



UNIVERSITY OF CALIFORNIA
2008-09 BUDGET FOR CURRENT OPERATIONS
SUMMARY OF THE BUDGET REQUEST

AS PRESENTED TO THE REGENTS FOR APPROVAL



True to its roots deep in the land-grant mission of its founding, the University of California faces a fundamental and critical question: *How can it better serve the future needs of the people of California?*

Through a continuing long-range planning process by members of the Board of Regents, chancellors, faculty and staff, the University has begun the process of answering that question – and with it, to develop a new vision for its future.

Budgets should serve as roadmaps for turning vision into action. This proposed budget is no exception. It recognizes the following:

- California has huge and growing needs; it is the University's role, as a public trust, to develop initiatives for meeting those needs.
- The State of California is facing significant fiscal constraints, which may limit its ability to meet all of the University's current budgetary needs.
- The University accepts its responsibility to fund critical needs through cost-saving reforms identified as part of an ambitious and sweeping multi-year restructuring initiative.

This represents, in short, the first steps in a long and continuous process of institutional commitment in each of several critical areas:

First, the University is building and maintaining the quality of its teaching and research core by planning for and investing in the people, programs, and facilities that ensure our continued academic and economic competitiveness on the world stage. This ranges from increasing faculty and staff salaries to supporting California's graduate education needs, as well as ensuring that UC admits students who accurately reflect the socioeconomic demographics of the state it serves and that it remains affordable both to low- and middle-income Californians.

Second, the University is proposing to reinvigorate its relationship with California by bringing its research and educational capacities to bear in health care, research, and K-12 education. Most urgent is the latter challenge, for unequal educational attainment represents the greatest threat of all to the future vitality of California and its economy.

Third, the University is restructuring the way it does business so that it may achieve the nimbleness and agility modern organizations require if they are to meet the rapidly changing needs of society and better serve the people of California.

This proposed budget, summarized in the following pages, outlines the major features of the University's 2008-09 budget. (A more detailed discussion of the existing base budget, other fund sources, and associated policy issues within the major functional areas of the budget is contained in a companion document, "University of California 2008-09 Budget for Current Operations, Budget Detail.")

It reflects a reaffirmation of the land-grant mission on which this University was founded – one based on service, first and foremost, to California. Service to California is our legacy, but also our future, and is possible only with the continuing support of the Governor, the Legislature and the citizens of California.



Katherine N. Lapp
Executive Vice President



University of California 2008-09 Budget Priorities

To reinvigorate its relationship with California, the University is proposing to ...

- Expand access by continuing to find a place for all eligible California students through enrollment growth (*page 9*);
- Enhance support for graduate students who are a critical element in the research enterprise, an enterprise that often leads to groundbreaking discovery and innovation (*page 14*);
- Maintain quality in professional schools to develop California leadership in fields as diverse as health sciences, business and law (*page 16*);
- Support development of the new campus at Merced to expand undergraduate access, especially for the underserved San Joaquin Valley, and support unique student-centered learning (*page 16*);
- Partner with K-12, CSU, Community Colleges, and others to address the achievement gap related to the education of California students (*page 17*);
- Respond to state research needs on the effects of climate change on agriculture and the environment (*page 18*).

To build and maintain the quality of its teaching and research core, the University is proposing to ...

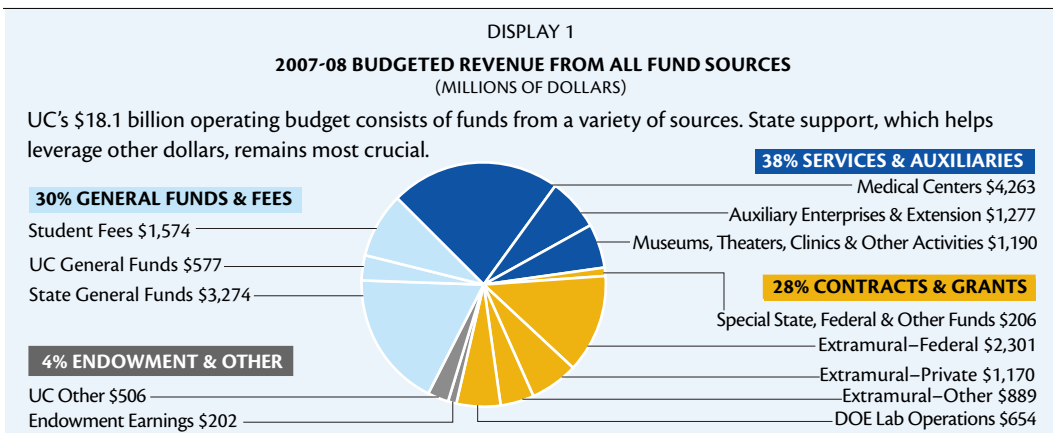
- Restore competitive compensation to attract and retain quality faculty and staff (*page 11*);
- Strengthen core academic support by investing in up-to-date instructional technology, equipment, libraries, and ongoing maintenance (*page 13*);
- Restore instructional budgets and attain adequate student-faculty ratios (*page 15*);
- Improve student mental health programs (*page 15*);
- Keep pace with inflation (*page 16*);
- Address the deferred maintenance and capital renewal needs to ensure that quality infrastructure is available to support quality teaching and research (*page 16*).



Overview of the University Budget for Current Operations

As the University of California has thrived, so has the State of California. Economic prosperity, social mobility and cultural opportunity — all have been fueled by far-sighted investments in higher education. But to maintain California’s leadership role and to meet the changing needs of future generations, California must continue to invest, including in supporting the core budget of its world-class research university system.

The operating budget, totaling more than \$18.1 billion, funds the University’s core mission responsibilities of teaching, research and public service, as well as a wide range of activities in support of these responsibilities, including teaching hospitals, the National Laboratories, University Extension, housing and dining services, and other functions.





In recent years other fund sources have helped to make up for declines in State support for UC. These other sources include revenue from student fees, which over the last 17 years have come to comprise a dramatically greater share of the total average expenditures for student instruction (see Display 3); 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.

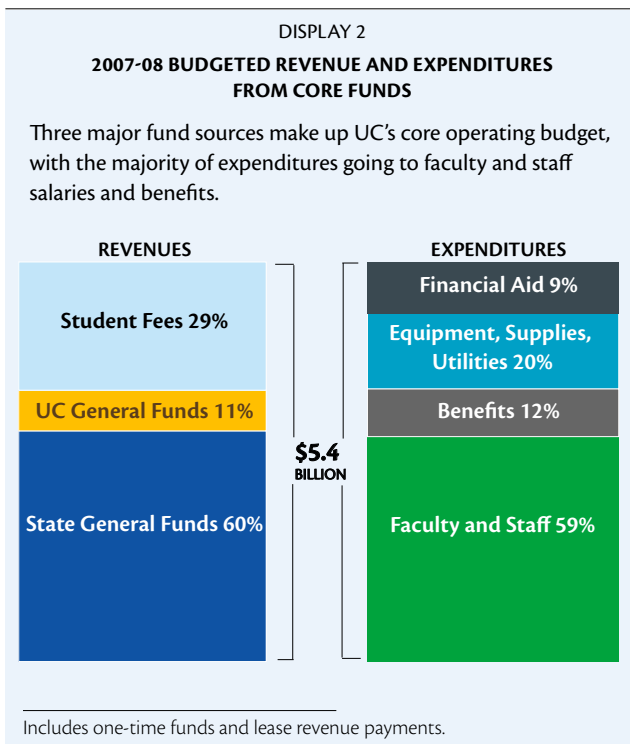
Yet State General Funds remain extremely critical, for they make it possible to attract funds from other sources. For example, for every State dollar specifically invested in research, UC leverages nearly \$6 more from the federal government and other non-State sources. State funds also help attract significant private funding, with one example being the California Institutes for Science and Innovation, a unique funding partnership between the State, industry, and the University.

Increased funding for the University is vital if it is to meet its obligations to the people of California. This was the central focus and premise of the charge of the Long Range Guidance Team, which recently released its report, *UC 2025: The Promise and Power of 10*. The report, which is now helping to inform the work of the new Regents' Committee on Long Range Planning, underscored two fundamental points:

First, it is impossible to separate California's challenges from those facing the University. UC, in many respects, is an agent of change and transformation. But it, simultaneously, is subject to change occurring within and without the institution.

Second, four needs loom larger than all others, and are central in addressing the other challenges facing California. These include:

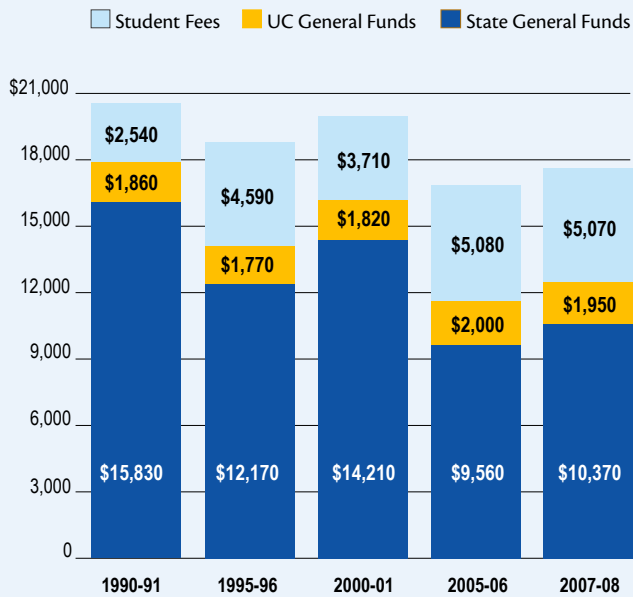
- California's changing demographics;
- The crisis in K-12 education;
- California's place in an increasingly global society;
- The growing financial challenges facing California in general and higher education in particular.



DISPLAY 3

PER-STUDENT AVERAGE EXPENDITURES FOR EDUCATION
(2007-08 DOLLARS)

Since 1990, average inflation-adjusted expenditures for educating UC students declined 14%. The State's share of expenditures plunged even more steeply – 34%. Over this period, the student share, net of financial aid, has more than doubled, from 13% to 30%.



Planning for the University's 2008-09 budget is proceeding in this context and in light of the State's ongoing structural deficit, estimated to be at least \$6.1 billion by the Department of Finance. The University further recognizes that it has an obligation to identify and capture savings from its ongoing operations and efficiencies review to fund additional UC aspirations and obligations.





Summary of the University's 2008-09 Budget Request

To meet its goals of **reinvigorating its relationship with California** and **building its teaching and research core**, the University's 2008-09 budget plan includes new expenditures for compensation, including UC's accelerated faculty salary plan; program growth, including additional enrollment; new research and public service initiatives, most critically to help address issues in K-12 education; and increases in important areas such as graduate student support and student mental health services.

Summary of Proposed Revenue. The University plans to fund these initiatives by achieving sufficient increases in revenue from State funds and non-State revenue totaling \$378.2 million, and redirecting savings to be realized from **restructuring and other efficiencies** that are occurring as part of a major review of the Office of the President and campus functions.

The \$378.2 million increase in revenue to support the budget from the sources described above is an increase of about 7.2%, 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).

PROPOSED NEW EXPENDITURES FOR 2008-09 TOTAL \$378.2 MILLION¹

2007-08 OPERATING BUDGET			
State General Funds		\$ 3,081	
State and UC General Funds plus Student Fee Revenue		5,232	
PROPOSED INCREASES IN REVENUE		PROPOSED INCREASES IN EXPENDITURES	
State General Funds		Compensation	
4% Base Budget Adjustment	\$ 123.2	Faculty and Staff Salary and Benefit Increases (5%)	\$ 168.8
Additional 1% for Core Academic Support	30.8	Accelerated Faculty Salary Increases	20.0
Enrollment Growth (5,408 students)	62.8	Program Growth	
Research Initiative	10.0	Enrollment Growth	
Educational Imperative Initiative	5.0	Instructional Costs	74.0
UC General Funds		Student Services	4.3
Undergraduate Nonresident Tuition	6.0	Maintenance of New Space	9.7
Indirect Cost Recovery	12.0	Student Financial Support	14.1
Other	2.0	Core Academic Support	30.8
Student Fee Revenue		Graduate Student Support	10.0
Enrollment Growth	39.3	Restoration of Instructional Budgets	10.0
Professional Fee Increases	16.6	Student Mental Health Services	8.0
Additional State Funding or Equivalent Increase in Student Fees	<u>70.5</u>	Nonsalary Budget Cost Increases (2.25%)	25.0
TOTAL INCREASE IN REVENUE	\$ 378.2	Professional School Programs	
% Increase	7.2%	Instructional Cost Increases and Initiatives	11.1
		Student Financial Support	5.5
		Educational Imperative Initiative	5.0
		Research Initiative	<u>10.0</u>
		Redirection of initial savings from University efficiencies	(28.1)
		TOTAL INCREASE IN EXPENDITURES	\$ 378.2

¹ Excludes one-time funds and lease revenue payments.

State General Funds. In keeping with the 2004 Compact with the Governor, new State funding is proposed as follows:

- A base budget adjustment of 4% to be used to fund increases for salaries, employee health and welfare benefits, and other costs;
- Enrollment funding for growth of 2.5%, or 5,408 FTE students, at the agreed-upon marginal cost of instruction;
- An additional base budget adjustment of 1% for funding increases to core academic needs; and
- Funding for new initiatives in research and public service.



UC General Funds. UC General Funds are expected to increase primarily through growth in indirect cost recovery on research contracts and grants and a 5% increase (\$953) in nonresident tuition for undergraduate students.

Due to continuing concerns about the University's ability to recruit high quality graduate students and the need to ensure that the University's graduate student support packages are competitive with those of other institutions seeking the same high quality students, *no increase in nonresident tuition for graduate students is proposed for the fourth year in a row.*

Student Fees. Aside from the proposed increase in undergraduate nonresident tuition, the University is making no proposal to increase mandatory systemwide student fees (Educational and Registration Fees) or related student financial aid at this time. Instead, similar to last year, the University proposes to delay action on student fees until more is known in January, 2008 after the Governor's proposed budget for 2008-09 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to buy out proposed student fee increases either partially or totally, the budget plan proposed for 2008-09 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State. In the event student fee increases are implemented for the coming year, it would be the University's intention, as it has done in the past, to provide financial aid to cover the fee increases for needy students.

Savings from Efficiencies. The University also intends to realize savings from efficiencies to be implemented stemming from the review of Office of the President and campus functions by the Monitor Group. Their first report was issued in September, 2007; a second report is due in the spring. Provost and Executive Vice President Wyatt R. Hume, in his capacity as chief operating officer, has formed five major work groups to develop recommendations for changes that can be implemented both in the short and long term to improve efficiency and reduce costs. More immediately, Provost Hume has directed an effort to identify and capture savings from this fiscal year and into 2008-09, including control on funding for current position vacancies.



Expenditure Components of the 2008-09 Budget Plan

Expanding Access through Enrollment Growth —\$102.1 million. UC long has accepted its obligation, as a land-grant institution and in accordance with the Master Plan for Higher Education, to provide a quality education to all eligible undergraduate students who wish to attend. This commitment was most recently underscored as part of the Compact with the Governor.

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, particularly in the 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 when growth in high school graduates will peak. The University is planning for continued 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 2008-09, the University is seeking State funds to support an increase of 5,408 FTE students, representing a 2.5% increase over 2007-08 budgeted enrollments.

Based on an estimated marginal cost of instruction rate of \$11,300 per full-time equivalent student, the University is seeking \$62.8 million in State funds, which will fund not only costs associated with faculty and other academic support needed for instructional programs, but also for operating and maintaining new space. Student fee revenue also supports instructional programs. It is estimated that the fee-funded portion of enrollment growth will be \$39.3 million, of which \$14.1 million will be set aside for financial aid.

The majority of these funds will be used to support general campus undergraduate and graduate enrollment growth. In addition, expansion of health sciences programs is planned as follows:

Medicine. A total of \$1.8 million is needed to continue expansion of medical school enrollment through PRIME programs (PROgrams In Medical Education), designed to attract and prepare more medical students to provide care to underserved populations in the state. In 2008-09, these programs will expand by 69 students, for a total of 147 students at all five campuses with medical schools – Davis, Irvine, Los Angeles, San Diego, and San Francisco.

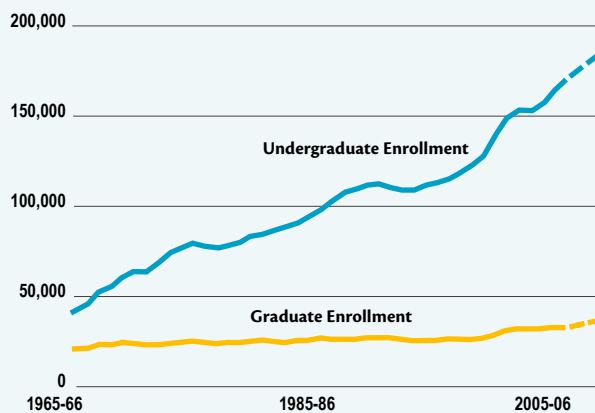
Nursing. The University is continuing its four-year plan to increase the number of undergraduate and graduate nursing students by over 70% — from 823 enrolled students in 2005-06 to a total of roughly 1,440 by 2009-10 — to help the State address major shortages in nurses and nursing faculty. In addition to enrollment increases proposed in the four-year plan, further increases are now being planned for UC Davis and possibly other UC campuses. In 2008-09, the University plans to enroll an additional 100 undergraduate, 22 graduate academic, and 82 graduate professional nursing students. A total of \$2.6 million of State enrollment growth funding will be dedicated to nursing enrollment.

DISPLAY 4

ACTUAL AND PLANNED GENERAL CAMPUS ENROLLMENT

UC enrollment has grown significantly in recent years and will continue to grow by approximately 2.5% annually through 2010-11 to meet Master Plan requirements and accommodate Tidal Wave II.

While undergraduate enrollment has grown rapidly, graduate and professional enrollments have not kept pace. The University has embarked on multi-year initiatives to re-balance the proportion of graduate and undergraduate students to better meet State workforce needs.



DISPLAY 5

**FTE ENROLLMENT BY CAMPUS:
GENERAL CAMPUS AND HEALTH SCIENCES**

	2006-07 Actual	2007-08 Budgeted
Berkeley	33,642	33,296
Davis	29,392	29,610
Irvine	26,842	27,234
Los Angeles	37,471	37,325
Merced	1,276	2,000
Riverside	16,398	17,207
San Diego	27,329	27,784
San Francisco	4,197	3,784
Santa Barbara	21,516	22,000
Santa Cruz	15,583	16,072
Total	213,646	216,312

Public Health. Beginning in 2008-09, the University is initiating a multi-year plan to expand enrollment in public health programs to address increasing demand due to new and emerging public health threats and demographic trends. In 2008-09, the University proposes to increase enrollments in the Berkeley and Los Angeles public health programs and begin new programs at Davis and Irvine for a total of 126 new professional degree students. State funding totaling \$1.86 million is needed to support this new enrollment.

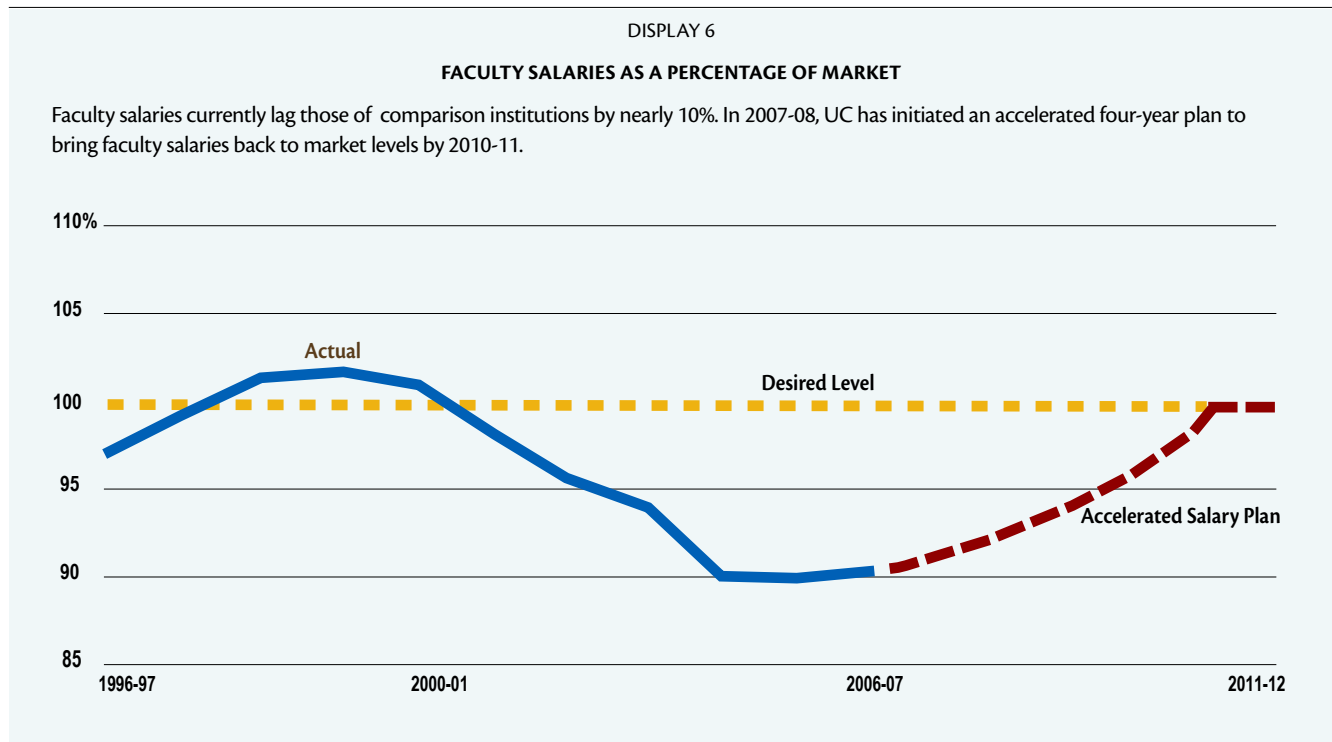
Restoring Competitive Compensation for Academic and Staff Employees — \$188.8 million. Attracting and retaining quality faculty and staff to the University of California are critical to achieving its goal of building its teaching and research core.

Earlier cuts to the University’s budget have resulted in significant disparities in faculty and staff salaries as compared to the market. UC faculty salaries currently



lag the market by about 9.6% and there is a similar problem with respect to staff salaries.

To achieve its goal of maintaining a market-based competitive compensation program for its employees,



the University's budget plan for 2008-09 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 supported from other fund sources, including teaching hospital income, auxiliary enterprises, federal funds, and other sources, must be funded from those sources and must conform to the University's established systemwide salary programs for State-funded employees.

The 5% compensation package proposed for 2008-09 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 eligible employees;
- Market-based and equity salary increases; and
- Health and welfare benefit cost increases.

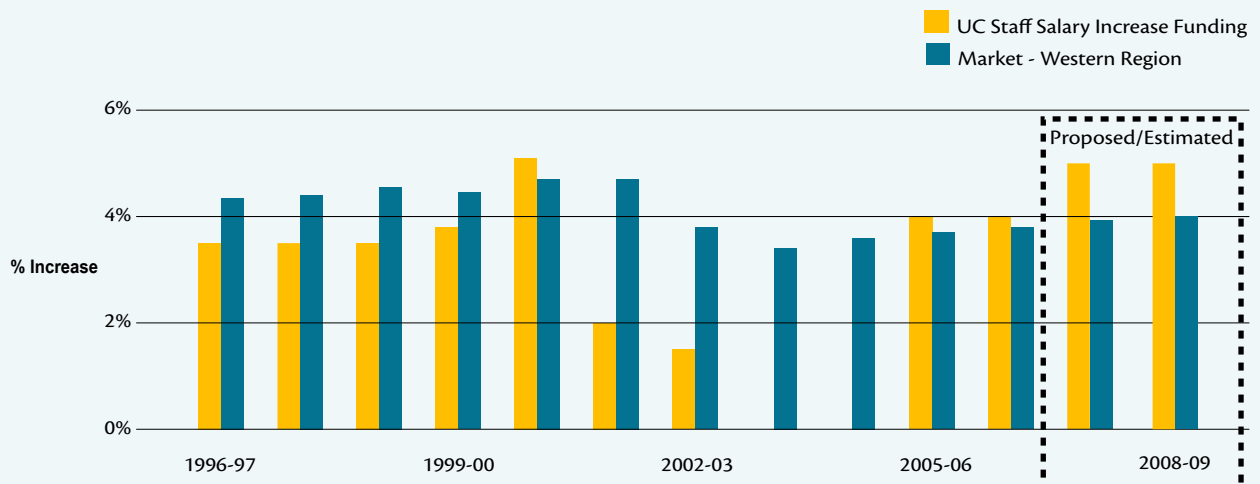
Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements for represented employees under the Higher Education Employer-Employee Relations Act (HEERA).

Closing the Faculty Salary Gap. In 2007-08, to better reflect the market, the University began implementing changes to raise faculty salary scales to be phased in over four years. Corresponding actual salaries for faculty who previously have been on-scale and therefore not market competitive are also being increased. In addition, all faculty will receive general range adjustments each year. These salary

DISPLAY 7

INCREASES IN FUNDING FOR STAFF SALARIES COMPARED TO MARKET

This display shows annual percentage increases in funding for UC staff salaries compared to increases in funding for salaries in the Western Region market. From 1996-97 to 2004-05, UC staff salary increases lagged market increases every year but one, resulting in significant market disparities. In fact, during 2003-04 and 2004-05, UC was unable to provide any increases. Beginning in 2005-06, with funding from the Compact, the University has met or exceeded market increases each year, and the University plans to proceed with annual compensation program increases of at least 5% annually over 10 years to achieve competitive salaries.



adjustments are expected to close the faculty salary gap by 2010-11. The four-year cost of implementing this plan is estimated to be \$263 million. A portion of the funding (\$195 million) for the plan will come from the 5% compensation package funded within the normal budget plan each year. The remainder will be funded through a redirection from existing resources, including savings identified as part of the current restructuring and efficiency effort.

Staff Salary Plan. The funding gap with respect to staff salaries presents a similar problem for the University. Market salaries over the period have been increasing at nearly 4% per year, but funding for UC staff salary increases has not kept pace. As in the early 1990s, the State's recent fiscal crisis prevented full funding of a normal workload budget for several years. In Fall 2005, The Regents adopted a plan calling for annual increases of 5% - 5.5% in staff salaries over a period of 10 years to close the gap. However, the University recognizes that while this amount will keep pace with market increases, it is not sufficient to address all salary inequities. For now, market and equity funding will only address the most serious market and retention situations.

Benefit Costs. While the 2008-09 compensation package includes support for health and welfare benefits cost increases, it is expected that some of the increases in cost will continue to be borne by employees themselves. Although UC continues to pay approximately 87% of monthly medical premiums for employees on an aggregate basis, UC has made a strategic decision to cover an even larger portion of the premium for those in the lower salary brackets.



Strengthening Core Academic Support—\$30.8 million.

With an additional 1% base budget adjustment called for by the Compact with the Governor, the University proposes to dedicate \$30.8 million to renew efforts to address the chronic shortfalls that exist in core areas of the budget that directly impact the quality of the instructional program. Recruitment and retention of the best faculty and students require that the University make investments in these crucial areas.

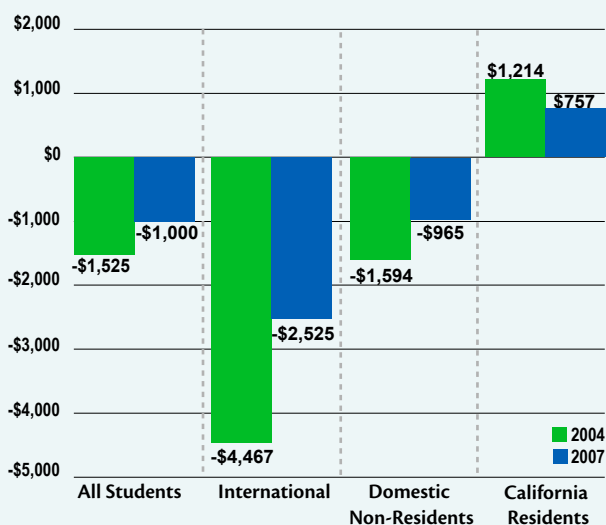
Core areas include instructional technology, instructional equipment, ongoing building maintenance, and libraries. Each of these categories is critical to the quality of UC's academic programs. Funding provided beginning in 2008-09 will be used to upgrade services provided in each area to the direct benefit of students and faculty.



DISPLAY 8

COMPETITIVENESS OF UC FINANCIAL SUPPORT OFFERS TO ACADEMIC GRADUATE STUDENTS

For academic graduate students, UC has narrowed the gap between its offers and those of competing institutions by more than \$500. UC's competitiveness has improved the most for international students, where the gap has been reduced by almost \$2,000. UC has made progress for domestic non-resident students as well and maintained a sizable advantage over competing institutions for California resident students. Nevertheless, large gaps remain, and they are exacerbated by the high cost-of-living at UC campus locations.



Enhancing Graduate Student Support

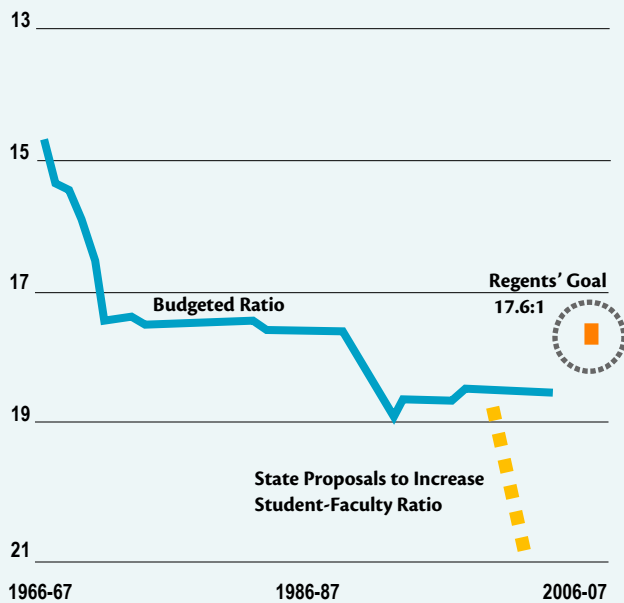
—\$10.0 million. Graduate education and research at the University of California have long fueled California's innovation and economic development, helping establish California as one of the ten largest economies in the world. This was acknowledged in the California Master Plan for Higher Education, which charged the University with the responsibility to prepare graduate academic and professional students to help meet California's and the nation's workforce needs. However, over the last forty years, graduate enrollment has not kept pace with industry demands.

A key problem inhibiting growth in graduate enrollments is the availability of financial support for graduate students — to attract the best graduate students, the University must provide competitive financial support. The Regents have identified securing adequate support for graduate students as one of their highest priorities. Over the last two years, the University has added \$30 million to graduate student support programs from within Compact and other funds. An additional \$10 million is proposed for 2008-09.

DISPLAY 9

BUDGETED GENERAL CAMPUS STUDENT-FACULTY RATIO

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



Restoring Instructional Budgets —\$10.0 million.

The Governor's Budgets for both 2003-04 and 2004-05 proposed increases in the budgeted student-faculty ratio as part of the targeted budget 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, and 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 from that of the 1980s, the University's budgets between 2005-06 and 2007-08 included increments 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 2008-09 budget plan to continue to address this critical shortfall. With the funding provided in 2008-09, the University will have restored \$40 million of the \$70 million cut from the budget related to instructional programs.

Improving Student Mental Health —\$8.0 million.

The growing number of students in distress and at risk makes enhancement of student mental health services an urgent University priority. Additional funds are needed to restore critical mental health services to fully respond to student needs, to implement targeted interventions through education, and take a comprehensive institutional approach to creating healthier learning environments. The University proposes to increase funding for student mental health services by an additional \$8 million in 2008-09, for an increase over two years of \$12.0 million.



Keeping Pace with Inflation —\$25.0 million.

To offset the impact of inflation on the non-salary budget and maintain the University's purchasing power, \$25 million in funding within the Compact is proposed to cover non-salary price increases averaging 2.25%.

Maintaining Quality in Professional Schools

—\$16.6 million. The quality of the University's professional schools is critical to maintaining California's leadership role in fields as diverse as health sciences, business, and law. Increased funding is needed to offset rising salary and other professional school costs, as well as to maintain and enhance the schools' ability to compete for the best students and faculty. This is particularly critical after years of devastating cuts to professional school budgets. The budget plan assumes \$16.6 million, including a minimum \$5.5 million for financial aid, will be needed for these purposes in 2008-09. Increases in the professional degree fee for 2008-09 were approved by The Regents at the September, 2007 meeting.

Supporting Development of the New Campus at

Merced —\$10.0 million in one-time funding.

When UC Merced officially opened its doors in 2005-06, it marked a significant milestone in the University's continuing commitment to access. The campus is already providing increased enrollment capacity for the entire state, but particularly for students in the long underserved San Joaquin Valley.

One-time funding has been provided in the last seven budgets, including \$14 million in 2007-08, for faculty hiring and other start-up costs. Supplemental funds are again required in 2008-09 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. By agreement with the Department of Finance, however, the amount of one-time funds the University is requesting for 2008-09 will be reduced to \$10 million. This amount will phase down to \$5 million in 2009-10 and will be eliminated in 2010-11.

Addressing Deferred Maintenance and Capital Renewal Needs —Additional one-time funding.

A quality research university requires investment in physical and virtual infrastructure. However, funding to operate, maintain, and renew the University's aging classrooms and laboratories has been unstable for many years. The University estimates its backlog of high priority projects exceeds \$800 million. An estimated \$275 million annually is needed over the next five years to address ongoing capital renewal. If the State has one-time funds available in 2008-09, it is the University's intention to request additional one-time funds for this critical need to maintain the University's instructional and research capital assets.

Partnering with K-12, CSU, and Others to Address Key Issues for California's K-12 Schools—\$5.0 million.

UC has long recognized its responsibility, as a public trust, to mobilize its teaching, research, and public service mission to respond to crises that, over the years, have confronted California's economic prosperity and the quality of life of its citizens.

The University's recent long-range planning efforts have resoundingly concluded that the University must now do the same to meet today's K-12 education crisis. The University is therefore committing to a coordinated institutional strategy to address the quality of California's K-12 education, building upon the University's existing programs that provide services to schools and teachers.

This new initiative, called the Educational Imperative, recognizes that fundamental and lasting change in educational attainment is only possible if addressed in *collaboration with public and private sector organizations that share responsibility with UC* – in particular, with California schools, community colleges, the CSU system, other universities, community organizations and students' families. By framing UC's ongoing K-12 efforts around the new initiative's research-based, technology-focused, policy-informing approaches, UC's existing programs will be enhanced, their reach broadened, and their coordinating mechanisms improved.

The major elements of the Educational Imperative include:

- **Better information for schools and parents on student success.** Beginning with an expansion of its Transcript Evaluation Service, UC will help schools and districts provide useful and timely information to key stakeholders (students, parents, school counselors, policy makers, and educators) on the educational progress of students, schools, and districts.
- **Better capacity for schools to deliver rigorous academic content.** UC can provide tools, innovative strategies, and training to help teachers, counselors, and administrators better deliver rigorous academic content and more effectively support student

learning. UC will expand existing and create new K-20 intersegmental regional alliances focused on enhancing classroom capacity.

- **More research and better linkages between researchers, practitioners, and policy makers.** Additional research on best practices is needed to supplement existing research and better mechanisms are needed to translate that research into policy and practice. As part of this effort, UC will build a web portal to disseminate new research and best practices, and just as importantly, provide teachers and principals an opportunity to request UC assistance in addressing learning and school management issues.
- **Improved statewide policy dialogue on K-12 education issues.** With its size and with other educational partners, UC can foster non-partisan dialogues between practitioners and faculty experts that are informed by the latest research and policy studies with the goal of improving future policy and practice. A new Education Policy Services unit and grants program will be established through the UC Center, Sacramento to do this and to ensure policy-relevant research is pursued.





Responding to State Research Needs - Addressing the Effects of Climate Change on Agriculture and the Environment —\$10.0 million. Threatening both agriculture and the coastal and marine environment is climate change, with the potential to impact California's most precious and imperiled natural and agricultural resources. Successfully addressing these environmental and agricultural issues in a coordinated way – one that balances business, environmental and social needs – will require innovative strategies by the University and other agencies throughout the State. UC can help lead that change. Key elements of the initiative include:

- ***Foster Engagement and Strategic Planning*** by convening scientists, state agencies, policy makers, natural resource managers, industry leaders, and the public to prioritize needs and facilitate collaborative efforts to quickly respond to emerging threats to California's agriculture, environment and economy.
- ***Focus on Training and Education*** by augmenting existing successful programs to train the next generation of California leaders to manage agricultural and environmental issues through partnerships among CSU, state agencies, UC campuses and UC Agriculture and Natural Resources' statewide programs.

- ***Leverage Funds for Targeted Research*** through the use of seed funds, with a 2:1 matching requirement, that would support cross-disciplinary and cross-institutional, innovative research in areas identified through the strategic planning activities, and provide additional support for graduate students.
- ***Establish an Expert Registry, Research Portal and Data Registry*** program by creating a comprehensive, up-to-date portal to access faculty and extension research expertise, promote collaboration and cooperation, and provide access to the vital research data and results to solve California's and the world's climate change challenges.
- ***Enhance Communications and Outreach*** by expanding and leveraging existing mechanisms such as the Cooperative Extension program, UC Prep-online, and UCTV for collecting and disseminating information on climate change issues to K-12, policy makers, practitioners, the public, professionals and scientists.



Future Funding for High Priority Needs

From its founding, the University of California has propelled California's economy and quality of life. It has transformed desert to farmland, created new industries and economic prosperity, contributed to the defense and homeland security of the nation, driven social mobility, and discovered innovations that have improved the health, well-being, and welfare of people far beyond California's borders.

To achieve all this, the University has required continuous investments – investments that, in recent years, have been reduced because of dwindling State resources. The University, which still has not seen a restoration of cuts made in the early 1990s, faces the very real threat that it will lose its competitive advantage among research universities, threatening the quality of its academic programs and impacting the California economy and the quality of life for all Californians.

The Compact with the Governor and the support of the Legislature for its funding principles represent important first steps in helping to stem the erosion in funding levels. The University's continuing long-range planning process, involving members of the Board of Regents, chancellors, faculty and staff, has identified a number of pressing long-term needs for California that require both an institutional commitment by the University and a long-term commitment of funding by the State.

Among the University priorities presented to the Regents' Long Range Planning Committee:

- **Fully fund faculty salaries** to market within four years and **staff salaries** to market as soon as possible, but no longer than the original 10-year plan. *Total future cost:* \$250-300 million in State funds both within and above the Compact plus anticipated student fee increases or equivalent additional State funding. This does not include additional costs for faculty and staff hired to address enrollment growth.
- **Restore investment in the research enterprise** and provide **support for the graduate students** who help sustain it. These investments, which are leveraged with grant and other funding, will power California's economy, give rise to new industries, solve real and pressing problems of the environment, health access, and agriculture, to name just a few, and inform social public policy and its application. *Total future cost:* Ongoing annual increments of \$10 million for graduate student support as well as continued funding from the State for graduate student enrollment at the agreed-upon rate; and increments of \$5-\$15 million a year in support for new and cutting edge research, aligned with the State's evolving needs.
- **Contribute lasting solutions to California's K-12 educational crisis**, as outlined on Page 17. *Total future cost:* Up to \$10 million a year including \$5 million annually from the State and another \$5 million annually sourced from efficiency gains and external (philanthropic, corporate) contributions.
- **Meet California's health care needs**, including addressing the large and mounting shortfall of doctors, nurses, public health professionals, pharmacists, and veterinarians, particularly in California's medically underserved communities. *Total future cost:* To be determined.
- **Restore funding to instructional budgets and improve the student-faculty ratio.** *Total future costs:* \$40 million to restore instructional budget cuts in four \$10 million annual increments from 2008-09 to 2011-12 followed by \$10 million a year as needed to hire the additional faculty necessary to restore the student-faculty ratio to 17.6:1.
- **Upgrade essential infrastructure.** The following needs have been identified. Each is extensively documented elsewhere and reflects the extent and severity of inadequate investment and associated unmet needs:
 - \$800 million to \$1 billion annually for State supportable capital projects including those necessary for seismic and life-safety improvements, accommodating enrollment growth including instructional (classroom) buildings, capital renewal, and building out essential infrastructure.
 - \$800 million to \$1 billion annually for non-State projects to improve and extend research space, improve medical centers, and provide auxiliary structures such as parking and housing for students, faculty, and staff.
 - \$150 million for academic support including libraries, instructional technologies, and instructional equipment.
 - \$100 million annually to build out and maintain an IT infrastructure that is appropriate for effective management of this \$20 billion knowledge organization and to manage a cyber-infrastructure capable of supporting high-end and increasingly computationally-based research.

Other critical investments will be needed to meet additional priorities, although total future costs have not been fully calculated:

- **Increase diversity**, through implementation of the Regents' policy adopted last September that includes recommendations to expand and coordinate successful student academic preparation programs as well as implement recruitment, fellowship and mentoring programs that encourage recruitment, retention, and successful advancement of diverse faculty and staff. Total future cost: To be determined.
- **Ensure access and affordability**, in keeping with the University's commitment under California's Master Plan for Higher Education. While the University is committed to continuing the practice of setting aside a minimum of 33% of the revenue raised from increases in student fees for financial aid (totaling some \$40 million in 2007-08), it is also exploring initiatives to significantly increase the pool of funds that can be made available for financial aid, including aid for middle-income California students.
- **Retirement contributions.** While employer and employee contributions to the UC Retirement Plan (UCRP) have not been required since the early 1990s due to the performance of its investments, independent actuarial reports have determined that the plan will become underfunded within the next several years unless contributions are resumed. The Regents have voted to resume employer and employee contributions, subject to the budget process, availability of funding, and collective bargaining. UC expects that State support will be consistent with the State's approach to contributions to CalPERS. Based on a current projected total ongoing cost for UCRP of approximately 16% of payroll. This would mean UC and its employees pay approximately 11% and 5%, respectively, toward the cost of maintaining UCRP benefits. (For represented employees, the timing and level of the restart of contributions will be subject to the collective bargaining process.)



- **Retiree health.** New accounting rules now require the University to report in its financial statements all postemployment benefits (OPEB) expense, such as retiree medical and dental costs, on an accrual basis over the employees' years of service, along with the related liability, net of any plan assets. (Currently, the University records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements.) The University is currently evaluating the effect on its financial statements, but it is expected that the annual OPEB expense, including normal cost, interest and amortization of unfunded liability, will range from \$1.35 billion to \$1.45 billion, based on current program design. If, over a period of years, The Regents gradually increased funding for retiree health costs up to the point where only the normal cost was funded, the incremental budgetary demand would reach approximately \$325 million. The State's portion of this incremental amount would be approximately \$60 million.

The University recognizes this is an ambitious agenda, but it is one appropriate for meeting the growing needs of California.

At the same time, the University also acknowledges it must do its part by undergoing a thorough operations and efficiencies review, with the goal of identifying and capturing sufficient savings to finance many critical initiatives. However, this cannot be a substitute for continued support from the State. On the contrary, State investments must be dramatically augmented as its fiscal situation improves. For only in partnership – with the State generously investing in its research university, and a University that, in turn, recognizes its public trust obligation to operate at maximum efficiency – can we ensure the University of California's continued place as the highest quality public research institution in the world.



Student Fees and Financial Aid

Student Fees

Revenue from student fees is a major source of funding for the University's core educational program, providing approximately \$1.6 billion to help support the University's basic operations. Therefore, an understanding of this revenue source – and how it is also used to support financial aid – is essential in a discussion of the University's budget even though no increases in mandatory student fees are being proposed at this time.

In 2007-08, the University's average fees for California resident undergraduate and graduate students remain well below the average of tuition and fees at the University's four public comparison institutions. Even with recent fee increases, UC fees remain very competitive with those institutions for resident undergraduates and resident graduate academic students.

The Compact includes Governor Schwarzenegger's proposed long-term student fee policy that calls for increases in student fees to be based on the annual increase in California per capita personal income. However, the Compact provides that fiscal circumstances in some years will require greater increases to provide sufficient funding for programs and to preserve quality. In those years, UC may decide, after consultation with the Governor, to increase fees up to 10%. This fee policy is contingent on State resources being provided for the basic budget at the level called for in the Compact and on no further erosion of the University's base budget. It assumes that revenue from student fees will remain with UC, rather than being used as an offset to reductions in State support.



DISPLAY 10

UNIVERSITY OF CALIFORNIA AND PUBLIC COMPARISON INSTITUTION FEES

2007-08 TOTAL STUDENT FEES *

The University's average fees for 2007-08 for California resident undergraduate and graduate academic students remain well below the average of tuition and fees at the University's four public comparison institutions. Even with recent fee increases, UC fees remain very competitive for resident undergraduates and resident graduate academic students.

	UNDERGRADUATE		GRADUATE	
	RESIDENT	NONRESIDENT	RESIDENT	NONRESIDENT
Public Comparison Institutions				
University at Buffalo (SUNY)	\$6,217	\$12,477	\$8,289	\$12,309
University of Illinois	\$11,130	\$25,216	\$11,216	\$24,056
University of Michigan	\$11,111	\$32,400	\$15,747	\$31,657
University of Virginia	\$8,690	\$27,940	\$11,240	\$21,240
Average	\$9,287	\$24,508	\$11,623	\$22,316
University of California	\$7,517	\$27,137	\$9,775	\$24,763

* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident UC students. Also includes a waivable health insurance fee for UC graduate students.

Student Financial Aid

The University of California has become nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students. This accomplishment reflects the success of the University's financial aid programs, which are guided by policy adopted by The Regents in 1994.

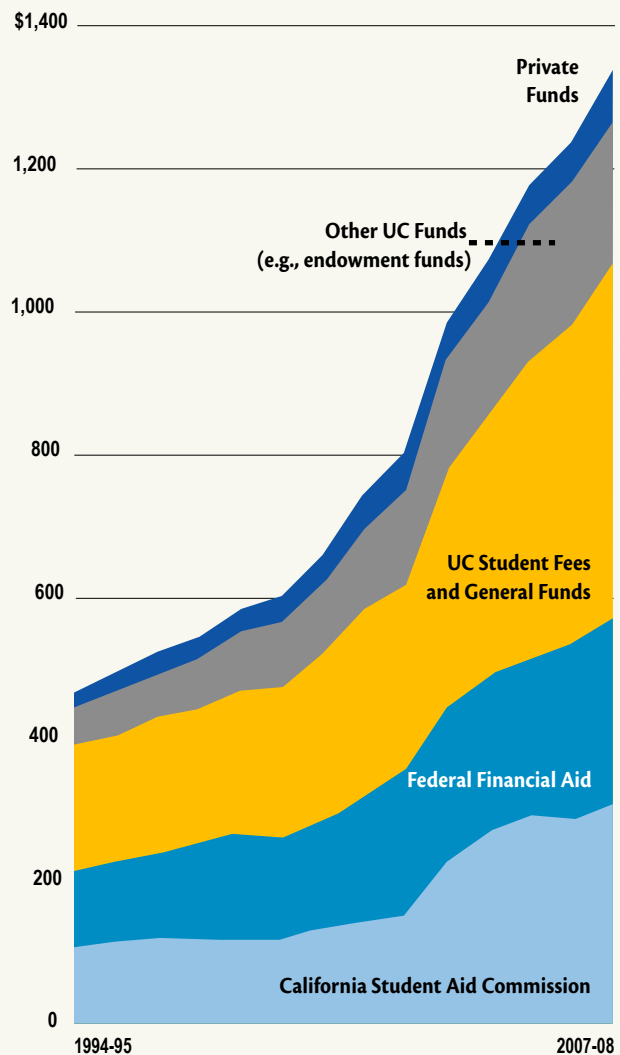
At the undergraduate level, the goal is to maintain the affordability of the University for all students so that financial considerations are not an obstacle to student decisions to seek and complete a University degree. At the graduate level, the policy calls upon the University to attract a diverse pool of highly qualified students by providing a competitive level of support relative to the cost of attending the University. This competitive context reflects the fact that graduate student enrollment is tied most directly to the University's research mission and helps the State meet its academic and professional workforce needs.

In 2006-07, over half (54%) of UC undergraduates received grant/scholarship aid averaging approximately \$9,700 per student; 58% of graduate students received such aid averaging about \$13,000 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 other institutions.

To mitigate the impact of fee increases as well as increases in other educational expenses, the University has continued to use a portion of the revenue derived from student fee increases to support financial aid. Grant aid increased by 67% from nearly \$800 million in 2002-03 to over \$1.3 billion in 2007-08 with 44% of the growth funded from new fee revenue, an estimated 28% from the California Student Aid Commission programs, and the remaining in funds from federal, private, and other University sources.

DISPLAY 11
GIFT AID EXPENDITURES
 (MILLIONS OF DOLLARS)

To offset fee increases and maintain the promise of higher education for all Californians, both the University and the State have invested heavily in student financial support. Total gift aid is projected to exceed \$1.3 billion in 2007-08 – an average of almost \$6,000 per student.

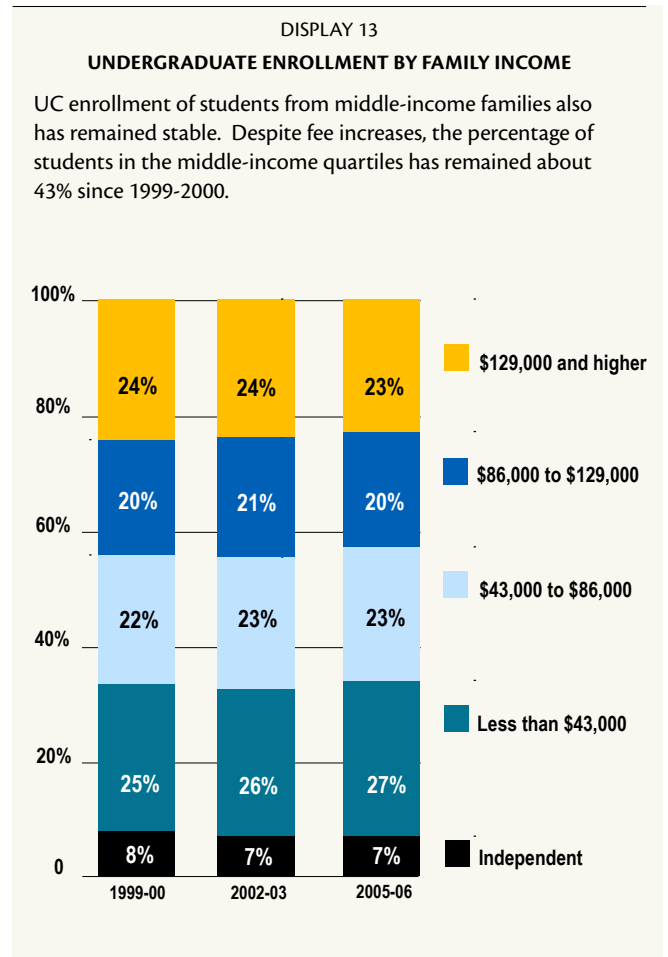
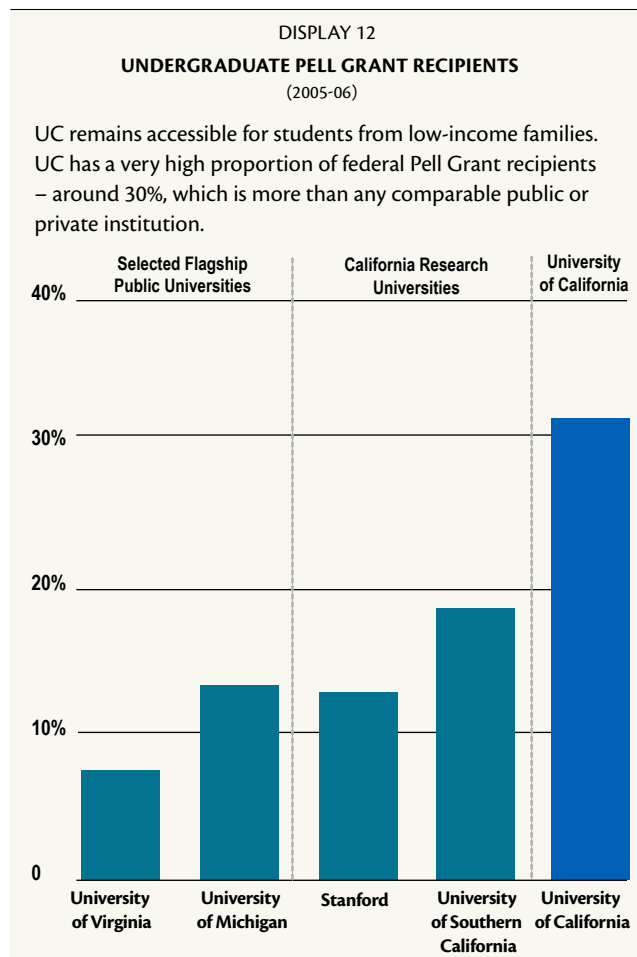


Despite fee increases, the University has remained accessible to undergraduate students from all income groups. Enrollments of low-income students at other research institutions range from below 10% to nearly 20%. The average at UC is over 30%, more than any other comparably selective institution. At UCLA alone, nearly 40% of undergraduates are low-income students.

The enrollment of students from middle-income families also has remained relatively stable. Over the past decade, despite fee increases, the percentage of middle-income students enrolled at the University has remained about 43%.

Financial aid also contributes greatly to the University's undergraduate diversity. African American, Chicano/Latino, and Asian American students are disproportionately low income; 35%, 41%, and 34%, respectively, of these students have parent incomes less than \$40,000. Collectively, these students receive 69% of all undergraduate gift assistance.

For these reasons, maintaining a robust financial aid program for UC undergraduate and graduate students remains a top University budget priority.



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