Trustees has been appointed and is developing a plan for financial stability and growth. A new president and new dean have also been hired.

Notwithstanding this progress, however, there have been serious difficulties with accreditation standards, policies, and procedures at Los Angeles County's King Drew Medical Center (KDMC), which is a primary principal teaching site for UCLA-Drew medical students and Drew medical residents. In September 2006, the national Center for Medicare and Medicaid Services (CMS) notified KDMC and LA County of the failure of KDMC to meet requirements for CMS certification. With this action, KDMC is likely to lose significant Medicare and Medicaid funding and its ability to maintain in-patient services is in jeopardy.

Because the administrative and fiscal responsibility for the hospital is the responsibility of the county of Los Angeles, County Board of Supervisors has recommended operating the hospital under the Harbor-UCLA Medical Center. UCLA has an affiliation agreement with the County of Los Angeles to supervise academic programs at the Harbor-UCLA Medical Center. This affiliation dates back to 1951 when the UCLA School of Medicine was newly formed; in 1978 the hospital was officially named the Harbor-UCLA Medical Center to reflect UCLA's oversight of academic training programs. As KDMC is restructured under the Harbor-UCLA Medical Center, UCLA's responsibilities will not change. UCLA will continue to oversee the hospital's educational programs, ensuring that the operation

and accreditation of this important training program remains sound. The ramifications for Drew's residency training programs are not yet resolved.

The University of California is committed to working with the County of Los Angeles and Drew University to ensure that appropriate sites for medical student education are provided for Drew-UCLA medical students. While UC has no direct responsibility for the accreditation or management of Drew residency programs, the University recognizes the importance of maintaining fully accredited physician training programs in the region and is prepared to participate in discussions regarding next steps, as requested.

With respect to Drew's finances, State budget augmentations and administrative assistance from the UCLA administration have enabled Drew's financial situation to improve. The University has provided strong support to Drew despite the significant reductions to the University's State funded budget during the State's recent budget crisis. While other UC programs have been cut 10%-50% (and in some instances, whole programs have been eliminated), the total cuts to Drew throughout the fiscal crisis were minimal — about \$200,000. Drew medical students, however, along with every other student in the University, shared in the student fee increases necessary to offset reductions in the State support for all instructional programs.

The State support provided to Drew in the 2006 Budget Act for both the instructional and public service programs is \$8.7 million. Of this amount, \$500,000 is contingent upon the University continuing to provide \$500,000 in matching funds from funds previously available to UC through the State's Medi-Cal Medical Education program, which provided funding from the federal government to help support the cost of providing a medical education. The University also provides cost-of-living adjustments from the General Fund, support from University funds, and medical student professional fee revenue to support the program. The total from all University sources available to Drew for 2006-07 is \$11.4 million.

ACADEMIC SUPPORT — LIBRARIES

| 2006-07 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 262,652,000 |
| General Funds | 180,626,000 |
| Restricted Funds | 82,026,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 3,000,000 |

Great universities have great libraries for four reasons. First, information resources are at the foundation of academic excellence; leading-edge research, distinguished graduate programs, and effective undergraduate instruction all require effective and convenient access to the information resources that libraries provide. Second, universities provide significant services to their communities, and their library collections are invaluable resources for the public, serving as repositories of knowledge, art, and expression, and functioning as key components of our society's cultural memory. Third, because the library provides essential services across the entire breadth and depth of the academic program and the academic community, the quality of the library is often seen as a tangible symbol of an institution's commitment to support academic excellence in all its forms. Finally, as information in all its forms gains importance in an increasingly knowledge-based society, highlighting the role of universities as engines of economic and social development, the core expertise of libraries and librarians, facilitating ready access to recorded knowledge in all its many forms, takes on broader significance and value.

For over a century, the quality of the University of California's teaching and research programs has been supported by libraries at each UC campus that build and manage distinctive collections and provide leading edge information services tailored to the needs of the campus academic program and its faculty and students. The State's investment in the UC libraries has helped to create an information resource unmatched by any other in the country. This resource is essential to support the University's teaching and research, and benefits students and faculty of other California colleges and universities, K-12 public schools, business and industry, and the general public, both directly and through cooperative programs with other California libraries.

Over the last decade, rapid advances in the development and use of new technologies to create, publish, store, search for, and deliver information have begun to transform libraries, making it increasingly possible for each campus to provide reliable and effective access to information without having to physically possess and store it. New digital capabilities at the libraries promise increased efficiencies in print collections management, cost savings and increased access to scholarly materials via systemwide leveraging of the development and operation of digital collections and services, and new methods of electronic scholarly communication and collaboration.

At the same time, these developments promise even greater benefits for the people of California. UC's growing digital information repositories are becoming more readily accessible to students and teachers in the public schools, other institutions of higher education, government, business and industry, and all California residents at the click of a mouse.

Just as library services pervade academic life, the technologies that are transforming libraries are pervasive throughout the academy. Advanced information technology support is now essential for research in most disciplines, for effective teaching, for delivery of student services, and for preparing students for their roles in a knowledge-based economy. As an indicator of the increasing importance of technology, the numerous published assessments that are commonly used to rank colleges and universities have recently been joined by Forbes Magazine/Princeton Review ranking, "America's Most Connected Campuses," which rates institutions on their technological sophistication. The Libraries, as centers of information and knowledge and with decades of experience in the use of information technology, have emerged as both essential components of and significant contributors to the rapidly-changing information environment that provides indispensable support for the University's world-class research, teaching, learning, and service enterprise.

The Library Budget

The University's library budget is divided into four categories:

- Acquisitions-processing, which represents 56% of the library budget, includes campus-based expenditures for library materials in all formats, and all operational activities related to acquiring library materials and preparing them for use, such as ordering, licensing, receiving, and cataloging.
- Reference-circulation, which represents 39% of the library budget, includes providing users with information and materials, managing circulation of materials, shelving and re-shelving books, maintaining collections, providing

reference services, instructing students and faculty in the use of the library and its printed and electronic information resources, and creating and operating digital services that provide library users with effective access to information in all formats.

- The California Digital Library (CDL), representing 3% of the library budget, supports the development of systemwide digital collections (among the largest in the world); provides digital library technologies that enable campuses to build cost effectively the distinctive online information services that faculty, staff, and students need; supports innovations in and provides access to UC scholarly publishing; and maintains *Calisphere*, a compendium of freely accessible online collections for California K-20 education.
- The systemwide Library Automation unit (now operationally incorporated within the CDL), which provides universitywide bibliographic access to the resources of the University's libraries through the MELVYL online union catalog, represents 2% of the total library budget.

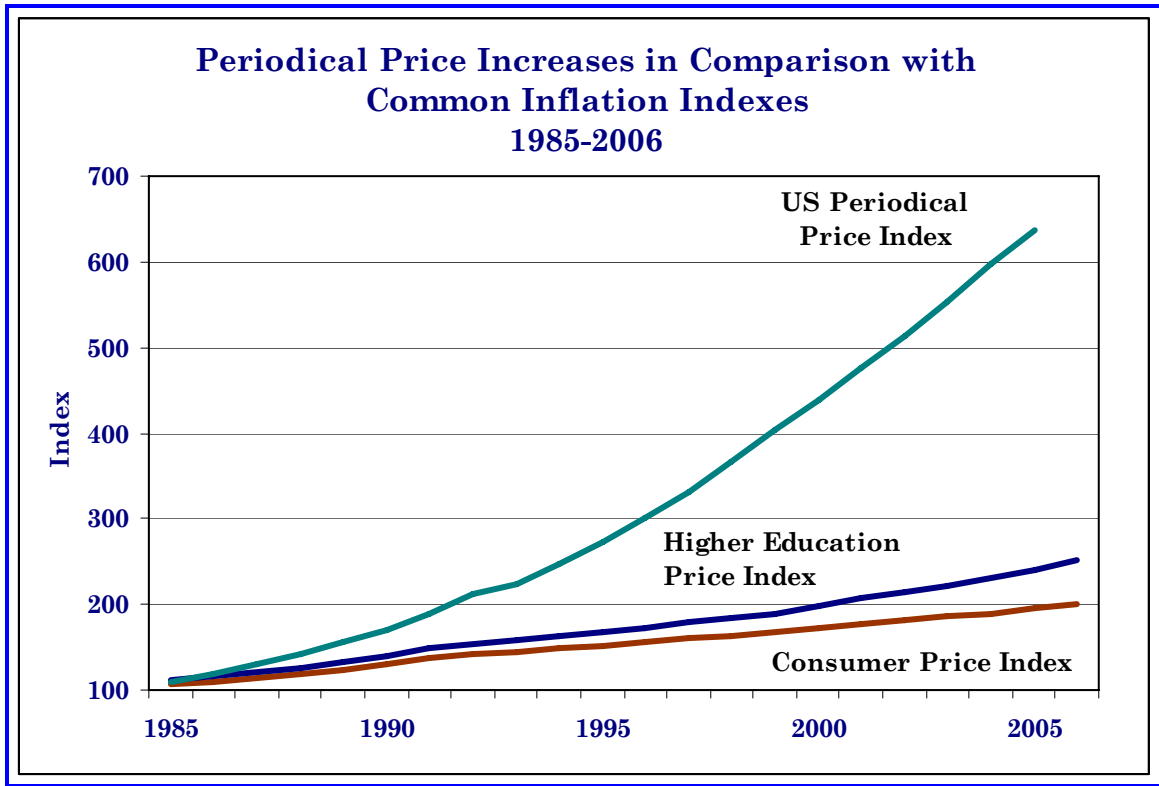
Over the last 25 years, the State has provided substantial support for the University's strategy to leverage library development on a systemwide basis. Over the last decade, however, the State has been unable to provide full funding to meet the impact of persistent price increases for library materials. The growth in costs of library materials consistently outpaces the rate of inflation, as shown in Display 1. The result is a permanent budget shortfall that was estimated at \$33 million in 1999-2000.

The Partnership agreement with former Governor Davis included a commitment to support a 1% annual increase to UC's General Fund base to address shortfalls in four core areas of the budget, including library materials. This provision would have provided about two-thirds of the funding needed to address the historic \$33 million library budget shortfall over a four-year period, while the remainder was to be funded through a redirection of resources at the campus level.

Between 1998-99 and 2000-01, consistent with provisions of the Partnership, the State provided \$8.7 million for library materials and expanded sharing of library collections that began to address the permanent budget shortfall, supplemented by \$14 million in one-time funds. In addition, the State provided \$7 million to support the development and expansion of the California Digital Library.

However, as a result of the State's current fiscal crisis, the provision for a 1% increase to address core needs, including libraries, was funded only twice, in 1999-2000 and 2000-01. The 2002-03 budget included a one-time reduction of \$29 million for core needs, including funding for libraries, a cut that was made permanent in the 2003-04 budget. Also in 2002-03, the Governor imposed on the

Display 1



University a mid-year cut of \$20 million in general administration, academic administration, and libraries. In the 2003-04 budget, the permanent cut grew to \$36.5 million in general administration, academic administration, and libraries, and the 2004-05 budget included an additional \$45.4 million permanent cut for general administration, academic administration, and libraries.

As a result of these targeted reductions in State operating support, the budgetary gains made between 1998-99 and 2000-01 have been largely erased. In spite of the significant efficiencies UC has introduced into its library system, growing evidence suggests that the strength of the University's library collections and services is declining in comparison with peer institutions, with a potential negative impact on the University's ability to recruit and retain faculty and support cutting-edge research programs.

Under the provisions of the new Compact, funds to address the permanent shortfall in the library collections budget and other core needs will once again become available beginning in 2008-09. Rebuilding funds dedicated specifically to core needs, including library materials, is a high priority for the University. These funds will be used to restore the strength and vitality of library collections, continue development of collaborative services that enable the libraries to make the most cost-effective use of their collections, and support innovative new technologies and

services that enable faculty and students to effectively utilize and contribute to the burgeoning universe of digital information resources. When the State's fiscal situation improves, additional investment of State funds will be needed to support development of new digital collections, tools, and services. Given the continuing fiscal constraints on the State's budget, no new State funds to support library programs are being requested in 2007-08.

As discussed in the *Summary of the 2007-08 Budget Request* chapter, additional funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) is one of the priorities identified by The Regents for restoring UC academic quality. Of the \$500 million total funding needed, \$100 million would be designated toward restoring funding for core academic support, including libraries.

The Library Program

Over the last 25 years, the University has employed a systemwide strategy that emphasizes campus collaboration and application of new technology to create a multi-campus library system with capabilities for coordination, collaboration, and sharing of resources that are unequalled by the research libraries of comparable university systems. Through their campus libraries, UC faculty and students have enjoyed increasingly faster and more convenient access to a larger universe of information in a wider variety of formats, even in the face of rising costs and constrained budgets. The highly collaborative, technology-supported UC library strategy has enabled:

- economic and operational efficiencies that have allowed the University to meet the ongoing challenges of inflation in the cost of library materials, enrollment growth, and growth and change in academic programs, and to maintain quality even in the face of the budget cuts;
- increasing investments in digital collections and services that have supported further efficiencies while improving service to faculty and students and enhancing the competitive position of the University and its libraries. While books and other print material remain central to the services of the 21st century library, and growth in the output of published books worldwide remains unabated, the information resources needed and used by campus communities for teaching, learning, and research have grown to include: licensed digital versions of traditional scholarly journals and books; digital content created internally by UC or converted into digital form from existing UC collections, such as manuscripts, maps, visual images, and sound files; other UC digital assets, such as data sets, other primary research materials,

and teaching materials created in digital form by the UC community; and the burgeoning information resources available on the World Wide Web;

- enhanced service to all Californians, by making the rich resources of the UC libraries readily accessible to the general public. All Californians can use the print and digital resources of the libraries on site, can search library catalogs and other discovery services online to locate material of interest (and in most cases, request copies of these items through their local library's interlibrary loan service), and increasingly can immediately view the publicly-available information resources that UC provides in digital form;

The benefits of the University's library strategy are most evident in the case of UC Merced (UCM). Although the new UCM library, like the other campuses, requires funding to build the local collections and services needed to support campus academic programs and to contribute a fair share to the cost of shared collections and services, the cost of this enterprise has been reduced by the leverage available to UCM as part of the UC library system. More importantly, on opening day UCM students and faculty had access to one of the largest digital libraries in the world, as well as ready and rapid access to the information resources of the entire UC system through systemwide interlibrary lending services.

The principal components of this systemwide program are described below.

Bibliographic Services. The bibliographic services provided by the UC Libraries enable users to discover, locate and obtain the information they need from the rich resources available in the UC collections, in other libraries, and on the public network. The systemwide Melvyl online library catalog allows library users at any campus to easily locate and request items held anywhere in the UC system. This catalog of book and journal titles is complemented by an extensive range of journal abstracting and indexing services, covering all subjects, that allow library users to locate the specific articles they need in journal publications and determine their corresponding locations in the campus print collections or the University's rapidly-expanding digital library collections. Bibliographic services provide the foundation both for efficient management and sharing of collection resources and for extending the availability of those resources to the UC community and the general public.

Resource Sharing. Resource sharing services expedite the lending and borrowing of materials across the system. These include courier services that deliver requested materials overnight among all campuses; facilities for immediate scanning and electronic delivery of journal articles and other brief items; and online services that permit library users to display online any item located in a search of the Melvyl catalog or a database if the item is available in digital form for UC users, or to request a copy of the item on interlibrary loan. Interlibrary borrowing among UC's libraries (which accounts for about 73% of all items borrowed from other libraries) has increased by 144% since 1988-89, while borrowing from

libraries outside UC increased by 127%. If the campus libraries had been compelled to purchase and add to their own collections the items they were able to borrow from each other via interlibrary loan in 2005-06, the total purchase cost would have been \$35 million.

Regional Library Facilities. Two Regional Library Facilities (RLFs) provide low-cost, high-quality off-campus space to house infrequently-used materials of enduring research value, allowing the University to maintain a rich and distinguished research collection at a fraction of the cost required to build equivalent on-campus library facilities. The RLFs at Richmond (for northern campuses) and Los Angeles (for southern campuses) began operation in the early 1980s, and currently provide low-cost space for about 11.2 million volumes deposited by campus libraries. In 2005-06, about 200,000 items were borrowed or photocopied from the RLF collections, about three times more than the number of items borrowed through interlibrary loan by UC libraries during the same period from all other libraries nationwide. The costs avoided by use of the RLFs are substantial. For example, by depositing materials in the regional library facilities, the campuses avoid capital costs of about \$15 million per year, on an annualized basis, that would have been incurred to build on-campus library facilities to house these collections. If the 11.2 million volumes in the RLFs had been discarded, the University would incur operating costs of nearly \$1.2 million per year to borrow these materials from other libraries, assuming that they could in fact be found elsewhere.

California Digital Library. While UC has made strategic use of information technology to enhance library service and control costs for over 25 years, the incorporation of digital collections and services in the UC library program accelerated dramatically with the launching of the University's groundbreaking California Digital Library (CDL) in 1997. The CDL has served as the engine for a number of systemwide initiatives that have continuously improved the University's capability to share campus print collections, but its primary innovation was a shared Universitywide collection of high-quality digital content that complemented and extended campus-based materials.

The CDL now makes it possible for UC's libraries to make available to faculty, students, and staff from all UC campuses about 19,000 journal titles, 300 reference databases, and over 8,000 finding aids that provide access to unique special collections resources. If campus libraries independently negotiated for, licensed, and cataloged the journal titles and databases in the systemwide digital collection, they would spend an additional \$39 million per year. In 2004-05, nearly 16 million digital journal articles were used, a 7% increase from the previous year and a fifteen-fold increase over the 1998-99 level. These shared digital collections not only provide the UC community with access to a wealth of materials that campuses might not have been able to afford individually, but also make information accessible to all UC students and faculty at any time of the day

or night, regardless of location. In addition, the libraries are creating collections of high-quality material that are solely available in digital form. Examples include the Online Archive of California, the Counting California service, and the eScholarship Repository, all of which bring valuable, but previously hard to find, information resources into the digital realm and make them accessible not only to UC faculty and students, but also to the general public.

Through systemwide library services available to the public, California citizens can, for example, search the libraries' collections using the Melvyl catalog; gain access to the inventories of material in California's archives, libraries, and museums through the Online Archive of California (OAC); view the 170,000 digital images and 50,000 pages of documents, letters, and oral histories in the OAC collections; search for and display information, facts, and data about the Golden State through Counting California; explore the latest research findings of UC scholars and scientists through the eScholarship Repository; view online many of the premier publications of the University of California Press; delve into a large virtual collection — gathered from some of the world's leading libraries — about the social and ecological diversity of the American West; and make use of tools developed specifically to support integration of this material with online teaching environments.

Many of the libraries' public offerings have been brought together in Calisphere (<http://www.calisphere.universityofcalifornia.edu>), a free public gateway to thousands of digitized primary sources — including photographs, documents, newspaper clippings, and works of art — from UC museums and libraries and other cultural heritage institutions in California. The launch of the Calisphere web site was announced in August 2006 by State Superintendent of Public Instruction Jack O'Connell. Materials are organized in alignment with the California State Board of Education content standards, thereby making it easier for teachers and students to find materials relevant to school curricula.

Counting California, the eScholarship Repository, and Calisphere demonstrate that the libraries' investments in digital technologies to improve service for students and staff also have enormous potential to benefit Californians. These library services make accessible to the general public the University's information resources, particularly those pertinent to the state of California.

Shared Print Collection. A newly-established shared print collection program, modeled on the success of the shared digital collection, allows campuses to purchase single copies of printed material for systemwide use or assemble high-quality collections from existing campus holdings, avoiding unnecessary and unplanned duplication of collections and expenditures. By developing a single shared print journal collection for those titles to which the University subscribes in both formats, the libraries may avoid subscription costs for print journals of up to \$3.4 million

per year, and realize additional savings in on-campus shelf space to house those journals, while being assured that the University will continue to have available at least one print copy of each title.

Mass Digitization. A significant expansion of the UC libraries' digital collection program was launched in 2005-06. With industry partners including Yahoo, Microsoft, and Google, the University of California began digitally reformatting large numbers of out-of-copyright print materials. The initiative will unfold over several years, and promises to:

- stimulate greater innovation in UC research. Using leading-edge discovery, visualization, and other tools, UC faculty, staff, and students will be able to locate materials in the libraries' vast collections, allowing hitherto unavailable connections to be made among disparate sources of information and ideas;
- develop a genuine California digital library that makes available and usable to the people of California the University's rich scholarly information resources. Available not only to UC faculty, staff, and students but also to schools, community colleges, and universities in the state and throughout the world, this resource will provide users free access to works that are out of copyright or in the public domain;
- facilitate more effective stewardship of UC's invaluable library collections. Assuming the format remains interoperable as technology changes, a digital copy ensures the preservation of holdings and provides a low-cost solution to the serious problem of deterioration of a large portion of UC's collection printed on acidic paper;
- enable significant efficiencies in collection management. UC libraries can choose to minimize redundant holdings for works that are available to the UC community in reliable printed as well as digital formats.

The *General Campus Instruction* chapter of this document includes a section on information technology that discusses the University's plans to identify strategic directions for IT investments across the spectrum of the University's functions, with specific attention to stewardship of digital information resources.

Looking to the Future

As the University seeks to rebuild its competitive position in undergraduate and graduate instruction and research over the coming years, additional resources will be needed to strengthen library collections and services to support a strengthened academic program. It will be critical to rebuild the library collections in all formats,

continue to create and acquire important digital collections, and carry on the strategic investment in advanced services that further enhance cost-effectiveness and improve the ability of faculty and students to make effective use of available information resources.

The University's experience has shown that digital library resources are both popular and cost-effective. As the importance of information technology for all facets of teaching and learning has grown, the libraries continue to be trusted centers of expertise and support for faculty and students. The current generation of library users has grown up with computers, multimedia, wireless communication, the Internet, Amazon, and Google. For them, the expectation is that information is ubiquitous — easily discovered and instantly available online from any convenient computer. In response, the expertise of library staff has changed to meet the needs of capturing and curating digital collections and creating digital tools to access them. As a result, libraries are becoming centers of know-how for the production, discovery, and use of digital information of all kinds. As libraries are serving important new functions in a world of remote access to digital information, more people are using libraries than ever before.

As the amount of high-quality information in digital formats continues to grow, and the tools and services available to access and use these resources continue to improve, it will be essential to secure additional funds to continue to develop and acquire digital library resources, both to improve services to students and faculty and to keep pace with UC's peer institutions.

In anticipating the budgetary demands associated with providing library support for a strengthened and expanded UC academic program, the following issues will require close attention:

- **Library Collections.** Increasingly, the Libraries view the variety of print and digital collections discussed earlier in this chapter, and the facilities and services available to flexibly and efficiently manage them, as a comprehensive collection resource for the University and the state. By diminishing the distinctions among the formats and sources of information and the sometimes dissimilar business processes that have grown over time to acquire and manage them, the Libraries can exploit the relationships among them to continue to seek new efficiencies while maintaining and enhancing the quality of collections and services. Implicit in this view is the understanding that additional funding will be needed to rebuild the strength of library collections in all formats, and to continue development of online tools and services that support cost-effective library service and improve the ability of faculty and students effectively to find and use the information they need.

- **Library Services.** The pervasive growth and critical importance of the information technology infrastructure for achievement of the University's mission have significant implications for the service roles and operations of the Libraries. It is evident, for example, that the Libraries will have a pivotal role in, and will require support for:
 - the digital stewardship functions and services discussed earlier in this chapter;
 - the instructional and research support services made possible by the initiatives and investments discussed in the *General Campus Instruction* chapter of this document;
 - services that support access to and distribution and publication of the information resources developed by faculty and staff in the course of their research and teaching.

As the importance of digital information grows, it will be essential to make key investments, not only in libraries but throughout the University, to ensure that valuable information resources in digital form remain accessible and usable. This is necessary both to support the teaching and research programs of the University and to continue to provide to the people of the state the growing repository of scientific, cultural and educational information upon which they have come to depend from the University of California.

ACADEMIC SUPPORT — OTHER

| 2006-07 BUDGET | |
|--------------------|-----------------------|
| Total Funds | \$ 588,288,000 |
| General Funds | 187,748,000 |
| Restricted Funds | 400,540,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 16,000,000 |

Included in the category Academic Support — Other are various clinical or other support activities that are operated and administered in conjunction with schools and departments. Among the clinical facilities that support health sciences programs are: outpatient clinics operated by the five academic medical centers at Davis, Irvine, Los Angeles, San Diego, and San Francisco; 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 with a satellite site in San Diego; an optometry clinic at Berkeley; and two neuropsychiatric institutes (Los Angeles and San Francisco). In addition, a demonstration school, 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.

The University's clinics are largely self-supporting through patient fees. State funds for Clinical Teaching Support (CTS) are appropriated to the University for the hospitals, neuropsychiatric institutes, and the dental clinics, in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes. The funds are generally used to provide financial support for patients who are essential for the teaching program, but who are unable to pay the full cost of their care.

The State's ongoing fiscal crisis has resulted in significant budget reductions throughout the University's budget. Academic and Institutional Support budgets were cut by \$36.5 million in 2003-04 and another \$45.4 million in 2004-05.

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 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. 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 these fields.

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

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.

The demonstration school at UCLA serves as a teaching laboratory for experimentation, research, and teacher training in the field of education. The schools educate children and contribute to the advancement of education through research efforts and application of results. Vivaria are centralized facilities for the ordering, receiving, and care of all animals essential to instruction and research.

Other activities under Academic Support — Other include support for the arts and specialized physical sciences and engineering projects.

TEACHING HOSPITALS

| 2006-07 BUDGET | |
|-------------------------|-------------------------|
| Total Funds | \$ 3,921,010,000 |
| General Funds | 51,891,000 |
| Restricted Funds | 3,869,119,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 193,456,000 |

The Role of the University Teaching Hospitals

The University operates academic medical centers at five campuses. 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 require 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 testing the application of new information and the development of new diagnostic and therapeutic techniques. With their tripartite mission of teaching, public service, and research, the University of California academic medical centers are 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 complex medical conditions 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.

In 2006-07, the University medical centers will have a combined licensed capacity of 3,400 acute care beds and are expected to generate more than 820,000 patient days and more than 3.6 million outpatient visits. This makes the University's academic medical centers one of the largest health care systems in California. It is also one of the largest Medi-Cal providers in the State.

At the request of the State, the University assumed operation of three former county hospitals for the Davis, Irvine, and San Diego campuses rather than constructing teaching hospitals of its own. These three hospitals have historically served a disproportionately high percentage of Medi-Cal patients, as well as other uninsured patients, whose care may be covered only partially by county indigent care programs. Thus, they are extraordinarily vulnerable to changing public policies related to financing the care of the indigent population.

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 and the State is currently providing lease revenue bonds to help with seismic corrections at the medical centers. The federal and state governments provide support through various programs, including Medicare, which helps pay for medical education, and Medi-Cal, which provides various supplemental payments to help fund care to low-income patients. As with the funding for the medically indigent, all of these additional funding sources are vulnerable to changing public policies.

Current Issues

The medical centers have taken steps to remain competitive in their respective markets by holding down costs, improving efficiencies, and by expanding their presence in the market through affiliations or the addition of clinical sites. As part of their strategy to capture greater market share and to improve their patient mix, three UC medical centers expanded their patient care by adding different locations. In 1990, Mount Zion Health Systems integrated with UCSF Medical Center; in 1993, UCSD built the Thornton Hospital on the La Jolla campus; and the UCLA Medical Center acquired the Santa Monica Hospital in 1995.

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

- increasing demand for services;
- a shortage of key personnel, including nurses, resulting in a sharp increase in labor costs;
- rising costs of pharmaceuticals and medical supplies;
- increasing salary and benefit costs, including re-instatement of employer contributions to UC's retirement system;

- changes to the federal Medicare payments program that affect direct and indirect support for medical education as well as reimbursement for patient care (discussed in the *Medicare* section of this chapter);
- changes to federal Medi-Cal payments for patient care, including caps on supplemental payments (discussed in the *Medi-Cal* section of this chapter);
- financing seismic retrofit other significant capital needs, such as upgrades necessary for programmatic changes (discussed in the *Seismic Safety and Other Capital Outlay Issues* section of this chapter);
- terrorism preparedness, and
- compliance with government regulations, e.g., AB 394 which established licensed nurse-to-patient ratio requirements, effective January 1, 2004.

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

The following sections briefly discuss the changes that have occurred in the delivery and funding for patient care, the resulting impact on the medical centers and academic programs, and the challenges ahead.

Health Care Financing

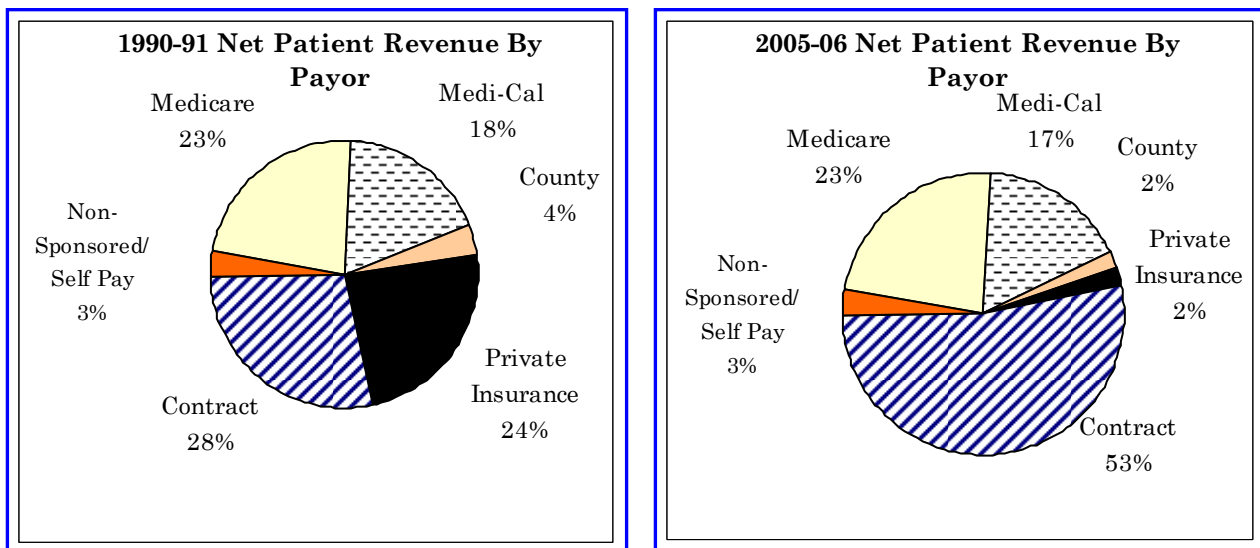
The University's medical centers are supported by payments for services to patients. A major source of patient revenue is government-sponsored health care programs, i.e., Medicare and Medi-Cal. Non-government sources of funds are commercial insurance companies (i.e., managed care contracts and private insurance) and self-pay patients. Several government-sponsored programs provide supplemental payments to the UC medical centers in recognition of their teaching mission and because they provide a disproportionate share of care to the state's low income population. Non-government insurance programs do not explicitly recognize the costs associated with teaching and treating the indigent.

Sharply rising health care costs, demographic changes, and changing economic conditions have caused the Congress, the State Legislature, 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 has been almost completely replaced by competitively established fixed-price payments (i.e., per-diem, global rates by diagnosis, or capitated rates). Both governmental and non-governmental payors are shifting to competitively based contractual arrangements. It is important that these contracts fully reflect the costs of providing care. Absent such an approach, costs unique to academic settings (e.g., treating sicker patients, providing services to a disproportionate number of uninsured or under-insured patients, and providing medical education in a clinical setting) are not fully reimbursed.

Over a fifteen-year period, 1990-91 through 2005-06, the percentage of net patient revenue from patients covered by fee-for-service (i.e., private payors) decreased from 24% to 2%, while net patient revenue from patients covered by contractual or capitated arrangements increased from 28% to 53%, as shown in Display 1.

Display 1



As major purchasers of services on behalf of Medi-Cal and Medicare beneficiaries, the State and federal governments are encouraging the development of contractual arrangements with selected providers for these populations. With regard to government payors, unless the negotiated rates recognize the legitimate costs incurred by academic medical centers and provide the necessary funding, the University's medical centers will not be able to recover full costs for providing the services.

In addition, as a result of improvements in procedures and new technologies allowing more services to be performed in outpatient settings, the UC medical centers have experienced modest increases in inpatient visits but outpatient visits have more than doubled. This is problematic because the costs of medical training

in outpatient settings are generally higher than in inpatient settings, and medical education costs for outpatient services are not directly reimbursed by Medicare or Medi-Cal.

Non-Government Sponsors

Historically, commercial or private insurance companies reimbursed hospitals for reasonable and customary charges. These commercial plans were often referred to as fee-for-service or cost-based reimbursement. Although this type of insurance provides the best coverage for its beneficiaries with the greatest flexibility in choosing a doctor, it is falling out of favor because of exorbitant premiums. Currently, commercial or private insurance reimburses hospitals on the basis of competitively set contractual arrangements. In 2005-06, the non-government contracts performed well. It is important that this continue.

Managed care contracts such as those with Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) reimburse hospitals at contracted or per-diem rates, which are usually less than full charges.

Capitated contracts with health plans reimburse hospitals on a per-member-per-month basis, whether or not services are actually rendered. Hospitals take on a certain amount of financial risk as the contract requires hospitals to treat a patient for all covered services. Non-government sponsors do not provide funding specifically for medical education.

Government Sponsored Programs

Medicare. The federal Medicare program (Title XVIII of the Social Security Act) is a third-party payor managed by the Social Security Administration that underwrites the medical costs of persons 65 years of age and older, and persons under 65 who are disabled or have end-stage renal disease.

In 2005-06, the number of Medicare days was 220,846, representing 27% of total patient days. The Medicare program generated \$936 million of net operating revenue, accounting for 23% of the total net patient revenue of the UC medical centers. The Medicare population is an important segment of the patient mix seen at UC medical centers. Aging of the population is probably the most important of the demographic factors that will increase health care demand in coming years. The “baby boom” is just entering the 55-65 age group with concomitant sharp increases in utilization of health services, in particular diagnostics and procedures, (for example, coronary artery bypass surgery and hip replacements).

During the early 1980s, changes in federal Medicare payment policies for hospitals included a prospective payment system for inpatient care based on

payments-per-case according to Diagnosis Related Groups (DRGs), rather than on actual hospital costs. These changes also limited payments for teaching costs and phased out cost-based payments for capital improvements. In 2000, outpatient care provided to Medicare patients was changed from cost-based reimbursement to a prospective payment system, which uses the ambulatory payment classification system.

Medicare reimbursement includes payments for direct and indirect cost for graduate medical education, providers which serve a disproportionate share of indigent patients, certain capital costs, and outlier payments for cases with unusually high costs of care.

Because of increasing demands and higher costs, the federal government has been taking steps to slow the growth of Medicare reimbursement. Support of graduate medical education through the Medicare program has come under fire in recent years, thus diminishing financial support for teaching programs.

The University is closely following the changes that the federal Center for Medicare and Medicaid Services (CMS) has proposed for the acute inpatient prospective payment system. The Medicare changes would: 1) shift the DRG weighted system from a charge-based to a cost-based system; and 2) expand the DRGs to better reflect the severity of patients. These changes are designed to ensure that Medicare payments more closely reflect acuity. While these changes may prove beneficial for UC over the long term, they represent significant changes that may reduce payments in the short-term as the system transitions to the new payment arrangement.

In addition, the Medicare physician fee schedule includes reductions imposed by Congress. These changes impact Medicare physician reimbursement and have a downstream impact on commercial physician reimbursement rate structures tied to Medicare rates.

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

Medicare indirect medical education payments are provided to teaching hospitals for some of the indirect costs associated with medical education, such as the extra demands placed on the medical center staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents.

The combined direct and indirect medical education payments in 2005-06 were \$127.9 million, approximately 13.7% of Medicare reimbursement to the five medical centers.

The federal 1997 Balanced Budget Act (BBA) contained significant changes to Medicare. It included a schedule for reducing indirect medical education (IME) payments by approximately 29% over a four-year period. These changes were expected to reduce Medicare spending by \$116 billion by 2002. The BBA proposed to reduce the indirect medical education factors from 7.7% in 1997 to 5.5% in 2002. This reduction was predicted to achieve \$4.2 billion in savings over five years. Another \$3.4 billion in savings over the same period would have been achieved through changes in direct medical education payments. On average, the impact to the UC Medical Centers was estimated to range from \$6 million in 1997 to over \$20 million in 2002, for a total of \$70 million over five years.

The Balanced Budget Refinement Act of 1999 (BBRA) and the Medicare, Medicaid, and State Children's Health Insurance Program Benefits Improvement and Protection Act of 2000 (BIPA) altered the schedule. BBA 1997 reduced the IME percentage add-on from 7.7% in FY1997 to 7.0% in FY 1998, 6.5% in FY1999, 6.05% in FY2000, and 5.5% in FY2001 and subsequent years. The BBRA of 1999 modified BBA reductions by holding the IME adjustment to 6.5% through FY2000, then lowering the adjustment to 6.25% in FY2001, and finally reducing it to 5.5% in FY2002 and subsequent years. BIPA 2000 further delayed the reduction by holding it to an average of 6.5% in FY2001 and FY2002, before allowing it to fall to 5.5% in FY2003 and thereafter.

The "Medicare Prescription Drug, Improvement and Modernization Act of 2003," signed into law on December 9, 2003, increased the Medicare Indirect Medical Education (IME) adjustment from 5.5 to 6.0% on April 1, 2004; 5.8% in FY2005; and 5.55% in FY2006. In FY2007, IME payments are reduced to 5.35% before being set at 5.5% in FY2008 and beyond.

Medi-Cal. Medicaid, known as Medi-Cal in California, is a State-administered federal entitlement program to provide health insurance to qualified low-income Californians. The program is designed to benefit families receiving cash aid, poor working families, children, the aged, and persons with disabilities.

In 2005-06, the number of Medi-Cal days was 191,817, representing 23.4% of total patient days. The Medi-Cal program generated \$661.7 million of net patient revenue, accounting for approximately 16.5% of the total net patient revenue of the UC medical centers.

Hospital payments under Medi-Cal are paid directly from the state or by health plans if the Medi-Cal patient is enrolled in managed care. Managed care payments to hospitals are negotiated between hospitals and plans.

Changes in Medi-Cal health care financing have impacted the medical centers since 1982. Reforms of the State Medi-Cal program instituted selective hospital contracting for inpatient services at flat per-diem pricing, stricter eligibility requirements, and the transfer of responsibility for the medically indigent adults (MIAs) from the State to the counties (funding for the MIAs was provided at less than the 70% of projected State expenditures for the base year 1982-83). The transfer of the MIA patients directly affected the three former county hospitals — Davis, Irvine, and San Diego — because the local tax dollars used to subsidize hospitals operated by local government were not available to University-operated medical centers. Also in 1982, legislation provided private health care insurers with the same ability as the State to contract selectively with health care providers on behalf of their enrollee.

In the early 1990s, the State Department of Health Services (DHS) was given authority to hasten the transition of Medi-Cal from a fee-for-service to a managed care system for approximately 2.5 million beneficiaries receiving cash aid, such as Aid to Families with Dependent Children. Under these managed care programs, the provider agrees to treat Medi-Cal enrollees for a fixed rate-per-member-per-month. The provider is therefore at risk and is liable for any expenses incurred beyond the monthly capitation payments. The University's medical centers are at increased financial risk for managing the care of patients covered under these programs. The type and the size of the Medi-Cal managed care programs vary among counties.

The federal 1997 Balanced Budget Act (BBA) was also expected to cut Medicaid spending by \$10.4 billion, primarily from reductions in payments for disproportionate share hospitals. As a result of major efforts of the UC medical centers and other similarly affected health care providers, legislation passed in 1999 and 2000 delayed the implementation of the BBA cuts. On September 30, 2002 that legislation sunsetted and most of the reductions in Medicare reimbursement proposed by BBA were enacted. One such reduction proposed by the BBA reduced Medicaid Disproportionate Share Hospital (DSH) funding to states by 20%. This reduction to the Medicaid DSH program was restored in subsequent federal legislation.

The total number of individuals eligible for Medi-Cal has significantly increased over the last five years, creating the potential for increased hospital utilization. This makes the UC academic medical centers more vulnerable to state and federal Medi-Cal rate reductions.

In late 2005, Medi-Cal payments were significantly changed through a new federal waiver. The Medi-Cal Hospital Care/Uninsured Hospital Care Demonstration Project (SB 1100) (“Waiver”) is a new system for paying selected hospitals for hospital care provided to Medi-Cal and uninsured patients. The Waiver was negotiated by the State of California and the federal government in 2005 for the payment period July 1, 2005 to June 30, 2010. The new Medi-Cal waiver presents an opportunity in the current year to maximize payments in keeping with hospital utilization.

The Medicaid Waiver is a financing agreement that changes how the state draws Medicaid funds to support hospitals. The new Waiver replaces a 15-year old system that governed hospital fee-for-service payments. Under the old system, UC Medical Centers received inpatient fee-for-service contract per diems, which included some carve-out payments, inpatient fee-for-service supplemental payments, such as SB 1255 and SB 855 payments to disproportionate share hospitals (i.e., hospitals that treat a high number of Medi-Cal and low income patients), and Medi-Cal Education Supplemental Funds. These funding sources are effectively replaced under the Waiver by a cost-based fee-for-service per diem, Disproportionate Share Hospital funds — which are now allocated almost exclusively to public hospitals — and new Safety Net Care Pool (SNCP) funding. SNCP funds are to be used for services provided to the uninsured. (Funds from this pool cannot be used for services provided to individuals who do not have legal documentation status.)

Like the old system, the new Waiver payment will require a non-federal share to draw these federal funds. Under the new Waiver, the non-federal share used to draw the federal funds will be a combination of inter-governmental transfers and certified public expenditures. Intergovernmental transfers are the transfer of funds by public entities that own and operate public hospitals (i.e., counties and UC) in order to draw federal funding. Certified public expenditures are costs incurred by a publicly owned provider that are certified and can be used as the basis for the non-federal share to draw federal funds. Given that certified public expenditures are a new tool to draw federal funds, UC is working aggressively to define how certified public expenditures are computed. Payments under the new waiver are both for Medi-Cal patients and the uninsured — discrete payments for hospital care to the uninsured is a key component of the new waiver.

Over the five-year life of the waiver, DSH and SNCP payments are capped. While UC anticipates growth in Medi-Cal reimbursements in the first and second years of the waiver, because of the cap on DSH and SNCP payments, the total aggregate payments to each UC medical center may not grow in step with their increasing Medi-Cal and uninsured patient-related expenses.

Medi-Cal Medical Education Funds. In 1996-97, the Legislature adopted supplemental language asking the University to develop options for dealing with the costs of providing medical education in a clinical setting.

The University reviewed many alternatives, and successfully pursued an option to help fund graduate medical education costs through the Medi-Cal program by securing federal matching 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 specifically for the University's five medical centers that allowed the University to obtain an additional \$50 million in matching federal Medicaid funds to support educational costs incurred in the treatment of Medi-Cal inpatients.

The State approved legislation (SB 391) to continue the program through 1998-99 and to expand it by creating two supplemental payment funds that are financed through voluntary intergovernmental transfers and then matched with federal Medicaid funds. The supplemental payment funds are the Medi-Cal Medical Education Supplemental Payment Fund, and the Medi-Cal Large Teaching Emphasis Hospital and Children's Hospital Medical Education Supplemental Payment Fund. Medi-Cal contracting hospitals that meet the definition of the university teaching hospitals (e.g., UC medical centers) or major (non-university) teaching hospitals are eligible to negotiate for funding from CMAC to cover the medical education costs associated with Medi-Cal inpatient care.

From the inception of this program in 1996-97 to 2004-05, the UC medical centers received \$471.2 million of new federal funds, an average of \$59 million per year. Beginning in 2005-06, payments under this program are paid as a component of the new federal waiver described earlier.

Funding from Counties. Counties in the State of California reimburse hospitals for certain indigent patients covered under the county contract. The Davis, Irvine, and San Diego Medical Centers, former county hospitals, currently have contracts with their respective counties to provide care to the uninsured.

Counties use local tax dollars from their general fund to subsidize health care for the indigent. Some spending is required in order to receive the state matching funds, but many counties appropriate additional discretionary funds to cover the costs of serving the uninsured. However, the downturn in the State's economy also affected local county revenues, creating increased competition among local services for reduced funds, severely constraining the ability of local governments to adequately fund health care services to the uninsured. Although there have been measures enacted to mitigate the impacts, i.e., Tobacco Tax (Proposition 99), these efforts have not provided full relief.

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. The proceeds are allocated to six separate accounts for activities designed to meet the stated goals of the proposition, including indigent care, the prevention and cessation of tobacco use, and the prevention and treatment of tobacco-related diseases. In 1989, the State approved a plan (AB 75) specifying how Proposition 99 funds were to be distributed. Funds from the “Hospital Services and Unallocated Accounts,” which are distributed to the counties, are available for payment to public and private hospitals for 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 2005-06, the University medical centers received a total of \$1.5 million in Proposition 99 funds as compared to \$14.6 million in 1989-90.

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

The 2004-05 budget included nearly \$50 million in CTS funds for the five UC medical centers. While CTS funds represent about 1.4% of the total operating revenue for the medical centers, they continue to be important to the quality of the clinical teaching programs and to the financial stability of the medical centers. CTS funds allow the medical centers to serve a diverse pool of patients in order to achieve their teaching mission. The State budget for 2001-02 provided a \$5 million one-time CTS augmentation, of which \$2 million was distributed among the five medical centers with the balance going to the neuropsychiatric hospitals and dental clinics. However, as noted earlier, in 2003-04, the State implemented a mid-year budget cut which reduced CTS funds to the medical centers by \$5.5 million.

Responding to the Challenges

UC medical centers face legitimate concerns regarding the need for adequate funding to support their tripartite mission. In recent years, temporary fixes have provided short-term relief. Other State and federal actions have added to these concerns.

Special State Help for the Disproportionate Share Hospitals

Special Subsidies for the Three Former County Hospitals. The 1985 Budget Act authorized the Legislative Analyst to contract for a study of the effectiveness of the management of the three former county hospitals operated by the Davis, Irvine, and San Diego Medical Centers. In April 1986, the consultant reported that management of the three hospitals was effective and that their operating losses were fundamentally attributable to the environment in which they operate. The consultant also emphasized that the fiscal survival of these hospitals would depend upon a State-funded operating subsidy to help cover their significant volume of uncompensated and under-compensated patient care. As a result, in 1985-86, the State provided \$86 million to fund cost-saving and revenue-enhancing capital outlay projects and equipment purchases, and \$28.6 million to mitigate operating losses. The UC Irvine Medical Center received the entire \$28.6 million operating subsidy because it was the only UC medical center that incurred losses prior to receiving the subsidy.

State Capital Funds for Medi-Cal Disproportionate Share Hospitals (SB 1732). The SB 1732 program, the Construction and Renovation Reimbursement Program, provides supplemental Medi-Cal reimbursement to disproportionate share hospitals for debt service costs (i.e., principal and interest) of approved capital construction. Both the Davis and San Diego Medical Centers received approval (Davis in 1998-99 and San Diego in 1999-00) from DHS for annual supplemental funding over the life of the debt service. In 2004-05, the Davis and San Diego Medical Centers received \$5.5 million and \$2 million, respectively. UC Irvine, also a disproportionate share hospital, had no projects that qualified.

Other State Budget Actions Impacting the Teaching Hospitals

One-time Funds. The 2000 Budget Act provided \$25 million in one-time funds for medical center equipment in recognition of financial projections which indicated that the medical centers would not have a sufficient operating margin at the end of 1999-2000 to allow for normal capital and equipment costs. The State funds were used for equipment in 2000-01. As a condition for receiving these funds, the Legislature required the University to prepare a report that explained how the funds would be used and demonstrated that the funds did not supplant other funds that would have otherwise been used for equipment in 2000-01. Each medical center was allocated \$5 million. The required report was submitted in February 2001.

The 2000 Budget Act also provided \$50 million in State General Funds for infrastructure projects that were non-seismic capital improvements at the medical centers. This funding was appropriated in recognition of the millions of dollars required for improvement apart from the seismic problems to address deficiencies

and remain competitive in today's managed care market. Needs include a broad range of high-priority projects, such as the upgrade of operating rooms, correction of deficiencies in clinical laboratories, modernization of patient facilities, upgrade of deteriorated utility services, and replacement of aged and inadequate building systems. This allocation was made in parallel to the State lease revenue bonds allocation so that the infrastructure work could be done in conjunction with the seismic work. The \$50 million for infrastructure needs were allocated among the medical centers as follows: \$25 million to San Diego, \$10 million to Los Angeles, and \$5 million each to the Davis, Irvine and San Francisco Medical Centers.

Meeting the State and University Budget Shortfalls. In the early 1990s, in recognition of the fact that the State provided more than \$80 million of assistance by funding needed capital improvements at the three former county hospitals during the 1980s, the University and the State turned to the medical centers to help alleviate some of the University's budgetary problems. At that time, the University was experiencing unprecedented cuts in its operating budget and the academic medical centers were experiencing modest gains.

In 1992-93, the medical centers funded a \$43 million shortfall in the University's operating budget. In 1993-94 and 1994-95, the State redirected \$237 million in SB 855 transfer funds from all transferring entities when they would otherwise have been used to capture matching federal Medicaid dollars. This redirection of dollars by the State reduced the total amount of SB 855 funds available for distribution. 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 reduction in health sciences clinical activities, which resulted in both permanent and one-time cuts in CTS for the medical centers.

In 1994-95, 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, (i.e., libraries, instructional equipment, 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 5% recommended by the Legislative Analyst and supported by the Legislature.

In response to this action, the University undertook a study to look at the medical centers' needs for working capital, capital outlay, and equipment, as well as maintaining a prudent reserve. The study concluded that future actions by the Legislature to limit the medical centers' ability to accumulate adequate reserves would make it even more difficult to compete in price-sensitive markets. Notwithstanding this finding, the 1995 State Budget Act redirected \$5.5 million,

a portion of the medical centers' net gain above 5%, from CTS funds to help fund the University's deferred maintenance budget on a one-time basis. The medical centers only achieved a 2.8% operation margin in 1995-96, and the \$5.5 million of CTS funds were restored to the medical centers in 1996-97.

Beginning in 2001-02, the state entered into a financial crisis that led to dramatic cuts in State funding for the University over a four-year period. Despite the continuing financial struggles they faced, the UC medical centers were not totally exempt from a share of these cuts — a \$5.5 million reduction in CTS funds was included in the mid-year budget cuts in 2003-04.

Other Federal Actions Impacting the Teaching Hospitals

Health Insurance and Portability and Accountability Act of 1996. The Health Insurance and Portability and Accountability Act of 1996 (HIPAA) privacy standards empower the patient to request, amend, and obtain certain information. This is of concern to the University because academic medical centers, given the many arenas in which they interact with protected health information, are more likely than their community hospital counterparts to be the subject of an extensive number of patient requests. The cost to comply with a potentially extraordinary number of requests is an unfunded mandate with significant financial consequences. Health care providers, including the UC medical centers, were required to comply with the "Privacy Rule" under HIPAA by April 2003.

Seismic Safety and Other Capital Outlay Issues

SB 1953, the Hospital Seismic Safety Act was enacted in late 1994. This legislation requires general acute-care inpatient hospitals to meet standards designed to prevent collapse in a major earthquake by 2008, even though the hospital may not remain operational after the earthquake. By 2030, hospitals would be required to meet higher building standards that would increase the probability of remaining operational following a major earthquake. No provisions for funding were included in the legislation.

Compliance with SB 1953 will affect the state's hospital industry and the delivery of health care, as well as the teaching and research activities conducted at the UC medical centers. The University estimates that costs to the teaching hospitals for compliance with SB 1953 through the year 2008 will be significant, at least \$600 million.

A trailer bill to the 2000 State Budget Act authorized the State Public Works Board (SPWB) to issue up to \$600 million in State lease revenue bonds for seismic correction of the University's acute care hospital facilities required by SB 1953. As with previous SPWB funding for other University projects since the mid-1980s, the

asset for the financing will be either the new hospital facility or — if the project involves renovation of an existing facility where prior hospital debt poses a constraint — another acceptable existing facility will be designated as the asset for financing. If a new hospital building is involved and will serve as the asset for the bond, the site is leased to the SPWB by the University, the University signs agreements to act as agent for the SPWB in construction of the new facility, and then leases the completed facility from the SPWB for operation. If an existing facility serves as the asset (termed “asset transfer”), the existing facility will be leased to the SPWB, and the University will act as SPWB agent for the alterations, and then will lease the resulting upgraded facility from the SPWB for operation. The SPWB retains ownership of the leased facility until full repayment of the State lease revenue bonds used for the project, after which ownership is returned to the University.

In anticipation of the sale of the \$600 million of state lease revenue bonds, The Regents approved the following allocations at their meeting in November 2000: Davis - \$120 million, Irvine - \$235 million, Los Angeles - \$180 million, San Diego - \$40 million, and San Francisco - \$25 million. Construction for the Tower II, Phases 2 and 3 renovations at the Davis campus is complete, and approximately 88% of the Westwood/Santa Monica Replacement Hospital facilities at UCLA is complete. Construction is underway for the Irvine Replacement Hospital, the Surgery and Emergency Services Pavilion at the Davis campus, as are renovations of Moffitt/Long Hospital facilities at UCSF. Improvements to the UCSD Hillcrest facility are in the final design phase.

In addition, the medical centers have other significant capital needs, such as upgrades necessary for programmatic changes, which cannot be addressed with the State’s lease revenue bonds. Therefore, the UC medical centers will be required to use hospital reserves and conduct significant funding campaigns to supplement available funds. The Los Angeles Medical Center has significant funding provided from insurance and from the Federal Emergency Management Agency (FEMA) as a result of damage done by the Northridge earthquake in January 1994. FEMA funds are being used to build the new hospital in the Westwood campus and the Santa Monica Medical and Orthopedic Hospital in Santa Monica.

Impacts of Managed Care

Academic medical centers are profoundly affected by changes in the delivery and financing of health services. These changes are the direct or indirect result of an increase in the percentage of the population enrolling in “managed care plans” for health care coverage. When reimbursement was provided on a fee-for-service basis, the medical centers were able to generate the patient volume and dollars needed to

support teaching and research. Patients were attracted to the cutting-edge quality of the specialized treatments for complicated health problems offered by academic medical centers.

Managed care seeks to reduce costs in two primary 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 “gatekeepers,” coordinating care and controlling referrals to more costly specialized services, including inpatient care. Some services that have traditionally been provided on an inpatient basis are now provided in outpatient facilities as efforts are made to reduce costs. Improvements in procedures and new technologies will continue to allow more services to be performed in outpatient settings.

As a result of these trends, the UC medical centers have experienced a shift from inpatient to outpatient settings, a shift that threatens volume of patients seen in an inpatient setting and reduces revenues.

While there is pressure from accrediting bodies and other policy makers to shift the locus of medical training from inpatient to outpatient care sites, the costs of medical training in outpatient settings are generally higher than in inpatient settings. Further financial challenges have been created by this change, given that medical education costs for outpatient services are not directly reimbursed by Medicare or Medi-Cal. The University is working with the State to identify the costs of medical education in outpatient settings, with the hope that this leads to adjustments in reimbursement by the State and federal governments. In 2002, the State approved legislation, AB 915, the Public Hospital Outpatient Services Supplemental Reimbursement Program, which provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments for Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital’s certified public expenditures (CPE), which are matched with federal Medicaid funds. The UC medical centers will receive over \$30 million from this source related to services provided in 2005-06.

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 and to assume risk for a defined population. 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 offer a continuum of care and derive competitive advantages from economies of scale that can result in lower prices; data collection capabilities that can monitor outcomes over time, which can be an advantage in attracting patients; and convenience for

insurers, who can negotiate with many doctors and multiple services as a group rather than on a one-on-one basis. Providers who remain outside these networks face a reduced market for their services, as more of the population uses managed health care on either a voluntary or mandatory basis.

As major purchasers of services on behalf of Medi-Cal and Medicare beneficiaries, the State and federal governments are encouraging the development of contractual arrangements with selected providers for these populations. Unless the negotiated rates recognize the legitimate costs incurred by academic medical centers and provide the necessary funding, the University's medical centers will not be able to recover full costs for providing the services.

STUDENT FEES

Overview

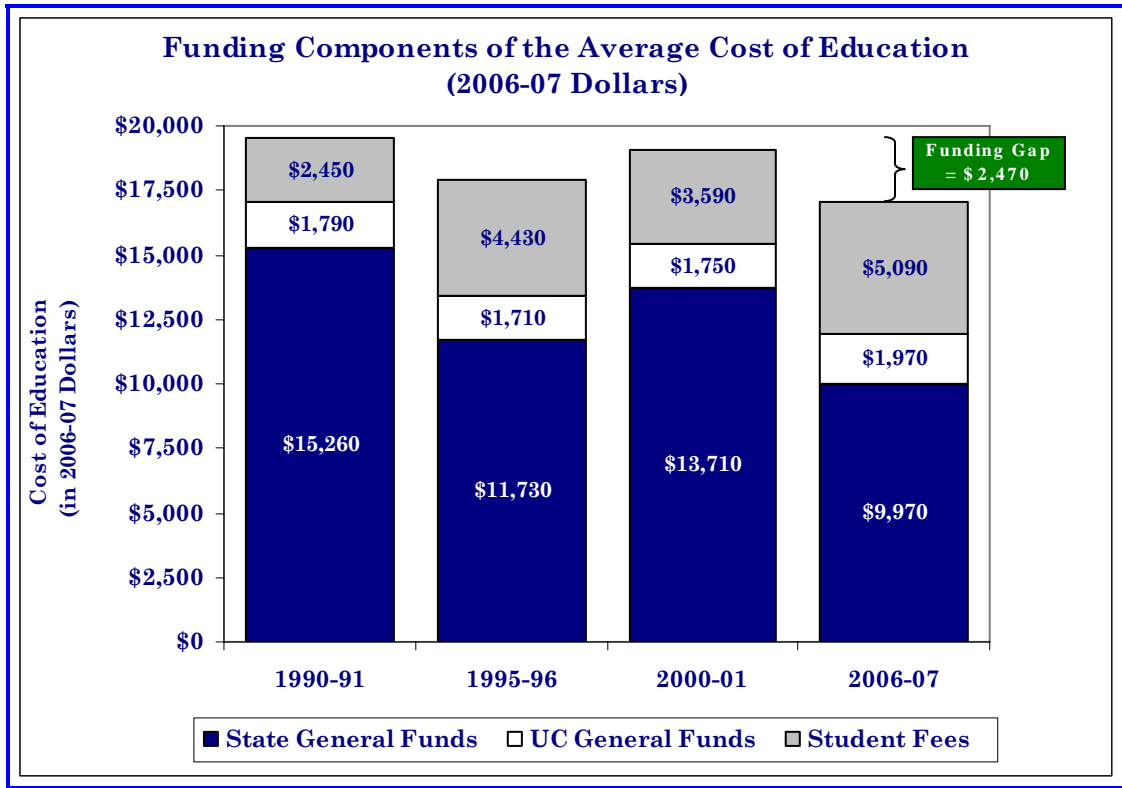
There are two mandatory systemwide fees currently assessed to all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support a share of the University's operating costs, including instruction-related costs, student financial aid, and student services programs. All students also must pay mandatory campus fees, also called miscellaneous campus fees, which cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government and construction, renovation, and repair of sports and recreational facilities. In addition to all mandatory systemwide and campus fees, some students pay other fees as follows:

- All students seeking specified degrees in medicine, dentistry, veterinary medicine, law, business/management, pharmacy, optometry, nursing, public health, public policy, the UCLA theater/film/television program and the UCSD international relations and Pacific studies program are required to pay a professional school fee.
- Nonresident students must pay nonresident tuition as well as mandatory fees and any applicable professional school fees.

Historically, the State has heavily subsidized the cost of education. However, as with all public universities, student fees have tended to increase as the State's subsidy has declined. Display 1 (next page) shows the funding components of the average cost of a UC education from 1990-91 through 2006-07 (in 2006-07 dollars) and the funding gap that has developed between the cost of a UC education in 1990-91 and the resources available in 2006-07. Display 1 yields several findings.

- The average expenditure per student for a UC education has declined. In 1990-91, the cost to educate a UC student was approximately \$19,500 in 2006-07 dollars. Over 16 years, funding per student in inflation adjusted dollars declined by 12.7%, from \$19,500 in 1990-91 to \$17,030 in 2006-07, resulting in a funding gap of \$2,470 per student.
- The State subsidy per student for the cost of a UC education has declined significantly — by 35% over a 16-year period. In 1990-91, the State contributed \$15,260 per student — 78% of the total cost. By 2006-07, the State share declined to \$9,970, just 59%.

Display 1



- As the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1990-91 students contributed 13% toward their education, they currently pay 30% of the cost of their education.

These findings raise several additional points. First, the funding gap that has developed since 1990-91 represents lost support totaling more than \$500 million. Although the University has struggled to meet the challenge presented by this substantial decline in state funding, it must be recognized that certain elements of the educational, research, and public service functions have been steadily sacrificed in order to preserve the core missions of the University. It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. When the State's financial situation permits, the University will seek support to reduce this funding gap, as discussed in the *Summary of the 2007-08 Budget* chapter of this document.

Second, recent national news coverage about skyrocketing costs of college tuition masks what has really happened at UC. University expenditures per student have not increased, but rather have fallen (in constant dollars). Instead, fees paid by students have risen as funding from the State has declined. Student fee increases

have helped maintain quality during times of fiscal crisis, but have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low.

Third, despite rising fees for students, the University has striven to maintain student access and affordability. As fees increased between 2001-02 through 2005-06, the University provided significant increases in financial aid to help ensure access for low-income students. UC has maintained affordability for lower-income students by sustaining a strong financial aid program.

As a result of the State’s buyout of increases in mandatory systemwide fees in the current year, the University’s average fees for 2006-07 for undergraduate resident students (excluding health insurance fees) are \$1,500 less than the average fees charged at the University’s four public salary comparison institutions, as shown in Display 2.

Display 2

| University of California and Public Salary Comparison Institutions Total Student Fees * | | | | |
|--|----------------------|------------------|-----------------|------------------|
| Public Salary Comparison Institutions 2006-07 Fees | <u>Undergraduate</u> | | <u>Graduate</u> | |
| | Resident | Nonresident | Resident | Nonresident |
| University of Illinois | \$ 9,522 | \$ 23,608 | \$ 10,152 | \$ 22,992 |
| University at Buffalo (SUNY) | \$ 6,129 | \$ 12,389 | \$ 9,448 | \$ 13,468 |
| University of Virginia | \$ 8,043 | \$ 26,143 | \$ 10,560 | \$ 20,560 |
| University of Michigan | \$ 9,723 | \$ 29,131 | \$ 14,991 | \$ 30,137 |
| 2006-07 Average Fees of Comparison Institutions | \$ 8,354 | \$ 22,818 | \$ 11,288 | \$ 21,789 |
| 2006-07 Average UC Fees | \$ 6,852 | \$ 25,536 | \$ 8,938 | \$ 23,899 |

* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident students

In addition, University fees for resident graduate students continue to be well below (\$2,350) the average fees charged at the University’s four public salary comparison institutions. Currently, only one of the four public comparison institutions charges lower fees to resident undergraduates; for graduate academic students UC charges the lowest fees of any of the public comparison institutions.

However, the comparisons for nonresident students are a different matter. In the past, the University’s fees were among the lowest charges, for both nonresident undergraduate and graduate students, of any of the University’s public comparison institutions. With the increases in mandatory systemwide fees and nonresident

tuition approved by The Regents for 2005-06, for the first time since the mid-1980s, the University's fees for nonresident undergraduate and graduate students exceeded the average fees for the comparison institutions by \$2,718 and \$2,110 respectively. Even so, the University's tuition and fees for nonresident students represent the mid-point among our public comparison institutions.

2007-08 Budget Plan — Student Fees

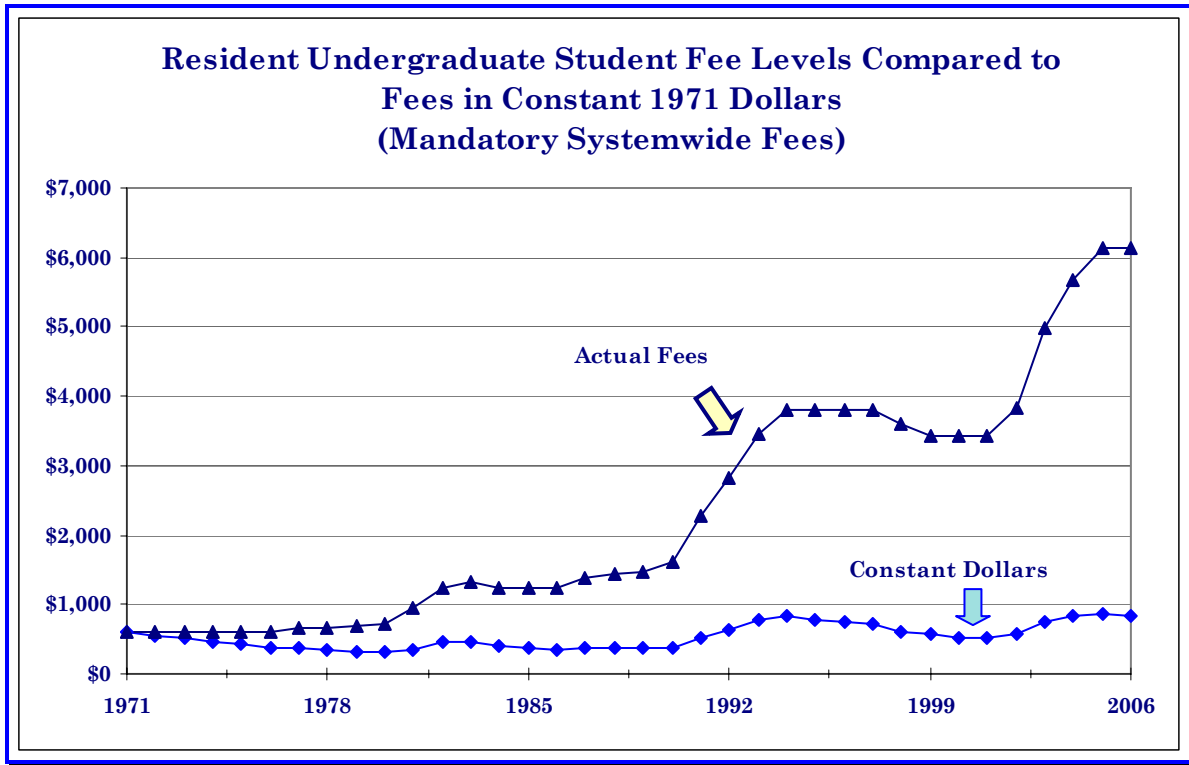
The University is proposing no increase in mandatory systemwide fees at this time. Instead, the University proposes to delay action on student fees until more is known in January after the Governor's proposed budget for 2007-08 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to once again buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January meeting. Any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances. Thus, if student fee increases are instituted, the University would propose a return-to-aid of 33% for undergraduates, including special emphasis on ensuring accessibility for middle-income students, and a return-to-aid of 33% for professional school students. The University would propose a higher return-to-aid for graduate academic students (45%) to recognize the need to provide competitive graduate support packages and to cover collective bargaining agreements with teaching assistants. The *Summary* also contains a discussion of The Regents' priorities for further additional funding once the State's fiscal situation permits.

For nonresident undergraduate students only, it is proposed that the Nonresident Tuition Fee be increased by 5% in 2007-08, raising the nonresident tuition level for these students by \$900 from \$18,168 to \$19,068. Nonresident tuition would remain at \$14,694 for graduate academic students and \$12,245 for professional students. Taken together with mandatory systemwide fees and campus fees, the average total nonresident student charges in 2006-07 are estimated to be \$25,536 for undergraduate students and \$23,899 for graduate academic students.

History of Student Fees

The history of student fees is shown in the top line of Display 3. The wide fluctuation in student fees tracks fairly closely with changes in the State's economy. In good years, fees were held steady or were reduced. In years of fiscal crisis, student fees increased dramatically. The display also shows that 2006-07

Display 3



fee levels, when adjusted to reflect 1971-72 constant dollars, are about the same as they were in 1994-95.

As noted previously, from 1995-96 to 2001-02, the State provided additional funding to the University to avoid increases in mandatory student fees during those years. In addition, the State provided funding to reduce mandatory systemwide fees by 10% for resident undergraduate students and 5% for resident graduate students. Instead, if the University had adjusted mandatory systemwide fees by 4% annually beginning in 1995-96, total undergraduate fees would be \$6,743 – \$59 less than the actual UC systemwide average of \$6,852 for 2006-07 – and about \$1,611 less than the average of total tuition and fees (\$8,354) at the comparison institutions.

Display 4 (next page) shows fee levels for resident undergraduate and graduate academic students from 1978-79 through 2006-07.

In the early 1980s, fees were increased to offset losses in State funds. Throughout the rest of the decade, fees were held constant or increased moderately until the onset of the State's fiscal crisis in the early 1990s when the State's severe fiscal difficulties resulted in a dramatic decline in State support for the University. The impact of the State's fiscal crisis in the 1990s is described in detail in the *Overview* chapter of this document.

Display 4

| UNIVERSITY OF CALIFORNIA STUDENT FEE LEVELS 1978-79 to 2006-07 | | | | | | | | | | | | |
|--|-------------------------|--------------|--------------|---------------|---------------------|-----------------|---|--------------|--------------|---------------|------------------|---------------------|
| Average Annual Fees per Resident Undergraduate Student | | | | | | | Average Annual Fees per Resident Graduate Academic Student | | | | | |
| | Ed/Reg Fees Combined | | | | Misc. Fees | Total Fees * | Ed/Reg Fees Combined | | | | | |
| | Reg. Fee | Ed. Fee | Total | % Change | | | (a) | Reg. Fee | Ed. Fee | Total | % Change | Misc. Fees |
| 1978-79 | \$ 371 | \$ 300 | \$ 671 | | \$ 49 | | \$371 | \$ 360 | \$ 731 | | \$ 38 | \$ 769 |
| 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 | 463 | 475 | 938 | (30.5%) | 60 | 998 | 463 | 535 | 998 | (30.5%) | 45 | 1,043 |
| 1982-83 | 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 | 673 | 951 | 1,624 | (10.0%) | 196 | 1,820 | 673 | 951 | 1,624 | (10.0%) | 482 | 2,106 (b) |
| 1991-92 | 693 | 1,581 | 2,274 | (40.0%) | 212 | 2,486 | 693 | 1,581 | 2,274 | (40.0%) | 557 | 2,831 (b) |
| 1992-93 | 693 | 2,131 | 2,824 | (24.2%) | 220 | 3,044 | 693 | 2,131 | 2,824 | (24.2%) | 608 | 3,432 (b) |
| 1993-94 | 693 | 2,761 | 3,454 | (22.3%) | 273 | 3,727 | 693 | 2,761 | 3,454 | (22.3%) | 703 | 4,157 (b) |
| 1994-95 | 713 | 3,086 | 3,799 | (10.0%) | 312 | 4,111 | 713 | 3,086 | 3,799 | (10.0%) | 786 | 4,585 (b, c) |
| 1995-96 | 713 | 3,086 | 3,799 | (0.0%) | 340 | 4,139 | 713 | 3,086 | 3,799 | (0.0%) | 836 | 4,635 (b, c) |
| 1996-97 | 713 | 3,086 | 3,799 | (0.0%) | 367 | 4,166 | 713 | 3,086 | 3,799 | (0.0%) | 868 | 4,667 (b, c) |
| 1997-98 | 713 | 3,086 | 3,799 | (0.0%) | 413 | 4,212 | 713 | 3,086 | 3,799 | (0.0%) | 923 | 4,722 (b, c) |
| 1998-99 | 713 | 2,896 | 3,609 | (-5.0%) | 428 (d), (e) | 4,037 | 713 | 3,086 | 3,799 | (0.0%) | 839 (d) | 4,638 (b, c) |
| 1999-2000 | 713 | 2,716 | 3,429 | (-5.0%) | 474 (d), (e) | 3,903 | 713 | 2,896 | 3,609 | (-5.0%) | 969 (d) | 4,578 (b, c) |
| 2000-01 | 713 | 2,716 | 3,429 | (0.0%) | 535 (d), (e) | 3,964 | 713 | 2,896 | 3,609 | (0.0%) | 1,138 (d) | 4,747 (b, c) |
| 2001-02 | 713 | 2,716 | 3,429 | (0.0%) | 430 (d), (f) | 3,859 | 713 | 2,896 | 3,609 | (0.0%) | 1,305 (d) | 4,914 (b, c) |
| 2002-03 (α) | 713 | 3,121 | 3,834 | (11.8%) | 453 (d), (f) | 4,287 | 713 | 3,301 | 4,014 | (11.2%) | 1,327 (d) | 5,341 (b, c) |
| 2003-04 | 713 | 4,271 | 4,984 | (30.0%) | 546 (d), (f) | 5,530 | 713 | 4,506 | 5,219 | (30.0%) | 1,624 (d) | 6,843 (b, c) |
| 2004-05 | 713 | 4,971 | 5,684 | (14.0%) | 628 (d), (f) | 6,312 | 713 | 5,556 | 6,269 | (20.0%) | 1,606 (d) | 7,875 (b, c) |
| 2005-06 | 735 | 5,406 | 6,141 | (8.0%) | 661 (d), (f) | 6,802 | 735 | 6,162 | 6,897 | (10.0%) | 1,811 (d) | 8,708 (b, c) |
| 2006-07 | 735 | 5,406 | 6,141 | (0.0%) | 711 (d), (f) | 6,852 | 735 | 6,162 | 6,897 | (0.0%) | 2,041 (d) | 8,938 (b, c) |

Notes:
 (a) Represents the average of fees charged by the campuses for undergraduates and graduate academic students. Fees for professional students are not included here.
 (b) The \$376 annual Special Fee for Law and Medicine is not included in figures shown.
 (c) The Fee For Selected Professional School Students is not included in figures shown.
 (d) Beginning in 1998-99, campus miscellaneous fees are calculated on a weighted basis using enrollments.
 (e) From 1998-99 through 2000-01, Miscellaneous Student Fees included fee charged for undergraduate student health insurance established through student referendum at Berkeley and Santa Cruz.
 (f) Does not include student health insurance fees which may be waived by demonstrating insurance coverage.
 (g) Includes the full fee increase of \$405 approved in 2002-03. However, only 1/3 (\$135) of the increase was implemented in Spring 2003, with the full amount implemented in 2003-04.
 * Total fees are the sum of the Ed/Reg Fees combined and estimated campus miscellaneous fees, which are higher for graduate students.

There was considerable volatility in fee increases during the early 1990s. Throughout this period, fees were accompanied by significant increases in financial aid that helped offset the impact of the fee increases on needy students. The University's ongoing commitment to financial aid, which is addressed in the *Student Financial Aid* chapter of this document, has helped maintain the affordability of a UC education.

Student Fees 1995-96 through 2005-06

There were no increases in mandatory systemwide fees for seven consecutive years from 1995-96 through 2001-02 until the mid-year student fee increases instituted for the Spring 2003 term. In fact, as a result of the State's actions in the late 1990s, fees were reduced by 10% for California resident undergraduates and by 5% for California resident graduate academic students.

Even though the State's fiscal situation began to deteriorate in 2001-02, student fees did not increase until mid-year cuts were instituted in 2002-03. As part of the University's effort to offset cuts targeted at instructional programs, systemwide

student fees were raised by about 11% in 2002-03 (\$135 effective Spring term 2003, which when annualized totaled \$405) and another 30% for 2003-04 (\$1,150 for resident undergraduates). Professional school, graduate, and nonresident student fees also rose significantly. Again in 2004-05, student fees were raised to offset cuts that otherwise would have been directed at instruction: undergraduate fees rose by \$700 (14%), graduate fees rose by \$1,050 (20%), and professional school fees rose by an average of 30%, with increases varying by school. Nonresident students also paid an additional 20% in nonresident tuition (a \$2,746 increase for undergraduates).

As described in the *Overview*, in May 2004, the University negotiated a Compact with Governor Schwarzenegger which includes an agreement about student fee increases over its six-year term. The Compact specified fee increases for undergraduates and graduate academic students for 2004-05 through 2006-07. Following that period, the Compact envisions fee increases equivalent to the annual increase in California per capita personal income or more — up to 10% per year — if fiscal circumstances require increases that exceed the rate of growth in per capita personal income to provide sufficient funding for programs and preserve quality. The Compact also calls for the University to develop a long-term plan for increasing professional school fees. Revenue from student fees will remain with the University and will not be used to offset reductions in State support. The specific provisions of the Compact are described in the *Overview* chapter of this document.

As fees have increased over time, the percentage of additional fee income dedicated to financial aid, referred to as return-to-aid, also has increased. In 1987-88, the return-to-aid from new fee revenue was 16%; by 1994-95 that proportion had risen to 33%, where it remained through 2003-04. Due to the State's fiscal crisis, the Governor proposed and the Legislature agreed to a lower return-to-aid of 20% for 2004-05. For 2005-06, approximately 25% of all new fee revenue generated from undergraduate fees was used for undergraduate student financial aid, which was consistent with the historical average, and 45% of all new fee revenue raised from graduate academic student fees was used for graduate student financial aid. For 2006-07, because of the State's student fee buyout, there was no new fee revenue associated with fee increases and consequently no concomitant return-to-aid. However, new revenue was generated from new enrollments in 2006-07. Approximately 33% of all new fee revenue generated from undergraduate fees related to new enrollments was used for undergraduate student financial aid, 50% of all new fee revenue raised from graduate academic student fees was used for graduate student financial aid, and 33% of the revenue generated by professional school students was used for financial aid for professional school students.

In addition to fee revenue, other sources help cover fee increases and meet other costs, including funds provided from Cal Grants, the Federal government, and

private sources. Because the State's Cal Grant program does not cover fees for graduate students, other sources of funds including student fee revenue, are particularly critical for the University to provide financial aid and remain competitive in recruiting graduate academic students. Funding for financial aid from grants and scholarships is expected to be approximately \$1.2 billion in 2006-07. The *Student Financial Aid* chapter of this document provides a full discussion of financial aid, 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 10% when expenditures were projected to exceed available State revenues. 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.

In the context of reduced State financial support for the University and an anticipated dramatic increase in student demand through 2010-11, in January 1994, based on extensive discussions with the State and within the University community, The Regents approved a 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 had 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. The policy assumes that, for California resident students, funding the cost of a UC education is a shared responsibility among the State, the students, and their families. A goal of the policy is to maintain affordability of a high-quality educational experience at the University for low- and middle-income students without unnecessarily subsidizing high-income students.

Under the policy, the Educational Fee continues to be a mandatory charge assessed to all resident and nonresident students 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 policy also established a methodology for setting annual University Registration Fee levels that may 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, at a minimum, for recommendations to be made annually to the Board concerning the proposed levels for the Educational Fee and the University Registration Fee for the next academic year. The University recognizes it is helpful when information on projected fee levels can be provided in a timely way so families can plan their finances for the coming year. However, given the instability in the University's state-funded budget, including mid-year budget cuts, it has been difficult to provide notice well in advance of the academic year. As State funding has stabilized, the University has made a commitment to providing notice of fee increases in a more timely way.

The agreement among UC, CSU, and the Governor regarding the student fee policy as expressed in the Compact (described earlier) preserves the concept of predictable, moderate, and gradual student fee increases, as envisioned in Regental policy and proposed in past years by CPEC. Importantly, it also recognizes the need to provide adequate funding for cost increases for student fee-funded programs and preserving the quality of the University.

As with both private institutions and a growing number of public institutions, fee revenue is needed to support the academic mission of the University, and has only partially offset the impact of a significant decline in State support for the University over the past 20 years. Without adequate resources, the University cannot recruit and retain talented faculty and maintain its academic programs. While regrettable, student fee increases have helped preserve the high quality educational experience that the State's citizens have come to expect from the University.

Mandatory Systemwide Student Fees — Undergraduate and Graduate Academic Students

At this time, the University is making no proposal for an increase in student fees. Instead, the University proposes to delay action on student fees until more is known in January after the Governor's proposed budget for 2007-08 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to once again buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January meeting. Any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances.

Educational Fee

The Educational Fee was established in 1970. Use of revenue from the Educational Fee initially was designated 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, and again in 1994, following reductions in State General Fund support. As a result, the Educational Fee currently provides general support for the University's operating budget, including costs related to instruction, and funds student financial aid and related programs, counseling and career guidance, academic advising, tutorial assistance, social and cultural activities, and overhead associated with student services activities (i.e., operation and maintenance of plant and general administration). As discussed earlier, the policy also established a methodology for setting annual Educational Fee levels.

University Registration Fee

The University Registration Fee is a charge made to each registered student for services that 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 student health services, child care services, cultural and recreational programs, and capital improvements that 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 student members, to advise the Chancellor on pertinent issues.

Additional funds are needed to address student mental health issues, which are a growing concern at UC as well as other higher education institutions across the nation. Psychological counseling has become an area of major importance, given the increasing numbers of students enrolling annually who are on medications or who otherwise manifest behavioral or other psychological issues that negatively impact their wellness and academic performance or that of their immediate peers. As described in the *Student Services* chapter of this document, the University has just completed a comprehensive systemwide review of student mental health issues and the challenges associated with providing these services within the campus community. Additional psychological counseling services at Counseling and Psychological Services Centers and Student Health Services as well as academic counseling are needed. Campuses are in the process of assessing ways to improve these services, including the level of additional resources needed.

Mandatory Student Fees — Professional School Students

Historically, many of UC's professional schools have held a place of prominence in the nation, promising a top-quality education for a reasonable price. The cuts that have occurred, both in the early 1990s and during the more recent budget crisis, have devastated the resources available to the professional schools to such a degree that the schools are extremely concerned about their ability to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students — all of which are important components of excellence in these schools. Once started on a downward spiral, it is very difficult to recover previous levels of excellence. The professional schools see this as a crisis of quality and believe significant steps, including raising student fees, must be taken to regain the excellence recent budget cuts have threatened.

Since the initial implementation of professional school fees in 1994-95, professional schools have been largely supported by a combination of sources, including State general funds, Educational Fee revenue, and professional school fee revenue, among others. Because fee increases have been used to offset budget cuts instead of generating revenue to sustain and improve the quality of the schools as originally envisioned, professional schools have fallen further behind in their ability to offer competitive salaries to their faculty and staff. As a result, the University's professional schools are in danger of losing prominence among their peers. For example, the disproportionate cuts taken in law and business have resulted in a number of deficiencies that must be addressed. Berkeley's goal is to return the law school to its former ranking among the top 5 schools in the nation. To reach that goal, the school needs to address the following: the rising student-faculty ratio that has led to increased class sizes; faculty salaries that are well below the average of peer public and private institutions; student services programs that have not kept pace with student needs; and financial aid programs that can ensure public interest career options are available to students upon graduation. Similar situations exist at the UCLA and Davis law schools, and at the business schools at Berkeley and UCLA. Fee increases above the minimum to fund cost increases and additional financial aid would be needed to address the effects of the disproportionate budget cuts applied to these programs and help them regain their prominence.

History of Professional School Fees

Policy. Pursuant to the provisions of the 1990 State Budget Act, a Special Fee for Law School and Medical School Students of \$376 per year was implemented, effective with the 1990-91 academic year. In January 1994, The Regents approved a Fee Policy for Selected Professional School Students, authorizing fees for students in selected professional degree programs that are required in addition to mandatory systemwide fees and miscellaneous campus-based fees and, when appropriate,

nonresident tuition. In approving the fee policy, the University reaffirmed its commitment to maintain academic quality and enrollment in the professional school programs, and recognized that earning a degree in these programs benefits the individual financially as well as the state.

The Regents Policy is now outdated with some provisions that are no longer applicable, given the enormous cuts that have occurred to the professional school budgets and the University as a whole, which have resulted in changes in the proportion of fee revenue dedicated to financial aid and an expansion in the number of affected degree programs. In addition, while the policy provides that the fee for each professional degree program is to be phased in so that total student charges at UC are approximately the average of fees charged for that program by comparable high quality institutions across the nation, in some cases, total student charges at UC now are higher than the average at comparison institutions. An update to current policy is needed to address The Regents' continuing goals to provide access and a high quality professional education for UC students in the current economic environment. Guidelines for setting fee levels, based on the understandings reached with the State on the Compact, have been widely reviewed, including the Academic Senate, and will be discussed by The Regents at a future meeting in conjunction with the discussion of the financial aid issues facing professional school students.

Budget Cuts and Fee Increases. In 1997, AB 1318 (Chapter 853) was enacted, which, among its provisions, specified a two-year freeze on fees for California residents, including those enrolled in graduate academic or professional school programs. Thus, the planned professional school fee increases for 1998-99 were not implemented. Not only were professional school program fees frozen at 1997-98 levels through 1999-2000, but the University also received no funds for cost increases associated with programs supported from these fees. The State Budget Acts of 2000 and 2001 recognized this disparity and included \$1.4 million and \$1.5 million respectively to provide cost increases for programs funded from Fees for Selected Professional School Students. These fees did not increase again until the 2002-03 budget year, when mid-year cuts resulted in fee increases in mandatory systemwide fees and professional school fees. In 2003-04, professional school fees were increased by about 30% and the revenue was used to offset base budget cuts for the University that otherwise would have been targeted at instructional programs.

The 2004-05 Governor's Budget presented in January 2004 assumed the University would develop a plan for achieving \$42.2 million in new revenue from increases in professional school fees to be used to offset base budget cuts that otherwise would have again been targeted at Instruction. To achieve that revenue target, fees would need to have increased by about \$5,000 per student. The University was asked to exempt nursing from these increases and to implement a smaller than average

increase for students in the schools of medicine. However, a few of the schools — such as optometry, pharmacy, and theater, film, & TV — could not sustain increases of \$5,000 and continue to attract sufficient numbers of highly qualified students.

After review of the options available, and considering the short notice to students, The Regents approved increases in these fees averaging approximately 30% for 2004-05. These increases generated approximately \$37 million in income, falling \$5 million short of the revenue proposed by the Governor. The campuses absorbed the \$5 million shortfall on a temporary basis through cuts to other programs. As noted previously, to cover this shortfall permanently, mandatory systemwide fees charged to professional school students were increased for 2005-06 by \$628, the same dollar amount of increase proposed for graduate academic students.

One issue of major concern was that the Governor's 2004-05 proposal did not assume any return-to-aid from the increase in professional school fees. Moreover, the professional schools affected have been very concerned about their ability to maintain the quality of their programs and to be competitive with other professional schools, particularly if students will be paying significantly more to attend these schools. To address the academic quality and financial aid issues associated with this proposal, The Regents delegated authority to the President to raise the fee at any of the professional schools in 2004-05 by an additional amount not to exceed 10% of total systemwide fees paid by professional school students (i.e. Educational Fee, Registration Fee, and Professional School Fee), if it was determined that a higher fee was needed to provide sufficient financial aid, and/or maintain quality of the academic program. Several schools (Law and Business at Berkeley and Los Angeles; Dentistry at Los Angeles and San Francisco; and Pharmacy at San Diego and San Francisco) exercised this option in amounts ranging from \$1,000 to \$1,932, while the remaining schools made no further changes in their fee levels.

For 2005-06, The Regents approved a 3% across-the-board increase in professional school fees to cover salary costs and non-salary price increases. In addition, The Regents approved new professional school fees for students enrolled in degrees in public health, public policy, and the San Diego campus program in International Relations and Pacific Studies (IRPS). At the same time, recognizing that the professional schools have been unable to make the financial investments necessary to maintain the academic quality of their programs and to provide additional financial aid to their students, the Board stated its intention to review any proposals for supplemental increases in professional school fees that might be proposed by the individual schools. At the May 2005 meeting, increases of up to an additional 7% were proposed for specified professional degree programs for 2005-06; when combined with the 3% increase approved for all professional degree programs, the total increase proposed for these programs was a maximum of 10%. The

proposed increases varied by school, campus, and residency status, and ranged from \$205 in nursing to \$1,163 for MBA students at UCLA. The full 10% increases in professional school fees were approved for implementation in 2006-07. However, for 2005-06, two-thirds of the proposed professional fee increases were approved for implementation beginning in winter quarter/spring semester to ensure that students received adequate notice. This action resulted in an increase for 2005-06 of about 7.7% in professional school fees over 2004-05 for the identified degree programs.

For 2005-06, the following schools implemented supplemental increases in professional school fees, ranging from \$136 to \$776 beginning in Winter quarter/Spring semester 2006. While the State bought out professional school fee increases planned for 2006-07, the remaining one-third of the 2005-06 supplemental increases, ranging from \$69 to \$387, were implemented in 2006-07.

- Law at Berkeley, Davis, and Los Angeles
- Business at Berkeley, Irvine, and Los Angeles
- Dentistry at Los Angeles and San Francisco
- Pharmacy at San Diego and San Francisco
- Nursing at Los Angeles and San Francisco
- Optometry at Berkeley

Display 5 shows the history of professional school fee levels since 1994-95.

Display 5

| Fees for Selected Professional School Students Annual Fee Levels by Year of First Enrollment (resident students) | | | | | | | | | |
|---|---|----------|----------|----------|----------|----------|-----------|------------------|-----------------|
| | Fees Previously Approved by The Regents | | | | | | | | |
| | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Medicine# | \$ 2,376 | \$ 3,376 | \$ 4,376 | \$ 5,376 | \$ 5,776 | \$ 8,549 | \$ 13,049 | \$ 13,440 | \$ 13,440 |
| Dentistry | 2,000 | 3,000 | 4,000 | 5,000 | 5,400 | 8,060 | 12,560 * | 13, 523 - 15,445 | 13,816 - 15,798 |
| Veterinary Medicine | 2,000 | 3,000 | 4,000 | 4,000 | 4,350 | 6,565 | 10,565 | 10,882 | 10,882 |
| Law# | 2,376 | 4,376 | 6,376 | 6,376 | 6,776 | 9,849 | 13,649 * | 14,695 - 15,976 | 15,013 - 16,334 |
| Business | 2,000 | 4,000 | 6,000 | 6,000 | 6,400 | 9,360 | 13,860 * | 14,276 - 16,984 | 14,276 - 17,371 |
| Riverside | 2,000 | 3,000 | 4,000 | 5,000 | 5,400 | 9,360 | 13,860 | 14,276 | 14,276 |
| Optometry | | | 2,000 | 3,000 | 3,250 | 4,875 | 8,675 | 9,340 | 9,542 |
| Pharmacy | | | 2,000 | 3,000 | 3,250 | 4,875 | 8,675 * | 10,849 | 11,098 |
| Nursing | | | 1,500 | 1,800 | 1,950 | 2,925 | 2,925 | 3,149 | 3,218 |
| Theater, Film, & TV | | | 2,000 | 2,000 | 2,150 | 3,185 | 5,785 | 5,959 | 5,959 |
| Public Health | | | | | | | | 4,000 | 4,000 |
| Public Policy | | | | | | | | 4,000 | 4,000 |
| Int'l Rels & Pacific St. | | | | | | | | 4,000 | 4,000 |

In addition, professional school students pay mandatory Universitywide fees and miscellaneous campus-based fees.
 * Consistent with Regents delegation, the President approved additional fee increases of up to 10% for these professional degree programs at selected campuses. Those added amounts are not included in these figures.
 **For 2005-06, The Regents approved fee increases of 3% for all programs. In addition, supplemental increases up to an additional 7% were approved for selected degree programs. However, because the supplemental increases were implemented beginning in winter/spring terms, only 2/3 of the increases were assessed. The remaining 1/3 was implemented in 2006-07.
 # Fee levels include the \$376 Special Fee for Law and Medical Students approved in 1990.

UC and Comparison Institution Professional School Fees

Display 6 (next page) shows 2006-07 professional school fees at the University of California in relation to the University's four public salary comparison institutions. Additional public institutions are used for fee comparison purposes where the University's four public salary comparison institutions do not offer comparable degree programs or where the University's programs use other peer institutions for fee comparison purposes. While they are not used for fee comparison purposes, the table also shows the 2006-07 tuition and fees at the University's four private salary comparison institutions. The private comparison institutions do not offer all of the professional degree programs that UC offers; therefore the comparisons focus on medicine, law, and business administration.

As was the case in 2005-06, fees for resident students enrolled in law, business, public health, public policy, and the IRPS program at UCSD are approximately the same as the average of the tuition and fees charged by comparable public institutions for 2006-07. Fees again remain well below the average of tuition and fees at comparison institutions for resident students enrolled in medicine (by \$2,925) and nursing (by \$1,879). However, UC fees are now higher than tuition and fees charged at comparable public institutions in all the remaining fields, including veterinary medicine (by \$3,039), dentistry (by \$3,513), pharmacy (by \$4,048), optometry (by \$1,179), and the theater, film, and TV program at UCLA (by \$3,206).

Longer-Term Planning Issues

Within the context of the significant budget cuts and fee increases sustained in the early years of this decade, The Regents requested a longer-term plan for future increases in fees for professional school students. This is consistent with the Compact with the Governor which calls for the University to develop long-term plans for increasing fees for selected professional school students taking into consideration a number of factors:

- average fees at other public comparison institutions;
- average cost of instruction;
- total cost of attendance;
- market factors;
- the need to preserve and enhance the quality of the professional programs;
- the State's need for more graduates in a particular discipline; and
- the financial aid requirements of professional school students.

Display 6

| UNIVERSITY OF CALIFORNIA FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS | | | | | | | | | | | | |
|--|------------------|------------------|------------------------|------------------|--------------------|------------------|------------------|------------------|-----------------------|------------------|------------------|-------------------------------|
| | Medicine | Dentistry | Veterinary Medicine | Law | Business Admin. | Optometry | Pharmacy | Nursing | Theater, Film & TV | Public Health | Public Policy | Int'l Reels. & Pac Studies |
| University of California 2006-07 Resident Fees Average of mandatory systemwide, campus-based, & professional fees (incl. supplemental prof. fee increases) | \$ 22,753 | \$ 25,396 | \$ 22,233 | \$ 25,101 * | \$ 24,634 * | \$ 18,655 | \$ 20,234 | \$ 12,153 | \$ 14,494 | \$ 12,766 | \$ 12,579 | \$ 12,689 |
| Comparison Institution Fees 2006-07 Resident Fees <i>Public Salary Comparison Institutions</i> | | | | | | | | | | | | |
| University of Michigan | \$ 23,565 | \$ 24,567 | | \$ 35,501 | \$ 35,989 | | \$ 16,857 | \$ 15,455 | \$ 14,991 | \$ 17,733 | \$ 16,965 | \$ 16,965 |
| University of Virginia | \$ 30,100 | | | \$ 30,700 | \$ 35,000 | | | \$ 10,565 | \$ 10,560 | | \$ 10,560 | \$ 10,560 |
| University of Illinois (Urbana/Champ) | | | \$ 17,566 | \$ 20,428 | \$ 18,826 | | \$ 16,670 | \$ 16,076 | \$ 10,152 | \$ 12,576 | | |
| University of Illinois (Chicago) | \$ 27,670 | \$ 23,374 | | | | | \$ 15,032 | | \$ 9,448 | | | |
| University of Buffalo (SUNY) | \$ 21,377 | \$ 17,707 | | \$ 14,762 | \$ 9,642 | | | | | | | |
| <i>Additional Fee Comparison Institutions for Selected Programs</i> | | | | | | | | | | | | |
| Cornell University (statutory college) | | | \$ 23,000 | | | | | | | | | \$ 17,420 |
| University of Maryland | | | | | | | | | | | | |
| Michigan State University | | | \$ 17,196 | | | | | | | | | |
| University of Minnesota | | | \$ 21,881 | | | | | | | | \$ 13,852 | \$ 13,852 |
| University of Missouri (St. Louis) | | | | | | | | | | | | |
| Ohio State University | | | \$ 16,328 | | | | | | | | | |
| University of Wisconsin | | | | | | \$ 17,974 | | | | | | |
| University of Washington | | | | | | \$ 16,977 | | | | \$ 9,068 | | \$ 8,818 |
| Public Comparison Institution Average Resident Fees for 2006-07 | \$ 25,678 | \$ 21,883 | \$ 19,194 | \$ 25,348 | \$ 24,864 | \$ 17,476 | \$ 16,186 | \$ 14,032 | \$ 11,288 | \$ 13,126 | \$ 12,882 | \$ 13,523 |
| <i>Private Salary Comparison Institutions, 2006-07</i> | | | | | | | | | | | | |
| Harvard University | \$ 38,590 | | | \$ 38,490 | \$ 40,990 | | | | | | | |
| Massachusetts Institute of Technology | | | | \$ 37,440 | \$ 43,380 | | | | | | | |
| Stanford University | \$ 39,840 | | | \$ 40,900 | \$ 39,700 | | | | | | | |
| Yale University | \$ 39,450 | | | | | | | | | | | |

* For law, total charges range from \$24,358 at Davis to \$25,477 at Berkeley. For business, total charges range from \$23,190 at San Diego to \$26,956 at LA. These ranges reflect differences among campuses in professional school fee levels as well as differences in campus-based fees.

With these in mind, the Office of the President and the campuses have engaged in a series of analytical activities and discussions to plan for professional school needs over the next several years. The longer-term planning issues related to professional school fee increases were presented to The Regents for discussion at the November 2005 and the January and July 2006 Regents' meetings. Financial aid issues, including loan repayment programs as they relate to professional school fee programs, will be discussed separately at a future meeting.

As noted previously, four years of sustained budget cuts during the recent fiscal crisis have led to severely strained financial circumstances for the professional schools; the ability to maintain the quality of their academic programs and to be competitive with other professional schools of comparable quality has been significantly affected. As a result, longer-term planning for fee increases for professional school students has been undertaken to address three objectives: (1) ongoing budget needs; (2) the need to stabilize funding for the schools so they can begin repairing the damage that has been sustained as a result of the cuts; and (3) the need to begin re-building high quality programs that are competitive with those offered at comparable public and private institutions. Addressing all three objectives will require a multi-year effort.

Increases in both the Educational Fee and professional school fees are likely to be needed for several years for most professional school programs to help cover salary increases and other cost increases. Additional revenue also will be needed to fund increases in financial aid and to begin addressing the chronic gap in salaries for professional school faculty. A sustained program of fee increases over and above the levels proposed for other professional schools is anticipated for the law and business schools at Berkeley and UCLA to begin to restore excellence and ensure broad accessibility. Accordingly, fee increases for the law schools at Berkeley, Davis, and UCLA and the business schools at Berkeley and UCLA would be higher than those proposed for other programs to restore quality to those programs, including hiring additional faculty, paying competitive salaries, and providing increased financial aid.

Some uncertainties exist, however. It is unclear how employer retirement contribution costs will be funded. Under the Compact, the Administration is committed to covering the portion of employer retirement contributions that is funded from State funds. Because student fees have increased dramatically in recent years to offset significant State budget cuts, it would be unreasonable to also raise fees to cover employer contributions to the retirement system for programs funded from student fees. Therefore, the University intends to seek funding from the State to also cover the portion of employer retirement contribution that is funded from student fees.

Given these uncertainties, a multi-year plan for fee increases for professional school students is not being presented at this time. Instead, fee increases for professional school students for 2007-08 will be considered once the Governor's Budget is released and more is known about State funding for the University, including funding for the reinstatement of retirement contributions.

Temporary Educational Fee Increase for Professional School Students

In 2003, students who had been enrolled in UC's professional degree programs prior to December 16, 2002 filed a class action suit against the University alleging that the increases in the Fee for Selected Professional School Students that were approved by The Regents for Spring 2003 and for all subsequent years violated a contract between the University and students that the professional school fee would not be increased while they were enrolled. Subsequently, the trial court entered an order granting a preliminary injunction against the University, prohibiting the University from collecting the professional school fee increases approved by The Regents for 2004-05 and 2005-06 from students affected by the lawsuit. Even if the University should ultimately prevail in the litigation, at the end of 2006-07, the University will have lost approximately \$20 million in professional school fee revenue that is unlikely to be collected from students.

To address this revenue loss, The Regents approved a \$1,050 increase in the Educational Fee for professional school students. Two-thirds of the increase was implemented in 2005-06 beginning in winter quarter/spring semester to ensure that students received adequate notice. This action resulted in an increase in the Educational Fee for 2005-06 of \$700 over 2004-05. The full increase was annualized in 2006-07 for one year. At the end of 2006-07, the temporary Educational Fee increase for professional school students will cease and will be replaced by a temporary increase of \$60 that will be assessed to all students until the shortfall in revenue is fully replaced.

Financial Aid for Professional School Students

The majority of UC financial aid funds for professional school students is used for grant and fellowship awards with some funds set aside for loan repayment assistance programs. The majority of financial aid funds from other sources, however, are in the form of loans. As a result, about two-thirds of all aid awarded to graduate professional students is in the form of loans, rather than fellowships or grants. Student loans are considered appropriate for students pursuing professional degrees because these programs are relatively shorter than doctoral degree programs and students' incomes have the potential to be substantially higher. Students who choose careers in the public interest, however, often forego these higher incomes. Due to a concern about the ability of students with high debt

to pursue public interest occupations, some professional schools have developed programs to assist students in meeting their loan repayment obligations after graduation. The University expects campuses to expand the size and scope of their loan repayment assistance programs (LRAPs) to help borrowers with public service employment meet their student loan repayment obligations. Initially, the law schools will take the lead in expanding LRAP programs for students pursuing careers in the public interest. The appropriateness and feasibility of implementing LRAP programs in various professional degree programs will be discussed separately by The Regents as part of the discussion of financial aid for professional school students. The University will continue to monitor the debt levels of students enrolled in professional degree programs.

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. In addition to paying nonresident tuition, out-of-state students must also pay the Educational Fee, the Registration Fee, miscellaneous campus fees and, if applicable, the Fee for Students in Selected Professional Schools.

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" at that time 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 are at least one of the following: 24 years old or older; a veteran of the U.S. Armed Services; married or a member of a domestic partnership; a ward of the court; both parents are deceased; have legal dependents other than a spouse; a graduate student and who has not claimed on another's income tax as a dependent for the immediately preceding tax year; or 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.

The 2007-08 budget plan includes a 5% increase in the Nonresident Tuition Fee for undergraduate students only, raising the fee by \$900 from \$18,168 to \$19,068 in 2007-08. This increase is expected to generate about \$5.5 million in new revenue. The budget plan assumes that the Nonresident Tuition Fee will remain at \$14,694 for graduate academic students and \$12,245 for professional degree students.

Nonresident students also pay mandatory systemwide fees and miscellaneous fees, bringing the average total charges paid by nonresident students to \$25,536 for undergraduate students and \$23,899 for graduate students in 2006-07. The average total charges for nonresident professional students will vary by discipline; for example, the average of total tuition and fees is estimated to be \$36,906 for nonresident law students and \$24,398 for nonresident nursing students for 2006-07.

As noted previously, and in greater detail in the *Student Financial Aid* chapter of this document, the inadequacy of graduate student support is a serious issue for the University. Therefore, nonresident tuition for graduate students will not be increased in order to keep the programs competitive in terms of total student charges and avoid exacerbating an already difficult problem. Thus, the Nonresident Tuition Fee will remain at the current level of \$14,694 for graduate academic students and \$12,245 for professional students.

Earlier this year, members of the Academic Senate overwhelmingly supported a Memorial to eliminate nonresident tuition for academic graduate students, and an advisory committee to the Provost recommended that the University eliminate nonresident tuition for academic doctoral students or provide more graduate student support. State policy constrains the extent to which the University can reduce nonresident tuition levels.

Nevertheless, the University is taking steps to address this issue. By forgoing any increase in graduate nonresident tuition as noted above, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

In addition, beginning in 2006-07, nonresident graduate academic students who have advanced to candidacy for their degree are not charged nonresident tuition. This benefit is available to eligible students for three years.

Finally, in response to widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the University proposes to provide additional funding for graduate student support, on a matching basis, to campuses based upon their success at utilizing the Strategic Sourcing Initiative and other campus efforts to reduce costs so that savings can be redirected to provide additional graduate student support. Beginning in 2006-07, campuses are expected to provide additional graduate student support using savings in General Fund and fee revenue expenditures produced by Strategic

Sourcing. Under this proposal, the University would provide additional matching funds to campuses as a further incentive to utilize Strategic Sourcing and to make graduate student support a high priority. These funds will help campuses compete for top students — including talented international students — and will help campuses achieve their graduate enrollment goals.

The University is concerned about future increases in nonresident tuition. Applications for admission from undergraduate nonresidents declined 25% during the State's recent fiscal crisis (Fall 2001 through Fall 2005). In the last two years, nonresident applications have recovered but still remain slightly below the peak in 2001. Thus, the 5% increase proposed for undergraduate students in 2007-08 is a modest increase compared to the increases that occurred during the worst years of the State's budget crisis, reflecting the University's goal of avoiding further erosion in nonresident enrollment. When determining increases in nonresident tuition for future years, it will be important to consider the effects of recent tuition increases on nonresident enrollment.

State Policy on Adjustment of Nonresident Tuition

In 1988-89, 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 a report in June 1989, which concluded with the following recommendation:

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, "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 Since 1987-88

Between 1987-88 and 1991-92, fees for nonresident students increased substantially, creating a significant differential between the University's total tuition and fees and those charged at other public institutions. In recognition of that differential, there were no increases in nonresident tuition during the five-year period 1991-92 through 1995-96, although there were increases in mandatory systemwide fees. Even though nonresident tuition did not increase during these five years, the number of students paying nonresident tuition declined in the early 1990s. Notwithstanding subsequent increases in nonresident tuition, the number of nonresident students paying the tuition fee began to rebound beginning in 1995-96. Consistent with the statewide policy on adjustment of nonresident tuition, The Regents have approved annual increases in nonresident tuition since 1996-97.

Display 7 shows the total tuition and fee charges for nonresident undergraduate students since 1978. Because mandatory systemwide fees did not increase between 1994-95 and 2001-02, increases in the total tuition and fees charged to nonresident undergraduate students were modest during that period, averaging about 3.4% annually. However, the increase in total nonresident tuition and fees for undergraduates has averaged about 10% since 2002-03, reflecting the impact of the cuts to the University's state-funded budget over that time.

Miscellaneous Campus Fees

Other campus mandatory fees, also called miscellaneous fees, cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government and construction, renovation, and repair of sports and recreational facilities. The level of miscellaneous fees varies from campus to campus and between graduate and undergraduate students. Generally, students must vote to establish or increase campus miscellaneous fees. Display 4 (on page 240 of this chapter) shows miscellaneous campus fees over time.

Display 7

UNIVERSITY OF CALIFORNIA
TOTAL TUITION AND FEE CHARGES
FOR NONRESIDENT UNDERGRADUATE STUDENTS
1978-79 through 2006-07

| Year | Mandatory Systemwide Fees | Average Campus Fees | Nonresident Tuition | Total Fees & Tuition | Total % Increase in Tuition and Fees |
|----------------------|---------------------------|---------------------|---------------------|----------------------|--------------------------------------|
| 1978-79 | \$ 671 | \$ 49 | \$ 1,905 | \$ 2,625 | -- |
| 1979-80 | 685 | 51 | 2,400 | 3,136 | 19.5% |
| 1980-81 | 719 | 57 | 2,400 | 3,176 | 1.3% |
| 1981-82 | 938 | 60 | 2,880 | 3,878 | 22.1% |
| 1982-83 | 1,235 | 65 | 3,150 | 4,450 | 14.7% |
| 1983-84 | 1,315 | 72 | 3,360 | 4,747 | 6.7% |
| 1984-85 | 1,245 | 79 | 3,564 | 4,888 | 3.0% |
| 1985-86 | 1,245 | 81 | 3,816 | 5,142 | 5.2% |
| 1986-87 | 1,245 | 100 | 4,086 | 5,431 | 5.6% |
| 1987-88 | 1,374 | 118 | 4,290 | 5,782 | 6.5% |
| 1988-89 | 1,434 | 120 | 4,956 | 6,510 | 12.6% |
| 1989-90 | 1,476 | 158 | 5,799 | 7,433 | 14.2% |
| 1990-91 | 1,624 | 196 | 6,416 | 8,236 | 10.8% |
| 1991-92 | 2,274 | 212 | 7,699 | 10,185 | 23.7% |
| 1992-93 | 2,824 | 220 | 7,699 | 10,743 | 5.5% |
| 1993-94 | 3,454 | 273 | 7,699 | 11,426 | 6.4% |
| 1994-95 | 3,799 | 312 | 7,699 | 11,810 | 3.4% |
| 1995-96 | 3,799 | 340 | 7,699 | 11,838 | 0.2% |
| 1996-97 | 3,799 | 367 | 8,394 | 12,560 | 6.1% |
| 1997-98 | 3,799 | 413 | 8,984 | 13,196 | 5.1% |
| 1998-99 | 3,799 | 428 | 9,384 | 13,611 | 3.1% |
| 1999-2000 | 3,799 | 474 | 9,804 | 14,077 | 3.4% |
| 2000-01 | 3,799 | 535 | 10,244 | 14,578 | 3.6% |
| 2001-02 | (1) 3,799 | 430 | 10,704 | 14,933 | 2.4% |
| 2002-03 (Annualized) | (1) 4,204 | 453 | 12,480 | 17,137 | 14.8% |
| 2003-04 | (1) 5,464 | 546 | 13,730 | 19,740 | 15.2% |
| 2004-05 | (1) 6,164 | 628 | 16,476 | 23,268 | 17.9% |
| 2005-06 | (1) 6,657 | 661 | 17,304 | 24,622 | 5.8% |
| 2006-07 | (1) 6,657 | 711 | 18,168 | 25,536 | 3.7% |

(1) Does not include undergraduate student health insurance fees which may be waived by demonstrating insurance coverage.

Miscellaneous campus fees also include student health insurance fees. Between 1989-1990 and 1990-1991, graduate students at all UC campuses voted to establish a mandatory student health insurance fee. Beginning with Fall 2001, The Regents require all undergraduate students to have health insurance. Students can purchase a health insurance plan from their campus or they can demonstrate they have such insurance from other sources and opt out of the campus health insurance plan. The coverage provided in the health insurance plans and the fees to cover the

cost of the premium are determined by each individual campus and, as a result, these fees are considered miscellaneous campus fees.

Self-Supporting Programs

In addition to the fees charged for regular degree programs, the University also charges fees for courses and programs in University Extension, and Self-Supporting Graduate and Professional Degree Programs. These programs are not supported by State funds and varying fees are charged to cover the full costs of offering those courses and programs.

STUDENT SERVICES

| 2006-07 BUDGET | |
|--------------------|-----------------------|
| Total Funds | \$ 450,095,000 |
| General Funds | -- |
| Restricted Funds | 450,095,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 13,880,000 |

Student services programs and activities contribute to students' intellectual, cultural, and social development outside of the formal instructional process, including 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. These services can provide a significant influence on a student's academic outcome and personal development and can also help create bridges between what students learn in the classroom and how they apply their knowledge and skills on campus and in the broader community. Student services are supported entirely from non-State funds with a majority of the funds provided from student fee income. The total budget for student services in 2006-07 is \$450 million.

Student services include a variety of programs:

- Counseling is provided to assist students with scholastic performance, choice of major, personal concerns, assessing interests and aptitudes, or exploring long-range career opportunities.
- Academic support services offer individual and group tutorial services in writing, mathematics, study skills, and preparation for graduate and professional school exams.
- A wide range of cultural and social activities is provided 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 provide primary care and other services to keep students healthy, including general outpatient medical care, specialty medical care, and health education.

- 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.
- 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.
- Services provided to students with disabilities include readers for the blind, interpreters for the deaf, note-taker services, mobility assistance, tutors, provision of adaptive educational equipment, and disability-related counseling, among other services.

Student services programs were adversely affected by severe budget cuts during the early 1990s when the University was forced to make reductions due to the State's fiscal crisis; those cuts have not been restored. In 2002-03, student services programs were again reduced by a mid-year cut of \$6.3 million, which grew to \$25.3 million in 2003-04 — equivalent to a 20% reduction in Registration Fee-funded programs. These reductions occurred when student enrollment increased with corresponding growth in demand for student services, including services during summer sessions. As students change and as greater numbers of students enroll at UC campuses, it is becoming increasingly difficult to provide adequate services for students in the face of severely reduced budgets.

The Compact with the Governor and the support of the Legislature for its funding principles have helped to stem the tide of erosion that has occurred in the University's budget in recent years. However, halting the deterioration in the budget is not enough, if the University is to meet the State's expectations for academic quality and productivity. The University has high priority needs that, if it is to return to being competitive, must be met when the State's fiscal situation improves.

Student Mental Health Services

Additional funds are needed to address student mental health issues, which are a growing concern at UC as well as other higher education institutions across the nation. Psychological counseling has become an area of major importance, given the increasing numbers of students arriving annually who are on medications or

who otherwise manifest behavioral or other psychological issues that negatively impact their wellness and academic performance or that of their immediate peers.

The University has just completed a comprehensive systemwide review of student mental health issues and the challenges associated with providing these services within the campus community. The final report, which was presented at the September 2006 Regents' meeting, found the following:

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

Recommendations in the final report include:

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

Enhancing mental health services has become an urgent priority for the University. Campuses are in the process of assessing ways to improve these services, including the level of additional resources needed and the possible need for an increase in the Registration Fee to help fund enhanced services.

Other Future Needs

The Compact provides that, "Depending on the State's fiscal situation, there may be initiatives mutually agreed upon by the segments, the Governor, and the

Legislature, either through legislation or through the budget process, that may be funded in addition to the basic budget funds provided as part of the Compact to meet high priority needs of the University and the State." Therefore, when the State's fiscal situation improves, the University will be submitting budget requests to restore lost funds over time and help close the funding gap resulting from years of underfunding and devastating budget cuts in several high priority areas, including student services. Campuses have identified the following critical needs for additional funds, should the State's fiscal situation permit restoration of recent budget cuts:

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

STUDENT FINANCIAL AID

| 2006-07 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 540,880,000 |
| General Funds | 60,339,000 |
| Restricted Funds | 480,541,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 11,479,000 |

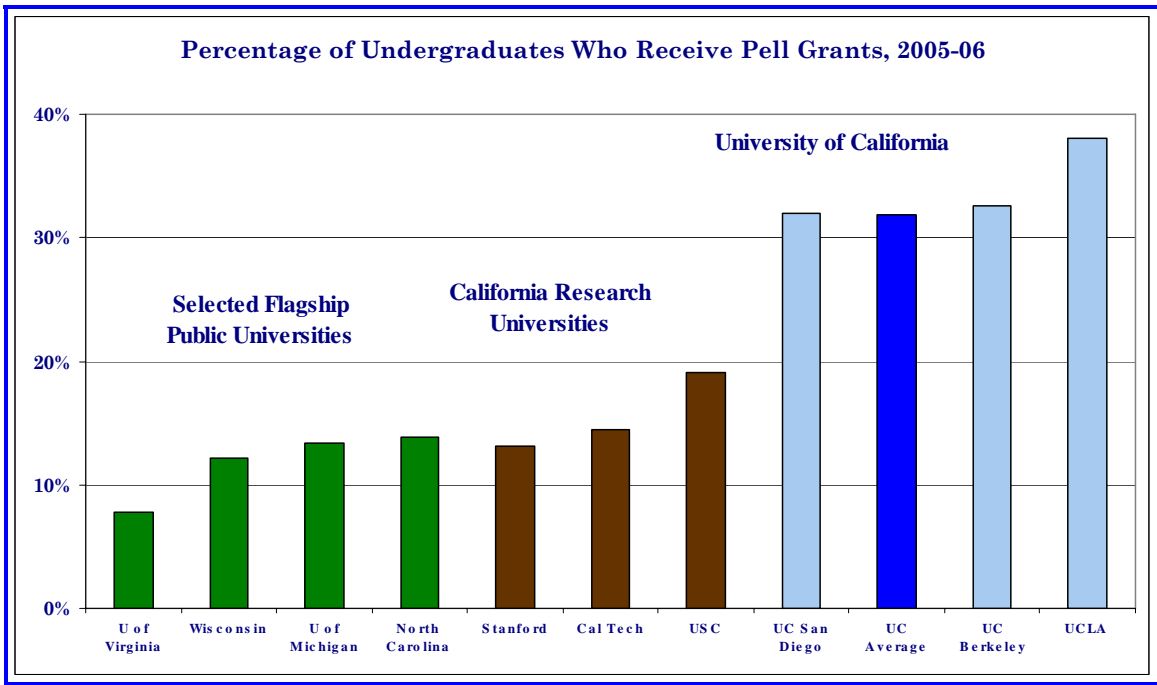
Current Perspective

In 1994, the Regents adopted a financial aid policy that established the guiding principles of the University's financial aid programs. At the undergraduate level, the University's policy is guided by the goal of maintaining the affordability of the University for all students so that financial considerations are not an insurmountable barrier to students seeking a University degree. At the graduate level, the policy calls upon the University to attract a diverse pool of highly qualified students by providing an appropriate level of support relative to the cost of attending the University, informed by a periodic assessment of the competitiveness of University support levels with those at comparable universities.

The University's financial aid policy supports the University's mission, under the California Master Plan for Higher Education, both to provide instruction to eligible students and to serve as the principal resource for research and innovation for the State of California. In doing so, the University contributes to the competitiveness of California industry and to the resilience of the California economy.

In each of the past few years, the University of California has received national attention for enrolling an economically diverse pool of undergraduates. Studies published by the James Irvine Foundation, *The Washington Monthly*, *Postsecondary Education Opportunity*, and *U.S. News & World Report* have all ranked University of California campuses at the top of their lists of selective national universities for their ability to enroll low-income undergraduate students. Among institutions on the most recent *U.S. News & World Report* list of the nation's top 40 national universities, UCLA enrolled the highest percentage of Pell Grant recipients in

Display 1



2005-06 (38%), followed by UC Berkeley (33%) and UC San Diego (32%). As shown in Display 1, these UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (8%), the University of Wisconsin (12%), the University of Michigan (13%), and the University of North Carolina (14%). In 2005-06, as a system, the University enrolled a higher percentage of low-income undergraduates (32%) than any other comparably selective institution, public or private.

At the graduate level, the University's financial aid program plays an important role in the University's ability to compete with public and private universities for the most talented students. Attracting and enrolling these students directly affects the University's ability to fulfill its fundamental mission of research, instruction, and public service. As research assistants, graduate students contribute to the University's research agenda and to the University's ability to attract and retain faculty members. As teaching assistants, they enhance the undergraduate experience. Upon graduation, these students make a vital collective contribution to California's economic and intellectual capital.

The University has faced several challenges in recent years related to both the need to remain affordable at the undergraduate level and to be competitive at the graduate level. At the undergraduate level, fee increases implemented between 2002-03 and 2005-06 in response to declining State support for the University's budget contributed to an increase in the University's cost of attendance. These fee

increases occurred while other elements of the cost of attendance — such as living expenses and books and supplies — also increased. For graduate academic students, increases in fees and nonresident tuition threatened the University's ability to offer competitive student support packages and placed additional strain on the fund sources that cover those costs. Increases in the Fee for Selected Professional School Students, which were implemented to help professional schools maintain the quality of their programs, have increased the demand for student financial support for these students as well.

The University responded to these challenges by adopting measures that both expanded the availability of student support and mitigated student cost increases, as described below.

Increased University funding for grants and fellowships. The University used the equivalent of one-third of the fee revenue generated from the 2002-03 and 2003-04 fee increases and enrollment growth for augmentations to UC financial aid. In 2004-05, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with the Governor's financial aid proposal. For 2005-06, the University increased the proportion of new fee revenue returned to aid to 25% at the undergraduate level. These funds, together with funding provided through the Cal Grant program, were sufficient to cover the 2005-06 fee increase as well as provide some assistance for other increases in the cost of attendance. The University also set aside 50% of new fee revenue from graduate academic students for graduate student support in order to cover the fee increase for graduate academic students with University fellowships, teaching assistantships, and University-funded research assistantships. A portion of these funds was used to implement a five-year plan to restore the \$5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. Thus, the net return-to-aid for graduate academic students was 45%. In addition, the University dedicated an amount equivalent to 25% of new fee revenue from increases in professional school fees and mandatory systemwide fees to support for professional school students. Last November, in discussing proposed fee increases for 2006-07, The Regents approved a plan to reserve an amount equivalent to 33% of new undergraduate fee revenue for financial aid, along with 33% of new graduate professional degree fee revenue. The plan also would have set aside 50% of new graduate academic fee revenue for financial aid, with 5% again being used to restore funds to undergraduate aid (as described above), effectively leaving a return-to-aid of 45%. (The decision by the State to buy out the proposed 2006-07 fee increases occurred subsequent to that meeting.) The Regents also approved a plan to require campuses to provide additional graduate student support funding using savings in General Fund and fee revenue expenditures produced by UC's Strategic Sourcing Initiative or other campus efficiencies, which is expected to generate up to \$10 million in additional graduate student support in 2006-07.

Display 2

| University of California Scholarships, Grants, and Fellowships by Fund Source, 2002-03 to 2006-07 (\$ in Millions) | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| <u>UC Funds</u> | | | | | |
| Student Fees and State General Funds | \$ 262.7 | \$ 330.8 | \$ 357.8 | \$ 421.8 | \$ 443.0 |
| Other University Funds | <u>125.4</u> | <u>159.1</u> | <u>164.3</u> | <u>168.1</u> | <u>172.0</u> |
| Subtotal | \$ 388.1 | \$ 489.9 | \$ 522.0 | \$ 589.9 | \$ 615.0 |
| <u>Other Funds</u> | | | | | |
| Student Aid Commission | \$ 148.7 | \$ 219.3 | \$ 259.6 | \$ 280.7 | \$ 287.7 |
| Federal | 203.2 | 214.5 | 223.4 | 214.8 | 231.9 |
| Private Agency Funds | <u>49.6</u> | <u>52.4</u> | <u>51.0</u> | <u>49.7</u> | <u>50.9</u> |
| Total | \$ 789.7 | \$ 976.0 | \$ 1,056.0 | \$ 1,135.1 | \$ 1,185.4 |
| Note: Numbers for 2005-06 and 2006-07 are estimates. Student Fees and State General Funds are based on budgeted amounts. | | | | | |

These funds, in combination with an estimated \$139 million increase in Cal Grant funds awarded to UC undergraduates and increases in other scholarship, fellowship, and grant funds, raised the total estimated amount of grants, scholarships, and fellowships for UC students from \$789.7 million in 2002-03 to an estimated \$1.2 billion in 2006-07, as shown in Display 2.

Limiting nonresident tuition increases for graduate students. The University has not increased nonresident tuition for graduate academic students since 2004-05; nonresident tuition for professional school students has not changed since 2003-04. Consequently, by foregoing any increase in nonresident tuition for these students, the University has allowed nonresident tuition to effectively decline in real terms in recent years. The decision to freeze nonresident tuition for these students addresses the special challenge faced by the University in recruiting top international and out-of-state students. For academic graduate students, the competitive market for these students generally requires the University to cover their tuition costs – either through University funds, faculty research grants, or other sources. The University’s professional schools also compete for students nationally and globally. Freezing nonresident tuition allows the University to remain viable in the global competition for these students as well.

Reducing costs for academic doctoral candidates. Since Fall 1997, academic doctoral students who have advanced to candidacy have been assessed 25% of nonresident tuition for up to three years. This policy provides an incentive for

these students to complete their dissertation work promptly and reduces the burden on research grants and other fund sources that are often used to fund this cost as part of a student's financial support package. In 2006-07, The Regents approved a proposal to make these students exempt from paying any nonresident tuition, subject to the same three-year limit.

Expanding Loan Repayment Assistance Programs for professional degree students choosing public interest careers. Loan repayment assistance programs (LRAPs) are available for graduates of several professional degree programs to ensure that student loan repayment obligations are not an obstacle for students who pursue relatively low-paying public interest careers in their field of study. Some of these programs are funded at the federal, state, or regional level to encourage students to serve specific populations (e.g., to work as a physician in a medically underserved area). Others are funded by the University. The Boalt School of Law at UC Berkeley recently expanded its LRAP significantly to provide a higher level of debt repayment relief to a broader population of graduates. The UCLA School of Law is planning to expand its LRAP as well. Other professional schools are considering the appropriate mix of loan assistance and increased fellowship support to ensure that public interest careers remain a viable choice for their graduates, given the different labor markets and students that each program serves.

Improving the availability and terms of private loans for graduate and undergraduate students. For 2006-07, the University has leveraged its systemwide loan volume to ensure access to private student loans with competitive terms. Private loans are an important financing option for students with unique circumstances, such as international students with no U.S. co-signers and students who have already borrowed the maximum allowable amount under Federal student loan programs. They are particularly important for students in professional degree programs due to the relatively high cost of those programs. Following a competitive bidding process, the University reached agreements with two private lenders to ensure that all UC students will have access to loans — which is especially important to those students who could not otherwise have obtained a loan — and that the terms that are as good or better than they would have otherwise obtained.

Financial Aid Proposals for 2007-08

For 2007-08, the University is proposing a plan for student support that addresses the University's most pressing student support needs within the context of the full range of UC budgetary priorities. As described elsewhere in this document, the University is proposing no student fee increase at this time. However, if a fee increase is needed, the University proposes to augment its undergraduate need-based grant program in order to ensure that the University remains financially accessible to low-income students. Additional funding would be derived from a

portion of the new fee revenue generated by a fee increase and by continuing the University's five-year plan to restore the \$5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. These funds, together with Cal Grant award increase, would provide enough additional funding to cover fully the systemwide fee increases of UC's grant eligible undergraduates (generally those with parent income below about \$60,000) along with some coverage of other cost increases.

The University continues to be concerned about the impact of student fee increases on middle-income students. If a fee increase is necessary, the University would propose to use additional funds from any systemwide fee increase to mitigate its impact by covering a portion of the increase for financial needy middle-income undergraduates who would not otherwise be eligible for grant assistance.

In the event of a fee increase, these measures would increase funding for the University's undergraduate student aid programs by an amount equivalent to one-third of the new undergraduate student fee revenue.

The University would also propose several measures at the graduate level to improve its student support programs. The University would maintain its current policy of returning 50% of new systemwide fee revenue from graduate academic students to student support, less the amount restored to undergraduate aid (as described above), for an effective return-to-aid of 45%. In the event of a fee increase, these funds will allow campuses to cover the increased costs associated with University-funded teaching assistantships, research assistantships, and fellowships that currently cover students' fees.

In addition, the University proposes the development of a State-funded research initiative (described in the *Research* chapter of this document) that will both partially restore recent budget cuts to core research programs and provide new funding for research initiatives important to the state's economic growth and job creation. Campuses will be asked to use at least 50% to 60% of the funds for new research initiatives to help support graduate students as research assistants. This initiative would promote the continued success of the University's research programs, increase the number of individuals with advanced training in areas of critical importance to the State, enable the University to attract a greater share of outstanding students in these fields, facilitate students' timely completion of their degree programs, and meet a portion of the graduate student support needs that would be generated by the University's graduate enrollment growth.

The University also proposes to freeze nonresident tuition for graduate academic students for the third consecutive year and to freeze tuition for graduate professional students for the fourth year in a row. Graduate nonresident tuition levels continue to be of great concern to the University. Earlier this year, members

of the Academic Senate overwhelmingly supported a Memorial to eliminate nonresident tuition for academic graduate students, and an advisory committee to the Provost recommended that the University eliminate nonresident tuition for academic doctoral students or provide more graduate student support. State policy constrains the extent to which the University can reduce nonresident tuition levels. Nevertheless, by forgoing any increase in graduate nonresident tuition, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition as part of a graduate student's support package and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

Lastly, in response to widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the University proposes to provide additional funding for graduate student support on a matching basis to campuses based upon their success at utilizing the Strategic Sourcing Initiative and other campus efforts to generate additional graduate student support. Beginning in 2006-07, campuses are expected to provide \$10 million in additional graduate student support using savings in General Fund and fee revenue expenditures produced by Strategic Sourcing or through other cost-saving measures. Campuses are expected to generate another \$10 million in savings in 2007-08 to be redirected to graduate student support. It is expected that, over time, up to \$40 million annually could be available through Strategic Sourcing for this purpose. For 2007-08, the University's budget would provide additional matching funds from within the compact to campuses as a further incentive to utilize Strategic Sourcing and to make graduate student support a high priority. These funds will help campuses compete for top students – including talented international students – and will help campuses achieve their graduate enrollment goals.

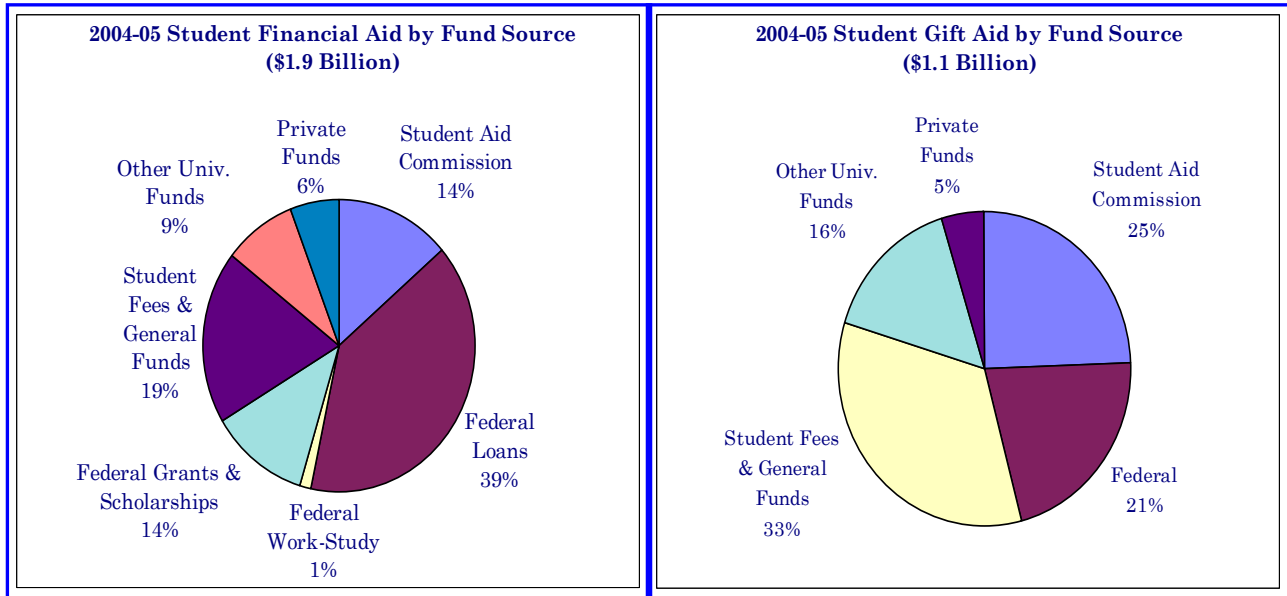
The University will continue to monitor the effectiveness of its financial support both at the undergraduate and graduate level to evaluate its success in adhering to the principles, articulated by the Regents, of affordability at the undergraduate level and competitiveness at the graduate level.

Overview

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, State General Funds, endowments, and other non-State funds; the State’s Cal Grant programs; and private agencies. In 2004-05 (the most recent year for which final data are available), University students received almost \$1.9 billion in student aid, including \$1.1 billion (56%) in assistance from grants, scholarships, and fellowships. Display 3 shows in 2004-05 the proportion each fund source contributed to both the total amount of financial support provided to UC students and the total amount of gift assistance received by UC students.

Display 3



Historically, the University has been committed to setting aside a portion of revenue from fee increases for financial aid for needy students. As fees increased over time and as the percentage of students with financial need increased, the percentage of revenue from fee increases dedicated to financial aid also increased. In 1987-88, the percentage of new fee revenue dedicated to financial aid was 16%. This proportion increased over time to 33% and from 1994-95 through 2003-04, the University continued to set aside an amount equivalent to at least one-third of all new student fee revenue for financial aid. This practice was consistent with agreements in the four-year Compact with the Wilson administration and continued in the Partnership Agreement with the Davis administration. In 2004-05, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with Governor Schwarzenegger’s budget proposal for financial aid. The University entered into a new multi-year Compact with Governor Schwarzenegger that provides the University with flexibility in establishing, within a specified range, an appropriate return-to-aid for financial support. Last November, in discussing proposed fee increases for 2006-07, The Regents approved a plan to reserve an amount equivalent to 33% of new undergraduate fee revenue for financial aid,

along with 45% of new graduate academic fee revenue and 33% of new graduate professional degree fee revenue.

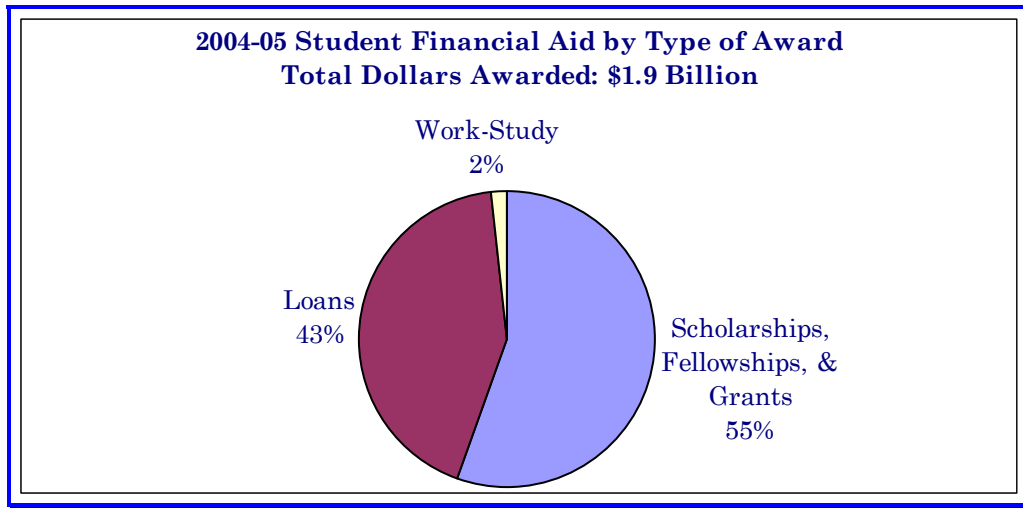
In addition to setting aside a portion of new fee revenue for financial aid purposes, the University has provided financial aid from other University fund sources. University funds, almost all of which are awarded in the form of grants, scholarships, and fellowships, increased by over 120% over the past ten years (from 1994-95 to 2004-05).

Display 4 shows total financial aid expenditures for 2004-05 by type of financial award and source of funds for each. The amount of financial aid provided in 2004-05 represented an increase of about \$134 million, or 7.6%, over the amount received in 2003-04. Included in that increase was \$80 million in the form of additional grants, scholarships, and fellowships. Display 5 (next page) shows the proportion of total financial aid used for loans, work-study, and scholarships, grants, and fellowships.

Display 4

| University of California | | | | | | |
|--|-----------------------------------|-------------------|---|---------------------------------------|---------------------------------|-------------------|
| 2004-05 Student Financial Aid | | | | | | |
| by Type of Award and Fund Source | | | | | | |
| (\$ in Millions) | | | | | | |
| Program | University Funds | | | | | Total |
| | Student Aid Commission | Federal | Student Fees and State General Funds | Other University Funds | Private Agency Funds | |
| Scholarships, Grants, Fellowships | | | | | | |
| Pell Grants | \$ - | \$ 147.6 | \$ - | \$ - | \$ - | \$ 147.6 |
| Cal Grant A | 84.5 | - | - | - | - | 84.5 |
| Cal Grant B | 150.3 | - | - | - | - | 150.3 |
| Other | 24.8 | 75.8 | 357.8 | 164.3 | 51.0 | 673.6 |
| Subtotal | 259.6 | 223.4 | 357.8 | 164.3 | 51.0 | 1,056.0 |
| Loans | | | | | | |
| Perkins Loans | - | 40.0 | - | - | - | 40.0 |
| FFELP/FDSLPL | - | 705.4 | - | - | - | 705.4 |
| Other | - | 6.7 | 2.4 | 1.1 | 58.1 | 68.3 |
| Subtotal | - | 752.2 | 2.4 | 1.1 | 58.1 | 813.7 |
| Work-Study | | | | | | |
| Federal | - | 26.6 | - | - | - | 26.6 |
| State | - | - | - | - | - | - |
| University | - | - | 1.8 | 0.8 | - | 2.6 |
| Subtotal | - | 26.6 | 1.8 | 0.8 | - | 29.2 |
| Total | \$ 259.6 | \$ 1,002.2 | \$ 361.9 | \$ 166.2 | \$ 109.0 | \$ 1,898.9 |
| Totals do not add due to rounding | | | | | | |

Display 5



Financial aid totals include aid administered for a State-supported summer term at UC. Currently, federal policy restricts the University from offering federal grant assistance at an equivalent level for year-round students. UC continues to advocate for changes to the federal Higher Education Act that will provide for higher annual award maximums for Pell Grants and federal loans for students enrolled year round.

Undergraduate Student Aid

In 2004-05, 63% of undergraduate students received some type of financial aid. About 72% of all undergraduate aid was awarded on the basis of financial need, reflecting the principle that undergraduate financial support is primarily intended to provide access to a University education for those students who otherwise would be unable to attend.

Over half (54%) of all undergraduates received grants, scholarships, and fellowships averaging approximately \$8,100 per recipient. In 2004-05, 86% of all grants, scholarships, and fellowships received by UC undergraduates was awarded on the basis of need.

Grants, scholarships, and fellowships represented 58% of all undergraduate aid, with self-help aid (loans and work-study) comprising the remainder.

Consistent with the financial aid policy adopted by the Regents in January 1994, the University developed the Education Financing Model, which is used to determine undergraduate student aid funding needs, allocate undergraduate aid funds among the campuses, and guide the awarding of aid funds to undergraduate students. The Model is based on the following principles:

- the total cost of attendance (fees, living and personal expenses, books and supplies, and transportation) is considered in assessing funding needs, allocating aid funding among campuses, and awarding funds to students;
- meeting the costs of attending the University requires a partnership among students, their parents, federal and state governments, and the University;
- 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 6.

Display 6

| | |
|---|--|
| Education Financing Model | |
| Start with Student Expense Budget: | |
| <i>Less</i> | Reasonable Contribution from Parents |
| <i>Less</i> | Manageable Student Contribution from Working |
| <i>Less</i> | Manageable Student Contribution from Borrowing |
| <i>Less</i> | Federal and State Grant Aid |
| <i>Equals</i> | 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. 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. The amount of the parental

contribution is determined by the same formula used to determine need for Federal and State aid programs, which takes into account parental income and assets (other than home equity), the size of the family, the number of family members in college, and non-discretionary expenses. Particularly low-income parents have an expected contribution of zero.

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 students are able to make steady progress toward completion of the baccalaureate degree and to meet loan repayment obligations after graduation. The Model includes ranges for loan and work expectations based on the University's estimate of the minimum and maximum manageable loan/work levels, adjusted annually for inflation and periodically for market changes in student wages and expected post-graduation earnings.

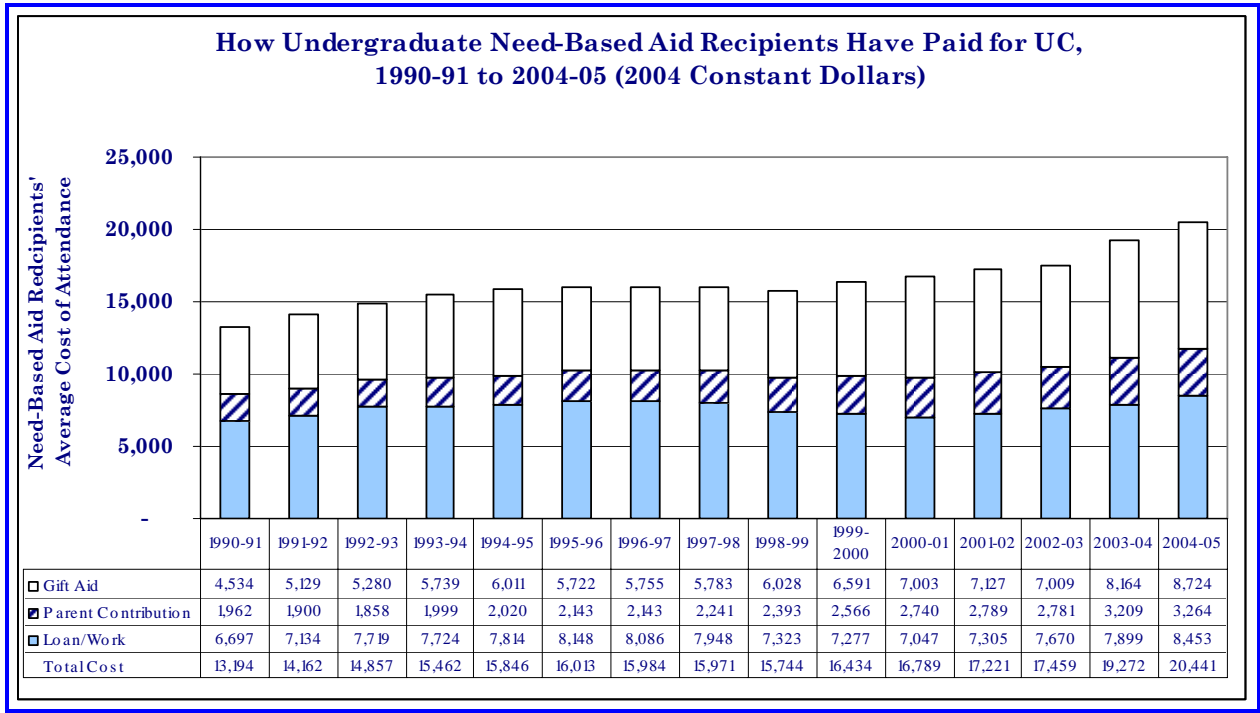
Contribution from Federal, State, and University Grant Aid

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 are used to reduce the loan and work expectation of students.

Display 7 illustrates how undergraduate need-based aid recipients at UC have financed their cost of attendance from 1990-91 through 2004-05, based upon the categories described above: the students' parent contribution, the student's expected contribution from loan and work, and grants, scholarships, and fellowships.

Display 7 illustrates several noteworthy trends. Need-based aid recipients' total cost of attendance has increased in recent years, due to increases in both fee and non-fee expenses. Since 1990-91, the average parental contribution of needbased-aid recipients has increased by over 60%, due largely to higher income families becoming eligible for needbased aid. During that same period, the average amount of grant, scholarship, and fellowship assistance received by need-based aid recipients increased by 92% in inflation-adjusted dollars. Nevertheless, the amount to be covered by student work and borrowing has increased and will likely continue to increase in the future. Keeping students' expected contribution from work and borrowing at a manageable level is a core principle of the University's financial aid programs. Not shown in Display 7 is the increased availability of federal tax credits

Display 7



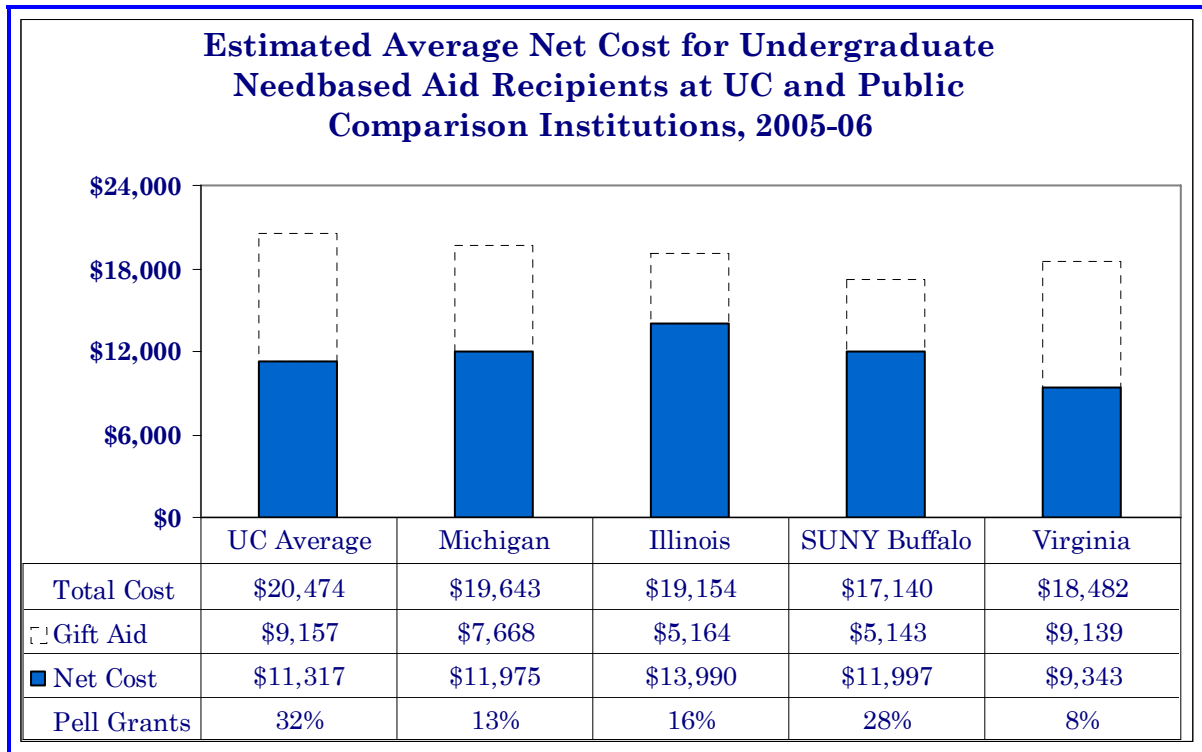
and deductions for higher educational expenses (see “Other Sources of Financial Assistance” at the end of this chapter).

Outcomes of the University’s Undergraduate Aid Program

As noted earlier, the University has received national attention for its remarkable success at enrolling a high percentage of low-income undergraduate students. Another measure of the University’s affordability is its average net cost of attendance for needbased aid recipients. The net cost represents the actual cost for these students after taking into account their grants, scholarships, and fellowships. In 2005-06, as in previous years, the University’s average *total* cost of attendance was higher than that of its four public comparison institutions. After adjusting for grants, scholarships, and fellowships, however, the *net* cost of attendance for resident needbased aid recipients was lower than the estimated net cost at three of the University’s four public comparison institutions (see Display 8, next page). Furthermore, as noted earlier in this chapter, the University enrolled a higher percentage of low-income Pell recipients in 2005-06 (32%) than any of its public comparison institutions. This pattern is not expected to change in 2006-07.

To date, there is no evidence that the University’s success in enrolling low-income students was affected by recent fee increases or by increases in non-fee costs that also occurred during those years. The percentage of low-income students who enroll at UC has remained constant in recent years.

Display 8



For 2006-07, it is estimated that UC grant recipients will be expected to work or borrow, on average, approximately \$9,650 to finance their education, an increase of about \$500 over 2005-06 levels. Note, however, that students can compete for UC scholarships and outside awards that effectively reduce their expected contribution. In 2004-05, one in five undergraduate students received scholarships worth, on average, about \$3,400 each.

For 2007-08, no proposals for increases in student fees are being made at this time. In the event, however, that student fee increases are implemented for 2007-08, the University would augment its current need-based grant program through a return-to-aid of 33% of new fee revenue. In addition, the University would restore \$1.5 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. It is expected that these funds, in conjunction with an increase in Cal Grant funding over 2006-07 levels, would be sufficient to offset any fee increase implemented next year and to offset a portion of the increase in non-fee expenses for the University's neediest students.

The University would also propose to use additional funds from any systemwide fee increase to mitigate the impact of the increase on financial needy middle-income undergraduates who would not otherwise be eligible for grant assistance. Under this program, a portion of the fee increase would be covered for these students.

The University regularly monitors various indicators of the manageability of the work and borrowing that it expects from students, including the impact of student employment on academic progress and estimates of the percentage of students' postgraduate earnings that will be required to repay their debt upon graduation. These indicators suggest that UC grant recipients' expected contribution from work and borrowing will remain within a manageable range in 2007-08 — although it will be higher, within that range, than it was in 2006-07.

Graduate Student Aid

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University. In order to support its research mission and fulfill its responsibility to meet California's professional workforce needs, the University needs to attract top graduate students. To do this, it must offer financial assistance packages that can compete with those offered by other institutions recruiting the same prospective graduate students.

At the undergraduate level, the Cal Grant program insulates many needy low- and middle-income families from the effects of systemwide fee increases and plays an important role in maintaining the affordability of the University. No comparable State program exists at the graduate level. For graduate students, the burden of covering increases in both the University's fees and nonresident tuition falls upon other parties, including the University, research grants funded by Federal and other extramural agencies, private foundations, and students. Although the State does not currently provide significant amounts of grant or fellowship support to graduate students, the University believes that it is in the State's interest to do so, in consideration of the contribution that graduate education makes to the economic vitality of the California economy. The University will continue to explore ways to increase support of graduate education from *all* potential sources.

In 2004-05, 73% of UC's graduate students received some form of financial aid. That year, 60% of all graduate students received gift assistance averaging \$11,900.

Because the competitive markets for graduate academic and graduate professional students differ substantially, so do the types of financial support provided to these two types of graduate students. These differences are discussed below.

Graduate Academic Student Aid

The competitiveness of graduate student support for UC graduate academic students and its impact on the ability of the University to enroll top students from across the world has been a longstanding concern at the University. Several administrative and faculty groups and committees, including the 2001 Commission

on the Growth and Support of Graduate Education, have taken up the issue and concluded that both the size and composition of UC's awards for graduate academic degree students are not fully comparable to the best offers UC students receive from competitor institutions. Recently, the longstanding concern about the competitiveness of UC's awards has been joined by concerns about the impact of cost increases — especially increases in nonresident tuition and systemwide fees — that were instituted in response to declining State support for the University's budget.

Concerns about the competitiveness of the University's awards were substantiated by surveys conducted in 2001 and 2004 of students admitted to UC's academic doctoral programs. These surveys showed variation in the competitiveness of UC's offers across academic disciplines and campuses but indicated that, on average, the net stipend (fellowship and assistantship awards in excess of tuition and fees) associated with the offer from the student's top choice UC doctoral program was \$1,500 less than the student's top choice non-UC offer. Taking into account differences in the cost of living in different university communities increased the average shortfall in the value of UC's offers to approximately \$2,000 for academic doctoral students. (Academic masters students were not included in either survey.)

The surveys also indicated that the competitive gap between UC's offers and those of students' top-choice non-UC institutions did not increase in real terms between 2001 and 2004. The per capita net stipend for all UC doctoral students — new and continuing — has increased each year, and increased by \$980 (3.6% after inflation) between 2003-04 and 2004-05, the latest year for which data are available.

Fee increases during these years were offset in part by new UC graduate student support funding generated by the fee increases themselves. A total of 33% of the revenue resulting from systemwide fee increases in 2002-03 and 2003-04 was set aside for graduate student support, and 20% of the additional revenue generated by the 2004-05 fee increase was set aside for graduate student support.

Campus actions and other developments contributed to the University's ability to maintain its net stipend level, including some factors that work against the University's long-term ability to increase graduate student enrollment and to enroll international students.

Because departments are generally reluctant to reduce the value of their offers to students, departments admitted and enrolled fewer graduate students, especially international students for whom they would need to cover nonresident tuition for multiple years. After years of growth, new graduate academic student enrollment declined by 10% between 2003-04 and 2004-05. The decline in the enrollment of

new international doctoral degree students started earlier — in 2001 — and was steeper.

Expenditures from research grants for research assistants increased substantially between 2003-04 and 2004-05, particularly for fee remissions (a 19.5% increase) and nonresident tuition remissions (a 26.1% increase). Such increases have raised concerns about faculty researchers' ability and willingness to continue to hire graduate research assistants to work on their grants.

Total fellowship funds received by academic graduate students from federal sources increased by 82% between 2000-01 and 2004-05 (not adjusted for inflation), including an increase of 19% between 2003-04 and 2004-05. This increase was partly due to fellowships that increased to cover the full cost of tuition and fee charges. Whether such increases will be sustained in response to future fee increases is uncertain.

Campuses increasingly tapped into alternative fund sources to fund graduate fellowships. Between 2000-01 and 2004-05, fellowship funding from private gifts to the University increased by 51%; funding from General Funds increased by 54%; and funding from sales and services related to auxiliary enterprises increased by 47%. Even so, funding from systemwide Educational Fee revenue remains the single largest source of funds for graduate academic fellowships, and fellowship funding from Educational Fee revenue also increased by 47% during this period.

Campuses targeted available funds to academic doctoral students at the expense of master students, whose net stipends decreased by 42% in inflation-adjusted dollars between 2000-01 and 2004-05. During the same period, per capita borrowing among academic master students increased by 28%.

Although there are examples of individual programs that have had trouble enrolling top students, a 2005 survey of departments indicated that, on the whole, departments felt that the quality of their applicant pool has not declined. The same survey indicated no overall decrease in the yield rate among students who were admitted although, again, some departments did report problems.

For the 2005-06 academic year, the University took several steps to address the gap between graduate student support demand and supply.

First, the University increased the percentage of new fee revenue from graduate academic students to be set aside for graduate student support. The percentage was increased from 20% in 2004-05 to 45% in 2005-06 to provide funds to cover the 2005-06 fee increase for students whose fees were already covered, in whole or in part, by University fellowships and teaching assistantships.

Second, the University did not increase graduate nonresident tuition levels in 2005-06. The foregone revenue was judged to be a worthwhile trade-off in order to avoid further demands on limited fellowship and research assistantship funding caused by a tuition increase.

The University also established the Graduate Student Support Advisory Committee (GSSAC) to advise the Provost and other senior University officials on matters related to graduate student support. Committee membership included one representative from each campus (Executive Vice Chancellors, Vice Chancellors for Research, Graduate Deans, etc.), representatives from the Academic Senate, senior UCOP administrators, and a student representative. The Committee's charge included establishing specific graduate support benchmarks, developing a short- and long-term strategy for enhancing graduate student support, and reviewing the methodology for allocating UC systemwide funding for graduate student support. The final report of the Committee included three principal findings:

- Anticipated increases in traditional funding levels for graduate student support will be inadequate to allow the University to achieve its twin goals of closing the competitive gap and meeting its enrollment growth targets. The Committee estimated that an additional \$122 million of support would be necessary for the University to improve the competitiveness of its awards and to achieve its graduate academic enrollment goals by 2010-11.
- The cost of covering tuition for first-year nonresident students and for international students who have not yet advanced to candidacy limits the extent to which UC graduate programs can compete for and enroll these students.
- Research and training grants cannot be relied upon both to fully cover all future tuition and fee increases and help increase the University's competitiveness.

For 2006-07, the State buy-out of graduate fee increases eliminated fee increases as a source of additional pressure on graduate student support. In addition, the University continued to freeze non-resident tuition at 2004-05 levels, eliminated nonresident tuition for doctoral students who have advanced to candidacy (prior to 2006-07, these students paid 25% of the nonresident tuition fee), and allocated to student support savings from General Fund-supported and student fee-supported programs attributed to the University's new Strategic Sourcing Initiative.

The University's proposals for 2007-08 are designed to address directly the most pressing concerns regarding graduate student support, namely, (1) mitigating the impact of any further fee increases on graduate student support, (2) ensuring that the University can compete successfully for the top students — including out-of-

state and international students, and (3) providing additional funding so that the University can achieve its goals for graduate enrollment growth.

In the event of a fee increase for graduate academic students, the return-to-aid level proposed for 2007-08 will help campuses to cover the increased costs associated with University-funded teaching assistantships, research assistantships, and fellowships that currently cover students' fees.

By continuing to hold nonresident tuition for graduate academic students at the 2004-05 level, the University will continue to reduce, in real terms, the costs associated with covering nonresident tuition for out-of-state and international students. This will lower the real cost of enrolling these students and improve the University's ability to compete successfully for them. The proposed research initiative, if successful, would increase opportunities for students to conduct ground-breaking research and provide funding for additional graduate student support.

Finally, the proposed matching funds provided by the University to campuses that utilize savings from Strategic Sourcing and other cost-saving efforts to improve graduate student support would provide campuses with a further incentive to make graduate student support a high campus priority. The proposal reflects a shared responsibility at the systemwide and campus level to address the widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition.

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. Among other provisions, the policy provided that an amount of funding equivalent to at least one-third of the total revenue from the fee be used for financial aid. Since that time, budget cuts affecting professional schools and the University as a whole have increased the need for professional school fee revenue to cover these schools' operating expenses and to maintain the quality of their programs. The role played by professional school fee revenue in meeting these budget needs is greater than was anticipated in 1994, when the current Regental policy was approved. An update to current policy is needed to address the Regents' continuing goals to provide an accessible, high-quality professional education for UC students in the current economic environment. Guiding principles for a revised Policy will be discussed at a subsequent Regents meeting.

About two-thirds of aid awarded to graduate professional students is in the form of loans, rather than fellowships or grants. The differences in support patterns for

graduate academic and graduate professional students reflect the contrasting approaches to graduate student support in higher education. Fellowship, grant, and assistantship support are viewed as more successful and loans less successful for recruiting and retaining doctoral students whose academic programs are lengthy and whose future income prospects are relatively low. In contrast, student loans are viewed as more appropriate for students pursuing professional degrees. These programs are relatively shorter and students' incomes have the potential to be substantially higher.

The majority of University financial aid funds awarded to professional school students is used for grant and fellowship awards. A portion of University funds, however, is used for loan repayment assistance programs (LRAPs). These programs acknowledge the fact that students who choose careers in the public interest often forego higher incomes. Consequently, these students may be less able to meet their debt repayment obligations.

The professional degree fees charged by the University should not deter highly skilled graduates who wish to apply their skills to a public service career. For 2007-08, the University will continue to expect campuses to expand the size and scope of their loan assistance repayment programs where appropriate to help borrowers with public interest employment meet their student loan repayment obligations.

The University is concerned about the long-term effect of cost increases on the competitiveness of the University's professional school programs and on the types of students that the University is able to enroll. Each year, these programs graduate a cadre of trained professionals in medicine, business, law, and other disciplines, many of who remain in California and make valuable contributions to their professions and to the state. The University recognizes the importance of enrolling talented students from diverse socioeconomic backgrounds into these programs, for the betterment of the communities, institutions, and individuals that these professionals will ultimately serve.

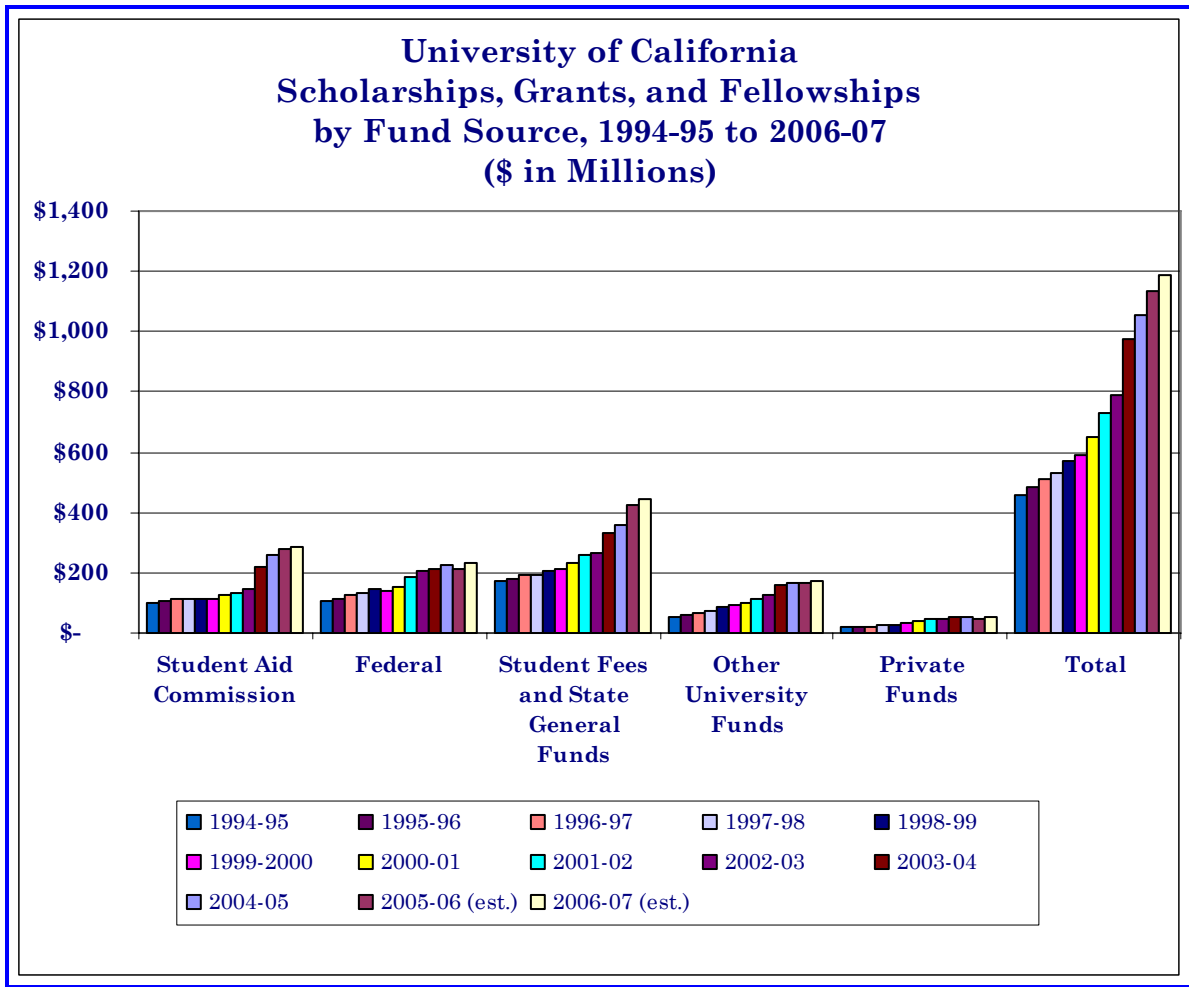
Fund Sources for Financial Aid

Display 9 shows the dramatic increase in fellowship, scholarship, and grant expenditures from all fund sources over a ten-year period.

University Student Fees and State General Funds

Approximately 41% of enrolled undergraduates and 54% of enrolled graduate students received some form of financial assistance funded from institutional aid

Display 9



programs in 2004-05. UC institutional aid programs funded from student fee revenue and State General Funds function as one piece of the total support received by UC students. Campuses combine University aid programs with awards from federal, State, and private sources to build a financial aid package that is composed of individual aid components awarded in accordance with the intent and requirements of each particular funding agency, but that as a combined whole meets the University's financial aid goals.

Federal Aid

In 2004-05, UC students received \$223.4 million in federal grants and scholarships, an increase of about 4% over 2003-04 levels. Federal grants and scholarships comprised 21% of all grants and scholarships received by UC students in 2004-05, a slight decline from 22% in 2003-04. The declining share represented by Federal grants and scholarships is due partly to the lack of any increase in the maximum

Federal Pell Grant amount, which increased steadily during the 1990s, but has increased by less than 1.3% since 2002-03. Prospects for significant increases in the immediate future are slim.

The vast majority of federal aid received in 2004-05 was in the form of loans; UC students and their families received \$752.2 million in federal loans that year.

These figures exclude the value of Federal tax credits and income tax deductions that benefit many UC families. Nationally, the value of these Federal benefits has grown steadily since their introduction in 1997. They are described in greater detail at the end of this chapter.

The Higher Education Reconciliation Act of 2005 (HERA) created two new, significant Federal grant programs beginning Fall 2006.

Academic Competitive Grants (ACGs) are now available to all Pell Grant recipients who are U.S. citizens in their first and second year of college who completed a “rigorous secondary school program of study” and meet other eligibility requirements. The maximum value of the grant is for \$750 during the student’s first year and \$1,300 during the second year. The U.S. Department of Education has accepted the University’s “A-G” subject requirement as a “rigorous . . . program of study.” As a result, the vast majority of regularly admitted UC Pell Grant recipients are expected to qualify for an ACG.

Science and Mathematics Access to Retain Talent (SMART) Grants are available to Pell Grant recipients who are U.S. citizens in selected scientific, engineering, and foreign language majors during their third and fourth year of college, provided that the student maintains a cumulative GPA of 3.0 or higher in coursework required for their major. The maximum annual value of a SMART Grant is \$4,000.

The University estimates that UC students could receive approximately \$10 million in benefits under these programs. However, HERA stipulates that the maximum value of these awards must be reduced if the total amount expended under these programs exceeds the annual amount allocated to the program in HERA. Because of this provision, and because of the newness of the program, it is difficult to predict accurately the actual impact of these programs on UC students.

HERA also enables graduate students to borrow PLUS loans to finance their education. These loans, which had previously been reserved for the parents of undergraduate students, will be an attractive funding option for graduate students who either do not qualify for subsidized Federal loans or who have exceeded the loan limits under the Federal Stafford loan program.

State Aid Programs

California university and college students receive financial support from a number of State programs. These programs, administered on behalf of the State by the California Student Aid Commission, include the Cal Grant A, B, and C programs. These programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. In 2004-05, University of California students were awarded \$259.6 million in financial aid from all programs administered by the Student Aid Commission.

The Cal Grant Program provides undergraduates with "portable" financial aid that can be used at an eligible California institution of the students' choice. Cal Grant Awards for recipients attending UC and CSU currently cover systemwide student fees.

Cal Grant funding for UC students has increased in recent years as UC's fees have increased. In the event of a fee increase for the 2007-08 year, it is anticipated that the State would continue its longstanding commitment to covering systemwide fees for UC Cal Grant recipients.

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 2004-05, \$166 million in University aid from these sources was awarded to students. Nearly all of this support (\$164 million) was awarded in the form of fellowships, scholarships, and grants. Of this amount, \$89 million was derived from current gifts and University endowments.

Aid through Private Sources

Private 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 included in this category along with traineeships and fellowships from private companies (e.g., Hewlett Packard and IBM) and associations and foundations (e.g., the Gates Millennium Scholars program and the American Cancer Society). Nearly all funds in this category are awarded to students in the form of grant support. In 2004-05, nearly \$109 million was awarded to UC students from private agency programs, which represented 5% of the financial support students received during that year.

Other Sources of Financial Assistance

In addition to the types of assistance described above, the federal government and the State provide a number of vehicles to help students and their families finance their education. Some programs provide exemptions from paying fees, one program provides a tax credit, and others provide incentives for parents to save for college. Other programs assist students with repayment of their student loan debt after graduation. Several of these are described below.

Cal Vet Fee Exemptions. Under the California Education Code, dependents of veterans whose death or disability was service-connected are generally eligible for exemption from mandatory systemwide fees. In 2004-05, over 2,700 UC students took advantage of such exemptions, worth a total of \$13.8 million.

Tuition Exemption Under AB 540. Certain nonresident students who attended a California high school for at least three years and who graduated from a California high school may be eligible for exemption from nonresident tuition at UC. Potentially eligible students include undocumented students and domestic students who fail to meet the University's requirements for residency. (Students who do not have a lawful immigration status must certify that they are taking steps to legalize their status or will do so as soon as they are eligible.) Students who are non-immigrants, including foreign students, are not eligible for this exemption. In 2004-05, over 1,300 UC students qualified for such exemptions, worth a total of \$15.7 million. This figure increased rapidly following the inception of the program as new cohorts of entering U.C. students took advantage of the exemption. The number of participants has now stabilized, although the annual value of these exemptions is expected to increase each year as nonresident tuition increases.

Hope and Lifetime Learning Tax Credits. The Taxpayer Relief Act of 1997 established two tax credit programs, which provide tax credits to qualified taxpayers for tuition and fees paid for postsecondary education. The Hope Tax Credit provides tax credits for payments made for students who are in their first two years of postsecondary education. The Lifetime Learning Tax Credit provides smaller tax credits, but taxpayers are not limited to payments made during the first two years of postsecondary education. In general, middle- and lower-middle-income students and their families benefit from the two tax credit programs. The actual number of UC students and families taking advantage of these credits and the total value of the credits they received are unknown. However, based upon the results of a 1999 UC student survey and adjusted for enrollment growth, the estimated value of these tax credits for UC students and their families exceeded \$70 million in 2004-05.

Scholarshare Trust College Savings Program. In 1999, the State established the "Scholarship Trust College Savings Program," a tax-exempt college savings

fund administered by the California State Treasurer, to encourage families to save for their children's college expenses. The Scholarshare Trust manages individual accounts, which are pooled and invested in a number of different financial instruments by the State or its agent. Earnings from the investments are not taxed at either the federal or State level, provided that they are used to cover qualified education expenses.

Penalty-Free IRA Withdrawals. Taxpayers may withdraw funds penalty-free from either a traditional Individual Retirement Account (IRA) or a Roth IRA for postsecondary education expenses. This provision is intended to assist middle-income students and their families.

Coverdell Education Savings Account. The Economic Growth and Tax Relief Reconciliation Act of 2001 established the Coverdell Education Savings Account (ESA) to replace the Education IRA. Although contributions are not tax deductible, earnings on the ESA are tax-free and no taxes will be due upon withdrawal if used for qualified higher education expenses. This program is intended to assist middle-income students and their families.

U.S. Savings Bonds. The interest on U.S. savings bonds is, in certain circumstances, tax-free when bond proceeds are used to cover eligible education expenses. Eligibility for tax-free withdrawals is a function of income level when the bond is redeemed and is intended to assist middle-income students and their families.

Student Loan Interest Deduction. Taxpaying borrowers may take a tax deduction for interest paid on student loans (available even if the taxpayer does not itemize other deductions). Because eligibility for the deduction is phased out for taxpayers with higher incomes, middle-income and lower-middle-income borrowers with high debt levels are the primary beneficiaries of this deduction.

Loan Repayment Assistance Programs. Loan repayment assistance programs (LRAPs), loan assumption programs, and loan forgiveness programs are available to graduates who enter certain professions or who serve specific populations after graduation. Examples of these include LRAPs offered by every University of California law school, which are available to graduates who pursue qualifying public interest work, and the State Assumption Program of Loans for Education (APLE), which provides loan assumption benefits to students who enter K-12 teaching in certain fields or in certain low-performing schools. Federal programs provide similar benefits to physicians and other health science practitioners.

INSTITUTIONAL SUPPORT

| 2006-07 BUDGET | |
|--------------------|-----------------------|
| Total Funds | \$ 601,648,000 |
| General Funds | 354,024,000 |
| Restricted Funds | 247,624,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 13,000,000 |

Institutional Support includes numerous campus and systemwide activities under five sub-programs. The sub-programs and examples of activities included in this function are:

- Executive Management — offices of the President, Vice Presidents, Chancellors, and Vice Chancellors; planning and budget offices;
- Fiscal Operations — accounting, audit, 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.

State funding for administration has failed to keep pace with enrollment growth, the costs of new State and federal mandates, and general inflation, due to a lack of State funds to cover price increases. New expenditures in Institutional Support have been 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. More recently, the University has experienced an increased administrative burden as a result of the USA PATRIOT Act and the Homeland Security Act, both designed to enhance domestic security against terrorism.

Despite this increased administrative burden, Institutional Support expenditures have actually decreased over the years as a percent of the University's total

expenditures. Institutional Support budgets are often one of the first areas of the budget to be reduced in difficult economic times. As a result, including all fund sources, Institutional Support expenditures declined from 12% of total expenditures in 1971-72 to less than 9% of total expenditures in 2005-06.

In the early 1990s, already constrained by historical underfunding, Institutional Support budgets were deeply impacted by the State of California's fiscal problems. At that time, University budgets were cut by \$433 million, or about 20% of the 1989-90 State-funded budget. Due to legislative intent language, and the shared desire of the University and the State to protect core academic programs, Institutional Support was targeted for additional cuts, along with Research and Public Service programs. Budget reductions totaling \$40 million occurred between 1995-96 and 1998-99, in anticipation of productivity improvements mandated under a four-year Compact between then-Governor Wilson and higher education.

The most recent fiscal crisis has resulted in significant further reductions to Institutional Support: a mid-year cut of \$20 million to academic and general administration budgets (Academic Support and Institutional Support) grew to \$36.5 million in 2003-04. In 2004-05, these budgets were reduced by an additional \$45.4 million.

In addition to these base budget cuts, the University incurred over \$100 million in unavoidable costs related to faculty merits, employee health benefits, energy cost increases, and maintenance of new space in 2003-04 and 2004-05, most of which were funded by redirecting resources from Institutional Support and other parts of the budget.

Investments in technology have enabled the University to make significant progress in increasing the efficiency of its operations. Examples of cost savings include: systematically replacing high-volume and labor-intensive transactions such as payroll, personnel, purchasing, and reimbursements with online systems; allowing administrative units to reduce costs by sharing resources; and using electronic tools to increase dissemination of information, ranging from news releases to job postings.

The University is continuing to review administrative activities to identify additional efficiencies. This review includes examination of purchasing and procurement practices, new information and technology systems, as well as regulatory relief the University should seek to help reduce administrative costs.

Strategic Sourcing

In 2003-04, following upon successful campus efforts, the University of California launched the Strategic Sourcing Initiative, a disciplined process intended to

leverage the University's enormous buying power in the marketplace, increase purchasing efficiency in the organization, and lower the cost of goods and services in a large array of categories.

Strategic sourcing focuses on reducing waste or non-value-added costs in the purchasing process. Different from traditional purchasing, strategic sourcing:

- analyzes total cost, not just the purchase price;
- consolidates the purchasing power of the entire organization;
- builds solid supplier relationships;
- realigns business processes, work and information flows;
- improves teamwork and purchasing skills.

Total cost looks beyond the purchase price, quantifying the other costs involved in procuring goods, such as the costs associated with the purchase, delivery, storage, service, repair, and disposal of goods.

The University spends an estimated \$2 billion annually on commonly used goods and services. Strategic sourcing offers UC the opportunity to achieve significant savings over the next five years. Commodity teams consisting of representatives from the campuses, medical centers, and National labs have been working toward identifying and implementing a procurement strategy that will provide the University the best value for the goods and services it purchases.

Strong supplier relationships are an important component of strategic sourcing. By decreasing the number of vendors UC depends upon, remaining vendors can expect more business from the University and an alliance can be created that benefits the University in terms of customer service, business development, and cost savings.

The analytical rigor used in strategic sourcing will demonstrate results throughout the entire organization and ensure that purchasing professionals are focused on longer-term, more sustainable procurement efforts, as opposed to routine transactional tasks.

The examination of business processes and workflows is important to the success of strategic sourcing. As the processes at each campus, medical center, and national lab are analyzed, redundant activities can be reduced and the best practices that exist within the organization and other entities can be shared.

The development of the cross-functional teams that work on the strategic sourcing efforts is important to the success of the University's initiative. These teams, which consist of individuals with purchasing expertise as well as those with subject matter expertise for a particular commodity, work on the initial sourcing and bidding processes for the commodity and then continue to be a link to the implementation

of the new systemwide contracts. Their work includes introducing the new contract to their campus, medical center, or national lab, and marketing the new product or service so that all departments take full advantage of the benefits provided by the new contracts.

Strategic sourcing will benefit the entire University of California system and will yield substantial cost savings during these fiscally challenging times. These savings are estimated to grow to as much as \$150 million a year from all fund sources by 2010-11. This expectation of significant savings has led to the development of a major initiative to increase support for graduate students. For 2006-07, planned savings in State General Funds and student fees are expected to generate \$10 million that can be used to enhance financial support packages for graduate students. It is anticipated another \$10 million in savings from these sources can be generated for the same purpose in 2007-08. The estimated savings that can be redirected for this purpose will grow to \$40 million a year by 2009-10. Campuses will retain their savings to benefit their graduate students. The graduate student support initiative is discussed in more detail in the *Student Financial Aid* chapter of this document. Savings achieved in other fund sources will be needed to fund increases in salaries, retirement contributions, health benefits, and non-salary expenses for programs funded from those sources.

By combining the key steps of strategic sourcing and capitalizing on the University's strong presence in the marketplace, the University can be assured it is obtaining the best value for all goods and services.

OPERATION AND MAINTENANCE OF PLANT

| 2006-07 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 529,946,000 |
| General Funds | 424,266,000 |
| Restricted Funds | 105,680,000 |
| 2007-08 INCREASE | |
| General Funds | 9,200,000 |
| Restricted Funds | 5,000,000 |

Overview

The University maintains 110 million gross square feet of space in nearly 5,500 buildings at the ten campuses and the agricultural field stations. Over 56 million square feet, or about 50%, is eligible to be maintained with State funds. Three basic types of funding are required to operate, maintain, preserve and upgrade University buildings and campus infrastructure: 1) annual support for operations and maintenance of plant (OMP), including building maintenance and purchased utilities; 2) deferred maintenance; and 3) capital renewal.

Years of underfunding for maintenance and capital renewal have taken a heavy toll both on the University's budget and on its ability to maintain the effective operation of facilities. No new State funding was provided for the operation and maintenance of University facilities in 2003-04 and 2004-05, despite the fact that significant new facilities for core instruction and research came on line during this period, requiring redirection of funds to maintain new buildings. Funding provided for building maintenance has been at a level less than 70% of standard.

The University continues to face shortfalls in its purchased utilities budget even though it has negotiated competitive energy service contracts and has continued to implement an aggressive energy conservation program. In the last five years, unit electric prices have doubled in investor-owned utility service territories and natural gas prices have increased 20 - 30%, causing a substantial annual funding shortfall for the current year and additional funding shortfalls for purchased utilities expected in 2007-08. The University has absorbed these shortfalls by cutting costs in other areas of facilities operations.

The University continues to be challenged by the long-term underfunding of OMP, as it has been forced to make difficult funding tradeoffs that give the highest

priority to maintaining student access and protecting core academic programs and a lesser priority to maintaining facilities on a long-term basis. This long-term underfunding of basic maintenance services shortens the useful life of building and infrastructure systems and thus contributes to the University's growing deferred maintenance backlog. The situation grows more serious each year as facilities age and adequate funding for the operation and maintenance of facilities is not provided.

The University's deferred maintenance backlog, now estimated at \$800 million for top priority projects, results not only from underfunding of annual maintenance, but also, more particularly, from the lack of regular capital renewal funding that supports the systematic and cyclical replacement of building systems and infrastructure. Over the next 50 years, the University projects an average annual capital renewal need of \$225 million for State-maintained buildings and infrastructure. Without adequate capital renewal funding, the University's deferred maintenance backlog will continue to grow.

Beginning in 2008-09 and continuing through 2010-11, the Compact calls for an additional 1% adjustment to the base to be used to address annual budgetary shortfalls in State funding for faculty and other instruction and research support for core areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance. This funding will begin once again, after a several year hiatus, to address the critical shortfalls that exist in OMP. However, if limited to the funding provided within the Compact in future years, progress in improving the maintenance of buildings and infrastructure systems will be slow.

The Compact provides for the University to request one-time funds to address significant needs, if the State's fiscal situation permits. Therefore, as the State's fiscal condition improves, the University plans to seek additional State support to address neglected capital renewal needs and the University's substantial deferred maintenance backlog.

OMP Support for New Space (\$9,200,000 Increase)

Additional funding for new space coming on line during the budget year is an annual budget need. Unfortunately, for two years of the recent fiscal crisis in the State, 2003-04 and 2004-05, no new State funding was provided to support increased purchased utilities and maintenance costs associated with new space. To help address the most critical maintenance needs for core instruction and research space in new facilities that were opened during this period of no additional funding, the University redirected \$7 million from existing University resources. In 2005-06, \$16 million of funding was provided within the approved budget plan

for maintenance of core instruction and research space coming on line that year and \$8.3 million was provided for the same purposes in 2006-07.

For 2007-08, the University's proposed budget plan includes \$9.2 million in funding provided within the Compact to support basic maintenance services and purchased utilities for approximately 983,000 gross square feet of new space to be placed in service during 2007-08. As in recent years, these facilities encompass the highest priority State-eligible space coming on line, including core instructional and research facilities, and innovative research facilities for the California Institutes for Science and Innovation that support both students and faculty.

In response to legislative supplemental language requesting the Department of Finance, the Legislative Analyst's Office, UC and CSU to review the marginal cost of instruction calculation, the marginal cost for 2006-07 was revised to \$9,900 per student, reflecting more accurately the cost of hiring new faculty, as well as the need to include a component in the calculation for maintenance of new space. As a result, \$8.3 million was provided in the 2006-07 budget for maintenance of new space coming on line during the budget year. For 2007-08, the marginal cost is estimated at \$10,500 per student. With this funding, a total of \$9,200,000 will be provided for maintenance of new space in the coming year.

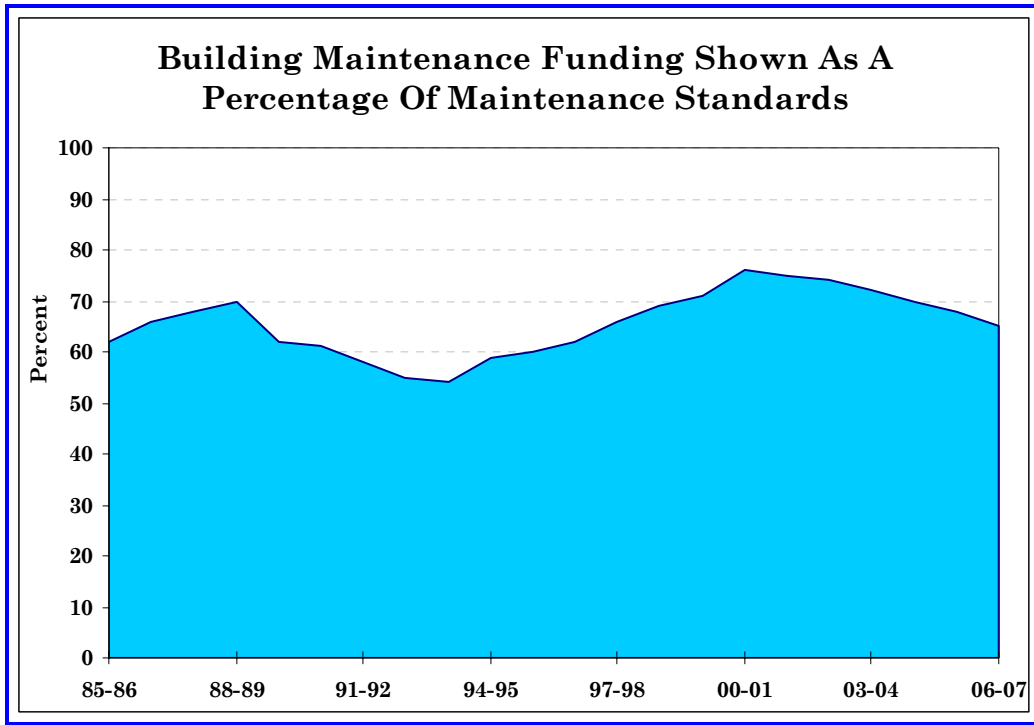
OMP Funding for Existing Facilities

OMP funding supports several facilities service functions, including regular building maintenance, janitorial services, utilities maintenance and operations, grounds maintenance, and purchased utilities. In the 1980s, the University worked with the California State University, the Department of Finance, and the Legislative Analyst's Office to develop workload standards to be used as the basis for determining the appropriate level of funding for each of the four maintenance components of OMP (excluding purchased utilities). The established standards indicate that current levels of State support for OMP do not adequately fund most of the OMP functional areas (see Display 1, next page). Support for janitorial services at the University is at about 65% of the recommended standard; support for utilities maintenance and operations is at about 70% of the standard; and support for grounds maintenance is at about 60% of the standard.

Maintenance Services

Annual OMP services for existing facilities have been chronically underfunded for more than two decades. The Legislature proposed a funding plan in 1996-97 to begin to eliminate the estimated \$60 million funding shortfall for ongoing maintenance services over four years by providing \$7.5 million in State funds

Display 1



each year matched by an equal amount of University funds. However, due to the State's fiscal constraints, only the University was able to provide funding during the first two years of the plan for a total of \$13.5 million. Beginning in 1999-2000, the Partnership Agreement with Governor Davis also called for annual improvements in OMP funding to be provided as part of the 1% increase to UC's General Fund base, with a goal of funding two-thirds of the OMP funding shortfall over a four-year period. Increases for OMP of \$4 million in 1999-2000 and \$4.5 million in 2000-01 were provided. However, due to the State's deteriorating fiscal situation, the improvements in OMP funding that UC requested were not provided in either 2001-02 or 2002-03, resulting in an ongoing OMP funding shortfall of more than \$51 million at the end of four years. An additional request of \$10 million to improve OMP funding in 2003-04 could not be accommodated given the State's fiscal situation, and the University did not request additional improvements in OMP funding for existing facilities in either 2004-05 or 2005-06, given the severe budget constraints facing the State.

This chronic funding shortfall for OMP for existing facilities must be addressed to ensure that buildings and infrastructure systems can be operated for their full useful life and that growth of the University's already substantial deferred maintenance backlog is not accelerated. As noted earlier, beginning in 2008-09 and continuing through 2010-11, the Compact calls for an additional 1% adjustment to the base to be used to address annual budgetary shortfalls in State funding for core

areas of the budget, including ongoing building maintenance, to begin to address the critical shortfalls that exist in OMP.

Purchased Utilities

The cost of purchased utilities is affected both by consumption levels and utility rates. For the last two decades, the campuses have implemented increasingly stringent energy conservation measures, undertaken capital improvements to reduce energy consumption, and taken measures to purchase energy at the lowest rates possible. All campuses have undertaken significant efforts to reduce energy consumption, such as installing energy monitoring and metering systems, and retrofitting existing facilities to install energy efficient lighting fixtures, motors, and pumps. Other larger-scale projects have included the development of new energy efficient co-generation facilities at the San Francisco, Los Angeles, and San Diego campuses and thermal storage facilities at the Davis, Irvine, and Merced campuses. The University's Green Building Policy requires that new facilities be designed so that energy use is 20% less than existing Title 24 State standards. As funding permits, the University will continue to support additional energy conservation projects.

Despite significant conservation efforts, however, the University experienced steep increases in purchased utility costs in 2000-01 and 2001-02 as a result of the statewide energy crisis. While the UC/Enron "direct access" contract protected several UC campuses from the volatility of statewide electricity rates until March 2002, the University paid increasingly higher rates for natural gas throughout 2000-01 and 2001-02. Recognizing these increased costs, the State provided the University with \$75 million in 2000-01 and 2001-02 to help offset the increases in purchased utility costs, with \$20 million intended to be a permanent allocation. However, the mid-year budget cuts in 2001-02 eliminated \$25 million of the total, including all of the permanent allocation, leaving only \$50 million of one-time funds to address the substantial ongoing shortfall in the University's purchased utility budget. No additional new State funding directed at increasing utility costs has been appropriated since 2001-02. The ongoing annual shortfall in funding for purchased utilities — electricity and natural gas — continues to grow, typically at the expense of building maintenance.

In addition to pursuing opportunities for energy conservation, the University has continued its efforts to obtain favorable contracts for electricity and natural gas. The University renegotiated a short-term "direct-access" electricity supply contract. The current contract with Arizona Public Service Energy Services (APSES), extends through December 2006. While the APSES rates have been competitive, the funding shortfall for purchased utilities has continued, and several campuses, in an effort to manage the increases in purchased utility costs, have left the APSES contract and returned to service from local utilities, such as Pacific, Gas & Electric

and Southern California Edison. Current direct access electricity contracts were recently extended through December 2007.

While short-term utility prices for these campuses were reduced by 2.5%, it is anticipated that longer term utility prices will increase as market conditions seen more immediately in direct access prices are incorporated in utility rate cycles. Industry analysts project modestly higher electricity costs beginning in January 2007, perhaps in the 5% range. Increases in natural gas costs also affect the University's electricity costs, because natural gas is also used to generate electricity. Most campuses have been managing gas costs by developing a portfolio of longer-term natural gas contracts, many with the state pool through the Department of General Services. Industry analysts also project modest increases (around 5%) for gas costs in 2007. As a result of new contracts that will be negotiated in the last half of the 2006-07 fiscal year, it is difficult at this time to estimate the funding shortfall for purchased utilities in 2007-08.

The University has accommodated increased costs in this essential area by cutting other elements of the maintenance budget, a difficult tradeoff during a time of declining State funding and against the backdrop of chronic underfunding of OMP. The University will need to continue to reallocate resources to cover shortfalls in purchased utility funding in 2007-08, further exacerbating the problems that arise in the rest of the OMP budget from inadequate funding.

Capital Renewal and Deferred Maintenance

In addition to annual OMP support, funding is also needed for deferred maintenance and capital renewal to maintain facilities that can support the University's instructional, research and service programs. When seeking to address deterioration of existing facilities, the University has traditionally focused on deferred maintenance. Yet, one must understand that deferred maintenance is ultimately a measure of the failure to maintain facilities that are operationally sound through the ongoing funding of capital renewal. The University's substantial deferred maintenance problem — currently estimated at \$800 million for high priority deferred maintenance projects — is the result of a lack of regular and adequate funding for the systematic renewal and replacement of building and infrastructure systems to extend the useful life of facilities. As such, the University's deferred maintenance backlog will continue to grow as long as the University lacks a robust capital renewal program to provide for the periodic renewal and replacement of basic building and campus infrastructure systems.

The University estimates that, on average, at least \$225 million will be required annually over the next 50 years to meet its capital renewal needs, including approximately \$185 million for building systems and \$40 million for campus

infrastructure. This annual investment is for the normal replacement and renewal of building systems and components, such as replacing roofs and building chillers, which may occur several times during the life of a building. Funding for renewal of building systems and infrastructure components is not included in the allocations for ongoing building maintenance.

The estimates of funding needs for capital renewal and deferred maintenance are based on a sophisticated budget model developed by the University in 1998. The model, which is updated annually, includes a detailed inventory of all State-maintained facilities at each campus and breaks down infrastructure and buildings into systems that need to be renewed on a predictable basis and have life cycles between 20 and 50 years. These systems include components such as roofs, fire alarm systems, heating and ventilation systems, central plant chillers and underground utility cabling. The model assumes standard life cycles and costs for renewing each system, and from these elements develops a profile for each building and infrastructure system, projecting the renewal date and cost for a 50-year period. The model also estimates the deferred maintenance backlog by tracking those systems that have deteriorated to the point that they currently need major repair, replacement or renewal to stop accelerating deterioration and reverse increasing maintenance costs to keep the systems operating.

It should be pointed out that capital renewal funding at an annual level of \$225 million would be required even if ongoing building maintenance is funded adequately so that building and infrastructure systems perform as designed for the expected duration of their useful life. Continued underfunding of ongoing building maintenance exacerbates the University's deferred maintenance problem by reducing the useful life of critical building and infrastructure systems.

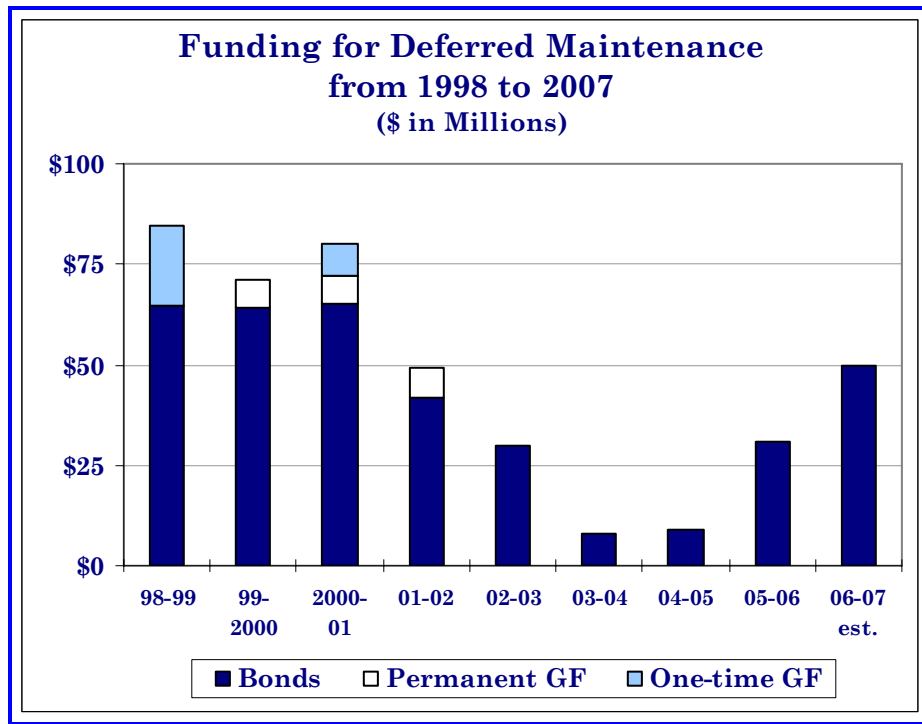
Funding for deferred maintenance has not been predictable or stable over the last decade. Before 1994-95, the State provided the University with nearly \$20 million a year in permanent deferred maintenance funding. While not sufficient to meet the University's deferred maintenance needs, it was a reliable and predictable source of funding. From 1994-95 through 1997-98, annual funding for deferred maintenance ranged from \$8 million to \$25 million per year, provided through a variety of one-time, bond, and permanent funds.

Recognizing the University's growing deferred maintenance backlog and the lack of regular and adequate capital renewal funding, The Regents approved a new funding approach in 1998 for deferred maintenance that provided significant levels of funding for the next several years. It emphasized a "systems renewal" rather than a "repair" approach in addressing the deferred maintenance backlog. Funding was provided by issuing 15-year bonds, to be repaid by using a portion of the increase

each year in UC General Funds. Bond funding was provided for four years, supplemented by permanent and one-time General Fund allocations.

As shown in Display 2, between 1998-99 and 2001-02, approximately \$289 million was provided on a systemwide basis to address the most urgent deferred maintenance and capital renewal problems.

Display 2

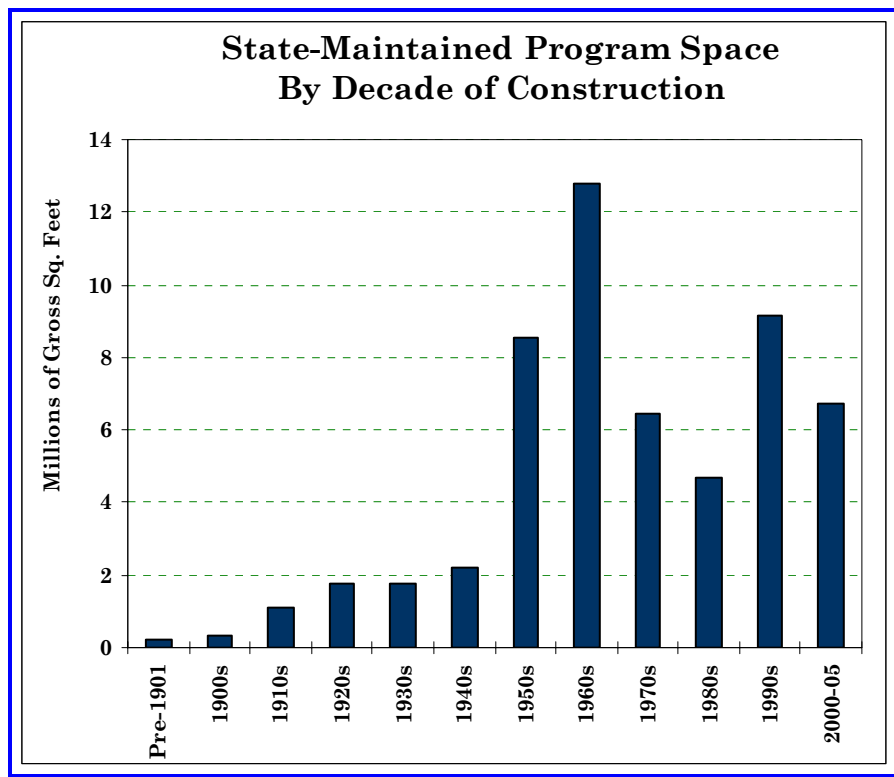


The systemwide long-term debt financing program generated approximately \$65 million a year for three years; in 2001-02, bond funding was decreased to \$45.5 million due to underfunding of the Partnership. In 2002-03, the systemwide long-term debt financing program for deferred maintenance and capital renewal was suspended because University funds used to support debt financing had to be redirected to offset State funding cuts. In addition, the final Budget Act for 2002-03 included a one-time cut of \$29 million related to core needs, including a cut of the remaining \$7.1 million for deferred maintenance that had been available on a permanent basis since 1999-2000.

The suspension of the long-term debt financing program for deferred maintenance and capital renewal and the elimination of permanent deferred maintenance funding has coincided with a period of expanding need for investment in existing

University facilities. As Display 3 shows, over 50% of the University’s state-supported facilities are more than 35 years old. The mechanical and other systems in these buildings, as well as supporting infrastructure, are nearing or have reached the end of their useful life. As more building and infrastructure systems wear out with normal use, the need for systematic renewal grows more urgent with each passing year. Over the next decade, this need will rise sharply as the systems in buildings and supporting infrastructure constructed during the University’s building boom of the 1950s and 1960s surpass their useful life, become increasingly difficult and expensive to maintain, and ultimately lose their capacity to support the programs housed in these facilities.

Display 3



The combination of the State’s long-term underfunding of annual OMP, the suspension of the deferred maintenance and capital renewal bond program, and the elimination of permanent deferred maintenance funding have combined to severely challenge the University’s ability to maintain facilities that can support the University’s instructional and research programs. In the absence of other funding, the University has continued to use its capital outlay program to address some of the highest deferred maintenance and seismic priorities while still meeting new growth. During the four-year period 2002-03 to 2005-06, four campuses pledged a portion of their UC General Fund income to finance long-term debt to fund urgent deferred maintenance work, generating \$70 million in bond funding for this purpose

over the four-year period. This program is continuing in 2006-07, with additional campuses participating to the extent that it is financially feasible for them to do so. The program is expected to generate another \$50 million in bond funding for deferred maintenance and capital renewal projects.

Between 1998-99 and 2001-02, the systemwide long-term debt financing program and other sources allowed the University to address over 1,200 high priority deferred maintenance and capital renewal projects. The University learned after four consecutive years of predictable deferred maintenance and capital renewal funding that there are significant benefits to regular and predictable investment in capital renewal. The multi-year planning and strategic resource allocation that are possible with a regular and predictable funding stream allows efficiencies in the use of limited resources that are not possible when there is no systematic funding of capital renewal and deferred maintenance is largely handled as emergency repair.

The cumulative impact of long-term underfunding of both OMP and capital renewal, however, has left the University with a vast inventory of buildings and infrastructure that have systems either already in deferred maintenance or at or near the end of their useful life. This inventory will grow in the next decade as the systems in buildings constructed in the 1960s and 1970s reach the end of their useful life. With limited capital renewal funding, the University's deferred maintenance problem will continue to grow at an accelerating rate. Moreover, costs to repair and maintain these systems even at reduced levels of performance will increase as they reach and pass the end of their useful life. As the performance of these systems decreases, the risk of adverse impacts on the University's instructional and research programs increases.

The University continues to dedicate significant capital resources to new building projects, and it is critical that these investments are protected by providing adequate funding to maintain facilities in a condition that will ensure program needs are met. It is also important to invest in the renewal of existing building and infrastructure systems to maintain the functionality of these facilities.

The University's deferred maintenance problem cannot be eliminated until ongoing building maintenance is adequately supported and the University secures predictable ongoing funding to address the capital renewal needs of its buildings and infrastructure systems.

As permitted by the State's fiscal situation, the Compact between the Governor and UC and CSU provides for State one-time funds to address high priority infrastructure needs, such as capital renewal of facilities and deferred maintenance needed to maintain capital assets. As the State's fiscal condition improves, the University intends to seek funding to help meet its substantial ongoing capital renewal needs and manage its large deferred maintenance backlog.

AUXILIARY ENTERPRISES

| 2006-07 BUDGET | |
|--------------------|-----------------------|
| Total Funds | \$ 777,694,000 |
| General Funds | -- |
| Restricted Funds | 777,694,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 40,000,000 |

Auxiliary enterprises are self-supporting services that are primarily provided to students, faculty, and staff. Student and faculty housing, parking, and bookstores are the largest auxiliaries. No State funds are provided for auxiliary enterprises; therefore, they must generate sufficient revenues to cover all of their direct and indirect operating costs. The annual budget is based upon income projections; all budget increases are funded by corresponding increases in revenue.

During 2006-07, revenue from auxiliary enterprises will be expended as follows: 51% for residence and dining services; 6% for parking operations; 8% for intercollegiate athletics; 24% for bookstores; and 11% for other expenditures.

Student, Faculty, and Staff Housing

The largest program in Auxiliary Enterprises is student housing, comprising approximately 53,157 residence hall and single student apartment bed-spaces and 4,895 student family apartments, for a total of 58,052 spaces.

Affordable student housing is an important component of the University's ability to offer a high-quality education. Rapid enrollment growth has presented the University with many challenges; creating affordable, accessible student housing to accommodate this growth is high among those challenges.

In accommodating demand, campuses identified guaranteed housing for freshmen as one of their highest priorities. Planning and providing for additional housing opportunities for transfer and graduate students is also a top priority for all campuses.

While the University was better prepared in Fall 2006-07 to meet the housing demand of students than in previous years, most campus residence halls continued to be occupied at over 100% design capacity (systemwide occupancy of residence halls was 103%). This percentage will increase as a result of enrollment patterns in Fall 2006. Campuses accommodate this by converting doubles to triples as well as modifying study areas into temporary quarters. All campuses housed freshmen that met enrollment and housing deadlines. By the Fall 2012 term, if construction proceeds as planned, the University will add 6,822 new student bed-spaces.

The California housing market is a continuing deterrent to faculty recruitment efforts, particularly for junior faculty. Various programs to alleviate this problem have been implemented since 1978. One of these programs provides rental housing to faculty. 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. There are currently 723 units available at seven campuses: Berkeley, Irvine, Los Angeles, San Diego, San Francisco, Santa Barbara, and Santa Cruz.

Home loan programs have provided mortgage loans with favorable interest rates and/or down payment requirements to 4,743 faculty members and other designated employees. In addition, the Faculty Recruitment Allowance Program has provided 2,859 faculty members with housing assistance during their first years of employment with the University.

The University continues to explore other faculty housing alternatives. Six 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 projects underway and/or completed which will provide over 1,156 units, including townhouses, condominiums, and single-family structures.

Parking

Another major auxiliary enterprise is the parking program, with approximately 111,617 spaces for students, faculty, staff, and visitors. Recognizing the serious need for parking on each of the campuses, in 2005-06 and 2006-07 the University approved parking projects that will yield approximately 2,225 new spaces.

PROVISIONS FOR ALLOCATION

| 2006-07 BUDGET | |
|-------------------------|----------------------|
| Total Funds | \$ 73,667,000 |
| General Funds | 55,368,000 |
| Restricted Funds | 18,299,000 |
| 2007-08 INCREASE | |
| General Funds | -3,817,000 |
| Restricted Funds | -- |

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, equity, and merit increases), employee benefit increases, and price increases, are held in provision accounts pending final allocation. Fixed cost increases for 2007-08 are discussed in the *Program Maintenance: Fixed Costs and Economic Factors* chapter of this document. Provisions for allocation also include negative appropriations, specifically State General Fund unallocated budget reductions awaiting allocation decisions and budgetary savings targets.

Rental Payments for Facilities Funded from Lease Revenue Bonds

Funds to pay for rental payments for University facilities constructed from lease revenue bonds were initially appropriated to the University in 1987-88. Under the conditions of this funding mechanism, the University contracts with the State to design and construct facilities, provides the State Public Works Board (SPWB) with a land lease for the site on which buildings will be constructed, and enters into a lease purchase agreement for the facilities with the SPWB. Annual lease payments are appropriated from State funds and used to retire the debt. At the end of the lease term, ownership of the facilities automatically passes to the University. In 2006-07, \$158.3 million was appropriated to the University for revenue bond lease payments. Consistent with past practice, the funding level needed for revenue bond lease payments for 2007-08 will be determined by the Department of Finance and included in the final budget.

Debt Service Payments for Deferred Maintenance Projects

In 1994-95 and again in 1995-96, the State authorized \$25 million in long-term debt financing to pay for high priority deferred maintenance projects involving the renewal or replacement of capital assets. All projects funded by this mechanism are required to have a useful life of at least 15 years. It was determined that the University should provide the financing and that funds to repay the principal and interest would be appropriated in future years in the annual State budget.

The 1999 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. The 2007-08 budget continues this level of funding.

PROGRAM MAINTENANCE: FIXED COSTS AND ECONOMIC FACTORS

| 2007-08 INCREASE | |
|------------------|----------------|
| General Funds | \$ 247,000,000 |
| Restricted Funds | -- |

This chapter discusses funding for employee salary and related benefit adjustments, and for price increases required to maintain the University's purchasing power at present program levels.

2007-08 Budget Plan

The University's budget plan for 2007-08 includes a compensation package of 5% for faculty and staff funded from State and UC General funds and student fee income. Consistent with past practice, compensation for employees funded from other fund sources — including teaching hospital income, auxiliary enterprises, federal funds and other sources — must be accommodated from within those fund sources and must conform to the University's established systemwide salary programs for State-funded employees. The 5% package will narrow the competitive salary gap, estimated to be about 10%, by approximately 1%. An amount equal to 2.25% of the non-salary base will be provided for price increases.

The compensation package will be used to fund faculty and staff salary increases, increases in the cost of employee health and welfare benefits, market-based and equity salary increases for faculty and staff whose salaries significantly lag behind those who have been newly hired at market rates, and continuation costs for salary adjustments that occurred effective October 1, 2006, as described below.

The University's 2007-08 budget plan also assumes employer contributions to the University's retirement plan will need to be reinstated by July 1, 2007. The Regents have made it a high priority to ensure the long-term viability of the retirement program for the benefit of all UC employees. The Board acted at the March meeting to establish principles related to resuming employer and employee contributions to UCRP. Issues of phasing (at what rate of increase contributions occur and over what period of time), as well as the share between employer and employee and the availability of funding to support the employer-paid contributions, are the subject of collective bargaining negotiations and continuing

discussion among The Regents, the Administration, faculty, and staff and State government officials. While these issues have yet to be resolved, it is clear they will need to be addressed in budget negotiations and any reinstatement of contributions will be subject to funding and completion of the budget process.

Compensation Increases for Academic and Staff Employees

Two years ago, The Regents commissioned a study to review its total compensation program. The results of the study indicate that in general, salaries are substantially below that of the market average. However, the total compensation package, including salary, health and welfare benefits for active employees and annuitants, and retirement system benefits, is close to the market average. It is anticipated that the value of the benefit package will decrease in the next few years as employer and employee contributions to the retirement system are phased in which are required to ensure the solvency of the retirement program. Employees have not had to contribute to the retirement system since 1990. In addition, funding over the next several years likely will not be adequate to match the inflationary increases of health benefit costs, requiring that employees pick up a larger share of their medical premium. The University's long-range plan is to rebalance the components of the total compensation package and bring salaries closer to market-competitive levels so that the total compensation package remains competitive. In order to maintain the quality of its programs, the University is determined to remain competitive in the market.

One of the major challenges facing the University is the lag in University salaries compared to the market. Faculty salaries currently lag the average of comparison institutions by about 10%, and there is a similar problem with respect to staff salaries, on average. As specified by The Regents, one of the University's highest priorities is to stop the erosion in the short run, and beginning this year and in future years begin to close the gap to the extent possible. Therefore, the University's budget plan for 2007-08 calls for a total compensation increase package of about 5%, using a combination of State General Funds, UC General Funds, and student fee revenue, consistent with the Compact.

The University's 5% compensation package for 2007-08 includes the following elements:

- continuation costs for salaries and health and welfare benefits provided in the previous year, but effective for only part of the year;
- funding for merit salary increases for eligible employees;
- a cost-of-living-adjustment (COLA) effective October 1 (for employees eligible for COLA adjustments);

- market based and equity salary increases; and
- health and welfare benefit cost increases.

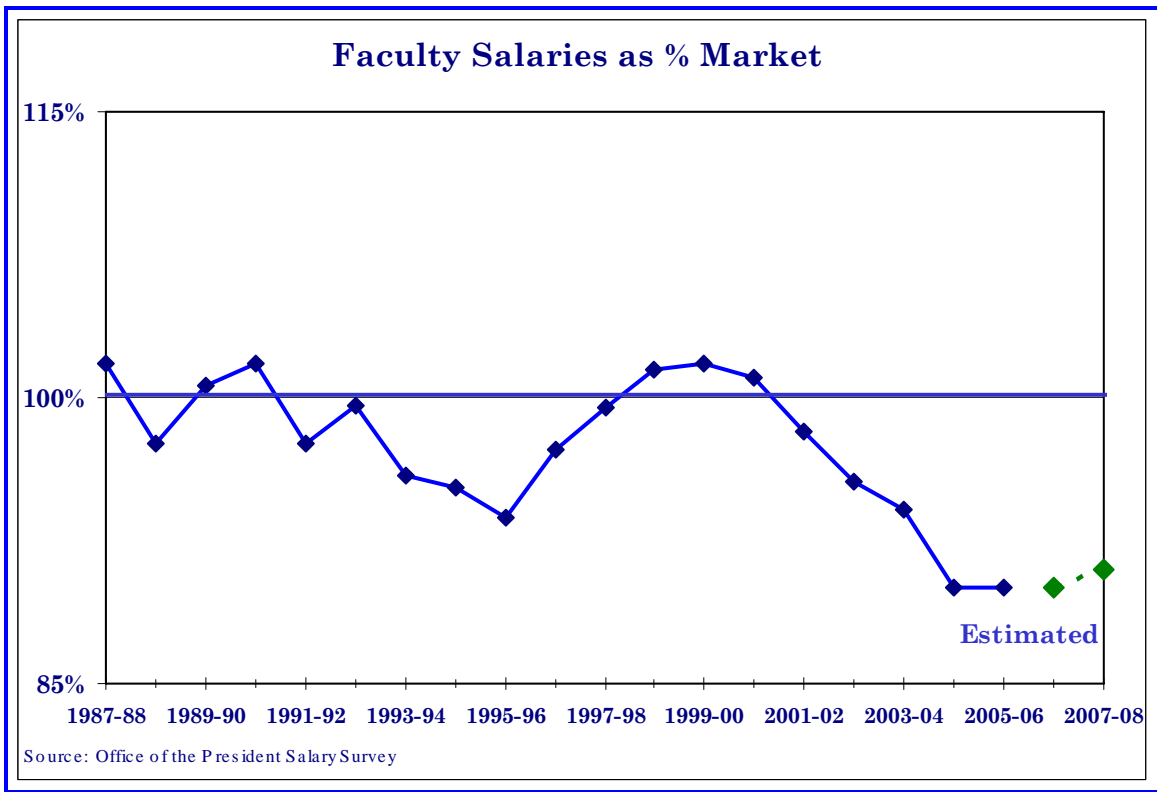
Continuation Costs. Salary continuation costs occur because the 2006-07 budget included salary increase funding for only 9 months of the year (they were effective October 1, 2006). Therefore, the 2007-08 budget includes the remaining 3 months of funding needed to support the annualized salary increases for 2006-07. Similarly, the 2006-07 budget provided funding for health and welfare insurance cost increases effective December 1. Thus, five-month continuation costs for these benefits must be provided in 2007-08.

Merit Salary and COLA Increases. Funding for merit salary increases is again among the University's highest budget priorities. The merit salary programs recognize and reward excellence, and are critical to the preservation of the quality of the University. In addition, the University's budget plan for 2007-08 includes funding for general cost-of-living adjustment (COLA) salary increases effective October 1, 2007 for eligible academic and staff employees. As indicated below, the University is also including a component in its compensation package, in addition to these general salary program increases, to address essential market and equity related compensation needs.

An area of continuing concern, as a result of years of underfunding of the University's budget, is the growing lag in faculty and staff salaries compared to market. As noted earlier, among the University's highest priorities is to achieve and maintain market-competitive total compensation for its employees. This means providing sufficient funds, through a combination of merits, general increases, and market and equity adjustments to keep UC faculty salaries at the average of the salaries provided at the eight comparison institutions, and to provide salary increases for other employees that, on average, remain competitive with the relevant labor markets.

As part of the State's actions to reduce the University's budget in 2001-02 and 2002-03, the University lost funding that had been targeted for COLA and equity increases for faculty and staff. As a result, the University was only able to fund a combination of merit and COLA increases averaging 2% in 2001-02 and merit increases of 1.5% in 2002-03 for faculty and staff. The University instituted additional internal budget cuts in order to fund academic merit increases for 2003-04 and 2004-05, but no employees received a general increase or COLA and staff employees received no merit increases. In 2005-06, the Compact provided funding for academic and staff salary increases; however, this was not enough to reverse the effects of years without adequate salary increases. As shown in Display 1, actual faculty salaries are projected to lag the average of UC's comparison institutions by about 10% in 2006-07 and in 2007-08. It is estimated that a similar problem exists with respect to staff salaries, on average.

Display 1



Funding provided in 2007-08 for merit and COLA adjustments proposed under the Compact will not be sufficient to close market lags. Beginning this year the University plans to provide funding for additional salary increases to address the lag between the University's salaries and relevant labor markets. In 2007-08 the University is proposing to use a combination of State General Funds, UC General Funds, and income from student fees to provide a total compensation package of about 5%, which will narrow the competitive salary gap by approximately 1%. Depending upon the availability of funding, the University proposes to decrease the lag by 1%-1.5% per year with the goal of eventually bringing average salaries closer to market-competitive levels.

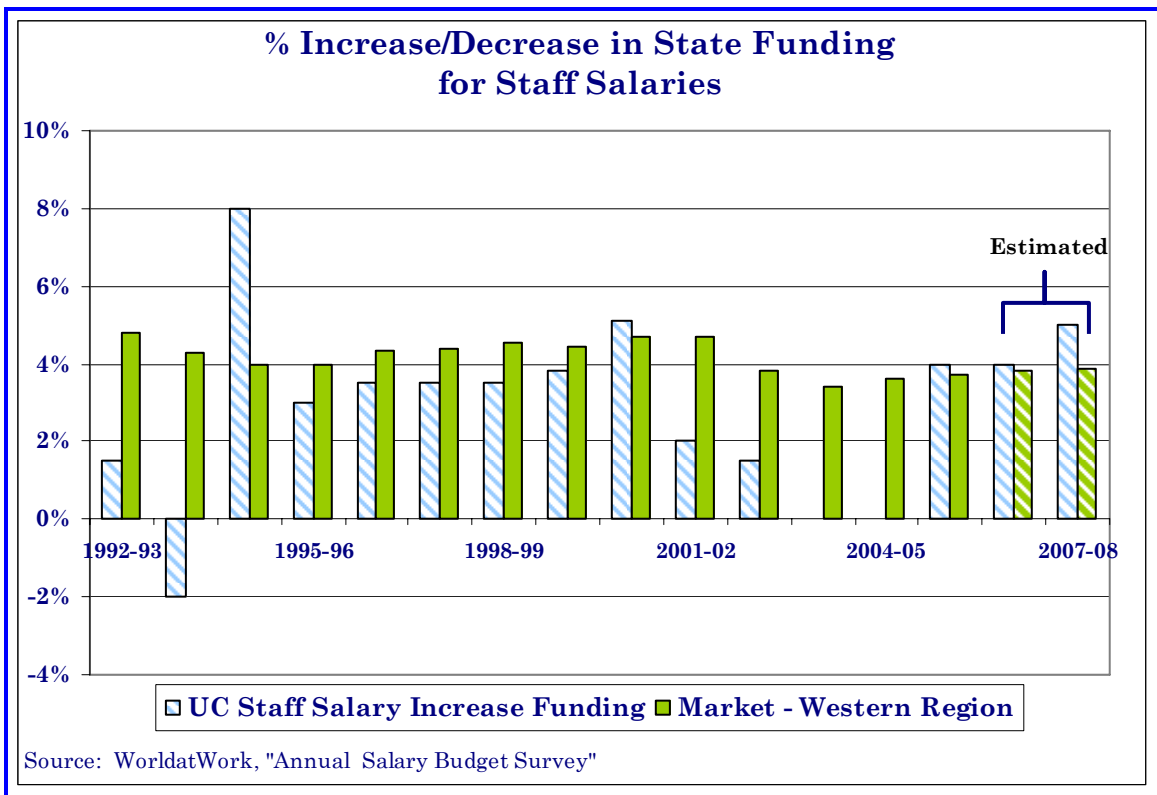
Academic merit salary increases provide an incentive to maintain and expand teaching and research skills, and enable the University to be competitive with other major research universities in offering long-term career opportunities. Academic merit increases are never automatic; they are awarded only once every 2-3 years 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's budget plan is to provide funding for normal academic merit increases for eligible employees in 2007-08.

Staff compensation differs from faculty compensation. For employees represented by unions, the University has collective bargaining agreements that specify compensation increases for their members. The University's budget plan will provide the resources needed to honor those agreements. Non-represented employees are eligible for salary increases through performance-based merit salary programs. These are funded from a pool created by combining budgeted funds for COLAs with those provided for merit increases. The combined amount available to fund increases for these employees is about 5%, and thus generally comparable to the funding available for salary programs for represented staff and academic employees.

Display 2 shows the funding levels available for UC staff salaries increases compared to the market for such increases.

Display 2



Actual merit or other 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).

Market and Equity Compensation Increases. The University is proposing to use a portion of the funding provided under the Compact for market-based and equity compensation adjustments in 2007-08. As stated earlier, faculty salaries are about 10% behind the market and there is a comparable lag for staff salaries,

on average. To the extent that there are more serious market lags within specific employee categories, the University plans on funding market adjustments to decrease the disparity. In addition, there is a need to address issues of equity where newly hired faculty and staff are paid significantly more than long-term University employees with similar experience, skills, and knowledge who have been employed at the University during the extended period of low or no salary increases. Unfortunately, funding is not sufficient to address all inequities that may exist throughout the University, so emphasis will be placed on using equity funding for critical recruitment and retention purposes.

Employee Benefits. The University has a continuing commitment to controlling health benefit costs; however, these efforts have been impacted by state and national trends of dramatically increasing health insurance costs. Health benefit costs are expected to increase significantly again in 2007-08. The University has historically had a very generous benefit package compared to those of other institutions. In fact, the compensation study mentioned earlier showed that the University's below market salaries are being offset by its competitive benefit package. However, it is anticipated that within the next few years there will be an unavoidable decrease in the value of the overall benefit package due in part to a necessary phase-in of employer and employee contributions to the University's retirement system.

In addition, the funding provided in recent years for health benefits has mitigated cost increases, but has been insufficient to cover the full cost rise at a time when gross premium increases for UC have been two or three times the Consumer Price Index (CPI). UC experienced a gross premium increase of 6.87% for 2006 and premiums are slated to increase by 11.7% in 2007. It is unlikely that there will be sufficient funding within the Compact to cover the entire cost increase expected in employee health benefits for 2007-08, and for several years to come. The University will use available funding not used for salary increases to help defray the cost of increases in health benefits for employees; however, it is likely that some of the increases in health benefit costs will again be borne by employees themselves.

In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of the employee's share of the medical plan premiums on lower paid employees. While UC continues to pay a significant portion of monthly medical premiums for all employees, UC covers an even larger portion of the premium for those earning less.

For annuitant benefits, the University is requesting funding that is equivalent to the funding provided for the State's annuitants. The Department of Finance traditionally calculates these costs based on the most recent available data and, consistent with the principles of the Compact, provides the funding separately.

Thus, estimates of the rise in costs related to annuitant benefits are not included in the Regents' Budget at this time.

Reinstatement of Retirement Contributions

Prior to November 1990, both University (employer) contributions and member (employee) contributions to the University of California Retirement Program (UCRP) were required. In 1990, the Regents suspended University contributions to UCRP after the actuaries and auditors confirmed that UCRP was adequately funded to provide plan benefits for many years into the future. At the same time, the Regents directed that all contributions from members participating in Social Security, and a portion of the contributions from members not participating in Social Security, and from Safety members (active law enforcement and fire fighters — these employees have separate terms for retirement from other employees), be redirected to individual accounts in the Defined Contribution Plan. As part of this decision, The Regents reserved the right to reinstate contributions to UCRP to maintain the Plan's funded status. Under the DC Plan, contributions from employees have been held in accounts and invested at an employee's direction. DC Plan accumulations are available for distribution starting at retirement or termination of employment. In July 1993, the Regents suspended the remaining portion of UCRP contributions from members without Social Security and from Safety members.

At the November 2005 meeting, the Regents were presented with the results of the July 1, 2005 UCRP annual actuarial valuation by the Segal Company, the current actuary to UCRP. This report indicated that the funded status of UCRP is projected to decline well below 100%, unless contributions are restarted or extraordinary market gains occur. A 100% target funded status for UCRP over the long term will sustain the viability of the Plan.

At the March 2006 meeting, the Regents approved the following:

- a targeted funding level of 100% over the long term along with employer and employee contributions at rates sufficient to maintain that level within a range of 95% - 110%;
- a multi-year contribution strategy under which contribution rates will increase gradually over time to 16% of covered earnings, based on UCRP's current normal cost;
- resumption of UCRP contributions effective July 2007, subject to the availability of funding, the budget process, and for represented employees, the collective bargaining process.

An advisory group to the President on this issue is evaluating alternative strategies for resuming contributions, including development of a schedule of total UCRP contributions and examination of options for how contributions will be shared between the employer and employee. Information is being provided to employees about the need to re-start contributions and sessions are being scheduled with collective bargaining representatives. One issue still under discussion is a proposal to halt the redirection of UCRP contributions to individual employee accounts through the DC Plan and instead use those payments as the employee contribution beginning July 2007, when contributions to UCRP are slated to resume. If implemented, this would mean employee take-home pay would not be affected in the first year of re-instatement.

Provision for Price Increases

The University's 2007-08 budget plan includes a 2.25% increase to offset the impact of inflation on non-salary budgets and maintain the University's purchasing power. Although the University purchases many commodities whose expected cost increases exceed current inflation estimates, the request for funding is limited to a 2.25% increase to stay within funding available under the Compact. The Higher Education Price Index (HEPI), an index which reports changes in cost for the goods and services employed for education, is a more accurate indicator for colleges and universities than the Consumer Price Index (CPI) and is expected to again exceed the CPI in 2007-08.

Increases significantly greater than 2.25% are anticipated for several major commodities. Based on reports from campus libraries and industry sources, the University anticipates increases of about 4.5% for subscriptions and 4.8% for serial services in 2007-08. Subscriptions and serial services represent more than 65% of the library materials budget, and the purchase of library materials is one of the largest non-salary expenditure categories. The University also expects higher cost increases for other commodities, such as energy and fuel, petroleum based products, paper based products, laboratory and agricultural chemicals, equipment, and property insurance. The University incurs substantial cost for all of these items.

Productivity Improvements and Strategic Sourcing

The University remains committed to, and continues to work toward, achieving productivity improvements. Investments in technology have enabled the University to make significant progress in increasing the efficiency of its operations. Examples of cost savings include: systematically replacing high-volume and labor-intensive transactions such as payroll, personnel, purchasing, and reimbursements with online systems; allowing administrative units to reduce costs by sharing resources;

and using electronic tools to increase dissemination of information, ranging from news releases to job postings.

Strategic sourcing is a disciplined process intended to leverage the University's enormous buying power in the marketplace, increase the efficiency of purchasing in the organization, and lower the cost of goods and services in a large array of categories. The chapter on *Institutional Support* contains a more detailed description of this purchasing process.

Strategic sourcing will benefit the entire University of California system and will yield substantial cost savings. When all funding sources, including campuses, medical centers, and National Laboratories are included, the University annually spends an estimated \$2 billion on commonly used goods and services. Strategic sourcing offers UC the opportunity to save as much as \$150 million a year at the end of five years from all fund sources. This expectation of significant savings has led to the development of a major initiative to increase support for graduate students. For 2006-07, the University planned savings in State General Funds and student fees that would generate \$10 million to be used to enhance support packages for graduate students. It is anticipated another \$10 million in savings from these sources can be generated in 2007-08. It is estimated the amount of savings that can be redirected for this purpose will grow to \$40 million over the next four years. Campuses will retain their savings to benefit their graduate students. The graduate student support initiative is discussed in more detail in the *Student Financial Aid* chapter of this document. Savings achieved in other fund sources will be needed to fund increases in salaries, retirement contributions, health benefits, and non-salary expenses for programs funded from those sources.

**UNIVERSITY OPPORTUNITY FUND
AND SPECIAL PROGRAMS**

| 2006-07 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 198,082,000 |
| General Funds | -- |
| Restricted Funds | 198,082,000 |
| 2007-08 INCREASE | |
| General Funds | -- |
| Restricted Funds | 6,463,000 |

The following section discusses two fund sources derived from contracts with the federal government that are used to help fund the University’s operating budget: the University Opportunity Fund and the Off-the-Top Overhead Fund.

Federal Reimbursement

All federal contract and grant activity generates costs which are divided into two basic categories — direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting a specific contract or grant. These costs are charged directly to individual contracts or grants. Indirect costs are those expenses which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The basis for this reimbursement is arrived at through a series of complex negotiations between the University and the federal government that result in indirect cost rates that are then applied against contract and grant activity.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity in areas such as campus contract and grant offices, academic departments, and Organized Research Units (ORUs). This is the source of the University’s Off-the-Top Overhead Fund. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University General Funds and is used, along with State General Funds, to help fund the University’s basic budget, consistent with the budget plan described each

year in this document. The remaining 45% is the source of the University Opportunity Fund. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated.

In 1990, the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities, and related infrastructure. Under the provisions of the legislation, the University is authorized to use 100% 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 21 projects approved by the Legislature to be financed in this manner, 18 have been completed, one received gift funding and was removed from the program, and two are in the planning and construction stages. Included in the 21 projects are six of the seven California Institutes for Science and Innovation facilities, which received partial funding from the Garamendi funding mechanism. Of those six projects, four were completed as of June 2006 and two will be completed in late 2006.

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 in which campuses expend these funds.

Research

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, fieldwork, 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 high-caliber faculty. The level of research support that can be offered is often a pivotal factor in the recruitment of 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 several hundred thousand dollars in research support in the recruitment of a faculty member.

Research support is also critical to 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, and recruitment of a replacement can be very costly. The quality of the University's academic programs is defined in large part by the excellence of its faculty. The use of the University Opportunity Fund for the recruitment and retention of distinguished faculty members helps to secure the University's excellence.

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 Energy Institute, and the Institute for Mexico and the United States. 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, fieldwork, 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 Education Abroad Program is typical of those funded.

This 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 operation of the Education Abroad Program, and is not supported by State funds.

Some campuses use University 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.

Institutional Support

A portion of the University Opportunity Fund is used to support administrative activities for which adequate State support has not been provided, such as administrative computing, and environmental health and safety.

Funds are also 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.

INCOME AND FUNDS AVAILABLE

General Fund Income and Funds Available

The programs described in this budget document will require General Fund resources in 2007-08 of \$3.97 billion, including \$3.32 billion in State General Funds, \$71 million State General Funds / possible Student Fee increases, and \$577 million in UC General Funds. UC 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 and some other smaller fees.

Nonresident tuition will produce \$250 million in University General Fund income. This income estimate is based on the 2007-08 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 General Fund income totaling \$25 million.

Overhead on State agency agreements totaling \$11.5 million will be used to help fund the University's budget.

Federal Indirect Cost Reimbursement

All federal contract and grant activity generates costs which are divided into two basic categories — direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting a specific contract or grant. These costs are charged directly to individual contracts or grants. Indirect costs are those expenses which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The basis for this reimbursement is arrived at through a series of complex negotiations between the University and the federal government that result in indirect cost rates that are then applied against contract and grant activity.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 20% 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 \$113 million will be provided from this source in 2007-08. The remaining 80% of the federal reimbursement is used in two ways:

55% is budgeted as UC General Funds and is used, along with State General Funds, to help fund the University's basic budget. It is estimated that \$250.4 million will be provided from this source in 2007-08. The remaining 45% is the source of the University Opportunity Fund, estimated to be \$204.5 million in 2007-08. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated. Expenditures from the University Opportunity Fund are discussed more fully in the *University Opportunity Fund and Special Programs* chapter of this document.

In addition, in 1990 the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities, and related infrastructure. Under the provisions of the legislation, the University is authorized to use 100% 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.

Department of Energy Laboratory Management Fee

Contracts for University management and oversight of the Department of Energy National Laboratories at Berkeley (LBNL) and Livermore (LLNL), and the University's ownership interest in Los Alamos National Security LLC (LANS), the contractor at Los Alamos (LANL), provide compensation to the University for its management of the Laboratories.

The University's 2006-07 budget includes a period of transition for the University's relationship with the three DOE national laboratories. The University was awarded a new management and operating contract for LBNL on April 19, 2005. This contract runs for five years and may be extended through an "award term" provision for additional years not to exceed twenty in all. The University's original LANL contract expired on May 31, 2006. The Los Alamos National Security (LANS) limited liability company, partially-owned by the University, was awarded a new management and operating contract for LANL on December 21, 2005 and commenced full operations on June 1, 2006. This contract runs for seven years and may be extended through an "award term" provision for additional years not to exceed twenty in all.

The University's LLNL contract expires on September 30, 2007. The University is part of a team that has made a competitive proposal to manage LLNL. If this team is awarded the contract, it would become effective on October 1, 2007 for a term of

seven years with an “award term” provision that could extend the contract for a period not to exceed twenty years.

The University receives indirect cost reimbursement for LBL and, under the terms of the current contract which will expire September 30, 2007, for LLNL. In accordance with a Memorandum of Understanding between the University and the State Department of Finance, this indirect cost reimbursement contributes to the UC General Fund income and helps to support the University's operating budget, in particular its research programs. In 2006-07, management fees from these two contracts will provide \$5.3 million to fund the UC General Fund budget.

Performance management fees from LBL and LLNL are gross earned amounts before the University's payments of unreimbursed costs. In contrast, net income to UC from LANS reflects fee income remaining after payment of unreimbursed costs at LANL. In total, \$27.6 million, which represents the University's estimated share of the LANS net income (\$14 million) as well as performance management fees from LBL and LLNL (\$13.6 million), is budgeted as restricted funds. Of the \$14 million expected as the University's estimated share of the LANS net income from the LANL contract, \$1 million will be used to provide supplemental income to select LANS employees for whom it was the University's responsibility to recruit to LANS employment, \$3.4 million will cover unreimbursed oversight and post-contract costs, with \$9.6 million remaining. Of the \$13.6 million from LBL and LLNL, \$2.9 million will also cover unreimbursed oversight and post contract costs, with \$10.7 million remaining. Thus, of the total \$27.6 million in restricted funds, about \$7.3 million will be used to cover costs associated with the Vice President of Laboratory Management and bid and proposal costs for the LLNL contract. The remaining \$9.6 million of the LANS net income and the \$10.7 million LBL/LLNL performance management fees, for a total of \$20.3 million in restricted funds, is designated for research programs, reserves for future claims, and unallowable costs associated with LBL and LLNL. A proposal will be presented to The Regents in an upcoming meeting for approval of an expenditure plan for the funds available for research. The budgets based on the DOE lab management fees remain unchanged for 2007-08 because of the uncertainty of the outcome of the competition for the LLNL contract. The budget will be adjusted once the results of the competition are known.

Restricted Fund Income and Funds Available

Other State Funds

In addition to State General Fund support, the University's budget for current operations includes \$63.5 million in appropriations from State special funds including, for example, \$30.9 million from the California State Lottery Education

Fund, \$14.6 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program, and \$12.8 million for the Breast Cancer Research Program, also funded from the Cigarette and Tobacco Products Surtax Fund. Also included in State special funds is \$473,000 for the Breast Cancer Research Program appropriated from the Breast Cancer Research Fund, which derives revenue from the personal income tax check-off.

Student Fees

The University is proposing no increase in mandatory systemwide fees at this time. Instead, the University proposes to delay action on student fees until more is known in January after the Governor's proposed budget for 2007-08 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to once again buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January meeting. Any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances. Thus, if student fee increases are instituted, the University would propose a return-to-aid of 33% for undergraduates, including special emphasis on ensuring accessibility for middle-income students, and a return-to-aid of 33% for professional school students. The University would propose a higher return-to-aid for graduate academic students (45%) to recognize the need to provide competitive graduate support packages and to cover collective bargaining agreements with teaching assistants. Based on the number of students expected to enroll, income from current mandatory universitywide fees (Educational Fee and University Registration Fee) is currently projected to be \$1.346 billion in 2007-08. Income from current professional school fees is projected to be \$126.4 million in 2007-08. University student fees are discussed in detail in the *Student Fees* chapter of this document.

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 that provide extracurricular benefits for students. Income from professional school fees is retained by the campuses and used to help fund instructional costs including hiring faculty as well as for instructional and computer equipment, libraries, other instructional support, and student services. In addition, professional fee revenue is used to provide financial support for students.

In addition to the fees charged for regular degree programs, the University also charges fees for courses and programs in University Extension, and Self-Supporting Graduate and Professional Degree Programs. These programs are not supported by State funds and varying fees are charged to cover the full costs of offering those courses and programs. Income from University Extension fees paid by nearly 400,000 registrants supports the largest continuing education program in the nation. Extension is entirely self-supporting and its programs are dependent upon user demand.

Teaching Hospitals

The University's 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, parking fees, and the Tiverton House at UCLA, which is a 100-room guest hotel for patients and their families.
- Non-operating revenues result from activities other than normal operations of the medical centers, such as interest income and salvage value from disposal of a capital asset.

Medical center revenues are used for the following expenses: salaries and benefits, supplies and services, depreciation and amortization, malpractice and workers' compensation 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 Hospitals* chapter of this document discusses the history of the financial problems confronting the medical centers and how those problems have been, and will continue to be, addressed.

In 2007-08, expenditures of hospital income for current operations are projected to increase by \$193.5 million, about 5%. The main reasons for the increase are: 1) an increase in patient activity, 2) growth in labor costs, especially due to new labor contracts, and 3) costs incurred related to compliance with new regulations, e.g., Health Insurance, Portability and Accountability Act (HIPAA) — Privacy Standards, and AB 394 which established a ratio of licensed nurses to patients.

Sales and Services

Income from sales and services of educational and support activities is projected to total \$1.02 billion in 2007-08. This includes income from the health sciences faculty compensation plans and a number of other sources, such as neuropsychiatric hospitals, the veterinary medical teaching hospital, dental clinics, fine arts productions, publication sales, and athletic facilities users.

Endowment

The Treasurer of The Regents invests endowment and similar funds. The vast majority of these funds participate in the General Endowment Pool (GEP) or in the High-Income Pool (HIP). The GEP portfolio is designed to promote capital growth in line with or in excess of the rate of inflation, along with steady increases in income. The HIP portfolio is designed to produce a relatively high and stable level of current income.

In 1998-99, The Regents changed the methodology for calculating the amount available for expenditure from funds invested in the GEP. From 1958 through 1997-98, the procedure had been to generate payments to the endowed activities based only on income received. At that time “income” was defined as dividends, interest, rents, and royalties. In 1998-99, The Regents approved a payout rate based on the total return of the GEP over the previous 60 months. The long-term target rate was set at 4.75%. The initial rate was set at 4.35% for expenditures in 1999-2000, which was then revised to 4.60% in 2004-05, 4.65% in 2005-06 and 4.75% in 2006-07.

The amounts shown in the Endowment category on the Income and Funds Available display at the end of this chapter represent the expenditure of the payout distributed on endowments and similar funds. Endowments require that the principal be invested in perpetuity with the income or approved payout used in accordance with terms stipulated by donors or determined by The Regents.

In the ten-year period between 1995-96 and 2005-06, actual expenditures from endowments increased by approximately 135%. The University is projecting expenditures of \$201.9 million in 2007-08.

Auxiliary Enterprises

Auxiliary enterprises are non-instructional support services provided primarily to students in return for specified charges. Programs include residence and dining services, parking, intercollegiate athletics, bookstores and faculty housing. No State funds are provided for auxiliary enterprises. Budget increases for each service are matched by corresponding increases in revenue. Revenue from auxiliary enterprises is projected to increase from \$777.7 million in 2006-07 to an estimated \$816.6 million in 2007-08.

Extramural Funds

Extramural Funds are provided for specified purposes by various sources: 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 is used for research and student financial aid.

Research

For 2007-08, extramural research funding is projected to be \$2.77 billion, including \$1.88 billion of federal funds. Federal funds are the University's single most important source of support for research, accounting for approximately 56% of all University research expenditures in 2005-06.

While UC researchers receive support from virtually all federal agencies, the National Institutes of Health and the National Science Foundation are the two most important, accounting for approximately 80% of the University's federal research contract and grant awards in 2005-06.

In the decade between 1982-83 and 1992-93, federal support for research at the University grew dramatically; increasing by an annual average of almost 10% during this period. After 1992-93, however, the focus of the federal government was on deficit reduction. While research expenditures continued to increase, the rate of growth slowed. Between 1992-93 and 1995-96 federal research expenditures at the University increased by an average of about 4% per year, and in 1996-97 there was no increase over the previous year. However, progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in continuing gains for federal research programs. Beginning in 1997-98, the University's federal research expenditures increased as follows: 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-2000, 8% in 2000-01, 8.5% in 2001-02, 16.3% in 2002-03, and 11.8% in 2003-04.

Beginning in 2004-05, however, the renewed concern at the federal level over the size of the national deficit and the resulting return to a period of more limited increases for federal research funding have also had an effect on the University's federal research expenditures, which increased by only 3.5% in 2004-05 and by 2.3% during 2005-06.

In addition to the funding of research contracts and grants, federal funds entirely support the Department of Energy Laboratories at Berkeley (Lawrence Berkeley Laboratory) and at Livermore (Lawrence Livermore National Laboratory), for which the University has management responsibility. In 2007-08, this support is projected to be approximately \$2.15 billion, an estimate based upon the prior year's actual numbers due to the uncertainties associated with upcoming expiring contract for Lawrence Livermore.

Student Financial Aid

In 2004-05, UC students received \$1,002.2 billion in federal financial aid, including \$223.4 million in gift aid and the remainder in the form of loans and work-study. Overall, UC students received about 4% more in federally-funded aid in 2004-05 than they received in the previous year. The significance of the federal loan programs for UC students is demonstrated by the fact that these programs comprise more than three-quarters of all federally funded aid and 40% of the total financial support received by UC students in 2004-05. 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% 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* chapter of this document discusses these and other financial aid programs.

Private Funds

Private funds include gifts, private grants, and private contracts. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations, private foundations, and other nonprofit entities. Private contracts are entered into with for-profit and other organizations to perform research or other services. For 2007-8 expenditures from gifts and private contracts and grants to the University are estimated to be \$1.144 billion, an increase of 5% over 2006-07 expenditures. Expenditures from private gifts and

grants have increased by over 140% in the ten-year period between 1995-96 and 2005-06.

The University continues to aggressively seek and develop non-State revenue sources, particularly private funds. Over the last two decades, the University has experienced large, steady increases in private funds received. More recently, private support for the University has exceeded \$1 billion a year for six years, even with the recent economic downturn.

As of the 2004-05 fiscal year, the method of reporting private support changed. The University now employs the same cash reporting system used across the country by other educational institutions, a system which is the basis for inter-institutional comparisons. Included in the private support figures are outright gifts as well as pledge and grant payments received during reporting period. Previously, the private support numbers included new pledges made during the reporting period, but not yet paid, along with outright gifts and grants actually received during the period. In business terms, the new system is a cash-based system; the former system was an accrual system.

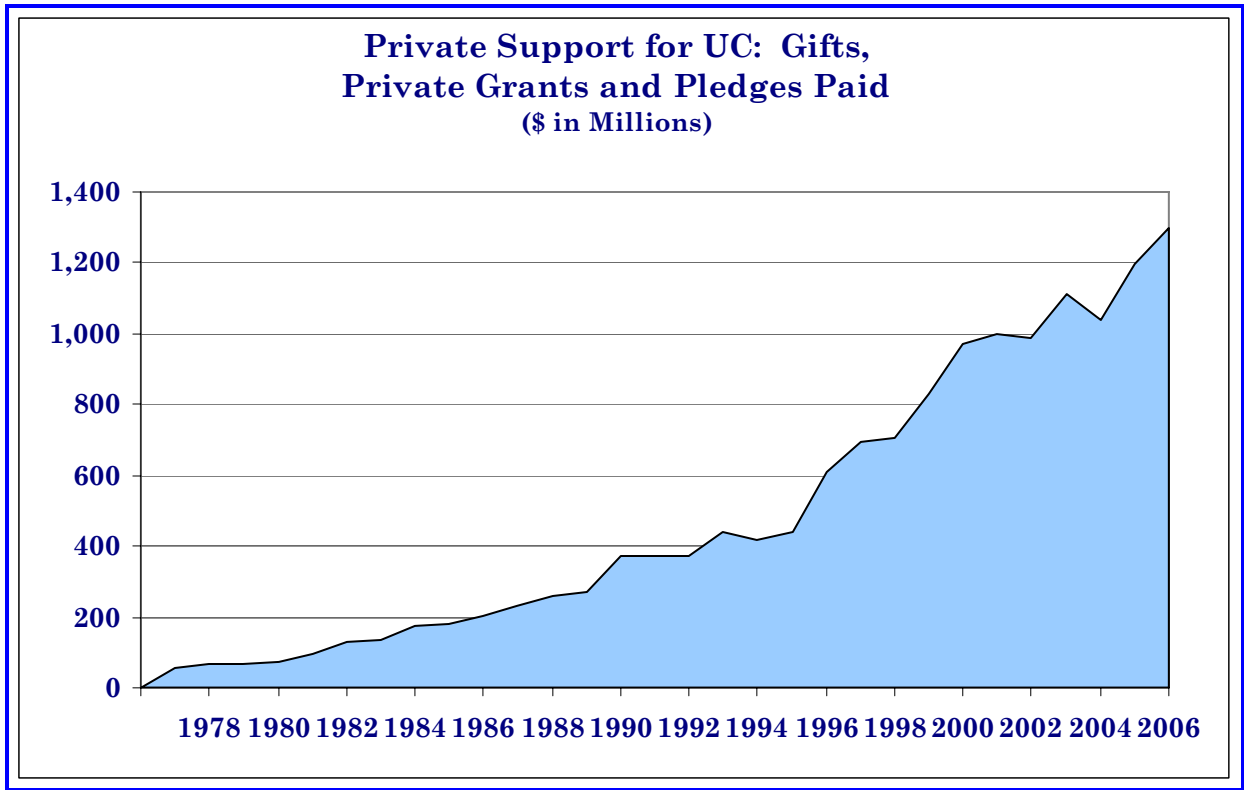
Private support for the University is derived from a number of sources. In 2004-05, gifts and grants from non-alumni individuals totaled \$248.9 million; from private foundations, \$462.5 million; corporations, \$247.6 million; alumni, \$132.5 million; and campus organizations and other sources, \$105.0 million.

Recent trend data show that receipts declined somewhat in 2003-04, then climbed again in 2004-05. As shown in Display 1 (next page), in 2005-06, alumni and other supporters committed almost \$1.3 billion in gifts, and pledge and grant payments to the University. New pledges totaled another \$367 million.

Donors in 2005-06 directed \$756.4 million (58.4%) of support to University operations; \$211.2 million (16.3%) to campus improvement, \$295.5 million (22.8%) to endowments, and \$33.2 million (2.56%) as unrestricted general support. Of the total donations in 2005-06, \$559.9 million (43.2%) was specified for use in the health sciences. Just under 98% of the private support was restricted by the donors as to purpose.

The University's remarkable achievement in obtaining funding in recent years — even during state and national economic downturns — is a testament to UC's distinction as the leader in philanthropy among the nation's colleges and universities, and the high regard in which its alumni, corporations, foundations, and other supporters hold the University. Additionally, the results underscore the continued confidence among donors in the quality of UC's programs and the importance of its mission. At the same time, this year's private support totals reflect a slight improvement in the changes in the economy and financial markets.

Display 1



INCOME AND FUNDS AVAILABLE
(\$000s)

| | <u>Estimated</u> <u>2006-07</u> | <u>Proposed</u> <u>2007-08</u> | <u>Proposed</u> <u>Changes</u> |
|---|------------------------------------|-----------------------------------|-----------------------------------|
| STATE APPROPRIATIONS | | | |
| General Fund | \$ 3,076,681 | \$ 3,324,584 | \$ 247,903 |
| General Fund / Possible Std Fee Incr | | 71,000 | 71,000 |
| Special Funds | <u>63,752</u> | <u>63,517</u> | <u>(235)</u> |
| TOTAL, STATE APPROPRIATIONS | \$ <u>3,140,433</u> | \$ <u>3,459,101</u> | \$ <u>318,668</u> |
| UNIVERSITY SOURCES | | | |
| General Funds Income | | | |
| Student Fees | | | |
| Nonresident Tuition | \$ 244,500 | \$ 250,000 | \$ 5,500 |
| Application for Admission and Other Fees | 22,600 | 25,000 | 2,400 |
| Interest on General Fund Balances | 23,800 | 25,800 | 2,000 |
| Federal Contract & Grant Overhead | 242,477 | 250,377 | 7,900 |
| DOE Allowance for O/H & Management | 5,300 | 5,300 | -- |
| Overhead on State Agency Agreements | 10,500 | 11,500 | 1,000 |
| Other | 7,600 | 8,800 | 1,200 |
| Subtotal | <u>\$ 556,777</u> | <u>\$ 576,777</u> | <u>\$ 20,000</u> |
| Prior Year's Income Balance | <u>3,817</u> | <u>--</u> | <u>(3,817)</u> |
| Total UC General Fund Income | <u>\$ 560,594</u> | <u>\$ 576,777</u> | <u>\$ 16,183</u> |
| Special Funds Income | | | |
| GEAR UP State Grant Program | \$ 3,500 | \$ 3,500 | \$ -- |
| United States Appropriations | 17,000 | 17,000 | -- |
| Local Government | 58,916 | 58,916 | -- |
| Student Fees | | | |
| Educational Fee | 1,159,722 | 1,188,955 | 29,233 |
| Registration Fee | 152,986 | 156,866 | 3,880 |
| Special Law/Medical Fee | 1,820 | 1,820 | -- |
| Professional School Fees | 122,918 | 124,593 | 1,675 |
| University Extension Fees | 198,109 | 202,071 | 3,962 |
| Summer Session Fees | 12,905 | 12,905 | -- |
| Other Fees | 206,875 | 215,150 | 8,275 |
| Sales & Services - Teaching Hospitals | 3,869,119 | 4,062,575 | 193,456 |
| Sales & Services - Educational Activities | 686,611 | 720,941 | 34,330 |
| Sales & Services - Support Activities | 287,224 | 298,713 | 11,489 |
| Endowments | 188,648 | 201,853 | 13,205 |
| Auxiliary Enterprises | 777,694 | 816,579 | 38,885 |
| Contract and Grant Off-the-Top Overhead | 109,358 | 112,927 | 3,569 |
| DOE Management Fee | 27,600 | 27,600 | -- |
| University Opportunity Fund | 198,082 | 204,545 | 6,463 |
| Other | 249,996 | 261,245 | 11,249 |
| Total Special Funds | <u>\$ 8,329,083</u> | <u>\$ 8,688,754</u> | <u>\$ 359,671</u> |
| TOTAL, UNIVERSITY SOURCES | \$ <u>8,889,677</u> | \$ <u>9,265,531</u> | \$ <u>375,854</u> |
| TOTAL INCOME AND FUNDS AVAILABLE | \$ <u>12,030,110</u> | \$ <u>12,724,632</u> | \$ <u>694,522</u> |

**BUDGET FOR CURRENT OPERATIONS
EXPENDITURES BY PROGRAM AND FUND TYPE
(\$000s)**

| | 2006-07 Budget | | | 2007-08 Proposed | | | Proposed Increases | | |
|---|--|---------------------|----------------------|--|---------------------|----------------------|--|---------------------|-------------------|
| | STATE & UC GENERAL FUNDS ¹⁾ | RESTRICTED FUNDS | TOTAL FUNDS | STATE & UC GENERAL FUNDS ¹⁾ | RESTRICTED FUNDS | TOTAL FUNDS | STATE & UC GENERAL FUNDS ¹⁾ | RESTRICTED FUNDS | TOTAL FUNDS |
| | INSTRUCTION | | | | | | | | |
| General Campus | \$ 1,575,180 | \$ 665,534 | \$ 2,240,714 | \$ 1,638,963 | \$ 686,063 | \$ 2,325,026 | \$ 63,783 | \$ 20,529 | \$ 84,312 |
| Health Sciences | 361,864 | 478,811 | 840,675 | 365,784 | 493,711 | 859,495 | 3,920 | 14,900 | 18,820 |
| Summer Session | -- | 12,905 | 12,905 | 0 | 12,905 | 12,905 | -- | -- | 0 |
| University Extension | -- | 198,109 | 198,109 | -- | 202,071 | 202,071 | -- | 3,962 | 3,962 |
| RESEARCH | 283,267 | 300,454 | 583,721 | 298,267 | 314,721 | 612,988 | 15,000 | 14,267 | 29,267 |
| PUBLIC SERVICE | | | | | | | | | |
| Campus Public Service | 58,651 | 90,883 | 149,534 | 58,651 | 93,883 | 152,534 | -- | 3,000 | 3,000 |
| Cooperative Extension | 44,051 | 16,439 | 60,490 | 44,051 | 16,939 | 60,990 | -- | 500 | 500 |
| ACADEMIC SUPPORT | | | | | | | | | |
| Libraries | 180,626 | 82,026 | 262,652 | 180,626 | 85,026 | 265,652 | -- | 3,000 | 3,000 |
| Organized Activities | 187,748 | 400,540 | 588,288 | 187,748 | 416,540 | 604,288 | -- | 16,000 | 16,000 |
| TEACHING HOSPITALS | 51,891 | 3,869,119 | 3,921,010 | 51,891 | 4,062,575 | 4,114,466 | -- | 193,456 | 193,456 |
| STUDENT SERVICES | -- | 450,095 | 450,095 | -- | 463,975 | 463,975 | -- | 13,880 | 13,880 |
| INSTITUTIONAL SUPPORT | 354,024 | 247,624 | 601,648 | 354,024 | 260,624 | 614,648 | -- | 13,000 | 13,000 |
| OPERATION AND MAINTENANCE OF PLANT | 424,266 | 105,680 | 529,946 | 433,466 | 110,680 | 544,146 | 9,200 | 5,000 | 14,200 |
| STUDENT FINANCIAL AID | 60,339 | 480,541 | 540,880 | 60,339 | 492,020 | 552,359 | -- | 11,479 | 11,479 |
| AUXILIARY ENTERPRISES | -- | 777,694 | 777,694 | -- | 817,694 | 817,694 | -- | 40,000 | 40,000 |
| PROVISIONS FOR ALLOCATION | 55,368 | 18,299 | 73,667 | 51,551 | 18,299 | 69,850 | (3,817) | -- | (3,817) |
| UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS | -- | 198,082 | 198,082 | -- | 204,545 | 204,545 | -- | 6,463 | 6,463 |
| SUBTOTAL | \$ 3,637,275 | \$ 8,392,835 | \$ 12,030,110 | \$ 3,725,361 | \$ 8,752,271 | \$ 12,477,632 | \$ 88,086 | \$ 359,436 | \$ 447,522 |
| PROGRAM MAINTENANCE | | | | | | | | | |
| Fixed Costs, Economic Factors | -- | -- | -- | 247,000 | -- | 247,000 | 247,000 | -- | 247,000 |
| TOTAL UNIVERSITY | \$ 3,637,275 | \$ 8,392,835 | \$ 12,030,110 | \$ 3,972,361 | \$ 8,752,271 | \$ 12,724,632 | \$ 335,086 | \$ 359,436 | \$ 694,522 |

¹⁾ General Funds include both the State General Fund and UC General Funds. UC General Funds do not support Teaching Hospitals. For all other budgeted programs, UC General Funds represent about 15% of the General Fund Budget. The State General Fund represent the remaining 85%. In 2007-08 proposed State and UC General Funds includes a possible \$71 million buyout of student fee increases.

GENERAL CAMPUS AND HEALTH SCIENCES

Full-Time Equivalent Enrollments

| | <i>2005-06</i> | <i>2006-07</i> | | <i>2007-08</i> |
|----------------------|----------------|-----------------|------------------|-----------------|
| | <i>Actual</i> | <i>Budgeted</i> | <i>Estimated</i> | <i>Budgeted</i> |
| BERKELEY | | | | |
| General Campus | 32,347 | 32,325 | 32,431 | 32,535 |
| Health Sciences | 752 | 757 | 769 | 761 |
| Total | 33,099 | 33,082 | 33,200 | 33,296 |
| DAVIS | | | | |
| General Campus | 26,737 | 27,150 | 27,506 | 27,800 |
| Health Sciences | 2,103 | 1,898 | 2,104 | 1,910 |
| Total | 28,840 | 29,048 | 29,610 | 29,710 |
| IRVINE | | | | |
| General Campus | 23,276 | 24,743 | 25,962 | 26,200 |
| Health Sciences | 1,142 | 1,122 | 1,237 | 1,184 |
| Total | 24,418 | 25,865 | 27,199 | 27,384 |
| LOS ANGELES | | | | |
| General Campus | 32,751 | 33,150 | 33,319 | 33,390 |
| Health Sciences | 3,784 | 3,827 | 3,784 | 3,935 |
| Total | 36,535 | 36,977 | 37,103 | 37,325 |
| MERCED | | | | |
| General Campus | 865 | 1,800 | 1,350 | 2,000 |
| RIVERSIDE | | | | |
| General Campus | 15,445 | 16,470 | 16,492 | 17,159 |
| Health Sciences | 49 | 48 | 48 | 48 |
| Total | 15,494 | 16,518 | 16,540 | 17,207 |
| SAN DIEGO | | | | |
| General Campus | 24,095 | 25,295 | 26,021 | 26,375 |
| Health Sciences | 1,576 | 1,352 | 1,643 | 1,409 |
| Total | 25,671 | 26,647 | 27,664 | 27,784 |
| SAN FRANCISCO | | | | |
| Health Sciences | 4,050 | 3,733 | 4,017 | 3,784 |
| SANTA BARBARA | | | | |
| General Campus | 21,505 | 21,925 | 21,798 | 22,050 |
| SANTA CRUZ | | | | |
| General Campus | 14,891 | 15,680 | 15,759 | 16,075 |
| TOTALS | | | | |
| General Campus | 191,912 | 198,538 | 200,638 | 203,584 |
| Health Sciences | 13,456 | 12,737 | 13,602 | 13,031 |
| Total | 205,368 | 211,275 | 214,240 | 216,615 |

GENERAL CAMPUS

Full-Time Equivalent Enrollments

| | <i>2005-06</i> | <i>2006-07</i> | | <i>2007-08</i> |
|-----------------------|----------------|-----------------|------------------|-----------------|
| | <i>Actual</i> | <i>Budgeted</i> | <i>Estimated</i> | <i>Budgeted</i> |
| BERKELEY | | | | |
| Undergraduate | 24,190 | 24,170 | 24,461 | 24,435 |
| Graduate | 8,157 | 8,155 | 7,970 | 8,100 |
| Total | 32,347 | 32,325 | 32,431 | 32,535 |
| DAVIS | | | | |
| Undergraduate | 22,525 | 22,975 | 23,172 | 23,440 |
| Graduate | 4,212 | 4,175 | 4,334 | 4,360 |
| Total | 26,737 | 27,150 | 27,506 | 27,800 |
| IRVINE | | | | |
| Undergraduate | 20,236 | 21,368 | 22,656 | 22,700 |
| Graduate | 3,040 | 3,375 | 3,306 | 3,500 |
| Total | 23,276 | 24,743 | 25,962 | 26,200 |
| LOS ANGELES | | | | |
| Undergraduate | 25,342 | 25,410 | 25,802 | 25,690 |
| Graduate | 7,409 | 7,740 | 7,517 | 7,700 |
| Total | 32,751 | 33,150 | 33,319 | 33,390 |
| MERCED | | | | |
| Undergraduate | 828 | 1,600 | 1,266 | 1,860 |
| Graduate | 37 | 200 | 84 | 140 |
| Total | 865 | 1,800 | 1,350 | 2,000 |
| RIVERSIDE | | | | |
| Undergraduate | 13,570 | 14,230 | 14,520 | 15,059 |
| Graduate | 1,875 | 2,240 | 1,972 | 2,100 |
| Total | 15,445 | 16,470 | 16,492 | 17,159 |
| SAN DIEGO | | | | |
| Undergraduate | 20,630 | 21,750 | 22,412 | 22,575 |
| Graduate | 3,465 | 3,545 | 3,609 | 3,800 |
| Total | 24,095 | 25,295 | 26,021 | 26,375 |
| SANTA BARBARA | | | | |
| Undergraduate | 18,684 | 18,790 | 18,913 | 19,050 |
| Graduate | 2,821 | 3,135 | 2,885 | 3,000 |
| Total | 21,505 | 21,925 | 21,798 | 22,050 |
| SANTA CRUZ | | | | |
| Undergraduate | 13,510 | 14,090 | 14,268 | 14,475 |
| Graduate | 1,381 | 1,590 | 1,491 | 1,600 |
| Total | 14,891 | 15,680 | 15,759 | 16,075 |
| GENERAL CAMPUS | | | | |
| Undergraduate | 159,515 | 164,383 | 167,470 | 169,284 |
| Graduate | 32,397 | 34,155 | 33,168 | 34,300 |
| Total | 191,912 | 198,538 | 200,638 | 203,584 |

Index

- Academic support, 215-217
- Admission to UC, 113-122
- Annuitant benefits, 311-312
- Articulation agreements, 118-122, 186-187
- ASSIST, 119, 186, 187
- Auxiliary enterprises, 302-303
- Budget request display, 51
- Cal Grants, 285
- California Digital Library, 206, 210-211
- California Institutes for Science and Innovation, 164
- California Master Plan for Higher Education, 14-15, 100-101
- California Professional Development Institutes (CPDIs), 195-196
- California Subject Matter Projects, 197-198
- California Teach, 111-113
- Capital improvements, 94
- Capital renewal, 297-301
- Clinical teaching support, 215, 228
- College Options, 188
- Community college transfer eligibility and admission, 116-122
- Compact, 17-20, 32-35
- Comparison institution fees, 74-75, 237-238
- Cooperative Extension, 199-201
- Cost of education and student fees, 70-72, 98-101, 235-237
- Cost of living adjustments (COLAs), 54-60, 308-310
- Debt service payments, 305
- Deferred maintenance, 297-301
- Department of Energy Laboratory management fee, 169-170, 320-321
- Drew University of Medicine, 201-203
- EAOP, 188
- Education Financing Model, 272-274
- Educational Fee, 244
- Eligibility for UC, 113-122
- Employee benefits, 311-313
- Endowments, 324
- Energy costs, 296-297
- Enrollment, 43-44, 62-64, 97-104
 - General campus, 97-104
 - Health sciences, 154-155
 - Summer sessions, 107-108
- Equity compensation increases, 310-311
- Extramural funds, 325-326
- Facilities needs, 45-48
- Faculty compensation, 54-60
- Faculty workload, 87-88, 110-111
- Federal funding, 89-92
 - Financial aid, 283-284
 - Research, 89-92, 171-175
 - Teaching hospitals, 220-226
- Federal indirect cost reimbursement, 315-316, 319-320
- Fee policy, 242-243
- Fees for self-supporting programs, 258
- Financial aid, 79-82, 263-287
 - Cal Grants, 285
 - Education Financing Model, 272-274
 - Federal funding, 283-284
 - Graduate student support, 64-66, 128-130, 277-282
 - Initiatives, 265-267
 - Pell Grant recipients, 79-80, 263-264
 - Professional student support, 252-253, 281-282
 - Sources of support, 282-287
 - Undergraduate support, 272-277
- Fixed costs, 54-61, 306-314
- Freshman eligibility and admission, 113-116
- General campus instruction, 95-140
- General Fund income, 319
- Graduate and professional school academic preparation programs, 188
- Graduate student enrollment, 122-130
- Graduate student support, 64-66, 128-130, 277-282
- Graduation rates, 130-133
- Health science enrollments, 154-155
- Health science instruction, 141-157
- High priority needs, 82-89
- History of student fees, 238-242
- History of UC budget, 20-40
- Hospital Seismic Safety Act, 220, 231-232
- Housing, 302-303
- Income and funds available display, 329
- Industry-University Cooperative Research Program, 165
- Information technology, 135-139
- Institutional support, 288-291
- Instructional equipment replacement, 139-140
- K-20 Regional Intersegmental Alliances, 189, 197
- Lease revenue bond payments, 304
- Libraries, 204-214
- Maintenance services, 294-296
- Managed care, 232-234
- Marginal cost of instruction, 62-63, 98
- Market and equity compensation increase, 54-60, 310-311
- Mathematics, Engineering, Science Achievement (MESA), 188, 194
- Medi-Cal funds, 220, 224-227

Index

- Medi-Cal Medical Education Funding Program, 227
- Medicare funds, 220, 222-224
- Merced campus, 63, 69-70, 105-107
- Merit salary increases, 54-60, 308-310
- Miscellaneous campus fees, 256-258
- Nonresident tuition, 77-79, 253-257
- Nursing, 151-153
- OMP support for new space, 76, 293-294
- OMP funding for existing facilities, 294-297
- Operation and maintenance of plant, 292-301
- Organized research, 167-171
- Outreach, (see Student Academic Preparation and Educational Partnerships)
- Outreach Task Force, 195
- Parking, 303
- Persistence rates, 130-133
- Petascale computing facility, 165-166
- Pharmacy, 153-154
- Preuss School, 187
- Price increases, 60-61, 313
- Private funds, 92-94, 326-328
- Productivity improvements, 313
- Professional school fees, 76-77, 245-253
 - Comparison institution fees, 249
 - Financial aid, 252-253
 - History, 245-248
 - Longer-term planning issues, 249-252
 - Temporary fee increase, 252
- PRograms In Medical Education (PRIME), 63-64, 146-150
- Program maintenance, 306-314
- Provisions for allocation, 304-305
- Public service, 182-203
- Puente, 188
- Purchased utilities, 296-297
- Registration Fee, 244
- Research, 160-181
- Research Initiative, 67-69, 163-166
- Restricted fund income, 321-325
- Retirement contributions, 61-62, 312-313
- Salary comparisons, 54-59
- Salary increases, 54-60, 86-87, 307-311
- Science and mathematics initiative, 111-113
- Silicon Valley Center, 133-135
- Strategic Review Panel on UC Educational Outreach, 196-197
- Strategic sourcing, 129-130, 288-291, 313-314
- Student Academic Preparation and Educational Partnerships, 183-197
 - Accountability, 189-190
 - Funding, 192-194
 - History, 194-197
 - Outcome Highlights, 190-192
- Student-faculty ratio, 66, 87-88, 108-111
- Student fees, 70-79, 235-258
 - History, 238-242
 - Policy on adjustment, 242-243
- Student housing, 302-303
- Student-initiated programs, 188
- Student Mental Health Services, 260-261
- Student services, 259-262
- Summer Algebra Academies, 188
- Summer instruction, State support for, 107-108
- Summer sessions, 107-108, 158
- Teaching hospitals, 218-234, 323-324
- Telemedicine, 94, 150-151
- Time to degree, 130-133
- Transcript Evaluation Service, 190
- Transfer eligibility and admission, 116-122
- UC College Preparatory Initiative (on-line courses), 187
- UC/Community College Transfer Initiative for Access and Success, 186-187
- UC Links, 188
- UC Merced, 63, 69-70, 105-107
- UC Retirement Program (UCRP), 312-313
- UC Virtual Transfer Center, 186-187
- University Extension, 159
- University Opportunity Funds, 315-318