

**President Robert C. Dynes
University of California
Testimony before the
Assembly Budget Committee
Subcommittee on Education
March 6, 2007**

Chairwoman Brownley and members of the subcommittee, 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 2007-08, I think it is important to place this discussion within the context of the critical role the University plays in the welfare of the state. As a public institution of higher learning, the University:

- promotes educational opportunities for California's citizens so they may achieve their individual goals;
- generates new discoveries on the cutting edge of research that lead to economic growth and improve our standard of living;
- through an unparalleled health care system, provides medical care for patients who suffer from the most complicated illnesses,
- assists K-12 schools in improving academic performance; and
- provides social, cultural, and economic benefits to the communities in which its campuses reside.

UC, in many respects, is a transformational institution — an institution that transforms lives and helps the people it touches achieve new potential.

At the same time, the University is in the midst of its own transformation as it confronts the needs of the 21st century. Demography, technology, and global competitiveness are changing our state and the context within which we all live. We have looked carefully this past year at our own priorities in the context of our role in this state and the changing

dynamics of a global economy and believe we must be prepared to respond as one system, drawing on the strengths of the individual campuses, but drawing them together in an interconnected manner that brings the total strength of the UC system to bear on the public's needs — what I like to call “the promise and power of 10.”

We have long been committed to maintaining quality as we provide accessibility for qualified students — honoring those traditions must be our primary goal. At the same time, we are committed to expanding the diversity of the student body, the faculty, and the staff. These principles represent the foundation of the contribution the University is able to make to California.

We also believe we must strengthen our commitment to research, development, and delivery (R D & D) as our model of problem-solving. We have an obligation to translate knowledge into societal benefit. And we must continue to find new and even more effective means of doing so for California, the nation, and the world.

Our academic planning has directed us to focus on targeted areas of need and strategic opportunity. State workforce shortages in various fields, including in the health sciences, must be addressed — and we have work underway to do so. Over the next decade, the University must re-balance its undergraduate and graduate/professional enrollments, even as we preserve undergraduate access to fulfill our obligations under the Master Plan. Increasing graduate enrollments in high quality programs is critical to the state's continuing economic vitality, as well as its social and cultural development.

We are also working with K-12 schools on joint efforts to improve elementary and secondary education in the ways that draw on UC's expertise, including through continued implementation of our initiative to train more math and science teachers for California schools.

And in an increasingly global marketplace, we must expand our international presence, working with scholars across the globe to address common problems and also working ourselves to better link our education and research activities abroad.

Finally, we must sustain the public trust as an institution. We are, first and foremost, a public institution accountable to the State of California and its citizens. We have taken a wide range of actions to ensure public transparency and accountability, and we are in the process of re-organizing the Office of the President to improve business operations. I am committed to seeing through the necessary reforms to ensure that the public always has full confidence in UC.

To achieve these goals for the people of California, we must receive adequate resources. State funds provide the core support needed for the basic operations of the University. With that core support, we are able to leverage funds from a variety of other sources.

During the recent fiscal crisis, we experienced several tough years in which financially we lost considerable ground. As a result, our salaries for faculty and staff are significantly behind the market (by about 10%), we made major budget cuts to core academic programs, and student fees were raised to partially address the loss of state subsidies for educational costs (although financial aid was provided to ease the burden of fee increases for needy students). While I believe we also became more efficient and developed new strategies for accomplishing more with less, the loss in momentum was dramatic in terms of our ability to compete for the best faculty and students. Our ability to recruit the necessary faculty, maintain our facilities, and keep up with equipment purchases and instructional technology advances was of grave concern, as these are inevitably tied to the quality of our institution.

With the improvement in the State's fiscal situation, we have begun to make some progress on a number of fronts. The Governor has maintained his commitment to core funding for the University, based on the Compact, and the Legislature has supported that funding. We are very grateful for that support and hope you will continue to support our budget in the coming year. We have been able to grant normal cost-of-living and merit salary increases for the past two years, halting the deep erosion that occurred in terms of our competitiveness in the market. Our budget plan for 2007-08 includes a

5% compensation package that will actually allow us to begin to close the gap (increases in the market are averaging about 4% per year); our longer term plan is to close the salary gap at a rate of about 1% -1.5% per year over the next several years. We are making headway in other key areas related to quality, such as restoring our student-faculty ratio and providing more support for graduate students. Ensuring adequate support for graduate students is a critical component to recruiting highly qualified students. This is a high priority for UC, but it is also a state workforce issue — business leaders have urged us to enhance our production of students with advanced degrees and adequate training in state-of-the-art programs important to their own industries.

While we are very grateful for the commitment to higher education evident in the Governor's Budget, there are a couple of issues we hope to address during this process. The budget eliminates State funding for our student academic preparation programs and for labor research and education. With regard to academic preparation, we have made considerable progress in responding to concerns that have been raised by the Administration and others about them. We now have in place a rigorous framework for accountability that we believe shows these programs are effective and on track to meet specified goals. I ask that we work together through the budget process to develop a long-term solution to the funding for these critical programs — not only because it is in our best interest, but also because it is most assuredly in the best interest of the state to do so.

The other issue we wish to raise relates to the need to once again begin contributions to the University's retirement system. In the early 1990s, contributions from employers and employees were halted because of the outstanding performance of the retirement system's investment portfolio. That prosperity continued through nearly a decade-and-a-half. Now, however, our actuarial projections indicate contributions must be restarted very soon or we will end up with a major shortfall — similar to what has happened to PERS — that could take years to dig our way out of. The Governor's Budget does not include the funding needed to restart the State's share of these contributions. We believe delaying the start will make it far more difficult to resume in the following year. Our

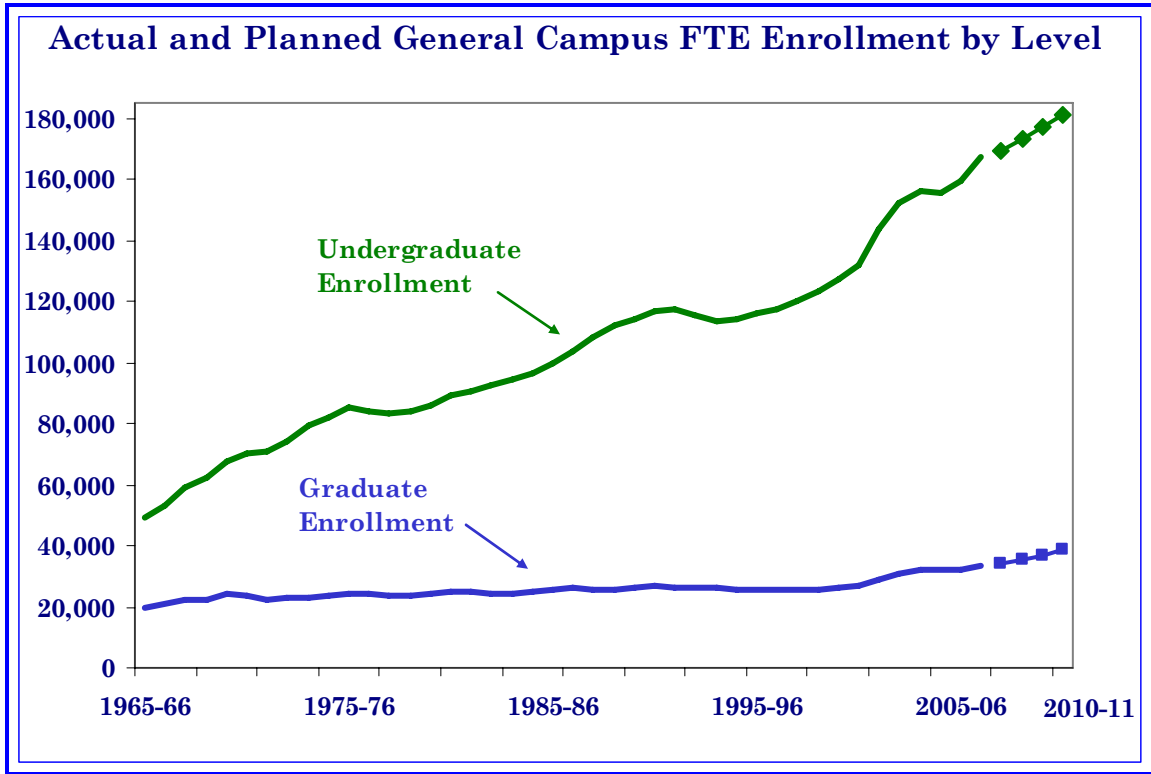
proposal for starting in 2007-08 was intended to create a “soft landing” for both employees and the University. Remember, we have various non-State fund sources that also must begin to budget for these contributions. Whenever we start, it will be a significant draw on those resources. Delaying the start makes that considerably more difficult.

We have compiled several graphics and remarks that are intended to illustrate those issues we believe are among our highest priorities during budget discussions. I’ll go through these quickly. 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.

Let’s start with the first display on page 6.

UC Enrollment Continues to Increase at a Significant Rate

Display 1



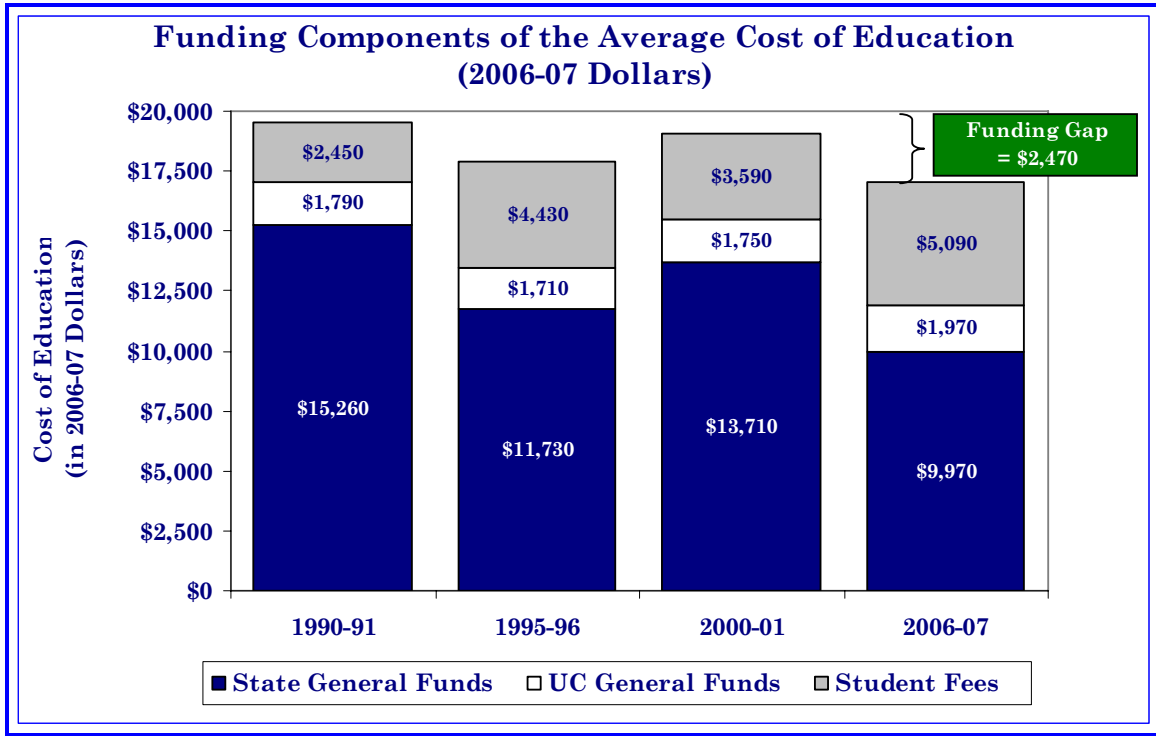
- The University of California's most recent enrollment plan assumed growth of about 5,000 per year during this decade.
- We grew at an even faster rate for several years, but we have now returned to the plan.
- Most of the growth over the last two decades has occurred at the undergraduate level; there 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 need for more faculty in our nursing programs.

- 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 we 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 have established articulation agreements with each of the 109 CCC campuses;
 - Each UC campus has articulated more than 65 high-demand majors on average with all 109 CCC's.
- And, we are very grateful for the \$2 million augmentation included in our budget this year for enhancing community college transfer programs, sponsored by Speaker Nunez. We'll use these funds to increase the number of counselors and enhance the on-line information available to ease the transfer process.

Funding for Educational Costs has Declined and Student Fees are Paying a Larger Share of the Total

Display 2



- This display shows the funding components of the average cost of a UC education from 1990-91 through 2006-07 (in 2006-07 dollars) and the funding gap that has developed between the cost of a UC education in 1990-91 and the resources available in 2006-07. Display 2 makes several points.

 - The average expenditure per student for a UC education has declined. In 1990-91, the cost to educate a UC student was approximately \$19,500 in 2006-07 dollars. Over 16 years, funding per student in inflation adjusted dollars declined by 12.7%, from \$19,500 in 1990-91 to \$17,030 in 2006-07, resulting in a funding gap of \$2,470 per student.
 - The State subsidy per student for the cost of a UC education has declined significantly — by 35% over a 16-year period. In 1990-91, the State contributed \$15,260 per student — 78% of the total cost. By 2006-07, the State share declined to \$9,970, just 59%.
 - As the State subsidy has declined, the share students pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1990-91 students contributed 13% toward their education, they currently pay 30% of the cost of their education.

- Just looking at basic instructional costs (including overhead), the funding gap that has developed since 1990-91 is \$2,500 per student. With over 200,000 students, that represents lost support totaling \$500 million.
- The reality is that most of that loss occurred during the recent fiscal crisis.
- Student fees now support more of the total cost of education, but through 2000-01, there was little change in the total funding per student; the biggest change in the total has occurred between 2000-01 and 2006-07.
- While we've struggled to maintain quality through efficiencies, other sources of revenue, etc., the magnitude of this loss of State funding has hurt the University. When the State's financial situation permits, the University will seek funds to reduce this funding gap, as I'll discuss in the next slide.
- 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.

Funding Gap of \$500 Million Has an Impact on Several Areas

Display 3

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

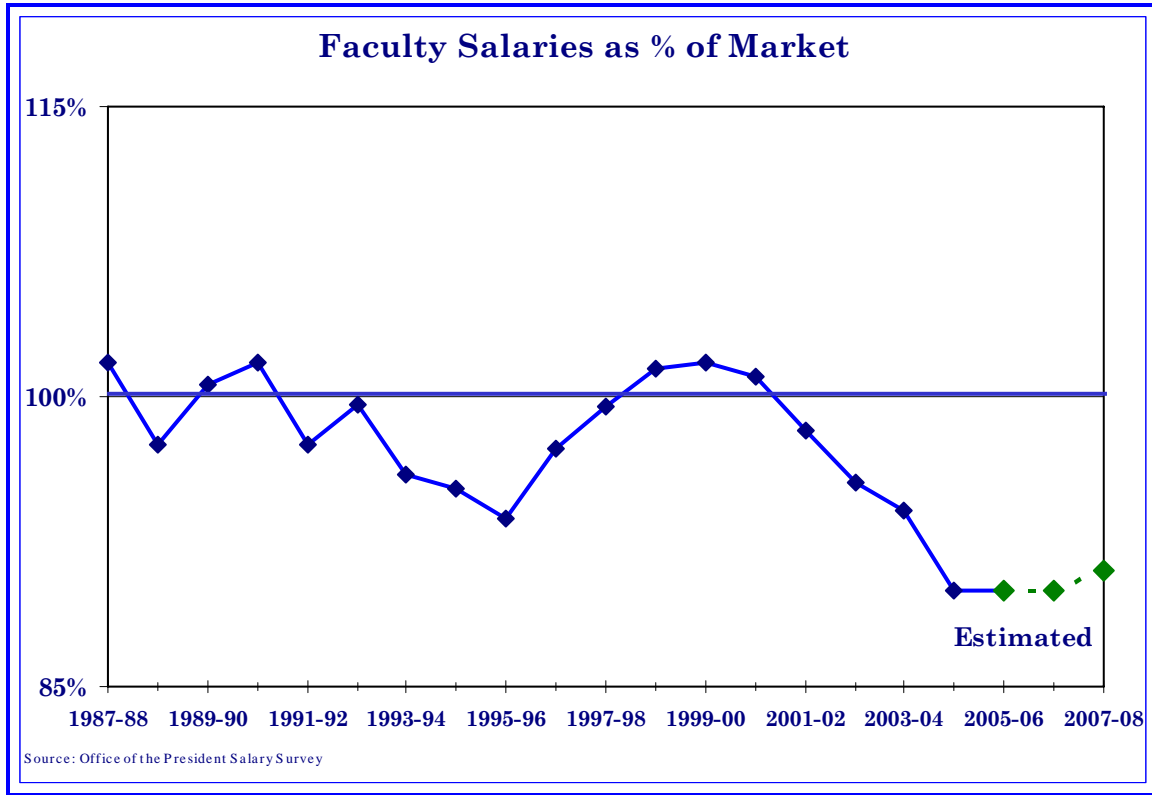
- This display shows the break down for the \$500 million funding gap identified in the previous slide.
- We absolutely must return to paying competitive salaries. We lag the market by 10% in terms of faculty salaries based on the CPEC methodology, and we have a similar problem with respect to staff salaries. We must be able to pay competitive salaries to recruit the high quality faculty and staff we need.
- The increase in the base budget adjustment under the Compact from 3% the last couple of years to 4% beginning next year will help to begin to address our need to return to paying competitive salaries.
- And we need to adequately fund our non-salary portion of the budget. Recent cuts came at the same time as utility costs were soaring. These are unavoidable costs that we must fund and yet we do not have adequate funding to address them.
- Restoring the student-faculty ratio has been among the highest priorities of the Regents. A total of \$70 million was cut from our budget related to proposals to

increase the ratio. We restored \$10 million of the total in the current year and will continue to do so as part of the Compact funding each year until this shortfall is made up.

- Core academic support areas of the budget (instructional technology, instructional equipment, building maintenance, and libraries) have also been hard hit by cuts at a magnitude that directly bears on the quality of our education. The Compact will provide an additional 1% adjustment to the base beginning in 2008-09 to help address shortfalls in these critical areas which will help over the long term.
- Student services have also been identified by the campuses and students as a high priority for restoration of cuts. Students are paying more fees, but because of \$20 million in cuts to these budgets, they're getting fewer services. And, we have a near crisis situation with respect to student mental health services — an issue of concern all across the country in the nation's colleges and universities. Because we believe we need to address this immediately, we are using a portion of the revenue generated from the Reg Fee increase proposed for 2007-08 to enhance mental health services for our students. This will be the first phase of a multi-year plan to dramatically increase the mental health services we provide.
- As indicated, some of the priorities identified above are being addressed to some degree in the Compact. But progress would be very slow and other high priority areas, for example restoration of cuts to student services, are not addressed in the Compact. Consequently, when the State's fiscal situation improves, the University will be submitting budget requests to restore lost funds over time and help close the funding gap resulting from years of underfunding and devastating budget cuts. This is critical to restoring and maintaining academic quality, which is in the best interest of all of California.

Faculty Salaries Continue to Lag the Market — Staff Salaries Show Similar Lags in Many Employee Categories

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. As already noted, we estimate faculty and staff salaries continue to be nearly 10% below 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.

- Given constraints on funding, it is our strategy to ensure we lose no further ground this year and begin to address the salary gap, moving back to parity over a multi-year period — at a rate of about 1% to 1-1/2% per year.

- 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 and staff.
- The University is in the midst of recruiting 7,000 faculty over this decade to accommodate increases in enrollment and replace faculty who retire or leave for other reasons. Additional staff is also needed.
- It is difficult to recruit significant numbers 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.
- It is important to note that while our salaries are behind, our benefits are much better (we continue to offer good employee health benefits and have maintained a solid retirement system).
- As employees begin to contribute to the retirement system, which will need to begin soon, it will be critical to make progress on salary lags over time. With the funding provided for our base budget and a combination of other fund sources, including student fees, we can do that.

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, depending on the availability of resources. They include 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, as mentioned earlier, 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% four years ago, another 10% in 2003-04, and another 5% in 2004-05. 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.

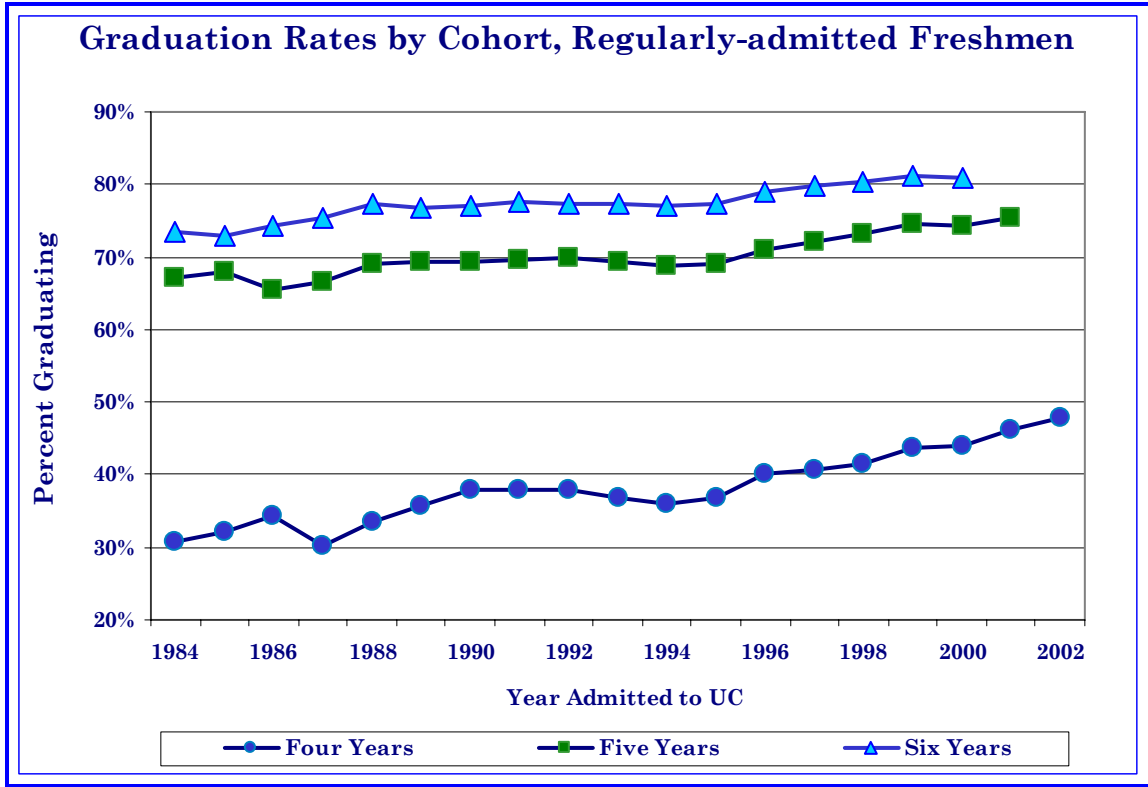
UC is Achieving Positive Outcomes

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 2005-06, the University awarded more than 55,000 bachelor's, master's, doctoral, and professional degrees.
- **Growth in Bachelor's Degrees:** The number of bachelor's degrees has grown 12% in four years to over 41,000 degrees awarded.
- **Math, Science and Engineering Degrees:** Nearly one-third of bachelor's degrees and more than 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 (this information has been updated since we transmitted our annual Outcomes report as required by the Compact with the Governor). Transfer students have shown similar improvement.
- **UC Exceeds the National Average:** 81% 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 (this information has been updated since we transmitted our annual Outcomes report as required by the Compact with the Governor).
- **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.
- **Summer Enrollment:** Enrollment in summer instructional programs has more than 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, 54 faculty and researchers affiliated with UC have won Nobel Prizes, including 20 since 1995; 57 UC faculty and researchers have won the National Medal of Science; and UC has 244 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 2004-05, over 1,300 inventions were reported by faculty and researchers at UC campuses, or an average of more than 3.5 each day. UC has received more patents than any university in the world, and earned \$93 million in royalty income in 2004-05.

UC is Achieving Positive Outcomes — Graduation Rates Have Been Increasing Steadily

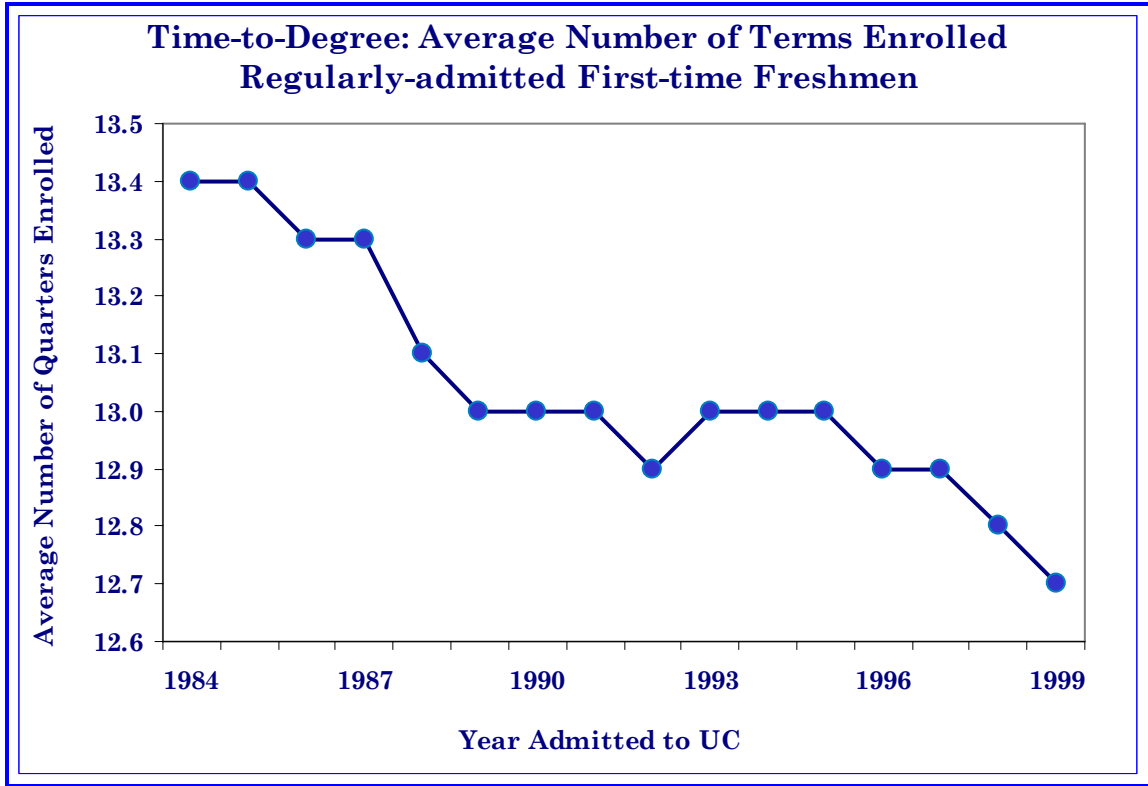
Display 5



- The University is very proud of its excellent record of improving graduation and persistence rates and reducing time to degree among all students.
- 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 1999, 44% graduated in 4 years; for the entering class of 2002, this rate has risen to 47.7%.
- Increasing numbers of students are graduating during the summer after their senior year, rather than returning for a fifth year. Of the 1999 entering freshman cohort, 75% received a BA degree by the end of their fifth year and 81% by the end of their sixth year.
- 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 88% of the 1984 cohort to 92% of the 2004 cohort. Two-year persistence increased from 76% of those entering in Fall 1984 to 84% of those entering in Fall 2004 (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 during the regular academic year has dropped from 13.4 enrolled quarters for the 1984 regularly-admitted freshman class to 12.7 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 Resident Student Fees Remain Below the Average of Public Comparison Institutions

Display 7

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

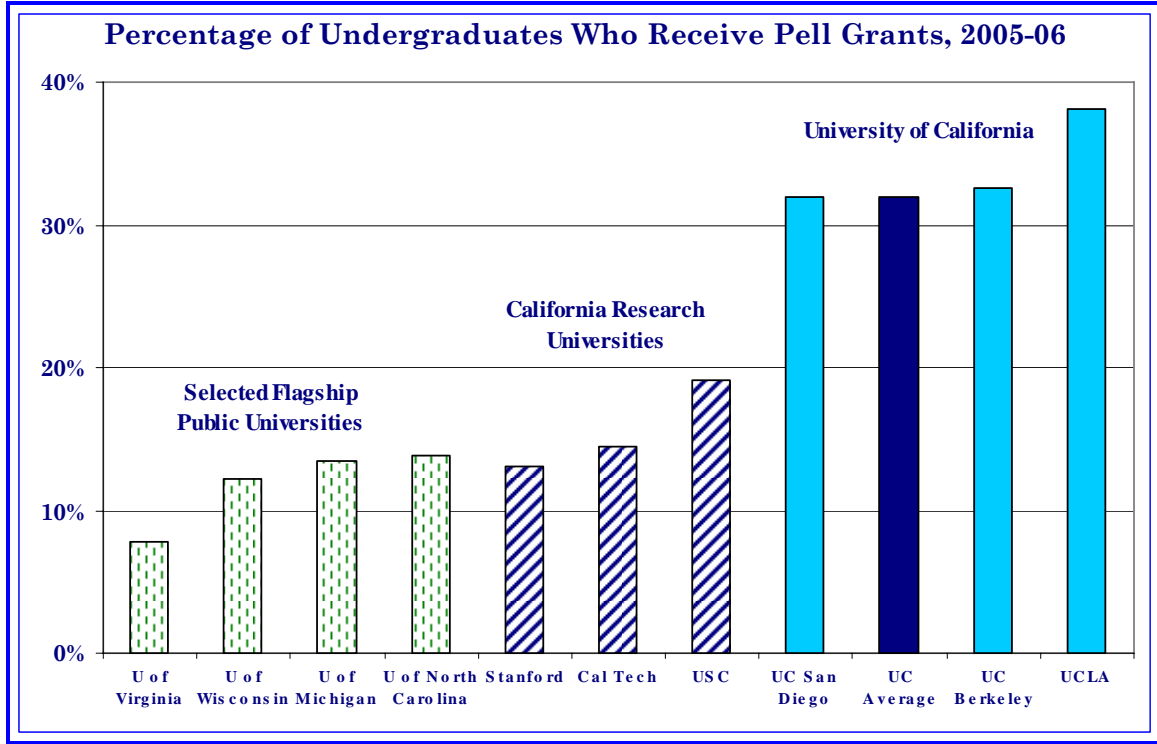
* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident students

- This display compares UC student fees for both resident and nonresident undergraduate and graduate students with the average fees of our public comparison institutions.
- Average fees for resident undergraduate students are currently about \$1,500 less than the average of fees charged at the University's four public comparison institutions.
- In addition, University fees for resident graduate academic students continue to be well below the average (by \$2,350).
- We are proposing a 7% increase in all mandatory systemwide student fees, including professional school fees, with the exception of business and law. For those schools, we are proposing a 10% increase for 2007-08.
- These increases are needed to help fund the overall budget plan for the University.
- Historically, UC fees have been very low because of the high State support we used to receive. Now, as the State subsidy has gone down, UC has gone from being a low-fee institution to charging fees more like the norm.

- For nonresident students it's a different story.
- Nonresident undergraduates are paying about \$2,700 more than the average in 2006-07 and graduates \$2,100 more, and they already are paying more than the average cost of instruction.
- We are very concerned about future increases for nonresident students.
- We are proposing no increase in nonresident tuition for graduate nonresident students for 2007-08, given the already serious problems we have providing competitive support packages needed to attract the best graduate students. A 5% increase in nonresident tuition is proposed for undergraduates.

UC Enrolls More Low-Income Students than Other Major Research Universities in the Nation

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 2007-08 Budget Proposals

- The Governor's proposed 2007-08 budget honors his commitment to the UC/CSU Compact:
 - provides a 4% increase in the base budget for salary and benefit adjustments and non-salary price increases;
 - funds 5,000 additional students in accord with the University's enrollment plan;
 - continues \$14 million in one-time funds needed for faculty recruitment and start-up expenses at UC Merced;
 - continues bond funding 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.

- In addition, the Governor includes a research and innovation initiative to keep California economically competitive. It includes:
 - lease revenue bonds in the amount of \$30 million for the Helios Project at the Lawrence Berkeley National Laboratory and \$40 million for Berkeley's new Energy Biosciences Institute. Both projects will house programs on the cutting edge of "green" science developing alternative approaches to energy use;
 - \$20 million for support of the California Institutes for Science and Innovation;
 - \$5 million in State matching funds in the event that UC wins a National Science Foundation competition to build a "petascale" computer, which will be the fastest computer in the world, giving California an enormous edge in this industry.

- As mentioned earlier, there are several 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, \$19.3 million in funding for Student Academic Preparation Programs, and \$6 million in funding for labor research.

- As I said, 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

- In 2005, 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 our first annual report under this new framework last April. Senator Scott recently held a hearing to review the findings of this report.
- We believe these programs are very effective.
- While we are currently preparing our latest data for you in our April 2007 report, here are some highlights from our last report:
 - Research on and evaluation of SAPEP programs exceeds the assessment of even large federal programs, and the evaluation findings for SAPEP programs are empirically based and statistically significant.
 - In one such evaluation conducted on the EAOP program, participants were found to be twice as likely to complete the college preparatory ('a-g') courses compared with non-participants. (Quigley, 2002)
 - Our own data show that program participants are enrolling into college at high rates. In 2005 for example, 59% of EAOP-MESA-Puente students enrolled in a California public 2- or 4-year college compared with 46% of high school graduates statewide.
 - And at the Preuss School, 100% of 2005 graduates enrolled in a 2- or 4-year college. (The Preuss School only admits students who are from low-income, educationally disadvantaged backgrounds.)
 - In terms of college entrance exams, a higher proportion of our participants complete the SAT or ACT than non-participants. In the lowest performing schools (API 1 and 2), EAOP-MESA-Puente students take these exams at twice the rate of non-participants in those same schools (61% to 29%).
 - And at the elementary and middle schools, 66% of UC Links participants scored at or above grade level in English/language arts and mathematics on standardized tests, compared to 44% for the schools as a whole.
 - 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

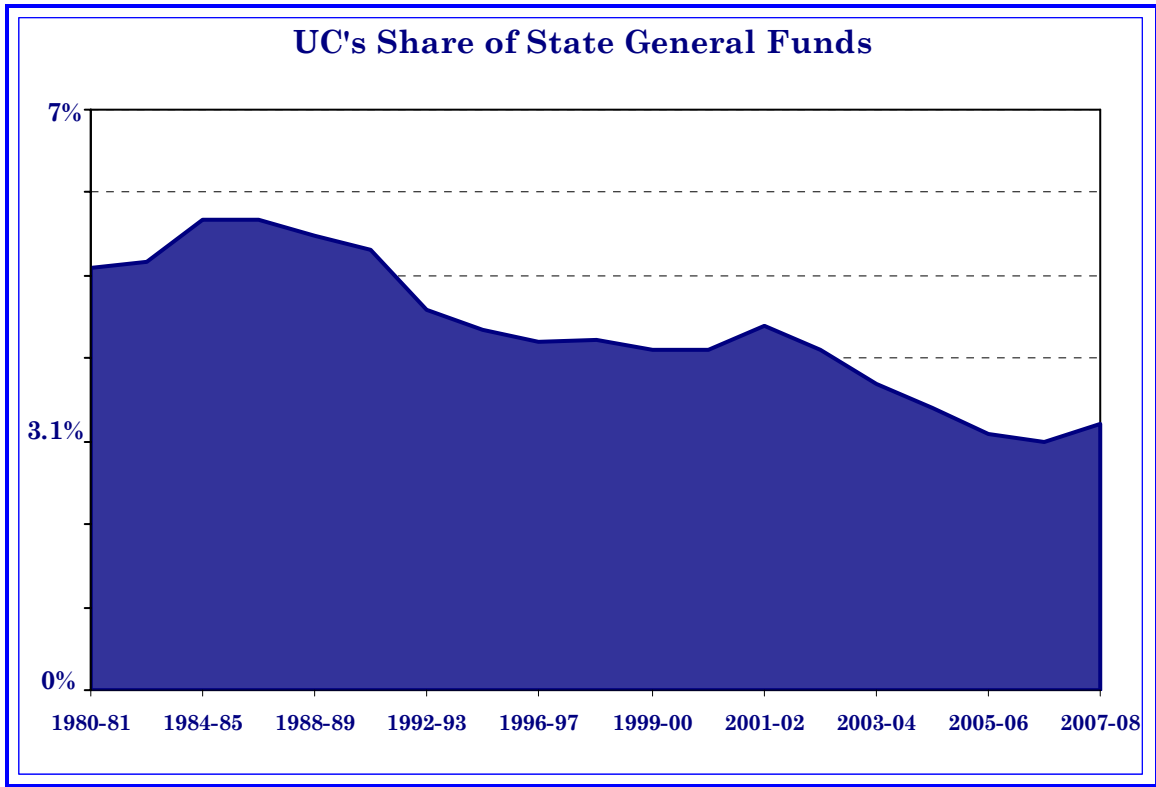
- Adequate facilities are a critical factor in the University's ability to accommodate the rapid growth of students occurring during this decade and maintain the quality of the academic program.
- The Governor's Budget includes the following:
 - \$305 million in General Obligation bond funds (consistent with Proposition 1D approved by the voters on the November ballot) to be used for accommodating enrollment growth, addressing seismic and life-safety needs, modernize aging and obsolete facilities that can no longer support the academic programs they house, and providing adequate infrastructure for the University's facilities;
 - \$199 million in General Obligation Bond funds (also approved in Proposition 1D) for facilities and equipment related to expansion of UC's medical school enrollments and improvement of health care delivery to medically underserved populations in the state through broader use of telemedicine;
 - \$40 million in State lease revenue bonds to provide State matching funds for the British Petroleum Energy Biosciences Institute, recently awarded to the Berkeley campus through a global competition. The Institute will focus on the development of alternative fuels; and
 - \$30 million in State lease revenue bonds to support the Helios Project, an initiative by the Lawrence Berkeley National Laboratory to create sustainable, carbon neutral sources of energy;
- The capital outlay funds provided by the State each year meet 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 the Governor's Budget for our capital projects.

I want to thank you for the opportunity to review our priorities with you. I know you have many challenges ahead as you negotiate the budget for the State of California. We are very anxious to work with you through this process and hope you will support our budget request. We believe we have much to offer the citizens of California and are grateful for the support you provide so we can continue to serve this great state.

APPENDIX

**President Robert C. Dynes
University of California
Testimony before the
Assembly Budget Committee
Subcommittee on Education
March 6, 2007**

Display A



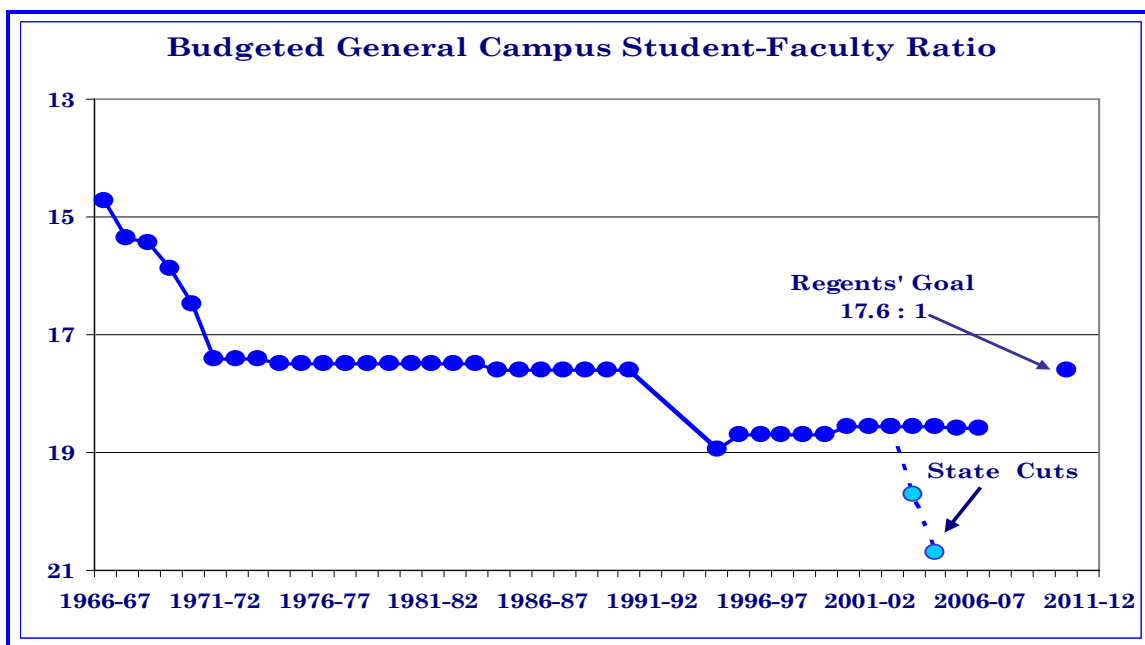
- This display shows how UC's budget as a share of the State's General Fund has changed over time.
- Our share has declined dramatically from 7% in 1970-71 to 3.1% in the current year.
- This is particularly problematic in an era when the University's enrollment growth is expected to increase significantly 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

University of California 2007-08 Governor's Budget Proposal (\$ in millions)	
Operating Budget -- State and UC General Funds and Student Fees	Proposed Governor's Budget
2006-07 Operating Budget -- State General Funds	\$ 3,078.0
2006-07 Operating Budget -- State General Funds, UC General Funds and student fee revenue	5,076.0
2007-08 Increase	
<i>State General Funds</i>	
4% base budget adjustment	116.7
Enrollment growth funding	55.7
Employer retirement contributions	-
Annuitant health benefits	10.5
Lease purchase revenue bonds	14.5
Eliminate funding for Student Academic Preparation Programs	(19.3)
Eliminate funding for labor research	(6.0)
Research initiative (above the Compact)	20.0
<i>Subtotal, State General Funds</i>	\$ 192.1
<i>Student Fees</i>	
Fee increase, net of financial aid (7% for all fees except 10% for Law at UCB, UCD, and UCLA and for Business at UCB and UCLA)	\$ 68.0
Student financial aid	36.7
Increase in student fees related to enrollment growth	32.1
UC General Funds	20.0
<i>Total</i>	\$ 348.9
Note: Governor's Budget includes continuation of \$14 million in one-time funding for Merced campus.	
Capital Outlay -- State Funds	
Basic GO bond program	\$ 304.2
Medical school/telemedicine GO bonds	199.0
Helios -- State lease revenue bonds	30.0
BP initiative matching funds -- State lease revenue bonds	40.0
<i>Total State Funds</i>	\$ 573.2

- This display shows the changes in State and UC General Funds and student fee revenue proposed by the Governor for the University's 2007-08 budget.

Display C



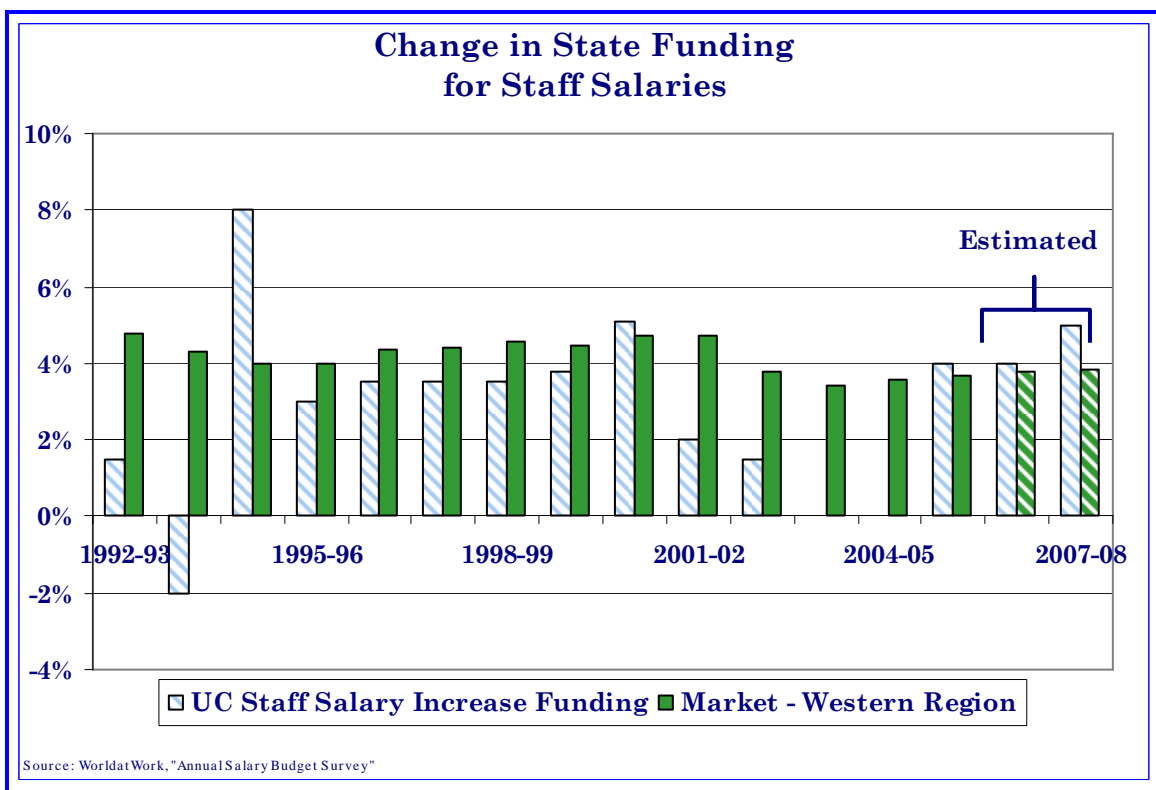
- Beginning in the mid-1960s, the University's budgeted student-faculty ratio was 14.5:1. In the early 1970s, it increased to 17.6:1, where it stayed for nearly 20 years. During the budget cuts of the early 1990s, it rose to 18.6:1.
- In 2003-04, the Governor's Budget included a \$34.8 million reduction 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 were not 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 budgeted 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 and 2006-07 as part of the Compact, the University has committed \$10 million each year toward restoring instructional resources. These funds will be used to bolster the student-faculty ratio, improve instructional support, and acquire instructional technology. Further progress is anticipated in 2007-08 and beyond.
- 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 D

Domestic Undergraduate Headcount				
Fall 1980 - 2006				
	1980	2006	Change	Percent Change
African American	3,474	4,959	1,485	43%
American Indian	483	864	381	79%
Chicano	3,816	17,555	13,739	360%
Latino	<u>1,539</u>	<u>5,917</u>	<u>4,378</u>	<u>284%</u>
Subtotal	9,312	29,295	19,983	215%
Asian American	10,700	49,146	38,446	359%
Filipino American	1,304	7,491	6,187	474%
White/Other	68,200	64,412	(3,788)	-6%
Decline to State	<u>5,362</u>	<u>9,087</u>	<u>3,725</u>	<u>69%</u>
Subtotal	85,566	130,136	44,570	52%
TOTAL	94,878	159,431	64,553	68%

- 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 215%.
- 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.

Display E



- Display E 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 more recently, 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 2 years. The increases provided last year and in the current year were sufficient to prevent us from losing further ground.
- For 2007-08, State funds will be combined with student fee revenue and UC General Funds to provide a 5% compensation package to fund normal COLAs, merit salary adjustments, and increases in employee health benefits. This will allow us to begin to make progress in closing the salary gap.
- Because closing the salary gap for faculty and staff are among The Regents’ highest priorities, the Board adopted a policy to work toward closing the gap on all staff and faculty salaries over the next 10 years at a rate of about 1% – 1.5% per year.

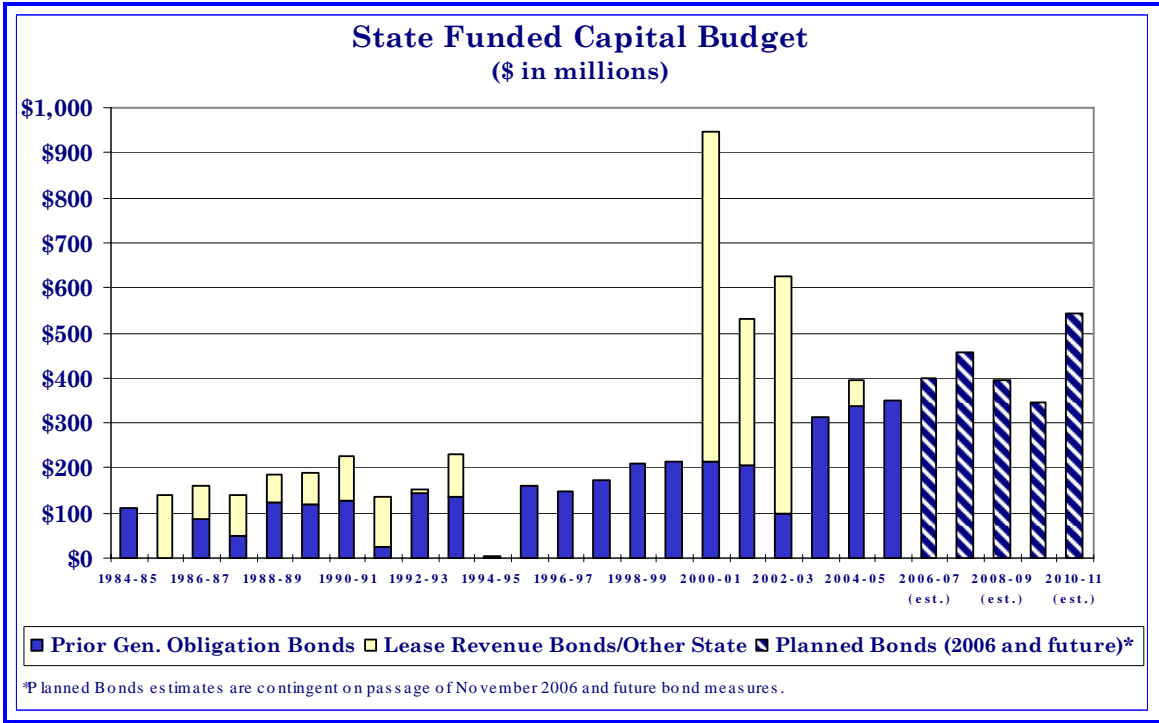
Display F

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

- 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.
- For 2007-08, the University plans to return 33% of revenues generated by any undergraduate fee increase to financial aid. In addition, recognizing the need to provide competitive graduate student support and to cover collective bargaining agreements for teaching assistants, the University plans to set aside 45% of new revenue generated by graduate fee increases for financial aid. Finally, a 33 % return-to-aid will be implemented for professional school students.
- Over half of UC undergraduates receive grant/scholarship aid averaging approximately \$9,100 per student; about 60% of graduate academic students receive such aid averaging about \$12,700 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 F, 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 four-year period by \$395.7 million, from \$789.7 million in 2002-03 to an estimated \$1,185.4 billion in 2006-07.

- 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 proposed using one-third of new fee revenue for financial aid; however, the State bought out proposed increases in 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 G



- 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, provided UC with an average of about \$345 million per year through 2005-06.
- A new bond measure approved by the voters in November, Proposition 1D, continues the average of about \$345 million per year for 2006-07 and 2007-08.
- Proposition 1D also included \$199 million for capital needs related to planned expansion of our medical schools and telemedicine capability. The Governor's Budget proposes to appropriate these funds as one package.
- Each of the campuses with medical schools have been planning Programs In Medical Education (PRIME) programs that are designed to create more physicians who can meet identified health care shortfalls in medically underserved areas of the state, including rural and inner city areas.
- As this expansion occurs, a major focus will be on developing high tech approaches to health care.

- The bond funds approved for this purpose in November will be distributed evenly to each of the campuses with medical schools.
- In addition to funds approved by the voters in Proposition 1D, the Governor proposed funding for two projects associated with his science initiative:
 - \$40 million in State lease revenue bonds is committed for the BP Initiative, a project recently awarded to the Berkeley campus by British Petroleum for the Energy Biosciences Institute, which will conduct research on how to make more efficient the extraction, conversion, and storage of fuel sources;
 - \$30 million in State lease revenue bonds for the Helios project at the Lawrence Berkeley Lab. State funds will be combined with approximately \$90 in other fund sources to construct a major facility for conducting research on alternative fuels, particularly focused on ways to convert solar energy into transportation fuel.
- The State funds only a portion of the University's capital needs. The University estimates it will need at least \$800 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 92% 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 beyond to help accommodate enrollment growth and provide adequate facilities for the University's world-class academic programs.

Display H

- The display on the following page shows the capital projects included in the Governor's Budget for 2007-08.
- The University's request for \$503 million from general obligation bonds for the 2007-08 State capital budget includes funding to support construction or complete design and undertake construction for 18 projects, including projects for telemedicine/medical education facilities, and to begin or continue design on 8 projects. Funds are also needed to equip 5 buildings previously approved for construction
- Of the 26 major capital projects, 4 address serious seismic and other life-safety hazards; 14 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 8 projects.
- These are all high priority needs. Campuses work very hard to balance their capital needs among competing priorities, working within available resources. This involves a significant planning effort on the campuses and we do our best to honor their priorities within the dollars we can expect to receive.

Display H

UNIVERSITY OF CALIFORNIA		
2007-08 CAPITAL OUTLAY BUDGET AS PROPOSED IN THE GOVERNOR'S BUDGET		
	Governor's Budget	
	Funding	Phase
Universitywide		
Telemedicine/PRIME Medical Education Facilities (D, I, LA, SD, SF)	199,000	PWCE
Energy Biosciences Institute Project (BP Grant)	40,000 <i>(LRB)</i>	PWCE
Berkeley		
* Durant Hall Renovation	9,970	PWC
Campbell Hall Seismic Replacement Building	6,400	PW
Helios Research Facility	30,000 <i>(LRB)</i>	PWCE
Davis		
Veterinary Medicine 3B	4,751	W
Electrical Improvements Phase 4	4,335	PWC
Irvine		
Engineering Unit 3	3,292	E
* Humanities Building	23,977	C
* Arts Building	39,855	PWC
* Steinhaus Hall Seismic Improvements	9,681	PWC
Merced		
Social Sciences and Management Building	37,255	C
Riverside		
College of Humanities and Social Sciences Instruction and Research Facility	940	E
Psychology Building	1,612	E
Boyce Hall and Webber Hall Renovations	31,776	WC
* East Campus Infrastructure Improvements Phase 2	8,893	PWC
Batchelor Hall Building System Renewal	402	P
San Diego		
Music Building	2,204	E
Management School Facility Phase 2	1,000	P
San Francisco		
Electrical Distribution Improvements Phase 2	892	W
Santa Barbara		
Engineering II Life Safety Improvements and Addition	5,000	WC
Infrastructure Renewal Phase 1	252	W
Davidson Library Addition and Renewal	1,055	W
Santa Cruz		
Digital Arts Facility	1,044	E
McHenry Addition and Renovation Project	38,184	CE
Biomedical Sciences Facility	69,370	C
Infrastructure Improvements Phase 2	317	W
ANR		
* Hopland REC Field Laboratory and Multipurpose Facility	1,708	PWC
TOTALS	573,165	
<i>General Obligation Bonds</i>	\$ 503,165	
<i>General Funds (GF)</i>	\$ -	
<i>State Lease Revenue Bonds (LRB)</i>	\$ 70,000	
* Streamlined projects		