

**President Robert C. Dynes  
University of California  
Testimony before the  
Senate Budget and Fiscal Review Committee  
Subcommittee on Education  
March 27, 2006**

Chairman Scott, Senator Simitian, and Senator Margett, thank you for the opportunity to speak to you today. I realize you have many issues to address as you work through the budget process, and I appreciate the chance to review the University of California's issues and priorities for the coming year.

While our focus today is on the University's budget for 2006-07, I think it's important to place this discussion within the context of importance of the University to the state. I truly believe that California would be a dramatically different state without a strong University of California—both because of the impact we have on the lives and opportunities of individual students *and* because of the broader impact we have on people throughout the state.

Through its instruction, research, and public service programs, the University:

- educates more than 200,000 students per year and awards more than 55,000 degrees annually, thus helping to provide the workforce needed by business, industry, education, and other sectors;
- conducts research that fuels the economy;
- creates jobs and increases productivity, leading to higher standards of living;
- provides an unmatched combination of state-of-the-art patient care facilities and path-breaking research programs, which are integrated with medical education programs to improve the health of Californians;
- works with K-12 schools to improve the quality of instruction and expand educational opportunities;
- is a key source of innovation and entrepreneurs, which are essential to the industries that will continue to drive California's competitiveness; and
- provides social, cultural, and economic benefits to the communities in which its campuses reside.

The role that higher education in general, and UC specifically, plays in the economic development of the state is critical to the future of all Californians. California historically has been at the forefront of international economic development, having been the birthplace of leading industries in the last century. Now, as one of the top ten economies in the world, California is shifting at an ever-increasing rate to a knowledge-based, highly skilled, technology-rich economy. But the global economic competition is increasing dramatically. Maintaining and enhancing our competitive edge will require that we as a state keep up with industry's demand for a more highly educated workforce and for basic research that creates new knowledge and leads to economic investment and jobs. By providing a world-class education to both undergraduates and graduate students seeking to expand the frontiers of knowledge, UC can help meet the state's workforce and research needs, and thus help drive its economic engine.

And yet, until the current year, the State has been disinvesting in higher education in recent years – at the very moment that other nations have been increasing their competitive position by investing in their educational and technical capacity. At UC, the effects of long-term disinvestment may be obscured by the fact that we continue to admit all eligible undergraduate students who wish to attend, continue to offer outstanding programs, and continue to construct new buildings. The reality is that the University of California is doing these things under the pressure of a number of serious challenges:

Per-student funding to the University has fallen 40% in constant dollars over the last 20 years. Over the first four years of this decade, the University lost 15% of its State-funded operating budget. Many of our programs, from research to Cooperative Extension, along with our student-faculty ratio, have taken serious budget cuts in recent years and not been restored. And we are far behind where we believe we need to be to serve California well in terms of the numbers of graduate students we enroll, especially but not only in the health sciences.

The Regents have put forward a budget proposal for the coming year that addresses these issues in a constructive way, recognizing the fiscal constraints still upon the State but proposing the investment of resources in a way that will continue strengthening the University's ability to meet the needs of Californians. We are looking forward to a year in which our enrollments rise to

continue meeting demand at both the undergraduate and graduate level; a basic increase is provided to cover our inflationary costs and stop the erosion of our faculty and staff salaries relative to the competition; and funding is provided to meet our capital needs for enrollment growth and earthquake and life safety.

Let me also note that we've had two hearings of your Senate Committee on Education, Senator Scott, on the issues circling around executive compensation policies and practices in the University. I do not want to belabor the points made in those hearings in this discussion today, but I do want this subcommittee to know we have admitted shortcomings in the way we have done business, and we are taking a number of actions to ensure those shortcomings are not repeated in the future. Among other things, we have:

- launched an external audit of the compensation of our senior managers over the last 10 years;
- commissioned a distinguished task force to recommend changes to our compensation policies and practices;
- adopted new controls over separation agreements and exceptions to policy;
- established a new committee of the Regents to provide oversight of compensation;
- begun a review of the organization of the Office of the President to ensure its management capacity meets the modern needs of the University;
- and cooperated fully with the State audit of our compensation policies and practices.

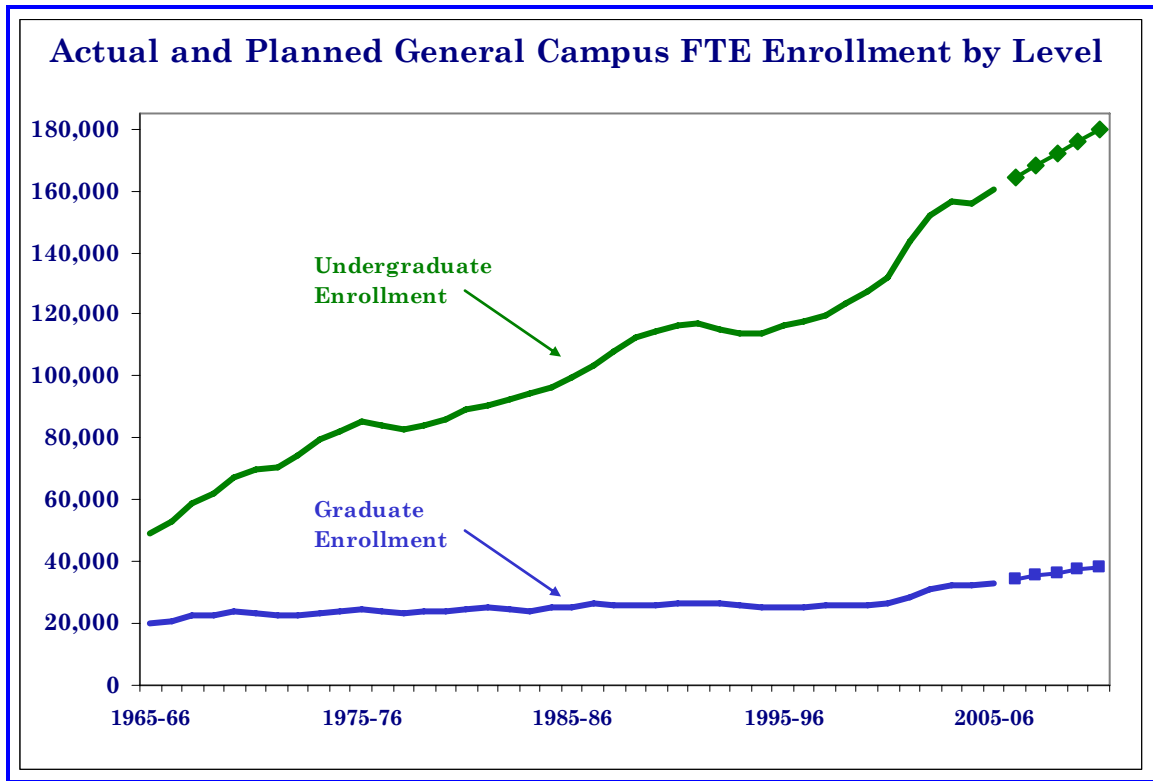
As I have said before, I believe the University of California will emerge from this as a national leader in how one can have a great public research institution *and* meet the highest standards of public accountability at the same time. We look forward to working with you in that endeavor.

Now, turning to our budget, we have compiled several graphics and remarks that speak to issues your committee will be addressing – including the contributions the University makes to the state, the circumstances under which we've been operating in recent years, and how the 2006-07 budget can enhance what we do for California. 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, and you can review them at your convenience.

Please turn to Display 1.

## More Californians Will Want A College Education

*Display 1*

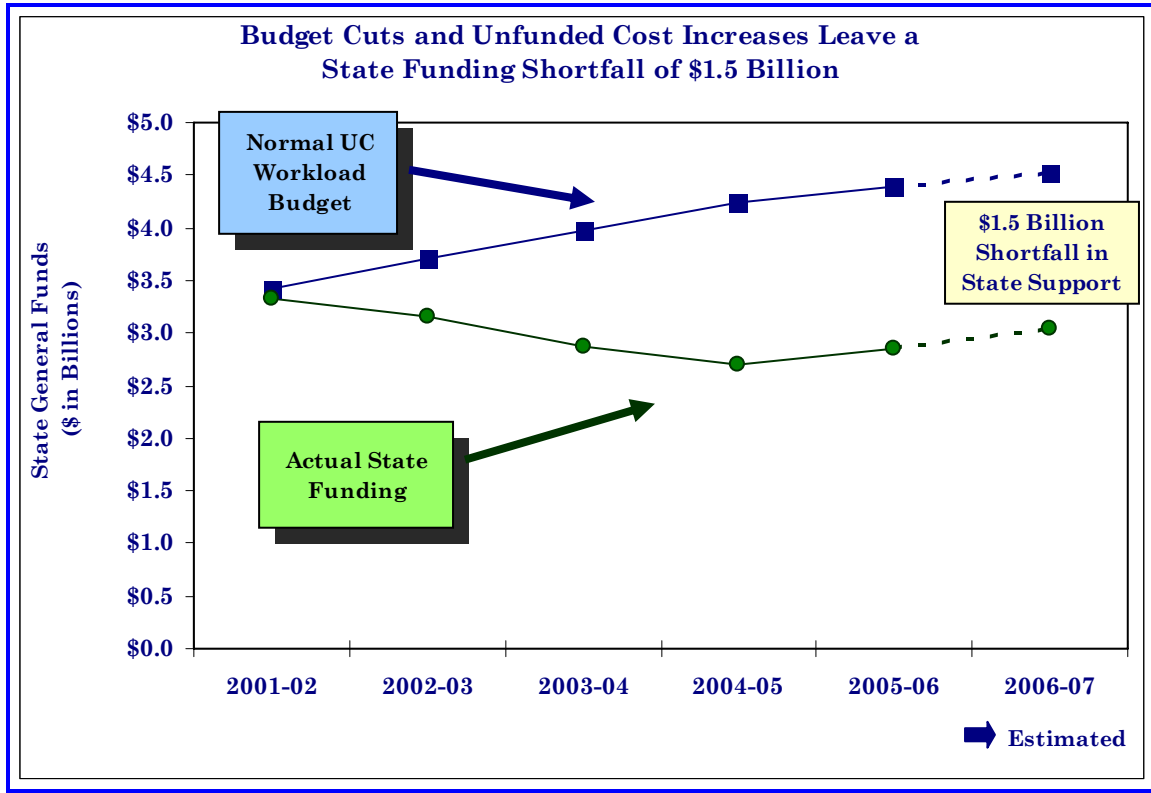


- The University of California's most recent enrollment plan assumed growth of about 5,000 per year through the end of this decade.
- We grew at an even faster rate for several years, but we have now returned to the plan.
- Most of the growth over the last two decades has occurred at the undergraduate level; there were many years when we had virtually no growth at the graduate level.
- 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.
- Graduate students and faculty create the innovations that lead to new jobs and businesses throughout California—in fact, many new companies and whole industries have been started by UC alumni trained in our graduate programs.

- We have programs already underway to expand our medical school enrollments (through PRIME programs training new doctors to be better prepared to practice in medically underserved communities), and nursing programs to both increase the number of students graduating with BA degrees in nursing as well as increase the number of students graduating with MS and Ph.D. degrees to help meet the needs of our nursing programs for faculty.
- While the University has met and currently exceeds the Master Plan goal of 60% upper division to 40% lower division for its undergraduates, we believe continuing to increase the number of community college students who transfer to UC is important and therefore are working with the California Community Colleges to improve the ease of transfer and increase the number of CCC students who prepare for and come to the University.
- To facilitate this, significant progress has been made in terms of articulation of courses with the Community Colleges:
  - All UC campuses except Merced have established articulation agreements with each of the 109 CCC campuses—Merced has 94 agreements;
  - Each UC campus has articulated more than 50 high-demand majors on average with all 109 CCC's.

# State Support for UC Has Been Declining

Display 2



- 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 grew by 19% while our budget was 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

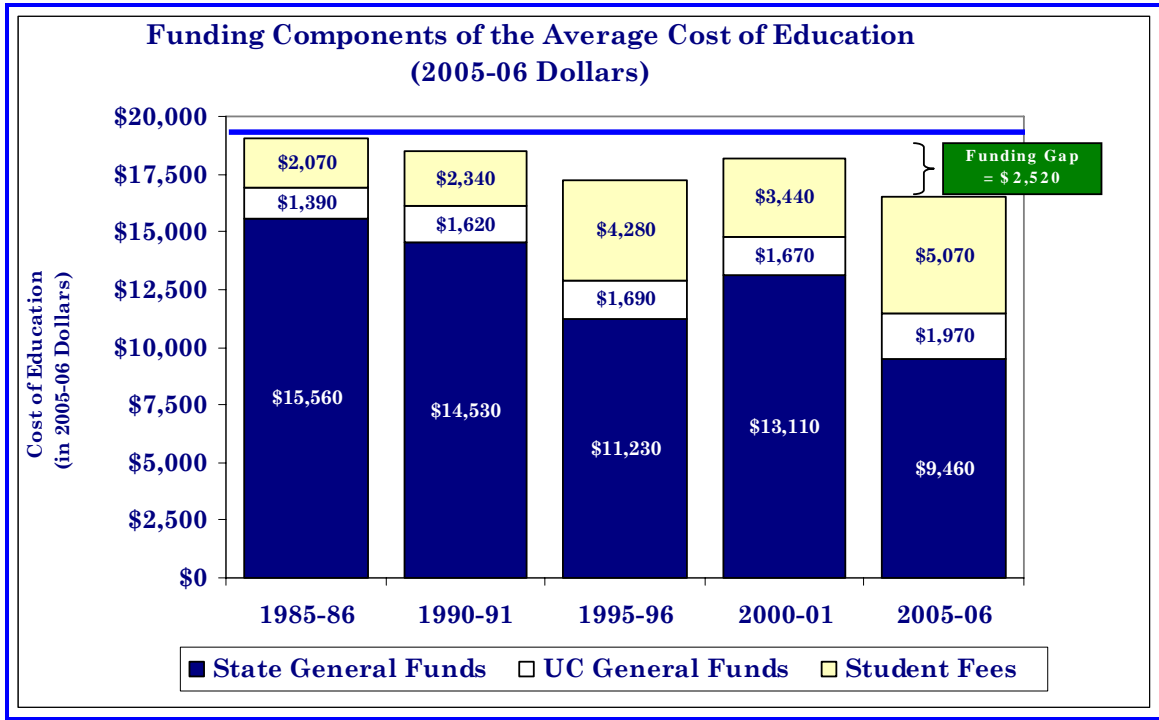
Faculty salaries are approximately 10% below market; health benefit costs are skyrocketing; utility budgets are underfunded due to higher energy costs; maintenance backlogs continue to grow; no funding was provided for maintenance of new space; non-salary price increase was not funded.
- We have looked 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 3*

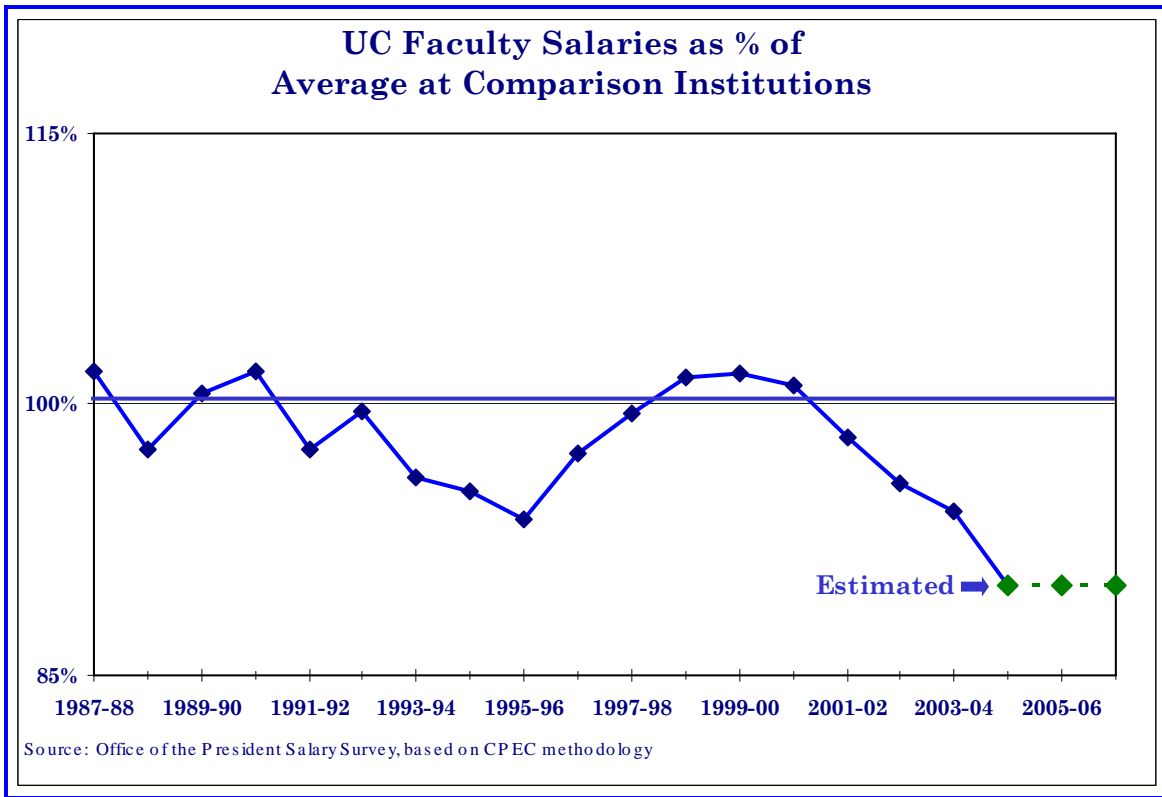


- This display shows a decline of 40% in the State’s investment in UC’s instructional programs has occurred in the last 20 years (in constant dollars); student fees have only made up a portion of that decline, leaving a gap of about \$2,500 per student. The gap totals approximately \$500 million, even with the added student fee revenue.
- Display 3 makes several points.
  - The average expenditure per student for a UC education has declined. In 1985-86, the cost to educate a UC student was approximately \$19,020 in 2005-06 dollars. Over 20 years, funding per student in inflation adjusted dollars declined by 13.5%, from \$19,020 in 1985-86 to \$16,500 in 2005-06, resulting in a funding gap of \$2,520 per student.
  - The State subsidy per student for the cost of a UC education has declined significantly—by 40% over a 20-year period. In 1985-86, the State contributed \$15,560 per student—82% of the total cost. By 2005-06, the State share declined to \$9,460, just 57%.
  - As the State subsidy has declined, the share students pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1985-86 students contributed 11% toward their education, they currently pay 31% of the cost of their education.

- Just looking at basic instructional costs (including overhead), the funding gap that has developed since 1985-86 is \$2,500 per student. With 200,000 students, that represents lost support totaling \$500 million.
- Student fee increases have helped maintain quality during times of fiscal crisis, but have not fully compensated for the loss of State funds.
- Under better circumstances, if the State subsidy had not declined, student fees would have remained low.
- While fees have increased, the University has provided significant increases in financial aid to help ensure access for low-income students. UC has maintained affordability for lower-income students by maintaining a strong financial aid program.

## Faculty Salaries Have Not Kept Pace with Comparison Institutions

*Display 4*



- One of the areas of greatest concern resulting from years of underfunding of the University’s budget is the growing lag in faculty and staff salaries compared to the market. Currently, we estimate faculty and staff salaries continue to be about 10% below market.
- The salary funding provided in the current year and proposed for next year is only sufficient to prevent that gap from worsening.
- 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.

- 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.

## The University's Budget Principles Under the Compact

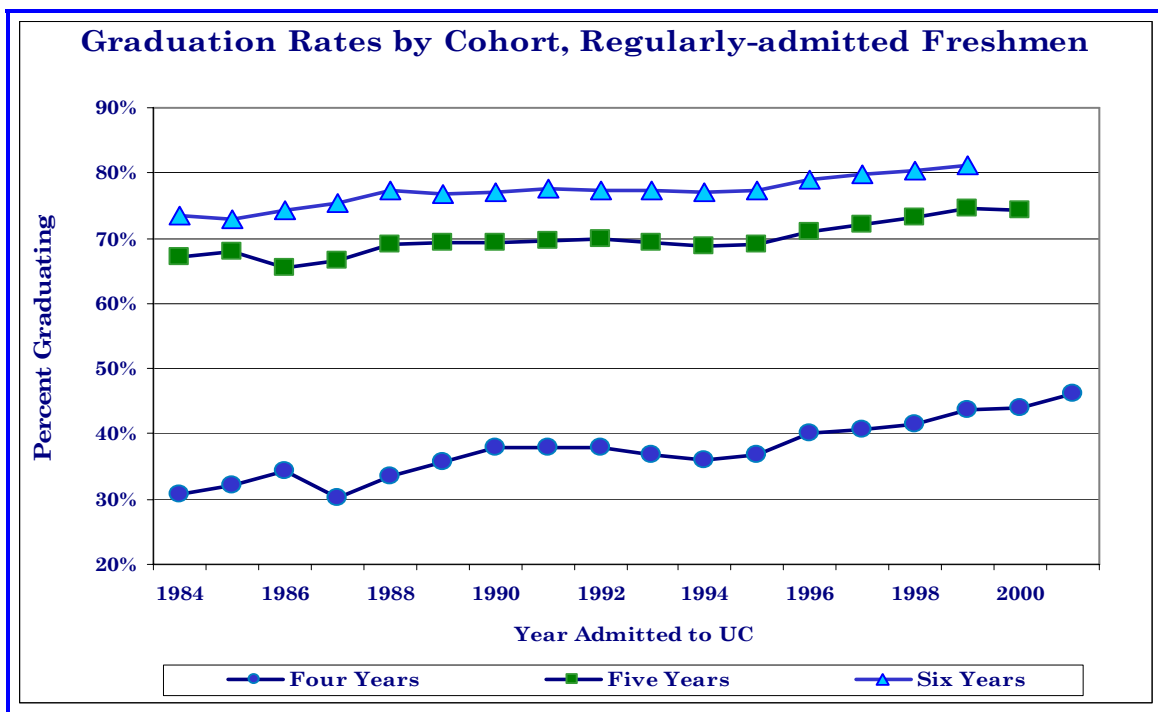
Recognizing the cumulative impact of four years of budget cuts, the University has established a set of budget principles and priorities for the next several years. We are committed to these principles, if the State provides adequate support, including restoring competitive salaries, maintaining access, keeping student fee increases moderate and predictable, expanding our graduate programs to meet state workforce needs, improving our student-faculty ratio, working with K-12 and others to help close the educational opportunity gap that exists in our state, and maintaining and enhancing our research programs that help fuel the state's economy.

Summarized below are the principles adopted by The Regents:

- 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 Achieving Positive Outcomes – Graduation Rates Have Been Increasing Steadily

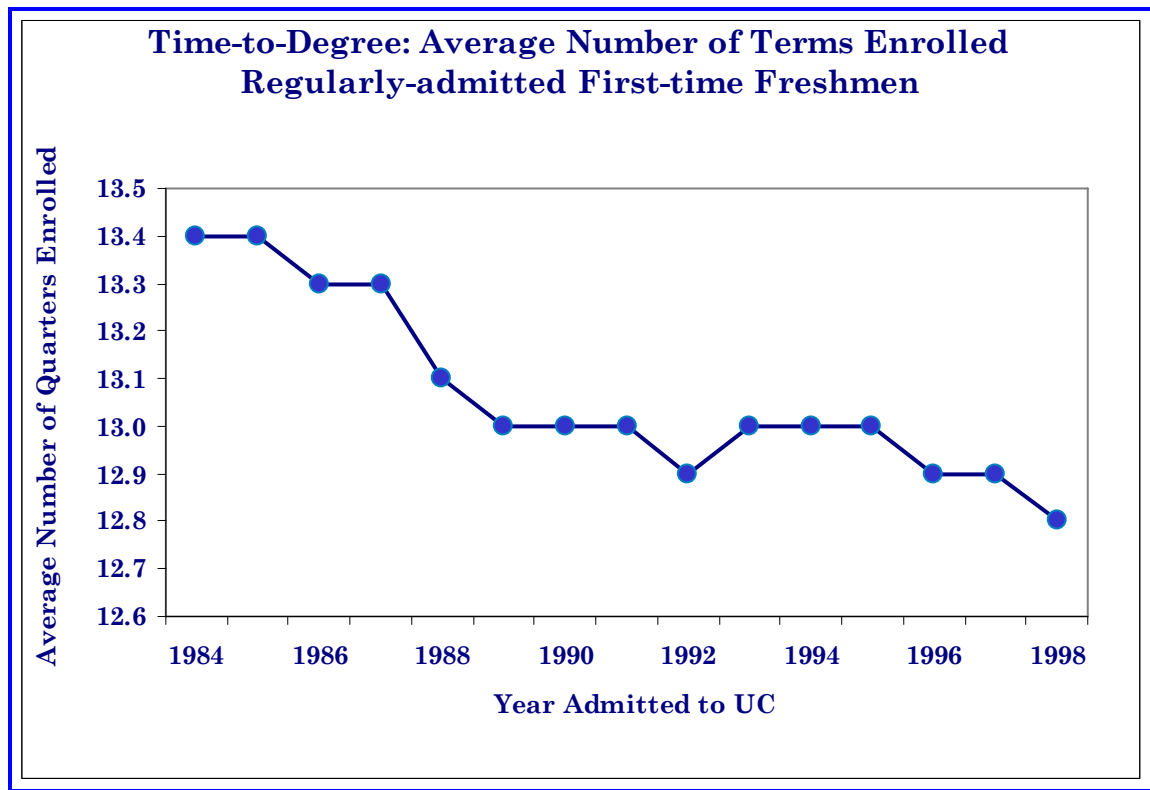
*Display 5*



- The University is very proud of its excellent record of improving graduation and persistence rates and reducing time to degree among all students, as Displays 5 and 6 show.
- 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 2001, this rate has risen to 46.3%.
- 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).

## UC is Achieving Positive Outcomes – Time to Degree is at an All-Time Low

*Display 6*



- 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 12.8 for the 1998 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.

## UC is Achieving Positive Outcomes

UC recently reported on performance measures that have traditionally been high priorities for the state. We are very proud of our accomplishments. We've listed some of the highlights from the report on this page, including information on degrees conferred, transfer, summer enrollment, etc.

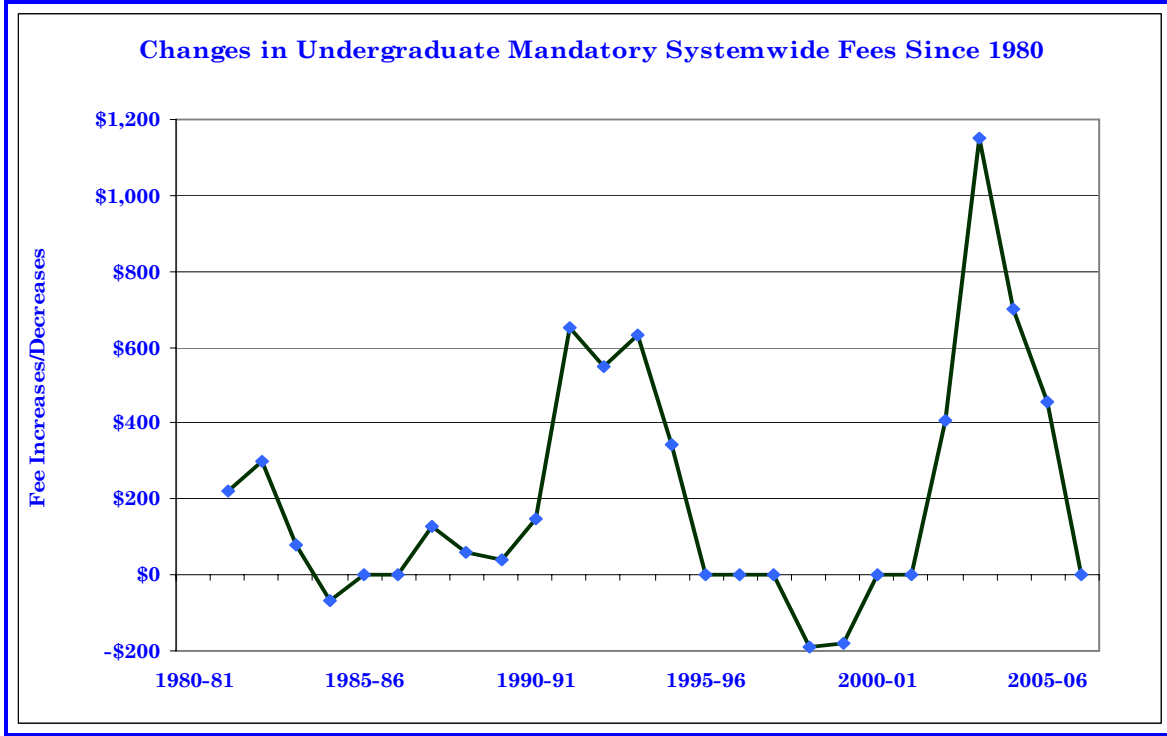
Among the highlights from that report are the following:

- **Degrees Conferred:** In 2004-05, the University awarded more than 54,000 bachelor's, master's, doctoral, and professional degrees.
- **Growth in Bachelor's Degrees:** The number of bachelor's degrees has grown 18% in four years to nearly 41,000 degrees awarded.
- **Math, Science and Engineering Degrees:** One-third of bachelor's degrees and nearly 60% of doctoral degrees were awarded in math, science and engineering.
- **Graduation Rates Continue to Rise:** Four-year graduation rates for freshmen have improved every year since 1994, rising from 36.1% to 46.3% for students who entered in 2001. Transfer students have shown similar improvement.
- **UC Exceeds the National Average:** 80% of UC's entering freshmen earn degrees within six years, compared to a national average of 58% among freshmen at four-year institutions.
- **Time-to-Degree Shortening:** UC students are completing their degrees at a faster pace. Average time to degree at UC is has dropped from 13.4 for students who entered in 1984 to 12.8 quarters for 1998 freshmen (where a four-year degree equals 12 quarters).
- **Facilitating Transfer:** To help students navigate the transition from community college, all UC general campuses have established articulation agreements with each of the 109 California community colleges (except newly-opened Merced, which has 94 agreements).
- **Summer Enrollment:** Enrollment in summer instructional programs has nearly doubled since 2000, when UC began converting summer to a State-supported operation. UC students are using summer to speed time-to-degree.
- **Faculty Honors:** Currently, 52 faculty and researchers affiliated with UC have won Nobel Prizes, including 19 since 1995; 54 UC faculty and researchers have won the National Medal of Science; and UC has 253 members of the National Academy of Sciences, more than any other university in the nation.
- **Patents and Licensing:** UC research contributes to the economic prosperity of California. In 2003-04, nearly 1,200 inventions were reported by faculty and researchers at UC campuses, or an average of more than three each day. UC has received more patents than any university in the world, and earned \$79 million in royalty income in 2003-04.



## While Changes in Undergraduate Student Fees Have Varied Markedly Over 25 Years, Recent Increases Have Been Dramatic

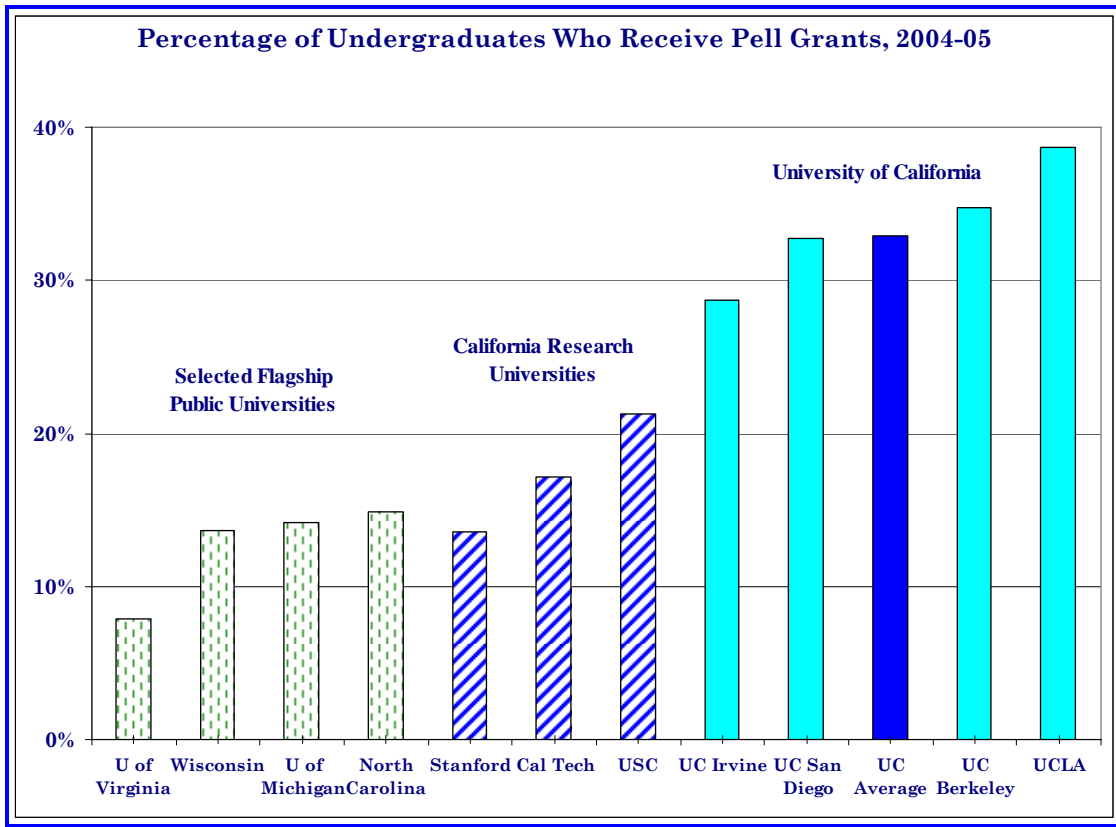
*Display 7*



- The Governor has proposed buying out the fee increases we were prepared to implement for 2006-07. Speaker Nunez and many other legislators have voiced their support for this proposal.
- Such a buy-out would be very welcome by our students and their parents, particularly given the significant increases that have occurred in recent years (66% between 2001-02 and 2004-05). We hope you are able to support the Governor's proposal.
- This display shows the annual *change* (increase or decrease) in undergraduate student fees over the last 25 years.
- In some years, fees didn't increase at all or actually decreased. In other years, there were significant increases, such as in the early 1990s and again more recently, reflecting the fiscal crises impacting the State at the time.
- We have had a long history of strong financial aid programs. While sharp fee increases have occurred over the last few years, more financial aid has been provided in order to maintain access for low-income students.

## UC Is Committed to Providing Access to Low-Income Students

*Display 8*



- The success of the University’s financial aid program 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 2006-07 Budget Proposals**

- The Governor's proposed 2006-07 budget 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 5,279 additional students in accord with the University's enrollment plan;
  - buys out proposed student fee increases, as mentioned earlier;
  - provides the remaining increment of funding (\$375,000) for resource centers needed to implement the Science and Math Initiative;
  - continues \$14 million in one-time funds needed for faculty recruitment and start-up expenses at UC Merced;
  - continues the current funding level of \$345 million 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 two issues related to funding *not* included in the Governor's proposal that are high priorities for the University as well as the Legislature – that is, \$17.3 million in funding for Student Academic Preparation Programs, and \$2.9 million in funding for labor research.
  
- Adequate funding for Student Academic Preparation is among the University's highest priorities. I'll talk more about this in a minute.
  
- Funds requested for labor research would be restricted solely to research. In response to concerns raised by the Administration and others, we have restructured the program so that public service and training activities would be funded from other sources.
  
- We intend to work with the Legislature and the Governor throughout the budget process to try to restore these funds.

## **Student Academic Preparation Programs are Proving Effective**

- The University worked with the Administration and legislative staff to develop a new framework for accountability to measure the effectiveness of each program within our Student Academic Preparation and Education Programs (SAPEP).
- We provided a preliminary report in November that shows early results and will provide a final report in April.
- We believe these programs are very effective.
- We hope the April report provides a sufficient basis for reaching agreement between the Legislature and the Governor on continued funding for these programs.
- Early results from the November report include the following:
  - Program participants – in both cohort and school wide programs – are prepared for and succeeding in college preparatory ('a-g') courses. For example, 94% of EAOP students were considered on-track or borderline on-track to completing 15 'a-g' courses (the minimum necessary for students to be college- or career-ready) compared to 62% of non-EAOP students.
  - Data on the Class of 2005 show high college-going rates. Between 51% and 79% of EAOP, MESA, and Puente students enroll in a 2- or 4-year college in the fall semester following high school graduation.
  - More students are passing the high school exit exam (CAHSEE). For example, at three Los Angeles Unified School District high schools that participated in UCLA's K-20 Regional Intersegmental Alliance, the CAHSEE-English passage rates of 10th graders increased from an average of 21% in 2002-03 to 45% in 2004-05.
  - Research on and evaluation of SAPEP programs far exceeds the assessment of even large federal programs, and the findings for SAPEP programs are empirically based and statistically significant.
  - The cost per participant of most of the SAPEP programs is substantially less than the cost per participant of comparable federally funded programs.

## Capital Outlay

- Adequate facilities are a critical factor in the University's ability to accommodate the rapid growth of students occurring during this decade and maintain the quality of the academic program.
- The Governor's Budget includes a proposal for bond financing over the next 10 years that would provide the University with \$345 million per year (adjusted for inflation in the second five years of the plan), which continues the level of capital funding provided in recent years as agreed to by the Governor and the Legislature.
- These funds are critically needed to not only help accommodate enrollment growth, but also to address seismic and life-safety needs, modernize aging and obsolete facilities that can no longer support the academic programs they house, and provide adequate infrastructure for the University's buildings.
- The \$345 million per year proposed by the Governor meets only half of the University's identified State-supportable capital needs. We are doing our best to use other resources to help meet our needs. But, State funds are critical and we urge you to support at least this much in annual funding for our capital projects.

## *Conclusion*

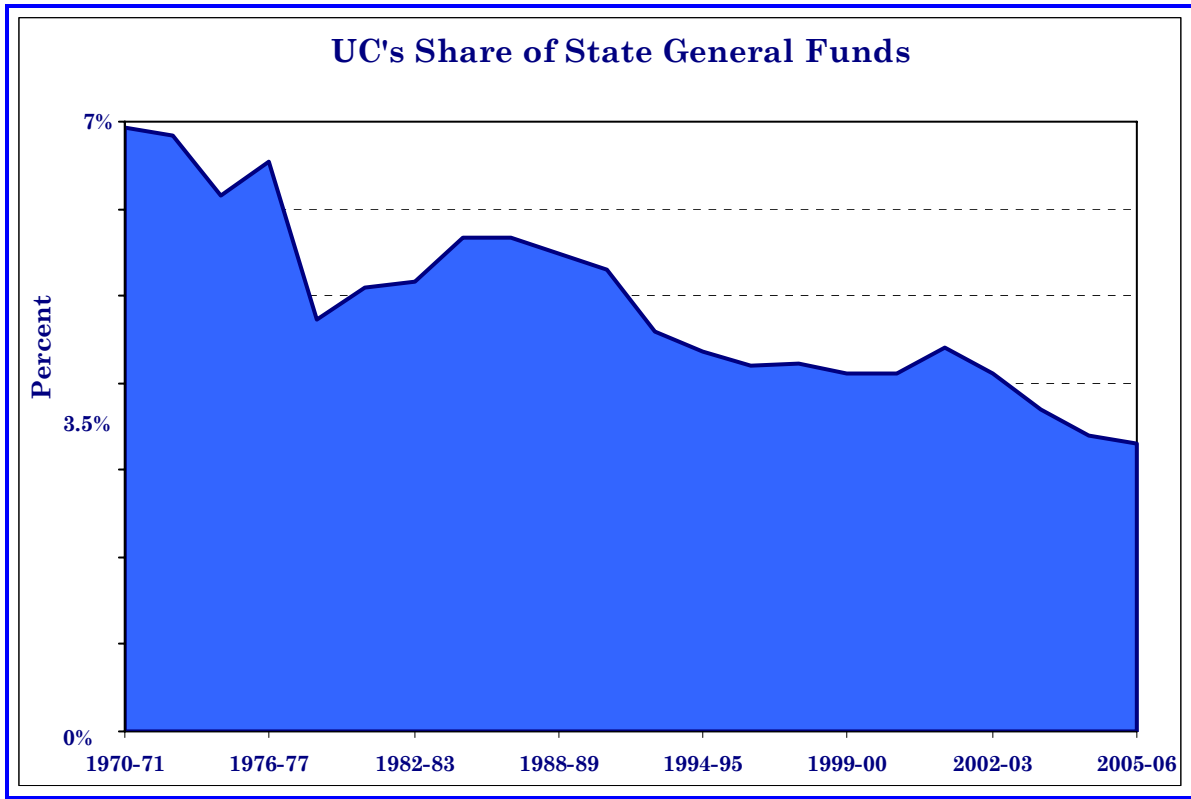
Let me conclude by thanking you for the opportunity to be here today. I want you to know how deeply committed the University is to serving the needs of the State of California and its citizens by doing what it does best—providing a world-class education to those who have worked hard to earn it, conducting research on the cutting edge of new discoveries that will fuel the State's economy, and continuing its unique role of providing culture, arts, and expertise in service to the public. I look forward to working with you over the next several months as you develop a budget for the State of California.

I am pleased to answer questions.

# **APPENDIX**

**President Robert C. Dynes  
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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 3.3% 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 State's ever increasing need for a more highly skilled, highly educated workforce. Rather than continuing this trend of disinvestment, 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*

<b>University of California 2006-07 Budget Governor's Budget - State General Funds (\$ in millions)</b>	
<i>Operating Budget</i>	
<b>2005-06 Final Budget Act (revised)</b>	\$ 2,842.4
<b><u>2006-07 Increases</u></b>	
3% base budget adjustment	\$ 80.5
Enrollment growth of 5,279 FTE at a revised marginal cost of \$10,100 with appropriate differentials for health sciences enrollment	52.2
Science and Math Initiative--remaining increment of funding for program resource centers on each campus	0.4
Student academic preparation--elimination of one-time funds provided in 2005-06	(17.3)
State lease revenue bonds	16.0
Student fee buy-out	
Ed/Reg Fee - Undergraduates	54.2
Graduate & professional students	14.8
Professional school fees	6.0
<b>2006-07 Total Increase, State General Funds</b>	<b>\$ 206.8</b>
<i>2006-07 Percent Increase, State General Funds</i>	<i>7.3%</i>
<b>2006-07 Total State General Funds</b>	<b>\$ 3,049.2</b>
Note: Governor's budget includes continuation of \$14 million in one-time funds for the Merced campus.	
<b><i>Capital Outlay</i></b>	
New State general obligation bond	\$ 340.0

- This display shows the changes in State General Funds proposed by the Governor for the University's 2006-07 budget.
- The funding provided is consistent with the Compact between the Governor and the University, and will be sufficient to support the following:
  - a 3% base budget adjustment;
  - enrollment growth of 5,279 students, consistent with the University's long-term enrollment plan;
  - infrastructure support for the new Science and Math Initiative launched this year; and
  - a student fee buy-out to avoid student fee increases that would have been necessary in 2006-07 to help fund the University's basic budget.

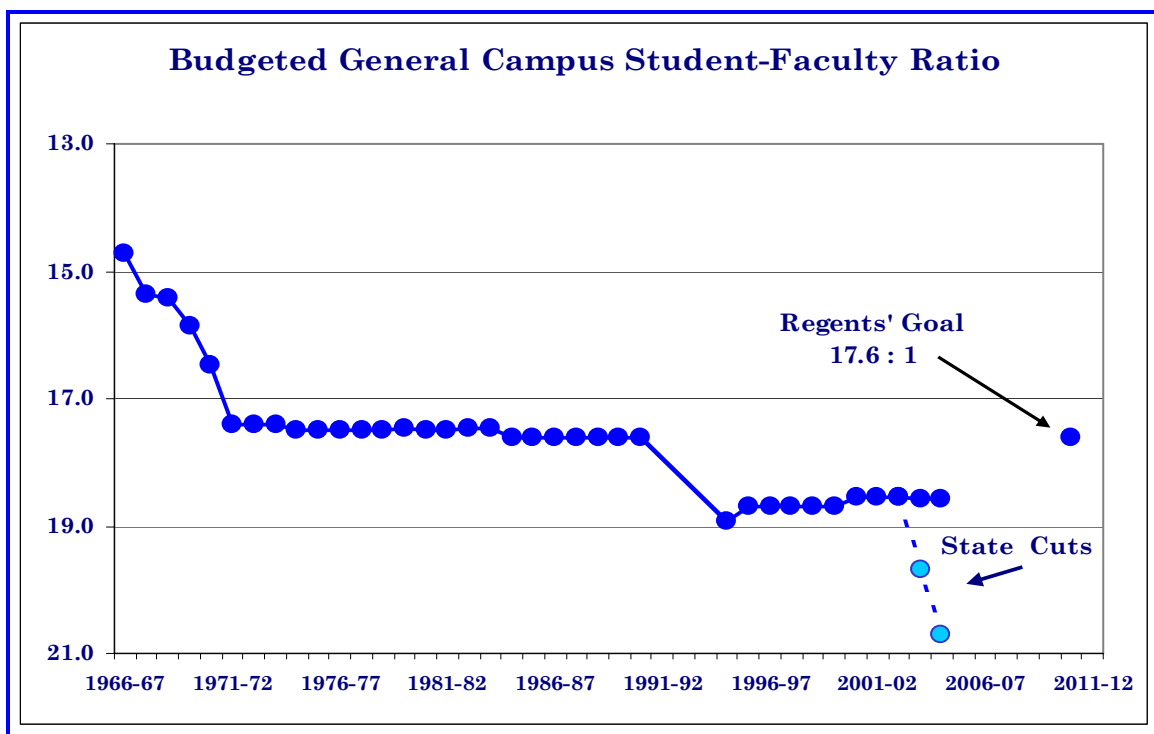
- The funds provided for the base budget adjustment and the buy-out of student fees, when combined with UC General Funds, will be sufficient to support a total compensation package of 4% to help fund COLAs, merit salary increases for faculty and staff, health benefit increases, and non-salary and other cost increases.
- Note that the Governor's proposal also includes continuing one-time funding for recruitment and other start-up efforts needed as the Merced campus ramps up to critical mass by 2010-11.
- The Governor's proposal eliminates \$17.3 million in funding for the University's student academic preparation programs, leaving only the \$12 million in University funds committed to the program.
- Restoring these funds is among the University's highest priorities.
- As noted on page 20 of the main presentation, the University has developed an accountability framework to provide quantifiable information on the effectiveness of each program within the student academic preparation network.
- Our preliminary report was filed in November; a final report will be submitted in April.
- We believe these reports show our programs are effective and hope they will provide a sufficient basis for the Legislature and the Governor to reach agreement on continuation of funding for these important efforts.

*Display C*

<b>University of California 2006-07 Budget Governor's Proposed Budget for UC (\$ in millions)</b>	
	<b>Governor's Budget</b>
<b>2005-06 Operating Budget</b>	
Estimated State General Funds	\$ 2,842.4
Estimated State and UC General Funds plus student fee income	4,801.3
<b><i>PROPOSED INCREASES IN EXPENDITURES</i></b>	
(Based on the Compact)	
<b><u>Fixed Costs</u></b>	
Compensation and benefit increases for faculty and staff for merit, COLA, employee benefits, and equity increases (equivalent to 4% of total salaries and benefits)	126.0
Price increase for nonsalary budgets (2.25%)	23.1
Unallocated reduction associated with increase of undergraduate return-to-aid from 30% to 33%	(2.6)
Debt service on State lease revenue bonds	16.0
<b><u>Workload and Program Growth</u></b>	
Enrollment growth of 5,000 FTE (5,279 FTE in the Governor's Budget) students (includes \$8.3 million related to maintenance of new space factor in proposed marginal cost formula)	
State funds	52.2
Student fee funds (includes financial aid for new enrollment)	34.0
Financial aid related to fee increases	-
Graduate student support -- redirection of \$10 million in savings from Strategic Sourcing Initiative	-
Initiatives for 2006-07, including restoration of funding for labor research and remaining increment of State funds for the Science and Math Initiative	0.4
Student academic preparation programs (provide permanent instead of one-time funds)	(17.3)
Professional school funding	6.0
Restoration of unallocated cuts related to Governor's previously proposed increase to the student-faculty ratio	10.0
<b><i>Total Increase Under the Compact</i></b>	<b>\$ 247.8</b>
<i>% increase in State and UC General Funds, and Student Fee Income</i>	<i>5.2%</i>
<b><i>PROPOSED INCREASES IN INCOME</i></b>	
State General Funds (3% increase to the base, excludes debt service for capital outlay)	\$ 80.5
State General Funds for enrollment growth (revised marginal cost rate)	52.2
Initiatives for 2006-07, including restoration of funding for labor research and remaining increment of State funds for the Science and Math Initiative	0.4
State General Fund reduction of student academic preparation one-time funding	(17.3)
State General Funds for debt service	16.0
State General Fund revenue for systemwide student fee buy-out	69.0
State General Fund revenue for professional school student fee buy-out	6.0
Revenue from an increase in mandatory systemwide student fees	-
Revenue from an increase in professional school student fees	-
Increase in fee income related to increase in enrollment	34.0
UC General Funds income (including 5.0% increase in undergraduate nonresident tuition)	7.0
<b><i>Total Increase in State and UC General Funds, and Student Fee Income</i></b>	<b>\$ 247.8</b>

- This display shows the University's overall budget plan for 2006-07 as approved by The Regents in November, 2005, and as modified by the Governor's budget proposal.

### Display D



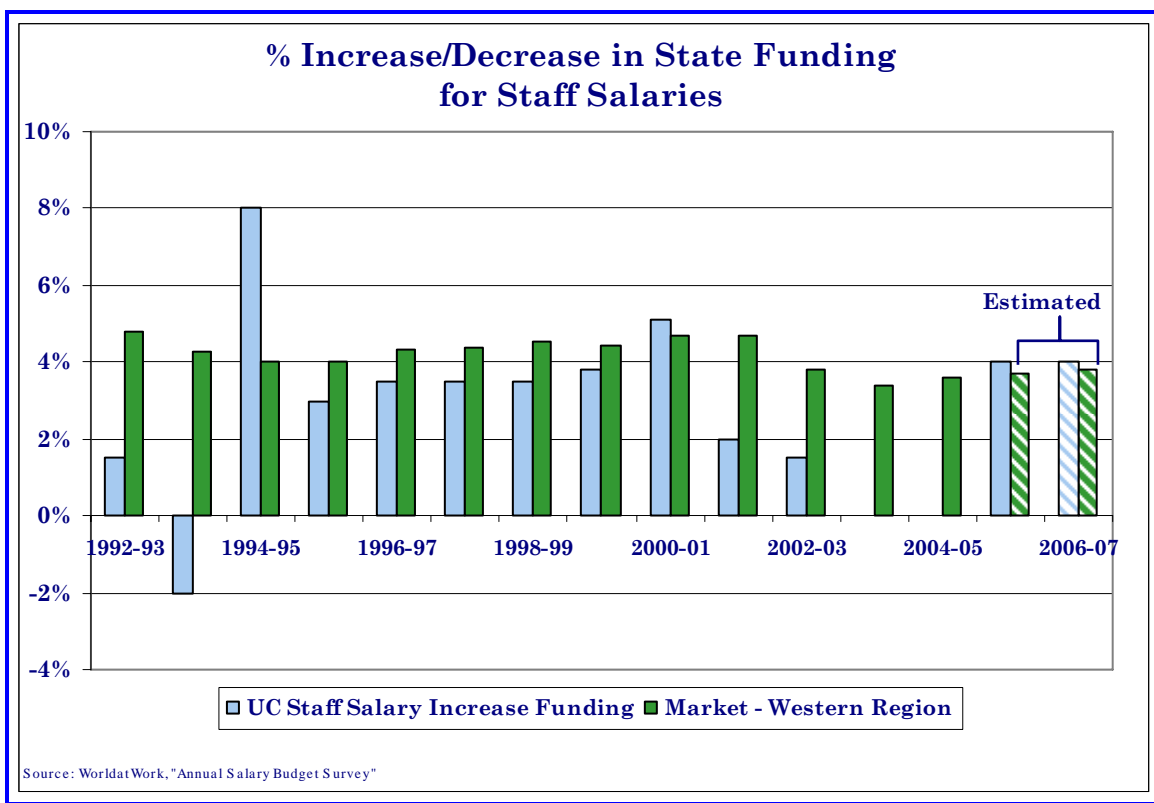
- Beginning in the mid-1960s, the University's budgeted student-faculty ratio was 14.5:1. In the early 1970s, it increased to 17.6:1, where it stayed for nearly 20 years. During the budget cuts of the early 1990s, it rose to 18.6:1.
- In 2003-04, the Governor's Budget included a \$34.8 million reduction 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 E*

<b>Domestic Undergraduate Headcount</b>				
Fall 1980 - 2004				
	1980	2004	Change	Percent Change
African American	3,474	4,781	1,307	38%
American Indian	483	908	425	88%
Chicano	3,816	16,339	12,523	328%
Latino	<u>1,539</u>	<u>5,413</u>	<u>3,874</u>	<u>252%</u>
Subtotal	9,312	27,441	18,129	195%
Asian American	10,700	45,663	34,963	327%
Filipino American	1,304	7,372	6,068	465%
White/Other	68,200	63,401	(4,799)	-7%
Decline to State	<u>5,362</u>	<u>10,513</u>	<u>5,151</u>	<u>96%</u>
Subtotal	85,566	126,949	41,383	48%
<b>TOTAL</b>	94,878	154,390	59,512	63%

- 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 195%.
- 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.
- The Regents recently adopted a resolution affirming their policy that improving student academic preparation is part of the core mission of our institution.
- Unfortunately, funding for student academic preparation programs has been unstable for the last several years—and in fact was reduced by half in 2003-04—and now the Governor's Budget for next year proposes elimination of \$17.3 million State funds for these programs, leaving only the \$12 million in University funds currently supporting these programs.
- As noted earlier, we are committed to working together with the Governor and the Legislature through this budget process to reach agreement for continued support for these programs. This is a very high priority for the University.

### Display F



- Display F 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 has not kept pace, both in the early 1990s and currently, as the State's fiscal crisis prevented full funding of a normal workload budget for several years. As a result, UC staff had no COLA or merit salary increases for 3 years. The increases provided in the current year were sufficient to prevent us from losing further ground; the same will be true with the proposed increases in the 2006-07 budget.
- While we're grateful the gap is no longer widening, The Regents believe closing the gap has to be one of the University's highest priorities over the next several years if we are to be in a position to recruit and retain the staff we need to accommodate enrollment and manage the University's operations in an effective, competitive manner.
- Therefore, The Regents adopted a policy to work toward closing the gap on all staff and faculty salaries over the next 10 years.

*Display G*

<b>University of California and Public Salary Comparison Institutions Total Student Fees *</b>				
	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
<b>Public Salary Comparison Institutions 2005-06 Fees</b>				
University of Illinois	\$ 8,634	\$ 22,720	\$ 8,878	\$ 21,718
University at Buffalo (SUNY)	\$ 6,068	\$ 12,328	\$ 9,427	\$ 13,447
University of Virginia	\$ 7,370	\$ 24,290	\$ 9,800	\$ 20,400
University of Michigan	\$ 9,213	\$ 28,689	\$ 14,271	\$ 28,689
2005-06 Average Fees of Comparison Institutions	\$ 7,821	\$ 22,007	\$ 10,594	\$ 21,064
<i>2005-06 Average UC Fees</i>	<i>\$ 6,802</i>	<i>\$ 24,622</i>	<i>\$ 8,708</i>	<i>\$ 23,669</i>
<b>2006-07 Estimated Average Fees for Public Salary Comparison Institutions</b>	<b>8,212</b>	<b>23,107</b>	<b>11,124</b>	<b>22,117</b>
<b>2006-07 Estimated Average UC Fees assuming fee buyout.</b>	<b>\$ 6,802</b>	<b>\$ 25,486</b>	<b>\$ 8,708</b>	<b>\$ 23,669</b>

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

- Display G compares UC fee levels with the average of four public salary comparison institutions for 2005-06 and estimates fee levels for 2006-07, based on the Governor’s proposal to buy out student fee increases for the coming year.
  
- As Display G 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; for 2006-07, it is projected that difference will grow to over \$1,400, if the proposed student fee buy-out is implemented.
  
- In addition, University fees for resident graduate students continue to be well below (about \$1,900) 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. Next year, with the proposed buy-out of student fee increases, graduate student fees are projected to be about \$2,400 below the average.
  
- 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 2005-06, the University's fees for nonresident undergraduate and graduate students are now higher than the average fees for the comparison institutions by more than \$2,600. As a result, the University's tuition and fees for nonresident students now rank second highest among these institutions behind the University of Michigan.
- We are grateful for the proposal to avoid student fee increases in 2006-07 and hope the Legislature will support this proposal. After the dramatic fee increases needed in recent years to offset the loss of State support, a moratorium on fee increases will be most welcome by our students and their parents.

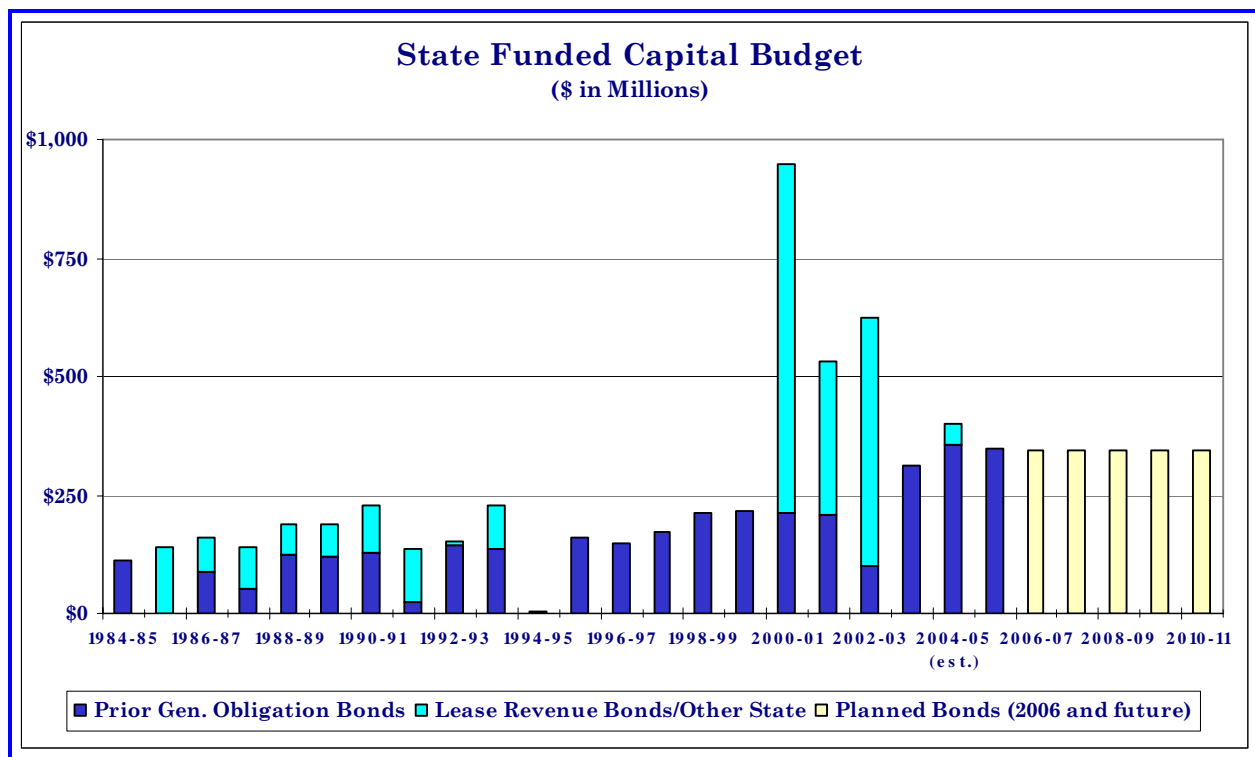


*Display H*

<b>University of California Scholarships, Grants, and Fellowships by Fund Source, 2002-03 to 2005-06 (\$ in Millions)</b>				
	2002-03	2003-04	2004-05	2005-06
<b><i>UC Funds</i></b>				
Student Fees and State				
General Funds	\$ 262.7	\$ 330.8	\$ 356.8	\$ 400.1
Other University Funds	<u>125.4</u>	<u>159.1</u>	<u>163.5</u>	<u>167.3</u>
Subtotal	\$ 388.1	\$ 489.9	\$ 520.3	\$ 567.4
<b><i>Other Funds</i></b>				
Student Aid Commission	\$ 148.7	\$ 219.3	\$ 257.3	\$ 272.6
Federal	203.2	214.5	211.3	216.3
Private Agency Funds	<u>49.6</u>	<u>52.4</u>	<u>47.5</u>	<u>48.6</u>
<b>Total</b>	<b>\$ 789.7</b>	<b>\$ 976.0</b>	<b>\$ 1,036.4</b>	<b>\$ 1,104.9</b>
<small>Note: Numbers for 2004-05 and 2005-06 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.
- Over half of UC undergraduates receive grant/scholarship aid averaging approximately \$7,100 per student; about 60% of graduate academic students receive such aid averaging nearly \$12,000 per student.
- To mitigate the impact of fee increases as well as increases in other educational expenses in recent years, the University has used a portion of the revenue generated by fee increases for financial aid. As shown in Display H, these funds, in combination with Cal Grant funds awarded to UC undergraduates and other scholarship, fellowship and grant funds, raised the total estimated amount of gift aid for UC students over a three-year period by \$315.2 million, from \$789.7 million in 2002-03 to an estimated \$1,104.9 billion in 2005-06.
- The proportion of new fee revenue directed to financial aid has varied in recent years. 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. In 2005-06, 25% of new fee revenue was returned to aid for undergraduates and 50% for graduate students. For 2006-07, The Regents had ultimately proposed using one-third of new fee revenue for financial aid; however, the Governor has proposed a buy-out of student fees, eliminating the need for additional return-to-aid.
- 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 I*



- This display shows what has happened to the University's capital outlay budget over time. Historically, funding has fluctuated significantly.
- The State has 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, 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.
- Consistent with the Compact, the Governor has proposed a 10-year statewide infrastructure plan that would provide the University with \$345 million per year in bond funding through 2015-16.
- We urge the Legislature to support this critical funding needed for the University's facilities.
- The State funds only a portion of the University's capital needs. The University estimates it will need at least \$700 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, with the other half being used 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 91% of the standards for instruction and research space set by the California Postsecondary Education Commission (CPEC space standards) by 2010-11. This level of support needs to continue throughout this decade and beyond to help accommodate enrollment growth and provide adequate facilities for the University's world-class academic programs.

### *Display J*

- The 2-page display on the following pages shows the capital projects included in the Governor's Budget for 2006-07.
- The University's request for \$340 million from general obligation bonds for the 2006-07 State capital budget includes funding to support construction or complete design and undertake construction for 18 projects, and to begin or continue design on 11 projects. Funds are also needed to equip 1 building previously approved for construction
- Of the 30 major capital projects, 4 address serious seismic and other life-safety hazards; 21 projects construct new buildings, renovate existing space, or expand instruction, research, and support facilities to accommodate enrollment growth; and facility infrastructure renewal or modernization is the focus of 4 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.

*Display J (continued)*

2006-07 BUDGET FOR STATE CAPITAL IMPROVEMENTS								
Campus	Project	Prefunded		2006-07 Budget		Future Funding Requirements		Total Project Cost
		(\$000)		(\$000)		(\$000)		
Berk	Seismic Safety Corrections Giannini Hall	P	1,055	WC	24,616	RB	----	25,671
				C	[2,498]	X		[2,498]
Berk	Birge Hall Infrastructure Improvements			PWC	10,350	*	----	10,350
Dav	Veterinary Medicine 3B			P	3,100		WC 62,400 CE [24,450] G	65,500 [24,450]
Dav	King Hall Renovation and Expansion			PWC	17,925	*	----	17,925
				PC	[3,924]	G		[3,924]
Irv	Biological Sciences Unit 3	PWC	53,712 *	E	3,268		----	56,980
		PWCE	[17,372] LB	E	[3,268]	X		[20,640]
Irv	Social and Behavioral Sciences Building	PW	2,850 *	C	37,582	*	E 2,780 E [2,780] X	43,212 [2,780]
Irv	Primary Electrical Improvements Step 3			PWC	2,571	*	----	2,571
Irv	Humanities Building			PW	1,749	*	CE 24,762 *	26,511
LA	Life Sciences Replacement Building	PWC	54,242	C	38,576	*	----	92,818
		PWCE	[45,500] LB					[45,500]
Mer	Social Sciences and Management Building			PW	2,667		CE 39,164	41,831
Riv	Student Academic Support Services Building	PW	1,650	C	18,035		E 887	20,572
Riv	Geology Building Renovations Phase 2			PWC	9,025	*	----	9,025
Riv	Culver Center for the Arts	P	[500] G	WC	8,065			8,065
				C	[4,300]	G		[4,800]
Riv	Boyce Hall and Webber Hall Renovations			P	900		WC 30,100	31,000

*Display J (continued)*

<b>2006-07 BUDGET FOR STATE CAPITAL IMPROVEMENTS</b>								
<b>Cam- pus</b>	<b>Project</b>	<b>Prefunded (\$000)</b>		<b>2006-07 Budget (\$000)</b>		<b>Future Funding Requirements (\$000)</b>		<b>Total Project Cost (\$000)</b>
SD	Mayer Hall Addition and Renovation	PWCE	29,100	C	13,126	----		42,226
SD	Structural and Materials Engineering Building			PWC	75,057 *	E 3,000 E [4,000] X		78,057 [4,000]
SD	Chilled Water and Electrical Distribution Improvements	P	[150] X	WC	3,157	----		3,157 [150]
SF	Medical Sciences Building Improvements, Phase 2	PWC	18,351	C	16,379	----		34,730
SF	Electrical Distribution Improvements Phase 2			P	525	WC	12,587	13,112
SB	Electrical Infrastructure Renewal, Phase 2	WC PW	7,305 * [782] X	C C	6,328 * [2,367] X	----		13,633 [3,149]
SB	Arts Building Seismic Correction and Renewal			PW	1,855	C	19,145	21,000
SB	Davidson Library Addition and Renovation			P	1,250	WCE	58,350	59,600
SB	Phelps Hall Renovation			PW	1,100	C	9,300	10,400
SB	Infrastructure Renewal Phase 1			P P	489 [251] X	WC W	9,511 [4,899] X	10,000 [5,150]
SC	McHenry Addition and Renovation Project	PWC	38,845	WC	6,821	CE	36,258	81,924
SC	Digital Arts Facility	PW	2,218	C	19,751	E	1,037	23,006
SC	Infrastructure Improvements Phase 1	P	777	WC	7,833	----		8,610
SC	Biomedical Sciences Facility			PW	6,490	CE	67,710	74,200
SC	Infrastructure Improvements Phase 2			P	367	WC	6,320	6,687
ANR	Kearney REC Pressure Irrigation System			PWC	998 *	----		998
<b>TOTAL</b>					<b>339,955</b>		<b>383,311</b>	

P = Preliminary Plans                      G = Gift Funds  
 W = Working Drawings                      LB = Long-Term UC Financing  
 C = Construction                              RB = State Lease Revenue Bond Fund  
 E = Equipment                                      X = University Funds

\* "Streamlined" State processing during implementation.