

**President Robert C. Dynes
University of California
Testimony before the
Senate Budget and Fiscal Review
Subcommittee on Education
February 28, 2005**

Chairman Scott, Senator Simitian, and Senator Margett, thank you for the opportunity to speak to you today. We know that you and your colleagues in the legislature will face difficult challenges in the months ahead and I welcome the opportunity to provide this overview today.

While our colleges and universities have always been important to California's economy and quality of life, the shift to a knowledge-based economy has made higher education more important now than ever before. All segments have important roles to play and we are mindful of our mission under the Master Plan that includes 1) teaching at the undergraduate, professional, and graduate academic level through the doctoral degree, 2) research and innovation fueling economic and social development, as the primary State-supported agency for academic research, and 3) public service that contributes to the well-being of the community, state, and nation. If we are doing our job properly, we create tomorrow's creators, and disseminate their creations throughout society for the public good.

The University of California clearly plays an important role in transforming lives, in expanding opportunity through education, and in helping California's students achieve their hopes and dreams. In a knowledge-based economy incomes are strongly linked to levels of education; therefore, Californians see their University as an important pathway to upward economic and social mobility. We know that the citizens of this state have high expectations of us; we understand our role; and the University is committed to

providing access to qualified applicants throughout the state. We all recognize, however, that there is wide disparity in the quality of preparation in California's schools.

The State Superintendent of Public Instruction, the Governor's Office and the Legislature are addressing this important matter. In our own small way, we too are working to raise achievement levels with our colleagues in the other segments so that those with great potential in all parts of the state will meet our eligibility requirements.

The Legislature has also taken an important step to increase access to higher education with the creation of the Cal Grant entitlement program. Through the combined increases in Cal Grants, institutional funds and other sources of financial aid the University continues to be accessible to low-income students, even though tuition and fee levels have increased sharply during California's fiscal crisis.

Our faculty, staff, and students *also* play a central role in keeping California competitive. UC faculty and graduate students produce an average of three new inventions every single day, and these inventions lead to new products, new companies, and entire new industries for the state. Our educational and research programs are producing the highly educated workforce California needs in an economy that has been reshaped by new technologies and global competition. Our medical research and clinical care programs are making a major contribution to keeping the people of California healthy. And our agricultural programs, continuing education programs for working adults, academic preparation programs in the K-12 schools, and cultural arts programs all are contributing greatly to the economic development and cultural richness of this incredible state. You, in the Legislature, have helped us achieve these things for California, and we look forward to working with you to preserve and enhance the UC "impact" on California.

You are well aware of the University's impact and have encouraged us to do more for the citizens of this great state. I have watched you doing what you could to protect the University from irreversible damage and agonized over each budget cut during the last four years. You asked us to provide a space for an increasing number of high school graduates, and we have. You asked us to strive for even higher graduation rates, in spite of the fact that ours were high in comparison to our peers, and we have. You asked us to increase the number of students in engineering and computer science, and we reached the benchmark ahead of schedule. You asked us to build new research institutes on the cutting edge of science, and we are. And, you asked us to look for efficiencies that would minimize the impact of budget cuts on the quality of the educational enterprise, and we have. In fact, we have had remarkable success in achieving a number of benchmarks. Each of you knows that investing in the University of California is investing in an organization that can, *and will*, deliver.

Let me use the remainder of my time before you to give some examples of our importance to Californians, summarize the impact of the budget cuts of the last several years, and address some of the specific proposals in the Governor's Budget. We have compiled several graphics and remarks that speak to issues your committee will be addressing. In addition to the graphs from which I'll be speaking, we have included an Appendix with displays that provide additional perspective on the budgetary problems we are facing. Please review them at your convenience.

I want to start this overview by discussing three major trends:

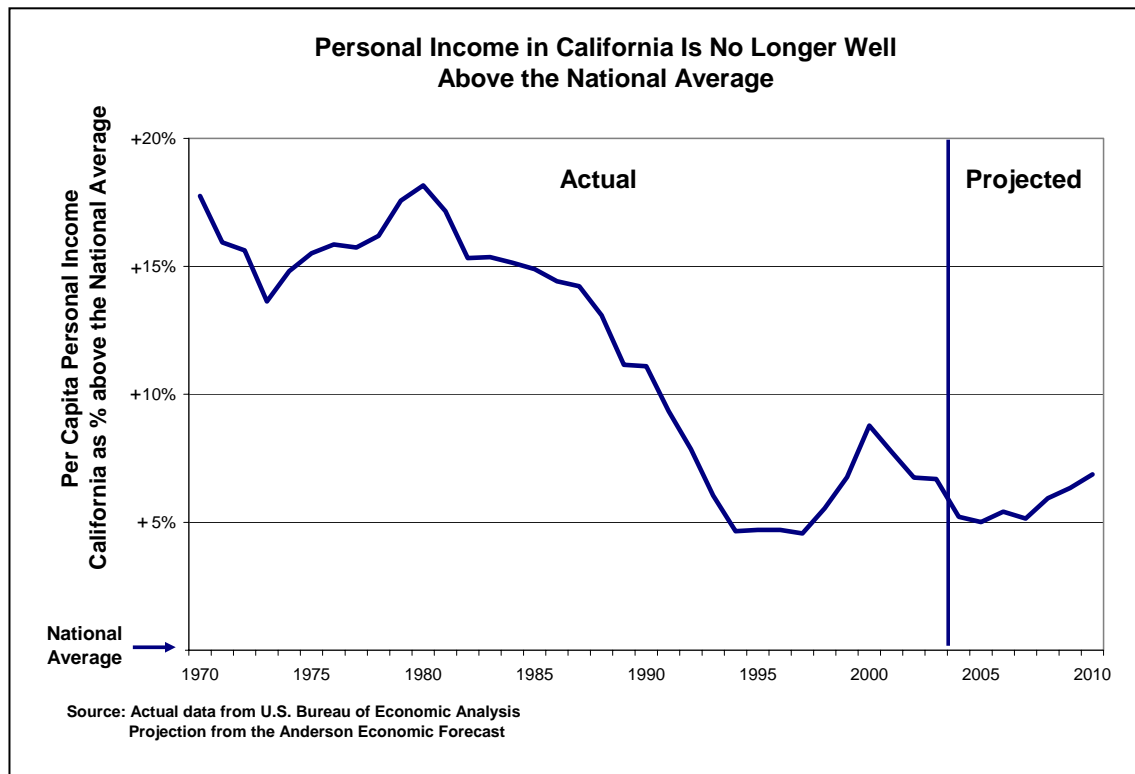
1. California is losing its comparative advantage,
2. More Californians will want a college education in the coming years,
3. More jobs require a college education.

Please turn to Display 1.

The Changing Nature of California's Economy

California Is Losing Its Comparative Advantage

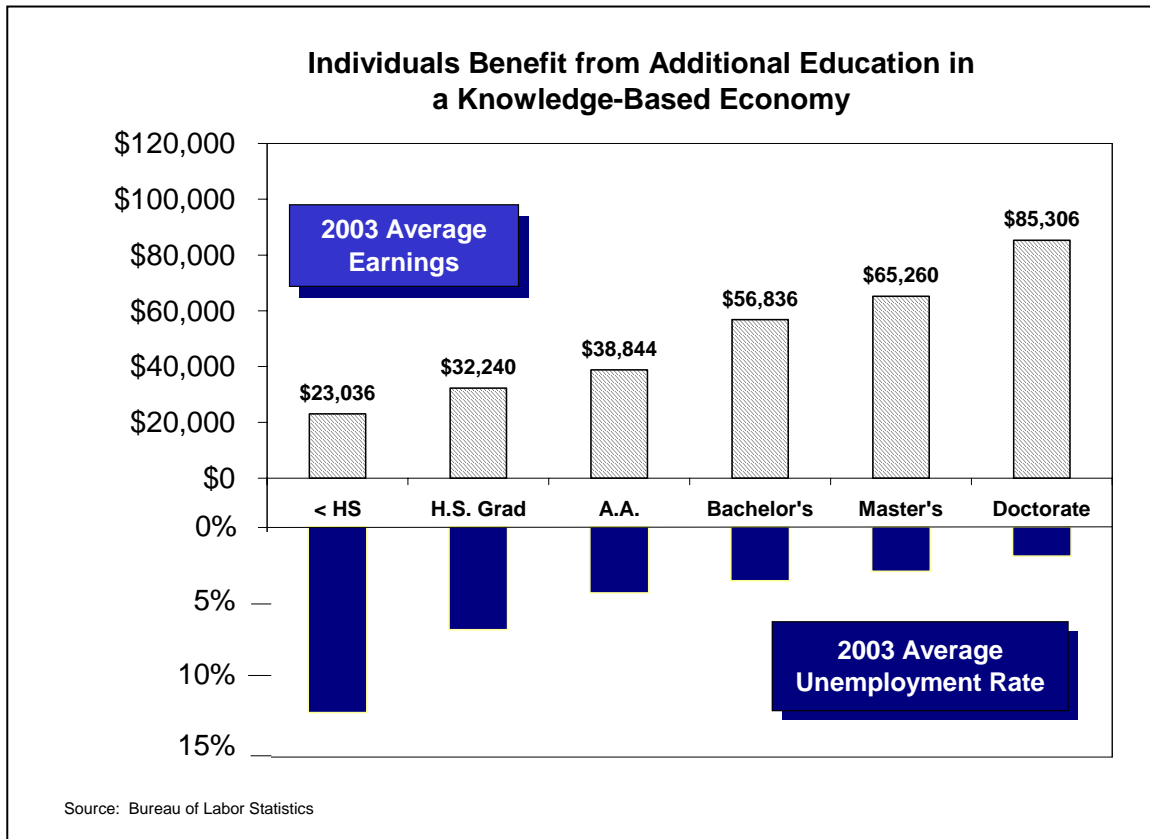
Display 1



- With a diversified economy and particular strength in aerospace, entertainment and other industries, per capita personal income in California was 15 to 20% above the national average in the 1970s (see Display 1). Above average income meant higher standards of living and a tax base that was able to support education, transportation, and a “safety net” of social services.
- California’s comparative advantage in the 1960s and ‘70s was linked to earlier investments in education and infrastructure. After decades of disinvestment California has lost some of its comparative advantage. And, with the downturn in the aerospace industry, Californians suffered more than those in most states during the long and deep recession of the early 1990s. While there was some recovery during the Internet boom period of the late 1990s, California was also hit particularly hard when the Internet bubble burst in the spring of 2000.
- If policy makers want to restore California’s comparative advantage in incomes, then we need not just more jobs, but more well-paying jobs. And, this is where our universities come in.

Well-Paying Jobs Are Linked To Higher Levels of Education

Display 2



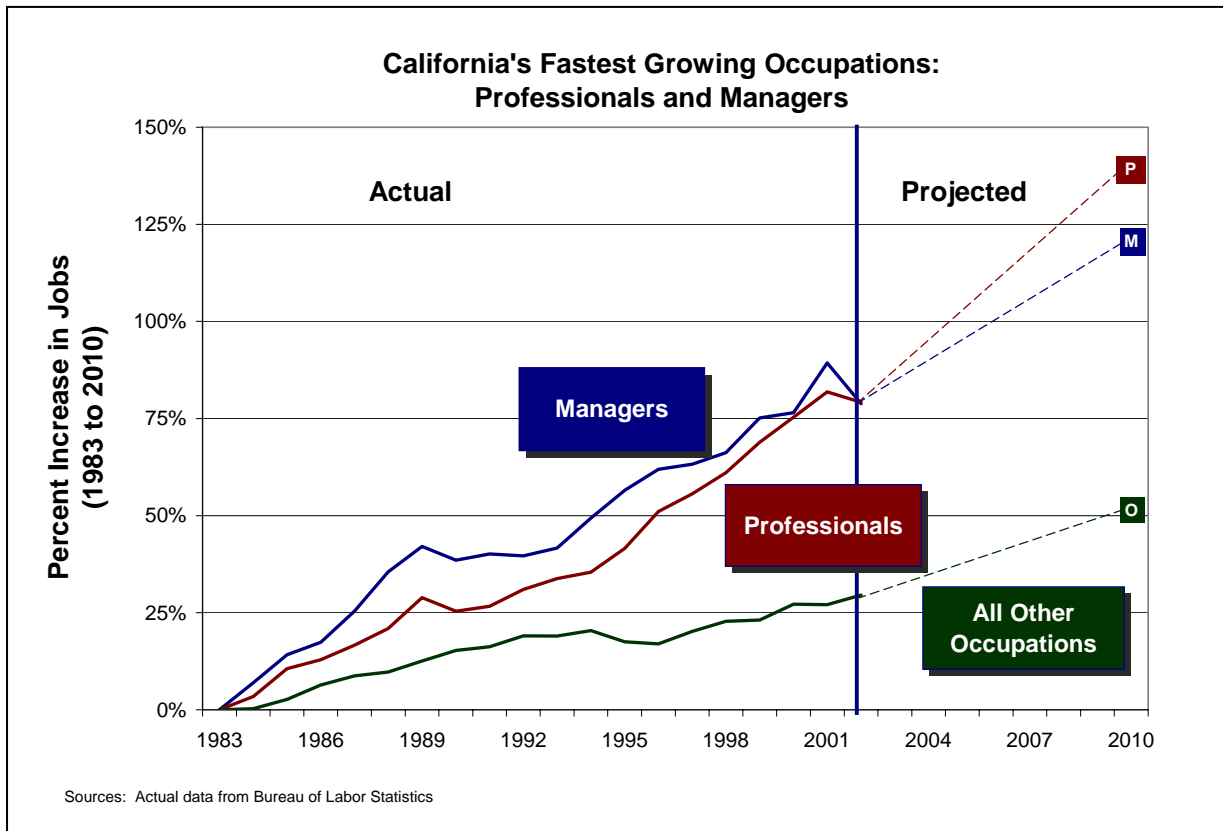
- With the shift to a knowledge-based economy more of a product's value is added *before* and *after* manufacturing by professionals and managers who typically have advanced levels of education and skills.
- As a result, employers are willing to pay an "education premium" for these workers.
- As shown in Display 2, incomes are higher and unemployment rates are lower on average for those with more education.
- The only way to raise average income in California is to move more of our workforce to the right side of Display 2.

California Needs New Companies And Expansion of Existing Firms That Create Well-Paying Jobs

- UC is helping create fast-growing companies in the 21st century. R&D-intensive industries, like information technology and software in the Silicon Valley, aerospace in Los Angeles, and pharmaceuticals in San Diego, tend to cluster around leading research universities because they depend upon discoveries from university research laboratories and on graduates who will fill their professional and managerial jobs.
- California companies in the industries that will be driving the economic recovery depend upon university research for innovations and productivity improvements. University research is essential because corporations typically focus their R&D spending on later stages and under-invest in basic research. UC research and Cooperative Extension are, for example, critical to California's nation-leading agricultural industry with an economic impact of \$65 billion.
- New fast-growing industries and growth of existing companies will lead to thousands of new professional and managerial jobs over the next decade — the employees who are central to the competitiveness of California firms.

California Firms Will Create More Jobs for Professionals and Managers

Display 3

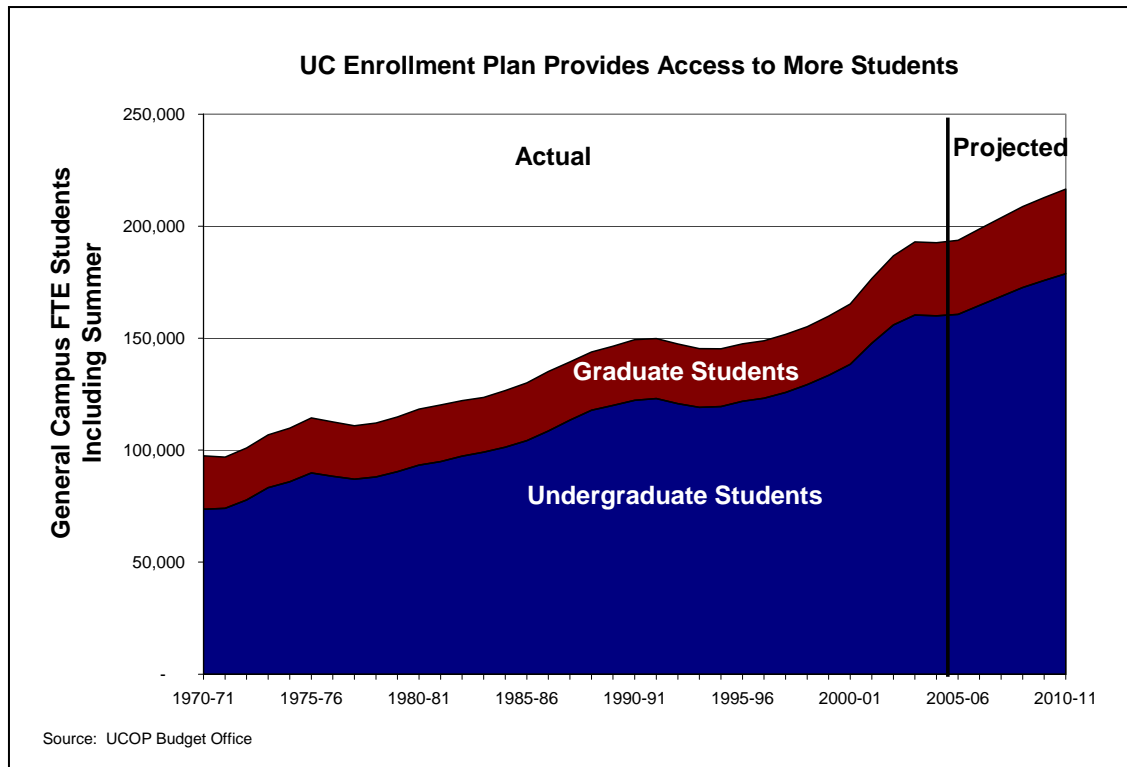


- California's fastest growing occupations are professional and managerial jobs — three times faster than the average growth rate for all other occupational categories.
- The growth shown in Display 3 is *not* just a big percentage increase in a small number. In the early 1980s one-fourth of all jobs in California were held by professionals and managers. Today, that fraction has grown to one-third of all jobs in our state.
- Most of these new professional and managerial jobs require at least a bachelor's degree and many require a Master's or doctorate. But, California's four-year colleges and universities have not been meeting the needs. A study conducted by the Public Policy Institute of California estimates that only half of the college graduates, filling new positions and replacing those who leave, were educated here in California.

- Therefore, it is not surprising that CEOs in all industries throughout the state are telling me that they are looking to the University of California for not only the discoveries that will drive competitiveness but also the graduates, especially those with Master's and doctoral degrees, who will fill the new professional and managerial jobs they are creating.
- California has a particular shortfall in the number of graduates with advanced education in science and mathematics. California's universities are not producing enough science and math teachers and too few of our students are graduating in fields that prepare them for those new R&D jobs. The critical shortfall in teachers was identified in our new Compact and also in the Governor's Budget. Efforts within the University, in collaboration with our colleagues in the California State University, are well underway in developing a major initiative to improve the supply and quality of science and math teachers. We hope to provide more details on this initiative later this spring.
- Professionals and managers are not only the life-blood of knowledge-based industries, but also the ones who add the most value to products and services in all industries.
- If we want to create more well-paying professional and managerial jobs in California, then this state must have a workforce with the knowledge and skills to compete in the global marketplace.
- Fortunately, more Californians are moving into their college-going years at a time when more of the jobs will require a college education. With your support we can ensure that they have access to a high quality education that will prepare them for those jobs.

More Californians Will Want A College Education

Display 4



- All three public segments of postsecondary education have planned for the exceptional growth in high school graduates projected during this decade.
- The University of California's 1999 enrollment plan assumed growth of 60,000 students over 12 years — 5,000 per year. The University of California grew at an even faster rate for several years but we have now returned to the plan.
- The Master Plan for Higher Education recognized the transfer function as providing educational opportunities and second chances for those who were not eligible for admission to the University as freshmen. The University has met and currently exceeds the Master Plan goal of 60% upper division to 40% lower division for its undergraduates. We have also set aggressive targets for enrolling students from the California Community Colleges, which we were meeting until last year, when budget cuts forced us to restrict enrollment.

- Significant progress has also been made in terms of articulation of courses with the Community Colleges:
 - UC campuses have developed articulation agreements with all CCC campuses in their service areas;
 - Five UC campuses have articulation agreements with virtually every community college in the state;
- The Compact calls for each UC campus to articulate all high demand majors with all 109 CCC's by 2005, and the University expects to meet that goal.
- We should be able to accommodate the remaining growth in high school graduates and accommodate more transfer students under the new Compact, which provides for an additional 5,000 students per year for the next six years. Current population forecasts suggest that this exceptional growth in high school graduates will level off after 2010. In the next decade we are planning for some additional undergraduate enrollment growth on the assumption that there will be greater participation from the Central Valley at UC Merced.
- Over the past year I have heard repeatedly from our business leaders that they are looking to the University of California for the innovations that will help them to compete and for the graduates who will fill their professional and managerial jobs. Our undergraduates are also very aware of the realities of the job market in a knowledge-based economy. More than 80 percent of our undergraduates plan to go to graduate school.
- As we look to the future, we must expand the University of California's graduate and professional programs throughout the system to meet the need for employees with Master's and doctoral degrees.

Greater Needs But Declining State Support

Display 5

What California needs for economic competitiveness:

- More University graduates at all levels to fill a growing number of professional and managerial jobs.
- Research to create and support the knowledge-based industries that will be driving the economic recovery.

But our universities have faced:

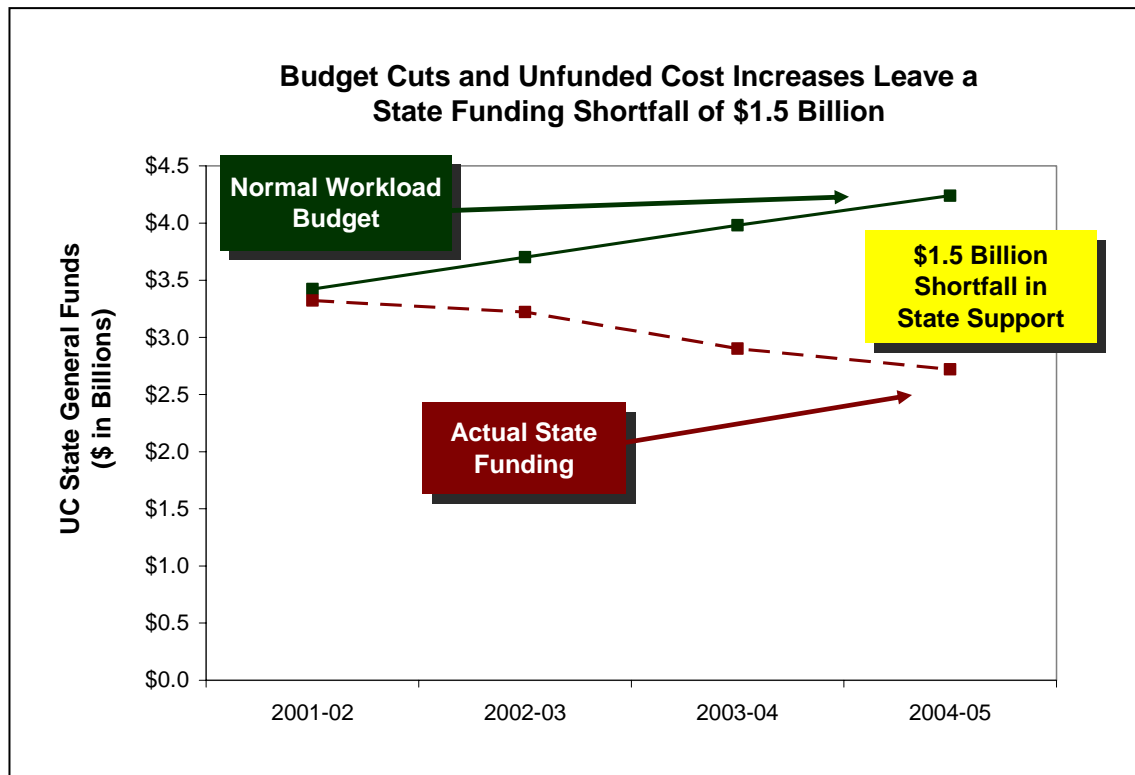
- Declining State support
- Higher tuition and fees
- Budget cuts that impact the quality of academic programs

- California companies need more university graduates from high quality programs to fill those new professional and managerial jobs.
- But, California's fiscal crisis has led to budget cuts that affect the quality of programs and services.

Cumulative Effect of Four Years of Budget Cuts

Less State Support

Display 6



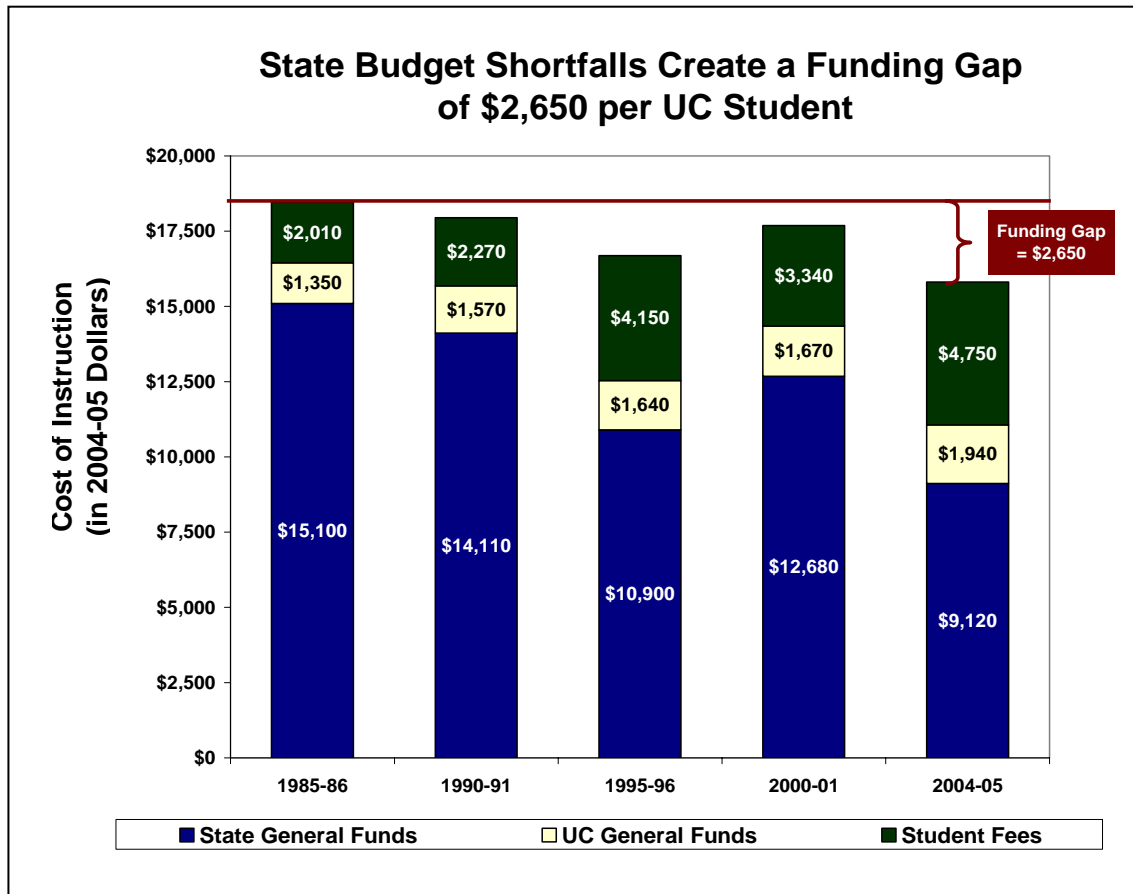
- The cumulative effect of the budget cuts and underfunding in 2001-02, 2002-03, 2003-04 and 2004-05 total \$1.5 billion.
- The impact of California’s fiscal crisis on the University’s budget is staggering. Over that four-year period our enrollment has grown by 19% while our budget has been cut by 15%.
- The University has addressed its \$1.5 billion funding shortfall through a balanced approach. Tuition and fee increases have offset less than 30% of the total \$1.5 billion shortfall.
 - Base budget cuts in every area of the budget (instruction, research, public service, academic and administrative support, student services) \$491 million
 - Budget cuts offset with student fee increases \$419 million
 - Unfunded salary and cost increases \$550 million

Faculty salaries are approximately 10% below market; health benefit costs are skyrocketing; utility budgets are underfunded due to higher energy costs; maintenance backlogs continue to grow; no funding was provided for maintenance of new space; non-salary price increase (inflation costs for equipment, library materials, etc.) was not funded.

- We have looked for efficiencies in our operations to soften the impact of the \$491 million in base budget cuts that were not offset with student fee increases. For example, we are taking advantage of being a multi-campus system and utilizing technology to improve access to our library collections to lessen the impact of the Academic Support budget cuts. And, we have taken steps to streamline our administrative processes but there is simply no way to compensate for the cumulative effects of cuts of this magnitude.

The Funding Gap Affects the Quality of Education

Display 7



- This is a very important graph. It shows that the State's investment in college students is not being maintained at a level needed to deliver the quality of educational experience that Californians have expected of their university.
- To determine the cumulative effects of the economic recession in the early 1990s and California's current fiscal crisis, we looked at the distribution of State support, University support, and student fees in terms of the average cost of instruction over the last 19 years. There are several points to make from this graph.
- First, average expenditures per student will have declined by \$2,650 over the last two decades, going from \$18,460 in 1985-86 down to \$15,810 in 2004-05 (expressed in 2004-05 dollars).

- This means that the quality of a UC education has been affected because the University has less money to spend on each student. The \$2,650 funding gap means larger classes, less time with faculty outside the classroom, fewer library resources, and more obsolete equipment. It also means that students are paying a larger share of the cost of their education and getting less for it.
- Second, the amount of student fee revenue supporting educational costs has more than doubled.
- Third, the amount of State funds has declined dramatically, about 40%.
- The new Compact gives us renewed hope.

The New Compact with the Governor

- Ends four years of budget cuts and provides a floor for future budget increases,
- Provides operating funds for enrollment growth and continues the current level of capital funds for our facilities,
- Contains a schedule of fee increases so that students and parents can plan, and
- Includes accountability elements for student enrollment, timely graduation, faculty workload, etc.

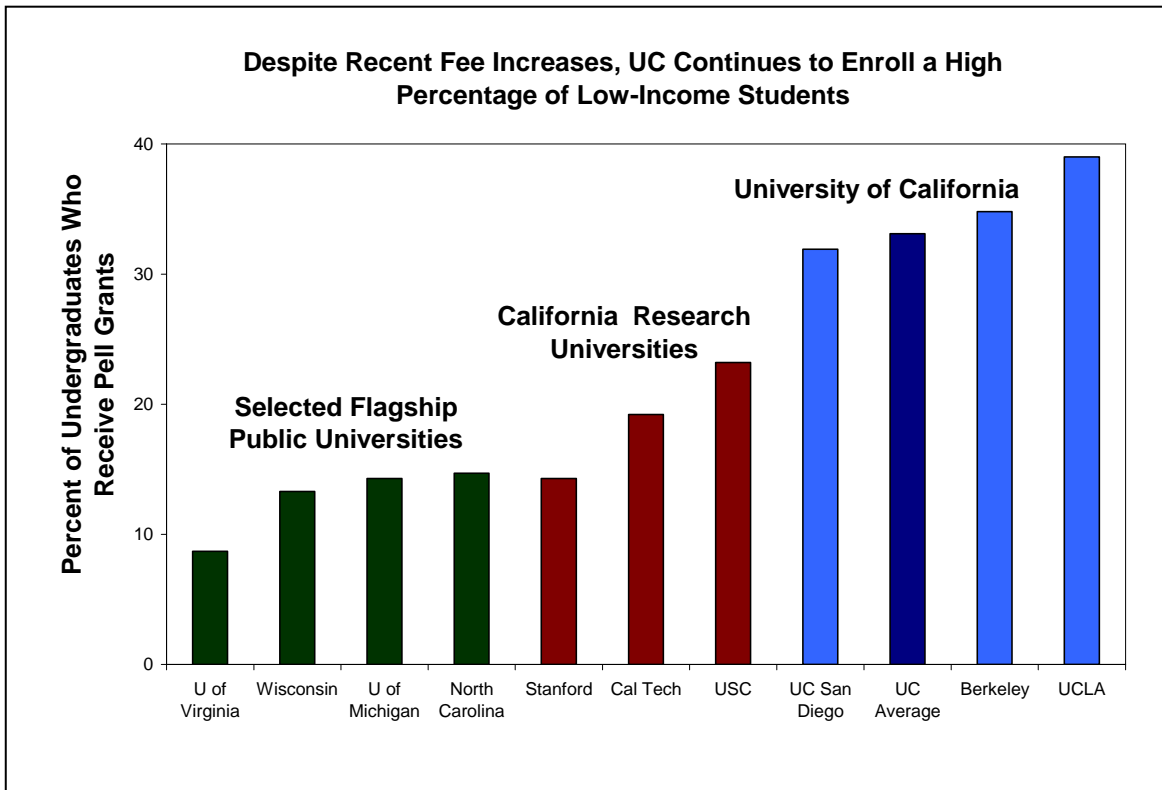
The University's Budget Principles under the Compact

Recognizing the cumulative impact of four years of budget cuts, the University has established a set of budget principles for the next several years. We are committed to these principles, if the State provides adequate support:

- Our faculty salaries are approximately 10% behind the average for our eight comparison universities and our staff salaries are similarly below market. We will strive to pay competitive salaries to attract quality personnel needed to maintain the effectiveness of the University and accomplish our mission.
- The University is committed to providing opportunities to bright, motivated students who meet our eligibility requirements, regardless of their financial circumstances. We will maintain access during this period of exceptional growth in high school graduates. The University will admit all qualified students in accordance with the Master Plan.
- Student fee increases will be moderate and predictable. Financial aid will be provided for needy students to mitigate the impact of fee increases.
- Consistent with the findings of the UC Commission on the Growth and Support of Graduate Education, the University must expand graduate programs to meet California's workforce needs and bring our graduate student support levels to those of other leading universities.
- Our student-faculty ratio was well above those of our competitors *before* the recent budget cuts. Further erosion has taken place during California's fiscal crisis. The student-faculty ratio must be restored so that the University can fulfill its research and teaching mission and attract high quality students.
- The UC Board of Regents has affirmed its policy that engagement in preschool through postsecondary education through academic preparation and educational partnerships is fundamental to the University's mission. Closing the educational opportunity gap in California is a responsibility we all share; therefore, the University will continue to seek adequate and stable funding for its student academic preparation programs.
- The State-supported research budget was cut by 10% three years ago, another 10% in 2003-04, and another 5% in the current year. These recent budget cuts come on top of large cuts in research budgets during the early 1990s. Adequate support is essential if the University is to continue to be a quality research institution and contribute to the economic vitality of the state.

UC Is Committed to Providing Access to Low-Income Students

Display 8



- I want to touch on one of the University’s principles: Student Fees and Financial Aid. We have had a long history of low fees and strong financial aid programs — what some call a “low tuition / high aid” policy.
- California’s fiscal crisis has led to sharp fee increases over the last few years but more financial aid has been provided in order to maintain access for low-income students.
- The success of the University’s “moderate tuition / high aid” policy is illustrated in Display 8, which shows that UC campuses have a much higher proportion of low-income students than other major research institutions.
- One of the University’s great success stories is that we have continued to be accessible to low-income students.

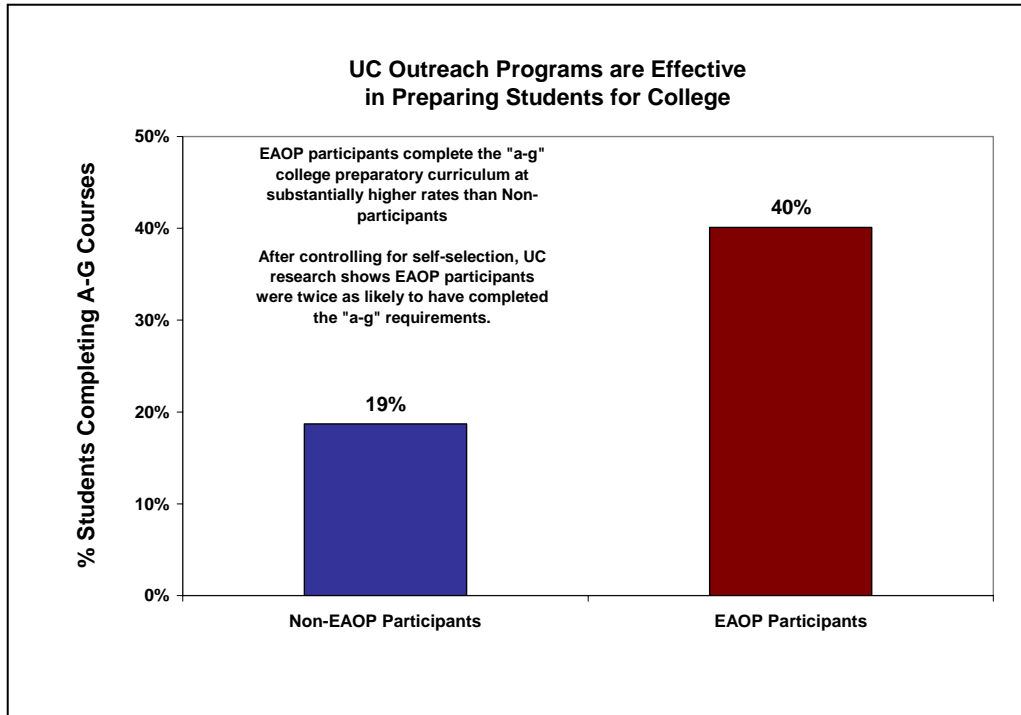
The Governor's Proposals

- The Governor's 2005-06 Budget proposal honors his commitment to the UC/CSU Compact.
 - Provides a 3% increase in the base budget for salary and benefit adjustments and non-salary price increases,
 - Funds 5,000 additional students annually in accord with the University's enrollment plan,
 - Provides \$4 million in additional one-time funds for faculty recruitment at UC Merced,
 - Continues the current funding level for the University's capital program.

- We are pleased with the Governor's support of the Compact and seek the Legislature's approval of the Governor's proposed budget for the University of California. However, we have one issue we would like to bring to your attention and that is the restoration of a proposed \$17.3 million in one-time funds provided in 2004-05 for Student Academic Preparation Programs.

Student Academic Preparation Programs Raise Aspirations

Display 9



- The economic and social future of California will be shaped by the extent to which children from *all* sectors of society attend good schools and have broad access to a college education so that the next generation of Californians have the knowledge and skills to compete in a global, knowledge-based economy.
- The University of California is committed to excellence and equity in education. Consistent with the Regents affirmation of the importance of academic preparation and educational partnerships as part of our core mission, the University is seeking continuation of \$17.3 million of one-time funds provided in 2004-05 for Student Academic Preparation Programs.
- Student Academic Preparation programs prepare first generation, low-income students attending low-performing schools for success in college and the world of work through educational partnerships with our colleagues in the CSU, community colleges, and K-12. Students receive direct academic support including: Saturday academies, after school programs, test preparation, financial aid, counseling, parent counseling, and one-on-one mentoring.

- These programs are working. As one example, Display 9 depicts the results of a recent study which showed that UC EAOP participants were twice as likely to complete "a-g" college preparatory course work, as non-participants, after controlling for self-selection by students.
- In 2002-03 these programs served more than 100,000 students. These participants exceed peers in their schools in taking the SAT I and SAT II exams and enrolling at California public two-year and four-year colleges, and have higher persistence rates at UC than their high school classmates. In 2003-04, the number of students served dropped by 25% to 30% because funding for these programs was cut in half.
- We are working with the Department of Finance and legislative staff on an evaluation plan, which will provide further information about the effectiveness of these programs.

Capital Outlay

- Another critical element in providing competitive working conditions for the faculty is the quality of classrooms, laboratories and other facilities. Adequate facilities are indispensable to attracting high-quality faculty and giving thousands of students access to the outstanding education generations of Californians have come to expect from the University of California.
- I was very pleased that Proposition 55 passed last year and that the new Compact calls for continuation of that level of support for the University's capital program.

Conclusion

I want to end my remarks today by referring to a statement Alan Greenspan made a few years ago in reference to the cyclical nature of the economy. Mr. Greenspan said that he believed California's economy would bounce back and be highly competitive in the 21st century because this state has more research universities than any other. Our research and educational programs have been an engine for economic growth for decades and one of the reasons why California's economy is the 6th largest in the world.

It has taken many decades of cooperation between political and academic leaders to build the University of California into the world's best research university. Californians are justifiably proud of the University of California but this institution has been weakened during California's fiscal crisis. The new Compact gives us renewed hope.

We have begun a long-range planning process and have already identified three issues that are critical to the future of the University:

1. Restoring the quality of the educational program by raising faculty and staff salary levels to market rates, restoring student services, and improving the student/faculty ratio. The Governor's Budget is a small but important first step under the Compact that begins to restore some of the lost funding. We need your help in addressing more of our highest priority needs.

2. Providing access and affordability to an increasing number of high school graduates by securing adequate State support; setting fee increases that are modest and predictable; and providing financial aid so that qualified students, regardless of their financial circumstances, are able to attend. We have gone to great lengths to accommodate Tidal Wave II and we have enrolled more low-income students than other leading universities. We need your help in finishing the job.

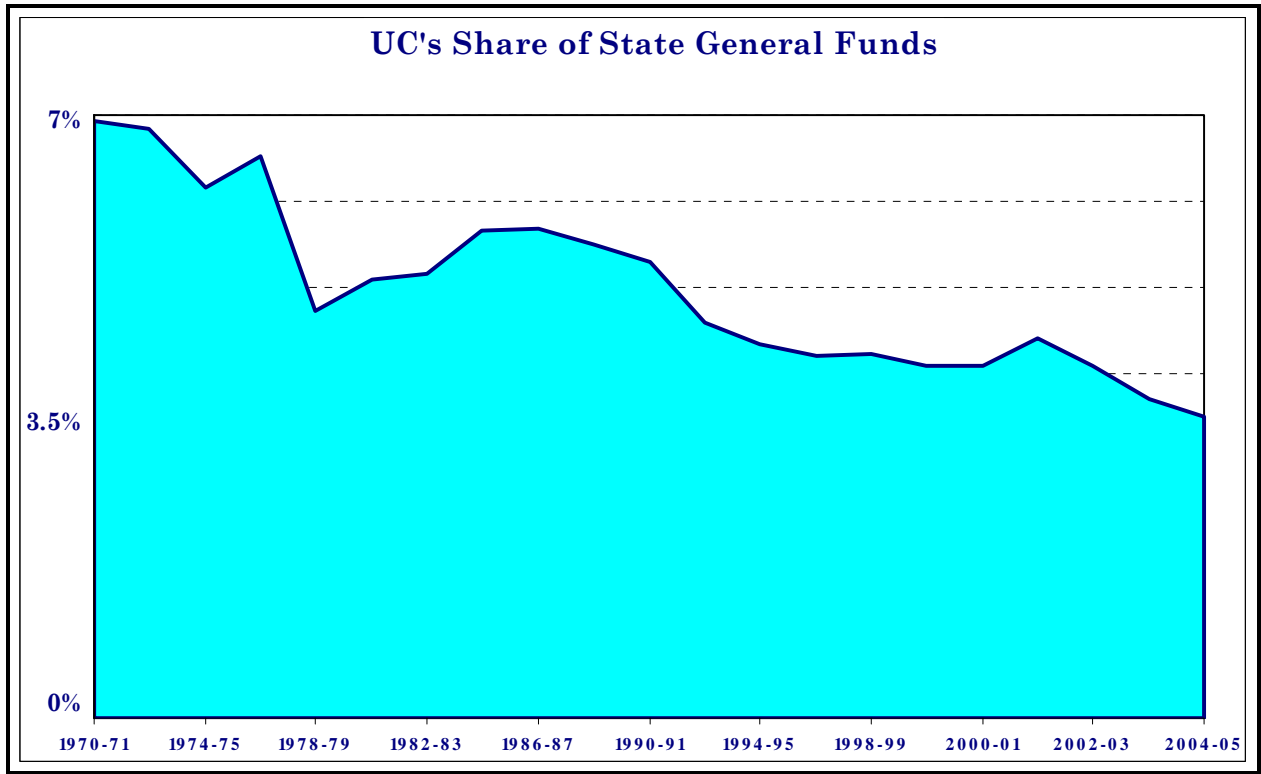
3. Increasing research and graduate student support so that the University can continue to provide the discoveries that fuel the industries which will drive competitiveness in a knowledge-based economy and produce the graduates who will fill their professional and managerial jobs. We will need your support in the years ahead as we strive to increase research funding, despite tighter federal budgets, and expand our graduate and professional programs, in spite of much higher tuition and fee levels.

This is the challenge that you in the Legislature and we in the University share. We owe it to this and future generations of Californians to ensure that we are making the investments necessary to maintain the quality of this great institution and to ensure California's economic strength for decades to come.

APPENDIX

**President Robert C. Dynes
University of California
Testimony before the
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Subcommittee on Education
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Display A



- This display shows how UC's budget as a share of the State's General Fund has changed over time.
- Our share has declined dramatically from 7% in 1970-71 to 3.5% in the current year.
- This is particularly problematic in an era when the University's enrollment growth is expected to increase significantly and the University will be attempting to regain its competitive position in terms of faculty and staff salaries and other core areas of the budget.
- This trend is inconsistent with the high priority placed on higher education by both the Governor and the Legislature since last year. The State should be investing a greater share of its funds in the University if we are to provide the high-quality educational opportunity that our students and their parents expect from UC, and thus make a greater contribution to California's economy and way of life.

Display B

**University of California
2005-06 Governor's Budget Proposal
State General Funds
(\$ in Millions)**

Operating Budget	
2004-05 State General Funds (revised)	\$ 2,708.8
Governor's Proposed Changes	
3% basic budget adjustment	76.1
Enrollment growth of 5,000 FTE (2.5%)	37.9
Merced (increases one-time funds from \$10 million to \$14 million)	4.0
One-time legislative augmentations to 2004-05 Governor's budget proposal	
Student academic preparation programs reduction	-17.3
Elimination of funds for labor research	-3.8
Annuitant health benefits	0.5
Total, 2005-06 Proposed Changes in State General Funds	\$ 97.4
Capital Outlay Budget	
General Obligation Bonds	\$ 305.2

- This display shows the elements of the Governor's proposal for the University's 2005-06 budget.
- The funding provided is consistent with the Compact between the Governor and the University and will be sufficient to support a 1.5% COLA plus merit salary increases for faculty and staff; funding for health benefit, non-salary, and other cost increases; funding for enrollment growth of 5,000 students, consistent with the University's long-term enrollment plan; and funding to continue recruitment and other start-up efforts needed to open the Merced campus officially in fall, 2005.
- The University is committed to seeking restoration of the reduction in one-time funds for student academic preparation programs. A task force currently reviewing accountability strategies for these programs will address concerns raised by the Administration and others about receiving sufficient information to demonstrate program and cost effectiveness of these efforts.
- The following full-page display shows the University's overall budget plan for 2005-06 as approved by The Regents in November, 2004.

Display C

**University of California
2005-06 Budget Request
(\$ in millions)**

2004-05 Operating Budget

Estimated State General Funds (excluding one-time funds and lease revenue payments)	\$	2,567.6
Estimated State and UC General Funds plus student fee income (excluding one-time funds and lease revenue payments)		4,367.6

PROPOSED INCREASES IN EXPENDITURES

(Based on the Compact)

Fixed Costs

Merit increases for faculty and staff (1.78% faculty; 1.5% staff)		46.8
Funding equivalent to an average 1.5% cost-of-living salary adjustment for faculty and staff		40.6
Funds to support health benefit costs plus parity and equity compensation for faculty and staff		23.7
Price increase for nonsalary budgets (2.25%)		20.6
Restoration of shortfall related to 2004-05 Professional School Fee Increase		5.0

Workload and Program Growth

Enrollment growth (5,000 FTE students)		
State funds		38.0
Student fee funds		29.0
Financial aid related to fee increases		30.1
Professional school funding		8.9
Maintenance of new space		16.0
Restoration of unallocated cuts related to Governor's proposed increase to the student-faculty ratio		10.0

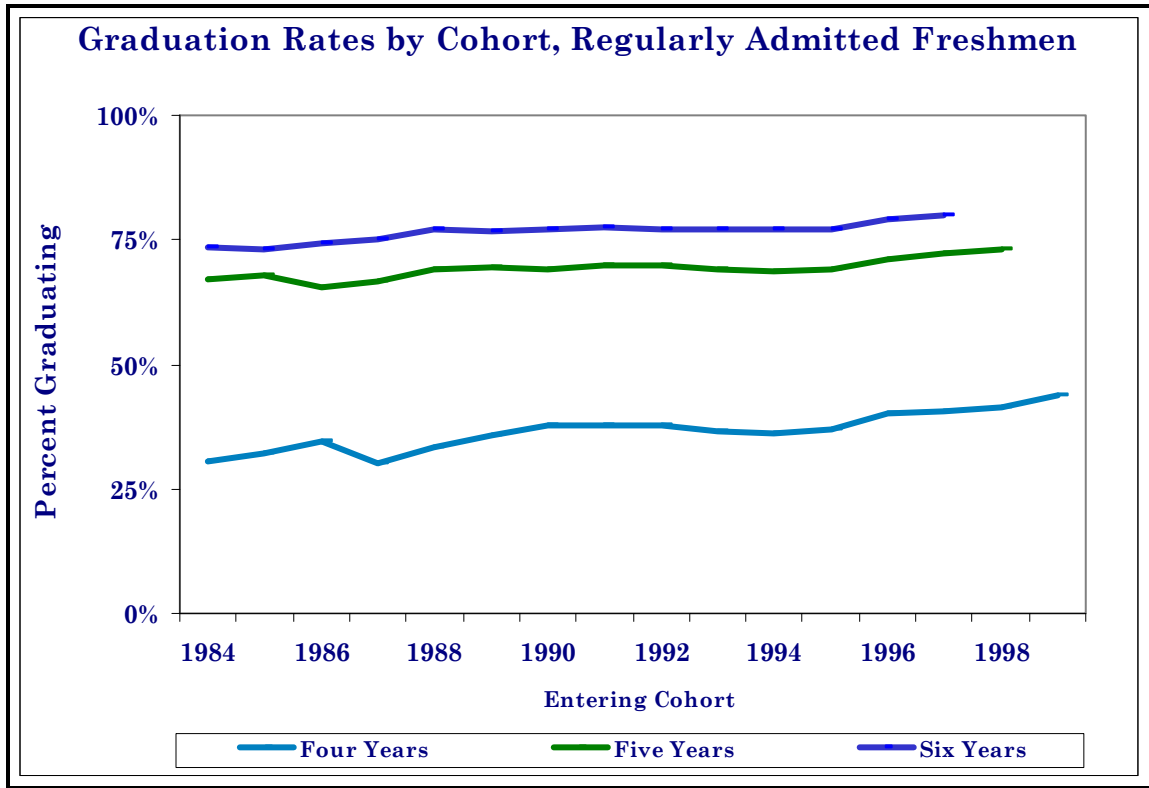
<i>Total Increase Under the Compact</i>	\$	268.7
<i>% increase in State and UC General Funds, and Student Fee Income</i>		<i>6.2%</i>

PROPOSED INCREASES IN INCOME

State General Funds (3% increase to the base, excludes debt service for capital outlay)		77.0
State General Funds for enrollment growth (marginal cost rate)		38.0
Revenue from an increase in mandatory systemwide student fees		100.8
Revenue from an increase in professional school student fees		8.9
Increase in fee income related to increase in enrollment		29.0
UC General Funds income (including 5.0% increase in undergraduate nonresident tuition)		15.0

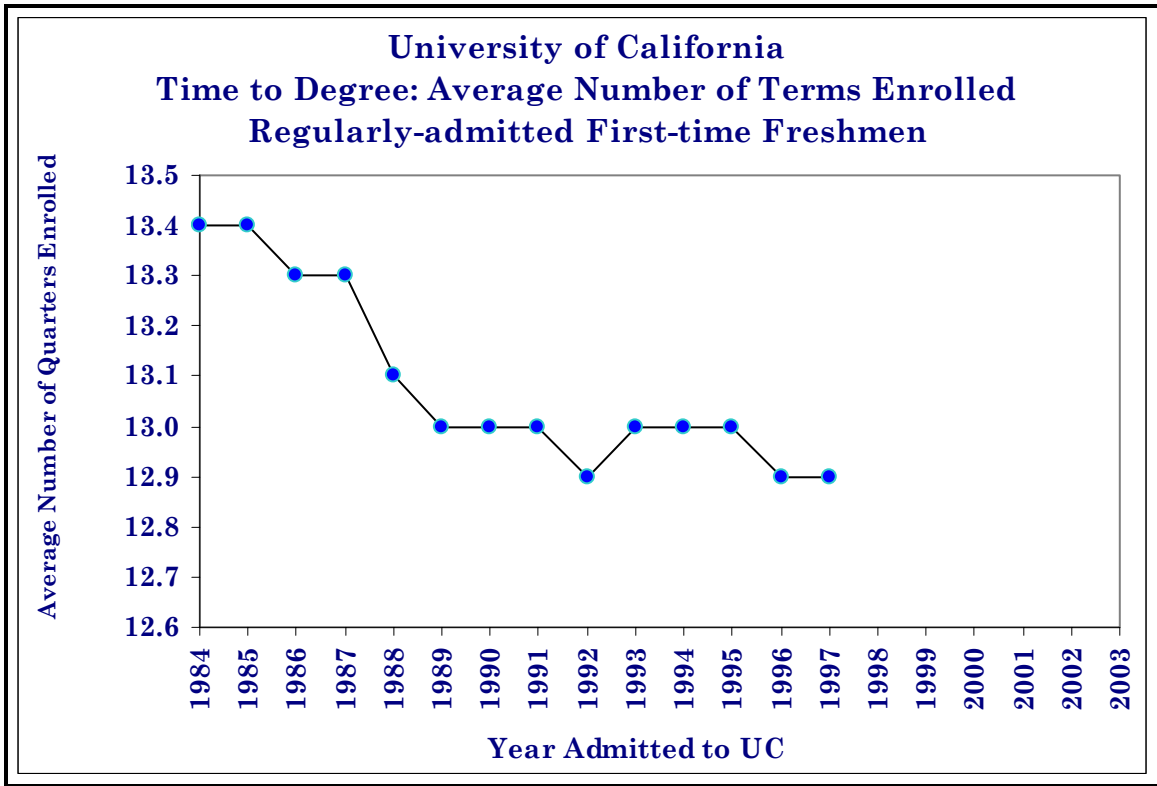
<i>Total Increase in State and UC General Funds, and Student Fee Income</i>	\$	268.7
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Display D



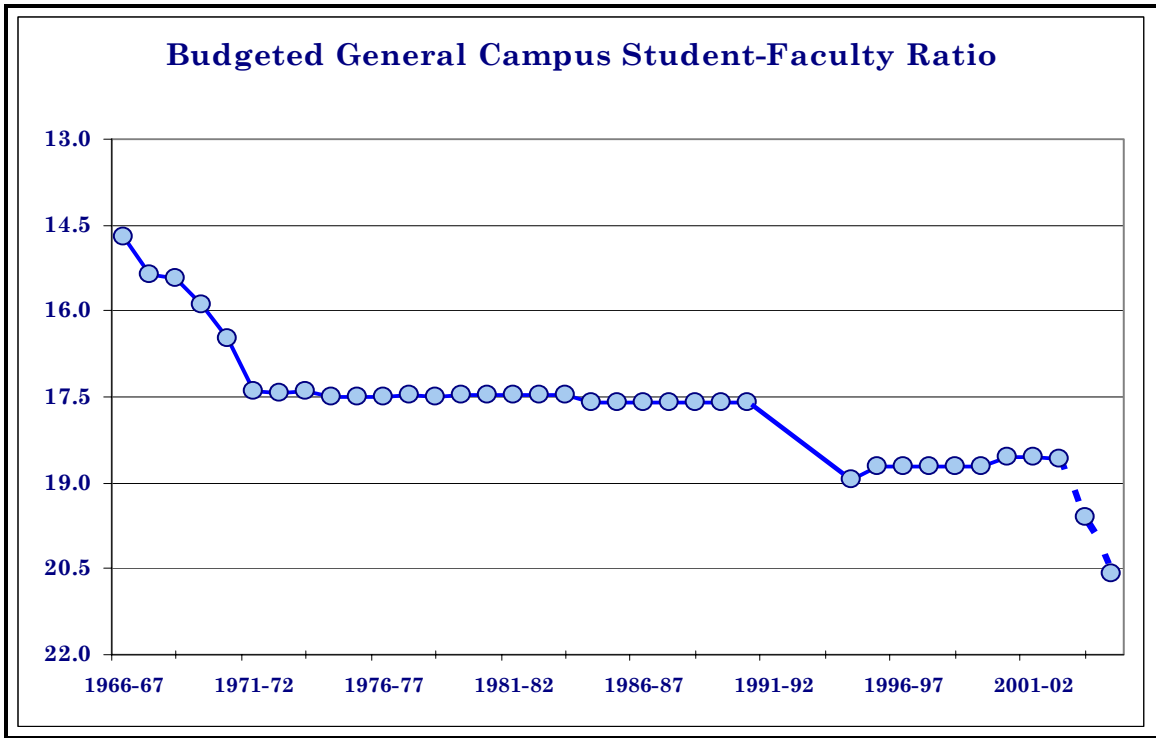
- The University is very proud of its excellent record of improving graduation and persistence rates and reducing time to degree among all students.
- In the 1950s, only half of the University's new freshmen graduated within six calendar years. Thirty years later, among freshmen regularly admitted in 1984, 31% graduated in 4 years, 67% in five years, and 73% in six years.
- Graduation rates continue to rise among more recent cohorts, as shown in the display above. Among freshmen who were regularly admitted in 1998, 42% graduated in 4 years; for the entering class of 2000, this rate has risen to 44%.
- Those who do not graduate in four years typically require only one more academic quarter to earn their degree. Of the 1998 entering freshman cohort, 73% received a BA degree within five years and 80% within six years.
- 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 nearly 92% of the 2002 cohort. Two-year persistence increased from 76% of those entering in Fall 1984 to 84% of those entering in Fall 2002 (the most recent data available).

Display E



- The University has decreased the amount of time it takes a student to complete an undergraduate program—the number of terms enrolled has dropped from 13.4 enrolled quarters for the 1984 regularly-admitted freshman class to 12.9 for the 1997 cohort (the most recent data available).
- 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.

Display F



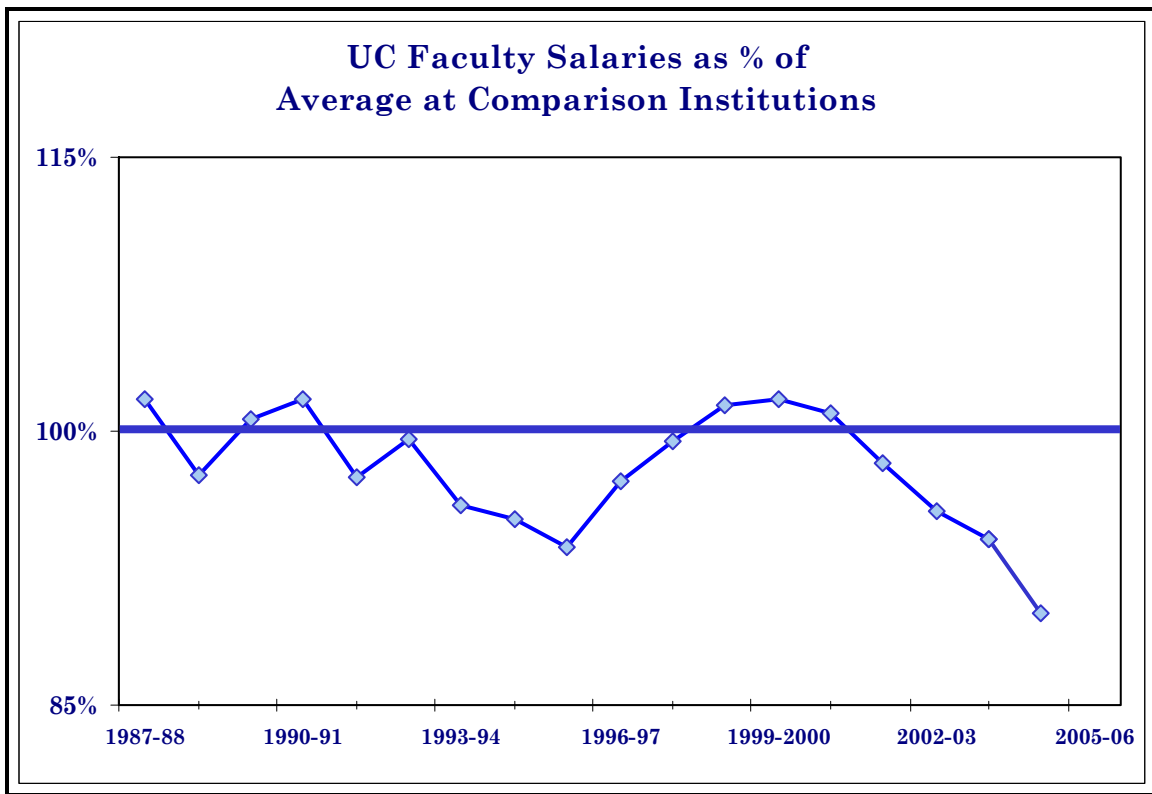
- Beginning in the mid-1960s, the University's budgeted student-faculty ratio was 14.5:1. In the early 1970s, it increased to 17.6:1, where it stayed for nearly 20 years. During the budget cuts of the early 1990s, it rose to 18.6:1.
- In 2003-04, the Governor's Budget included a \$34.8 million reduction in State funds targeted at increasing the University's student-faculty ratio; however, because of the high priority The Regents have placed on preventing further deterioration to the student-faculty ratio in order to preserve quality, 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. While these cuts have not been targeted as proposed, the reality is the unallocated reductions have been so steep that student-faculty ratios have increased and the educational program has been affected.
- Such budget reductions make it difficult for campuses to maintain levels of instructional support necessary to provide a high quality education. It is the long-term goal of the University to restore funds cut from the instruction budget and return to a student-faculty ratio of 17.6:1.
- At 18.6:1, the University's ratio compares unfavorably with our eight comparison institutions, where ratios average 17.0:1 at the four public comparison schools and 10.4:1 at the four private comparison schools. Further deterioration of this ratio places us in an even poorer competitive position.
- With funding provided in 2005-06 as part of the Compact, the University will commit \$10 million toward restoring instructional resources. These funds will be used to bolster the student-faculty ratio, improve instructional support, and acquire instructional technology.
- Improvement in the student-faculty ratio would permit the University to offer both smaller class sizes and a wider range of courses, allowing students to complete requirements and graduate more quickly. Having a sufficient number of faculty per student also increases opportunities for contact outside the classroom, through improved advising and undergraduate participation in research.

Display G

Domestic Undergraduate Headcount				
Fall 1980 - 2003				
	1980	2003	Change	Percent Change
	<u>1980</u>	<u>2003</u>	<u>Change</u>	<u>Percent Change</u>
African-American	3,474	4,846	1,372	39%
American-Indian	483	908	425	88%
Chicano	3,816	16,234	12,418	325%
Latino	<u>1,539</u>	<u>5,400</u>	<u>3,861</u>	<u>251%</u>
Subtotal	9,312	27,388	18,076	194%
Asian	10,700	45,401	34,701	324%
Filipino	1,304	7,515	6,211	476%
White/Other	68,200	64,643	(3,557)	-5%
Decline to State	<u>5,362</u>	<u>10,820</u>	<u>5,458</u>	<u>102%</u>
Subtotal	85,566	128,379	42,813	50%
TOTAL	94,878	155,767	60,889	64%

- We have made progress over the last 20 years in terms of the diversity of our student body, increasing the number of undergraduates from underrepresented backgrounds attending the University by 194%.
- Nevertheless, we understand this isn't enough. We share the commitment felt by many legislators and others in the University community toward improving educational opportunities for those from disadvantaged backgrounds.
- Unfortunately, funding for student academic preparation programs has been unstable for the last couple of years—and in fact was reduced by half in 2003-04—and now the Governor's Budget proposes further reductions for these programs.
- The University is deeply concerned about the level of cuts proposed for next year and is seeking restoration of the funds proposed for reduction.
- We are committed to working together with the Governor and the Legislature through this budget process to reach some agreement for continued support for these programs. This is a high priority for the University.
- The Regents recently adopted a resolution affirming their policy that improving student academic preparation is part of the core mission of our institution.

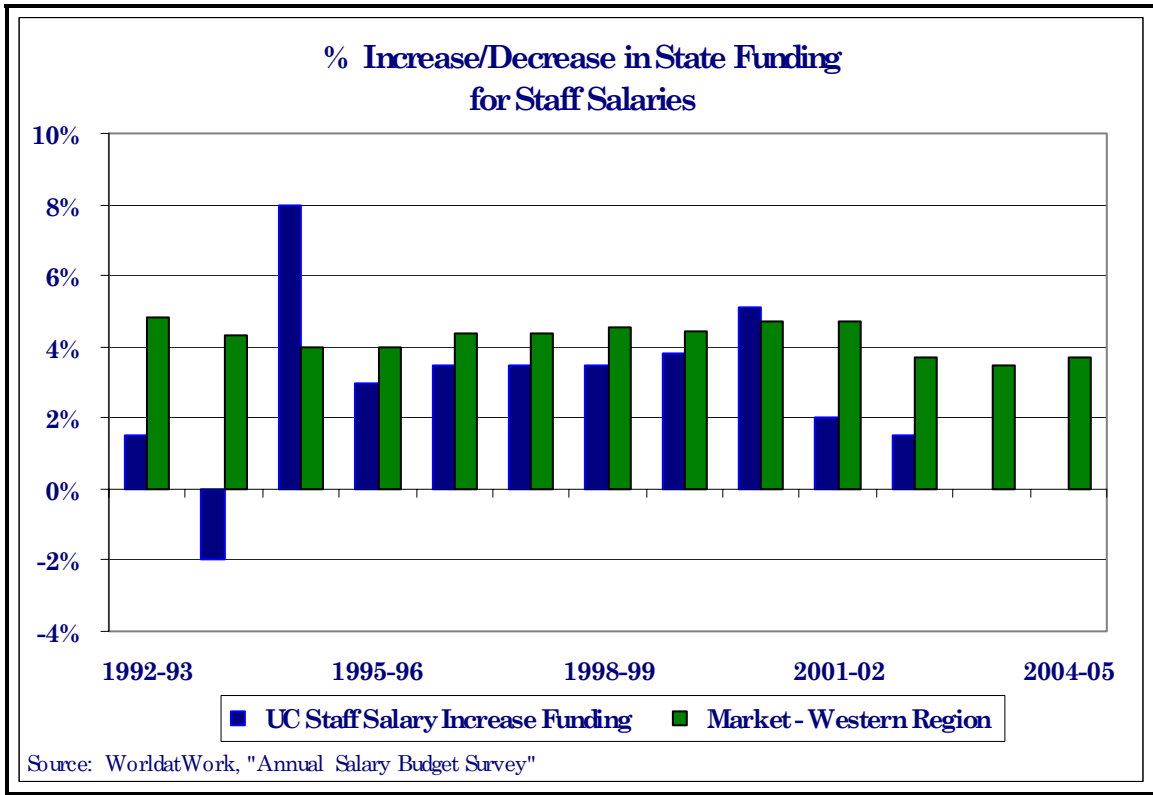
Display H



- One of the areas of greatest concern as a result of years of underfunding of the University's budget is the growing lag in faculty and staff salaries compared to the market. The University's goal has been to maintain market-based competitive salaries for its employees. 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, at least keep pace with inflation and the marketplace.
- The display above shows how faculty salaries over time have compared to the average salaries at the University's faculty salary comparison institutions, and illustrates the gap that has occurred in recent years, as well as the degree to which this gap increases, without funding for COLAs.
- Due to State budget cuts in 2001-02 and 2002-03, the University was unable to provide planned COLA and parity 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 either COLA or merit increases.
- The University instituted additional internal budget cuts in order to fund faculty merit increases for 2003-04 and 2004-05, but no employees received a general COLA and staff employees received no merit increases.

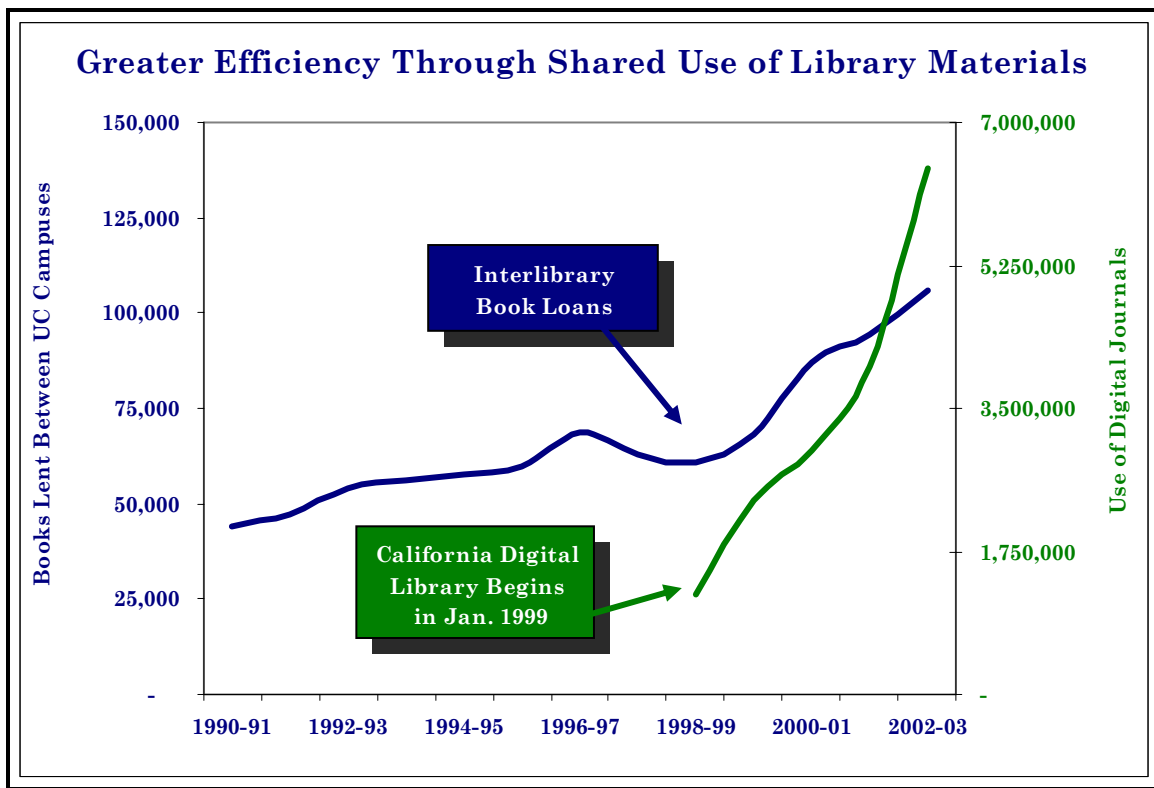
- As a result, faculty salaries currently lag the average of UC's comparison institutions by nearly 10%, based on the CPEC methodology for calculating this average. It is estimated that a similar problem exists with respect to staff salaries.
- It is impossible to overstate the critical nature of the 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 7,000 faculty during this decade to accommodate increases in enrollment and replace faculty who retire or leave for other reasons. Additional staff will also be needed.
- It is difficult to recruit so many faculty and staff even if there are no fiscal challenges. However, with a persistent inability to pay competitive salaries, the impact on the University's recruitment and retention efforts has been severe. In addition, the lag in competitive salaries is exacerbated by the high cost of housing in many of the University's campus communities.
- 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 quality is to be maintained.

Display I



- As noted above, the gap with respect to staff salaries presents a similar problem for the University.
- This display compares the annual salary increase funding for UC staff employees to market data from more than 800 employers of all sizes and industries, including the public sector, in the western United States.
- As the chart shows, market salaries have been increasing at approximately 4% per year, but funding for UC staff salary increases have not kept pace, both in the early 1990s and currently, as the State's fiscal crisis has prevented full funding of a normal workload budget. As a result of this crisis, UC staff have had no COLA or merit salary increases for 2 years.
- 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 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.
- The University cannot continue to accommodate all students wishing to attend and maintain its excellence unless sufficient resources are provided for faculty and staff salaries.

Display J



- The budget cuts stemming from California's fiscal crisis have resulted in salaries that are far below market, higher tuition and fees, and budget cuts that have affected the quality of the educational program. We have, however, looked for efficiencies in our operations to make more effective use of our limited resources.
- For example, Academic Support budget cuts have affected our libraries. But, we are taking advantage of being a multi-campus system and are utilizing technology to improve access to our library collections.
- The California Digital Library allows students and faculty from every campus to request articles from more than 7,000 journals available to UC scholars online. These articles are delivered electronically to the desktop, rather than by trucks driving between campuses.
- As shown in Display J, Interlibrary book loans have increased from 44,000 to 106,000. However, the electronic delivery of research journal articles has skyrocketed from 1.2 million to 6.4 million.
- The cost-effective California Digital Library has been a great success but there is an important lesson to be learned from this project: we are now reaping the benefits of investments in technology made in better times. The campuses have identified some other cost-saving measures that cannot be implemented because we do not have the resources to make the necessary up-front investments.

- We have also taken steps to streamline and reduce costs in our business operations:
 - Strategic Procurement Initiative: This initiative leverages our enormous buying power to lower costs from vendors. In addition to better prices, this initiative allows us to buy more efficiently and to monitor prices more closely.
 - Information Technology Procurement: The University has greatly expanded its coordination of computer hardware and software procurement, which will save our departments significant dollars each year.
 - Debt Restructuring: The University took advantage of historically low interest rates to refinance over \$1.1 billion in outstanding bonds for capital projects. This initiative will provide over \$40 million in present value savings in debt service over the next 32 years.

Display K

University of California and Public Salary Comparison Institutions Student Fees				
Public Salary Comparison Institutions 2004-05 Fees	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
University of Illinois	\$ 7,944	\$ 20,864	\$ 8,310	\$ 20,310
University of Michigan	\$ 8,722	\$ 26,941	\$ 13,585	\$ 27,311
State University of New York	\$ 5,907	\$ 12,167	\$ 9,455	\$ 13,265
University of Virginia	\$ 6,790	\$ 22,890	\$ 9,200	\$ 20,200
2004-05 Average Fees of Comparison Institutions	\$ 7,341	\$ 20,716	\$ 10,138	\$ 20,272
<i>2004-05 Average UC Fees</i>	<i>\$ 6,312</i>	<i>\$ 23,268</i>	<i>\$ 7,928</i>	<i>\$ 22,867</i>
<i>2005-06 Estimated Average Fees for Public Salary Comparison Institutions</i>	7,781	21,958	10,847	21,082
<i>2005-06 Estimated Average UC Fees assuming increases in systemwide fees consistent with the Compact*</i>	<i>\$ 6,769</i>	<i>\$ 24,589</i>	<i>\$ 8,556</i>	<i>\$ 23,517</i>

*Increases of 8% for undergraduate students and 10% for graduate students in systemwide fees; and 5% in nonresident tuition for undergraduates.

- Display K compares UC fee levels with the average of four public salary comparison institutions for 2004-05 and estimates fee levels for 2005-06, based on an 8% student fee increase for undergraduates and a 10% increase for graduate students, consistent with the new Compact with the Governor and approved by The Regents.
- As Display K shows, the University's average fees for undergraduate resident students are approximately \$1,000 less than the average fees charged at the University's four public comparison institutions.
- In addition, University fees for resident graduate students continue to be well below (about \$2,200) 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 undergraduate students; UC charges the lowest fees for resident graduate students 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 undergraduates 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 2004-05, the University's fees for nonresident undergraduate and graduate students are now higher than the average fees for the comparison institutions by more than \$2,500. As a result, the University's tuition and fees for nonresident students now rank second highest among these institutions behind the University of Michigan.

- For 2005-06, it is estimated that UC resident undergraduate fees will continue to be about \$1,000 below the average of public comparison institutions and graduate fees will be about \$2,300 below.
- The new 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 will 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 will have averaged 10% per year.
- For the period after 2006-07, the 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 that 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 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.

Display L

University of California				
Scholarships, Grants, and Fellowships				
by Fund Source, 2001-02 to 2004-05				
(\$ in Millions)				
	2001-02	2002-03	2003-04	2004-05
<i>UC Funds</i>				
Student Fees and State				
General Funds	\$ 256.4	\$ 262.7	\$ 380.4	\$ 414.3
Other University Funds	111.7	125.4	128.8	131.6
Subtotal	\$ 368.1	\$ 388.1	\$ 509.2	\$ 545.9
<i>Other Funds</i>				
Student Aid Commission	\$ 133.4	\$ 148.7	\$ 195.6	\$ 213.7
Federal	185.3	203.2	212.1	216.7
Private Funds	43.2	49.6	51.2	52.3
Total	\$ 729.9	\$ 789.7	\$ 968.1	\$ 1,028.5
<small>Note: Numbers for 2003-04 and 2004-05 are estimates; Student Fees and State General Funds are based on budgeted amounts.</small>				

- Financial aid is a major component in the University's ability to maintain access for needy students. We are very proud of our financial aid programs.

- By providing assistance through grants, loans, and work-study experiences, funded from UC, State, Federal, and private resources, the University can help ensure that the cost of attending UC is not a barrier for needy students. Nearly 50% of UC undergraduates receive grant/scholarship aid averaging approximately \$6,300 per student; about 61% of graduate academic students receive such aid averaging about \$10,000 per student.

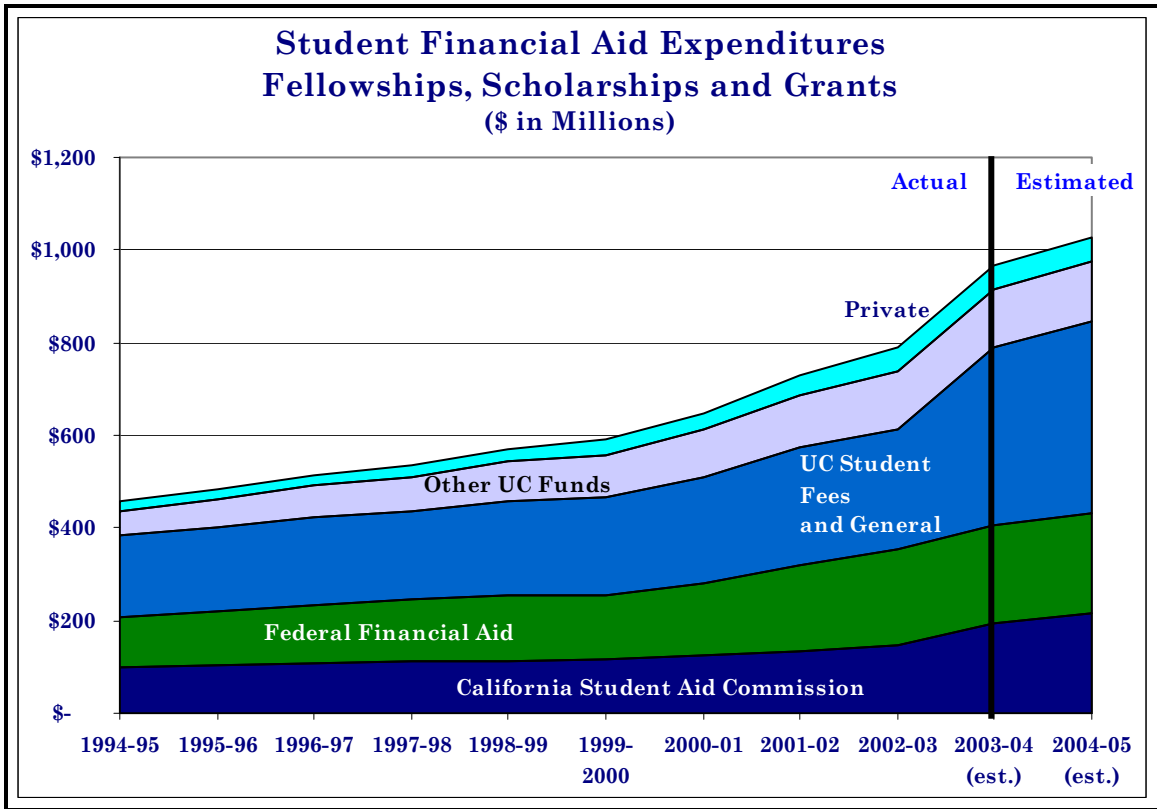
- To mitigate the impact of fee increases over the last three years, as well as increases in other educational expenses, the University used the equivalent of one-third of the fee revenue generated by the combined 2002-03 and 2003-04 fee increases and enrollment growth for financial aid. As shown in Display 17, these funds, in combination with an estimated \$80.3 million increase in Cal Grant funds awarded to UC undergraduates and an estimated \$60.4 million increase in other scholarship, fellowship and grant funds, raised the total estimated amount of gift aid for UC students over the three-year period by \$298.6 million, from \$729.9 million in 2001-02 prior to the fee increases to \$1,028.5 billion in 2004-05.

- 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. For future years, 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%.

- The University's review of financial aid needs indicates that it will be necessary to increase the proportion of additional fee revenue returned to aid above the 2004-05 level of 20%. Placing student support needs in the context of all of the University's competing budget priorities, the University is proposing a 25% return-to-aid to provide support for low-income undergraduate students and a 50% return-to-aid for graduate academic students for 2005-06.

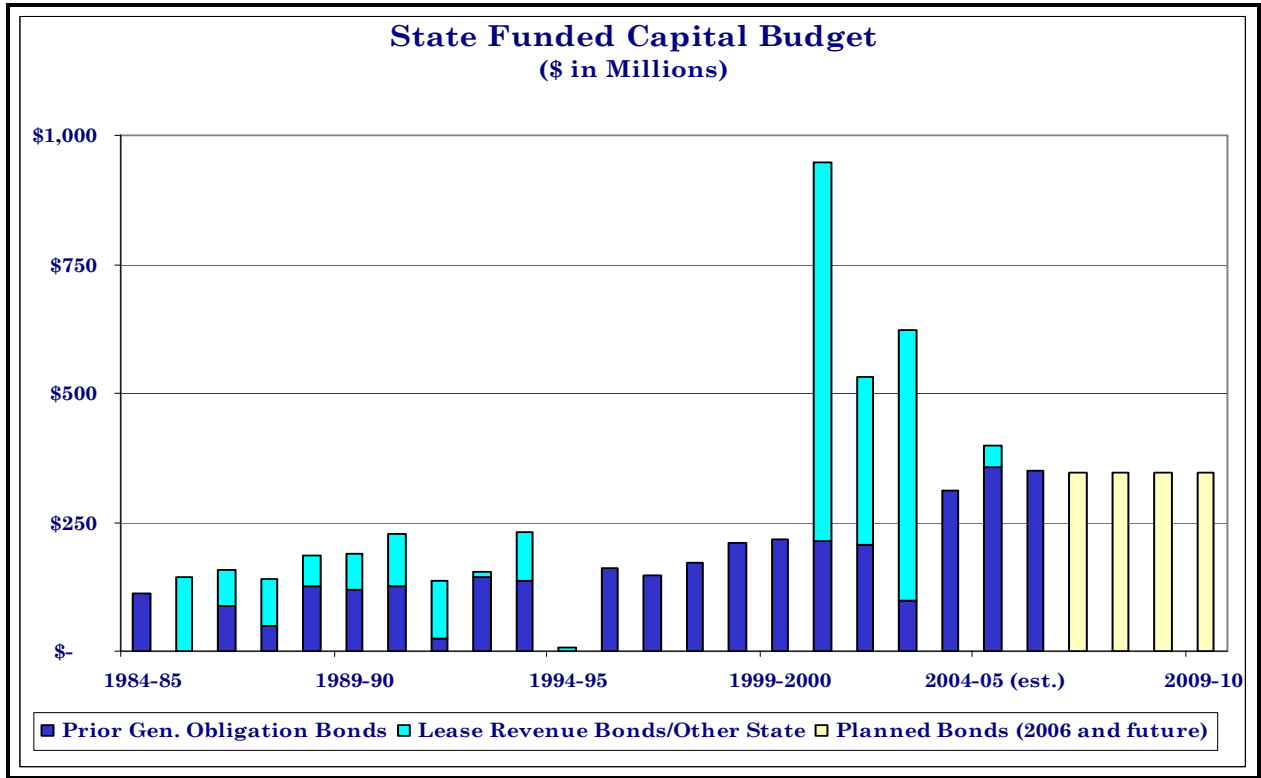
- The 25% undergraduate return-to-aid, together with funding provided through Cal Grants, is sufficient to cover the proposed fee increase as well as provide some assistance for other costs of attendance.
- The 50% return-to-aid for graduate students is sufficient only to cover mandatory systemwide student fee increases, including increases for those categories of students who receive waivers of their student fees, such as teaching assistants.
- 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.

Display M



- Display M shows the increases in grant aid from various fund sources since 1994-95. As indicated, fellowship, scholarship, and grant expenditures from all fund sources have increased dramatically over a ten-year period.
- This major increase in financial assistance has enabled us to maintain our outstanding record of enrolling low-income students, as shown in Display 8 on page 19 of this presentation, during a time when student fees have increased sharply.

Display N



- This display shows what has happened to the University's capital outlay budget over time. Historically, funding has fluctuated significantly.
- 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. The display also shows what happened in 1991-92 and 1994-95, when the voters defeated bond measures.
- Funding increased significantly in 2000-01 as lease revenue bonds were provided for a variety of projects, including \$600 million for hospital seismic safety and over \$300 million for the Science Institutes.
- Propositions 47 and 55, passed by the voters in 2002 and 2004 in combination with additional lease revenue bonds, has provided UC with an average of about \$345 million per year through 2005-06. The Compact with Governor Schwarzenegger includes a commitment to this level of funding through either GO or lease revenue bonds through 2010-11.
- The State funds only a portion of the University's capital needs. The University estimates it will need at least \$600 million per year in capital funding for core academic space, about half or more of which would be used for projects related to enrollment growth, and the other half for projects related to seismic and life-safety needs, infrastructure, and renovation of space that can no longer support the academic program. The University is making every effort to maximize other fund sources, such as private giving and Garamendi financing, to help meet capital needs.
- With planned levels of funding each year, the University estimates it will construct sufficient space to achieve 90% of the standards for instruction and research space set by the California Postsecondary Education Commission (CPEC space standards) by 2011-12. This level of support needs to continue throughout this decade and perhaps beyond.

DISPLAY O

- The 2-page display on the following pages shows the capital projects included in the Governor's Budget for 2005-06.
- The University's request for \$355.5 million from general obligation bonds for the 2005-06 State capital budget includes funding to equip 6 buildings previously approved for construction and for design and/or construction of 19 major capital projects. Funds are requested to support construction or complete design and undertake construction for 12 projects, and to begin or continue design on 7 projects.
- Of the 19 major capital projects, 2 address serious seismic and other life-safety hazards; 14 projects involve new buildings or renovation of existing space to expand instruction, research, and support facilities to accommodate enrollment growth; and facility infrastructure renewal or modernization is the focus of 3 projects.
- These are all high priority needs. Campuses work very hard to balance their capital needs among competing priorities, working within available resources. This is a major planning process on the campuses and we do our best to honor their priorities within the dollars we can expect to receive.

2005-06 BUDGET FOR CAPITAL IMPROVEMENTS

Display O

CCCI: 4328
EPI: 2649

<u>Priority Number</u>	<u>Cam-pus</u>	<u>Project</u>	<u>Prefunded (\$000)</u>	<u>2005-06 Budget (\$000)</u>	<u>Future Funding Requirements (\$000)</u>	<u>Total Project Cost (\$000)</u>
<u>Capital Equipment for Previously Authorized Projects</u>						
---	Irv	Computer Science Unit 3	PWC 31,822 C [12,798] LB	E 3,025 E [3,025] X	----	34,847 [15,823]
---	SC	Humanities and Social Sciences Facility	PWC 27,305	E 1,075	----	28,380
---	SD	Biomedical Library Renovation and Addition	PWC 16,303 C [771] X	E 695	----	16,998 [771]
---	SD	Student Academic Services Facility	PWC 21,592 PWC 3,129 X C [5,000] LB	E 504	----	25,225 [8,129]
---	SB	Snidecor Hall Office Wing Seismic Replacement	PWC 11,744 PWC [765] X	E 405	----	12,149 [765]
---	SD	Mayer Hall Physics Addition and Renovation	PWC 28,655	E 445	C 12,277	41,377 [1,206]
<u>Major Capital Projects</u>						
1	Irv	Engineering Unit 3	PW 3,440 C [8,591] LB	C 47,347	E 3,176 E [3,176] X	53,963 [11,767]
2	Riv	Materials Science and Engineering Building	PW 3,749	C 50,549	E 4,370	58,668
3	SC	McHenry Addition and Renovation Project	PW 5,063	C 33,782	WCE 40,361	79,206
4	Dav	Physical Sciences Expansion	P 2,235	WC 46,280	E [1,206] X	80,435 [1,206]
5	Berk	Doe Library Seismic and Program Improvements Step 4	P 1,110 PW [3,640] G	C 30,810 C [8,640] G		144,298 [12,100]
6	LA	Life Sciences Replacement Building	P 2,200 P [1,003] LB	WC 52,042 C [5,876] LB	C 16,080 C [13,118] LB E [1,311] X	70,322 [21,308]
7	SD	Music Building	PW 3,802	C 36,125	E 2,129	42,056

2005-06 BUDGET FOR CAPITAL IMPROVEMENTS

Display O
(continued)

CCCI: 4328
EPI: 2649

Priority Number	Campus	Project	Prefunded (\$000)	2005-06 Budget (\$000)	Future Funding Requirements (\$000)	Total Project Cost (\$000)
<u>Capital Equipment for Previously Authorized Projects</u>						
8	SF	Medical Sciences Building Improvements, Phase 2	PW 3,032	C 15,319	C 15,319	33,670
9	SC	Alterations for Engineering Phase 3	PW 389	C 4,161	----	4,550
10	Dav	Steam Expansion Phase 1	P [559] X	WC 10,483 C [1,520] X	----	10,483 [2,079]
11	Irv	Social and Behavioral Sciences Building		PW 2,850	CE 37,850 E [2,700] X	40,700 [2,700]
12	SC	Digital Arts Facility	P 1,330	W 888	CE 19,481	21,699
13	SD	Structural and Materials Engineering Building		P 3,067	WCE 68,095 E [4,000] X	71,162 [4,000]
14	Dav	Electrical Improvements Phase 3	P [488] X	WC 10,166 C [1,550] X	----	10,166 [2,038]
15	Riv	Environmental Health and Safety Expansion		PW 1,000	CE 10,964	11,964
16	Berk	Seismic Safety Corrections Giannini Hall		P 1,055	WC 21,153 C [2,336] X	22,208 [2,336]
17	Riv	Student Academic Support Services Building		PW 1,650	CE 17,730	19,380
18	SC	Infrastructure Improvements Phase 1		P 777	WC 7,326	8,103
19	ANR	Lindcove REC Laboratory Facility		PWC 1,030	----	1,030
TOTAL				355,530	276,311	