

**2002**  
/ **2003**

**Budget for  
Current Operations**



**UNIVERSITY OF CALIFORNIA**  
**Office of the President**  
**November 2001**

## The President's Message

Just one year ago, California enjoyed near-record prosperity and an optimistic view of its future. Today the state faces a major economic slowdown and the unresolved menace of international terrorism. The world has suddenly become a much less certain place for individuals and institutions alike.

Yet if there is one thing the current climate of uncertainty and risk makes dramatically clear, it is that research universities are indispensable to solving the nation's most pressing problems, especially the threats of the new world in which we find ourselves. University of California engineers are already at work on technology that will make future high-rise buildings less vulnerable to terrorist attacks. Experts in bioterrorism are exploring ways to detect toxic substances and remove them from our air and water. Specialists in cybersecurity are investigating threats to communications networks that might develop in the next five to ten years and countermeasures to defend those networks. This is in addition to the daily discoveries and innovations that help make California, in the words of Federal Reserve Chairman Alan Greenspan, "preeminent in transforming knowledge into economic value." And this does not take into account the outstanding education we give our students across the UC System and the remarkable variety of public service we offer California's citizens.

Given the reality of the State's fiscal situation, we will have difficult choices to make in the year ahead. But most economists believe that the major fiscal problems of the State are short-term in nature, a perspective that should guide our decision-making as we weigh priorities. The last three decades began with economic slowdowns of varying degrees that were followed by years of economic growth and prosperity. In the early 1990s, we endured the worst budget cuts in our history; by the end of the decade, we benefited from some of the largest budget increases of recent times. We have no guarantees that this pattern will continue, but there are reasons for optimism about the resilience of the state and national economies and the nation's ability to weather the current terrorist threat. We should ensure that choices made in the near term are consistent with the goals we have set for the long term. The most important of those goals is to maintain the quality and vitality of the University. Preserving access, of course, is a critical companion to preserving quality, especially as we face the challenge of unprecedented enrollment growth through 2010. But if we guarantee access at the expense of quality, we make a bad bargain for our students and our state. It is the

University's academic quality that attracts so many students to our doors in the first place.

Two major budget priorities are fundamental to maintaining the quality of the University:

### ***Funding for the Partnership***

The University and the Governor negotiated a Partnership Agreement in 1999-2000 that has served the interests of both UC and the State. It includes funding principles that provide the University with a foundation on which to plan for the future. These funding principles represent *the minimum* necessary to accommodate enrollment growth over this decade and sustain the excellence of the University. This minimum includes sustaining competitive salaries, accepting all eligible students who wish to attend, and maintaining the resources necessary for offering a high-quality education.

The Partnership also includes accountability principles that historically have been important to the State and the University and that help gauge the University's performance in achieving its goal of excellence in teaching, research, and public service. Through 2000-01, the University and the State exceeded their commitments under the Partnership.

On the funding side, the State has provided support for avoiding fee increases for seven consecutive years (in fact, systemwide fees today are 10% lower than they were in 1994-95). The State has also provided over \$200 million of funding above the Partnership for research and public service initiatives of importance to the State and the University, including funding for K-12 teacher professional development programs, outreach, and Internet2 access for public schools. The University also received significant increases to help address salary lags for staff, and one-time funding was provided to help address funding needs for our teaching hospitals as well as cumulative budgetary shortfalls in deferred maintenance, equipment, and library resources. During the latter part of the decade, the University's budget prospered along with the State's economy.

Unfortunately, the State's deteriorating fiscal situation led to a very different budget for the current year. Partnership funds for the University's 2001-02 budget were reduced in the Governor's May Revision. Instead of a 4% increase for the basic budget to fund compensation and other cost increases plus 1% for core needs critical to maintaining quality, the University received

only 2% under the Partnership. This action reduced the funds available for salary raises and eliminated increases for several programs, including improving undergraduate instruction and funding for core needs.

This makes achieving our goals under the Partnership more difficult, even though the University's track record to date has been impressive. We have often exceeded our commitments under the Partnership. The University has accommodated all eligible students wishing to attend and exceeded our budgeted enrollments each year; improved opportunities for eligibility and admission by implementing a new path to eligibility (the top 4% of students in every high school in the state are now UC-eligible); maintained agreed-upon faculty teaching loads; improved graduation rates; and continued planning for opening UC Merced in 2004, one year ahead of schedule. We have also admitted more "transfer-ready" community college students; increased outreach and other K-12 improvement programs, doubled the number of education credential students we train; and increased enrollment of engineering and computer science students by 50% to help meet the state's workforce needs. We have fostered research initiatives that help fuel the state's economy (including development of four *California Institutes for Science and Innovation*) and raised more private and federal funds than ever before. Good teaching, important research, and expanded service to all the people of California—not just those attending classes on our campuses—are the legacy of the Partnership to date. We will do our best to maintain momentum, but budgetary shortfalls this year and next constitute a formidable challenge.

The Governor has asked all State-funded programs to develop options for budget reductions of up to 15%. Cuts at that level would be devastating to the University's budget, which has still not fully recovered from the \$433 million in cuts during the early 1990s.

Given the State's financial difficulties, the University's budget request for 2002-03 is limited to seeking funding of the Partnership Agreement, consistent with past budget requests; we will not seek funding above the Partnership for special initiatives. However, when the State's fiscal situation improves, we will ask for restoration of the Partnership funding that was eliminated from the 2001-02 budget.

We intend to consult widely with The Regents, Chancellors, faculty, staff, and students in considering options for budget reductions. Discussion with The

Regents began at the October meeting of the Board and will continue at each meeting throughout the budget process.

### ***State Capital Outlay Bond***

Future funding for capital outlay is another major issue. Projected growth over the next decade presents significant challenges. Even if there were no enrollment growth with which to contend, however, the University has significant capital needs for seismic and life-safety requirements, modernization of out-of-date facilities, and renewal of infrastructure and other facility systems that cannot accommodate even present needs.

The University will require approximately \$600 million per year over the next decade to address its most pressing facilities needs for core academic and support space traditionally supported by the State. In addition, there are other urgent needs in areas traditionally *not* supported by the State, such as student and faculty housing, parking, and other facilities that serve public as well as University needs. The University is re-examining its plans for all facilities needs, both State-funded and non-State-funded.

A general obligation bond measure is critical. The University is working with the Governor's Office and the Legislature on such a measure. Legislation to place an education bond measure on the 2002 ballot was nearly passed during the last days of the 2001 legislative session, but the bill was not finally adopted and thus further action must await the 2002 session.

Based on discussions to date, the bond measure will probably include about \$330 million per year for UC to address capital needs for enrollment growth, seismic, infrastructure, and modernization projects at existing campuses with a separate increment for planning and construction on the Merced campus. Other funding may be separately available for off-campus and "joint use" projects—that is, facilities that would serve needs of more than one segment of higher education. Funding for the *California Institutes for Science and Innovation* will be provided from General Funds or State lease revenue bonds.

Adequate funding for facilities is as critical to the University's ability to accommodate expected enrollment growth as full funding of the Partnership. Facilities house the students and faculty who carry out the basic missions of the University and make it possible for us to meet our commitments under the Partnership.

The University of California has often faced hard times during its 133-year history. It has steadily grown in distinction by making wise use of the support it receives in good years to help weather the bad ones. Despite today's obstacles, the University will continue to serve California and the nation through the contributions we are superbly qualified to make as the state's public research institution—educating our youth, conducting research that drives the economy and generates new knowledge, working with the K-12 schools to improve educational opportunities, and promoting the welfare of California.

Richard C. Atkinson, President  
November 2001

# UNIVERSITY OF CALIFORNIA



## FOREWORD

The University of California was founded in 1868 as a public, State-supported land grant institution. It was written into the State Constitution as a public trust to be administered under the authority of an independent governing board, The Regents of the University of California. There are ten campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. All of the campuses, with the exception of Merced, offer undergraduate, graduate, and professional education; one, San Francisco, is devoted exclusively to the health sciences.

The Merced campus originally planned to enroll its first on-campus students in 2005-06. However, Governor Davis has asked the University to accelerate the opening of the campus and enroll students beginning in 2004-05. The University and the Merced campus are working very hard to meet the Governor's timeline and enroll its first students on campus in fall, 2004.

The University operates teaching hospitals and clinics on the Los Angeles and San Francisco campuses, and in Sacramento, San Diego, and Orange counties. Approximately 150 University institutes, centers, bureaus, and research laboratories operate in all parts of the state. The University's Agricultural Field Stations, Cooperative Extension offices, and the Natural Reserve System benefit people in all areas of California. In addition, the University provides oversight of the three Department of Energy Laboratories.

### ***Organization of the Regents' Budget***

The *Introduction* and *Executive Summary* provide an overall perspective on the major policy issues, specific objectives, and priorities for 2002-03. The subsequent sections discuss programs in more detail and provide fuller justification of requests for funding increases. The budget is structured to accommodate readers who do not go beyond the *Executive Summary* as well as those who want information on selected topics only. Therefore, important themes are repeated throughout the document. Finally, this year an index has been added at the end of this document to assist readers who are looking for a particular subject area.

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**UNIVERSITY OF CALIFORNIA**  
**2002-03 BUDGET FOR CURRENT OPERATIONS AND EXTRAMURALLY FUNDED OPERATIONS**

EXPENDITURES					INCOME				
	2001-02 Budget (S000s)	2002-03 Proposed (S000s)	Change Amount (S000s)	%		2001-02 Budget (S000s)	2002-03 Proposed (S000s)	Change Amount (S000s)	%
<u>BUDGET FOR CURRENT OPERATIONS</u>					<u>BUDGET FOR CURRENT OPERATIONS</u>				
Instruction:					<u>General Fund</u>				
General Campus	\$ 1,790,383	\$ 1,930,495	\$ 140,112	7.8%	State of California	\$ 3,357,837	\$ 3,649,637	\$ 291,800	8.7%
Health Sciences	728,734	749,180	20,446	2.8%	UC Sources	428,115	409,677	(18,438)	-4.3%
Summer Session	19,718	20,507	789	4.0%					
University Extension	235,597	247,377	11,780	5.0%	Total General Funds	\$ 3,785,952	\$ 4,059,314	\$ 273,362	7.2%
Research	599,988	607,182	7,194	1.2%					
Public Service	334,487	338,189	3,702	1.1%					
Academic Support:					<u>Restricted Funds</u>				
Libraries	248,766	256,217	7,451	3.0%	State of California	\$ 61,791	\$ 61,791	\$ --	--
Other	428,256	440,609	12,353	2.9%	U. S. Government Appropriations	17,000	17,000	--	--
Teaching Hospitals	2,732,506	2,786,011	53,505	2.0%	Student Fees:				
Student Services	312,692	324,551	11,859	3.8%	Educational, Registration & Professional School Fees	663,434	687,469	24,035	3.6%
Institutional Support	470,100	471,679	1,579	0.3%	Extension, Summer Session & Other Fees	349,710	367,943	18,233	5.2%
Operation and Maintenance of Plant	500,697	529,132	28,435	5.7%	Teaching Hospitals	2,680,069	2,733,574	53,505	2.0%
Student Financial Aid	291,482	299,494	8,012	2.7%	Auxiliary Enterprises	543,945	568,423	24,478	4.5%
Auxiliary Enterprises	550,761	575,239	24,478	4.4%	Endowments	139,975	146,974	6,999	5.0%
Provisions for Allocation	106,055	49,517	(56,538)	-53.3%	Other	1,254,437	1,309,318	54,881	4.4%
University Opportunity Fund and Special Programs	146,091	154,273	8,182	5.6%					
Program Maintenance: Fixed Costs, Economic Factors	--	172,154	172,154	--	Total Restricted Funds	\$ 5,710,361	\$ 5,892,492	\$ 182,131	3.2%
<b>TOTAL BUDGET FOR CURRENT OPERATIONS</b>	<b>\$ 9,496,313</b>	<b>\$ 9,951,806</b>	<b>\$ 455,493</b>	<b>4.8%</b>	<b>TOTAL BUDGET FOR CURRENT OPERATIONS</b>	<b>\$ 9,496,313</b>	<b>\$ 9,951,806</b>	<b>\$ 455,493</b>	<b>4.8%</b>
<u>EXTRAMURALLY FUNDED OPERATIONS</u>					<u>EXTRAMURALLY FUNDED OPERATIONS</u>				
Sponsored Research	\$ 1,848,999	\$ 1,951,294	\$ 102,295	5.5%	State of California	\$ 190,710	\$ 196,431	\$ 5,721	3.0%
Other Activities	1,118,954	1,167,988	49,034	4.4%	U.S. Government	1,563,524	1,672,971	109,447	7.0%
					Private Gifts, Contracts & Grants	738,262	753,027	14,765	2.0%
<b>TOTAL EXTRAMURALLY FUNDED OPERATIONS</b>	<b>\$ 2,967,953</b>	<b>\$ 3,119,282</b>	<b>\$ 151,329</b>	<b>5.1%</b>	Other	475,457	496,853	21,396	4.5%
					<b>TOTAL EXTRAMURALLY FUNDED OPERATIONS</b>	<b>\$ 2,967,953</b>	<b>\$ 3,119,282</b>	<b>\$ 151,329</b>	<b>5.1%</b>
<b>TOTAL OPERATIONS</b>	<b>\$ 12,464,266</b>	<b>\$ 13,071,088</b>	<b>\$ 606,822</b>	<b>4.9%</b>	<b>TOTAL OPERATIONS</b>	<b>\$ 12,464,266</b>	<b>\$ 13,071,088</b>	<b>\$ 606,822</b>	<b>4.9%</b>
<u>MAJOR DEPARTMENT OF ENERGY</u>					<u>MAJOR DEPARTMENT OF ENERGY</u>				
<u>LABORATORIES</u>	\$ 3,162,490	\$ 3,257,365	\$ 94,875	3.0%	<u>LABORATORIES</u>	\$ 3,162,490	\$ 3,257,365	\$ 94,875	3.0%

## INTRODUCTION TO THE 2002-03 BUDGET

The University's annual budget is a statement of resources needed to maintain access and ensure the continued excellence of University programs. Funding requests in the budget reflect both long-term and short-term academic program objectives that have been identified and reaffirmed in the University's ongoing planning process. The budget is developed through a decision-making process that involves faculty, students, administrators, and The Regents.

### **University Missions**

The University's fundamental missions are teaching, research, and public service.

#### ***Instruction***

Instructional programs at the undergraduate level transmit knowledge and skills to students and also develop their appreciation of the creative process and their ability to acquire knowledge and evaluate evidence outside the structured classroom environment. At the graduate level, students experience with their instructors the processes of developing and testing new hypotheses and fresh interpretations of knowledge. Education for professional careers, grounded in an understanding of relevant sciences, literature, and research methods, provides individuals with the tools to continue intellectual development over a lifetime and to contribute to the needs of a changing society.

#### ***Research***

As one of the nation's preeminent research institutions, the University provides a unique environment in which leading scholars and promising students strive together to expand fundamental knowledge of human nature, society, and the natural world. The University's basic research programs yield a multitude of benefits that enhance the quality of life, ranging from increases in industrial and agricultural productivity to advances in health care. A stimulating research environment at the University attracts outstanding faculty, improving the quality of education available to students

at all levels. The University, with the support of the State, continues to expand its research partnerships with industry.

### ***Public Service***

Through its public service programs, the University disseminates research results, and translates scientific discoveries into practical knowledge and technological innovations that benefit California and the nation. Through these programs, the faculty and students apply their knowledge and special skills to help solve the problems of today's society.

Undergraduate instructional programs are available to all eligible California high school graduates and transfer students from the California Community Colleges who wish to attend the University of California. The California Master Plan for Higher Education designates the University as the primary State-supported academic agency for research with exclusive jurisdiction in public higher education over instruction in law and graduate instruction in medicine, dentistry, and veterinary medicine. Sole authority among public higher education institutions is also vested in the University to award doctoral degrees in all fields, except joint doctoral degrees with the California State University may be awarded.

The Master Plan was comprehensively reviewed in March 1985, first by a blue-ribbon citizens' commission and later by the Joint Legislative Committee for Review of the Master Plan for Higher Education. Subsequently, the Legislature approved and the Governor signed legislation that reaffirmed the University's missions. The Legislature is again in the process of reviewing the Master Plan with an eye towards developing a plan that begins with K-12 education and extends through higher education.

## **University Programs**

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

UC faculty are well represented in the membership of prestigious organizations such as the National Academy of Sciences and among winners of the Nobel Prize and Guggenheim Fellowships. In the past year, another

University faculty member was awarded a Nobel Prize, becoming the 12<sup>th</sup> UC Nobel laureate in the past six years. With the latest Nobel, 45 faculty and researchers affiliated with UC have won the world's most prestigious award, the most of any public university. Current faculty includes 23 Nobel laureates. In 2000, a UC faculty member was awarded the National Medal of Science, the nation's highest honor for groundbreaking scientific research. UC faculty and researchers have won a total of 45 medals since they were first awarded in 1962.

In 2001, 13 of the 72 new members elected to the National Academy of Sciences were University of California researchers. Election to membership in the NAS is one of the highest honors a scientist may receive. With the recent NAS election, UC has a total of 322 faculty memberships in the organization, more than any other college or university in the nation. Researchers affiliated with UC and the three national laboratories managed by UC who are fellows of the American Academy of Arts and Sciences total 485. Twelve UC researchers in 2001 were awarded Guggenheim Fellowships, which recognize distinguished achievement and exceptional promise. More Guggenheim Fellowships have been awarded to UC faculty than to any other university or college. In 2000, seven UC faculty and a UC chancellor were elected to the American Philosophical Society, the nation's oldest learned society devoted to the advancement of scientific and scholarly inquiry. There are a total of 88 researchers affiliated with UC who are members of the society. In 2000, two UC professors received one of the nation's most coveted honors, MacArthur Foundation Fellowships, which are often referred to as "genius" grants. Since the first MacArthur Fellowships were awarded in 1981, 46 faculty, researchers and others affiliated with UC have been named recipients. In October 2001, 13 faculty were elected to the Institute of Medicine, one of the National Academy of Sciences – UC membership in the organization totals 109. In 2000-01, 18 UC faculty were named as Fulbright scholars to lecture, consult, or conduct research abroad in the 2001 academic year.

In their 1997 book, *The Rise of American Research Universities: Elites and Challengers in the Postwar Era*, authors Graham and Diamond found that UC is in the forefront of research productivity and in creating new knowledge. The book ranked Berkeley number one, and Santa Barbara number two, with the six other general campuses ranked in the top 26, among the nation's public research universities. The Graham-Diamond book reinforced the findings of the most recent rankings of the prestigious National Research Council. Analyzing the doctoral programs of 274 universities, the Council

ranked over half of the University's 230 graduate programs at the nine campuses in the top 20 of their field—a performance unmatched by any university system in the country.

In an unprecedented survey, the National Science Foundation (NSF) showed that the University of California and its affiliated national laboratories produce more research leading to patented inventions than any other public or private research university or laboratory. This study, which is the most thorough examination to date of the scientific foundation of American patents, highlights the importance of publicly financed scientific research.

All of these distinctions are evidence of the University's preeminence among the nation's leading universities, an accomplishment that benefits all of California. The quality of programs developed and maintained within the University over the years owes much to the citizens of California, who have long recognized the benefits to the State of supporting a public university of national and international distinction.

## EXECUTIVE SUMMARY OF THE 2002-03 BUDGET

For over forty years, the University of California has been committed to the tenets of the California Master Plan for Higher Education; it is the blueprint for higher education in this state. It specifies the mission of each public higher education segment and establishes the pool of high school graduates from among which each segment is to admit its students. Consistent with the Master Plan, the University has a three-fold mission:

- ⇒ **Teaching**, which consists of undergraduate, professional, and graduate academic education through the doctoral degree. Students develop analytic and communication skills, gain exposure to a wide range of intellectual traditions and emerging concepts, and develop in-depth knowledge in a particular area of study, all of which help prepare them for an increasingly knowledge-based society. UC's *unique* role in teaching is the primary responsibility it has among State-supported institutions for educating the professional and doctoral students essential to meeting California's—and the nation's—workforce needs, although this role is becoming increasingly more cooperative with CSU as joint doctoral programs among the two institutions are developed and expanded. In addition to undergraduate education, graduate education—and support for graduate students—is a high priority for the University.
- ⇒ **Research**. The Master Plan designates the University as the primary State-supported academic institution for research. All universities have a common goal of providing knowledge and training the workforce business and industry need. As a research university, however, UC provides a unique environment for leading scholars, researchers, and students (undergraduates and graduates) to work together to discover new knowledge and train the state's future workforce in state-of-the-art technologies necessary to keep California on the cutting edge of economic development. Teaching and research are inextricably tied together in the University at the graduate level and increasingly at the undergraduate level.
- ⇒ **Public Service**. The University fulfills its public service mission by contributing to a broad range of activities important to the state, including outreach and K-14 improvement programs designed to bolster

academic performance and improve students' chances of success in pursuing higher education, cooperative extension programs that benefit the agricultural community, and health science programs, such as our five major teaching hospitals and the outpatient clinical care programs they operate. Public service programs allow the State to draw on the expertise of UC's faculty and staff to address important public policy issues.

The University's budget supports its missions under the Master Plan. Without adequate resources to teach, conduct research, and perform those public services for which the institution is uniquely qualified, the University will not be able to meet the high standards of quality that California citizens have come to associate with UC. The University's quality is a hallmark for the State of California. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in federal and private funding, and promotes discovery of new knowledge that fuels economic growth and betters our society. The investment of State, federal, and private funds that support the University's enterprise benefits the University's students, faculty, and staff, as well as the citizens of the State of California.

The University's budget plan for 2002-03 is consistent with the Partnership Agreement with Governor Davis. The Partnership Agreement represents a four-year commitment on the part of the Governor to provide the University with State funding needed to maintain quality and access at a time when the University's enrollment is anticipated to grow dramatically over this decade. Based on current estimates, the University projects enrollment growth of 7,100 students in 2002-03, including an increase of about 5,000 students consistent with the University's long-term projections, and about 2,000 related to overenrollment in 2001-02. It is expected that enrollment will continue to grow at about 5,000 FTE over the remainder of the decade and by 2010-11, the University will reach its planned target of 211,000 FTE. Such dramatic growth over a sustained period of time and presents the University with a major challenge.

The Partnership includes both funding principles that provide the University with a foundation on which to plan for the future, and accountability principles that historically have been important to the State and the University. The funding principles in the Partnership represent *the minimum* necessary to accommodate this enrollment growth and maintain the excellence of the institution to which these students seek admission.

The accountability principles help gauge the University's ability to achieve its goal of excellence in its tri-partite mission of teaching, research, and public service.

Consistent with the Partnership funding and accountability principles, the goals of the University's 2002-03 budget plan are to fund:

- competitive salaries and benefits for faculty and staff, including funding for the University's merit program which is key to recruiting, retaining and rewarding the best faculty and staff;
- enrollment of an additional 7,100 students, representing about a 4.3% increase over 2001-02;
- other inflationary adjustments;
- continuation of a multi-year plan to phase in State support for summer instruction (funding has already been provided to allow student fees charged during the summer to be equivalent to those charged during the regular academic year for all campuses and workload funding to support existing and new enrollment at the first three campuses—Berkeley, Los Angeles, and Santa Barbara);
- strengthening the quality of the University's undergraduate instructional program;
- support for graduate students, including support for collective bargaining agreements reached with representatives of our teaching assistants;
- maintenance of new space that comes online during the budget year;
- increased funding for deferred maintenance; and
- continuation of a multi-year program to address the permanent budget shortfalls in ongoing building maintenance, instructional technology, and library materials.

The Partnership Agreement recognizes that programs funded from student fee income must also receive cost increases and specifies that student fees would increase at the rate of increase in California per capita personal income or the State would provide the equivalent in funding to avoid a student fee

increase. In each of the last seven years, the State has chosen the latter course, providing funds to avoid increases in student fees. In fact, between 1998-99 and 1999-2000, the State also provided funding to offset the revenue lost from reducing fees by 10% for California resident undergraduates and 5% for California residents enrolled in graduate academic programs. Given the State's commitment to avoiding fee increases for the last seven years, and an indication from the Department of Finance that the Governor continues to support a policy of no student fee increases, the University's budget plan assumes that the State will once again provide funding to avoid fee increases in both mandatory systemwide student fees and in professional school fees. However, the State's weakened fiscal situation may mean the University is faced with base budget cuts in 2002-03. Depending on the severity of such cuts, the University's ability to avoid fee increases in 2002-03 may need to be re-evaluated.

The rise in California per capita personal income in 2000 was 7.82%. Therefore, consistent with the funding principles of the Partnership, the University's 2002-03 budget plan assumes that funding equivalent to revenue that would be generated from a 7.82% increase in mandatory systemwide student fees will be available to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue.

While the budget plan does not address all of the University's pressing financial problems, it provides the University with a sound funding base to meet its highest budgetary priorities and represents *the minimum* necessary to maintain quality and access.

The University's 2002-03 budget request has been developed in the context of the State's deteriorating fiscal situation. Prior to the tragedies at the World Trade Center and the Pentagon on September 11, economic indications pointed to a short-term slow-down, but projected a positive outlook for the long term. World events may dictate that this slow-down will be deeper and last longer than originally projected. However, the long-term prospects for the national and California economies are strong and economists continue to predict healthy growth once the State and the nation come out of this temporary slow-down.

Alan Greenspan, Chairman of the Federal Reserve, offered these comments on the national economic situation in testimony before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate:

“Over the past couple of decades, the American economy has become increasingly resilient to shocks. . . . The shock of September 11, by markedly raising the degree of uncertainty about the future, has the potential to result, for a time, in a pronounced disengagement from future commitments. . . . But the foundations of our free society remain sound, and I am confident that we will recover and prosper as we have in the past. For the longer term, prospects for continued rapid technological advance and associated faster productivity growth are scarcely diminished. Those prospects, born of the ingenuity of our people and the strength of our system, fortify a promising future for our free nation.”

While the long-term prospects for the State look strong, the short-term fiscal problems are very serious. The State’s deteriorating fiscal situation has resulted in a sharp decline in revenue from capital gains and stock options and a slower rate of revenue growth from other sources. Revenue estimates for the 2001-02 budget assume levels that are \$3 billion lower than revenue levels in the previous year. To minimize the impact of lower revenues, the Governor and the Legislature reduced the State’s reserve from \$6.3 billion in 2000-01 to a projected \$2.6 million in 2001-02. Moreover, the assumptions built into the final 2001-02 budget adopted by the Governor and the Legislature includes expenditures that overall will exceed revenues by \$3.7 billion on an annual basis, creating a significant problem for future years’ budgets. An additional complication is the need to reimburse the General Fund for costs incurred by the State for energy purchases. So far, the State Treasurer has been unable to sell revenue bonds intended to reimburse the State for these costs. If this issue isn’t resolved, the State’s fiscal problems will be much more serious.

While the budget adopted for 2001-02 was already problematic in terms of revenue and expenditures, recent reports indicate actual revenue is below budget by about \$1.1 billion as of October, which means the budget gap between annual revenue and expenditures for 2001-02 could be as high as \$5–6 billion. On October 23, the Governor issued Executive Orders that instituted a hiring freeze and called for other non-salary related reductions with the intention of saving several hundred million dollars in the current year. The Executive Order request UC to cooperate with the orders and ask UC to work with the Department of Finance to determine the level of mid-year cut. The Orders also specify the UC’s participation “should be limited to a level that will not interfere with meeting their educational mission.”

Given the uncertainty in the State's economic situation for the coming year, the Department of Finance has advised all State agencies, including the University, that as a policy matter, they will not consider funding for new initiatives in 2002-03. In fact, the Governor has asked all State-funded programs to consider options for budget cuts of up to 15%. The University intends to work with the Department of Finance and the Governor throughout the process to minimize any adverse affects on its budget.

In this context, the University is limiting its budget request to full funding of the Partnership for 2002-03. A request for restoration of Partnership funds eliminated in the 2001-02 budget will be made when the State's fiscal situation permits. In the meantime, there are steps the University can take to accommodate temporary shortfalls in the short term with the expectation that when the State's fiscal situation improves, the University's full Partnership funding will be restored. This is consistent with what has occurred in the State's budget over the last three decades, where the early years of each decade were characterized by funding shortfalls and budget cuts and then economic recovery and progress occurs in the rest of the decade. It is the expectation of the University that any Partnership funding not received during this economic slow-down will be restored to the University's budget when the State's economic situation improves.

### **Historical Perspective**

Historically, the University's State-funded budget has reflected the cyclical nature of the State's economy. During times of recession, the State's revenues decline and appropriations to the University are either held constant or reduced. When the State's economy is strong, there is an effort to "catch up." However, these fluctuations have an impact on the University's ability to provide quality instruction and research consistently over time.

The University experienced budget reductions of about 20% in real dollars during the late 1960s and early 1970s. Faculty positions and research funding were cut, and the student faculty ratio deteriorated by about 20%. In the late 1970s and early 1980s, the University again experienced a number of budget cuts. By the early 1980s, faculty salaries lagged far behind comparison institutions and top faculty were being lost to other institutions; buildings needed repair; classrooms, laboratories, and clinics were poorly equipped; libraries suffered; and the building program came virtually to a halt.

The situation improved significantly in the mid-1980s when a period of rebuilding was initiated. Faculty and staff salaries were returned to competitive levels; funds became available for basic needs such as instructional equipment replacement and building maintenance; and research efforts expanded. The capital budget also improved dramatically. There was significant growth in private giving and the University once again became highly competitive for federal research funds.

By the late 1980s, however, the situation began to change. Fiscal problems at the State level led to a growing erosion of gains made during the mid-1980s. By 1989-90, UC was struggling with the early stages of a fiscal problem that subsequently turned into a major crisis.

***1990-91 through 1993-94***

The University experienced dramatic shortfalls in State funding during the first four years of the 1990s. Although State funding increased in 1990-91, it was below the level needed to maintain the base budget and fund a normal workload budget. Over the next three years, State funding for the University dropped by \$341 million. At the same time, the University had to cope with inflation, fixed cost increases, and workload growth. Consequently, the University had to make budget cuts totaling \$433 million, equivalent to roughly one out of every five dollars in its State General Fund budget in 1989-90. In addition, employees received no cost of living increases for three years and salaries were cut on a temporary basis for one year. Student fees were raised, though significant increases in financial aid helped to mitigate the impact.

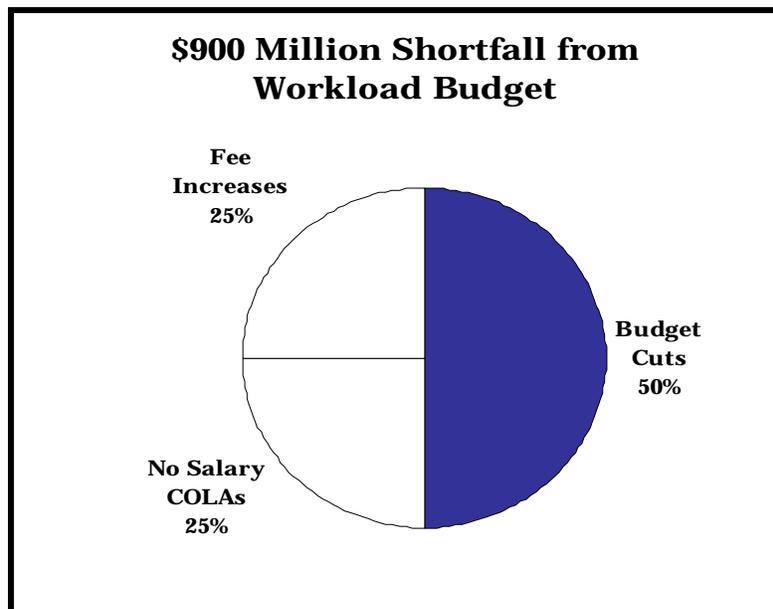
**Display 1**

<b>Permanent Cuts to Campus and Office of the President Budgets</b>		
<b>1990-91 through 1994-95</b>		
<b>(\$ in Millions)</b>		
1990-91	5% cut in research, public service, and administration.	\$ 25
1991-92	Workforce reduction in both instructional and non-instructional programs; cut in non-salary budgets; undesignated cut.	120
1992-93	Permanent cut of \$200 million phased in over two years.	200
1993-94	Reductions in campus and Office of the President budgets, resulting in further workforce reductions. Part of the cut was based on hospital and health sciences clinical programs; remainder of the cut was to be accommodated through improved management efficiencies.	35
1994-95	Reductions in campus and Office of the President budgets in order to fund restoration of salary funds cut temporarily in 1993-94.	53
<b>TOTAL</b>		<b>\$ 433</b>

The enormity of the budgetary losses during the early 1990s is difficult to grasp. One way to convey the magnitude of the problem is to consider that the University's 1993-94 State General Fund budget was less than it was in 1987-88, even though there had been inflation of over 25% and enrollments had grown by about 6,500 students in the interim. Another way is to consider that the University's budget would have been about \$900 million greater if the State had maintained the base and funded normal cost increases and workload growth over the four years from 1990-91 through 1993-94. The University coped with this shortfall in ways that reflected the limited nature of its options in the short term.

As illustrated in Display 2, about half of the loss was taken through budget cuts, approximately another quarter by providing no salary cost-of-living increases for employees, and the remaining quarter was made up through student fee increases accompanied by increases in student financial aid. In fact, over five years, through 1994-95, financial aid grants and other gift aid funded from University sources increased by approximately \$118 million, or nearly 170% to help mitigate the impact of increased fees.

**Display 2**



During the early 1990s, the University's General Fund workforce declined by a net total of around 5,000 full-time equivalent (FTE) employees. While much of this decline occurred through early retirements—a more humane approach

than layoffs—the result was that the University had many fewer people available to handle the same workload. The instructional program was protected to the extent possible by making deeper cuts in other areas such as administration, research, public service, student services, and maintenance. Administration, especially, was assigned deep cuts both on the campuses and in the Office of the President. In addition, purchase of scholarly journals for the libraries was severely curtailed; the backlog of deferred maintenance projects continued to grow; and the budget for instructional equipment replacement declined to only about half of the amount needed. Although instructional resources were eroded by the budget cuts, the University honored the Master Plan by continuing to offer a place to all eligible California resident students seeking admission at the undergraduate level and providing students with the classes they needed to graduate in a timely manner.

### ***1994-95***

In 1994-95, after years of steady erosion, the University's budget finally stopped losing ground. For the first time in four years, the State provided the University with a budget increase, totaling about 3% (excluding revenue bond payments). Base salary levels were restored following a temporary salary cut in 1993-94, and funding for faculty and staff cost-of-living salary increases of about 3% was provided for the first time since 1990-91. The student fee increase was held to 10% through a compromise agreement to fund deferred maintenance with debt financing. Once again, increases in financial aid accompanied the fee increase, helping to offset the impact on needy students.

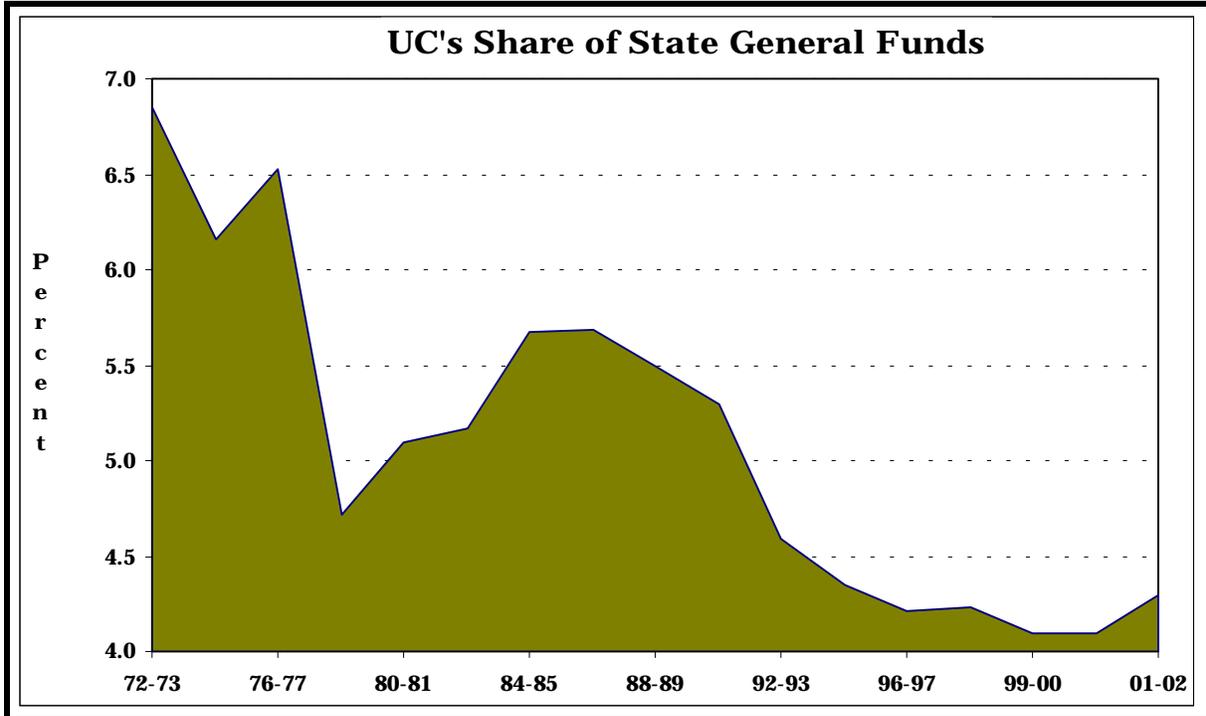
A one-time shift of State-funded Clinical Teaching Support (CTS) from the teaching hospitals, which were experiencing temporary net gains in excess of 5%, helped to meet urgent one-time needs in several critically underfunded areas such as deferred maintenance, instructional equipment replacement, and library materials.

While the 1994-95 budget represented a substantial improvement over previous years, the University nonetheless remained in precarious financial condition. As indicated in Display 3 (next page), its share of the State General Fund budget was at the lowest point since 1978-79.

Recovery did not seem likely in 1994-95, given the stalled California economy and the increasing share of the State budget consumed by workload growth in prisons, health and welfare programs, the K-12 schools, and the community colleges. Adding to the problem were the constitutional or statutory

protections most of those programs enjoy, compared to higher education's unprotected status.

Display 3



### ***1995-96: The Governor's Four-Year Compact with Higher Education***

A major turning point came with the introduction of the Governor's 1995-96, Budget, which included the following statement:

*"Unfortunately, the fiscal difficulties of the early 1990s prevented the State from fully meeting the needs of higher education, and California's competitiveness has been jeopardized. Now that the State's resources have begun to improve, the investment in higher education must be renewed. . . . A strong system of higher education is critical to our social fabric and our ability to compete in the global markets of the 21st Century."*

Translating this perspective into action and signaling a very welcome message about the priority of higher education, the Governor's 1995 Budget included a Compact with higher education covering the four years through

1998-99. Its goal was to provide fiscal stability after years of budget cuts and allow for growth through a combination of State General Funds and student fee revenue. The Compact included provision of State General Fund budget increases averaging 4% per year over the four-year period. The Compact also anticipated general student fee increases averaging about 10% a year as well as additional fee increases for students in selected professional schools. At least one-third of new student fee revenue was to be earmarked for financial aid, with the remainder used to help fund the budget. Additional financial aid was to be provided through the State's Cal Grant Program. The Compact also provided additional funds to cover debt service related to capital outlay projects and deferred maintenance.

Based on the premise that there was a continuing need for efficiencies in order to maintain student access and program quality within available resources, the Compact also included a \$10 million budget reduction each year for four years, reflecting \$40 million in savings to be achieved through productivity improvements. For the capital budget, the Compact provided \$150 million a year, with priority given to seismic and life-safety projects, infrastructure, and educational technology.

During the four years beginning in 1995-96 and ending in 1998-99, the Legislature and the Governor honored the funding principles of the Compact and, in fact, provided funding above the levels envisioned in the Compact. This additional funding eliminated the necessity for an increase in student fees, allowed for reductions in student fees for California resident students, and provided support for a number of high priority research efforts and K-12 student academic development and outreach programs.

The University's 1995-96 budget plan, which was based on the Compact with the Governor, received widespread support in the Legislature and was generally approved. In addition, as mentioned above, \$28.5 million in State funds was provided to help offset the loss of fee revenue. The added funds represented about three-quarters of the revenue that would have been generated by a 10% student fee increase net of financial aid, leaving the University with a budget shortfall of \$9.5 million. This shortfall was dealt with through one-time actions, pending restoration of the funds in 1996-97.

### ***1996-97***

The University's 1996-97 budget plan was developed on the basis of the Compact and it once again received widespread support in the Legislature. In addition to providing the University with \$82.9 million under the Compact

and restoring the \$9.5 million budget reduction from 1995-96, the Legislature and the Governor provided \$27 million in State General Funds to avoid a general student fee increase for the second year in a row. The 1996 State Budget Act also provided funding, above the Compact, for several high priorities, including \$5 million for the first phase of the Industry-University Cooperative Research Program, a collaborative research program initiated by The Regents to promote research partnerships between UC and private industry in fields critical to the state's economy. Other initiatives included \$1 million for the California Supercomputer Center and \$1 million to expand the University's academic outreach programs. The 1996 State Budget also included \$147 million in general obligation bonds to support the University's capital outlay program and an additional \$5 million in general obligation bonds for high priority deferred maintenance projects.

### ***1997-98***

The University's 1997-98 budget was the third consecutive budget to be developed on the basis of the Compact; again, it received widespread support in the Legislature during the budget process. The 1997-98 budget provided the University with \$78.5 million under the Compact and an additional \$37 million in State General Funds, so that UC students would not have a general fee increase for a third consecutive year. The 1997 State Budget Act also provided funding above the Compact to support the California Supercomputer Center (\$2 million), expand student academic outreach (\$1 million), and make permanent the \$5 million for the Industry-University Cooperative Research Program. In addition, funds were provided above the Compact for several initiatives, including \$4.9 million to begin planning for the tenth campus and to expand academic programs in the San Joaquin Valley, \$4.5 million for the UCSF-Fresno Rural Health Initiative, and \$1.1 million for other legislative initiatives. The 1997 Budget Act also included \$150 million in State general obligation bonds to support the University's capital outlay program and an additional \$21.7 million in State general obligation bonds to be used to match Federal Emergency Management Agency (FEMA) funds to replace the earthquake-damaged medical center at UCLA.

As a result of a court-ordered payment to the Public Employees Retirement System (PERS), the State found it necessary to make last-minute cuts of more than \$1.5 billion. Therefore, the University's 1997-98 budget included a one-time undesignated cut of \$9.5 million.

## **1998-99**

Once again, the University's 1998-99 plan was developed on the basis of the Governor's four-year Compact with higher education and recognized the enactment of AB 1318 (Ducheny), which provided for a 5% reduction in mandatory systemwide fees for California residents enrolled in undergraduate programs.

The final 1998-99 State Budget Act provided the University with an increase of \$270 million in permanent State General Funds and an additional \$70 million in one-time funds to address critical infrastructure needs. As a result, the University's 1998-99 State General Fund budget totaled \$2.519 billion, an increase of \$340 million (15.6% increase) over 1997-98.

Consistent with the funding principles of the Compact, the budget provided the University with approximately \$93 million (including restoration of the one-time undesignated cut of \$9.5 million) for basic budget increases, an increase of \$9.5 million for debt service on capital outlay projects and annuitant health benefits, and \$62 million to "buy out" a proposed fee increase of 10% and to reduce mandatory systemwide fees by 5% for resident undergraduate students. The Legislature and the Governor also augmented the University's 1998-99 budget for a number of high priority programs, including:

- \$29 million to fully fund the University's expected enrollment increase. The funding included \$23 million to support the 3,200 students the University had projected it would overenroll in 1998-99, and \$6 million to support an additional 800 undergraduate students enrolled in engineering and computer sciences. In total, the 1998-99 budget provided funding to support 6,000 more students than were supported in 1997-98;
- \$33.5 million to expand the University's outreach program. This was in addition to the \$5 million of University funds the Legislature and the Governor asked the University to reallocate internally, which brought the total increase in outreach funds to \$38.5 million in 1998-99. The budget required a one-to-one match from participating K-12 schools for the student academic programs and for the K-12 school partnerships. With the \$31 million in required matching funds, total outreach spending was about \$137 million in 1998-99, exceeding the University's funding goals recommended by the Outreach Task Force;

- funding for other important outreach programs, including preservation of the \$12.2 million for the California Subject Matter Projects, \$1.5 million to expand the UC ArtsBridge program, and \$1.5 million to expand the Community Teaching Fellowships for Mathematics and Science program;
- \$6.5 million for the start-up of academic programs and planning for the Merced campus, including \$1.5 million in one-time funds to develop distributed learning centers and \$5 million to increase the permanent budget. With this augmentation, the total core funding for the Merced campus increased to \$10 million;
- nearly \$30 million in new funds to expand the University's research programs, including \$5 million to increase funding for the Industry-University Cooperative Research Program, \$16.8 million for medical research related to alcohol and substance abuse, \$2.75 million for agricultural research, \$2 million for neurodevelopmental research, \$400,000 to match federal funds for the International Thermonuclear Experimental Reactor, and \$265,000 for enology and viticulture research;
- \$2.5 million to increase enrollment at the School of Veterinary Medicine and to establish a clinical site in Southern California; \$1 million to help pay for the space needs of the UCSF Fresno Rural Health Program; and, \$3 million for other public service program improvements including research relating to CalWORKS, the Teratogen Information Service and Clinical Research Program, and the Drew School of Medicine;
- \$70 million in one-time funds for critical infrastructure needs, including deferred maintenance, instructional equipment, instructional technology, and library materials.

### ***1999-2000***

In 1999-2000, the University was negotiating a new Partnership Agreement with the Davis Administration. Although the Agreement was not finalized until the spring of 2000, the University based its budget plan on the funding principles that had been proposed for the new Partnership. In 1999-2000, the State provided the University with a permanent increase of \$261.6 million in State General Funds. When the reduction of the \$72.5 million in one-time funds provided in 1998-99 is taken into account, the net increase in 1999-2000 was \$189 million in State General Funds. With this level of increase, the University's 1999-2000 State General Fund budget totaled \$2.708 billion, a 7.5% increase over 1998-99.

Included in the total funds were: \$94.2 million, representing a 4% increase to the prior year's General Fund base, to support the University's basic budget; \$43.3 million to fund budgeted enrollment growth of 5,500 FTE students (3.7% increase) at the agreed-upon marginal cost; \$16.6 million to offset the revenue loss associated with holding fees constant; \$4.8 million for the increase in debt service related to capital outlay projects funded by lease revenue bonds; and \$8.5 million for the increased cost of annuitant health benefits.

In addition to funding the basic budget as described above, the final 1999-2000 State Budget provided support for a number of important initiatives. These initiatives were either proposed by the University as high priorities for funding in addition to the increases in the basic budget, proposed by the Governor, or initiated by the Legislature and approved by the Governor. Among the initiatives funded in the final State Budget were:

- \$25 million to support core needs, including deferred maintenance (\$7.1 million), instructional technology (\$7.1 million), instructional equipment (\$7.1 million) and library materials (\$3.7 million). These funds were in addition to the funding provided for these same programs under the basic budget. The prior year State budget had provided \$70 million in one-time funding for these purposes and The Regents had requested that the one-time funding be continued in the 1999-2000. Acknowledging the need for a more permanent solution to the chronic underfunding for these areas of the budget, the Legislature proposed and the Governor agreed to augment the University's budget by \$25 million with permanent funding. In sustaining the funding, the Governor noted that "*future funding for these purposes will be agreed upon with the University of California as part of the partnership agreement currently being negotiated;*"
- \$26.5 million to reduce fees by another 5% for California residents enrolled in undergraduate programs and by 5% for California resident students in graduate academic programs. As a result, the total reduction in student fees for California resident undergraduates over a two-year period was 10%;
- \$500,000 for the planning and development of the Teacher Scholars Program and \$500,000 for the planning and development of the Principal Leadership Institute;

- \$18.3 million for several outreach and K-12 academic improvement initiatives, including \$6 million for the California Reading Professional Development Institutes, \$750,000 for a summer pre-intern teaching academy serving teachers who have emergency credentials, \$5 million for English Language Development Professional Institutes, \$1 million for the development of the California State Summer School for Mathematics and Science for academically talented high school students, \$4 million for the development of online advanced placement (AP) courses, and \$1.5 million to expand outreach programs for graduate and professional schools, focusing on medical and law schools, and engineering and science disciplines;
- nearly \$21 million in new funding to expand existing State-supported research on alcohol and substance abuse, AIDS, and neurological disorders, and to provide State support for research on brain injury and violence prevention. Also included was a \$5 million augmentation for the Industry-University Cooperative Research (IUCR) Program, bringing total UC and State funding for this program to \$20 million;
- \$1.5 million to expand the California Digital Library (CDL);
- \$2 million for the University's agricultural Cooperative Extension programs to help restore the additional cuts taken by these programs in the early 1990s. The \$2 million augmentation was contingent upon the University reverting to the State property in Santa Clara County that had been used by Cooperative Extension for the Bay Area Research Extension Center (BAREC). That reversion occurred in March 2000;
- about \$730,000 for several other initiatives, including \$120,000 for a feasibility study on whether the University of California should support the development of a new law school, \$150,000 to ensure that all students under the age of 18 at the time of enrollment are properly immunized for Hepatitis B, and \$400,000 to assist Merced County in its planning efforts related to the development of the UC Merced campus.

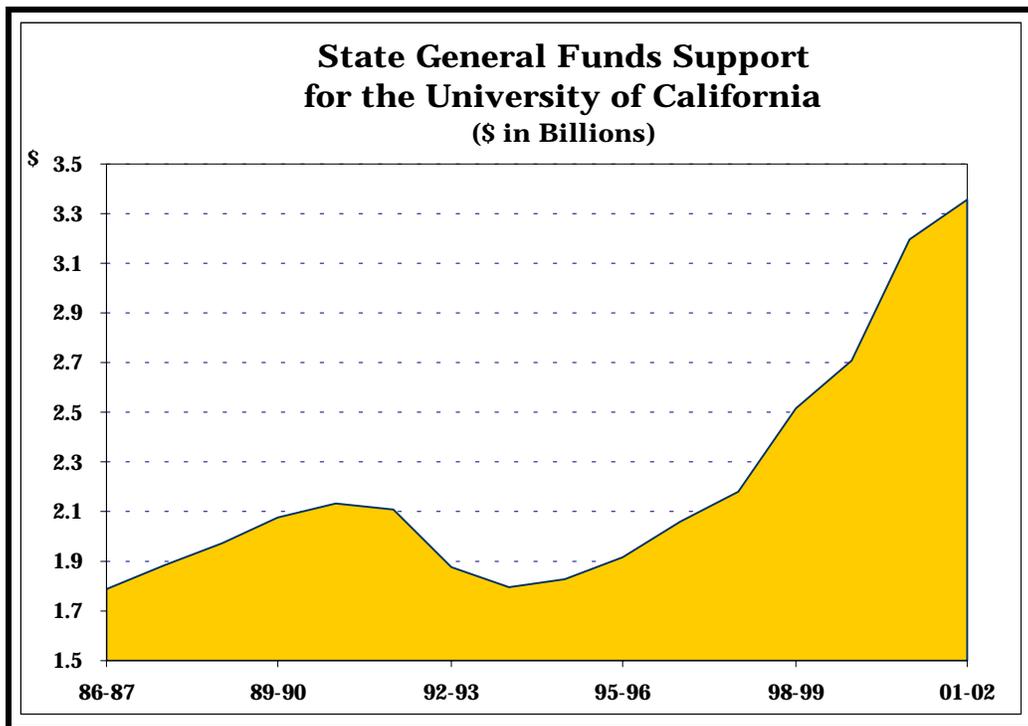
### **A New Partnership**

The University was helped enormously by the four-year Compact introduced by Governor Wilson as part of his January 1995-96 budget. The Compact, which proved to be remarkably successful, provided the University with the

fiscal stability after years of budget cuts and provided the framework to begin planning for the future.

Beginning with the first year of the Compact (1995-96), the State has provided increased funding for the University's budget every year, as Display 4 shows. The "ups and downs" in Display 4 have largely coincided with the State's economy. However, the upward trend in recent years reflects the high priority the State has placed on funding for the University.

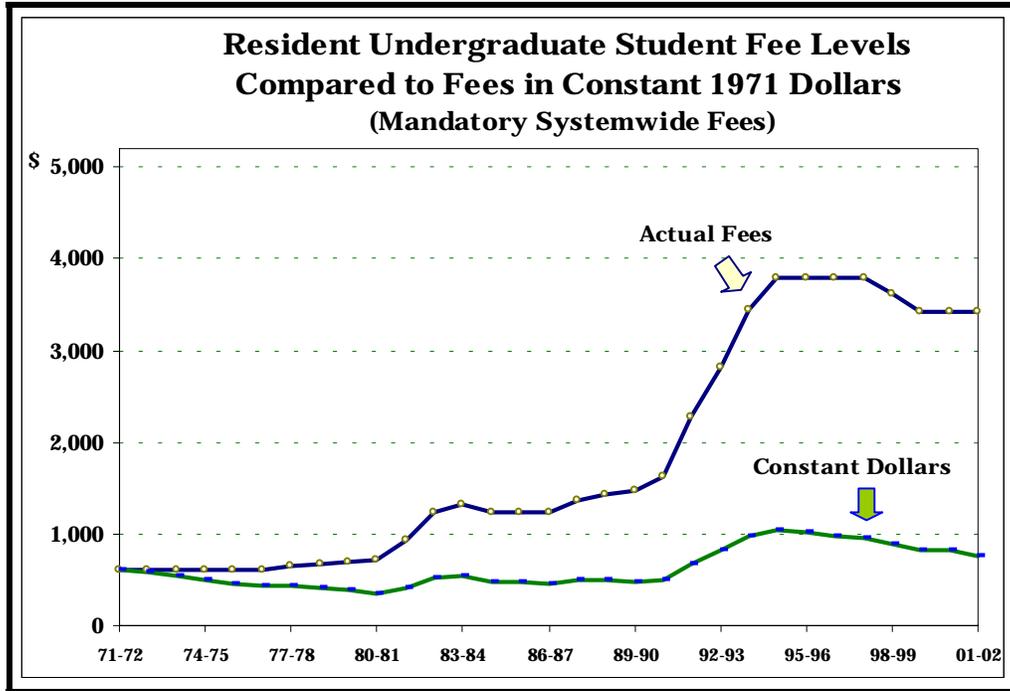
Display 4



The State funding under the Compact allowed the University to maintain the quality, accessibility, and affordability that are the hallmarks of California's system of public higher education. Both the State and the University exceeded their commitments under the Compact. The University enrolled more students than the Compact anticipated, and the State funded them. As outlined above, the State provided funding above the level envisioned in the Compact to support high priority programs including outreach and research, and to avoid fee increases. As noted earlier, since the beginning of the Compact there have been no increases in mandatory systemwide fees: California resident undergraduate students experienced fee reductions totaling about 10% over a two-year period between 1998-99 and 1999-2000, and California resident graduate academics realized a 5% decrease in fees in 1999-2000.

Display 5 shows that fee levels in 2001-02, when adjusted to reflect constant dollars, are still fairly low and are only marginally higher than they were thirty years ago.

Display 5



The success of the Compact encouraged the University and Governor Davis to begin negotiations on a second agreement. Governor Davis was immediately supportive of the funding principles for the new Partnership Agreement, which were developed in time to guide development of the 2000-01 budget. These funding principles are outlined in Display 6 (on page 26).

The Governor and the University continued discussions on the accountability provisions of the new Partnership Agreement throughout the budget negotiation process. Final agreement was reached, and the new Partnership Agreement was released on May 17, 2000 and transmitted to The Board of Regents and the campuses.

The Partnership includes a wide range of accountability measures and specifies that the Administration will annually review Partnership goals and specified performance data. The major themes of the accountability measures in the new Partnership are summarized in Display 7 (on page 27).

The Partnership also specifies reporting requirements for each accountability measure. Many of these reporting requirements will be satisfied by

information provided throughout this document. Others will be met with separate reports provided each year to the Administration.

### ***2000-01***

The University's 2000-01 budget plan, which was based on budgetary priorities similar to those of previous years, was developed in anticipation of the new four-year Partnership Agreement with Governor Davis, described above.

The Governor's Budget, released in January, proposed full funding for the University's budget request and included additional funds for initiatives beyond the Partnership Agreement.

A total increase of \$202.8 million in State funds was provided to support the University's basic budget, including:

- budgeted enrollment growth of 6,000 FTE students at the agreed-upon marginal cost;
- cost increases for student fee-funded programs (avoiding an increase in systemwide mandatory student fees for the sixth consecutive year);
- compensation increases, including continuation costs for 1999-2000 salary increases, merit increases for eligible employees, cost-of-living increases averaging 2% for all eligible employees, parity adjustments for other selected employees including faculty, annuitant health benefit cost increases, and an 8% increase for employee health benefit costs;
- a 2.5% cost increase for non-salary budgets;
- a 1% increase to the base budget for core needs—ongoing building maintenance, instructional technology, instructional equipment, and libraries;
- \$6 million for strengthening the quality of undergraduate education; and
- deferred maintenance and maintenance of new space.

## Display 6

### ***State Funding Commitments:***

- An annual average increase of 4% to the prior year's State General Fund base.
- Funding provided at the agreed-upon marginal cost for all enrollment growth (which is expected to be about 3% annually).
- An additional 1% increase to the prior year's State General Fund base to phase in funding to eliminate the annual budgetary shortfalls for ongoing building maintenance, instructional equipment, instructional technology, and libraries.
- Funding for unavoidable costs, including debt service related to capital outlay and annuitant health benefits.
- One-time funding, contingent upon the State's financial position, for high priority needs, such as deferred maintenance, libraries, equipment, instructional technology, and capital outlay. These funds, which would be contingent upon the State's fiscal situation, would be in addition to the funds provided to support the University's basic budget.
- Funding for new or expanded special initiatives or programs, such as the development of off-campus centers or the opening of new campuses, special research initiatives, outreach and public service programs to improve K-12 schools, the transition to year-round operations, as well as the costs of legislation agreed to and approved by the State. These funds, which would be contingent upon the State's fiscal situation, would be in addition to the funds provided to support the University's basic budget.
- \$210 million a year for each segment, consistent with Proposition 1A, to support capital outlay needs. Support for State general obligation bond measure and/or lease revenue bonds that would provide additional support for capital outlay needs beginning in 2002-03.
- Revenue equivalent to that which would be generated from annual increases in mandatory systemwide student fees and Fees for Selected Professional School students of no more than the increase in the California per capita personal income.

## Display 7

### ***UC Commitments:***

- Continue to admit all eligible California high school graduates wishing to attend the University.
- Continue to provide students with the classes needed to graduate in a timely manner by maintaining increased faculty teaching loads. The longer-term goal is to phase in a return to the historical student faculty ratio of 17.6 to one, with the increase in faculty devoted to strengthening the quality of undergraduate education.
- Continue commitment to maintain improved student outcomes with respect to graduation and retention rates.
- Develop, implement, and evaluate the “4% path” to eligibility.
- Revise academic and capital planning to reflect the goal of opening the Merced campus by 2004-05.
- Continue commitment to maintain competitive faculty salaries, with an emphasis on merit-based salary programs.
- To the extent that the community colleges increase the number of “transfer ready” students, increase the number of California Community College students who transfer to UC by 6% annually over 7 years (from 10,150 to 15,300) between 1998-99 and 2005-06.
- Assume greater responsibility in working with K-12 schools to help improve K-12 student performance; expand outreach programs to improve the academic preparedness of K-12 students, especially students from disadvantaged backgrounds; and increase opportunities for K-12 teachers to participate in professional development programs by expanding existing programs such as the California Subject Matter Projects and the California Reading Professional Development Institutes, and developing new institutes in Mathematics, Algebra, and English.
- Commit to playing a greater role in the preparation of K-12 teachers by more than doubling the number of students enrolled in teacher credential programs in 1998-99 from 1,000 to 2,500 students by 2002-03.
- Develop and implement Teacher Scholars Program to provide 400 students the opportunity to earn a combined Masters’ and Teacher Credential in 15 months.
- Expand the number of joint doctoral degree programs offered in collaboration with CSU.
- Improve productivity and utilization of existing facilities.
- Reach agreement with the Administration and the Legislature on a plan for phasing in implementation of a State-supported term by summer of 2001.
- Help maintain California’s competitiveness through continued investment in research, including development of three California Institutes for Science and Innovation.
- Place a priority on producing graduates who will meet California’s workforce needs, including an increase of at least 50% in the number of engineers and computer scientists trained at UC.
- In order to help maintain quality, seek additional private resources and increase UC’s share of federal research dollars.
- Increase opportunities for students to participate in community service activities.

**(2000-01 Continued)**

Consistent with funding principles in the Partnership Agreement, \$125 million in additional funding beyond the basic expenditure plan was provided in the Governor's January budget for research, public service, and other initiatives. These initiatives consisted of several proposed by the University as high priorities for funding if sufficient State resources were available, as well as several proposed by the Governor. These initiatives included:

- \$20 million for research in engineering and computer science, environmental science, UC-Mexico collaboration, and Internet2;
- over \$70 million for teacher professional development programs, including expansion of the California Subject Matter Projects and the California Reading Professional Development Institute, and establishment of new institutes in English, algebra, and math;
- \$10 million for other public service initiatives expanding programs such as the California Digital Library, Cooperative Extension, Online Advanced Placement courses, the California State Summer School for Mathematics and Science, community college transfer programs, and graduate and professional school outreach;
- \$1.1 million to begin planning for a regional center in the Santa Clara Valley associated with the Santa Cruz campus; and
- \$25 million in one-time funding for equipment for the University's teaching hospitals, in recognition of their strained financial circumstances.

The Legislature approved the January Governor's Budget in full.

In addition, the final State budget included funding proposed by the Governor in his May Revision and approved by the Legislature, as well as augmentations proposed by the Legislature and ultimately approved by the Governor. Major augmentations included:

- \$19 million (\$12 million proposed by the Governor in the May Revision and an additional \$7 million proposed by the Legislature) in funding for staff salary increases beyond the cost-of-living and merit increases included in the University's original expenditure plan. These funds were used to provide salary increases primarily for lower-paid staff employees;

- \$50 million in funding for Internet2 connectivity for UC and K-12. Of the total, \$18 million was provided as one-time funds to continue the University's effort to connect more faculty and students to Internet2, and \$32 million was provided in permanent funds for a program to help K-12 schools expand their access to the high-speed Internet. Internet connectivity for K-12 is a much-needed component in the University's effort to deliver AP online courses to the schools;
- one-time funding of \$20 million for deferred maintenance, instructional equipment, and libraries;
- one-time funding (\$6 million) for endowed chairs and new initiatives in aging and geriatrics;
- \$13.8 million to reduce summer term fees to a level equivalent to what students pay during the regular academic year;
- \$42 million for additional research as follows: \$1 million each for Lupus, spinal cord injury, and alcohol and substance abuse; \$6 million for labor policy; \$3 million for marijuana usage for medicinal purposes, \$30 million for neurodevelopment disorders (through the MIND Institute located at the Davis campus), including \$28 million in one-time funding and \$2 million in permanent funding; and
- \$1 million for expansion of the Mathematics, Science, and Engineering Achievement program.

The final budget provided the University with an increase of \$487.6 million in State General Funds. With this increase, the University's 2000-01 State General Fund operating budget totaled \$3.2 billion, which was a 17.9% increase over 1999-2000. Of this total, \$107.9 million was for one-time expenditures.

The final 2000-01 State budget also included general obligation bond funding of \$212.7 million for capital projects included in The Regents' budget request. In addition, the State budget included \$133.7 million in State General Fund augmentations beyond the University's original capital request for the following high priority programs:

- \$75 million for the California Institutes for Science and Innovation. Legislation was adopted committing the State to fund \$75 million per year

for four years (for a total of \$300 million) to develop three institutes. The legislation also specified that State funding must be matched from non-State sources on a two-to-one basis;

- \$50 million for teaching hospital infrastructure projects;
- \$4 million for working drawings for the School of Veterinary Medicine project on the Davis campus;
- \$4.7 million for working drawings for the first two initial buildings for the Merced campus.

Also included as part of the budget was authority for \$600 million in lease-revenue bonds for compliance with seismic requirements for the University's teaching hospitals. This funding was critical to the hospitals' ability to deal with the high degree of uncertainty surrounding their financial situation.

### ***2001-02***

For the seventh consecutive year, the University's 2001-02 budget request was based on the Partnership Agreement (or "Compact") with the Governor.

The Governor's Budget, released in January, proposed full funding for the University's budget request and included additional funds for initiatives beyond the Partnership Agreement.

A total increase of \$244.8 million in State funds was proposed to support the University's basic budget under the Partnership, as follows:

- compensation increases, including continuation costs for 2000-01 salary increases, merit increases for eligible employees, cost-of-living increases averaging 2% for all eligible employees, parity adjustments for other selected employees including faculty, annuitant health benefit cost increases, and a 9% increase for employee health benefit costs;
- a 2.5% cost increase for non-salary budgets;
- cost increases for student fee-funded programs (avoiding an increase in systemwide mandatory student fees for the seventh consecutive year);

- budgeted enrollment growth of 5,700 FTE students at the agreed-upon marginal cost;
- funds to provide State support for summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses;
- \$8 million for strengthening the quality of undergraduate education; and
- deferred maintenance and maintenance of new space; and
- a 1% increase to the base budget for core needs—ongoing building maintenance, instructional technology, instructional equipment, and libraries;

An additional \$7.6 million was also proposed to support programmatic increases in graduate and professional school outreach (\$1.5 million), student retention services (\$3 million), ASSIST (Articulation System Stimulating Interinstitutional Student Transfer—\$1.1 million), and MIND Institute research (\$2 million).

In addition to those permanent funding increases, the Governor's Budget proposed one-time funds for a variety of programs, including continuation of \$18 million for Internet2; continuation of \$20 million for deferred maintenance, instructional equipment, and library materials; \$5 million for engineering and computer science research assistantships; \$5 million for environmental science research; \$3 million for invasive species research; \$2 million for Merced faculty start-up costs; continuation of \$4 million for genetic biomarker research being conducted by the March of Dimes; and \$250,000 for an aging study requested by the Legislature.

After accounting for an adjustment to reflect elimination of prior year one-time funds and other budget adjustments, the overall increase proposed for UC was \$202.5 million, a 6.3% increase over the prior year.

Unfortunately, the State's fiscal situation rapidly deteriorated and the Governor's May Revise proposed major cuts from the Governor's January budget. Partnership funds totaling \$90 million were eliminated from the University's proposed budget, reducing by half, or \$60 million, the funding provided for the basic budget—thereby significantly reducing the funding available for compensation and other fixed costs—and eliminating the additional 1% (\$30 million) originally proposed for core needs. The Governor

also proposed elimination of funding for several of the programmatic increases recommended in January.

While some funds were eliminated in the May Revise, the Governor also recommended some increases. Enrollment estimates for 2001-02 indicated the University would have 1,400 more students than anticipated in the January Budget. Therefore, the Governor proposed an additional \$12.8 million to accommodate the increased enrollment. The Governor also proposed \$55.9 million in one-time funds for higher energy costs in 2000-01 and \$19.7 million on an ongoing basis for higher energy costs in 2001-02 and thereafter.

Further reductions and additions to the University's budget were adopted by the Legislature at the end of the budget process, and the Governor vetoed approximately \$22.5 million from the budget approved by the Legislature.

The final Budget Act for 2001-02 contains funding for the following:

- \$59.9 million for a 2% base budget adjustment. This is sufficient to fund continuation costs related to 2000-01 salary increases, a salary increase package averaging 2% for merit salary increases and COLAs combined for faculty and staff, salary increases for teaching assistants and clerical staff consistent with collective bargaining agreements, a 9% increase in health benefits for faculty and staff, and funding for maintenance of new space that comes on line during the budget year. Funds for strengthening the quality of undergraduate education were eliminated and funding available for debt financing for deferred maintenance projects was reduced from \$6 million to \$4 million in order to fund the package of compensation increases;
- \$65 million for an enrollment increase of 7,100 FTE (including the additional 1,400 FTE proposed in the May Revise);
- \$21.5 million for cost adjustments to student fee-funded programs, avoiding student fee increases for the seventh consecutive year;
- \$20.7 million for State-supported summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses;
- \$75.6 million for energy costs (\$55.9 million for 2000-01 and \$19.7 million for 2001-02 and beyond);

- \$14 million to continue one-time funds for Internet2;
- \$2 million for faculty start-up costs associated with accelerated hiring at the Merced campus;
- \$6.4 for increases in research requested by the Governor and/or the Legislature, including \$2 million for the MIND Institute on the Davis campus (to be used to for competitive research grants awarded to faculty throughout the system); \$3 million to continue one-time funding for research into the medicinal benefits of marijuana; \$1 million for spinal cord injury research, and \$350,000 for other miscellaneous research; and
- \$5 million in one-time funds clinical teaching support funds for teaching hospitals, neuropsychiatric institutes, and dental clinics.

The Governor vetoed \$2.8 million out of the University's base budget, including \$2 million in outreach funding, \$500,000 in funding for the University's Labor Institutes, and \$310,000 in funds for the Alcohol and Substance Abuse research program at the San Francisco campus.

The final budget also contained a \$5 million reduction in funding for the California Professional Development Institutes, in order to align the level of program funding with the level of funding provided in the K-12 budget for teacher stipends. The budget also called for a \$5 million redirection of funds from School-University Partnership Programs to increase funds for the MESA, Puente, and Early Academic Outreach programs, and provide funds for student-initiated outreach and for campus costs associated with comprehensive review of admissions applications.

After accounting for other miscellaneous budget adjustments, the total increase in State General Funds for the University's budget was \$162.7 million, an increase of 5.1% over the previous year.

## **Planning for the Longer Term**

### ***Enrollment Projections***

Consistent with its commitment to maintain access under the Master Plan, the University is continuing to focus its long-term planning efforts on issues associated with rapid enrollment growth. UC's long-term enrollment projections are based on consideration of four primary factors:

- projections of future enrollment from the Department of Finance;
- assumptions about the proportion of eligible high school graduates who actually enroll in the University (12.5% are eligible, but generally about 7.5% actually enroll—that proportion has held fairly steady in recent years);
- assumptions consistent with the Partnership Agreement about increases in California Community College transfer students; and
- increases in graduate enrollment needed to meet workforce needs in both academia and industry.

Based on current estimates, the University projects enrollment growth of 7,100 students in 2002-03, including an increase of about 5,000 students consistent with the University's long-term projections, and about 2,000 related to overenrollment in 2001-02. It is expected that enrollment will continue to grow at about 5,000 FTE over the remainder of the decade and by 2010-11, the University will reach its planned target of 211,000 FTE.

Each campus has a Long Range Development Plan (LRDP) that defines the maximum anticipated enrollment of the campus, reflecting the mandated environmental reviews and approvals necessary for campus development. The existing campus LRDPs were approved between 1989 and 1994 and many of the campuses currently are engaged in the lengthy process of updating their LRDPs. The existing LRDPs anticipated an increase systemwide of 34,000 additional students over the 1998-99 enrollments at the then-existing campuses. In addition, the University has been planning for 6,000 students to enroll at the Merced campus by 2010. The latest projections of average annual enrollment growth indicates that, by 2010, the University will need to find a way to accommodate about 24,000 more FTE students than the current LRDPs anticipated. The University is pursuing a number of options to address this enrollment growth, including expanding existing campus LRDP enrollment targets where possible, greater use of the summer, and increasing the number of students educated in off-campus centers. (Planning for expanded summer instruction is discussed in more detail later in this *Executive Summary* and in the *General Campus Instruction* chapter of this document.)

## ***Eligibility and Admissions Policies***

Consistent with the Master Plan for Higher Education, UC's policy is to provide access to students in the top 12.5% of California high school graduates in the state who choose to attend. On an annual basis, the University monitors key demographic and financial indicators, as well as recent studies and policy changes that affect enrollment.

One factor affecting enrollment projections is the actual rate of UC eligibility of public high school graduates. In fall 1997, the California Postsecondary Education Commission (CPEC) completed a high school eligibility study, based on 1996 high school seniors, which indicated that 11.1% of California high school graduates were fully eligible for the University. CPEC is conducting a new eligibility study that is expected to be completed in fall 2003.

In 1998, to respond to the last CPEC eligibility study and to increase the breadth of diversity of the UC student body, The Regents approved revised guidelines, based upon recommendations of the Academic Senate, for freshman admission to the University. As a result, effective in fall 2001, there are three paths by which students may become eligible.

- Statewide eligibility is achieved if a student completes 15 units of work in specified academic courses, commonly referred to as the a-f requirements (or a-g requirements beginning fall 2003, as explained below) and meets or exceeds a minimum score on an eligibility index, which includes a combination of high school grade point average, (calculated on the 15 academic units) and a combination of the Scholastic Assessment Test (SAT I) *reasoning* scores and three *subject* scores (SAT II). The Academic Senate is currently examining the use of SAT I test scores in determining eligibility for admission. Recommendations will be brought to The Regents once this review is completed.
- Alternatively, students may become eligible on test scores alone (although less than 1% of UC students become eligible through this path). To be eligible by examination alone, a student must achieve a total score of at least 1400 on the SAT I and earn a total score of 1760 or higher on the three SAT II subject tests, with a minimum score of 530 on each test.
- A third path, eligibility in the local context, was effective for the first time for students entering in fall 2001. It is achieved if a student completes 11 of the a-f requirements (a-g requirements beginning with admissions for

fall 2003) by the end of the students' junior year in high school and he or she is within the top 4% of students (based on GPA) in those courses in their school.

In the first year of implementation, over 11,000 ELC students were identified. Of this total, about 9,000 ELC students applied to the University and were admitted. Simulations performed comparing applications in 2001-02 with application patterns in previous years indicate the ELC program likely generated an additional 2,000 applications from students who otherwise might not have applied. Preliminary analysis shows that much of the increase in fall 2001 applications from underrepresented minorities and also from rural students is attributable to this new eligibility program. UC will have data on how many of these students actually enrolled later this fall. The response in the K-12 community to the second year of the program is approaching 100% participation, and each UC campus is increasing outreach efforts for the ELC students so that even more of them will apply and enroll next year.

UC's Board of Admissions and Relations (BOARS) with Schools, which has responsibility for establishing eligibility and admissions requirements, estimates that approximately 11.1% of California high school graduates are eligible through the statewide eligibility and test score paths combined and that 1.4% of students in the state will become eligible through the ELC path.

In addition to these changes, The Regents took action to require all freshman applicants applying for admission beginning in fall 2003 to complete one year of University-approved work in Visual and Performing Arts. This change is intended to bring consistency to the course requirements for admission to UC and CSU.

A fourth path to eligibility, the Dual Admissions Program, has been approved by The Regents, but implementation is being delayed until sufficient resources are available to fund the support services necessary for the success of the program. This path is intended to address the need to increase community college transfers and to help with the University's efforts to increase opportunities for students from educationally disadvantaged backgrounds. Under this program, students who are within the top 12.5% of their high school class, but who do not meet eligibility requirements through either of the statewide eligibility or the 4% paths, would be eligible for admission simultaneously to a community college and a UC campus. After satisfactorily fulfilling their freshman and sophomore requirements at a

community college, students would be enrolled at the UC campus that admitted them when they were first identified as “Dual Admission” students.

The Dual Admission Program will create a closer link between UC and the community college system and ensure a more effective transfer process as envisioned by the Master Plan. It will also help UC meet the transfer goals set forth in the Partnership Agreement with the Governor to increase the number of community college transfers by 6% annually, to 15,300 students by 2005-06. More importantly, it will send a strong signal to students who have excelled academically in disadvantaged high schools that they have a straightforward path to a UC degree. It is anticipated that this program, in concert with the new Cal Grant entitlement program (described in the *Financial Aid* chapter of this document), will have a positive impact on encouraging more students from disadvantaged backgrounds to seek admission to UC.

The University will continue to work with the Governor and the Legislature to obtain the funds necessary to successfully implement this program. This program is further discussed in the *General Campus Instruction* and *Public Service* chapters of this document.

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

These guidelines have been in place since the 1960s, with modifications adopted through the years. They were revised most recently in 1996 following the passage of The Regents' resolution SP-1, which prohibited the University from using race, religion, sex, color, ethnicity, or national origin as criteria for admission to the University. This policy conforms to Proposition 209, enacted in 1997 as Section 31 of Article 1 of the California State Constitution, which stipulates that the State, including the University, "shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting."

SP-1 also changed the admissions selection process to require that the top 50–75% of the admitted class be selected solely on academic criteria, with the

remaining 25–50% based on a combination of academic and supplemental criteria. This process is used to select students at campuses that receive more applications from UC-eligible students than they have spaces available in their entering class.

In May, 2001, The Regents adopted a resolution rescinding SP-1, but stating the University's continuing commitment to both comply with the provisions of Proposition 209 and to seek out a high quality and diverse student body. The resolution also reaffirmed that the Academic Senate shall determine the conditions for admission to the University, subject to the approval of The Regents, and that, pending any changes which The Regents might approve, the provisions for admission shall be those outlined in the Guidelines for Implementation of University Policy on Undergraduate Admissions, adopted July 1996 and revised in May 2000.

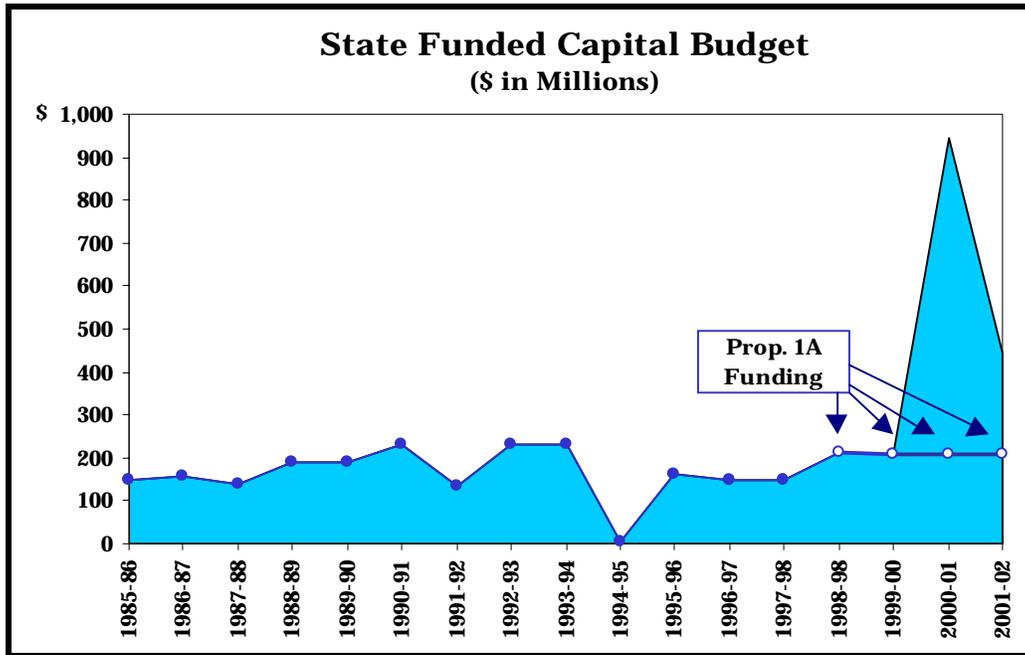
BOARS and the Academic Senate are reviewing selection guidelines that would change the part of the admissions selection policy that currently requires a certain percentage of students to be admitted by academic criteria alone to instead allow all applicants to be evaluated on the basis of both academic and other criteria taken in the context of their high school environment. A final recommendation on this proposal is expected from the UC faculty followed by consideration by the Board of Regents in November 2001.

### ***Facilities Needs for Accommodating Enrollment Growth and Maintaining Quality***

Adequate facilities are a critical factor in the University's ability to accommodate the expected rapid growth of students and maintain the quality of the academic program.

As Display 8 indicates, historically, State funding for capital outlay has fluctuated significantly. In November 1998, voters overwhelmingly approved Proposition 1A, which has provided higher education with \$2.5 billion in general obligation bonds over four years. The University's share has been about \$210 million per year. In the last two years, the University has also received capital funds from other State sources. In the 2000-01 budget, the State provided \$133.7 million of State General Funds for capital outlay, including funding for the California Institutes for Science and Innovation and for hospital infrastructure. The State also provided \$600 million in lease revenue bond authority for hospital seismic projects required by SB 1953.

Display 8



Again in 2001-02, the State provided the University with over \$500 million in capital outlay funds, including \$206.9 million from Proposition 1A funds, \$99.9 million in State General Funds, including \$95 million for the California Institutes for Science and Innovation, and \$224.6 million in lease revenue bonds for the Merced campus, the Davis campus' M.I.N.D. Institute facilities, the Riverside campus' Heckmann Center for Entrepreneurial Management, and the San Francisco campus' Fresno Medical Center.

A major issue facing the University is future funding for capital outlay. The projected growth over the next decade presents significant challenges. However, even if there were no enrollment growth with which to contend, the University has significant capital needs for seismic and life-safety requirements, modernization of out-of-date facilities that no longer serve the academic programs they house, and renewal of infrastructure and other facility systems that are worn out and cannot accommodate even present needs.

The University estimates that it will require approximately \$600 million per year over the next decade to address its most pressing facilities needs for core academic and support space traditionally supported by the State. In addition, there are other urgent needs in areas traditionally not supported by the State, such as student and faculty housing, parking, and other facilities that serve public as well as University needs. The University is developing plans

that identify funding strategies for all facilities needs, both State-funded and non-State-funded.

The University's annual budget request to the State is focused on those facilities that traditionally have been State-funded. There is serious concern that capital resources will not be sufficient to support the renewal and modernization of existing facilities and also accommodate projected enrollment growth. Recognizing the State's difficulty in funding the full annual State-supportable capital outlay need, the University has committed to meeting a portion of this need through significant efforts in private fundraising and devoting a portion of the increase in UC General Funds to pay for debt service on long-term financing for deferred maintenance.

However, the most critical element in the University's ability to meet its capital facilities needs is a new general obligation bond measure. The University is working with the Governor's Office and the Legislature on such a measure. A bill to place an education bond on the 2002 ballot was nearly passed by the Legislature during the last days of the 2001 legislative session; however, the bill was not finally adopted and thus carries over to the 2002 session for any further action. It is highly likely a significant bond measure will be adopted when the Legislature returns at the beginning of next year; such a bond measure is a high priority for the Governor and the Legislature. The timing, however, means that any bond measure adopted by the Legislature would be placed on the November 2002 ballot, rather than the March 2002 ballot.

Based on discussions to date, it is most likely the bond measure will include about \$330 million per year for UC to address general capital needs for growth, seismic, infrastructure, and modernization projects at existing campuses with a separate increment for planning and construction on the Merced campus. Other increments of funding may be separately available for other off-campus and "joint use" projects, that is facilities that would serve needs for more than one higher education segment. Funding for the California Institutes for Science and Innovation will be provided from General Funds or Capital State lease revenue bonds.

The University's 2002-03 capital budget request has been developed on the assumption that the final bond measure will be similar to that described above; it is discussed in more detail at the end of this *Executive Summary*.

## Overview of the 2002-03 Budget Request

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

Revenue from non-State sources, such as federal funds and private giving, are critical to the University's ability to do research, support students, and operate its teaching hospitals. The Department of Energy Laboratories are entirely federally funded. Over half of the University's research expenditures and nearly one-third of the net operating revenue of the teaching hospitals is from federal funds. In addition, 58.6% of financial aid received by UC students comes from federal funds, of which 76% was loans, 3% was work-study and 21% was grants, fellowships and scholarships. In recent years, the University has done very well in terms of attracting more federal and private funds for research and financial aid. The uncertainty about the State and national economy, however, makes it difficult to predict how these sources will be affected in the near term. Nevertheless, it is the University's expectation that these fund sources will continue to provide strong support for the University over the long term. Federal and private funds are discussed more fully at the end of this *Executive Summary*.

This section of the *Executive Summary* discusses general support for the University's budget, including State General Funds, UC General Fund income, and student fee revenue based on the Partnership Agreement with the Governor. It describes the need for funding increases for fixed costs, workload and program growth anticipated to be funded as part of the Partnership to support the University's basic budget. A more complete discussion of the existing base budget and associated policy issues within the major functional areas of the budget is contained in each chapter of this document.

Display 9 (next page) identifies the components of the 2002-03 budget plan, with increases totaling \$353.9 million. This total includes \$291.8 million in State General Funds, \$24.0 million in student fee income related to enrollment growth, and \$38.1 million in UC General Funds (including a 4% increase in nonresident tuition).

**Display 9**

**2002-03 Budget Request**

(\$ in Millions)

2001-2002 Operating Budget

Estimated State Funds (excluding one-time funds and lease revenue payments) .....	\$ 3,172.6
Estimated State and UC General Funds plus Student Fee Income (excluding one-time funds and lease revenue payments) .....	4,162.2

***PROPOSED INCREASES IN EXPENDITURES***

(Based on the Partnership)

**Fixed Costs**

Three-month continuation costs of 2001-02 salary increases .....	2.6
Merit increases for faculty and staff (approximately 1.5%) .....	44.8
Funding equivalent to an average 2% cost-of-living salary adjustment for faculty and staff .....	40.3
Parity adjustments for faculty and staff (2%) .....	14.9
Funds to support 10% increase in health benefit costs for faculty and staff .....	14.9
Price increase for non-salary budgets (2.6%) .....	29.2

**Workload and Program Growth**

Enrollment growth (7,100 FTE students)	
State funds .....	63.9
Student fee funds .....	24.0
Phase in State support of summer term (4,032 FTE) .....	33.2
Professional school fee buy-out .....	2.5
Strengthening the quality of undergraduate education .....	6.0
Graduate student support .....	
TA fee remission .....	3.0
Other .....	3.0
Operation and maintenance of new space .....	8.5
Deferred maintenance (debt service) .....	6.0
Ongoing maintenance .....	13.0
Instructional technology .....	13.7
Library resources .....	5.0
<b><i>Total Increase Under the Partnership</i></b> .....	<b><i>\$ 353.9</i></b>
<i>% increase in State and UC General Funds, and Student Fee Income</i> .....	<i>8.5%</i>

***PROPOSED INCREASES IN INCOME***

State General Funds (4% increase to the base, excludes debt service for capital outlay) ....	\$ 126.9
State General Funds (1% increase to the base for core needs) .....	31.7
State General Funds for enrollment growth (marginal cost rate) .....	63.9
Funding for phasing in State-supported summer term .....	33.2
Revenue equivalent to 7.82% fee increase .....	36.1
Increase in fee income related to increase in enrollment .....	24.0
UC General Funds income (including 4.0% increase in nonresident tuition) .....	<u>38.1</u>
<b><i>Total Increase in State and UC General Funds, and Student Fee Income</i></b> .....	<b><i>\$ 353.9</i></b>

Consistent with the Partnership Agreement with the Governor, the \$291.8 million increase in State General Funds comprises: \$126.9 million, representing a 4% increase to the prior year's State General Fund budget, excluding debt service and one-time funds; \$31.7 million, representing a 1% increase to the prior year's State General Fund budget to reduce permanent funding shortfalls in ongoing building maintenance, instructional technology, and library resources; \$63.9 million to fund enrollment growth of 7,100 FTE students (a 4.3% increase) at the agreed-upon marginal cost, \$33.2 million for phasing in State support for summer instruction at the remaining five general campuses; and \$36.1 million in revenue equivalent to what would be generated, net of financial aid, if mandatory systemwide fees and fees for selected professional schools were increased by 7.82%, the estimated growth in the California per capita personal income in the calendar year 2001.

Also included in the budget is an increase in nonresident tuition of 4.0% (\$428), which is consistent with State policy. This policy calls for consideration of the following two factors in setting the level of nonresident tuition: (1) the total nonresident charges imposed by the public salary comparison institutions and (2) the cost of instruction. With a \$428 increase, total fees and tuition charged to nonresident students at the University will continue to be less than projected tuition and fees at the public higher education institutions that are used by the University for faculty salary comparison purposes.

The total requested budget increase in sources used to support the general budget is about 8.5%, when calculated on a base that includes programs funded from State and UC General Funds and student fees (Educational Fee, University Registration Fee, and the Fee for Selected Professional School Students).

### ***Fixed Costs and Economic Factors***

**Continuation Cost of 2001-02 Salary Increases.** The Governor's January budget proposal for 2001-02 originally fully funded the Partnership, which included sufficient funds for merit salary increases and a 2% cost-of-living adjustment (COLA). As part of the final actions on the 2001-02 State budget, \$90 million in Partnership funds for the University's basic budget were eliminated from the budget. Remaining funds were sufficient to fund a total compensation package of merit salary and COLA increases averaging 2% for eligible University employees. Because COLA increases are effective on October 1 of each year, and thus funded for only nine months,

funding for the remaining three months must be provided the following fiscal year. In 2002-03, the continuation cost for three months, including related employee benefits, is \$2.6 million.

It is the University's expectation that the Partnership funding for compensation increases eliminated from the 2001-02 budget will be restored when the State's fiscal situation improves.

**Merit Salary Increases for All Eligible Employees.** Funding for merit salary increases, which are increases within existing salary ranges, is again among the University's highest budget priorities. The merit salary programs recognize and reward excellence and are critical to the preservation of quality. Merit salary increases are not automatic. Academic merit salary increases are awarded only after extensive review of individual achievements. Staff merit salary increases are awarded to eligible individuals on the basis of performance. The 2002-03 budget includes \$44.8 million for merit increases for faculty and staff.

**Cost-of-Living-Adjustment Salary Increase Effective 10/1/02.** The University's goal has been to maintain market-based competitive salaries for its employees. This means providing sufficient funds, through a combination of merits and COLAs, 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.

With the shortfall in Partnership funding in the 2001-02 budget, the University lost funding that had been targeted for COLAs and parity increases for faculty and staff. Instead of a 2% COLA for all employees as originally planned with full Partnership funding, the University was only able to fund a combination of merit and COLA increases averaging 2% for faculty and staff. As a result, salaries for faculty are likely to lag the average of the University's comparison institutions in the current year by about 2-3%, while many staff salaries will continue to lag the market. It is the University's expectation that when the State's fiscal situation improves, the Partnership funds eliminated from the 2001-02 budget will be restored, allowing the University to bring faculty salaries back to competitive levels and provide increases in staff salaries that will prevent further deterioration relative to the market.

For 2002-03, the University is requesting funding for COLA salary increases averaging 2% for eligible faculty and staff employees, effective October 1, 2002. The cost of this increase, including related employee benefits, is \$40.3 million. Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA).

**Parity Salary Increase for Faculty and Staff Effective 10/1/02.**

Funding for an additional 2% parity salary increase for faculty and staff is requested to bring faculty salaries closer to the average salary of the eight comparison institutions, and to allow the University to provide salary increases for certain categories of staff employees that will bring salaries closer to market levels.

Because of the underfunding of the Partnership Agreement in 2001-02, even with funding for normal merit increases, a COLA salary increase averaging 2%, and a parity salary increase averaging 2%, preliminary estimates indicate that salaries of University faculty will lag the average salary at the comparison institutions by about 2-3% in 2002-03. It is the University's expectation that this gap will be closed when the Partnership funds eliminated from the 2001-02 budget are restored to the University's budget, once the State's fiscal situation improves. Updated projections for the comparison institutions will be available in November.

A lag in faculty salaries sends a negative message about the University across the nation, making it more difficult to recruit and retain individuals who meet the University's traditional high standards. This is particularly critical because of the major increase in faculty hiring expected over this decade in order to accommodate enrollment growth. Nothing is more certain to undermine quality than a persistent inability to offer competitive salaries. Maintenance of the University's ability to compete for the best faculty is essential if its quality is to be maintained.

The 2% parity increase for staff employees will provide market-based increases needed to help restore salaries lagging the market to levels that are competitive. The University received no funding for COLAs for three years in the early 1990s; before 2000-01, the University's salaries were about 6% behind what they would have been if employees had received 2% COLAs annually in the early 1990s.

The 2000-01 Budget Act provided an additional \$19 million in recognition of this historical imbalance. This funding was distributed in a manner that provided certain lower-paid staff earning \$40,000 or less with a salary increase of 2%, while certain staff earning between \$40,000 and \$80,000 received a 1% increase. These increases were over and above the regular merit increases and COLAs provided to University employees.

The \$19 million provided in 2000-01 represented the first part of a multi-year plan to make up for the lack of salary increases in the early 1990s and provide more competitive salaries to University staff employees in the coming years. With the additional \$19 million increase in 2000-01, the gap between what University employees would have received with normal increases throughout the decade and what they did receive was reduced to about 4%. Competitive salaries are critical to maintaining the University's ability to recruit and retain a talented workforce.

Consistent with this plan, the University is including \$40.3 million in its basic budget plan for 2002-03 to be used primarily for parity salary increases for employees whose salaries are lagging the market. The University will request additional funds in future budgets, once the State's fiscal situation improves, to help eliminate these market lags and the deficiencies caused by three years of no COLAs for University employees. Restoration of the Partnership funds eliminated in 2001-02 will also help bring salaries to more competitive levels.

**Academic and Staff Employee Benefits.** The University is requesting funds to provide a 10% increase in funding for health and dental insurance for its employees. Notwithstanding the success of the University in reducing the cost of health benefits in recent years, and a continuing commitment to control costs, employee benefit costs are expected to increase over the next several years.

**Price Increases.** In order to offset the impact of inflation on the non-salary budget and maintain the University's purchasing power, funds are requested to cover price increases averaging 2.6%.

### ***Workload***

**Funding for Enrollment Growth of 7,100 FTE Students.** The University is seeking \$63.9 million in State funds, or about \$9,000 per student, to support an increase of 7,100 FTE students, bringing total budgeted general campus enrollment to 172,500 FTE in 2002-03 (not including summer

enrollment that existed prior to the phase-in of State support for summer instruction), representing a 4.3% increase over 2001-02 enrollments.

The \$9,000 per student is based on a negotiated agreement with the State regarding the level of support the State provides for each new budgeted student. The added funding will provide salary and benefits for additional faculty positions; related instructional support such as clerical and technical personnel, supplies and equipment; support for teaching assistant positions; institutional support; and support for libraries and student services.

Included in the proposed enrollment growth of 7,100 FTE students is anticipated growth of 1,150 graduate students. Also included are an estimated 500 FTE students who will enroll in teacher credential programs as part of the University's commitment to more than double the number of students enrolled in these programs by 2002-03, bringing the total to 2,300 FTE. This enrollment level represents an increase of 1,300 FTE since 1998-99 in these programs. Helping to meet California's growing need for highly qualified K-12 teachers is an integral part of the University's role in working with California schools and students.

Also within the overall enrollment growth proposed in 2002-03, the University is including growth of 1,000 FTE students in engineering and computer and information sciences. In 1997-98, the University embarked on an eight-year plan to expand enrollment in these fields by at least 50% by 2005-06, bringing total enrollment to about 24,000 students. This plan has been so successful that the University is projected to meet its goal in 2001-02, four years early. The University is reviewing industry and academic needs to determine if this strategy for significant annual increases in these fields should be continued. Although the high-tech sector has recently suffered an economic slowdown, it is likely that this will be temporary and that, once the economy rebounds, the demand for engineers and computer scientists will rise sharply and will continue to outpace supply.

**Phasing in State Support for a Summer Term.** As part of its effort to accommodate an increase of 45,600 students between 2001-02 and 2010-11, the University is planning to phase in expanded summer instruction at all eight general campuses, making available to students State-supported summer instruction that is similar in quality to course offerings during the regular academic year. (The San Francisco campus, which is a health sciences campus, is already on a four-quarter program.) Fees during the summer term are equivalent (on a per-unit basis) to those charged during the

regular academic year, and when summer instruction is fully funded, financial aid will be provided that is at least equivalent to that provided during the regular academic year.

In the 2000-01 budget, the State provided funding to ensure that student fees paid by UC-matriculated students during the summer are equivalent, on a per unit basis, to what they pay during the regular academic year. As a result, lower fees were instituted at all eight general campuses for the summer of 2001. In the 2001-02 budget, the State provided full funding for existing summer enrollment at three campuses—Berkeley, Los Angeles, and Santa Barbara. State-supported summer instruction was implemented first at these three campuses because their enrollments meet or exceed levels in their LRDPs and community agreements, which limit enrollment targets during the regular academic year. Expansion of summer instruction will allow them to accommodate their share of the expected growth in enrollments over this decade without jeopardizing commitments under their LRDPs. The funding provided in the 2001-02 budget supported the level of *existing* enrollment during the summer at these three campuses. Enrollment *growth* during the summer at these three campuses is being funded as part of the University's normal workload increase for student enrollment.

Enrollment for summer courses at the first three campuses to phase in State-supported summer instruction far exceeded expectations. Together these campuses enrolled 9,615 FTE students in summer 2001, an increase of 2,800 FTE over the previous summer. Most students do not take a full load during the summer, so the headcount numbers are much greater. In order to increase summer enrollments and the proportion of regular faculty who teach during the summer, campuses are creating incentives as they design their own summer programs. The Berkeley, Los Angeles and Santa Barbara campuses increased the number of classes they provided by 28% and the number of regular-rank faculty and lecturers who were assigned to teach by 27% over summer 2000. In addition, they were able to provide nearly \$4.4 million in financial aid to nearly 8,000 students, where such aid had not been available in previous summers.

The budget plan for 2002-03 includes funding to continue phasing in State support for the summer at the remaining five general campuses—Davis, Irvine, Riverside, San Diego, and Santa Cruz. There were 4,220 FTE students enrolled during summer 2001 at these five campuses. The full cost of supporting their *existing* summer enrollment of UC-matriculated students at the agreed-upon marginal cost rate is \$33.2 million, based on the 2002-03

marginal cost (this is after accounting for the \$3 million already provided to lower fees at these five campuses to levels equivalent to the regular academic year). Enrollment *increases* in the summer for these and all campuses with State-supported summer instruction will be funded through the workload funding provided for the University's projected annual enrollment growth.

**Professional School Fee Buy-Out.** In January 1994, The Regents approved a Fee Policy for Selected Professional School Students. This policy called for regular increases in tuition and fees for selected professional programs until the fees reached the average of fees charged for the same program at comparable high quality institutions. For three years, fee increases were instituted and professional schools used the revenue to maintain and enhance the quality of their programs. AB 1318 (Ducheny) was enacted in 1997, freezing all fees for two years, including the Fees for Selected Professional School Students. Not only did the professional school programs refrain from increasing fees, but they also received no funds for cost increases associated with programs supported from these fees.

The last two budgets recognized this budget disparity and included \$1.4 million and \$1.5 million respectively to provide cost increases for programs funded from Fees for Selected Professional School Students. The 2002-03 plan once again assumes funding for these costs. The funding requested (\$2.5 million) is equivalent to the revenue that would be generated (net of financial aid) from a 7.82% increase in these fees, the same percentage increase used to calculate the buy-out for general student fees.

**Strengthening the Quality of Undergraduate Programs.** The 2000-01 budget included \$6 million as the first increment of funding in a multi-year plan to strengthen the quality of undergraduate programs. These funds were included within the 4% increase for the basic budget under the Partnership. The University's 2001-02 budget request included another increase of \$8 million within the Partnership as the second increment in this multi-year plan. While this proposed increase was included in the Governor's January budget, it was necessary to eliminate it from the University's expenditure plan when the University's Partnership funding was reduced by \$90 million in the May Revise. It is the University's expectation that these funds will be restored when the State's fiscal situation improves.

For 2002-03, the University is again requesting an increase for this program within Partnership funding. Faced with projections of unprecedented growth over a sustained period of time, the University is prepared to invest funds in

a variety of ways to maintain the quality of its academic programs as enrollment continues to grow. Strengthening the quality of undergraduate programs can take many forms, including hiring additional faculty with the goal of reducing class size, offering additional lower division seminars or providing tutorials for students working on senior projects, providing undergraduates with increased opportunities to work with faculty on research projects, providing additional instructional support to academic departments and existing faculty, as well as increasing academic advising for students. Over time, the University will work toward restoring the historical student faculty ratio of 17.6:1.

**Regents' Initiative for Graduate Student Support.** At the graduate level, enrollment growth is planned by projecting the needs of higher education, the state, and the nation, and balancing that assessment with the University's ability to provide graduate students with adequate support from State, federal, and private sources.

The Regents have placed great emphasis on the importance of the University's graduate programs. The University fully intends to meet its commitment to accommodate all eligible California undergraduates who choose to attend, but it must also be recognized that adequate graduate enrollments in high quality programs are essential to the state's economic vitality, as well as its social and cultural development.

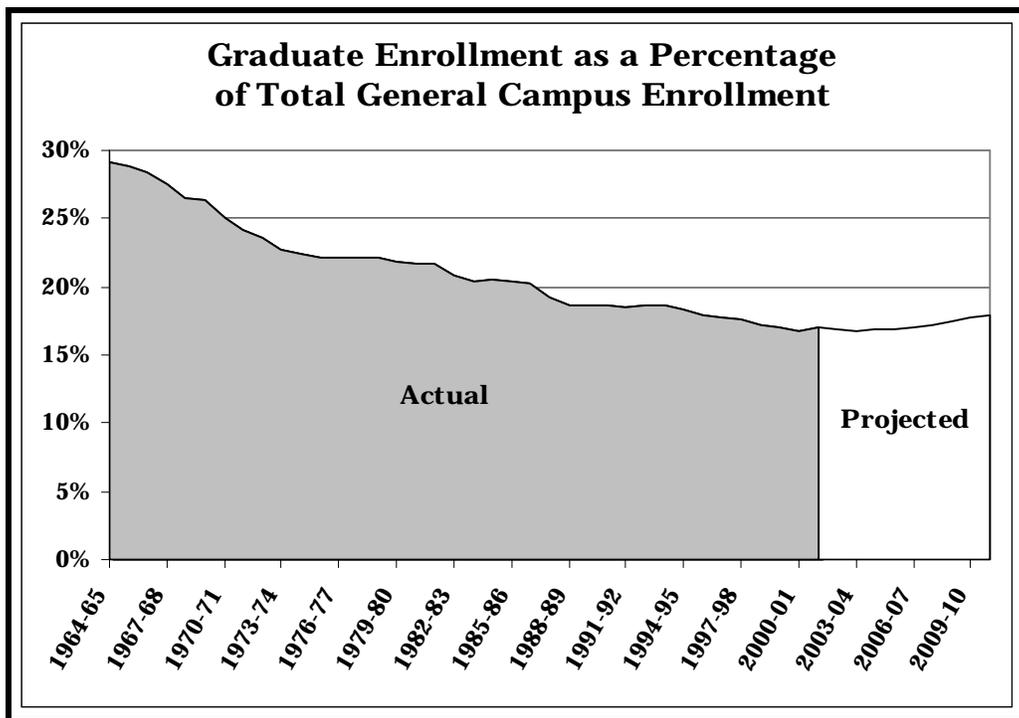
Over the next decade, California's knowledge-based global economy will need many more highly educated workers—engineers, scientists, business entrepreneurs, and others whose innovations will drive California's prosperity. And more instructors will be needed to accommodate the huge increase in undergraduates expected in the next decade at UC and CSU; national demand is also expected to rise slightly.

California's future strength depends on investing now in graduate education, yet California has been under-investing in graduate education, the key training ground for the people who will advance knowledge in their disciplines. California is already seriously falling behind—failing to meet the state's workforce needs for managerial and professional workers, and not adequately preparing to meet the scientific, educational, and cultural needs of the decade ahead.

The case is strong for increasing graduate enrollments. Yet, in the last ten years, UC experienced substantial growth in undergraduate enrollments

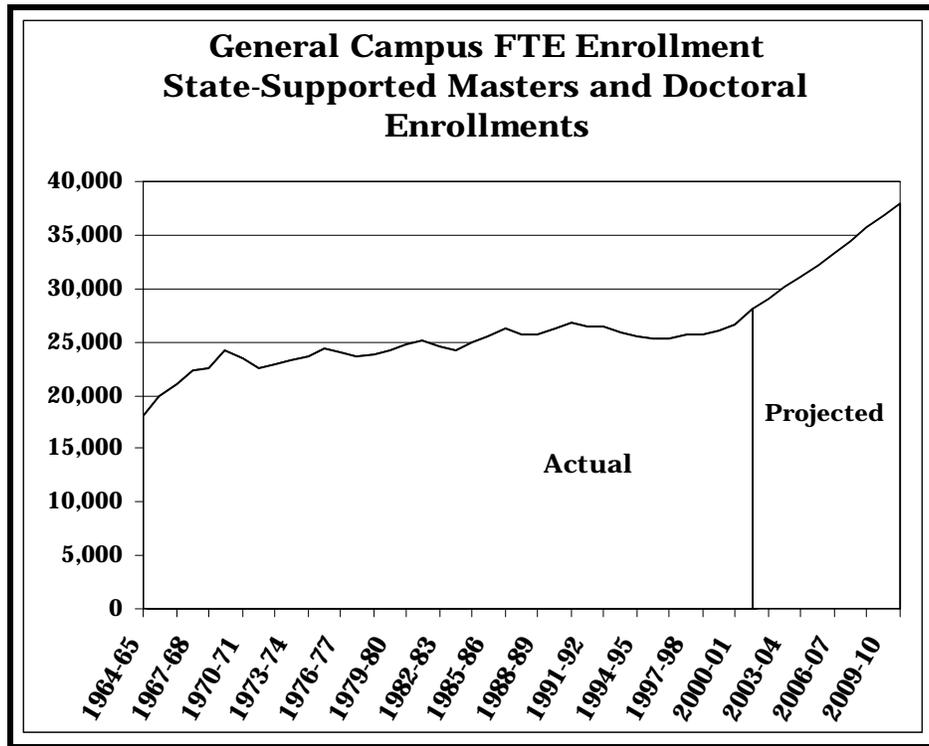
while graduate enrollments declined somewhat, and only in the last three years are graduate enrollments beginning to increase again. As a consequence, graduate enrollment as a proportion of total enrollment has decreased. Currently, slightly less than 17% of the FTE students on UC general campuses are enrolled at the graduate level, down from nearly 30% thirty-five years ago and nearly 20% ten years ago (Display 10). From 1998-99 to 2001-02, UC graduate enrollments will have increased by 2,500 FTE students, which is more than the total graduate enrollment growth in the previous 25 years.

Display 10



The University's long-term enrollment planning anticipates growth in general campus graduate enrollments of about 1,000 students annually through 2010-11, from 28,113 FTE in 2001-02 to 37,900 FTE in 2010-11 (Display 11, next page). Growth at this rate will allow the University to make some progress at improving the ratio of graduate students to undergraduate students, from an all-time low of 17% in 2000-01 to 18% by 2010-11. Maintaining an adequate number of graduate enrollments is critical to the quality of the University's education and research programs. More importantly, growth in graduate enrollment will help meet California's need for highly trained workers in sectors important to the State's economy.

Display 11



UC competes for the best graduate students both with other top universities and with employers in California's job market, which until recently have been an attractive option for new bachelor's degree recipients. California's long-term prosperity depends upon encouraging some of the most talented new bachelor's degree recipients to pursue advanced education. UC must be able to attract such students to UC and provide them the resources they need to complete their degrees quickly.

The State's current under-investment in graduate programs is compounded by increasing competition from other states and by the high cost of living in California.

Finding the resources needed to provide financial support for current graduate enrollment and to attract more graduate students to the University is one of the University's biggest financial challenges. Increasing graduate enrollments will require more funding from all sources to provide students with inducements to choose graduate education over job opportunities following the bachelor's degree.

The University has identified a variety of ways that graduate student support can be addressed through the annual budget. The University's 2002-03 budget plan includes the following items:

- **Teaching Assistant Fee Remission.** In 1991, the University implemented a program to provide partial fee waivers to offset a portion of the mandatory systemwide fees (Educational Fee and University Registration Fee) for academic student employees. In 2000-01, as part of a collective bargaining agreement reached with the union representing teaching assistants, the University increased the waiver to 75% of these fees. For 2001-02, the waiver increased to 85% of the fees and for 2002-03, the mandatory systemwide student fees will be fully waived for eligible teaching assistants. The cost of this benefit increase for the teaching assistants is \$3 million in 2002-03.
- **Other Graduate Student Support.** In January 2001, the Chair of the Board of Regents, Sue Johnson, and President Richard Atkinson appointed a Commission on the Growth and Support of Graduate Education to explore in depth the issues related to providing adequate graduate student support in a competitive market, and to identify strategies for achieving this essential increase in funding. That Commission has produced recommendations for an action plan that would require the University to develop significantly expanded partnerships with federal agencies, the State, industry, foundations, and individual donors to increase a variety of potential sources for graduate student support over the next five years. The Commission also recommends some important internal changes. The Commission believes that these strategies will position the University well to grow according to its enrollment plans, to compete for the best graduate students in the nation, to provide them with the best learning environment in the nation and an expeditious route to their degree, and to support the workforce needs of the State of California.

For 2002-03, the University is including in its Partnership request \$3 million to be used to support the Commission's recommendation to establish more graduate fellowships that can be used to enhance financial support for the most promising graduate students. This funding will help make the University's support packages more competitive with those offered by other institutions. This is the first year of a multi-year plan to increase support for graduate students consistent with the recommendations of the Commission. Their

recommendations will be addressed in budget requests and/or legislation, as appropriate, in future years.

- **Other Budgetary Strategies.** The University will also continue to increase graduate student support through existing budgetary strategies, such as increasing the number of teaching assistant positions as undergraduate enrollment grows, cost adjusting existing student support from all fund sources to keep up with inflationary increases, providing scholarships for graduate students enrolled in the Governor's Teacher Scholars and Principal Leaders programs, and increasing funding available from federal and private sources.

A full discussion of the issue of graduate enrollment growth and graduate student support is included in the *General Campus Instruction* chapter of this document.

**New Space to Be Maintained.** The University is requesting \$8.5 million to support basic maintenance of additional space to be occupied in 2002-03 by programs eligible for State funding.

**Deferred Maintenance and Facilities Renewal.** The 2002-03 budget plan continues to place an emphasis on rebuilding and maintaining the University's physical plant. The combined effects of annual underfunding for ongoing building maintenance, the lack of permanent funding for deferred maintenance for many years, and the fact that only a fraction of the University's capital improvement budget is used to replace worn-out building systems have resulted in a backlog of deferred maintenance projects that exceeds \$500 million for "priority one" projects. The 2002-03 budget proposes, for the fifth consecutive year, to use \$6 million of the increase in UC General Funds as debt service to pay for the long-term financing of deferred maintenance and infrastructure projects totaling \$60-\$65 million, depending on market conditions at the time of financing.

Since 1998, approximately \$284 million has been directed toward reducing the deferred maintenance backlog. However, while gains are made on the positive side, continued underfunding of the budget for ongoing maintenance prevents significant progress from being realized.

For 2001-02, a total of \$6 million for this purpose had been proposed in the Governor's January budget. However, with the elimination of \$90 million in Partnership funding in the May Revise, the amount available for this purpose was reduced to \$4 million. It is the University's expectation that the unfunded Partnership funds will be restored once the State's fiscal situation improves. When that occurs, the \$2 million reduced from the 2001-02 budget will be directed to help fund additional deferred maintenance projects.

**Funding for Historically Underfunded Core Budget Programs.**

Among the funding principles of the Partnership Agreement with the Governor is a commitment to provide a 1% increase to the prior year's State General Fund base for the four-year period of the Partnership to help eliminate the funding shortfalls in four core areas of the budget, including ongoing building maintenance, instructional technology, instructional equipment replacement, and library resources. As originally envisioned, State funds provided over the four-year period of the Partnership would eliminate over two-thirds of the shortfall. The remainder is expected to be funded through a redirection of resources at the campus level.

The Partnership was fully funded in 1999-2000 and 2000-01. However, as a result of the State's deteriorating fiscal situation, funds for these core areas were eliminated from the University's budget in the May Revise. It is the University's expectation that the \$30 million unfunded in 2001-02 will be restored to the University's budget once the State's fiscal situation improves. At that point, the funding gap for instructional equipment will have been closed, therefore the University is not requesting funds in 2002-03 for this program. The 1% requested in the 2002-03 programs will be distributed among the remaining three core areas of the budget, described below.

- **Ongoing Building Maintenance.** Adequate funding for ongoing building maintenance continues to be a high priority for The Regents. Consistent with the goal supported by the Governor and the Legislature to fully fund ongoing building maintenance over a number of years, the University is including in its budget plan for 2002-03 an increase of \$13 million for ongoing building maintenance.
- **Instructional Technology.** The 2002-03 budget plan includes \$13.7 million as part of its continuing effort to support the increasing use of technology, a critical element of the University's commitment to

maintain the quality of its teaching and research programs. Additional funding is needed to create and maintain the infrastructure and technical capability to operate and provide students with access to technology. The rapid evolution of hardware and software requires a continuous cycle of replacement and upgrade, and technology-enhanced teaching and learning requires recurring expenditures for maintenance and support.

- **Library Resources.** The University's 2002-03 budget plan includes \$5 million for library resources, including \$4 million to expand campus collections and reduce the permanent budget shortfall over time. Over the last decade, the combined effects of growth in enrollments and academic programs, inflation, and reduced budgets have seriously eroded the libraries' ability to support the University's academic programs. The remaining \$1 million will be used to continue the expansion of the shared digital collection of the California Digital Library (CDL). The University's ground-breaking effort to create the CDL complements the proposed increase in funding for print resources by creating a shared university-wide collection of high-quality digital content.

### **Restoration of Partnership Funds Eliminated from the 2001-02 Budget**

The Partnership Agreement represents a four-year commitment on the part of the Governor to provide the University with State funding needed to maintain quality and access at a time when the University's enrollment is anticipated to grow dramatically over this decade. The Governor's Budget for 2001-02, released last January, included full funding of the University's Partnership request for 2001-02. However, the State's fiscal situation deteriorated rapidly over the spring. The Governor's May Revision eliminated \$90 million in Partnership funding from the University's budget in order to help the State build up its reserve. This included elimination of the 1% for core needs and reduction of the increase to the basic budget from 4% to 2%, which eliminated the proposed increase for improving undergraduate education and reduced the amount of funding available for compensation. Display 12 shows the detail for Partnership funding eliminated in the 2001-02 budget. It is the University's expectation that when the State's fiscal situation improves, the Partnership funds eliminated in 2001-02 will be restored to the University's budget.

Display 12

**University of California  
Restoration of Unfunded 2001-02 Partnership Funds  
(\$ in millions)**

**Fixed Costs**

Funding for cost-of-living and parity adjustments for faculty and staff (2.25%)	\$ 45
Price increase for nonsalary budgets	5

**Workload and Program Growth**

Strengthening the quality of undergraduate education	8
Deferred maintenance	2
Ongoing maintenance	11
Instructional technology	12
Instructional equipment	2
Library materials	<u>5</u>

Total Unfunded 2001-02 Partnership Funds	\$ 90
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2002-03 Cost Adjustment for Unfunded Partnership Funds	<u>\$ 3.6</u>
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<b><i>Total Funds to be Restored</i></b>	<b>\$ 93.6</b>
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**High Priorities for Funding Above the Partnership**

Included in the funding principles of the Partnership Agreement with the Governor is a recognition that the University may request funding above the Partnership for initiatives in public service, research, and other high priority areas that are of critical importance to the State and the University. Given the State's weakened fiscal situation, the Department of Finance has informed State agencies, including the University, that they will not consider funding proposals for any new initiatives in 2002-03. Therefore, the

University is making no requests for funds above the Partnership for 2002-03 and instead will focus on obtaining full funding of the Partnership Agreement with the Governor. When the State's fiscal situation improves, the University will also seek restoration of Partnership funds eliminated from the 2001-02 budget.

However, the University has identified several initiatives that, when the State's fiscal situation improves, would be high priorities for additional funds, including initiatives originally included in the University's budget request for 2001-02 and new initiatives developed for the 2002-03 budget before the State's deteriorating fiscal situation was a reality. The University will seek funds for these high priority programs as the State's situation improves.

Some of the initiatives proposed in the 2001-02 Regents' Budget included: \$5 million for research assistantships in engineering and computer science, \$5 million for environmental and energy research, \$3 million for invasive species research, \$1.5 million for graduate and professional outreach, \$6 million to increase retention services for UC students, and \$1.1 million to increase support for ASSIST (Articulation System Stimulating Interinstitutional Student Transfer). New proposals identified for 2002-03 included programs in areas such as women's and children's health issues, agriculture, and community aging and geriatrics.

In addition to permanent funding above the Partnership, the University has identified programs for which one-time funding would be appropriate for high priority needs, such as Internet2, faculty start-up costs associated with the accelerated opening of the Merced campus, deferred maintenance, libraries, equipment, instructional technology, and capital outlay, contingent upon the State's financial position.

## **Budget-Related Issues**

### ***Federal Funding***

Federal funding is a major source of financial support for the University. The federal government provides nearly 52% of University research expenditures, almost all of the loan and work-study funds and about 25% of grant aid its students receive, and about one-third of the net operating revenue of the teaching hospitals. The three Department of Energy Laboratories, for which

the University has management responsibility, are entirely supported by federal funds.

The University remains highly competitive in terms of attracting federal research dollars, with fluctuations in the University's funding closely paralleling trends in the budgets of federal research granting agencies. In recent years, federal research funding has increased on an annual basis by 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, and 8% in 2000-01. Thus, the outcome of the annual federal budget process has important ramifications for the University's research budget.

President Bush's original FY2002 budget request, released in February 2001, anticipated a cumulative surplus of \$5.6 trillion over the next 10 years. The President's priority for these increases include shoring up social security through national debt reduction, tax relief, and support for education and defense. The President proposed increases for NIH and Defense research spending, but limited budget increases overall to 4%. To accomplish this, all other research programs would be limited to stable or declining funding. This is a concern for the University. With the large increase in students and faculty projected for the UC system, to maintain academic quality, the University requires research funding to grow by about 7% per year over the next 10 years in order to cover inflation and enrollment-related faculty growth.

In June of this year, a tax cut bill estimated to cost \$1.3 trillion over the next eleven years plus another \$500 billion in extra interest costs resulting from the lost revenue, was signed into law.

By summer, it became increasingly clear that the budget projections underlying the President's request were too optimistic and that U.S. economic growth is slowing dramatically, depressing federal tax revenues. In August, the Congressional Budget Office (CBO) released its revised budget projections, predicting that the non-Social Security surplus in FY2001 would completely disappear and go into deficit. CBO projected a \$9 billion on-budget (excluding Social Security) deficit in FY2001 and further on-budget deficits in FY2003 and FY2004. While the CBO projections show surpluses in the out years, these projections do not account for unanticipated costs related to increased spending on such programs as education that are over and above

the original FY2002 budget proposal. The dilemma that the President and lawmakers faced was the impossibility of preserving the entire Social Security surplus while at the same time increasing FY2002 spending on defense, education and other discretionary programs.

As a result of the tragic terrorist incidents in New York and Washington D.C., the President and the Congress have joined in bipartisan support for emergency relief measures, military exercises, bolstering the economy, and investigating terrorist activities. Efforts to reserve the social security surplus are giving way to these new priorities. New funding levels and spending needs will affect each of the major appropriations bills that constitute the national budget. While final decisions regarding research funding are yet to be made, the recognized link between research and the economy, and between research and national security, will likely result in support for research funding above the President's request. However, we are concerned that the outlook for FY2003 may be for increases in research funding no greater than inflation. A graphic displaying UC federal research dollars over time is included as Display 4 in the *Organized Research* chapter of this document.

Congress was unable to finish the FY2002 spending bills before the October 1 start of the federal fiscal year. In the meantime, Continuing Resolutions that provide funding at or slightly above current (FY2001) levels will keep the government operational until the final budget bills are passed.

More details on the outcome of the federal budget negotiations will be provided at the November Regents meeting. The federal budget is discussed in more detail in the *Research, Teaching Hospitals, and Financial Aid* chapters of this document.

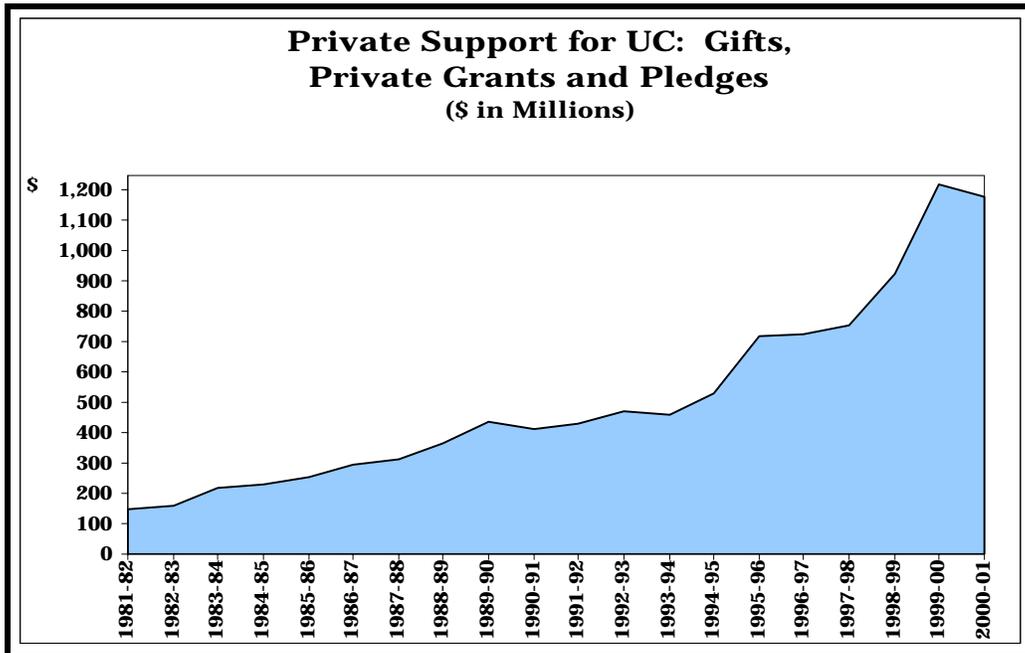
### ***Private Funds***

The University continues to be aggressive in seeking non-State revenue sources particularly private funds. After six years of significant growth in the receipt of gifts, private grants, and pledges, a slight decline did occur during the last year.

As Display 13 shows, in 2000-01, alumni and other supporters committed just under \$1.2 billion in gifts and pledges to the University. The 2000-01 total represents a 3.6% decrease from 1999-00, when donors contributed over \$1.2 billion to support UC's academic, research and public service programs.

This is the first decrease in giving to the University since 1993-94. This follows six years of record-setting increases in private giving to UC and is attributable to the slowing economy and decline in the financial markets during the accounting period.

Display 13



Donors in 2000-01 directed \$745.7 million (63.3%) of support to University operations; \$194.1 million (16.5%) to campus improvement; and \$206.7 million (17.5%) to endowments. Of the total donations in 2000-01, \$506.1 million (42.9%) was specified for use in the health sciences. Less than 2.7% of the private support was unrestricted by the donors as to purpose, which underscores the need for continued support from the State and Federal governments.

Private support for the University is derived from a number of sources. In 2000-01, gifts and grants from non-alumni individuals totaled \$242.1 million; from private foundations \$459.8 million; corporations, \$174.5 million; alumni, \$219.1 million; and campus organizations and other sources, \$82.8 million.

The University's remarkable achievement in obtaining private funding in recent years is a testament to UC's distinction as the leader in philanthropy

among the nation's college and universities and the high regard in which the University is held by its alumni, corporations, foundations, and other supporters. Additionally, the results underscore the continued confidence among donors in the quality of UC's programs and the importance of its mission. At the same time, this year's private support totals began to reflect the changes in the economy and financial markets, the effect of which is likely to be more pronounced in private giving to the University in 2002-03.

## **Capital Improvements**

The University's 2002-03 request for State funds for capital improvements is presented in more detail in a companion document titled, *2002-03 Budget for Capital Improvements*.

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

In November 1998, voters overwhelmingly approved Proposition 1A, a four-year bond measure that provided the three public segments of higher education with \$2.5 billion (or \$210 million for each segment annually) in funding for capital outlay projects. The 2001-02 budget was the last year in which Proposition 1A funds were available.

The University is working with the Administration and the Legislature to secure approval for a new bond measure for Education. A bill to place an education bond on the 2002 ballot was nearly passed by the Legislature during the last days of the 2001 legislative session; however, the bill was not adopted and thus carries over to the 2002 session for any further action. It is highly likely a significant bond measure will be adopted when the Legislature returns at the beginning of next year; such a bond measure is a high priority for the Governor and the Legislature. The timing, however, means that any bond measure adopted by the Legislature would be placed on the November 2002 ballot, rather than the March 2002 ballot.

Based on discussions to date, it is most likely the bond measure will include about \$330 million per year for UC to address general capital needs for growth, seismic, infrastructure, and modernization projects at existing

campuses with a separate increment for planning and construction on the Merced campus. Other increments of funding may be separately available for other off-campus and “joint use” projects—that is, facilities that would serve needs for more than one higher education segment. Funding for the California Institutes for Science and Innovation will be provided from General Funds or State lease revenue bonds.

The University’s 2002-03 capital budget request has been developed on the assumption that the final bond measure will be similar to that described above.

The University’s request for \$334.5 million in general obligation bond funding for the 2002-03 State capital budget includes \$1.5 million to equip one project for which construction has already been approved by the State and \$333 million to fund 25 major capital projects. Of the 25 major capital projects, funds are requested to support construction or complete design and undertake construction for 13 projects, and to begin or continue design on 12 projects.

Seven of the 25 major capital projects address serious seismic and other life-safety hazards, including the provision of facilities to improve campuses’ abilities to respond to earthquakes and other emergencies; one project will modernize and renovate facilities to accommodate academic programs; 14 projects involve new buildings to expand instruction, research, and academic support facilities to accommodate enrollment growth; one project provides a new building to address the needs of aging and obsolete facilities and support program needs; and infrastructure renewal or expansion is the focus of 2 projects.

The University will also request \$41.9 million to continue capital planning and construction needed to open the Merced campus by 2004. Funding will be used to construct and equip the Classroom and Office Building, and to complete the design and continue construction of the campus infrastructure.

The University’s 2002-03 budget request will also include \$3 million in funds from the March 2000 Water Bond Act for a watershed science research center to be located on the Davis campus.

The University’s budget proposal for 2002-03 also will include \$95 million in State funds for the third increment of funding for the first three California Institutes for Science and Innovation and the second increment for the fourth

Institute. The State has committed to fund \$75 million each year for four years, for a total of \$300 million, for the first three institutes, and \$20 million each year for two years and \$30 million each year for two more years, for a total of \$100 million, for the fourth institute. For the last two years, funding for all four Institutes has been provided from the State General Fund. The University is requesting that funds in 2002-03 be provided either through the State General Fund or through lease revenue bond financing.

Enabling legislation requires that the State funds are to be matched from non-State sources on a two-to-one basis, for an anticipated total of at least \$1.2 billion in funding for the four Institutes. The Institutes have been remarkably successful at attracting matching funds. It is now expected that the four Institutes, collectively, will reach a three-to-one match of industry and other funds to State funds over the four-year period in which they are developed.

The four Institutes selected through a competitive review process include:

- *California Institute for Science and Innovation in Bioengineering, Biotechnology and Quantitative Biomedical Research (QB3)*: UC San Francisco leads a partnership with UC Berkeley and UC Santa Cruz. QB3 is developing new technologies and new areas of research for drug discovery and for the diagnosis and treatment of cancer, arthritis, and other diseases through the convergence of mathematics, engineering, and physical sciences with biomedical and genome research.
- *California NanoSystems Institute (CNSI)*: UCLA leads a partnership with UC Santa Barbara. CNSI is creating a laboratory for research, education and technology development in the exciting new field of nanoscience, which enables scientists to design materials and functional machines at the level of individual molecules and atoms.
- *California Institute for Telecommunications and Information Technology (CAL (IT)<sup>2</sup>)*: UC San Diego leads a partnership with UC Irvine. Cal (IT)<sup>2</sup> is designing local and regional communications systems in a unique environment that immerses scientists and students in cutting edge technology and enables them to work in collaboration with researchers from entrepreneurial firms on problems that will determine the future directions of communications.

- *Center for Information Technology Research in the Interest of Society (CITRIS)*: UC Berkeley leads a collaboration with UC Davis, UC Santa Cruz, and UC Merced. More than 150 faculty members from more than 28 departments across the four campuses are taking on the challenge of designing complex information systems for major societal challenges in energy management, traffic systems, disaster mitigation, and distance health care and education.

## GENERAL CAMPUS INSTRUCTION

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 1,790,383,000</b>
General Funds	1,473,750,000
Restricted Funds	316,633,000

<b>2002-03 INCREASE</b>	
General Funds	124,089,000
Restricted Funds	16,023,000

The University's 2002-03 budget plan is based on the Partnership Agreement with Governor Davis which represents a four-year commitment on the part of the Governor to provide the University with State funding needed to maintain quality and access during a period of exceptional enrollment growth. The Partnership includes funding principles that provide the University with a budgetary foundation on which to plan for the future, as well as accountability measures that are of critical importance to the State and the University.

Among the funding principles of UC's Partnership Agreement with Governor Davis are commitments to provide the University with funding in the following areas related to the budget: enrollment growth consistent with the California Master Plan for Higher Education related to the instructional budget; transition to year-round, State-supported instruction; and a 1% permanent increase to UC's prior year State General Fund base to address budget shortfalls in critical core areas, including instructional equipment replacement and instructional technology. Funding for special initiatives and one-time funding may be requested above the Partnership, depending on the availability of additional State resources.

Consistent with these principles, the University's 2002-03 budget plan includes \$63.9 million to support a budgeted enrollment increase of 7,100 full-time-equivalent (FTE) students, a 4.3% increase over the prior year.

Included in this total is projected growth of 1,150 FTE graduate students. In 2001-02, the University will have honored its commitment to increase its engineering and computer and information sciences enrollment to 24,000 FTE students—up 50% from 1997-98 and four years ahead of the original plan. For 2002-03, UC campuses are projecting growth of another 1,000 FTE students in engineering and computer and information sciences. Also in the budget year, UC will reach its goal to more than double the number of its education credential students between 1998-99 and 2002-03, increasing from 1,000 to 2,300 FTE students. The proposed budgeted enrollment growth also reflects the University's commitment to its Partnership goal to increase the number of new students transferring to UC from the California Community Colleges. Between 1998-99 and 2000-01, UC increased new transfer students by 10%. However, if UC is to honor its commitment to increase new transfers at an average annual rate of 6% by 2005-06, additional funding for UC's transfer programs is critical.

Based on current estimates, the University projects general campus enrollment growth of 7,100 students to 172,500 FTE students in 2002-03 (not including summer enrollment that existed prior to the phase-in of State support for summer instruction). This increase planned for 2002-03 includes an increase of about 5,000 students consistent with the University's long-term projections, and about 2,000 related to overenrollment in 2001-02. It is expected that enrollment will continue to grow about 5,000 FTE students annually over the remainder of the decade and by 2010-11, the University will reach its planned target of 211,000 FTE students (not including summer enrollment that existed prior to the phase-in of State support for summer instruction).

By fully funding summer programs on all UC general campuses, UC plans by 2010-11 to accommodate growth of 17,000 year-average FTE students during the summer. The 2002-03 budget plan includes \$33.2 million to complete the phase-in of full State support for UC's *existing* summer enrollment in summer 2001. Enrollment *growth* during the summer will be funded as part of the overall enrollment workload increase.

The UC budget also includes a permanent increase of \$11 million as part of its plan to strengthen the quality of the University's undergraduate and graduate programs: \$6 million to strengthen the quality of undergraduate programs, \$3 million for graduate teaching assistant fee remission, and \$3 million for first-year graduate student support. The University's 2002-03 budget plan includes permanent funding increases for core areas, including

\$13.7 million for instructional technology. Finally, when the State's fiscal situation improves, UC will seek restoration of Partnership funding that was eliminated from the 2001-02 budget, including \$8 million for strengthening the quality of undergraduate education, \$12 million for instructional technology, and \$2 million for instructional equipment replacement.

## **Instructional Program Overview**

Preserving student access to high-quality education is the hallmark of the University's 2002-03 budget plan. Consistent with the California Master Plan for Higher Education, the University provides undergraduate, professional, and graduate academic education through the doctoral degree level and serves as the primary State-supported academic agency for research. A fundamental mission of the University is to educate students at all levels, from undergraduate to the most advanced graduate level, and to offer motivated students the opportunity to realize their full potential. Ideally, this means that the University should be able to accommodate all qualified undergraduates and also provide graduate academic and professional instruction in accordance with standards of excellence, societal need, and available resources. To do this, the University must maintain a core of well-balanced, quality programs and in addition provide support for rapidly developing and newly emerging fields of knowledge.

The general campus Instruction and Research (I&R) budget includes direct instructional resources associated with schools and colleges located on the eight UC general campuses; the San Francisco campus offers health sciences programs exclusively. Health science programs are discussed in the *Health Science Instruction* chapter of this document. The major budget elements and their proportions of the general campus I&R base budget are: faculty and teaching assistant salaries and benefits, 60%; instructional support, 35%, which includes salaries and benefits of laboratory assistants, supervisory, clerical, and technical personnel, and some academic administrators, as well as costs of instructional department supplies; and instructional equipment and technology, 5%.

The University offers instructional programs spanning more than 150 disciplines from agriculture to zoology. Courses offered within instructional programs are authorized and supervised by the Academic Senate of the University, which also determines the conditions for admission and the qualifications for degrees and credentials. Undergraduate, graduate, and

professional schools and colleges offer bachelor's, master's, and doctoral degrees—nearly 600 degree programs in all. The University began awarding degrees in 1870 and since then has conferred more than one million degrees.

The purpose of graduate programs is to inspire independence and originality of thought in the pursuit of knowledge. Graduate degrees fall into two broad categories: professional master's degrees, which are awarded to students embarking on careers such as education, business, architecture, and social work; and academic master's and doctoral degrees, which are awarded in recognition of a student's ability to advance knowledge in a given field of study.

Under the California Master Plan for Higher Education, the University has primary responsibility among publicly-supported institutions to prepare professional and doctoral students to help meet California's and the nation's workforce needs. Currently, the University offers full-time master's degree programs in the liberal arts and professions, as well as part-time, self-supporting programs on some campuses in business administration, dentistry, education, engineering, commercial law, and public health.

In addition, the University has begun a new degree initiative, the Master of Advanced Study (MAS), which will expand UC's ability to offer advanced degrees to working adult professionals. The first MAS program was initiated in 2000-01 at UC San Diego in Management of Healthcare Organizations. In 2001-02 a second MAS degree was approved in Forensic Sciences at UC Davis. Several more are in development on other UC campuses. Adding to working adults' knowledge during the course of their careers is becoming critical as new professions are emerging, multiple career changes are becoming common, and the workplace is evolving to an information-based economy. The MAS degree program will offer working adults an additional, convenient set of options for attaining an advanced degree congruent with their professional and personal interests in a manner that accommodates their schedules.

As part of UC's overall commitment to meeting the need for educational leaders, UC intends to expand its Ed. D. and Ph. D. programs in education. UC campuses will design new Ed. D. programs for working professionals, and increase the size and number of existing programs, including joint programs with CSU. To assist in coordinating these expansion efforts and to provide a home for the wide range of activities anticipated, UC is creating a new Institute for Educational Leadership, which will provide academics and

practitioners alike the opportunity to explore educational issues and propose solutions. The Institute is discussed later in this chapter.

The University's undergraduate programs, especially lower-division offerings, seek to accomplish several objectives: growth of general analytical and communication skills; exposure to a range of intellectual traditions; development of an appreciation of the great ideas, concepts, and events that have shaped cultures throughout the world; and preparation to work in a world that is increasingly knowledge-based. After students complete their general education requirements, customarily during their first two years, they choose a major in a particular area that is administered by an academic department. A major is designed to develop depth of knowledge within a specialized area of study.

In addition to the University's regular academic-year offerings, students may enroll in courses through University Extension. The University offered its first Extension courses to students beyond the immediate campus community more than 100 years ago. Since then, University Extension has grown into one of the largest continuing education providers in the country and is discussed more fully in the *University Extension* chapter of this document.

### **The Partnership Agreement**

The University's Partnership Agreement with Governor Davis calls upon UC to be accountable for a number of educational outcomes, including the following in the instructional area:

- maintain access for qualified students under the California Master Plan for Higher Education;
- accommodate annual enrollment growth of about 5,000 FTE students over the remainder of the decade, reaching UC's planned target of 211,000 FTE students by 2010-11;
- more than double the number of students in UC's education credential programs, and increase engineering and computer sciences enrollments by 50%;
- enroll graduate students who will produce quality research and meet California's workforce needs;

- increase the number of transfer students from California Community Colleges;
- provide a quality education by maintaining faculty teaching loads that provide students with the classes they need to graduate in a timely manner;
- implement more extensive use of existing facilities to accommodate enrollment demands, such as phasing in year-round, State-supported instruction;
- enroll students at a tenth campus, UC Merced, and in off-campus centers; and
- increase regional collaborations with the other segments of higher education.

### **Maintaining Freshman Student Access**

The University is maintaining its commitment to the Master Plan for Higher Education to provide a place on one of the UC campuses for all eligible California applicants who wish to attend, and in most years has enrolled more students than funded by the State. Campuses received applications for fall 2001 admission from 59,700 California high school seniors. Almost 30,000 California high school graduates have chosen to attend the University, an increase of 8.3% from 2000.

The University continues to examine and refine its application process to ensure that there are no barriers to academically eligible students wishing to apply to UC. One such effort is *Pathways*, the University's Web-based application and advising system. *Pathways* allows prospective applicants to access up-to-date, detailed campus information via the Web, receive admissions and financial aid information, and complete their application for admission on the Web. Outreach to potential UC applicants is discussed more fully in the *Public Service* chapter of this document.

### ***Eligibility and Admission Policies***

Consistent with the Master Plan for Higher Education, UC's policy is to provide access to the top 12.5% of California high school graduates in the

state. On an annual basis, the University monitors key demographic and financial indicators, as well as recent studies and policy changes that affect enrollment. One factor affecting enrollment projections is the actual rate of UC eligibility of public high school graduates. In fall 1997, the California Postsecondary Education Commission (CPEC) completed a high school eligibility study, based on 1996 high school seniors, which indicated that 11.1% of California high school graduates were fully eligible for the University. CPEC is conducting a new eligibility study to be completed in 2003.

**Changes in Eligibility Policy.** In 1998, to respond to the last CPEC eligibility study and to increase the diversity of the UC student body, The Regents approved revised guidelines, based upon recommendations of the Academic Senate, for freshman admission to the University. As a result, effective in fall 2001, there are three paths by which students may become eligible for freshman admission to UC:

- Statewide eligibility is achieved if a student completes 15 units of work in specified academic courses, commonly referred to as the a-f requirements (or a-g requirements beginning fall 2003, as explained below) and meets or exceeds a minimum score on an eligibility index, which includes a combination of high school grade point average (calculated on the 15 academic units) and a combination of the *Scholastic Assessment Test reasoning* scores (SAT I) and three *subject areas* scores (SAT II). The Academic Senate is currently examining the use of SAT I test scores in determining eligibility for admission. Recommendations will be brought to The Regents once this review is completed.
- Alternatively, students may become eligible on test scores alone, although less than 1% of UC students take this path. To be eligible by examination alone, a student must achieve a total score of at least 1400 on the SAT I and earn a total score of 1760 or higher on the three SAT II subject tests, with a minimum score of 530 on each test.
- A third path, eligibility in the local context (ELC), is achieved if a student completes 11 of the a-f requirements (a-g requirements beginning with admissions for fall 2003) by the end of the student's junior year in high school and he or she is within the top 4% of students (based on GPA) in those courses in their school.

In the first year of implementation, over 11,000 ELC students were identified. Of this total, 9,000 applied to the University and were admitted. Simulations performed comparing applications in 2001-02 with application patterns in previous years indicated the ELC program likely generated an additional 2,000 applications from students who otherwise might not have applied. Preliminary analysis shows that much of the increase in fall 2001 applications from underrepresented minorities and also from rural students is attributable to this new eligibility program. UC will have data on how many of these students actually enrolled later this fall. The response in the K-12 community to the second year of the program is approaching 100% participation, and each UC campus is increasing outreach efforts for the ELC students so that even more of them will apply and enroll next year.

UC's Board of Admissions and Relations (BOARS) with Schools, which has responsibility for establishing eligibility and admissions requirements, estimates that approximately 11.1% of California high school graduates are eligible through the statewide eligibility and test score paths combined and that 1.4% of students in the state will become eligible through the ELC path.

In addition to these changes, The Regents took action to require all freshman applicants applying for admission beginning in fall 2003 to complete one year of University-approved work in Visual and Performing Arts. This change is intended to bring consistency to the course requirements for admission to UC and CSU.

A fourth path to eligibility, the Dual Admissions Program, has been approved by The Regents, but implementation is being delayed until sufficient resources are available to fund the support services necessary for the success of the program. This path is intended to address the need to increase community college transfers and to help with the University's efforts to increase opportunities for students from educationally disadvantaged backgrounds. Under this program, students who are within the top 12.5% of their high school class, but who do not meet eligibility requirements through either the statewide eligibility or 4% paths, would be eligible for admission simultaneously to a California Community College campus and a UC campus. After satisfactorily fulfilling their freshman and sophomore requirements at a CCC campus, students would be enrolled at the UC campus that admitted them when they were first identified as "Dual Admission" students.

The Dual Admission Program will create a closer link between UC and the CCC systems and ensure a more effective transfer process as envisioned by the Master Plan. When implemented, it will also help UC meet the transfer goals set forth in the Partnership Agreement with the Governor to increase the number of community college transfers by 6% annually, to 15,300 students by 2005-06. More importantly, it will send a strong signal to students who have excelled academically in disadvantaged high schools that they have a straightforward path to a UC degree. It is anticipated that this program, in concert with the new Cal Grant Entitlement Program (described in the *Financial Aid* chapter of this document), will have a positive impact on encouraging more students from disadvantaged backgrounds to seek admission to UC. The University will continue to work with the Governor and the Legislature to obtain the funding necessary to successfully implement this program.

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

These guidelines have been in place since the 1960s, with modifications adopted through the years. They were revised most recently in 1996 following the passage of The Regents' resolution SP-1, which prohibited the University from using race, religion, sex, color, ethnicity, or national origin as criteria for admission to the University. This policy conforms to Proposition 209, enacted in 1997 as Section 31 of Article 1 of the California State Constitution, which stipulates that the State, including the University, "shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting."

SP-1 also changed the admissions selection process to require that the top 50-75% of the admitted class be selected solely on academic criteria, with the remaining 25-50% based on a combination of academic and supplemental criteria. This process is used to select students at campuses that receive more applications from UC-eligible students than they have spaces available in their entering class.

In May 2001, The Regents adopted a resolution rescinding SP-1, but stating the University's continuing commitment to comply with the provisions of Proposition 209 and to seek out a high quality and diverse student body. The resolution also reaffirmed that the Academic Senate shall determine the conditions for admission to the University, subject to the approval of The Regents, and that, pending any changes which The Regents might approve, the provisions for admission shall be those outlined in the *Guidelines for Implementation of University Policy on Undergraduate Admissions*, adopted July 1996 and revised in May 2000.

BOARS and the Academic Senate are reviewing selection guidelines that would change the part of the admissions selection policy that currently requires a certain percentage of students to be admitted by academic criteria alone to instead allow all applicants to be evaluated on the basis of both academic and other criteria taken with the context of the high school environment. A final recommendation on this proposal is expected from the UC faculty followed by consideration by the Board of Regents in November 2001.

Displays 1 and 2 (next page) show the ethnicity of general campus and health science students enrolled at the University in fall 1980 and, two decades later, in fall 2000.

### **Enrollment Growth in 2002-03 (\$63,900,000 Increase)**

The Partnership Agreement with the Governor includes the commitment to provide UC with funding for enrollment growth consistent with access under the Master Plan for Higher Education at the agreed-upon marginal rate. The University's budget plan includes a request for \$63.9 million to support budgeted enrollment growth of 7,100 FTE students in 2002-03. Funding for enrollment growth provides the resources necessary to recruit and retain excellent faculty, which in turn affects the quality of instructional programs, and thus, funding for enrollment remains a high priority for the University.

The State provides funding for each additional FTE student added to the University's current budgeted enrollment level based on the methodology

Display 1

<b>Domestic Undergraduate Headcount</b>				
Fall 1980 - 2000				
	1980	2000	Change	Percent Change
African-American	3,474	4,478	1,004	29%
American-Indian	483	920	437	90%
Chicano	3,816	12,830	9,014	236%
Latino	<u>1,539</u>	<u>4,572</u>	<u>3,033</u>	197%
Subtotal	9,312	22,800	13,488	145%
Asian	10,700	38,962	28,262	264%
Filipino	1,304	6,472	5,168	396%
White/Other	68,200	59,895	(8,305)	-12%
Decline to State	<u>5,362</u>	<u>10,326</u>	<u>4,964</u>	<u>93%</u>
<b>TOTAL</b>	<b>94,878</b>	<b>138,455</b>	<b>43,577</b>	<b>46%</b>

Display 2

<b>Domestic Graduate Headcount</b>				
Fall 1980 - 2000				
	1980	2000	Change	Percent Change
African-American	996	1,176	180	18%
American-Indian	132	224	92	70%
Chicano	900	1,533	633	70%
Latino	<u>579</u>	<u>1,148</u>	<u>569</u>	98%
Subtotal	2,607	4,081	1,474	57%
Asian	2,145	6,044	3,899	182%
Filipino	117	571	454	388%
White/Other	20,394	22,166	1,772	9%
Decline to State	<u>5,354</u>	<u>2,899</u>	<u>(2,455)</u>	<u>-46%</u>
<b>TOTAL</b>	<b>30,617</b>	<b>35,761</b>	<b>5,144</b>	<b>17%</b>

Note: Includes general campus and health sciences enrollment.

developed and agreed to by UC, CSU, the State Department of Finance, and the Legislative Analyst's Office (the marginal cost of instruction). For 2002-03, this methodology results in a marginal cost of \$9,000 per FTE student. Based on the current budgeted student-faculty ratio of 18.6:1, this funding will provide salary and benefits for 382.75 FTE faculty positions and related instructional support, instructional equipment, support for teaching assistant positions, institutional support, and support for libraries and student services. Actual FTE enrollments in 2000-01, budgeted FTE enrollments for 2001-02, and proposed FTE enrollments for 2002-03 by campus are included in the Appendix to this document.

Throughout the years of budget cuts in the early 1990s, the University kept its historic promise to the citizens of California by continuing to offer admission to all eligible Californians applying at the undergraduate level and it managed, through extra efforts of its faculty, to provide a quality education. Although the State began fully funding projected enrollment by 1994-95, the University's actual enrollment still exceeded the level supported by the State, by as many as 4,500 FTE students in 1997-98, and for a while threatened to undermine the quality of the University's academic programs.

A high-quality education cannot be maintained unless funding is provided to support all eligible students choosing to enroll in the University. Consistent with this principle, the State provided funding for all 158,300 FTE students originally projected for 2000-01, although UC enrolled an additional 392 FTE students over projected levels. For 2001-02, UC expects actual enrollments to exceed budgeted enrollment targets by about 2,000 FTE students, with about half of the overenrollment occurring in summer 2001 at UC's three campuses with full summer State funding. In mid-November, the University will have better information on actual enrollments for 2001-02.

### ***Initiative to Expand Education Programs***

**Increasing the Number of UC Education Credentials.** The University is committed to increasing its role in the training and preparation of K-12 teachers by more than doubling its education credential enrollment, from 1,000 FTE students in 1998-99 to 1,800 in 2001-02, and 2,300 in 2002-03. Of this enrollment growth, nearly all are graduate students who are concurrently pursuing their teaching credentials.

Two focused programs highlight the University's efforts to more than double its education credential students. In 1999-2000, the State provided the University with \$500,000 for the planning and development of the *Governor's*

*Teacher Scholars Program*, a program intended to attract well-qualified students into the teaching profession by offering scholarship support and shortening the time it takes to earn a credential and engage in classroom instruction.

In 2001-02, 350 FTE students are expected to enroll in this program that will culminate in the award of a credential and master's degree. When fully operational next year, the program will enroll 400 FTE students. Participants, who will receive scholarships to cover the cost of their fees, will be required to teach for at least four years in a school with a large proportion of students from low-income families. If they teach for fewer than four years, they will be required to repay their scholarship assistance proportionately.

The University has also initiated the *Governor's Principal Leadership Institute*. The 1999-2000 budget provided \$500,000 for planning and development of the program that, beginning in 2000-01, offers broad-based training and scholarships to highly talented prospective school principals in exchange for their service as principals in schools that are the most difficult to staff.

When fully operational in 2003-04, the two-year program will serve a total of 400 FTE students. The program will culminate in the award of at least a master's degree (with coursework applying to a doctoral degree), and will be interdisciplinary in design, drawing upon the faculty expertise of a wide variety of professional schools, including the schools of education, law, business and management, and public health. Participants, who will receive scholarships to cover the cost of their fees, will be required to make a commitment to serve four years as a principal, vice-principal, or other administrator in a public elementary or secondary school, and will be required to repay their scholarship assistance if they leave administrative service before their four-year commitment is completed.

Research on effective schools has repeatedly found that a strong principal is an essential component in school success. However, leading a school is a very challenging career, demanding expertise in a wide variety of areas including business and management, legal issues, and curriculum and instruction. School districts all across California are experiencing a growing shortage of available personnel to serve as principals, partially as a result of the demanding nature of the profession.

The University takes seriously its increased role in helping the State to meet workforce needs in education, especially at a time when additional well-qualified teachers are needed to help reduce the State's initiative to reduce class size. California's public school population was projected to increase more than 20% from 1997-98 to 2006-07, according to the California Department of Finance. At the same time, one out of six California teachers is over 55 years of age, which implies that a significant portion of the state's teachers will soon retire. These factors presage a need for 20,000 to 25,000 new teachers annually, as much as a 50% increase from the number of credentials awarded in California in 1997-98.

**Initiative to Increase Education Leadership Training.** The University of California recognizes the state's need for more and better-qualified individuals to assume leadership positions in K-12 and the community colleges and is committed to taking a prominent and active role in meeting those needs. The new model of leadership training rests on intensive research-based programs that give future K-12 and community college leaders the skills necessary to implement current educational reforms, especially curricular-based reforms. The leader of an educational enterprise, from an academic department to a university campus, needs to be first and foremost a leader with understanding of the subject matter at hand. Such a leadership model should be successful at all levels of education, be it third-grade reading programs or managing a career-oriented technical education program at a community college.

The University of California is committed to improving training for education leaders and efforts to enhance education programs on our campuses are already underway. For example, UC Davis is transforming its Division of Education into a new model School of Education; UCLA is successfully linking its graduate programs in education with teacher training and outreach efforts. Similar efforts are occurring at all the UC campuses.

The University is now undertaking several major initiatives that will enable it to meet the demands of K-12 and the community colleges for qualified and enlightened teachers and administrators who are both scholars and effective advocates for change. UC is engaged in this process on several fronts. The University plans to double the production of education doctorates within the decade. To achieve this goal, UC plans to expand existing, and to create new, doctoral degree programs in education at UC and in collaboration with CSU through joint degree programs. UC campuses with existing programs have been asked to submit plans for enrollment growth.

Collaboration with CSU in the creation of joint doctoral programs and expansion of existing joint doctoral programs in education is an important part of UC's strategy and will permit efficient deployment of existing resources. Joint doctoral programs build on the mutual strengths of the two systems and UC is committed to establishing new joint programs in education in which the combination of UC and CSU resources enriches the program and through which the degree can be made geographically more accessible. Currently, UC and CSU have four joint doctoral programs in education, including the well-regarded Joint Doctoral Degree in Educational Leadership offered by UC Davis (in participation with several other UC campuses) and CSU Fresno. New joint doctoral degree programs in education are being planned at the Berkeley, Riverside, Santa Barbara, and Santa Cruz campuses. UC has made funds available to assist programs in their planning efforts.

The University plans to ensure that the Ed.D. degree is available systemwide, on every UC general campus, and in a manner accessible to working professionals. UC's goal is to create a truly professional Ed.D. degree that is oriented toward the future educational practitioner—the master teachers, the model principals, current and future superintendents. A *Framework* for the proposed systemwide Ed.D. initiative is being developed by a UC work group with representatives from the Academic Senate, the campuses, and the UC system administration. It is undergoing systemwide review and, when completed, will provide guidance to the campuses in development of new programs where none currently exist.

UC will also expand leadership programs that do not require a doctoral degree, such as the Principals' Leadership Institutes located at UC Berkeley and UCLA which have a targeted enrollment of 400 students. UC is more than doubling its enrollments in education credential programs and has begun developing and implementing new programs for school principals, superintendents, community college administrators, and other education leaders.

Finally, these efforts will be informed by the activities and programs of a new Institute for Educational Leadership. The Institute will provide a home for study of the field and provide academics and practitioners alike the opportunity to explore the issues and propose research-based solutions to the problems of practitioners. It will sponsor policy seminars and colloquia on topics of concern and interest in the field, and will facilitate the identification

and adoption of best-practices in doctoral training and other leadership development programs for K-12 and community college leaders.

### ***Engineering and Computer and Information Sciences Initiative***

The University is well-recognized for its role in California's economic growth. A significant component of this role is helping to meet the state's need for a highly trained workforce. Large and small California-based employers share a strong interest in having a highly qualified and competitive workforce in an economy that increasingly is based on high technology. The University's ability to meet this need remains vital to the long-term performance of California's economy.

Although the high-tech sector has recently suffered an economic slowdown, it is likely that this will be temporary and that, once the economy rebounds, the demand for engineers and computer scientists will rise sharply. The U.S. Bureau of Labor Statistics projected two years ago that the number of jobs for computer scientists would double nationally between 1998 and 2008, and these long-term projections still seem sound. The National Research Council predicts that as the country moves further into an information-based economy, demand for engineers and computer scientists will increase in the non-engineering sectors. Yet, the number of graduates in engineering, mathematics, and computer science from American universities has been on a downward slide for more than 10 years.

In 1997-98, the University embarked on an eight-year plan to expand enrollment in engineering and computer and information sciences to 24,000 FTE students in 2005-06, a 50% increase in these fields. In 2001-02, the University will have honored that commitment, four years ahead of the original plan. Graduate enrollments will have grown about 25%, or 1,000 FTE students, with undergraduate growth of about 7,000 students. For 2002-03, UC campuses are projecting growth of another 1,000 FTE students in engineering and computer and information sciences. The University is reviewing industry and academic needs to determine if this strategy for significant annual increases in these fields should be continued.

Consistent with the national trend, and despite the University's current growth initiative, California has educated insufficient numbers of engineers from its own colleges and universities. There is not an adequate number of students to meet industry's long-term workforce needs, as demand continues to outpace supply and the need for well-trained scientists and engineers increases.

California's technology-oriented companies continue to demand highly-trained engineers and computer scientists as many sectors specialize increasingly in advanced stages of design, research, and development, and less in manufacturing of finished goods or components. Demand for engineers and computer scientists is found also in California's exploding field of biotechnology and in other emerging sectors, such as bioinformatics and genomics, nanotechnology, and wireless communications.

Thousands of job openings will arise annually from the need to replace workers who move into managerial positions or other occupations or who leave the workforce. As technology becomes more sophisticated and complex, California employers in all areas demand a higher level of skill and expertise. Targeting enrollment growth in engineering and the computer and information sciences to address this demand is an investment in the state's economic future.

**Regents' Initiative: Comprehensive Plan for Graduate  
Enrollments and Associated Student Financial Support Needs  
(\$6,000,000 Increase)**

The Regents have placed great emphasis on the importance of the University's graduate programs. UC's graduate programs train workers for the state's high-tech economy and society, and Ph.D. recipients are needed to provide faculty for the anticipated enrollment growth in higher education. From 1998-99 to 2001-02, UC graduate enrollments will have increased by 2,500 FTE students, which is more than the total graduate enrollment growth in the previous 25 years.

***Need for Increased Graduate Enrollments***

While the University fully intends to meet its commitment to accommodate all eligible California undergraduates who choose to attend, expansion of graduate enrollments in high quality programs is essential to maintain the state's social and cultural development and help the state to emerge from the current economic slowdown. Therefore, increasing graduate enrollments is among the University's highest priorities in the 2002-03 budget plan.

To meet state needs, UC must increase graduate enrollments by at least 10,000 students between 2001-02 and 2010-11, as discussed more below. However, UC will be unable to do so unless it also increases graduate student

financial support funding, both to provide support for the additional graduate enrollments and to attract the very best students.

California's future strength depends on investing now in graduate education. Our state's economy is increasingly dependent on discovery, but California has been under-investing in graduate education, the key training ground for the people who create those discoveries. California is already seriously falling behind—failing to meet the state's workforce needs for managerial and professional workers, and not adequately preparing to meet the scientific, educational, or cultural needs of the decade ahead. Here are a few examples of these needs:

- California's high-tech industry depends heavily on the University's supply of graduates with master's and doctoral degrees, and industry leaders have stated that they need more. Since 1997-98, one-third of UC's graduate enrollment growth has been in engineering and computer science programs. Although the economic slowdown has had a severe impact on the state's high-tech industries, there is broad agreement that the high-tech sector will be a key component of California's return to economic health and that the state will need more highly educated workers.
- California's growing pharmaceutical and biotechnology industries will require more researchers and skilled technicians to discover and implement new products. Currently, 85% of the state's biotech companies employ UC alumni with graduate degrees, often in key scientific and decision-making roles. UC campuses are planning graduate growth in targeted areas of chemistry, the life sciences, and engineering to meet these continued demands.
- Graduate education is already the University's most effective technology transfer mechanism. This role will become more important, as emerging industries continue to locate near UC campuses in order to capitalize on collaborations with faculty and graduate students and to be near sources of future employees.
- California's own colleges and universities will need to hire about 40,000 new faculty by 2010, across all fields and all higher education segments, to teach the large numbers of additional undergraduates expected and to replace retiring faculty members. UC alone expects to hire more than 7,000 new faculty members by 2010. Because many doctoral institutions in other states are not planning graduate enrollment increases, even more

of these new college faculty than in the past must come from UC's graduate programs—perhaps as many as one-third of faculty who will teach in California's public and private four-year institutions.

- UC's graduate programs also need to contribute to addressing California's and the nation's social and environmental challenges by preparing, among others, skilled and creative educators, architects, lawyers, environmental policy analysts, and those knowledgeable about the languages and cultures of the world.
- The high-tech economy is spurring demand and opportunities in non-science areas that support high-tech enterprises or that build on high-tech developments. As a result, UC campuses plan to increase emphasis within business programs on management of high-tech businesses. Campuses are also planning to expand existing or develop new digital arts programs for California's multimedia industry.

Growth in graduate enrollments will also be necessary to maintain the University's excellence in instruction and in research, distinctly part of UC's mission. New faculty are attracted to UC partially because of the caliber of graduate students with whom they can work. Having excellent graduate students as part of the intellectual mix enables campuses to recruit and retain the highest quality faculty, maintain University research productivity, and preserve the research environment that characterizes UC campuses at both graduate and undergraduate levels. In addition, graduate teaching assistants complement faculty's undergraduate teaching by leading small discussion groups and laboratory sections that make it possible for UC to offer undergraduates a wider range of perspectives and delivery modes, and they often serve as mentors and role models for undergraduates.

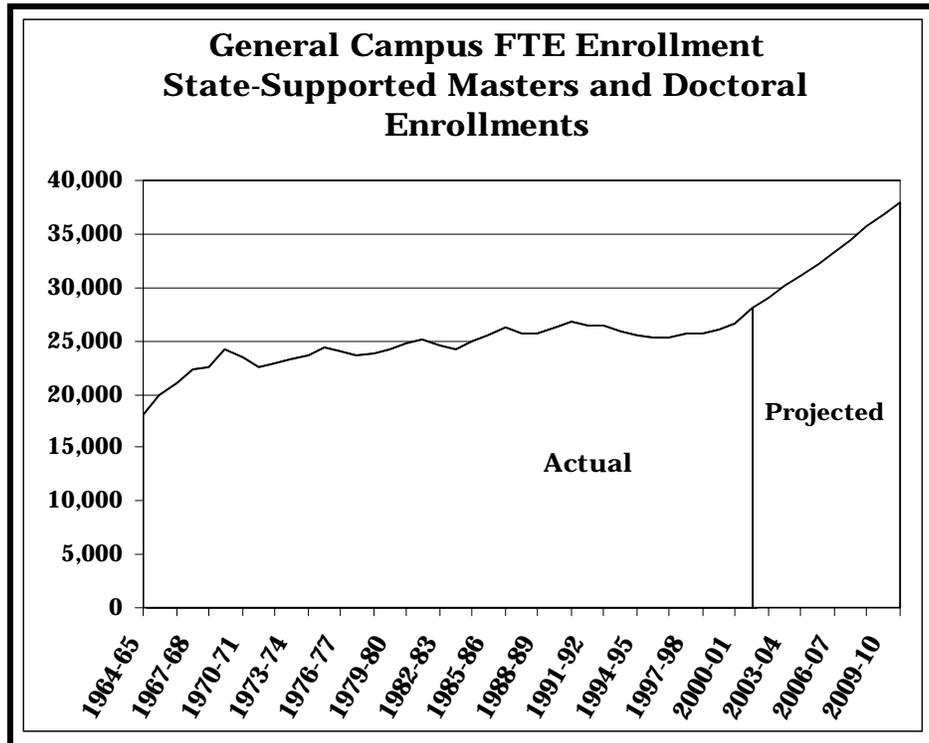
But, perhaps most importantly for the long-term success of our state, we must recognize that advanced degrees are a key route to upward mobility, not only for the individuals who achieve graduate degrees, but for people at all educational levels, because the leaders produced by UC graduate programs create jobs and opportunities for many other people. As California becomes more diverse, it needs to keep open the doors to advancement for our state's rapidly growing and changing population.

### ***UC's Graduate Enrollments***

Despite these needs, California has been under-investing in graduate education at UC. In the early 1990s when budget cuts occurred, graduate

enrollments actually declined, even as undergraduate enrollments continued to rise (Display 3). But from 1998-99 to 2001-02, UC graduate enrollments are expected increase by 2,500 FTE students, which is more than the total graduate enrollment growth in the previous 25 years.

Display 3

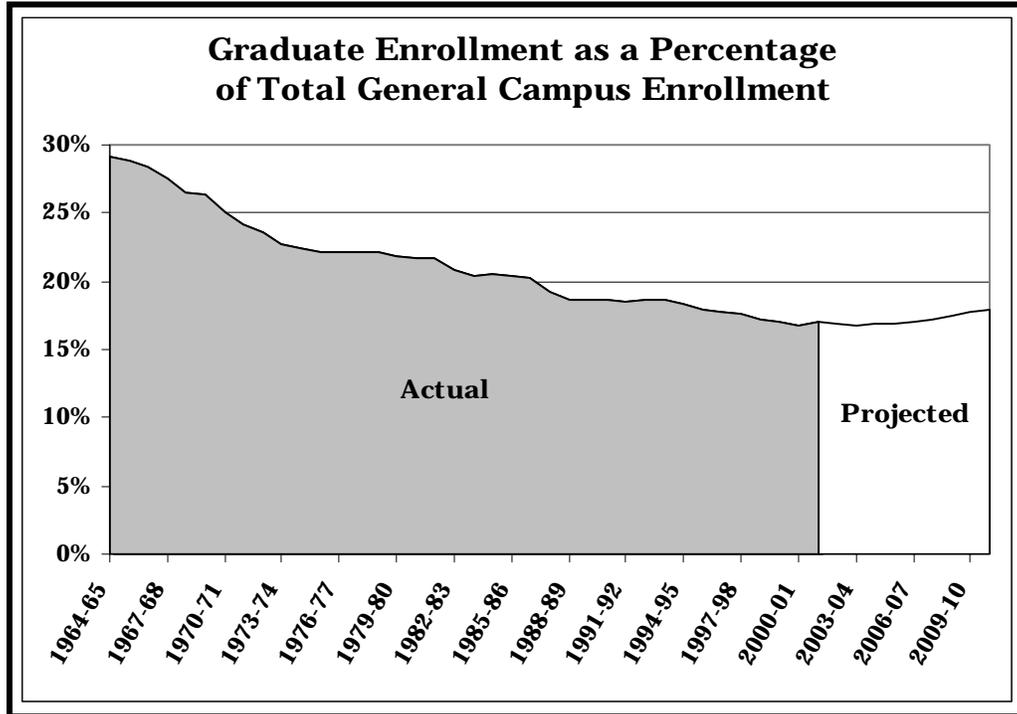


Even so, undergraduate enrollments have grown more rapidly and, as a consequence, the percentage of graduate students has decreased. Currently, slightly less than 17% of the FTE students on UC general campuses are enrolled at the graduate level, down from nearly 30% thirty-five years ago and nearly 20% ten years ago (Display 4, next page).

Compared to other states, California educates a very low proportion of graduate students, falling in the lower third of all states in terms of graduate students per state resident aged 25-64 and per state resident with a bachelor's degree. California is one of only five states in which total graduate enrollments in higher education declined in the last decade. In short, California is falling behind, both in meeting the needs for those with graduate training and compared to graduate growth in other states.

There are several reasons why this is so. Most importantly, because of State budget constraints in the 1990s, graduate growth was held down to ensure

Display 4



access to all eligible undergraduates who chose to attend UC. But graduate enrollment growth was also slowed, in many cases, by the inability of graduate students or departments to secure adequate and competitive student financial support and, in some disciplinary areas, by campus decisions not to increase enrollments where workforce demand at the time was limited.

The State's current under-investment in graduate programs is compounded by increasing competition from other states and by the high cost of living in California. Preliminary data from a Spring 2001 survey of doctoral students admitted to UC for 2001-02, indicate that UC needs to increase the number of fellowships it provides for new graduate students, offer multi-year funding packages that will assure applicants they will be able to afford their years of graduate education, and provide affordable housing at least to first-year graduate students. As well, those doors must be open, with no disincentives, to international students. If graduate students are eliminated from consideration for admission on financial grounds, quality is compromised and UC loses an avenue for imparting valuable talent to the state. Under current policy, international students are less likely to enroll at UC campuses than at peer universities because neither the students nor UC can afford to pay their tuition and fees.

UC graduate programs are of the highest quality, as measured by national rankings, with more than one-third of all UC doctoral degree programs ranked in the top ten by the National Research Council. UC graduate programs are highly selective—admitting only 27% of those who apply—and benefit from faculty's unrivaled federal research support. Therefore, UC could admit many more graduate students and still retain high quality. In addition, there will be a larger pool of students to select from, because there will be a significant increase in undergraduates in California in the next decade (and, to a lesser extent, the U.S. as a whole).

Also, UC Ph.D.'s and graduate professional degree recipients have maintained very good track records in getting jobs appropriate to their skills and education, even during the recession of the early 1990s. Given UC's track record and high quality, as well as projected workforce needs, it is expected that future UC graduates will continue to find jobs, even if the current economic slowdown continues. In addition, campuses are proposing to direct a substantial part of their graduate growth toward master's degree education, where many opportunities are emerging.

UC plans to increase its graduate enrollments by about 1,000 students annually through 2010-11, as shown previously in Display 3.

### ***Graduate Student Support***

In January 2001, the Chair of the Board of Regents, Sue Johnson, and President Richard Atkinson appointed a Commission on the Growth and Support of Graduate Education to explore in depth the issues related to providing adequate graduate student support in a competitive market, and to identify strategies for achieving this essential increase in funding. That Commission has produced an action plan that will require the University to develop significantly expanded partnerships with federal agencies, the state government, industry, foundations, and individual donors over the next five years as well as make some important internal changes.

Currently, UC graduate student support exceeds \$400 million annually. Levels and types of support by disciplinary area is shown in Display 5 (next page). Students in each of these discipline groupings receive their funding in very different combinations. Students in engineering and the physical sciences receive more than half their support from research assistantships; those in the life and health sciences receive nearly half their support from fellowships and grants with an additional large contribution from research assistantships; and students in the humanities, arts, and social sciences

receive over half their support from teaching assistantships. Students in professional school programs are supported largely through fellowships but receive far fewer dollars of support than other disciplines and are much more dependent on loans and their own resources. These variations occur in part because of the interests of those who supply the funding, but in part because work as a research or teaching assistant is an important ingredient in the academic program and provides experience directly related to the employment opportunities that graduates pursue.

**Display 5**

<b>Financial Support for Graduate Students: Current Annual Support</b>					
(expenditures are in 1998-99 dollars)					
	<b>1998-99</b>		<b>Proportion of Support Provided from Traditional Sources</b>		
	<b>Support Expenditures (millions)</b>	<b>Per Student Support</b>	<b>Research Assistantships</b>	<b>Teaching Assistantships</b>	<b>Fellowships/Grants</b>
<b>Engineering/Computer/Physical Sciences</b>	\$149	\$19,221	52%	23%	25%
<b>Life/Health Sciences</b>	\$88	\$18,418	41%	15%	45%
<b>Humanities/Arts/Social Sciences</b>	\$118	\$16,480	11%	51%	38%
<b>Professions (Education, Business, etc.)*</b>	\$62	\$6,015	20%	21%	59%
<b>Total</b>	<b>\$417</b>	<b>\$14,813</b>			

\*Does not include health sciences professions.

The Commission's analysis indicates that by 2010, the University of California will need an additional \$215 million annually (based on 1998-99 student support data, the latest available) to provide the graduate student support needed to add 10,000 graduate students between 2001-02 and 2010-11 and be competitive for the best students in the nation. This is a 50% increase in current student financial support.

The Commission estimated the funds needed for graduate student support in the next decade by looking, by discipline, at the amounts now provided on average to students, the enrollment increases planned, and the funds needed to be competitive with other comparable universities (see Display 6).

### Display 6

<b>Financial Support for Graduate Students: Estimate of Additional Funds Needed</b>						
(estimated support is in 1998-99 dollars)						
	2000-01 FTE Graduates*	Planned	1998-99	Additional Annual Support Needed (in millions)		
		Enrollment Increase	Per Student Support	For Additional Enrollment	For Competitiveness	Total Additional Need
Engineering/Computer/ Physical Sciences	8,454	3,997	\$19,221	\$70	\$27	\$97
Life/Health Sciences	6,175	1,681	\$18,418	\$30	\$11	\$41
Humanities/Arts/ Social Sciences	7,468	2,370	\$16,480	\$36	\$18	\$54
Professions (Education, Business, etc.)	8,181	3,538	\$6,015	\$20	\$2	\$22
<b>Total**</b>	<b>30,278</b>	<b>11,586</b>	<b>\$14,813</b>	<b>\$156</b>	<b>\$59</b>	<b>\$215</b>

\*Includes health science graduate academics and excludes health science professional school enrollments.  
 \*\*In some cases, figures do not sum exactly due to rounding.  
 Results differ from column multiplications because calculation was done in greater disciplinary detail than the aggregation indicated here.  
 Current Average Support is based on 1998-99 expenditures plus 8.3% increase in TA fee remission.  
 Support needed for competitiveness assumes that:  
 - Life and physical sciences stipends equal NSF stipend levels, adjusted by CPI-U to reflect California cost of living;  
 - The percentage increase in life and physical sciences applies to all other academic disciplines;  
 - Support for masters students and those in professionals schools is presumed to be adequate;  
 - Humanities students should not be expected to earn more than \$7,000 annually from TA positions;  
 - Engineering and Computer Science Students should not be expected to earn more than \$9,000 annually from RA positions.

Much of the necessary additional support will come from three important and traditionally available sources:

- research assistantships (RA's) provided by federal, state, and industrial contracts and grants (\$75 million);
- teaching assistantships (TA's) funded by the State of California as part of the marginal cost funding in support of enrollment growth (\$50 million);
- fellowships or grants funded by the increased fee revenue that will come with enrollment growth (\$25 million).

While these traditional funding sources are dependent on the continued investment of the State in enrollment growth and on the ability of future faculty to garner research grants with the same success that current faculty

achieve, the likelihood of achieving a substantial portion of student support from these sources is high.

However, after these traditional sources are counted, a sizeable gap still exists. By 2010, the University must secure another \$65 million annually from other sources to reach its goals for graduate student support, as shown in Display 7.

**Display 7**

<b>Financial Support for Graduate Students: Need and Likely Funds Available</b> (in millions of 1998-99 dollars)					
	<b>Additional Funds Needed</b>	<b>Funds Available from Traditional Sources</b>			<b>Remaining Funds Needed</b>
		<b>Research Assistantships</b>	<b>Teaching Assistantships</b>	<b>Student Fees</b>	
<b>Engineering/Computer/ Physical Sciences</b>	\$97	\$56	\$18	\$6	\$17
<b>Life/Health Sciences</b>	\$41	\$12	\$4	\$3	\$22
<b>Humanities/Arts/ Social Sciences</b>	\$54	\$2	\$23	\$10	\$18
<b>Professions (Education, Business, etc.)*</b>	\$22	\$4	\$5	\$5	\$8
<b>Total**</b>	\$215	\$75	\$50	\$25	\$65

\*Does not include health sciences professions.  
\*\*In some cases, figures do not sum due to rounding.

Because the need for support and the amount of funds available differ significantly by discipline, solutions to meeting the remaining need must also be crafted in ways that will work by discipline. Public officials, foundations, and private donors have preferences and want to invest in disciplines and activities that match their interests and needs.

### ***Graduate Student Support Recommendations***

The remaining \$65 million that will be needed requires the University to partner with the federal agencies, the state government, industry, foundations, and individual donors to implement new strategies. The Commission therefore recommended six initiatives. Each initiative is designed to target a particular student population and match its need with the interests of a specific funding source. Together the six initiatives form an integrated strategy to achieve the level of growth and support UC is planning.

They are as follows:

1. Actively advocate with the federal government an increase in the annual level of fellowship stipends from the current \$16,000-18,000 to \$25,000, and an additional 1,500 stipends nationwide for graduate students (\$22 million).
2. Urge the State to create a program of repayable fellowships for doctoral students in California universities who, upon graduation, agree to teach in California higher education institutions (\$20 million).
3. Ask the State to fund 1,000 “incentive grants” for students awarded prestigious national fellowships to make the University of California more competitive in enrolling them (\$10 million).
4. Develop a program of Collaborative Industry-University Internships for graduate students, particularly at the master’s level, integrated with their academic programs (\$8 million).
5. Create a University of California Graduate Fellowships Endowment to raise the funds necessary to provide \$5 million annually for first-year and dissertation-year fellowships in underfunded disciplines (increased immediate fund raising with a goal of a \$125 million endowment).
6. Develop a solid case for more funding for nonresident graduate students, noting the benefit to the state and national economies, and then embark on a campaign to inform State and federal decision-makers and private donors about the importance of educating graduate domestic nonresident and graduate international students in our state, proposing to them the funding necessary to accomplish it.

In addition, the Commission agreed that expanding State-funded research assistantships as part of funding provided above the Partnership for research in areas of interest to California would be another critical strategy, once the State’s fiscal situation improves.

The Commission also considered at length what the University can do itself, within existing resources, to accomplish the graduate growth and concomitant student support UC is planning and recommends that the University reexamine a number of internal practices to improve support for and foster the progress of our graduate students.

7. Make graduate education a higher internal financial priority in allocation decisions and re-deploy existing financial support dollars in ways that facilitate competitiveness.
8. Ensure that graduate student housing is a priority on every campus, especially for first-year students.
9. Make the University of California's campuses the ten best campus environments in the nation for graduate students by:
  - ensuring that admissions practices foster recruitment;
  - improving mentoring;
  - fostering students' development as scholars and teachers by consciously designing new opportunities for professional practice;
  - creating community spaces where graduate students can meet and study; and
  - expanding career planning and placement and other student services.
10. Develop benchmarks to monitor success in graduate education.

In the course of its work, the Commission concluded that the remaining \$65 million in graduate support need must be met largely by providing fellowships. The amount of work graduate students must now do in teaching, research, and non-University employment is more than comparable institutions expect and in some disciplines is substantial enough to slow students' time to degree significantly. After looking at the offers made by comparable institutions and listening to the first-hand experience of UC's graduate students and faculty, the Commission concluded that the solutions must include fellowships, particularly for first-year and dissertation-year students, and internships that are carefully integrated with academic program goals.

The Commission's proposal is summarized in Display 8.

### ***Budget Request for 2002-03***

The Commission believes that these strategies described above will position the University well to grow according to its plans, to compete for the best graduate students in the nation, to provide them with the best learning environment in the nation and an expeditious route to their degree, and to support the workforce needs of the State of California.

**Display 8**

<b>Financial Support for Graduate Students: Recommended Initiatives</b>						
(in millions of 1998-99 dollars)						
	<b>Federal Fellowship Increases</b>	<b>State Repayable Fellowships</b>	<b>State Incentive Grants</b>	<b>Industry Internships</b>	<b>California Fellowship Endowment</b>	<b>Total Initiatives</b>
<b>Engineering/Computer/ Physical Sciences</b>	\$7	\$3	\$3	\$2	\$2	\$17
<b>Life/Health Sciences</b>	\$11	\$3	\$5	\$2	\$1	\$22
<b>Humanities/Arts/ Social Sciences</b>	\$4	\$9	\$2	\$1	\$2	\$18
<b>Professions (Education, Business, etc.)*</b>	\$0	\$5	\$0	\$3	\$0	\$8
<b>Total</b>	<b>\$22</b>	<b>\$20</b>	<b>\$10</b>	<b>\$8</b>	<b>\$5</b>	<b>\$65</b>

\*Does not include health sciences professions.

The University has identified a number of ways that graduate student support can be addressed through the annual budget. UC's 2002-03 budget plan includes the following:

- **Teaching Assistant Fee Remission.** In 1991, the University implemented a program to provide partial fee waivers to offset a portion of the mandatory systemwide fees (Educational Fee and University Registration Fee) for academic student employees. In 2000-01, as part of a collective bargaining agreement reached with the union representing teaching assistants, the University increased the waiver to 75% of these fees. For 2001-02, the waiver increased to 85% of the fees and for 2002-03, the mandatory systemwide student fees will be fully waived for eligible teaching assistants. The cost of this benefit increase for the teaching assistants is \$3 million in 2002-03.
- **Other Graduate Student Support.** For 2002-03, the University is including in its Partnership request \$3 million to be used to support the Commission's recommendation to establish more graduate fellowships that can be used to enhance financial support for the most promising graduate students. Such support will help make the University's

support packages more competitive with those offered by other institutions. This is the first year of a multi-year plan to increase support for graduate students consistent with the recommendations of the Commission. These recommendations will be addressed in budget requests and/or legislation, as appropriate, in future years.

- **Other Budgetary Strategies.** The University will also continue to increase graduate student support through existing budgetary strategies, such as increasing the number of teaching assistant positions as undergraduate enrollment grows, cost adjusting existing student support from all fund sources to keep up with inflationary increases, providing scholarships for graduate students enrolled in the Governor's Teacher Scholars and Principal Leaders programs, and increasing funding available from federal and private sources.

### **Transfer from California Community Colleges to UC**

In 1997, the University and California Community College (CCC) Chancellor's office entered into a Memorandum of Understanding (MOU) that seeks to increase the number of CCC students transferring to the University. The MOU sets a target of 14,500 new CCC students transferring by 2005-06, up from about 10,150 students transferring in 1998-99. In the Partnership Agreement with the Governor, the goal was increased to 15,300 students, representing average annual growth of 6%. This rate of growth in new transfers is unprecedented in the history of the University. And for CCC campuses, it means preparing many more UC "transfer ready" students and encouraging them to apply to a UC campus.

Since the signing of the MOU in November 1997, the University and the CCC have been working together to increase the number of students who transfer to UC from a CCC campus. The aim of this collective effort has been to tackle the most difficult problems that have challenged the effectiveness of transfer as a ladder to a University of California degree.

The University has significantly increased its enrollment of students from the California Community Colleges over the past three decades and, as a result of recent partnerships with community colleges and the Governor, has pledged to further strengthen its commitment to the transfer function.

Between 1998-99 and 2000-01, UC increased new transfer students by 10.2%, from 10,161 to 11,196 students. In 1999-00 alone, the increase was 6.5%, followed by a 3.5% increase in 2000-01. Statements of Intent to Register (SIRs) from CCC students for fall 2001 were up 11.5% over fall 2000. However, transfer to UC during winter and spring represents a significant percentage of total new transfers. Until UC has completed admission of CCC transfers for winter and spring terms, the final increase for the year will not be known.

If UC is to achieve an average annual growth in new transfers of 6% over a several-year period, funding for transfer support programs will be critical. With adequate funding, the University is committed to meeting the goal of the Partnership. But for UC to accomplish this, the CCC system must provide a pool of transfer-ready students and UC must be able to nurture them. According to CCC's report *System Performance on Partnership for Excellence Goals* (April 2001), the pool of transfer-ready students decreased by 10% from 1998-99 to 1999-2000.

### ***Articulation***

Curriculum articulation between CCC and UC campuses is the road map showing how the coursework CCC students complete at a community college satisfies UC requirements both for general education and in preparing for specific majors. During the past year, UC has increased its investment in articulation agreements with California Community Colleges. Because preparing for an academic major is an essential ingredient for student success, most of these new agreements delineate the courses students should take at a community college to prepare themselves for specific UC majors.

UC campuses have developed articulation agreements with all CCC campuses in their service areas (regions where UC campuses focus their outreach with local high schools and CCC campuses). The UC Office of the President reviews all courses offered by the CCC campuses each year and determines the UC-transferability of each course. The resulting Transfer Course Agreements designate which courses can be transferred for credit and to meet University admissions, general education, and graduation requirements. Each UC campus then develops articulation agreements, beginning with each CCC campus in their service area, that designate which courses at the community college are equivalent to courses taught at the UC campus and hence will be accepted for transfer.

Under the Partnership agreement, each UC campus plans to articulate all high demand majors with the community colleges in each campus' service area. "High demand majors" at the University are defined by the number of applications that are received at each campus per year. While this definition applies to all UC campuses, the resulting list of high demand majors varies, of course, by campus.

As shown in Display 9, the number of community colleges with which UC campuses have established major articulation agreements (column 3) and the number of majors that are contained within each articulation agreement (column 4). All UC campuses have major articulation agreements with all of their service area community colleges. In addition, four UC campuses have articulation agreements with every community college in the state. All UC campuses have more than 20 majors articulated with the community colleges with which they have major articulation agreements, and in addition, are developing additional agreements outside their service area.

**Display 9**

<b>Major Articulation Agreements for 1999 to 2001</b>			
<i>Campus</i>	<i>Coverage in UC Campus Service Area</i>	<i>Number of CCCs with Major Articulation Agreements</i>	<i>Majors per Articulation Agreement (medians)</i>
Berkeley	Complete	108	96
Davis	Complete	108	125
Irvine	Complete	65	54
Los Angeles	Complete	54	31
Riverside	Complete	108	74
San Diego	Complete	25	96
Santa Barbara	Complete	54	57
Santa Cruz	Complete	108	62

UC is also continuing to use the *Intersegmental General Education Transfer Curriculum*. Each UC campus allows transfer students to meet UC campus general education requirements for graduation by completing the Intersegmental General Education Transfer Curriculum (IGETC). According to a May 2000 study by the Intersegmental Committee of Academic Senates, 83% of students who transferred to UC in fall 1997 completed IGETC to fulfill their general education requirement.

Last year, the University, along with CSU and the California Community College system, voluntarily agreed to modify IGETC to make it easier for transfer students to use. In the original development of IGETC, students needed to complete the entire general education curriculum prior to transfer. This requirement has been relaxed beginning fall 2000 so that a student may complete up to two courses after transfer (at a UC or CSU campus) in cases in which students, through no fault of their own, were unable to obtain or complete IGETC courses prior to transfer. It is anticipated that this will facilitate the transfer process.

Other new and proposed programs are also expected to greatly enhance transfer.

- The Dual Admissions program, described in more detail earlier in this chapter, will enable students who fall between the top 4% and the top 12.5% of their high school class, but are not statewide-eligible, to be admitted simultaneously to a CCC campus and a UC campus. After fulfilling their freshman and sophomore requirements at a CCC campus satisfactorily, they will complete their upper-division studies at the UC campus to which they were admitted earlier. The University will continue to work with the Governor and the Legislature to obtain the funding necessary to successfully implement this program.
- Beginning in 2001-02, the new Cal Grant Entitlement Program makes awards available to California residents attending community college. The Entitlement Awards will significantly improve a student's ability to develop a plan for meeting the costs of attending college—a student will know in advance that at least a Cal Grant will be available to help fund his or her educational costs through four years of college, whether he or she attends a four-year institution or attends a combination of community college and a four-year institution. The re-configured Cal Grant Program should ultimately increase the number of awards among students who transfer from a community college to UC. The Cal Grant Entitlement Program is discussed in more detail in the *Financial Aid* chapter of this document.

The specific elements of the University's outreach to CCC campuses are discussed in more detail in the *Public Services* chapter of this document.

## **Strengthening the Quality of Undergraduate Education (\$6,000,000 Increase)**

The University is committed to preserving student access as defined by the California Master Plan for Higher Education. Access remains meaningful, however, only if it provides the opportunity for a quality education and leads to a university degree that continues to enjoy broad recognition and respect.

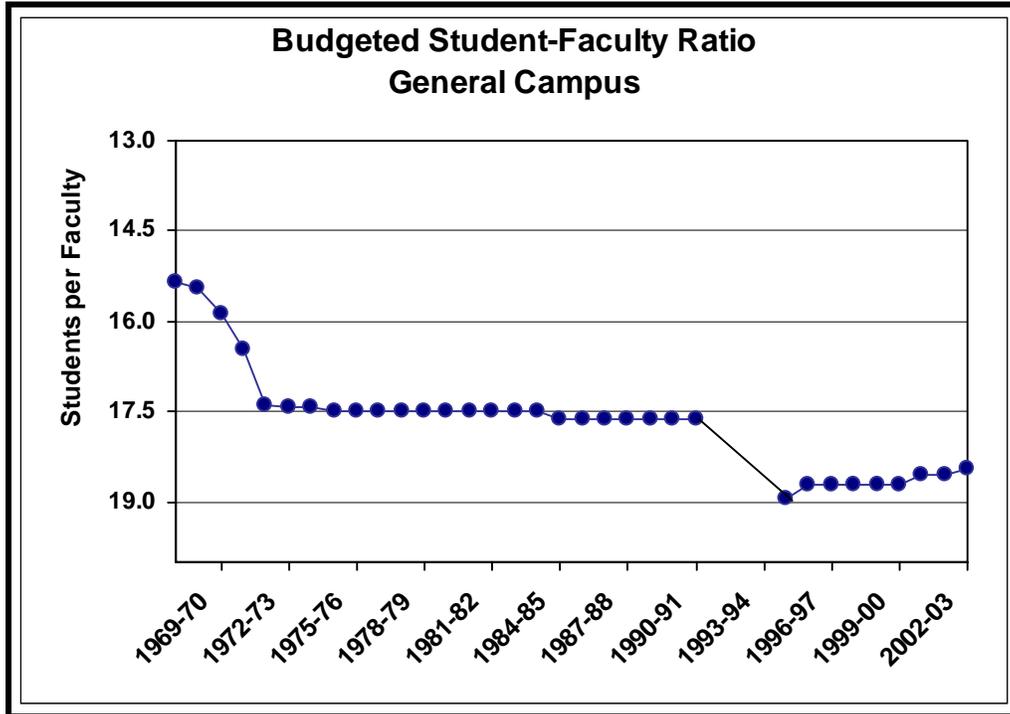
The 2000-01 budget included \$6 million as the first increment of funding in a multi-year plan to strengthen the quality of undergraduate programs. These funds were included within the 4% increase for the basic budget under the Partnership. The University's 2001-02 budget request included another increase of \$8 million within the Partnership as the second increment in this multi-year plan. While this proposed increase was included in the Governor's January budget, it was necessary to eliminate it from the University's expenditure plan when the University's Partnership funding was reduced by \$90 million in the May Revise. It is the University's expectation that these funds will be restored when the State's fiscal situation improves.

The University's student-faculty ratio compares unfavorably to its eight comparison institutions, which average 17:0:1 at the public institutions and 10.4:1 at the private institutions. Improving the student-faculty ratio, one important indicator of quality, is a high priority for The Regents. Before the cuts of the early 1990s, the University's student-faculty ratio was 17.6:1. In 1994, the University and the Legislature agreed to phase in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University's budgeted enrollment; the Legislature adopted supplemental budget language to this effect. This represented a significant deterioration in the budgeted ratio, equivalent to 500 FTE faculty and continuing the erosion that began in the 1960s (see Display 10).

The University has estimated that \$50 million in permanent support is needed to restore the University's student-faculty ratio to its historic level of 17.6 students for each faculty member (17.6:1). With the requested funding for 2002-03, UC's budgeted student-faculty ratio will be reduced to 18.5:1 from the 1999-2000 level of 18.7:1. For 2001-02, the budgeted student-faculty ratio is 18.6:1.

UC faculty have worked hard to provide required courses and to sustain interaction with undergraduate students. The ninth annual report to the Legislature, *Undergraduate Instruction and Faculty Teaching*

Display 10



*Activities*, describes faculty efforts to maintain and improve the quality of undergraduate education, focusing efforts on developing innovative programs in undergraduate education and facilitating four-year degree completion. The average 1999-2000 primary-class teaching load reflects an increase of 8.9% since 1990-91. In the final analysis, this faculty commitment is the most important factor in the University's ability to preserve its instructional program through the worst of the budget shortfalls in the early 1990s, and will continue to sustain the University through the period of dramatic enrollment growth expected in the next decade.

Funds to strengthen undergraduate programs could be used in many ways, including hiring additional faculty with the goal of reducing class size and offering additional seminars or tutorials; providing undergraduates with increased opportunities to work with faculty on their research projects; providing additional instructional support to academic departments and faculty; and increasing academic advising for students.

One outcome of the funding to strengthen the quality of undergraduate education is that, over time, campuses will improve the student-faculty ratio by hiring faculty in addition to those provided by the State to support budgeted enrollment growth. In addition, a portion of the funding provided in

2000-01 for this initiative was targeted for hiring 57.3 FTE faculty for the Faculty Fellows Program, a campus-based program that provides UC Ph.D.'s with appointments that offer mentored training and experience in the design and conduct of instructional courses and research.

Additional faculty above those associated with budgeted enrollment growth will increase undergraduate students' access to faculty. Programs that enhance faculty interaction with undergraduates exist on all campuses. For example, UC Berkeley annually enrolls nearly 2,000 students in freshman seminars. UC Davis enrolls about 650 students in 15-student freshman seminars. Some departments at UC San Diego now require all faculty to teach a freshman seminar. The College of Letters and Science at UC Santa Barbara offers small seminars through its freshman seminar program. Faculty who teach large introductory courses also teach discussion sections for honors students enrolled in these courses. UC Santa Cruz requires entering freshmen to take a seminar course in their college. These courses are designed to enhance students' powers of critical thinking and analysis and to provide them with a setting in which to express effectively their opinions orally and in writing.

While faculty commitment to small seminars remains strong, the faculty resources needed to expand these efforts have been limited. Current student-faculty ratios tend to create large classes and decrease the chance for one-to-one contact in independent studies and opportunities for small group seminars.

Campuses may also choose to provide undergraduate students with greater opportunities to participate in research. In the mid-1990s, the Boyer Commission Report, *Reinventing Undergraduate Education: A Blueprint for American Research Universities*, drew the nation's attention to the problems and potential strengths of the research university. The report's defining recommendation is that research universities, like those in the UC system, should make research-based learning the standard.

UC currently offers undergraduate students many opportunities to participate in research as members of research teams in laboratories across many disciplines, and through conducting independent research under close faculty guidance on students' senior theses and other extended analytical writing projects. Funding from the State would enhance the depth and breadth of the undergraduate experience in research in a number of ways, all

characterized by increasing the interaction between faculty and undergraduate students.

Undergraduate education at the University could also be strengthened with increased investments in academic advising or providing academic departments and individual faculty with increased instructional support. Such funds would be used, for example, to facilitate the offering of more small discussion sections in large courses, for one-to-one and small group tutoring to help students master class assignments, and to assist faculty efforts to develop electronic enhancements of traditional classroom learning experiences.

### ***Timely Graduation***

Maintaining current levels of faculty teaching activity and improving the student-faculty ratio will contribute to students' timely graduation. The University continues to have a strong record with respect to the amount of enrolled time, that is, registered terms, it takes a student to complete an undergraduate program. Time to degree has dropped from 13.4 enrolled quarters (where a four-year degree equals 12 quarters) for the 1984 regularly-admitted freshman class to 13.0 for the 1993 cohort (the most recent data available). Since the 1988 cohort of entering freshmen, time to degree has averaged 13 quarters.

About half of the regularly-admitted, UC freshmen graduate in 12 or fewer registered quarters; they are able to do this by taking full academic loads each year and by not exceeding the 180 units required for graduation. Some students, however, do take more total units—for example, students with double majors, students who change majors after having already made substantial progress, and students in majors that require more units to graduate. And, some students take more time by taking lighter loads in some terms. By increasing the average number of units taken in a term and reducing the average taken over a student's career, more students could graduate in four years, making room for others. Under the provisions of UC's Partnership Agreement with the Governor, once students have taken more than 120% of the units that are required for graduation by their particular major, they will not be counted in UC's calculation of State-supported enrollment. Units taken in 2000-01 by students who exceeded the 120% limits were excluded from the calculation of the estimated FTE enrollment for 2002-03.

In the 1950s, only half of the University's new freshmen graduated within six years following matriculation. (Graduation rates are based on elapsed time—the date of first enrollment to the date of graduation.) Thirty years later, of all freshmen regularly admitted in 1984, 31% graduated in 4 years, 67% in five years, and 73% in six years. Ten years later, graduation rates have improved again. Of all freshmen who were regularly admitted in 1995, 37% had graduated in 4 years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 69% of the 1995 entering freshmen received a baccalaureate degree within five years. The six-year graduation rate for the 1994 class (the most recent year for which data are available) was 77%.

Persistence rates—the proportion of an entering class of students who return to enroll in their second and subsequent years—also have shown gains over the past decade. The proportion of freshmen who returned to enroll in their second year increased from about 88% of the 1984 cohort to 92% of the 1999 cohort. Two-year persistence increased from 76% of those entering in fall 1984 to 84% of those entering in fall 1998 (the most recent data available).

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

Students beginning their higher education at a community college campus have historically done very well after transferring to UC. About three-quarters of CCC transfer students graduate within four years of transferring, and on the average take about 7 to 8 quarters at UC to complete their degree. Transfer students' UC grade-point averages upon graduation are about the same as those who entered as freshmen.

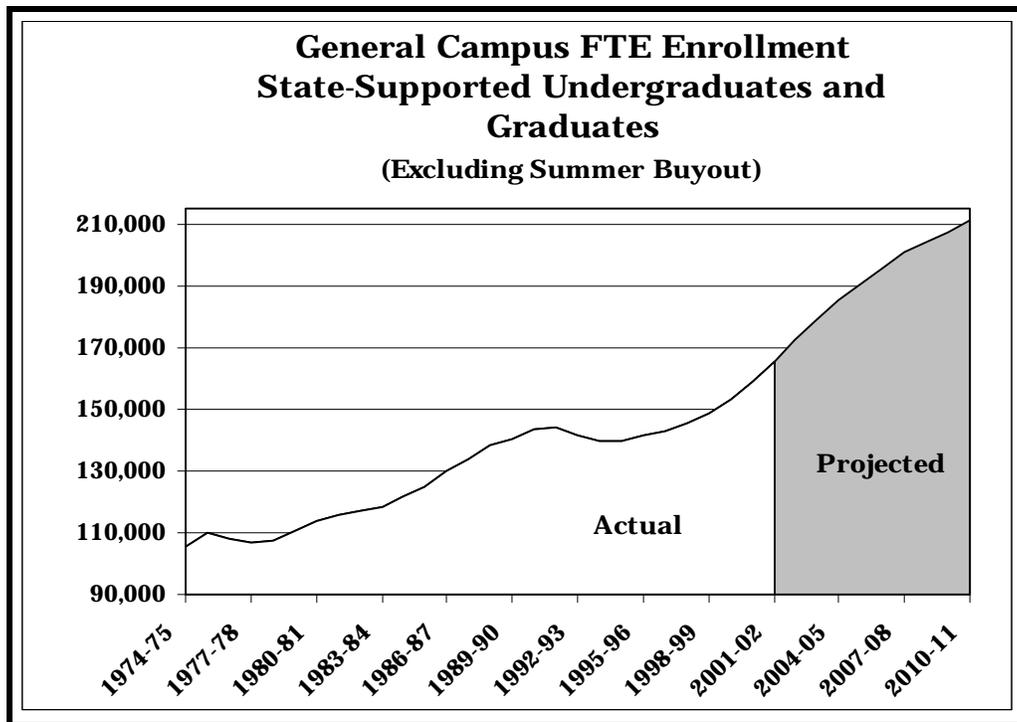
### **Accommodating Enrollment Growth through 2010-11**

UC's undergraduate enrollment planning is based on a commitment to student access to the University under the Master Plan for Higher Education, which provides that the top 12.5% of California public high school graduates, as well as those transfer students from the California Community College

campuses who have successfully completed specified college work, are eligible for admission to the University. Graduate and professional enrollment planning is based on assessments of state and national needs, program quality, and available financial support for students.

In 1998, the University projected growth of 64,000 students in the 12-year period between 1998-99 and 2010-11. By 2001-02, UC has already enrolled an estimated 18,400 of this student increase; the remaining growth of 45,600 students (see Display 11) will include 6,000 FTE students at the new UC Merced campus. Existing campus Long Range Development Plans (LRDPs) anticipate an increase of 34,000 FTE students over 1998-99 levels. Given UC's projection of 211,000 in 2010-11, the University will need to find a way to accommodate about 24,000 FTE students above current LRDPs if current long-range projections remain unchanged.

Display 11



***Continued Phase-In of State Support for Summer Instruction (\$33,200,000 Increase)***

In its April 2000 report, *The Feasibility Of Year-Round Instruction within the University Of California*, the University determined that conversion to a

State-funded summer—with substantial increases in summer enrollment—is critical to the University's ability to accommodate the 24,000 FTE student growth above current LRDPs.

By fully funding summer programs on all UC general campuses, UC plans to accommodate growth by 2010-11 of 17,000 year-average FTE students during the summer. Plans to accommodate the remaining 7,000 FTE enrollment growth include increasing the number of students educated off-campus, e.g., in study-abroad programs, and expanding existing campus LRDP enrollment targets where possible. Throughout the planning process, campuses will work cooperatively with their local communities to minimize the adverse impacts of increased enrollments to the extent possible while honoring the University's commitments to students eligible under the Master Plan.

To help begin the conversion, the State provided \$13.8 million in 2000-01 to reduce the fees charged to UC students in all UC Summer Sessions in 2001. Student fees are now equivalent (on a per-unit basis) to those charged during the regular academic year at all UC campuses. For 2001-02, the State also provided workload funding of \$20.7 million, allowing UC to provide a level of academic support as well as State and University-funded financial aid during the summer that is similar in quality to the regular academic year on three UC campuses: Berkeley, Los Angeles, and Santa Barbara.

For 2002-03, UC is requesting \$33.2 million to provide State funding to support 4,032 year-average FTE students, which represents the total who attended summer sessions on the five remaining UC campuses—Davis, Irvine, Riverside, San Diego, and Santa Cruz in summer 2001. This funding for existing enrollment is based on the 2002-03 marginal cost of instruction less the \$3.1 million already provided for these five campuses in the 2000-01 budget (to bring summer fees to levels equivalent, on a per-unit basis, to those charged during the regular academic year) and less funding provided separately for summer education credential enrollments. These new funds will bring the *existing* summer enrollment of UC students into the permanent base of State-funded enrollments, thereby providing funding for faculty salaries, for instructional and institutional support (required to offer programs in the summer that are similar in quality and breadth to the regular year), for student support services, libraries, and for student financial aid that is equivalent to the rest of the year. Funding for summer enrollment *growth* is included in the general campus workload request for growth of 7,100 FTE students for 2002-03.

Between 2000 and 2001, the University expanded its summer enrollments by 2,800 year-average FTE students (an increase of about 13,000 summer headcount students). The three campuses that were fully funded by the State grew about 55% or nearly 2,000 FTE students, far exceeding budgeted growth of 700 FTE. The remaining campuses grew 25%, or about 900 students. Berkeley, Los Angeles and Santa Barbara campuses increased the number of classes they provided by 28% and the number of regular-rank faculty and lecturers who were assigned to teach by 27% over summer 2000. In addition, campuses were able to provide \$20.6 million in financial aid to nearly 11,300 students. Of the total, \$7.7 million came from UC financial aid programs, including over \$4.8 million in new UC financial aid funds that were not available in previous summers.

Clearly, the key to growth is to offer students summer instruction that is similar in quality and breadth to the rest of the year, student support services, access to libraries, and student financial aid. The State funds provided for summer instructional workload at the regular marginal cost rate at the Berkeley, Los Angeles, and Santa Barbara campuses were central to UC's plan to accommodate significant enrollment growth during the summer.

Assuming full funding for summer programs on all UC general campuses, UC plans to accommodate growth of 17,000 year-average FTE students during the summer in addition to nearly the 7,000 FTE students in summer 2000, for a total of 24,000 year-average FTE or about 120,000 headcount summer students in 2010-11.

In order to increase summer enrollments and the proportion of regular faculty who teach during the summer, campuses are creating incentives as they design their own summer programs, drawing on the experience of the first three State-supported summer programs to identify ways to increase summer enrollments. As campuses develop their summer instructional plans, they will endeavor to ensure that the increased enrollments do not displace existing summer programs dedicated to outreach for K-12 students, professional development programs for K-12 teachers, University Extension courses for both local and international participants, and orientation and research programs for UC students.

Under the Partnership Agreement with the Governor, UC has agreed to implement more extensive use of existing facilities to accommodate enrollment demands and to help alleviate enrollment pressures during the regular academic year. Also consistent with the Partnership, funding

requests to the State for new classrooms and class laboratories are justified using legislatively-approved utilization standards and the assumption of instructional workload during the summer that is equivalent to 40% of the average workload during fall, winter and spring. UC estimates that in the next decade, \$200 to \$240 million could be saved in capital funds because of additional classroom, class lab, and related instructional space that may not be needed.

### ***Off-Campus Instructional Activity***

While summer instruction is a crucial element in enabling the University to meet the coming enrollment demand, campuses' plans for growth will also include other approaches. These will include increasing enrollment during regular terms, improving time to degree, and increasing enrollment in off-campus programs. The University is developing various options to handle enrollment growth in off-campus programs, including the following:

- **Education Abroad Program.** UC currently provides opportunities for students to spend time abroad and is exploring ways of increasing overseas enrollments in the Education Abroad Program from current levels of 1,800 year-average FTE students to several times that number by 2010-11.
- **UCDC.** UC operates a program in Washington, D.C., with plans to expand current enrollment of 170 students to 280 per term when the new UCDC Center is opened in fall 2001. UCDC may also serve as a model for other off-campus programs that could be developed for UC students, including a program in Sacramento that is currently in the early planning stages.
- **Ventura Center.** The UC Santa Barbara off-campus center in Ventura County is another small but successful model. The Ventura Center provides instruction to students who are taught by regular UC faculty and instructors, either in person or interactively via closed-circuit television.
- **UC Merced Centers.** UC Merced is creating a system of distributed learning centers throughout the San Joaquin Valley. The UC Merced Center, Fresno opened in 1997 and the Merced Tri College Center opened in 1999. A UC Merced Center in Bakersfield began operation in cooperation with Kern County Office of Education this summer, and a UC Merced Center in Modesto is being planned. The UC Merced Center in Fresno includes programs from UC, California State University at Fresno, Fresno Unified School District, and the Fresno County Children and

Families Commission. The Merced Tri-College Center houses programs from UC Merced, California State University at Stanislaus, and Merced College. A primary focus of the center is to facilitate transfer of Merced area students to UC and CSU. These distributed learning centers provide access throughout the San Joaquin Valley to Summer Session courses, University Extension and certificate programs and will be the hub of activity for programs that will help students in community colleges transfer to the University. Also, the centers provide a wide range of outreach programs for K-12 and community college students and faculty.

- **Silicon Valley Center.** The Santa Cruz campus is developing an off-campus center located in Santa Clara County, described later in this chapter.

## **The University of California, Merced**

Development of UC Merced is part of the University's strategy to increase its enrollment capacity and provide the benefits of a research university to Californians in the San Joaquin Valley. In November 1999, the Governor proposed that the opening date for the campus be accelerated to fall 2004, a year earlier than the planned opening date of 2005. The University is currently making every effort to meet that target and has made considerable progress in the last year towards the goal.

In 1999-2000 and 2000-01 the full-scale preliminary planning for the campus was underway with the greatest emphasis placed on site selection and development of long range physical planning, including environmental reviews and studies. In 2001-02, a formal organizational structure was put in place; in 2002-03, the pre-launch of detailed academic programming and the recruitment of faculty begins. As the campus approaches 2003-04, the full-scale launch of all campus programs and processes occurs. Most important, faculty will be in place to begin creation of undergraduate and graduate degree programs, coursework, and related research programs. The campus must also plan student housing, residential life programs, dining and other essential services. The full scale launch of the campus library will also be underway in 2003-04.

As requested, the University provided the California Department of Finance with a Long Range Budget Plan in May 2000. The Long Range Budget Plan identifies the activities that must be funded in order to open the campus in

fall 2004 with 1,000 students and increase to 6,000 students by 2010. The Merced campus is critical to the University's longer term ability to accommodate projected enrollment growth.

The State provided \$9.9 million in the University's base budget for planning and start-up costs associated with academic programs to be offered in the San Joaquin Valley as well as planning, start up costs, and ongoing support for the Merced campus. This core funding will continue to be used to establish the development of academic programs, support the salaries of initial campus staff and faculty and fund the Long Range Development Plan and associated environmental impact report. In order to accelerate the opening of the campus to 2004, additional funding is needed to accelerate hiring of key faculty and to provide newly hired faculty with instructional support. The University will continue ongoing discussions with the Administration and the Legislature related to needs associated with acceleration of the opening date for the campus.

Development of the campus is currently slated for a 2000-acre section of 10,300 acres located in Eastern Merced County on a partially developed site. At full build-out, the campus is expected to accommodate 25,000 students. As indicated in the Long Range Development Plan to be submitted to The Regents in November, this site is the least damaging environmentally. It represents a change in the original planning so as to better mitigate the potential environmental effects of building a new campus in the Merced area. With the assistance of a grant from the Packard Foundation, the partially developed site may be made available to The Regents for the campus and will include a 750-acre area for the Natural Reserve System. In addition, a 5,000-acre preserve on the remaining land to the north and east of the campus will be established. Campus planning has focused on preserving the unique environmental features of the area and has been coupled with significant additional mitigation efforts through separate funds to the Wildlife Conservation Board in the amount of \$30 million to acquire approximately 60,000 acres adjacent to the campus that will help ensure the protection of wetlands, waterways, and wildlife around the campus.

Working with State and federal agencies as well as numerous constituencies, including the County of Merced, has proven a very complex planning and permitting process that has required an extraordinary level of legal effort and a resource base that is much greater than originally envisioned. Planning for the campus must satisfy regulatory requirements while at the same time allow for the kind of comprehensive conceptions required by an institution

that will exist in the area for hundreds of years. The design and construction of the campus will adhere to principles of environmental stewardship, conservation and sustainability. UC Merced will model new cost-effective ways to reduce consumption of water and energy, control traffic impacts, increase population densities, and minimize waste through careful use and reuse.

The Chancellor has successfully recruited for key leadership positions to accelerate the organizational development of the campus. The Executive Vice Chancellor and Provost, the Vice Chancellor for Administration, The Vice Chancellor for Physical Planning, the Vice Chancellor for Advancement and the Vice Chancellor for Student Affairs have been appointed. The Deans for Engineering and for Social Sciences, Arts and Humanities also have been appointed. The Dean for Natural Sciences and the Director for the Sierra Nevada Research Institute are currently under recruitment. These key appointments provide the nucleus of leadership to recruit outstanding faculty who will create early distinction in target fields. Faculty recruitment begins in 2002-03 and accelerates in 2003-04.

Additional space has been leased at Castle Air Force Base to provide for initial administrative needs and for the first faculty. It is expected that staff will relocate to Castle in fall of 2001.

The University's 2002-03 Budget for Capital Improvements accelerates the five-year capital funding schedule for the Merced campus in order to fund the projects required to open the campus for instruction in fall 2004. In 2000-01, the State provided \$10 million for preliminary plans for the initial phase of infrastructure, and \$4.3 million for preliminary plans and \$4.7 million for working drawings for the first two academic buildings: the Science and Engineering Building and the Library/Information Technology Center.

In 2001-02, \$160.4 million was approved in the capital budget for additional increments of site development and infrastructure, completion of the Science and Engineering Building and the Library/Information Technology Center, and planning and working drawing funds for the Classroom Building (\$158.6 million from State Lease Revenue Bonds and \$1.8 million in State General Funds). In 2002-03, a request of \$42.3 million is included to continue Phase I site development and infrastructure, and construction and equipment to complete the Classroom Building.

## **Silicon Valley Center**

The University has completed its second year of planning for an off-campus center in the Santa Clara Valley. This proposed center—the UCSC Silicon Valley Center, led by UC Santa Cruz on behalf of the University of California system—has the potential to become a highly visible focused research and education facility, capitalizing on its location in the heart of the state’s innovative technology development industry. The Silicon Valley Center (SVC) is an important element in the University’s long range planning efforts to accommodate projected enrollment demand, develop collaborative relationships with the California State University (CSU) and the California Community Colleges (CCC), expand outreach programs with K-12 schools and students, and increase collaborative research with industry and with public and private agencies.

The State has provided \$1.1 million in each of two years to begin planning for the Silicon Valley Center. The efforts in the first year were focused on building an educational collaborative among San Jose State University, Foothill-DeAnza Community College, and UC Santa Cruz, broadly articulating the types of programs that could be situated at the Silicon Valley Center, and identifying a location appropriate to those goals. As a result of those analyses, the proposed NASA Research Park (NRP) at NASA Ames was selected as the preferred site and the campus has been working as a partner with NASA to address the master planning and environmental issues associated with that site.

Extensive work has been done on site master planning and environmental analysis, as well as continuing to plan for the educational collaborative. While site planning will continue in this next year, the focus of efforts will also include developing a more detailed academic plan. The academic plan will build upon the needs and strengths of the Santa Clara Valley region and the preferred site, and on the strengths of UC. The academic plan will also reflect partnerships and collaborations that will develop as a result of the Center’s role as the UC portal in the region.

To date, the Santa Cruz campus has:

- appointed a senior faculty member as Interim Director to lead the planning efforts;

- identified the proposed research park at NASA Ames as its preferred site for a permanent location and negotiated a Letter of Intent with NASA for use of the NRP site;
- completed the initial land use plan for the NRP site and began the process of preparing a site master plan;
- initiated discussions with NASA defining UC's role in the ownership and management of the Laboratory for Advanced Science and Research (LASR);
- developed an MOU for an educational collaborative among San Jose State University, Foothill-DeAnza Community College, and UC Santa Cruz, initiated collaborative planning, and developed concepts for initial programs; and
- published a draft Academic Vision statement and began developing the analytic framework to support planning an academic program.

In 2001-02, the Santa Cruz campus intends to:

- complete environmental and financial due diligence analyses and the NRP master plan, and initiate the CEQA process for the SVC portion of the NRP;
- initiate a detailed academic planning process and develop an initial academic plan for the curriculum and degree programs at the Center, and begin planning to accommodate UCSC summer session courses at the Center;
- prepare the first on-site facility (a small building that NASA provided to UC without charge) for research and teaching;
- negotiate a Letter of Intent to transfer ownership and management of the LASR to a UC-sponsored non-profit entity;
- negotiate a Letter of Intent to establish UC as the lead on housing for the NRP; and
- begin planning a joint use facility for collaborative education activities.

In 2002-03, funding will be used to continue site and physical planning, and to refine the academic plan. Specifically, during 2002-03, the CEQA process should be completed and housing-related planning should be significantly advanced. Although it will not require State capital funding in 2002-03, groundbreaking is anticipated to occur for the construction of the LASR facility (which is being funded by private-sector contributions); in future

years, however, State funding will be required to outfit the UC portion of the LASR facility.

### ***Benefit to the State***

Programs at the Silicon Valley Center will address several different significant statewide and regional needs. The demand for this Center is driven by: (1) a significant research and public service agenda of mutual interest to Silicon Valley, the University of California, and the State of California; (2) an anticipated surge in UC enrollments over the next ten years; (3) the growing and increasingly diverse high school student body in the Santa Clara Valley region; (4) the growing education and workforce gap; and (5) the rising demand for a UC institution in Silicon Valley, in a period where new directions in technological innovation are needed to spur renewed economic growth.

Statewide, the SVC will provide the catalyst for developing innovative research programs that address the future directions for the high technology economy. These research programs, benefiting from interactions with a wide variety of existing and future high technology companies, will inevitably spur future economic growth in the region and in the State as a whole. Further, the research and associated curricular programs at the SVC will be a statewide magnet for faculty and students interested in the specific areas that become the focus of the SVC academic plan. One major component of these research programs is UC ownership and management of the LASR, being constructed with private funds and transferred as a gift to the University of California. The LASR will provide facilities and equipment for UC researchers, as well as for visiting scientists pursuing research in nanotechnology, biotechnology, bioinformatics, and other innovative fields.

Regionally, the SVC will provide the opportunity for access to a nearby campus for UC-eligible students. Historically, these students have had to opt to relocate if they wished to attend a UC campus, and enrollment growth projections for the next ten years indicate that there will be a growing population of UC-eligible students in the region. More than just providing a UC presence in the Silicon Valley region, however, the Silicon Valley Center is intended to increase the participation of traditionally underserved groups in a university education. Because it is linked to both Foothill/DeAnza Community College and San Jose State University through the Collaborative for Higher Education, and because the selected site has direct light rail connections to East San Jose, San Jose State University, and other parts of

the San Jose area, the Silicon Valley Center will contribute greatly to outreach and integration of students into the UC system.

A portion of the academic program is likely to be based in high-technology subject areas (building, in part, on the association with NASA's NRP), and the SVC will thus provide one avenue for addressing the "digital divide" for those local students who pursue degree programs at the Center. The Center will build upon the instructional efforts of UC Santa Cruz, such as the computer engineering program that is delivered simultaneously on campus and in Cupertino using video conferencing and other distance education technologies. In addition, joint instructional programs are an important component of the effort and it is anticipated that, in cooperation with local community colleges, the Center would offer undergraduate courses tailored to the needs of students from the Santa Clara Valley and designed to facilitate transfer to UC (e.g., a bridge-to-major program with the Foothill-DeAnza Community Colleges). In addition to offering courses to as many as 2,000 FTE undergraduate and graduate students, the Center programs will foster student internships and research field studies, and contribute to workforce development within the Silicon Valley region.

### **Increasing Regional Cooperation**

The University has established several joint programs with the California State University (CSU). Collaboration between UC and CSU campuses offers many advantages. It allows for the creation of specialized degrees that might not otherwise be possible, improves outreach to segments of the population that are underrepresented in graduate studies, enhances opportunities for joint research projects, and facilitates sharing of instructional resources in support of graduate study. Collaboration takes several forms. A wide range of UC academic departments collaborate with CSU in the California Pre-Doctoral Degree Program that encourages CSU's best master's degree students to pursue doctoral training at the University. In cases where CSU has an existing master's degree program and UC has a complementary doctoral degree program, courses in the two systems can be articulated and students encouraged to move along an integrated path from the CSU master's degree to the UC doctoral degree. UC and CSU also combine resources to offer joint degrees, where faculty jointly offer the graduate program throughout the student's tenure and the degree is awarded jointly by both systems.

UC and CSU have combined their resources to offer a total of 13 joint doctoral degree programs in several disciplines, including ecology, education, engineering sciences, geography, and public health. UC campuses currently participating in joint doctoral degree programs include Berkeley, Davis, Los Angeles, San Diego, and Santa Barbara. A new program for a Doctor of Physical Therapy Science, offered by UCSF and San Francisco State, has recently been approved and will soon be implemented. Joint doctoral degree programs are also in the planning stages in other disciplines, including one in Evolutionary Biology to be offered by UC Berkeley and San Diego State and a joint doctoral degree in Criminal Justice to be offered by UC Davis and CSU Fresno.

Four of the existing joint doctoral programs are in education, including the well-regarded Joint Doctoral Degree in Educational Leadership offered by UC Davis and CSU Fresno. Planning for a joint doctoral degree in Education Leadership with UC Riverside and several CSU campuses is well advanced. New joint doctoral degree programs in education are also being planned at the Berkeley, Irvine, San Diego, Santa Barbara, and Santa Cruz campuses and funds have been made available assist programs in their planning efforts. Expanding the existing joint programs and creating new ones in education with CSU is a very high priority for UC. The joint degree programs build on the mutual strengths of the two systems and make the degree more accessible geographically.

### **Instructional Technology Initiative (\$13,700,000 Increase)**

The University will need substantial increases in funding to address the growing importance of technology for instruction. Among the funding principles of UC's Partnership Agreement with the Governor is the commitment to provide a 1% increase to the prior year's State General Fund base committed to addressing permanent funding shortfalls in critical areas of the budget, including the instructional technology initiative.

#### ***Request for 2002-03***

Consistent with the Partnership, the University's 2002-03 budget plan proposes to increase permanent funding for instructional technology by \$13.7 million. Although this increase is significant, the University continues to have a substantial gap between need and available funds.

In 1997, the University developed a preliminary quantitative model to estimate costs of instructional technology at UC. Based on this model, the cost to the University for instructional technology in 1996-97 was estimated to be approximately \$136 million, funded by a combination of sources including the State, internal budgetary reallocations, one-time extramural grants, gifts, and miscellaneous sources. According to the model, a minimum increase of \$50 million over the 1996-97 base would be required to provide a modest upgrade in instructional technology, based on then-current planning, enrollment, and cost levels. Beginning in 1997-98, the State began to fund this need, and by 2000-01 had provided \$29.1 million in additional funding for instructional technology.

### ***Restoration of Unfunded 2001-02 Partnership Funds***

Instructional technology is one of the four core areas of the budget to be funded within the Partnership from the 1% increase to the prior year's State General Fund base committed to addressing permanent funding shortfalls in critical areas of the budget. As originally envisioned, State funds provided over the four-year period of the Partnership would eliminate over two-thirds of the shortfall. The remainder is expected to be funded through a redirection of resources at the campus level.

The 2001-02 budget included an increase of \$12 million for this purpose consistent with the Partnership agreement related to funding for core needs. However, as a result of the State's deteriorating fiscal situation, these funds were eliminated from the University's budget in the May Revise. It is the University's expectation that the \$12 million will be restored to the University's budget once the State's fiscal situation improves.

### ***Technology is Critical to Maintaining the Quality of Academic Programs***

Technology will play an important role in the University's future. The University will initiate its first online degree program in Criminology in fall 2002 at UC Irvine. Across the UC system programs are being developed to help faculty introduce new instructional technologies into the classroom. In fall 2001, the UC Teaching, Learning and Technology Center (TLtC) launched its interactive website: the *TLtC Webzine and Online Forum*. The website's articles and news stories will feature ways that technology is used in teaching and learning at UC, and it will provide a searchable database of teaching technologies enabling faculty to collaborate on teaching strategies and tools. The Center provides support for faculty collaboration through a

grants program, which in 2001 awarded \$350,000 for faculty's intercampus teaching collaborations.

Technology dramatically improves data handling, process simulation, problem-solving, creative presentations, and communication. New technologies are making possible unprecedented interaction with primary data and are enabling complex networks of communication among students and faculty. For students, these technologies create opportunities to grapple with real data and real problems early in their learning careers, linking them directly to the research enterprise. Participation in the research process and the mastery of the skills and analytical rigor that it engenders will be lifelong assets for graduates who seek professional opportunities and advanced degrees in any field.

In just the past few years, digital applications have become so powerful and pervasive that faculty, students, and instructional staff risk being isolated from the academic mainstream if they do not have ready access to such electronic capabilities as email, Web browsers, electronic journals and data banks, word-processing, and spreadsheet applications. Technological competence is an essential skill for students to succeed in an information-based economy. For the University to compete for the best students and ensure they are able to benefit fully from the applications and services made possible by technology, continuing investments are required not only in infrastructure but also in technical support for faculty, staff, and students so that these new systems can be used effectively.

The use of information-based technologies to manage the curriculum and maintain the quality of instructional programs became increasingly significant beginning in the early 1990s. Today, academic departments across the UC system are using electronic means to communicate with their students via the use of email and the Web to disseminate information on departmental policies and procedures, major and minor requirements, lectures, fellowships and internships, events and class scheduling. Even students studying abroad receive rapid responses to their requests for advice. Information technology also has improved students' access to course material. In 1996-97, for example, the College of Letters and Science at UCLA launched a program to provide a website for every undergraduate course in the College. Most websites include the course syllabus, instructor data, links to the library, bulletin boards, and other items such as online quizzes and lecture notes.

Some websites are significantly richer. For example, one course website contains an online gallery of interactive student artwork. Another faculty member in a Department of Asian American Studies asked her students to contribute an oral history of an Asian immigrant. Each oral history included a brief digitized video of the interview subject, an audio excerpt from the interview, a map showing the subject's migration route, and a timeline that placed the immigrant's life in the context of Asian history.

The Web has also facilitated placement testing, section quizzes and other forms of assessment. UC Santa Cruz, for example, is using online placement exams in its language and chemistry programs and working to expand this to mathematics, biology, and writing. The Department of Linguistics at UC San Diego has put many quizzes and midterms on the Web while a faculty member in Anthropology has developed a Web-based system for creating self-correcting quizzes. UCLA has established the Media Center to support faculty with instructional projects. Hundreds of faculty have attended workshops on integrating multimedia slide shows and the Web into classroom teaching. UC Davis has created the Arbor, which offers a range of services including consultation, workshops, seminars, and guest speakers to assist faculty with instructional technology. In 1997-98, the Arbor served 193 faculty, enhancing 250 courses that affected over 6,000 students.

Faculty who utilize information technology in their teaching depend on classrooms with state-of-the-art technology. However, campuses have a shortage of connected classrooms. At UCLA, for example, only about one-half of the 196 general assignment classrooms are connected to the Web.

UC campuses use technology to collaborate. UCLA, for example, has provided eleven courses that were electronically received by five other UC campuses (Irvine, Riverside, San Diego, Santa Barbara, and Berkeley). UC Santa Cruz and UC Davis jointly offered Hebrew instruction via distance learning. Two professors in Nuclear Engineering at UC Berkeley collaborated with instructors at UC San Francisco to teach a new course on the *Physics of Medical Imaging* for undergraduates.

### ***Recurring Costs of Technology***

The main benefits of technology are improvements in quality, depth and complexity of what students can learn—benefits that are difficult to quantify. There is a price tag that accompanies these improvements and, rather than reducing costs, the use of technology can increase or shift costs. Academic

initiatives that make use of digital technology rely on an extensive infrastructure that is expensive to develop and maintain.

The University plans to increase funding every year to help narrow the gap between current funding from the State plus what the University has allocated from other fund sources, and what is needed in the longer term. From a budgetary standpoint, the key challenge is to view closing the gap between current and needed expenditures not as a one-time expenditure but as a permanent commitment to staying abreast of evolving technology and its relationship to higher education in the 21<sup>st</sup> century.

Every component of the instructional technology infrastructure is a recurring expense. Hardware must be replaced and upgraded regularly, although it is a decreasing portion of instructional technology costs. Software requires major expenditures as well, both for new applications and for upgrades of applications already in use. Technical staff are required to run and maintain networks and workstations. The need for training and technical support staff continues to grow exponentially as the use of technology spreads through more and more day-to-day teaching and learning activities.

Each UC campus has a consultative process in place to develop and implement plans that meet its distinctive priorities and needs. These priorities and needs can be organized into seven categories as described in Display 12.

Of the State funds provided for instructional technology, about one-third is being spent to expand and upgrade computer labs, about 20% to add computers to classrooms, about 25% on curricular development and instructional support, and the balance on instructional infrastructure and online access to instructional resources.

### ***Future Needs***

One of the largest components in the gap between today's expenditures and what would be required to support use of advanced technology in every classroom and teaching encounter is the provision of adequate technical support staff. In 1996-97, there was one technical support staff for every 100 faculty and staff who use computers. That ratio ought to be more in the range of 40:1. Without adequate training and support, faculty cannot take full advantage of their workstations or use the technology in their courses.

## Display 12

### ***Instructional Technology Expenditure Categories***

<b>Category</b>	<b>Definition</b>
<i>Computer Labs</i>	Workstations and software in student computer labs; training and direct support for students in labs
<i>Classroom Improvements</i>	Computers installed in classrooms; classroom connections to campus network; audiovisual and multimedia support
<i>Workstations and software for faculty and staff</i>	Workstations and software in faculty and staff offices used to support the instructional program
<i>Curricular Development</i>	Grants to faculty to introduce technology into courses
<i>Instructional Support</i>	Technological support for class websites and computer workstations; faculty computer training and help
<i>Instructional Infrastructure</i>	Resources to support email and network access (students and faculty)
<i>Online Access to Instructional Resources</i>	Access to databases, library materials, and other instructional resources

For technology to be integrated fully into the curriculum, the ratio of students to computer lab seats would need to drop significantly, from 14 students for every seat to a ratio of 8:1. Also, workstations would need to be replaced more frequently—every three years in the most optimistic case, compared with over four years today—to keep pace with the opportunities afforded by changing technologies. Most classrooms would need to be connected to the network and equipped with projection and other equipment to make group work feasible in class meetings.

### **Instructional Equipment Replacement Program**

Among the funding principles of UC's Partnership Agreement with the Governor is the commitment to provide a 1% increase to the prior year's State General Fund base committed to addressing permanent funding shortfalls in critical areas of the budget, including instructional equipment replacement. As originally envisioned, State funds provided over the four-year period of the

Partnership would eliminate over two-thirds of the shortfall for the four core areas. The remainder is expected to be funded through a redirection of resources at the campus level. That includes funding for instructional equipment replacement (IER).

For budgetary purposes, the University's IER need is defined as the annual depreciation of instructional equipment, such as that used in foreign languages or science laboratories, over the period of its useful life. The life span of most University instructional equipment is from 3 to 15 years; much of the equipment still in use is now obsolete.

Using an agreed-upon methodology for calculating need, the State began funding the replacement of instructional equipment (IER) in 1976-77, and provided full funding from 1984-85 to 1989-90. From 1990-91 to 1999-2000, annual permanent State funding fell short of each year's IER need. Over the decade, the annual shortfall accumulated to a total of more than \$210 million (unadjusted dollars). One-time funding has reduced the net shortfall to \$176 million.

The 2001-02 Governor's January budget included an increase of \$2 million for instructional equipment replacement consistent with the Partnership agreement related to funding for core needs. As a result of the State's deteriorating fiscal situation, these funds were eliminated from the University's budget in the May Revise. It is the University's expectation that the \$2 million will be restored to the University's budget once the State's fiscal situation improves.

Instructional equipment is essential to maintain the high quality of UC's instructional programs. New equipment is needed in student computer labs, as an aid in teaching presentations, to teach students how to operate the equipment itself, and by students who are working with faculty members on research, as part of their academic training.

The need for equipment in engineering and the sciences, disciplines that are expected to grow significantly, is especially crucial because laboratory sciences require more instructional equipment, the equipment is more expensive, and technological advances occur more rapidly, which results in a need to upgrade as well as replace existing equipment.

IER funds can be used to leverage extramural funding for equipment that faculty can use in teaching graduates and advanced undergraduates, as well

as in their research. Unless the University can provide high-tech instructional equipment, it could lose its best faculty and students to other institutions that can provide the necessary facilities and equipment. This will weaken the University's instructional programs and reduce the University's ability to provide the highly skilled personnel needed for California's high technology industries.

## HEALTH SCIENCE INSTRUCTION

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 728,734,000</b>
General Funds	342,946,000
Restricted Funds	385,788,000
<b>2002-03 INCREASE</b>	
General Funds	1,157,000
Restricted Funds	19,289,000

The instructional program in the health sciences is conducted principally in fourteen health professional schools, which provide education to students preparing for various careers in health care, teaching, and research. The health science schools are located on six campuses and include five schools of medicine, two schools of dentistry, two schools of nursing, two schools of public health, one school of optometry, one school of pharmacy (another is opening Fall2002), and one school of veterinary medicine. In addition, the University operates four programs in medical education conducted at Berkeley, at Riverside, in Fresno and at the Charles R. Drew University of Medicine and Science in Los Angeles. Professional and academic students, residents, postdoctoral fellows, students in allied health programs, and graduate students who will become teachers and researchers participate in the programs of the health science schools. The physical, biological, and behavioral science programs of the general campuses are important complements to the programs of the health science schools.

To operate the instructional program, the health science schools require faculty, administrative and staff personnel, supplies, and equipment. Faculty requirements are determined in accordance with student faculty ratios, which have been established for each type of school and for each of the categories of students enrolled in these schools. As examples, the historical budgeted student faculty ratio for medical students is 3.5:1; for dentistry students, 4:1; and for pharmacy students, 11:1.

Faculty salary costs constitute about 64% of the total budget for the health science instructional program. Instructional support costs represent 14% of the budget. These costs include non-faculty personnel, equipment, and supplies, which are provided for each faculty position, based on support levels determined for each school. The remaining 22% of the program's budget provides funding for other expenses, including employee benefits, partial support of stipends paid to interns and residents, and a portion of malpractice insurance premiums.

In addition to the resources provided in the instructional budget, the costs of clinical training traditionally have been supplemented by physician and other professional fee income and by revenues generated by the medical centers. Financial support for medical education and clinical training has declined substantially as a result of recent changes in the organization and delivery of health services. These changes include dramatic decreases in professional and teaching hospital revenues due to the growth of managed care and declining-revenue in federal reimbursements from Medicare and Medicaid that resulted from efforts to balance the federal budget. As a result, there is a need to broaden the sources of financial support for the costs of medical education, including those incurred in outpatient settings. These issues are discussed in more detail in the *Teaching Hospitals* chapter of this document.

In 1996-97, the University's five medical centers were successful in obtaining \$50 million in additional federal Medicaid funds to support educational costs related to services provided to the state's Medi-Cal population. Under this program, the Medi-Cal Medical Education Supplemental Payment Program, the medical centers received \$35 million, \$38 million, \$54 million, and \$55 million over four years. The fluctuating funding in 1996-97 and 1997-98 is attributable to the expansion of the Medi-Cal Medical Education Program to include payments to other major teaching hospitals and the fact that the UCSF Medical Center was treated separately during the period of its merger with Stanford. These Medi-Cal funds, along with the graduate medical education payments that have long been a part of Medicare, have provided essential resources for the University and other teaching hospitals in support of their teaching and patient care missions.

The original legislation for the Medi-Cal Medical Education Program was to sunset on June 30, 1999, but was extended through June 30, 2000, and again through June 30, 2002. The University is working with the State on a broader, longer-term program to fund graduate medical education in outpatient as well as inpatient settings, and to address issues related to

funding for other health care professionals. Until a model is developed and adopted by the State, the continuation of the Medi-Cal Medical Education Supplemental Payment program is essential. The University will be working with the Legislature and the Governor to extend the sunset date of the legislation beyond 2002.

As the University plans for the 21<sup>st</sup> century, continuing efforts will be focused on supporting and sustaining high quality programs in health science education, research, and patient care. Important initiatives at UC's medical schools will continue to address issues of diversity and outreach, specialty balance and workforce needs, and the critical need to develop stable long-term financing mechanisms to provide support for graduate medical education and other health professions training. These efforts will be guided by workforce projections, marketplace realities, public interests, and the recommendations of state and national policymakers. Continued partnerships with the Legislature, State agencies, and other stakeholders will be necessary to address current state needs for improving access to care in under-served communities, improving the diversity of the California health workforce, providing care for the poor and uninsured, and supporting the health providers and institutions dedicated to filling these needs. The University stands ready to contribute to this effort and looks forward to collaborating with others to meet these challenges successfully.

## **Health Science Enrollments Nationally and Within UC**

The University's long-range academic planning for the health sciences is influenced by a variety of internal and external factors. External factors include the state's need for health professionals, federal and State policies for funding health science education, access to and reimbursement for health services for the poor, and the overall state economy. These external factors have influenced health science enrollment planning at the universitywide level, which in turn, has provided broad parameters for the internal, decentralized planning process through which campuses initiate proposals to address programmatic concerns.

### ***Health Science Enrollments Nationally***

The University's health science planning process has historically considered national health care workforce projections. In the early 1970s, the Graduate Medical Education National Advisory Committee (GMENAC) predicted a

shortage of physicians. By the early 1990s, however, projections indicated of a national shortage of generalists and a significant oversupply of specialists by the year 2000.

More recent analyses, including a 1995 study published in the Journal of the American Medical Association and a 1997 report issued by the Center for the Health Professions at UCSF, have supported earlier projections concerning an oversupply of specialists, but indicate that the generalist workforce appears to fall within the range necessary for the future. These examples underscore the need to continually re-examine workforce projections for medicine and for all the health professions.

In 1997, the University of New York's Center for Health Workforce Studies, with support from the federal Health Resources and Services Administration and in collaboration with the Center for the Health Professions at the University of California at San Francisco, undertook a comparative study of medical education, physician training and physician supply and distribution in New York and California (the study was updated in 1998 to include Texas). The following are among the findings of special relevance to California:

- For a state of its size and population, California has a relatively limited medical education and training system.
- The state has an adequate overall physician supply because of the high rate of retention of doctors trained in California (nearly 70%) and because of the in-migration of physicians trained elsewhere.
- California significantly trails the national average in educational opportunities for medical students. By contrast to a U.S. average of 28.5 medical students per 100,000 population, and a New York enrollment of 44 medical students per 100,000, California trained only 15.7 students per 100,000 in 1997.
- During the years 1985 to 2000, the state's population grew by 28% but medical school enrollment did not. The net impact was an 8% decrease in the ratio of medical students per 100,000 population.
- All three states have experienced strong growth in the number of practicing physicians during the years 1985 to 1996, ranging from 23% in California to 40% in Texas. When adjusted for population growth, and in contrast to a national increase of 22.4%, California's physician-to-population ratio increased by only 2.6%.

- California trains comparatively few international medical graduates (IMGs). On a per capita basis, the difference is particularly striking with New York training 41.5 IMGs per 100,000, Texas training 6.0, and California training only 3.4 per 100,000.

In March 1999, the Council on Graduate Medical Education (COGME), which was authorized by Congress in 1986 to provide an ongoing assessment of physician workforce trends and federal and private sector efforts to address workforce needs, issued its most recent report. Among the major findings are:

- The national rate of growth in physician supply has moderated slightly, but is still likely to lead to a surplus in some regions;
- The number of generalists is increasing with an appropriate overall supply likely to be achieved in the next few years;
- The dependence on hospital inpatient reimbursement to support graduate medical education poses a threat to the nation's training sites;
- The advent of managed care and other recent developments "do not bode well ... for teaching hospitals that serve as safety net providers;"
- The increase in the number of female physicians and growth in the number of non-physician clinicians will impact the health workforce and should be given careful consideration in the future.

Also included in the COGME report are recommendations calling for promotion of a more effective marketplace, development of an integrated workforce planning process, utilization of financial incentives to achieve priority goals, and increased advocacy for a stable financing system to provide long-term support for graduate medical education (GME).

Although California's supply of primary care physicians (at 72 per 100,000) falls within COGME's recommended range of 60 to 80 physicians per 100,000, six of the state's ten regions were below the COGME range, and two others were only slightly above the minimum. These findings underscore the need to develop new strategies to improve access to care through improved distribution of physicians, particularly in the state's rural areas and inner-cities.

## ***Health Science Enrollments in the University***

After peaking in the early 1980s, budgeted enrollments in the health sciences remained relatively steady through 1997-98. Display 1 shows total budgeted University health science enrollment and the first-year class size for selected professional programs for the academic years 1970-71, 1981-82, 1989-90 and 2002-03. Display 1 also shows that after increases through 1981-82, enrollments began to decrease. These decreases were due in large part to budget cuts sustained by the University.

**Display 1**

<b>Health science Year-Average Headcount Enrollments: Total Enrollment And First-Year Class Size for Selected Programs</b>					
	1970-71 Budget	1981-82 Budget	1982-83 Budget	1989-90 Budget	2002-03 Budget Plan
Total Enrollment	7,015	12,750	12,217	12,022	12,266 (a)
First Year Class Size:					
Medicine	429	652	622	622	622
Dentistry	175	216	197	176	168
Veterinary Medicine	83	129	122	122	131 (a)
Pharmacy	93	120	117	117	117
Optometry	54	68	65	65	65

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

The 1998-99 State Budget included an augmentation of \$2.5 million to support an increase of nine students per year for each of the four years of the Doctor of Veterinary Medicine (DVM) program, for a total of 36 students, and of 30 students in the veterinary residency program. By agreement with the State, the DVM enrollment increase will be phased in and will not actually be completed until 2007-08. The total increase, however, is reflected in the table above.

The University's enrollment plan for 2002-03 includes an increase of 100 health sciences students. These increases are for graduate academic and other enrollment growth. The graduate academic increases are in select areas where strong academic and economic demand exists, such as medical

information science and bioengineering. For example, the San Francisco campus has begun to increase enrollments in medical information science, which includes areas such as bioinformatics (crucial to modern genome research), and image and signal science. In addition, in conjunction with Berkeley, the campus plans to increase enrollments in the joint Berkeley/San Francisco Graduate Group in Bioengineering from a two-campus total of 50 to a total of 100 Ph.D. students over the next five years. Modest increases are also planned in human genetics, chemistry and chemical biology, neuroscience, and biophysics.

Other health sciences enrollment growth will occur in pharmacy. At the July 2000 meeting, The Regents' approved a new School of Pharmacy at the San Diego campus, with curricula leading to the degrees of Doctor of Pharmacy and Doctor of Philosophy. Pharmacy practice is rapidly changing from traditional compounding and dispensing responsibilities to expanded roles in collaboration with other health professionals in the use and management of drug information, management of chronic disease therapy, pharmacoeconomics, therapeutics, ambulatory care, palliative care, patient education and counseling, pharmaceutical formulation, and clinical testing of the products of biotechnology. The changing nature of pharmacy practice has resulted in the need for more and better-trained pharmacists in retail pharmacies, hospital pharmacies, pharmacy outpatient and ambulatory care service, and home care. The establishment of the School at San Diego is consistent with the campus' academic plan and long-range development plan. The School, which builds on a 25-year partnership with UCSF in clinical pharmacy education, plans to admit a first class of 25 Doctor of Pharmacy students and 5 graduate academics in fall, 2002. At steady state, the School will have an entering class of 60 and a total of 240 students in the Doctor of Pharmacy program, 60 Ph.D. students, and 30 residents.

Also, within existing budgeted enrollments for the various schools and colleges, programs are being modified in response to workforce concerns. Among medical residents, for example, there has been an increased emphasis on training primary care physicians and a concurrent reduction in the number of specialists trained.

As part of the University's efforts to address future needs in the health sciences, a major new systemwide planning effort was initiated during the 2000-01 academic year. This initiative will encompass a broad-based review of the size and scope of existing UC programs; consideration of projected health work force needs; review of state and national data concerning health

science educational opportunities for students; and assessment of the resources required to meet future needs. This effort is being organized by the Division of Health Affairs in the Office of the President, in partnership with the Universitywide Health Sciences Committee, and senior leadership from the UC health science campuses.

In view of major state and national workforce shortages in nursing, the Health Sciences Committee made this profession its first focus. Although the University's role in nursing education is small by comparison to that of the California State University system and the California Community Colleges, its role is particularly important with respect to graduate nursing programs, advanced specialty practice and the preparation of future faculty for nursing education programs throughout the state. In April 2001, the University launched a carefully focused planning process involving the schools of nursing at UCLA and UCSF and nursing programs at other UC campuses. As a result of these efforts, the Health Sciences Committee is reviewing options for the University to assist with the impending shortage. Possible options include re-establishment of a small baccalaureate program or potential expansion of masters-level programs. The University will develop final recommendations addressing programmatic and budget issues over the next year.

## **History**

### ***The 1970s***

In spring 1975, the University developed a plan for the health sciences, based on an extensive reevaluation of programs and resource requirements and an attempt to provide a reasonable balance between the state's needs for health care professionals and the State's ability to finance the projected growth. The State approved the plan and provided the operating budget resources needed to accommodate health science enrollment growth. Facilities to accommodate the enrollment growth were funded by a Health Sciences Bond Issue on the 1972 ballot. The enrollment levels envisioned in the 1975 plan were largely achieved by 1981-82.

### ***The 1980s***

By 1982-83, however, the State's fiscal problems and downward revisions of estimated future health workforce needs led to a number of decisions that significantly reduced the enrollment levels achieved in line with the earlier

plan. Due to these and other changes discussed below, health sciences budgets were reduced by \$12.6 million during the period 1982-83 through 1988-89, resulting in enrollment reductions of 1,193 students in existing programs. Some of this decline was offset by an increase of 384 students in selected or new programs, including 218 students in the Drew/UCLA Medical Education Program. The following is a brief summary of the enrollment reductions of the 1980s:

- A four-year phased reduction of 388 students in medicine, dentistry, nursing and veterinary medicine necessitated by a 2.5% reduction in the University's 1982-83 base budget;
- A reduction of an additional 140 professional students in the health science schools due to the elimination of federal capitation funds. These funds had been provided by the federal government beginning in 1972-73 to encourage the expansion of enrollments in the health sciences. The federal capitation funds for the University peaked at \$6.4 million in 1974-75 and were phased out by 1990-91;
- Elimination of 267 medical residency positions in non-primary care specialties in response to a \$2 million budget reduction included in the 1982-83 State Budget (in addition to 70 cut as a result of the 2.5% cut);
- Reduction of 450 students (including 210 residents and 42 family nurse practitioners, 84 dental students and 21 residents, 37 graduate professional nurses, 50 B.S. students and 6 graduate professional students in public health), partially offset by an increase of 24 graduate academic students in nursing and 28 graduate academic students in public health. These reductions occurred over a four-year period beginning in 1985-86.

### ***The Early 1990s***

Fiscal problems escalated in the early 1990s, eventually resulting in a major fiscal crisis for the State. As part of an overall plan to accommodate over \$400 million in budget cuts in the early 1990s, the University reduced total budgeted enrollments by 5,500 FTEs, including 412 health science students. Although the 1992-93 Governor's Budget provided funding for new enrollment growth of 100 health science graduate academic students, the funding increase associated with this enrollment growth was more than offset by an undesignated cut of \$224 million in the 1992 State Budget Act.

As one means of coping with cuts of this magnitude in such a short time frame, the University offered three early retirement programs. As a result,

health science programs lost a number of senior faculty and student faculty ratios deteriorated. In order to maintain the quality of the health science instructional program, a substantial portion of the vacant faculty positions must be refilled. Income from the Fee for selected Professional school students (net of financial aid) is being used in part for this purpose.

### ***Fee for Students in Selected Professional Schools***

The Fee for Selected Professional School Students was charged to first-time students in fall 1994 and became a permanent feature for all subsequent classes in medicine, dentistry and veterinary medicine. Since fall 1996, a similar fee has been charged to students in nursing, optometry and pharmacy. In charging the fee, the University reconfirmed its commitment to maintain academic quality and enrollment in the designated professional school programs. An amount equivalent to at least one-third of the total fee revenue is used to provide financial aid to help maintain the affordability of a professional school education. The remaining revenue is used to sustain and enhance the quality of the professional schools' academic programs and student services, and to fund costs related to instruction. Income from the Fee for Selected Professional School Students is being used to help fill a portion of faculty positions vacated through early retirements and, thus, to support student enrollments that have been restored to 1990-91 budgeted levels. The Fee for Selected Professional School Students is discussed in more detail in the *Student Fees* chapter of this document.

## **New Initiatives and Challenges in the Health Sciences**

### ***Medical Student Diversity***

During the 1990's UC medical schools experienced significant declines in the enrollment of under-represented minority students. A Statewide Medical Student Diversity Task Force was appointed by UC President Richard Atkinson in October 1999 to assess the causes of these declines and to make recommendations for the future. In November 2000, the Task Force's *Special Report on Medical Student Diversity* was issued. The report contained twelve major recommendations addressing pre-medical education and advising, outreach, admissions, financial aid, the medical student curriculum, and the need for continuity in the future.

Based upon these recommendations, UC medical schools have continued an active partnership with the State's private medical schools in pursuing new strategies to increase the diversity of the California medical student body and

to address emerging workforce needs. A new *Medical Student and Workforce Initiative* led by the Vice President for Health Affairs is among the major efforts now underway. This initiative is intended to improve the quality and consistency of pre-medical advising, increase understanding of population-based workforce needs, and increase the recruitment and retention of medical students who are committed to meeting these needs in the future. A three-year grant from The California Endowment totaling \$4,228,500 was provided to the Office of Health Affairs in March 2001 to help fund this effort.

Three activities are being undertaken as part of this initiative. These include: organization and sponsorship of premedical advising conferences during each year of the grant; coordination and development of new studies that describe current and projected health workforce needs in California; and development of new scholarship programs to increase the recruitment and retention of medical students who are committed to serving underserved populations. Matching funds for the scholarship program will be provided by participating medical student programs, including the five UC medical schools, the UC Berkeley Joint Medical Program, the UC Riverside Biomedical Sciences Program, the UCLA-Drew Medical Student Program at the Charles R. Drew University of Medicine and Science, and the State's three private schools at Stanford University School of Medicine, Loma Linda School of Medicine, and the Keck School of Medicine at USC.

### ***Caring for California's Aging Population***

In September 2000, Governor Davis signed Assembly Bill 1820 enacting the Geriatric Medical Training Act of 2000. This legislation contains findings regarding the aging of the California population and expresses the Legislature's intent that UC assume a leadership role in meeting these needs by expanding its teaching, research, and community service programs in geriatrics. Among other things, the measure expresses the Legislature's intent that UC medical students, and medical residents in certain specialties, complete a definable curriculum in geriatric medicine that meets recognized core competencies for the care of older persons. The initiatives called for in AB 1820 are intended to promote and "...instill the attitudes, knowledge, and skills that physicians need to provide competent and compassionate care for older persons..."

In support of these goals, a one-time research budget augmentation of \$2 million dollars was provided to the University's Academic Geriatric Resource Program in 2000-01 to support the development of initiatives consistent with

the new legislation. In addition, a total of \$4 million dollars in one-time funding was provided by the State to establish two new endowed chairs at UC medical school campuses at a level of \$2 million per chair. The intent of the Legislature is also expressed in AB 1820 that the faculty filling these chairs provide leadership in undertaking new initiatives to meet the goals of the same legislation. Over the past year, the University has developed expanded goals and has worked to secure additional private funding to help ensure that a new chair in geriatrics is ultimately established at each of its five medical schools. In establishing these chairs, the University intends to create a strong systemwide foundation for state-of-the-art teaching, leadership in clinical care and research in aging.

### ***Paying for the Costs of Health Science Education***

Over the next few years, one of the major issues that the UC health sciences will continue to face is how to maintain high-quality educational programs and training of doctors and other health care professionals in a price-sensitive, competitive, managed care environment. Strong academic medical centers are an essential part of this effort.

Despite substantial success in containing costs, the cost of services provided by academic medical centers are higher than non-teaching institutions. For example, there are the direct and indirect costs associated with training medical students and residents, and research and development costs associated with keeping the academic program current. Increasingly, the negotiated rates the teaching hospitals are forced to accept do not recognize these instructional costs, and there are reduced opportunities for offsetting the resulting reimbursement shortfall to charge-paying private patients. Unless current government subsidies for medical education are continued and increased, or alternative sources of funding are found to support education-related costs that enable the medical centers to compete with non-teaching institutions for market share, the operating margins of the University's medical centers will decline, which will have negative consequences for the academic program.

In addition, there is continuing pressure from accrediting bodies, managed care plans, and other policy makers to shift the locus of medical training from inpatient to outpatient care sites. Currently, government funding for ambulatory care does not include increments for teaching. The University is reviewing many options for funding medical and health science education in both the short term and over the long term.

## SUMMER SESSIONS

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 19,718,000</b>
General Funds	--
Restricted Funds	19,718,000

<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	789,000

Historically the State has provided funding for students enrolling in the fall, winter, and spring terms, but not summer. Through summer 2000, summer sessions were supported from student course and registration fees set by each UC campus.

As a key strategy for accommodating the enrollment demand projected for the next ten years, the University has begun converting summer instruction from a self-supporting to a State-supported program. This plan is discussed more fully in the *General Campus Instruction* chapter of this document; some details are provided below.

The conversion is being phased in. In 1999-00, the State began providing enrollment funding at the agreed-upon marginal cost of instruction for all UC students enrolled in summer 2000 education credential courses. In 2000-01, the State provided \$13.8 million so that in summer 2001, fees for the remaining UC-matriculated students could be reduced to a level equivalent to the per-unit value of fees charged during the regular academic year. Additional funding of \$20.7 million was provided in 2001-02 for the Berkeley, Los Angeles, and Santa Barbara campuses as part of a multi-year plan to fully fund existing summer enrollment. For 2002-03, UC is requesting \$33.2 million to provide State funding to support 4,032 year-average FTE students, which represents the total who attended summer sessions on the five remaining UC campuses—Davis, Irvine, Riverside, San Diego, and Santa Cruz—in summer 2001.

In summer 2001, approximately 62,000 students registered in all UC summer sessions. About 85% were students who registered on a UC campus during the regular year. The balance was from the California State University, California Community Colleges, and other institutions. Non-UC students pay fees that pay for the full cost of their education.

Between 2000 and 2001, the University expanded its summer enrollment by 13,000 UC-matriculated students—2,800 year-average FTE students. The three campuses that were fully funded by the State for summer instruction—Berkeley, Los Angeles, and Santa Barbara—grew about 55% or nearly 2,000 FTE students, far exceeding budgeted growth of 700 FTE. The remaining campuses grew 25%, or about 900 students.

The key to growth is to offer students summer instruction that is similar in quality and breadth to the rest of the year, student support services, access to libraries, and student financial aid. The State funds provided for summer instructional workload at the regular marginal cost rate at the Berkeley, Los Angeles, and Santa Barbara campuses were central to UC's plan to accommodate significant enrollment growth during the summer.

Summer session courses are offered for UC degree credit. In summer 2001, campuses offered between two and five sessions, lasting from four to nine weeks. Summer Session students have generally been juniors and seniors maintaining progress toward graduation, freshmen and sophomores taking required general education courses or courses that are highly impacted during the regular year, and students who wish to focus on a particularly difficult course, such as inorganic chemistry, or who are double majors and need the summer to continue to make progress in both majors. In addition, most campuses have special programs for students who have been admitted to the fall term at UC. Instruction is provided by UC faculty, visitors from other universities, and lecturers.

## UNIVERSITY EXTENSION

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 235,597,000</b>
General Funds	--
Restricted Funds	235,597,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	11,780,000

University Extension is the largest continuing education program in the nation, providing courses to nearly 500,000 registrants who are typically employed adult learners with a bachelor's degree. Extension is a self-supporting operation and its offerings are dependent upon user demand.

The University offered its first Extension courses to students beyond the immediate campus community more than 100 years ago. Today, Extension divisions at each of UC's eight general campuses offer over 21,000 different courses, programs, seminars, conferences, and field studies throughout California and in a number of foreign countries. Almost 60% of Extension's offerings are designed to serve the continuing educational needs of professionals. Over 380 certificate programs are offered in such areas as computing and information technology, graphics and digital arts, and health and behavioral sciences.

The other 40% of Extension's offerings provide degree-equivalent study in undergraduate education programs, and cultural enrichment and public service programs. Various kinds of undergraduate degree credit courses are available, either as replications of existing UC campus courses or structured as undergraduate classes but with content not found in an existing campus offering. Extension explores history, literature, and the arts in traditional and innovative ways, providing cultural enrichment to Californians. In addition to classes, Extension also organizes lecture series, summer institutes, public affairs forums, and other events for the general public.

University Extension offers hundreds of courses on the Web, allowing students to take the courses from wherever their computer is located. The Extension Divisions at UC Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz list Web-based classes through the California Virtual Campus (CVC) which grew out of the Web-based course catalogue developed in 1997 by UC, the California State University, and California Community Colleges. CVC is now fully operational; more than 3,000 courses are offered by more than 100 institutions. Extension Divisions at UC Berkeley and UCLA have more online courses listed than any other institution. In addition to online courses, the Center for Media and Independent Learning, a statewide division of Extension, offers more than 200 high school, university, and professional development courses by mail and fax.

## RESEARCH

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 599,988,000</b>
General Funds	335,149,000
Restricted Funds	264,839,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	7,194,000

The California Master Plan for Higher Education designates the University as the primary State-supported academic agency for research. As one of the nation's preeminent research institutions, the University provides a unique environment in which leading scholars and promising students seek to expand fundamental knowledge of the physical world, human nature and society. Knowledge discovered in the University's research programs has yielded a multitude of benefits, ranging from technological applications that increase industrial and agricultural productivity to insights into social and personal behaviors that help improve the quality of human life. Through its public service activities, the University strives to improve the dissemination of research results and to translate scientific discoveries into practical knowledge and technological innovations that benefit the State and nation.

### **2002-03 Budget**

Included in the funding principles in the Partnership Agreement with the Governor is a recognition that the University may request funding above the general support provided for the budget for special initiatives that are of importance to the State, including research that helps the economy. Funding for these initiatives would be dependent upon the availability of additional State resources.

Given the State's weakened fiscal situation, the Department of Finance has informed State agencies, including the University, that they will not consider funding proposals for any new initiatives in 2002-03. Therefore, the University is limiting its request for 2002-03 to full funding of the Partnership Agreement with the Governor. The University will also seek restoration of Partnership funds eliminated from the 2001-02 budget as soon as the State's fiscal situation permits.

However, the University has identified several research initiatives that, when the State's fiscal situation improves, would be high priorities for additional funds, including programs originally included in the University's budget request for 2001-02. The University also developed new proposals for the 2002-03 budget before the State's deteriorating fiscal situation was a reality. The University will seek funds for these high priority programs as the State's situation improves.

For example, the University requested support for several high priority initiatives that focus on areas of research that are of economic significance to the State: Research in Engineering, Computer Science, and Related Fields, \$5 million; Environmental Science, \$5 million; Integrated Pest Management: Invasive Species, \$3 million; Public Health Issues in California, \$6 million; California Demographic Change, \$3 million; and California Policy Research Center, \$250,000. New proposals were identified for 2002-03 in areas such as women's health issues, agriculture and community geriatric medicine. In addition to permanent funding above the Partnership, the University has identified programs for which one-time funding would be appropriate for high priority needs, such as Internet2, contingent upon the State's financial position.

### **Importance of University Research**

Economists attribute 50% of this nation's economic growth since World War II to innovation resulting from research and development, with university research playing a key role. Many similarly believe that California's recovery from the recession of the early 1990s was due, in large part, to the commercial impacts of research and training conducted by major institutions like the University of California. Almost all of the industries in which California leads the world—agriculture, aerospace, aviation, biotechnology, software and computers, telecommunications, multimedia, semiconductors,

environmental technologies—have depended heavily on the contributions of university-based research.

To keep California's economy growing, it is essential to invest in the research necessary to fuel the creation of new products and processes that boost productivity and create jobs. As other states have launched aggressive and well-financed campaigns to lure away California's high technology businesses, California has responded with the Industry-University Cooperative Research Program and other aggressive strategies, including tax benefits, to keep these businesses here and to attract more.

Faculty research not only furthers fundamental knowledge and helps to sustain California's economy; it also enhances instruction in several significant ways. By engaging in research, an instructor keeps up with developments in the field and is able to communicate to students first-hand the sense of excitement and adventure that accompanies the pursuit and discovery of new knowledge. Faculty research also stimulates change in the curriculum, improvement of teaching material, development of new courses, and even new disciplines, particularly in rapidly advancing fields like genetics, microelectronics, and information and computer sciences.

Moreover, faculty research affords students the opportunity to develop research skills and work in a creative research environment alongside top scholars engaged at the cutting edge of knowledge in their fields. Undergraduate students on all campuses are able to participate in research projects under the direct guidance of a faculty member, fostering the development of skills of inquiry and problem solving, and the acquisition of knowledge in a discipline of interest. Finally, through collaborative research with industry, students experience how discoveries are transformed into products and services that benefit the public, as well as see first-hand how their education is relevant to future careers in industry.

### **Funding for High Priority Research in Recent Years**

Funding provided in the 2000-01 and 2001-02 Budget Acts reaffirm the State's recognition of the role of UC research in sustaining California's economy. Nearly \$35 million in new State General Funds in permanent funding, plus one-time funding in the amount of \$72.6 million, was provided to support high-priority research programs at the University. In addition, the University's capital budgets for the two years includes \$170 million for the

creation of four California Institutes for Science and Innovation (Cal ISI), proposed by Governor Davis, which will focus on scientific and engineering research in fields key to the future of the California economy.

Among the permanent funding increases provided for high priority research are:

- \$8 million to expand faculty and student access to Internet2;
- \$5 million for expanded research in the fields of engineering and computer science;
- \$2 million for the first phase of an environmental research program;
- \$5 million for support of graduate students and for collaboration with Mexican scholars on U.S.-Mexico issues;
- \$6 million to expand the University's research efforts on labor issues affecting California's workforce, reduced to \$5.5 million in 2001-02;
- an additional \$1,000,000 for medical research on substance and alcohol abuse, bringing the total in temporary funding to \$23.3 million for 2000-01. The budget also included a permanent augmentation of \$1 million for ongoing support of research in this area;
- an additional \$4 million, bringing the total to \$8 million in State General Funds, for a center to conduct basic science research on various neurodevelopmental disorders and to develop effective treatments (the M.I.N.D. Institute). Of the \$8 million, \$3 million is for annual debt service on financing used to help build a new neurodevelopmental research and treatment facility on the UC Davis campus;
- \$1 million for research into the causes and treatment of lupus;
- \$2 million for research on the treatment of spinal cord injuries; and
- \$509,000 to support research on the root causes of educational disparity within California's school system from K-12 through postsecondary education.

In addition, one-time funding provided over the two years includes \$28 million dollars in addition to the permanent funding and annual facility debt service financing provided for research on various neurodevelopmental disorders (the M.I.N.D Institute); \$32 million, in addition to the permanent increase noted above, for faculty and student access to Internet2; \$6 million for geriatrics research; \$6 million for research on the medical uses of marijuana; \$100,000 for the Center for Lesbian Health Research; and \$100,000 for the State Reapportionment Database project.

The University also receives special State funding from the Cigarette and Tobacco Product Surtax Fund (CTPSF), a fund created from a tax on cigarettes and other tobacco products, to support the Tobacco-Related Disease Research Program (\$19.4 million for 2001-2002).

Another tobacco tax provides support for the Breast Cancer Research Program (\$14.7 million). The Breast Cancer research Program also receives special State funds from the California Breast Cancer Research Fund (\$480,000), which derives from the State personal income tax check-off.

### ***California Institutes of Science and Innovation***

The 2001-02 budget provided \$75 million for a second year of funding for three University of California Institutes for Science and Innovation (Cal ISIs), and initial funding of \$20 million for a fourth institute. The total over the two-year period is \$170 million. The four institutes, with a fifth to be proposed at a later date, position California both to maintain its premier standing in science and technology and to build the technological foundation for future competitiveness and economic growth. They draw the best UC scientists, engineers, and students together in defining the critical frontiers of communications, information technology, health sciences, and the emerging field of nanosciences. They are designed to foster discovery in areas where the complexity of problems requires the scope, scale, duration, equipment, and facilities that only a comprehensive center can provide. The Cal ISIs are fueled by an aggressive public-private partnership that promotes innovative research and fosters a remarkable new education environment for students who will become our next generation of scientists and technological leaders.

In his 2000-01 budget, the Governor proposed \$75 million in State funding each year for four years to establish the first three institutes. Assembly Bill 2883 (Villaraigosa, Chapter 79, 2000) enacted the Governor's proposal into law and the 2000-01 Budget Act included the first \$75 million installment in

the University's budget. The second funding installment for the first three institutes and funding for a fourth institute was added in the 2001-02 budget.

The law requires \$2 from non-State sources for every \$1 of State funds devoted to the institutes. The response from California businesses and individuals has been enthusiastic, and they have been sustained despite the impact of the recent economic downturn on high tech industries. Each of the four institutes have commitments from non-State funds exceeding the 2 to 1 matching requirement, so that together, the total match for all four institutes combined will be at least 3 to 1. The non-State sources include gifts and grants from the federal government, industry, private foundations, and individuals, as well as University funds.

The four institutes were selected through a competitive, peer-reviewed process from a field of 11 initial proposals developed by the ten campuses. Selection of the finalists was based on the following criteria: vision, excellent scientific and engineering personnel, highest merit scientific research plans, innovative and relevant educational experiences for students, likely economic outcomes for California, well-justified budgets, and clear-cut institute facilities and construction plans. Proposals were developed by faculty and most involved multi-campus collaborations that maximized convergence of scientific talent in creative collaborations.

Proposals were evaluated on a competitive basis in a two-stage process. First, campus-initiated proposals were reviewed by expert peer review panels managed by the Office of the President; budgetary and financial plans were reviewed by Office of the President staff. Second, the findings of those reviews were communicated to the Governor's Selection Committee, an international review panel of distinguished scholars and scientific experts from the private sector and academia appointed by the Governor to advise him and President Atkinson on the most meritorious candidates for establishing the initial three institutes for 2000-01. The Committee advanced four proposals, rather than the three requested, because they found them to be of such compelling quality and merit.

The four institutes are:

- ***California Institute for Science and Innovation in Bioengineering, Biotechnology and Quantitative Biomedical Research (QB3):*** UC San Francisco leads a partnership with UC Berkeley and UC Santa Cruz. QB3 is developing new technologies and new areas of research for drug

discovery and for the diagnosis and treatment of cancer, arthritis, and other diseases through the convergence of mathematics, engineering, and physical sciences with biomedical and genome research.

- ***California NanoSystems Institute (CNSI)***: UCLA leads a partnership with UC Santa Barbara. CNSI is creating a laboratory for research, education and technology development in the exciting new field of nanoscience, which enables scientists to design materials and functional machines at the level of individual molecules and atoms.
- ***California Institute for Telecommunications and Information Technology (CAL (IT)<sup>2</sup>)***: UC San Diego leads a partnership with UC Irvine. Cal (IT)<sup>2</sup> is designing local and regional communications systems in a unique environment that immerses scientists and students in cutting edge technology and enables them to work in collaboration with researchers from entrepreneurial firms on problems that will determine the future directions of communications.
- ***Center for Information Technology Research in the Interest of Society (CITRIS)***: UC Berkeley leads a collaboration with UC Davis, UC Santa Cruz and UC Merced. More than 150 faculty members from more than 28 departments across the four campuses are taking on the challenge of designing complex information systems for major societal challenges in energy management, traffic systems, disaster mitigation, and distance health care and education.

A proposal for a fifth institute is being developed to focus on one of California's most important economic sectors, Agriculture. While funding will depend on the State's fiscal situation, the University is continuing to work on the proposal because of the importance of this business sector to the State's economic well-being. The proposal is being developed by UC Riverside as the lead in partnership with UC Berkeley and UC Davis. The Institute, the *California Institute in Agricultural Genomics (CIAG)*, will aim at strengthening California's seriously challenged agricultural economy by applying genome sciences to the state's most important problems and opportunities, including developing effective pest management strategies, value added food products, and entirely new products from agricultural commodities.

## Other Organized Research

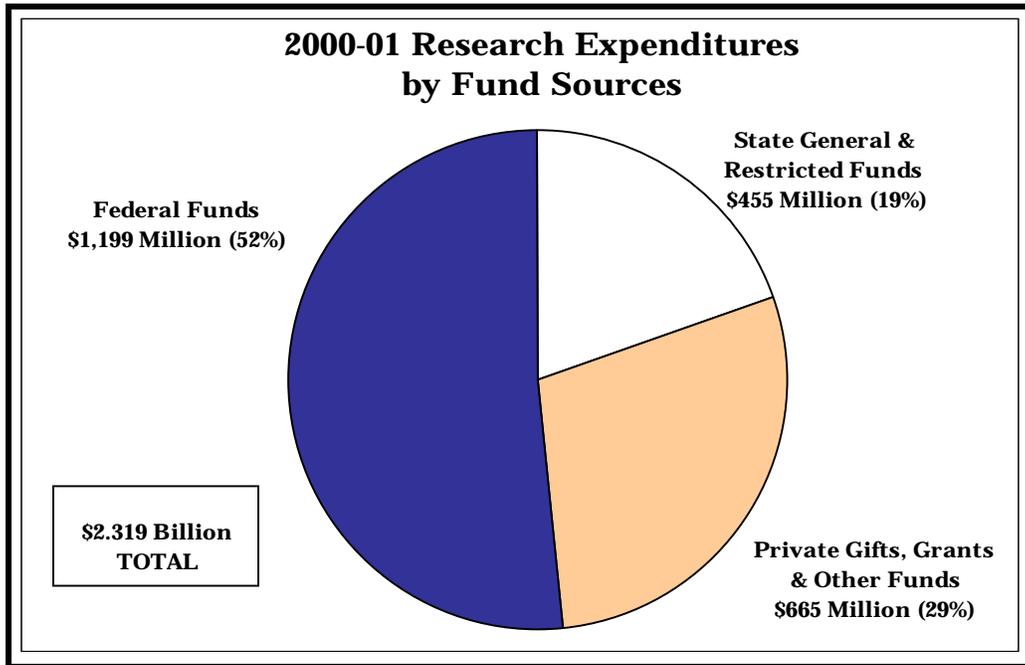
For many University research programs, State funds are the core that attracts extramural funds necessary to support major research projects. As shown in Display 1, the University's research expenditures in 2000-01 included about \$1.9 billion in non-State funds and \$455 million in State funds, a ratio of more than four to one.

The University has maintained the vitality of its highly competitive research programs through effective management of the Organized Research base. The inherent difficulty the University has always faced in the funding of research is achieving a desirable balance between the need to accommodate initiatives in new and promising research areas and the need to maintain support for existing research programs that are strong and viable. To pursue one at the expense of the other is incompatible with the mission of an outstanding research university; both are essential. In attempting to achieve such a balance, the University has maintained a regular and extensive process of program review and reallocation of the Organized Research base. This has included the merger, establishment, or disestablishment of ORUs, MRUs and other research activities; the internal reallocation of funds among units; and the redirection of research effort within existing units to address changing priorities. Moreover, promising new research programs have been supported through allocations of temporary resources as "seed money."

University research is supported from a variety of fund sources. Display 1 (next page) shows actual research expenditures, totaling \$2.319 billion, by fund source for 2000-01, an increase of \$235 million or 11% over the prior year. In 2001-02, research expenditures are projected to increase to approximately \$2.538 billion. This includes \$1.849 billion from extramural sources (i.e., federal government, private individuals, foundations, industry), \$89 million from Regents' funds, \$335 million from State General Funds, and \$265 million from restricted funds (State and non-State). The \$255 million in restricted funds includes \$36.6 million of State restricted funds. Examples of State restricted funds include approximately \$15.2 million from special State funds to support a program on breast cancer research, and \$19.4 million from special State funds to support a coordinated statewide program of tobacco-related disease research administered by the University.

Of the \$335 million in State General Funds, approximately 27% is allocated to Agriculture; 17% to single-campus Organized Research Units (ORUs); and 19% to a combination of Multicampus Research Units (MRUs, which are

Display 1



ORUs involving several campuses) and systemwide programs to support research on AIDS, microelectronics, Industry-University Cooperative Research Program, biotechnology, and toxic substances research. The remaining 33% is related to permanent and one-time funding for other research activities not formally constituted as MRUs, including, among others, Internet2, universitywide programs in substance and alcohol abuse prevention, neurodevelopmental disorders, spinal injury research, and individual faculty research.

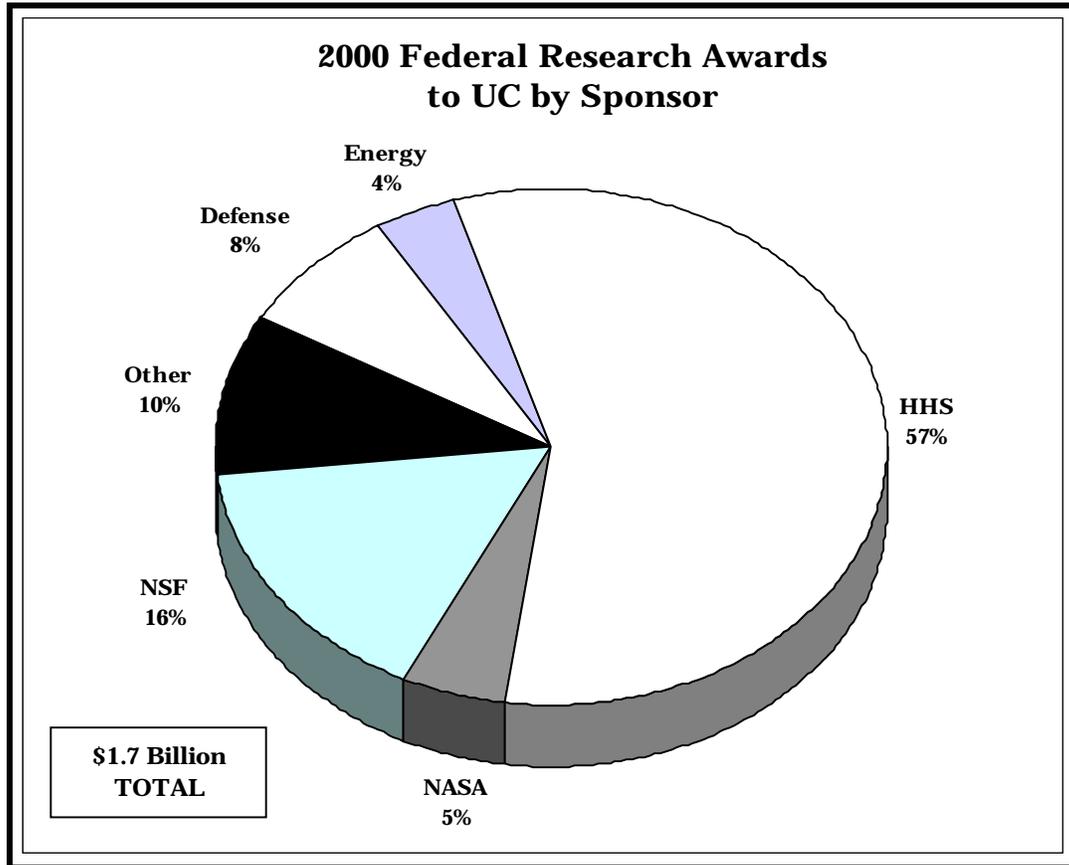
### ***Federal Funding***

Federal funds are the University's single largest source of support for research, accounting for approximately 52% of all University research expenditures in 2000-01.

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

As shown in Display 2, about 73% of the University's 2000 federal research awards came from just two federal agencies, Health and Human Services

Display 2



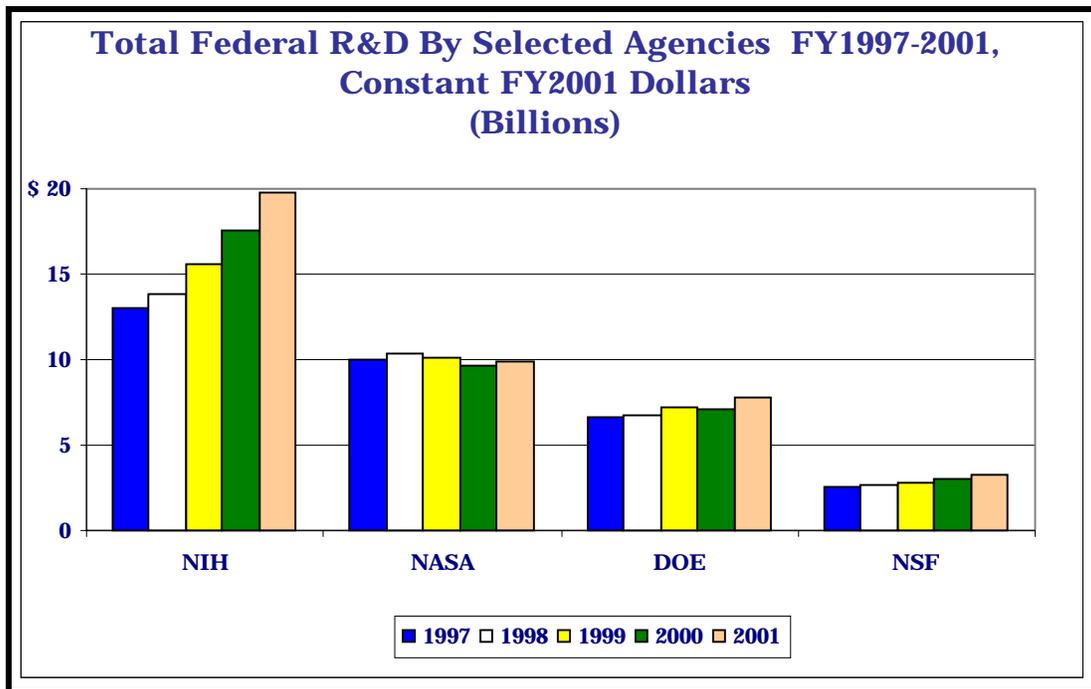
(HHS), primarily through the National Institutes of Health (NIH), and the National Science Foundation (NSF). Other agencies that figure prominently in the University's awards are Department of Defense (DOD), the National Aeronautical and Space Agency (NASA), and the Department of Energy (DOE).

The FY2001 federal budget, the last budget under the Clinton Administration, provided record increases (9%) for R&D programs across the government, with more substantial increases over FY2000 for NIH (15%), NSF (13%), and DOE (12%). The large increase for NIH for the third year (Display 3, next page) indicates continuing strong bipartisan support for the goal of doubling the agency's budget over a five-year period.

The first budget request of the new presidential administration continues support for NIH and proposes increases for DOD and DOE, but seeks to limit discretionary budget increases overall to 4%. To accomplish this, all other discretionary programs including other research programs would be limited

to stable or declining funding. This is a concern for the University. With the large increase in students and faculty projected for the UC system, to maintain academic quality, the University requires research funding to grow by about 7% per year over the next 10 years in order to cover inflation and enrollment-related faculty growth.

Display 3

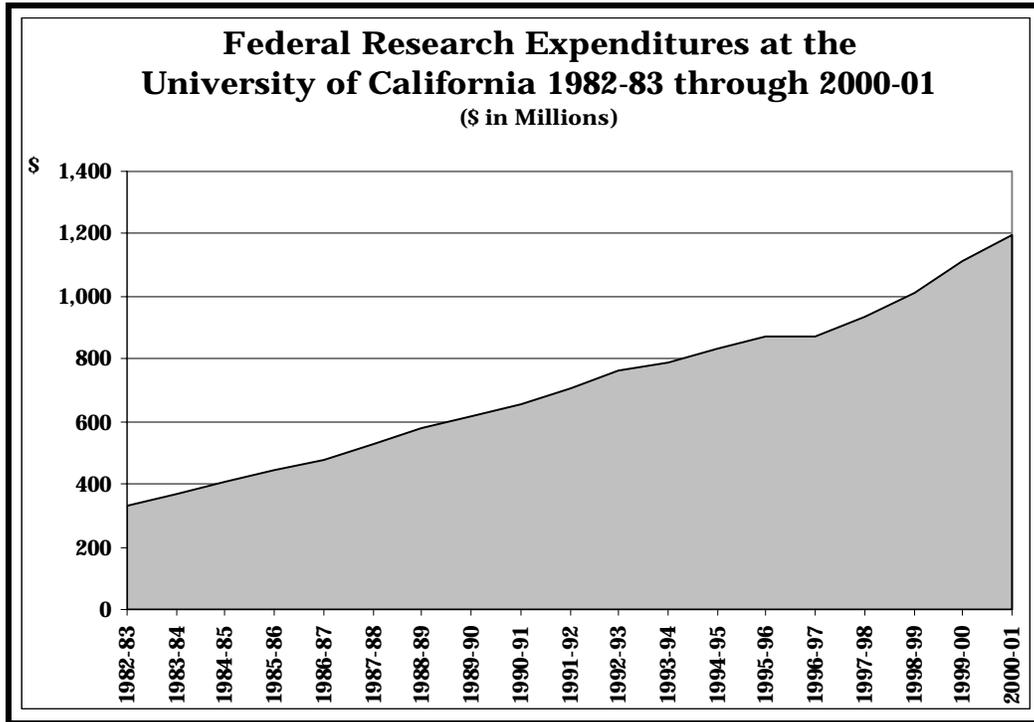


Since the President's budget proposal was introduced, events have drastically altered the framework within which the federal budget is being negotiated. The slowing national economy, reductions in budget surplus projections, and the disastrous terrorist events of September 11, 2001, have altered budget priorities.

Bipartisan support for initiatives for national defense, disaster relief, and stimulation for the weakening national economy may also result in support for larger increases for research, but the final outcome is still uncertain.

**Historical Trends in University Federal Research Funding.** Display 4 illustrates trends in federal research funding for the University over the eighteen-year period between 1982-83 and 2000-01. In the decade between 1982-83 and 1992-93 and again between 1997-98 and 1999-00, federal

Display 4



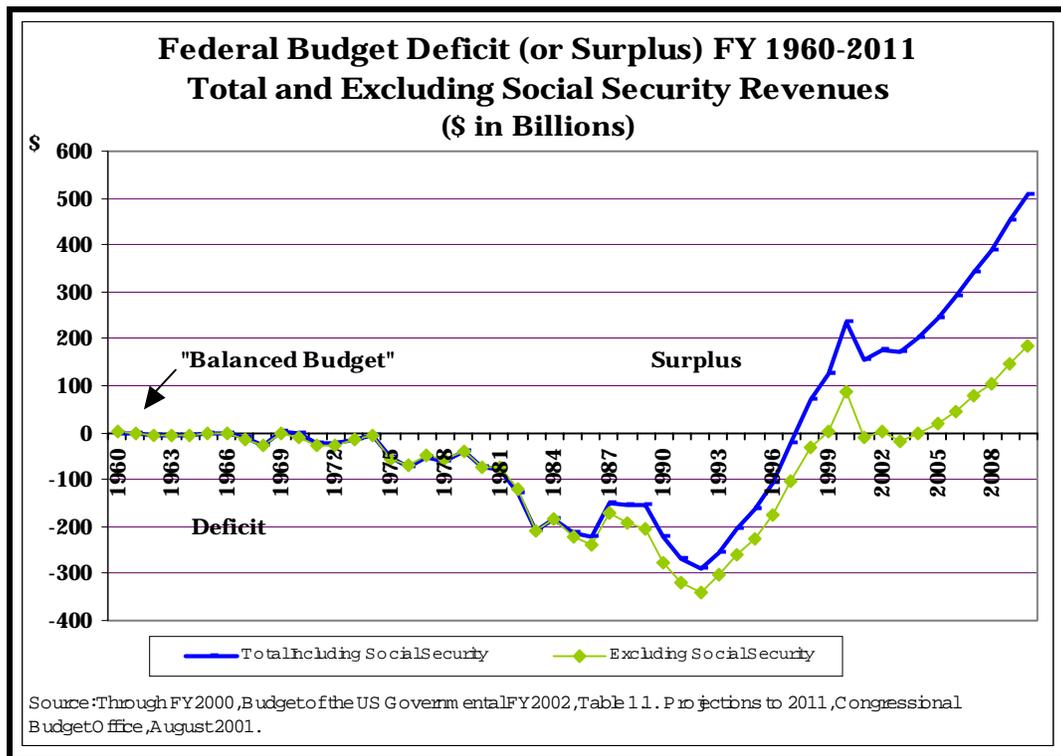
support for research at the University grew dramatically. With a commitment to research established as a national priority by both the President and the Congress, annual federal research expenditures at the University increased by an average of almost 10% during this period. After 1992-93, however, the focus of the federal government was deficit reduction. As a result, while total University expenditure of federal research dollars continued to increase, the rate of growth slowed. Between 1992-93 and 1995-96, federal research expenditures at the University increased by an average of about 4% per year, and in 1996-97, there was no increase over the previous year. However, progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in new growth for funding; the University's federal research expenditures increased by 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, and 8% in 2000-01. Clearly the federal research budget and the University benefited from the robust economy and a growing surplus.

**Balanced Budget Agreement.** In 1997, after twenty years of deficits in federal government spending, the President and Congress reached an agreement to balance the federal budget over the five-year period 1998 through 2002. Of specific concern to the University was a part of the budget plan that envisioned no increases in overall domestic discretionary spending

during this period; most of UC's federal research funds come from the discretionary portion of the federal budget. This, in combination with tight spending caps, led to predictions of dramatically reduced funding for University research.

After the 1997 agreement, however, there was a dramatic turnaround due in large part to the sustained strength of the national economy. Revenues increased more rapidly than had been projected, and the budget was balanced three years ahead of schedule. By 1998, the government recorded a surplus for the first time in three decades. As shown in Display 5, the budget picture improved from a record \$290 billion deficit in FY1992 to a record \$236 billion unified surplus last year (FY2000). (The unified surplus refers to the surplus in all government accounts, including Social Security.) Once a balanced budget was achieved, however, the President and Congress agreed to establish a new goal: balancing the budget without counting the Social Security surplus, or recording an on-budget surplus. Initially, this commitment created problems for the FY2002 budget negotiations.

Display 5



**The Surplus.** The President's original FY2002 budget request, released in February 2001, anticipated a cumulative surplus of \$5.6 trillion over the next 10 years. The President's priority for these increases include shoring up

social security through national debt reduction, tax relief, and support for education and defense. As previously noted, the President proposed increases for NIH and Defense research spending, but these increases were offset by reductions in other domestic programs including other research programs. In June of this year, a tax cut bill estimated to cost \$1.3 trillion over the next eleven years plus another \$500 billion in extra interest costs resulting from the lost revenue, was signed into law.

By summer, it became increasingly clear that the budget projections underlying the President's request were too optimistic and that U.S. economic growth is slowing dramatically, depressing federal tax revenues. In August, the Congressional Budget Office (CBO) released its revised budget projections, predicting that the non-Social Security surplus in FY2001 would completely disappear and go into deficit (Display 5). CBO projected a \$9 billion on-budget (excluding Social Security) deficit in FY2001 and further on-budget deficits in FY2003 and FY2004. While the CBO projections show surpluses in the out years, these projections do not account for unanticipated costs related to increased spending on such programs as education that are over and above the original FY2002 budget proposal. The dilemma that the President and lawmakers faced was the impossibility of reserving the entire Social Security surplus while at the same time increasing FY2002 spending on defense, education and other discretionary programs.

As a result of the tragic terrorist incidents in New York and Washington D.C., the President and the Congress have joined in bipartisan support for emergency relief measures, military programs, bolstering the economy, and investigating terrorist activities. Efforts to reserve the social security surplus are giving way to these new priorities. New funding levels and spending needs will affect each of the major appropriations bills that constitute the national budget. While final decisions regarding research funding are yet to be made, the recognized link between research and the economy, and between research and national security, will likely result in support for research funding.

Congress was unable to finish the FY2002 spending bills before the October 1 start of the federal fiscal year. In the meantime, Continuing Resolutions (CR) that provide funding at or slightly above current (FY2001) levels will keep the government operational until the final budget bills are passed.

## **Benefits of Research**

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

- In their 1997 book, *The Rise of American Research Universities*, Hugh D. Graham and Nancy Diamond quantitatively measure and compare institutional research performance at 203 public and private universities in the U.S. Based on faculty members' grant, publication, and fellowship award records across different fields, the authors concluded that the University of California as a system leads the nation in research excellence and productivity among public universities. They cite the remarkable rise of the University's smaller, younger campuses as well as the success of its large, established ones.
- Another indicator of how well UC does relative to other research universities is the National Science Foundation study on the scientific basis of American patents. UC produced more research leading to patented inventions than any other public or private research university or laboratory during the periods studied.

The University's research activities yield a multitude of benefits, ranging from increases in industrial and agricultural productivity to advances in health care and improvements in the quality of life. The following discussion presents examples of UC's contributions to the economic and social well-being of the State and nation.

### ***Economic Impact***

In terms of a direct impact on the California economy, University research programs attract large amounts of extramural funds for expenditure within the State. In 2000-01, the University spent over \$1.7 billion dollars received from the federal government and private sources for research—nearly four times the amount provided from the State for research.

High technology industries such as biotechnology, microelectronics, and information technology stimulate and support the State's economy. Some of these industries have grown directly from UC research. For example, the biotechnology industry was launched as a result of the discovery of recombinant DNA, or "gene splicing," by scientists at UC San Francisco and Stanford. Today, California is the world leader in biotechnology, and home to 376 companies, approximately one-third of all biotechnology firms in the U.S.

Many commercial enterprises in California are either based on UC-developed technology or were founded by faculty or students trained at UC. Recently, UC San Diego identified 119 such companies nurtured by research from that campus, which together employ more than 15,000 people and generate annual revenues in excess of \$1.8 billion. UC scientists founded one in five biotechnology companies in California, including three of the world's top companies, Genentech Inc. of South San Francisco, Chiron Corp. of Emeryville, and Amgen Inc. of Thousand Oaks. California biotechnology companies collectively account for nearly half of the biotech industry's annual sales in the U.S. and employ more than 40,000 people in California.

### ***Partnerships with Industry***

The Industry-University Cooperative Research Program (IUCR), established in 1996-97, has emerged as an important mechanism for making targeted investments in areas of research that are of strategic importance to the California economy. This competitive matching grant program is modeled, in part, on the University's successful MICRO Program, which demonstrates UC's track record in using research partnerships to enhance economic development. Since its establishment in 1981, MICRO has played an important role in nurturing the development of California's world class microelectronics and computer industries. MICRO has brought more than \$103 million in new private sector funding for University research and education. MICRO invests its annual \$4.6 million in funding from the University and State to attract industry to support UC research and training. MICRO awards funds to faculty-initiated research projects that are jointly supported by microelectronics companies. MICRO also provides graduate student fellowships to ensure an uninterrupted supply of well-trained scientists and engineers for California's microelectronics industry. As an integral part of the IUCR program, MICRO helps ensure California's continued world leadership in microelectronics.

### ***Agriculture***

Agriculture, which in 1997 was a \$26.8 billion industry and accounted for nearly one in ten jobs in California, is highly dependent on UC research. In a recent study on the payback of the State's investment in agricultural research, it was shown that farm production increased nearly 300% from 1949 to 1985, with almost half of this growth directly related to research. This correlation continues today, with UC researchers and Cooperative Extension county advisors helping the State's growers maintain a competitive edge in domestic and export markets through the development and adoption

of new technologies and innovative farming practices. Agricultural exports generated \$12 billion in 1996.

A prime example of UC's research contribution to California agriculture is the success of the state's strawberry industry. California produces more than 80% of the nation's strawberries, with a 1996 crop value of \$585 million. Average California yields per acre are the highest in the world—more than twice the yields per acre in Florida and five times those in Oregon, the world's next two largest producers. Nearly 90% of California's strawberry acreage is planted in UC-developed varieties.

In attempting to further increase the productivity and diversity of California agriculture, UC scientists are currently applying genetic engineering technologies to areas of key significance. Examples include the cloning of disease resistant genes in plants; modifications of microbes to clean up toxic wastes; novel microbial insecticides; genetic improvement in photosynthetic efficiency and nutritional value of plants; and genetic modification of plants for drought, heat, frost, and salt resistance.

### ***Medicine and Other Areas***

UC medical research has led to dramatic improvements in the diagnosis and treatment of disease. The University has assumed a major leadership role in the battle against AIDS. Its researchers were among the first to describe the AIDS syndrome and the malignancies associated with it and to isolate the causative agent for AIDS in humans. Molecular biology research has given us relatively inexpensive, safe, and effective vaccines and hormones, as well as a variety of other therapeutic agents. Genetic engineering technologies being developed at UC promise to help find cures for some of our most serious health problems, such as cancer, Alzheimer's disease and other illnesses of aging, cardiovascular disease, and arthritis. Other medical advances growing out of UC research include a laser treatment for previously untreatable eye conditions; high energy shock waves to disintegrate urinary stones without surgery; a nicotine skin patch, worn on the upper arm, to wean smokers off cigarettes; corrective surgery before birth for formerly fatal fetus abnormalities; an inner-ear implant that enables the deaf to recognize tones and thus understand language; and a simple, inexpensive blood test to determine the risk for having a Down's syndrome baby.

As previously noted, the 2001-02 State budget includes a total of \$24 million for medical research on substance and alcohol abuse, \$5 million in ongoing operating support, and annual debt service support of \$3 million for a facility

to house basic science research on various neurodevelopmental disorders and to develop effective treatments, among other augmentations.

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

The funds provided for the Medical Investigation of Neurodevelopmental Disorders (M.I.N.D.) Institute at UC Davis will support research, education, and the assessment and clinical care of children and adult patients with such neurodevelopmental disorders as: autism and autism spectrum disorders, pervasive developmental disorders, cerebral palsy, developmental delays, and communication disorders. The Institute will enable leading scientists, physicians, and educators in fields as diverse as molecular genetics and clinical pediatrics to conduct research projects directed toward better understanding of development and brain function. The educational component includes programs for: medical students and residents; physicians in practice (continuing medical education); allied health professionals who work with patients suffering from neurodevelopmental disabilities; and patients, parents, and other caregivers. The Institute will include an interdisciplinary, neurodevelopmental clinic, which will translate laboratory research into practice and provide the newest medical diagnostic and treatment methods for patients. Institute staff will also collaborate with relevant state departments and local agencies in improving the state of knowledge and the standard of care for neurodevelopmental disabilities.

In the 2000-01 budget, the University of California also received \$2 million in one-time funds for its long-standing Academic Geriatric Resource Program (AGRP) and \$4 million in one-time funds to create new endowed chairs in geriatrics at UC medical school campuses. The \$2 million of funding was used to fund a wide range of AGRP activities, including medical education curriculum development, focusing on the health needs of the state's aging population.

Other new State-funded programs will support research on the diagnosis, treatment and prevention of lupus, a disease of the auto-immune system; and brain and spinal cord injury treatment and cure.

In areas other than medicine, University researchers are exploring methods for predicting the time and location of earthquakes, and ways to design new buildings and modify existing buildings so they better withstand earthquake effects. Research on global climate and earth systems is benefiting California fisheries and agriculture by leading to better predictions of hazards such as drought, flooding, and other natural disasters, and to more effective means of mitigating their effects. New materials are being developed that could lead to better synthetic products, such as prosthetic devices more acceptable to the body and longer-lasting, easy-care contact lenses. UC researchers forging ahead in new research areas such as roadway technologies, alternative fuels, and truck safety are addressing California's changing transportation needs. Social science research is furthering our understanding of issues critical to California's social and political well-being. Examples include collaborative research between California and Mexico focusing on issues of critical interest such as trade and economic development, research on law and society, and public responses to technological advances.

## PUBLIC SERVICE

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 334,487,000</b>
General Funds	260,446,000
Restricted Funds	74,041,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	3,702,000

Public service includes a broad range of activities organized by the University to serve local communities, students, teachers in K-12 schools and community colleges, and the public in general. A major component of public service is the University's intersegmental outreach and K-14 improvement programs designed to provide assistance to K-14 students and schools to encourage more students to become qualified for higher education. Public service also includes Cooperative Extension, which is the University's largest public service program, providing applied research and educational programs in agriculture and natural resources, family and consumer sciences, community resource development, and 4-H youth development for Californians. Campuses conduct other public service programs, which are almost completely supported by user fees and other non-State fund sources, including such activities as arts and lecture programs and community service projects. In addition, the University's public service programs include two health sciences programs jointly operated with other schools—the Charles R. Drew University of Medicine and Science and the California College of Podiatric Medicine.

### **Outreach and K-14 Improvement Programs**

For nearly thirty-five years, the University has been at the forefront of the nation's efforts to develop programs to assist educationally disadvantaged

students in gaining access to higher education. The development and expansion of outreach programs has been a high priority for both the University and the State of California, as reflected in the nearly \$135.5 million increase provided by the State for outreach efforts since 1996-97.

In 1996-97, the University launched a major initiative to improve opportunities for California students in disadvantaged circumstances to achieve eligibility and to enroll at UC campuses. To do this, the University developed a four-point strategy, including school-university partnerships, student academic development programs, informational outreach and recruitment programs, and research and evaluation. The initial years involved a tremendous expansion of successful existing programs as well as initiation of exciting new programs.

Included in the funding principles of the Partnership Agreement with the Governor is a recognition that the University may request funding above the Partnership for initiatives in public service, research, and other high priority areas that are of critical importance to the State and the University. Given the State's weakened fiscal situation, the Department of Finance has informed State agencies, including the University, that they will not consider funding proposals for any new initiatives in 2002-03. Therefore, the University is making no requests for funds above the Partnership for 2002-03 and instead will focus on obtaining full funding of the Partnership Agreement with the Governor. The University will also seek restoration of Partnership funds eliminated from the 2001-02 budget when the State's fiscal situation improves.

### **History and Overview of the University's Outreach And K-14 Improvement Programs**

The University's existing outreach programs have been highly successful over the past 35 years, evidenced by the fact that these programs have contributed to creating one of the most diverse universities in the nation.

In July 1995, The Regents approved two resolutions, SP-1 and SP-2, that prohibit the University from using race, religion, sex, color, ethnicity, or national origin as criteria for admission to the University or in its employment and contracting practices. At the same time, The Regents affirmed their commitment to diversity. Proposition 209, which was approved by the voters in November 1996 and went into effect in August 1997,

stipulates that the State, including the University, “shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting.” Existing programs have been reconfigured to comply with both The Regents’ resolutions adopted in 1995 as well as the provisions of Proposition 209. In May 2001, The Regents adopted a resolution that rescinds SP-1 and reaffirms the University’s commitment to a student body representative of California’s diverse population.

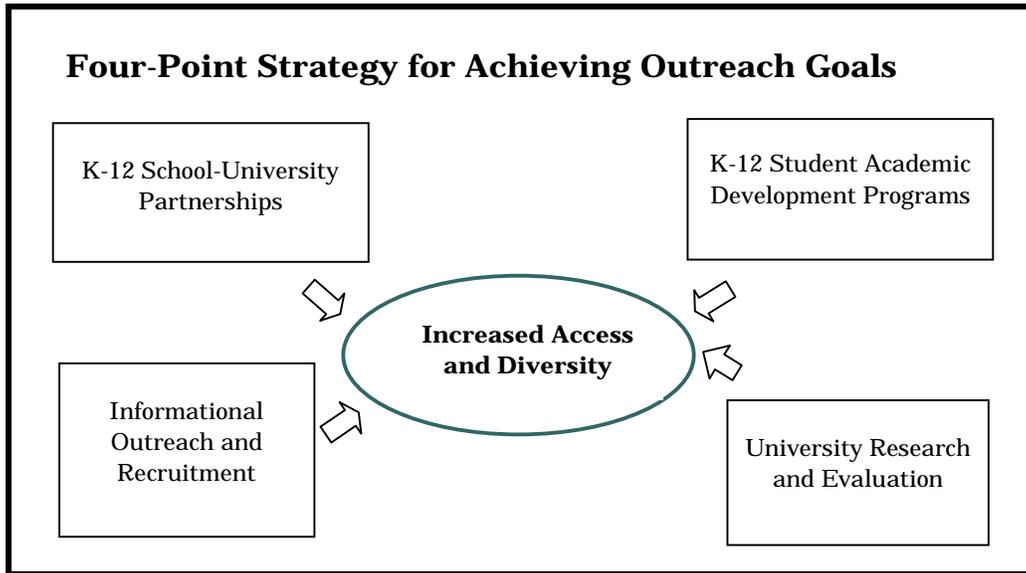
Recognizing the potential impact of new admissions criteria on diversity in future student enrollment, The Regents established the Outreach Task Force to identify ways in which outreach programs can help to ensure that the University remains accessible to students of diverse backgrounds. The Outreach Task Force was asked to review current UC outreach efforts and recommend ways to improve and expand existing activities and create new programs. The Task Force began its deliberations in February 1996 and proposed goals and strategies for UC outreach that were adopted by The Regents in July 1997.

The goals of the University’s outreach programs are to contribute to the academic enrichment of UC campuses through a diverse student body and to improve opportunities for California students in educationally disadvantaged circumstances to achieve eligibility and to enroll at UC campuses.

The University is meeting these goals through *school-university partnerships* intended to foster long-term, systemic change in low-performing schools; *student academic development programs* designed to help prepare students, including those from disadvantaged backgrounds, for the academic demands of higher education; *informational outreach and recruitment programs*, to provide better and more timely information to students, families, teachers, and counselors to improve planning and preparation for college; and *research and evaluation* to identify the root causes of educational disparity and to evaluate the effectiveness of the University’s outreach programs (Display 1, next page).

Over the years, the University’s work with California’s elementary and secondary schools has grown from a focus on traditional outreach and recruitment programs that encourage students to attend the University to an extensive array of programs across the nine campuses that benefit thousands of K-12 students and their teachers, and help improve the quality of K-12 educational programs.

Display 1



The University works in collaboration with elementary and secondary education as well as other postsecondary institutions, community groups, and business in its efforts to improve student preparation. This collaboration is critical to the success of these programs. Moreover, students who participate in the University's outreach programs will be better prepared for all segments of higher education—the California State University, the community colleges, and private higher education institutions.

### ***Funding for Outreach Programs***

Prior to implementation of the Outreach Task Force recommendations, the University estimated that approximately \$60 million from all fund sources (including funds from other segments for specified programs) was being spent on the outreach programs that now form the key components of the University's new outreach initiative. The Outreach Task Force set a five-year goal of doubling the resources spent for this effort. With the help of the State and other educational institutions in California, the University has achieved its funding goals, and much earlier than anticipated.

Funds available for outreach and K-14 improvement programs, including K-12 professional development programs for teachers and staff, totaled more than \$137 million in 1998-99, \$178 million in 1999-2000, and \$328 million in 2000-01 from all fund sources, including funds budgeted in other educational segments. Current funds available total over \$313 million. Display 2 shows

## Display 2

<b>Systemwide K-12 and Community College Outreach Programs and K-12 Professional Development Programs for Teachers and Staff</b> Annual Funds Available 2001-02 a) (Includes Funds from all Sources) (\$000s)					
	1997-98 Base Budget State/UC Funds Prior to Augmentations	Augmentations, Reductions, 1997-98 to 2001-02 State/UC Funds and Cost Adjustments b)	2001-02 Total State/UC Funds	Estimated Funds from Other Segments, Private, Federal Sources c)	2001-02 Total Funds Available
<b>Systemwide K-14 Outreach Programs</b>					
<b>K-12 Student Academic Development Programs</b>					
Early Academic Outreach Program (EAOP)	\$ 4,794	\$ 12,684	\$ 17,478	\$ 9,749	\$ 27,227
Student-Initiated Outreach/Yield	-	1,000	1,000	-	1,000
MESA (community college programs shown below)	4,169	6,029	10,198	10,647	20,845
Puente (community college programs shown below)	-	2,300	2,300	2,280	4,580
Test Preparation	-	761	761	750	1,511
UC Links	-	979	979	300	1,279
<b>Subtotal, K-12 Student Academic Development Programs</b>	<b>\$ 8,963</b>	<b>\$ 23,753</b>	<b>\$ 32,716</b>	<b>\$ 23,726</b>	<b>\$ 56,442</b>
<b>University/K-12 School/Community Partnerships</b>					
K-12 School-University Partnerships	\$ -	\$ 12,068	\$ 12,068	\$ 10,199	\$ 22,267
Urban Community-School Collaborative	-	361	361	-	361
Community Education and Resource Center Initiative (CERC)	-	320	320	285	605
UC College Preparatory Initiative (online courses)	-	8,438	8,438	-	8,438
UC Nexus	-	578	578	-	578
Charter School	-	1,013	1,013	-	1,013
GEAR UP	-	-	-	5,000	5,000
ArtsBridge	-	1,500	1,500	298	1,798
Presidential Grants in Education	203	319	522	-	522
<b>Subtotal, K-12 School-Community Partnerships</b>	<b>\$ 203</b>	<b>\$ 24,597</b>	<b>\$ 24,800</b>	<b>\$ 15,782</b>	<b>\$ 40,582</b>
<b>Community College Programs</b>					
Transfer Programs d)	\$ 1,718	\$ 3,580	\$ 5,298	\$ 15,910	\$ 21,208
ASSIST	360	21	381	986	1,367
MESA Community College Programs	22	1,328	1,350	4,602	5,952
Puente Community College Programs	162	638	800	1,853	2,653
<b>Subtotal, Community College Programs</b>	<b>\$ 2,262</b>	<b>\$ 5,567</b>	<b>\$ 7,829</b>	<b>\$ 23,351</b>	<b>\$ 31,180</b>
<b>Central Valley Programs</b>					
Graduate and Professional School Programs	\$ -	\$ 1,937	\$ 1,937	\$ 1,000	\$ 2,937
Informational Outreach and Recruitment	1,893	7,232	9,125	2,301	11,426
Evaluation	4,750	353	5,103	-	5,103
Research	-	1,529	1,529	-	1,529
	-	809	809	-	809
<b>Total, All K-14 Outreach Programs</b>	<b>\$ 18,071</b>	<b>\$ 65,777</b>	<b>\$ 83,848</b>	<b>\$ 66,160</b>	<b>\$ 150,008</b>
<b>K-12 Professional Development Programs for Teachers and Staff</b>					
California Subject Matter Projects	\$ 14,366	\$ 20,949	\$ 35,315	\$ 8,300	\$ 43,615
California Reading Professional Development Institutes	-	18,384	18,384	23,800	42,184
English Language Development Professional Institutes	-	9,344	9,344	9,151	18,495
High School English Professional Development Institutes	-	11,030	11,030	10,980	22,010
Elementary Mathematics Professional Development Institutes	-	6,894	6,894	4,575	11,469
Algebra Professional Development Institutes	-	2,298	2,298	2,302	4,600
Algebra Academies Professional Development Institutes	-	1,563	1,563	1,372	2,935
High school Mathematics Professional Development Institutes	-	7,353	7,353	7,320	14,673
Pre-Intern Teacher Academies	-	750	750	375	1,125
New Teacher Center	-	600	600	1,594	2,194
<b>Total, K-12 Professional Development Programs</b>	<b>\$ 14,366</b>	<b>\$ 79,165</b>	<b>\$ 93,531</b>	<b>\$ 69,769</b>	<b>\$ 163,300</b>
<b>Total, All Programs</b>	<b>\$ 32,437</b>	<b>\$ 144,942</b>	<b>\$ 177,379</b>	<b>\$ 135,929</b>	<b>\$ 313,308</b>

a) This table includes programs that were identified by the Outreach Task Force as programs that would play a major role in the University's outreach initiative, both at the individual student level and through school-centered improvement programs. While there are additional programs not included in this table that are also aimed at helping improve K-14 schools, only those systemwide programs which the Outreach Task Force identified as key elements to the success of the outreach initiative are included in this budget summary. The Outreach Task Force identified \$60 million as the total being spent in 1995-96 for these programs. In this table, that figure has been updated to include community college programs and to reflect inflationary and other budget adjustments. The \$60 million includes the \$32.4 million shown in the first column of this display plus \$29 million from "Estimated Funds from Other Segments, Private, Federal Sources," the fourth column of this display. This table also includes new outreach programs approved by the Legislature and Governor in the 1998-99, 1999-2000, and 2000-01 budgets as well as reductions and reallocations in the 2001-02 budget.

b) Includes new funds from 1996-97 which were temporarily allocated in the first year and not made permanent until 1997-98. Includes matching funds for graduate programs.

c) Includes \$27.2 million in K-12 matching funds required for new funding provided in 1998-99 and adjusted for budget reductions and reallocations in 2001-02. Augmentations prior to 1998-99 did not have a matching requirement.

d) Includes estimated community college funding of \$11.6 million from Partnership for Excellence funding and \$3.9 million related to transfer and articulation programs.

base budgets and the distribution of new funds, by major program category, for K-14 and higher education segments since the implementation of the Outreach Task Force recommendations. The table displays subtotals for programs historically regarded as outreach, as well as the teacher professional development programs that are not traditionally regarded as outreach but are critical components of the University's initiative to enhance K-12 school improvement. Display 2 also shows the grand total of funds available for all systemwide programs related to outreach and K-14 improvement programs, including private funds, federal funds, and funds from other educational segments.

Display 3 shows changes in State and University funds for systemwide K-14 outreach and K-12 professional development programs from 1996-97 to 2001-02. The totals in Display 3 do not include cost increases or other budget adjustments. These items are accounted for in Display 2 (see column 2 of Display 2).

**Display 3**

<b>Outreach and K-14 Improvement Programs State and University Funds (\$ in Millions)</b>			
	<b>State Funds</b>	<b>University Funds</b>	<b>Total</b>
<b><u>Systemwide K-14 Outreach Programs</u></b>			
1996-97	\$ 1.0	\$ 2.0	\$ 3.0
1997-98	1.0	1.7	2.7
1998-99	33.5	5.0	38.5
1999-00	5.5	1.5	7.0
2000-01	7.5	1.0	8.5
2001-02	(2.0)	-	(2.0)
<b>Subtotal</b>	<b>\$ 46.5</b>	<b>\$ 11.2</b>	<b>\$ 57.7</b>
<b><u>K-12 Professional Development Programs</u></b>			
1999-00	\$ 11.8	\$ -	\$ 11.8
2000-01	71.3	-	71.3
2001-02	(5.3)	-	(5.3)
<b>Subtotal</b>	<b>\$ 77.8</b>	<b>\$ -</b>	<b>\$ 77.8</b>
<b><u>All Programs</u></b>			
1996-97	\$ 1.0	\$ 2.0	\$ 3.0
1997-98	1.0	1.7	2.7
1998-99	33.5	5.0	38.5
1999-00	17.3	1.5	18.8
2000-01	78.8	1.0	79.8
2001-02	(7.3)	-	(7.3)
<b>Total</b>	<b>\$ 124.3</b>	<b>\$ 11.2</b>	<b>\$ 135.5</b>

In 1998-99, the State provided a significant infusion of funds to support The Regents' diversity initiative. The detailed budget plan approved by the State for the outreach augmentations provided in 1998-99 is shown in Display 4. The State also required that funds for student academic development programs, school-university programs, and Central Valley programs be matched on a one-to-one basis by K-12 schools.

In 1999-2000, the State again provided a significant augmentation to expand the University's outreach and K-14 improvement efforts, bringing the total funds available from all sources in all segments for these programs to more than \$178 million. Display 5 identifies the outreach initiatives funded in the 1999-2000 budget; Display 6 identifies the outreach initiatives funded in the 2000-01 budget.

Although additional funds for outreach programs were included in the 2001-02 Governor's Budget and approved during the Legislative process for the University, those increases were eliminated in the final Budget Act due to the State's softening economy and substantial revenue decreases.

Other changes to the outreach budget were also part of the final budget for 2001-02, including a redirection of \$5 million from the longer-term school-university partnership programs to shorter-term efforts. As a result, funding has been increased for the Mathematics, Engineering, Science Achievement Program (MESA), Puente, and the Early Academic Outreach Program (EAOP). Funds were also redirected to student-initiated outreach/yield programs at each campus and for support of the comprehensive review of applications for admission at the campuses.

In addition, as part of the final actions to balance the budget and create a larger reserve, the Governor vetoed \$2 million in funding for outreach programs. Legislation subsequently approved by the Legislature and the Governor (AB 1287, Cardenas, Chapter 564) specified how the \$2 million veto was to be distributed. Display 7 shows the changes in the 2001-02 outreach budget.

Displays 4, 5, 6, and 7 are on the next two pages.

**Display 4**

<b>1998-99 Outreach Initiatives State Funds (\$000s)</b>	
<b>Program</b>	<b>1998-99</b>
Student Academic Development Programs such as Early Academic Outreach, MESA, Puente (a)	\$ 15,000
School-University Partnerships (a)	15,000
Community College Programs	3,500
Central Valley (a)	1,000
Graduate and Professional Schools, with an emphasis on Medicine and Law (requires matching funds from the schools)	500
Charter Schools	1,000
Information and Recruitment, including Cascades, Gateways	1,000
Research and Evaluation	1,500
	<b>TOTAL \$ 38,500</b>

(a) Requires a one-to-one match from participating K-12 schools.

**Display 5**

<b>1999-2000 Outreach Initiatives State Funds (\$000s)</b>	
<b>Systemwide K-14 Outreach Programs</b>	<b>1999-2000</b>
Development of On-Line Advanced Placement Courses	\$ 4,000
Graduate and Professional School Outreach (requires matching funds from the schools)	1,500
<b>Subtotal</b>	<b>\$ 5,500</b>
<b><u>K-12 Professional Development Programs</u></b>	
California Reading Professional Development Institutes	\$ 6,000
English Language Development Professional Institutes	5,000
Pre-Intern Teacher Academies	750
<b>Subtotal</b>	<b>\$ 11,750</b>
	<b>TOTAL \$ 17,250</b>

**Display 6**

<b>2000-01 Outreach Initiatives State Funds (\$000s)</b>	
<b>Systemwide K-14 Outreach Programs</b>	<b>2000-01</b>
Community College Programs	1,000
Graduate and Professional School Outreach	1,000
Online Advanced Placement Courses	4,000
Mathematics, Engineering, Science Achievement (MESA)	1,000
UC All Campus Collaborative on Outreach Research and Dissemination (UC ACCORD)	509
<b>Subtotal</b>	<b>\$ 7,509</b>
<b><u>K-12 Professional Development Programs</u></b>	
California Subject Matter Projects	\$ 20,000
California Reading Professional Development Institutes	14,000
English Language Development Professional Institutes	5,000
High School English Professional Development Institutes	12,000
Elementary Mathematics Professional Development Institutes	7,500
Algebra Professional Development Institutes	2,500
Algebra Academies Professional Development institutes	1,700
High School Mathematics Professional Development Institutes	8,000
New Teacher Center	600
<b>Subtotal</b>	<b>\$ 71,300</b>
	<b>TOTAL \$ 78,809</b>

**Display 7**

<b>2001-02 Outreach Redirection Reallocation, Veto State Funds (\$000s)</b>	
<b><u>\$5 Million Redirection</u></b>	
School-University Partnerships	\$ (2,785)
Los Angeles Basin Initiative	(1,250)
Community Education and Resource Center (CERC)	(315)
Division of Agriculture & Natural Resources K-12 Outreach	(100)
California Subject Matter Projects	(250)
Nexus	(100)
Urban Community School Collaborative	(100)
SAGE Scholars	(100)
<b>Total</b>	<b>\$ (5,000)</b>
<b><u>Reallocation</u></b>	
Early Academic Outreach Program (EAOP)	\$ 1,000
Mathematics, Engineering Science Achievement (MESA)	1,000
Puente	500
Student-Initiated Outreach/Yield	1,000
Comprehensive Admission Review	750
High-Yield Recruitment a)	750
<b>Total</b>	<b>\$ 5,000</b>
<b><u>Reduction due to the Governor's Veto</u></b>	
Informational Outreach	\$ (1,000)
Graduate and Professional School Outreach	(250)
High-Yield Recruitment a)	(750)
<b>Total</b>	<b>\$ (2,000)</b>
<p>a) AB 1287 specifies that the \$750,000 intended for High-Yield Recruitment in the 2001-02 final Budget Act be used to help fund the \$2 million that the Governor vetoed from the University's outreach budget in July 2001.</p>	

The remainder of this chapter contains descriptions of the programs that currently exist to achieve the University's outreach, diversity, and K-14 improvement goals.

## **K-12 Student Academic Development Programs**

Student academic development activities are aimed at enriching students' academic achievement in specific academic areas through special skills-building programs, tutoring, and group study; career counseling; parent involvement; mentoring; and field trips to UC campuses. A key element in the University's K-12 partnership efforts, student academic development programs have been very effective in preparing students to enroll in higher education as measured by the number of program participants who subsequently become eligible for and enroll at UC and other postsecondary education institutions.

Consistent with the Task Force recommendations and the intent of the Legislature, UC has expanded existing successful student academic development programs such as the Early Academic Outreach Program (EAOP), the Mathematics, Engineering, Science Achievement Program (MESA), and Puente to reach more high school and community college students. Additionally, the Task Force recommended that academic development programs that increase awareness of college preparation early in a student's education be created for students and families in primary schools. In 2001-02, the final Budget Act included a provision to shift \$2.5 million from the longer-term School-University Partnership programs to increase funding for EAOP, MESA and Puente.

Systemwide UC academic development programs are working to: (1) increase the number of UC-eligible program graduates from disadvantaged backgrounds by 100% between 1997 and 2002, and (2) increase the number of competitively eligible program graduates from disadvantaged backgrounds by 50% between 1997 and 2002.

The following is a description of some of the student academic development programs that are key to the University's overall outreach efforts. Budget figures for each program are included in Display 2, earlier in this chapter.

### ***Early Academic Outreach Program***

Since its beginnings in 1976, EAOP has grown steadily to become a multifaceted educational support system that provides students with academic development programs, academic advising, test preparation, programs for families, and services to schools throughout the State. EAOP students are bright, motivated, and dedicated to success. Virtually all EAOP students attend schools with low college-going rates and will be the first in

their families to go to college. The program works closely with these students, their families, teachers, counselors, and school administrators to ensure that these students' determination to succeed is rewarded and prepares young Californians for successful futures. Equally important, EAOP provides them with the opportunity to achieve academically.

Middle and high school students as well as an increasing number of elementary school students have access to a comprehensive array of programs and services that support students in attaining UC eligibility and competitive eligibility. EAOP provides academic enrichment services that help middle school students develop strong critical reading, analytical writing, and mathematics skills, and to begin thinking about college. High school students have access to a variety of academic development classes and programs that prepare them to succeed in honors and Advanced Placement courses and to make a successful transition from high school to the University of California. EAOP also ensures that students complete all the requirements for UC admission by conducting PSAT and ACT-EXPLORE testing sessions, helping students prepare for the SAT/ACT exams, providing guidance as students select the UC campus that is right for them, and advising students as they develop a challenging course schedule that will help them attend the campus of their choice.

EAOP provides information on UC admission requirements, the "a-f" subject requirements ("a-g" requirements for students entering UC in fall 2003), financial aid, housing, filing deadlines, and a myriad of other college-related concerns for students, their families, teachers, counselors, and school administrators. All informational programs focus on helping students prepare for the University, including academic preparation, how to become competitively eligible, and the components of the admissions process, such as writing the personal statement and applying for financial aid. Campus tours, field trips, guest speakers, mentoring programs, and services that generate enthusiasm about college among students and their families are important components of the EAOP experience.

A growing component of EAOP is targeted at parents, providing them with the information they need to help their children prepare for college. Through workshops, study sessions, and weekend on-campus programs, EAOP families actively participate in preparing their children for academic success.

New funds received in 1998-99 were allocated to campus programs to provide additional services to students, such as new standardized test preparation programs and innovative Saturday and summer academic development programs, including concurrent enrollment at community colleges and challenging Summer Session courses offered on UC campuses. The funds are also being used to serve additional students and provide programs to students in areas of the state not previously involved in EAOP. The program also received \$1 million in additional funds in 2001-02 as a result of the Legislature's redirection of funds from School-University Partnership programs to shorter-term recruitment efforts.

In 2000-01, over 76,000 students participated in EAOP at more than 600 middle schools and high schools. The number of junior high and middle school students receiving full services nearly doubled, with 15,560 students served at 267 schools, an increase of 67 schools. The number of high schools served is up by more than 10%, with 60,647 students receiving services at 349 schools. Of the approximately 10,000 high school seniors that EAOP serves annually, more than 90% will go on to attend college. Nearly twenty-five percent of African-American and Chicano/Latino students who enter the University as first-time freshmen are EAOP participants.

### ***Mathematics, Engineering, Science Achievement Program (MESA)***

MESA operates four programs designed to strengthen the mathematics and science skills of educationally disadvantaged students. The goal of MESA is to increase the number of these students who ultimately make their careers in mathematics- and science-based fields, such as engineering, computer science, and the physical sciences.

MESA operates two pre-college programs. The MESA Schools Program (MSP) assists elementary through high school students with academic preparation, financial aid and academic counseling, parent involvement, collaborative study skills development, field trips to various campuses, and career counseling. MESA's Success Through Collaboration (MESA STC), a partnership with American Indian education programs, the California Department of Education, tribal governments and communities, industry, and others, offers a program similar to the MSP with an added emphasis on culturally relevant activities. MESA pre-college teachers receive special training in science and mathematics that is used to benefit all students, not just MESA participants.

As part of the MESA undergraduate program, the MESA Engineering Program (MEP) provides freshman orientation, academic and career counseling, group study methods, academic excellence workshops, and tutoring to engineering and computer science students at four-year colleges and universities.

The MESA California Community College Program (MESA CCCP) provides academic assistance similar to the MEP with the goal that the students will successfully transfer to four-year institutions and attain mathematics-based degrees. With new resources from the State, MESA CCCP expanded from 10 centers in 1998-99 to 35 centers by the end of the 2000-01 academic year.

Because of MESA's success in producing highly qualified professionals urgently needed by California industry, over 100 corporations are actively involved in supporting the program. The California MESA model has been replicated in seven states.

MESA receives funds through budget appropriations to the University, CSU, and the community colleges. MESA also receives support from independent colleges, federal agencies, industry, private foundations, and local school districts. Funding for MESA has been included in the University's budget since the program began in 1970 with the exception of two years (1983-84 and 1984-85), when funding was temporarily shifted to the State Department of Education. A \$1 million State augmentation was provided in 2000-01 to increase funding for the MESA Engineering Program for undergraduates at four-year colleges and universities. MESA also received \$1 million in additional funds in 2001-02 as a result of the Legislature's redirection of funds from School-University Partnership programs to shorter-term recruitment efforts.

In 2000-01, MESA served over 22,000 pre-college students (an increase of 3,300 students, or 17%) as well as 8,800 community college and university students.

### ***Puente***

Since 1981, the Puente Project has fulfilled its mission to help educationally underserved students succeed in school, earn college degrees, and return to the community as mentors and leaders. Puente serves both high school and community college students with an integrated program of 1) rigorous college preparatory English courses, 2) academic counseling, and 3) mentors from the professional community. Puente is jointly sponsored by the University and

the California Community Colleges, and conducts 53 community college and 35 high school programs. Puente impacts over 66,000 students through its core student and extended staff training programs.

As a result of a \$1 million augmentation provided in the California Community Colleges 2000-01 budget, Puente has expanded its capacity to serve more sites by funding two full-service Regional Centers in northern and southern California. These two centers help fulfill four long-term program goals: 1) bring services closer to participating schools and colleges; 2) strengthen Puente's relationships with participating school administrators; 3) build regional partnerships; and 4) provide greater local oversight as schools implement the program.

Puente received \$500,000 in additional funds in 2001-02 as a result of the Legislature's redirection of funds from school-university partnership programs to shorter-term recruitment efforts. The new funds will be used to expand program services in school-university partnership schools within the Regional Centers service areas.

Puente is unique because the program is delivered by credentialed teachers and counselors in the schools. Since its inception, Puente has trained hundreds of teachers and counselors in Puente's effective methods for teaching writing skills and counseling educationally underserved students. Puente students take rigorous ninth and tenth grade college preparatory English classes taught by the same teacher. The Puente counselor works closely with students from grades 9 to 12, monitoring their academic progress and involving parents in their children's education. Community mentoring experiences are integrated into classroom assignments and program activities.

This sustained and comprehensive program model is very effective. Although Puente classes are comprised of students with a range of skill and performance levels, Puente community college students have higher writing course completion and college retention rates than their counterparts. An independent evaluation of High School Puente showed that Puente students outperform their matched comparisons in high school graduation, "a-f" course completion, and UC and CSU enrollment. The study showed that Puente students attended four-year colleges at almost twice the rate of non-Puente students (43% vs. 24%) and applied to UC in much larger numbers compared to a control group of non-participants (24% vs. 8%).

The success of Puente has been recognized nationally, most recently by the prestigious Innovations in American Government Award, jointly sponsored by Harvard University and the Ford Foundation. Puente was selected because of its “exceptional program creativity, quality, and accomplishment.”

### ***Test-Preparation Programs***

In Spring 2001, UC expanded its existing test administration services to offer the ACT-EXPLORE, along with the PSAT, to more than 15,000 students in grades 8-10. Conducted at each UC campus (or in the campus region), EAOP administered one or both of the exams to educationally disadvantaged students who participate in such academic development programs as EAOP, MESA, and Puente. Each participant's ACT-EXPLORE and PSAT results are used to develop individual academic plans and to help schools improve their college-preparatory programs. The PSAT and ACT-EXPLORE project will continue in spring 2002 to augment the SAT/ACT preparation programs already in place.

### ***EAOP, MESA, Puente (EMP) Outreach Collaborative***

The University of California's student-centered outreach programs—EAOP, MESA, and Puente—are in the second year of their partnership, known as the EMP Collaborative. The mission of the Collaborative is to strengthen the working relationships among the three programs based on common student goals. The objectives are to identify, plan, develop, and implement work products and processes that will add value to the Collaborative and benefit each program participant.

In its first year, the EMP Collaborative developed and field-tested an Individual Academic Planner (IAP) and a companion Test Preparation Guide. Both publications help program staff, families, students, and educators improve scores on standardized examinations and to complete a challenging academic program. In 2001, a Financial Aid Planner will be made available to program participants and their families.

At its recent statewide conference, the EMP Collaborative organized regional collaboratives so that outreach staff from the three programs may share information and work together to increase the number of students who are prepared for selective college admission.

## ***UC Links***

UC Links is a statewide network of after-school programs that provide computer-based educational resources and opportunities to K-12 elementary and middle school children who do not have access to these resources in their homes, schools, or neighborhoods. At 30 school and community sites throughout the state, UC undergraduate students work closely with K-12 students as they engage in computer activities that develop mathematics, science, and basic literacy skills. UC undergraduate participants are enrolled in child development courses as well as research projects related to culture, language, and learning. The operation of program sites is coordinated by UC, CSU, and other university faculty, staff, and students, in collaboration with local K-12 teachers, parents, and other community members. UC Links complements other outreach efforts in that it is a faculty initiative connecting outreach with undergraduate education and research.

## **University/K-12 School/Community Programs**

The University has established a variety of programs that involve intensive partnership efforts among UC campuses, local K-12 schools, and community programs. These efforts incorporate development activities aimed directly at individual students, but go beyond them to include whole-school, district, and community efforts to improve teaching, curriculum, and other services that affect student eligibility and improve college-going rates. In 2001-02, the Legislature redirected \$5 million from University/K-12 School/Community Programs to shorter-term recruitment efforts as shown earlier in Display 7, including more than a \$4 million reduction in K-12 School-University Partnerships; a \$315,000 reduction in the Community Education and Resource Center; and a \$100,000 reduction each in the Division of Agriculture and Natural Resources K-12 Outreach program, Nexus, Urban Community-School Collaborative and SAGE Scholars. There was also a \$250,000 reduction in the California Subject Matter Projects. The following are descriptions of programs UC initiated to focus on specific aspects of the University/K-12 school/community partnerships concept.

### ***K-12 School-University Partnerships***

In 1998-99, the State provided the University with \$15 million to expand its efforts to improve opportunities for educationally disadvantaged students in California through comprehensive partnerships with selected elementary, middle, and high schools. Funding for the program was reduced by more

than \$4 million in 2001-02 as a result of the Legislature's redirection of funds from K-12 School-University Partnership programs to shorter-term recruitment efforts. The total remaining budget is \$12 million in State funds in 2001-02.

The campuses have exceeded the Outreach Task Force goal of developing 50 high school partnerships, and are now engaged in partnerships with 72 high schools throughout the state. The campuses are also working in partnership with 58 middle schools and 133 elementary schools that feed into these high schools. When developing partnerships, priority is given to schools where average student performance on the SAT has fallen into the lowest two academic quintiles of schools statewide. School-university partnerships represent a means of affecting systemic change in K-12 schools that goes beyond the traditional types of student academic outreach efforts. These programs have adopted an integrated academic approach to improve access within schools by incorporating school- and student-centered efforts with teacher-centered and curriculum-based programs aimed at training and developing teachers to strengthen the academic foundation at partner schools where students' performance is below the statewide average.

The goal of the partnerships is to create a coordinated effort among programs and initiatives that are designed to ensure that students have access to high quality instruction and are able to meet high academic standards in "a-f" courses ("a-g" courses for students entering UC in fall 2003). Each of the UC campuses collaborates with school administrators, families, and students, as well as regional businesses and community-based organizations to effect long-term, broad-scale changes in academic culture and achievement.

Through the work of the partnerships, the University plans to increase the number of UC eligible graduates from partner high schools by 100%, or to increase the eligibility rate by 4%, whichever is greater. Additionally, the University's goal is to increase the number of competitively eligible students from partner high schools by 50%, or to increase the competitively eligible rate by 2%, whichever is greater.

### ***The Urban Community-School Collaborative (UCSCol)***

The UCSCol is responsible for creating collaborative university-school-community models for strengthening K-12 urban education to promote the educational achievement of educationally disadvantaged youth. It is a "seed" grant program through which UC faculty play a pivotal role in carrying out applied research on educational, social, economic, public safety, housing, and

health-related issues that impact the educational opportunities of youth in urban and rural communities, and the professional development of teachers. The program enables the resources of the UC campuses, local communities, school districts, and other institutions and agencies throughout the State to use their resources collectively to target issues identified by local constituents and individual communities. The "seed" grants are used to leverage additional dollars.

The UCSCol is assisting the campuses in developing the Community Education Resource Centers (CERC), described below, which, unlike the UCSCol, are geared toward the creation of an ongoing physical presence within disadvantaged communities.

### ***Community Education and Resource Center (CERC) Initiative***

The CERC Initiative is intended to create a physical presence within disadvantaged communities to make University services more accessible. The program's goal is to carry out UC's mission as a land-grant university and is modeled after the University's Agricultural Cooperative Extension program. The program serves as a conduit through which students and communities derive information about specific outreach programs. It also serves as a clearinghouse for brokering program-specific services to communities based on the needs of its student population such as tutoring, mentoring, SAT preparation, and internship opportunities. As the centers develop, the University will include other colleges and universities, as well as foundations and corporations, providing them with a vehicle to engage in activities that would likely have a localized impact and strengthen communities. Through these centers, the University is establishing long-term relationships with communities and working to collectively address such critical issues as education, economic development, public health, and community safety.

### ***Charter School***

The Preuss School on the San Diego campus, formerly known as the University of California, San Diego (UCSD) Model Charter School, has successfully completed its second year of operation. For the upcoming 2001-02 school year, approximately 125 new students will join the 406 continuing students and will occupy grades 6 through 10. The school is planning to reach full enrollment (700 students) in 2003-04. The purpose of the school is to prepare students from low-income and educationally disadvantaged backgrounds to be competitively eligible for the University of

California (UC) and other selective four-year institutions. These students will be the first generation in their families to attend college, should they apply and be accepted.

As a result of the school's affiliation with the San Diego campus, students benefit from services provided by tutors, interns, and mentors trained through the campus' Teacher Education Program. Students have access to libraries, teaching and research laboratories, visual and performing arts facilities, and recreational facilities. They will benefit from partnerships with the School of Medicine's adolescent health program, the California Space Institute's KidSat program, the San Diego Supercomputer Center, the UCSD Birch Aquarium Museum, as well as have access to campus cultural and entertainment events. UCSD faculty and staff participate in instruction, assessment, and research activities involving the charter school. Students who meet the eligibility criteria for the campus' Early Admissions Program will have opportunities to enroll in UCSD courses while attending high school.

The Preuss School began its operations in 1999-2000 in temporary facilities located on the San Diego campus. Operations moved to a new permanent facility on the UCSD East Campus area for the beginning of the 2000-01 school year. The new facility was constructed entirely with private gift funds totaling approximately \$13.9 million. The UCSD Model Charter School has been named "The Preuss School" in recognition of the Preuss family's \$5 million capital contribution.

The school received a permanent augmentation of \$1 million in 1998-99 from the State. The majority of its funding comes from State and federal sources that constitutes over \$2.1 million for 2000-01. These include Average Daily Attendance (ADA) and federal and State categorical funding sources.

### ***UC Nexus K-12 Technology Initiative***

Organized in mid-1997, UC Nexus focuses on using digital technologies to promote equity and access to quality education. UC Nexus supports, fosters, and connects campus-based UC/K-12 collaborative projects that investigate and develop effective uses of computers, the Internet, and related technologies for teaching and learning activities at the K-12 level, with a special focus promoting equity and access at UC partnership high schools and feeder schools. Another goal is to facilitate teachers' and students' access to UC's online resources and to promote online collaboration. Toward this end, UC Nexus staff are working closely with the intersegmental K-12 Internet

program—the Digital California Project (DCP)—to make UC's online resources available over the new high-speed broadband network that the DCP is developing for K-12 public schools. This project is discussed in more detail later in this chapter.

### ***The UC College Preparatory Initiative (UCCP)***

In 1998, the Santa Cruz campus launched a small pilot program with 44 students in 13 high schools to develop high quality online advanced placement (AP) courses. The goal of the program was to offer online AP courses to benefit students attending high schools that offered few or no AP courses.

This is particularly important, given the additional weight AP courses are given in the admissions process. To be eligible for admission to the University, applicants are required to successfully complete a set of high school courses in core subject areas known as the "a-f" requirements ("a-g" requirements for students entering UC in fall 2003). In addition, the University's admission process takes into consideration the number of University-approved AP and honors courses applicants complete during high school, and how well they performed in them. The availability of both the core subject and AP courses, however, varies widely across the state. To address this disparity, the UC College Preparatory Initiative was developed, in partnership with California high schools, to offer online courses required for admission to the University and online advanced placement and honors courses for high school students who attend high schools that offer few or no such courses. Thus, the Initiative is designed not to replace existing high school AP curriculum, but to provide access where none exists.

In 1999-2000, the University received \$4 million to develop and implement online AP courses; in 2000-01, that allocation was increased to \$8 million to enable the development of additional distance learning courses in core subject matter areas and to expand the UCCP advanced placement initiative to additional high schools throughout the state.

For fall 2001, UCCP anticipates serving 180 high schools in 50 of California's 58 counties. This represents enrollment of about 2,100 students in eleven AP course offerings, four honors-level courses, and two pre-AP courses (Algebra I and II). This compares with fall 2000 enrollments of 782 students and spring 2001 enrollments of 964 students—79% and 75%, respectively, of which were in advanced placement courses. In addition to offering courses adapted from existing curriculum providers, two AP courses have been designed specifically

for UCCP: AP chemistry was first offered in September 2000 and AP Biology was introduced to the first pilot group of student enrollees in August 2001. Through its partner, Apex Learning, the UCCP program also offers an on-line AP exam study aid that incorporates diagnostics, multimedia review sections, and practice AP exams. In spring 2001, over 4,300 enrollments (representing approximately 2,400 students from 170 schools across 38 counties) were sponsored by UCCP.

### ***UC ArtsBridge***

UC ArtsBridge is an arts education program whose mission is to work in partnership with California public schools to provide high quality arts education. UC ArtsBridge provides scholarships to qualified UC graduate and undergraduate students to teach the arts and conduct arts-related workshops in art, dance, drama, music, and digital arts in K-12 schools.

During 2000-01, there were 780 ArtsBridge scholars from 8 UC campuses working in California's public schools. The program provided arts education to 20,282 public school children in 237 schools throughout California. Currently, 75% of schools served by ArtsBridge have state testing scores of less than 50%.

This program is particularly important because the University is requiring one year of visual or performing arts for admission to the University of California beginning in fall 2003. The ArtsBridge program will work to ensure that California's school children can meet these expanded entrance requirements.

### ***GEAR UP Federal Funding***

In 1999, California received a \$25 million grant, \$5 million in each of the next five years, for GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs), a federal program sponsored by the California Education Roundtable, to encourage more young people to have high expectations, stay in school, study hard, and take the right courses to go to college. The University is administering the grant for the State in coordination with the other segments, the California Postsecondary Education Commission, the Student Aid Commission, and the Governor's Office.

Through California's GEAR UP grant, 20% of the state's middle schools, educating nearly 260,000 students, are receiving direct services from the

program; the remaining schools will benefit from several components of the program; and 9,195 students will receive academic support services and scholarships to California colleges or universities. Components of the grant include: professional development programs for middle school teachers, including the articulation of standards frameworks and aligning skills in K-12 English and mathematics with higher education's expectations; parent information and public awareness programs on the importance of high academic achievement; and a resource and materials clearing-house to help middle school educators communicate with students and their families about the importance of preparing for college.

In addition to the overall statewide grant, many individual K-12 districts and higher education institutions received smaller partnership grants for such efforts as: tutoring, academic counseling, mentoring, enriched learning opportunities, campus visits, information about financial aid and college preparatory courses, and motivational activities to increase students' achievement and aspirations for attending college, parent involvement and education, and staff development activities to strengthen the ties between home and school and enhance the ability of both staff and parents to work effectively with the students.

### **Community College Transfer Programs**

Facilitating the transfer of students from the California Community Colleges to the University is among the highest priorities of The Regents. That commitment is embodied in the University's Memorandum of Understanding with the California Community Colleges to increase the number of transfer-ready students transferring from the community colleges to UC from about 10,150 in 1998-99 to 14,500 by 2005-06. In the Partnership Agreement with the Governor, this total has been increased to 15,300 students, or annual growth of about 6%. The Partnership Agreement also specifies a goal for increasing the number of student transfers from low-transfer California Community College campuses by 15% annually.

As indicated in Display 2 earlier in this chapter, the total budget from State and UC sources for the University's community college transfer programs is \$7.8 million in 2001-02. When funds from other sources are added, the total is \$30.9 million.

Between 1998-99 and 2000-01, UC increased new transfer students by 10.2%, from 10,161 to 11,196 students. In 1999-2000 alone, the increase was 6.5%, followed by a 3.5% increase in 2000-01. Statements of Intent to Register (SIRs) from CCC students for fall 2001 were up 11.5% over fall 2000. However, transfer to UC during winter and spring represents a significant percentage of total new transfers. Until UC has completed admission of CCC transfers for winter and spring terms, the final increase for the year will not be known.

Understanding the policies and requirements for transfer is complicated because of the variety of transfer requirements among UC campuses and among programs or disciplines within campuses. California residents who wish to transfer from a California Community College to the University of California must take courses that are transferable, that satisfy University and college general education and breadth requirements, and that fulfill prerequisites in the student's major. Every school on every UC campus specifies the courses a student must take during the first two years of college to prepare for advanced study in a major. Such courses may be required as part of the major or as prerequisites for other courses that are required as part of the major, or they may be required to gain admission to the major.

Since students enter community colleges with a wide variety of aims, no single sequential program—commonly followed and understood by all students—can be established. Further, many students enter with no clear goals in mind; others change their goals over a period of time. Making sure these undecided students receive appropriate information at the appropriate time is a difficult problem. In addition, the sheer size of the community college student population and its distribution over 109 different locations all over the state further complicate the problem.

The transfer process itself is complex. Each public and independent university a student might consider as a transfer goal has its own set of requirements and each major within each university has individual requirements—which means that there is a high probability of students receiving fragmentary information or misunderstanding the information they receive. Students need to familiarize themselves with all of these requirements and determine which community college courses have been approved to satisfy these different types of requirements. Since students often change their academic goals—both as to campus and major preferred—as they progress through programs, they may encounter problems in satisfying these requirements expeditiously.

The University has worked consistently over the past few years to improve student assistance, information, and articulation programs intended to increase the level of transfer enrollment. These efforts include increases in personal contact with potential transfers, closer links with community college campuses, and improvements in technology specifically serving transfer. Last fall, UC launched a major direct mailing and telephone campaign to contact eligible transfers and encourage them to apply for admission to the University. Once they apply, community college students receive priority over all other advanced standing applicants and the admission rate of community college transfers is significantly higher than for any other group at this level. Every eligible transfer applicant is admitted to one of the University's campuses.

Nevertheless, data analysis showing the low numbers of community college students on track for satisfying transfer requirements indicate that a more ambitious intervention program, aimed at building the pool of students eligible for transfer rather than focusing only on those already on track to eligibility, is essential. More community college students need to realize their potential for transfer and follow systematically a baccalaureate-focused curriculum. In addition, these students need assistance in setting transfer goals and assessing their academic readiness. This requires steady, day-to-day advising and academic support in order to sustain progress toward transfer requirements.

Initiating counseling programs that can provide a high level of personal contact with transfer students, as well as with community college staff and faculty, requires a significant new investment. The University must become a ubiquitous presence on community college campuses, and both UC and the community colleges must work together to help students gain a clearer sense of the importance of baccalaureate achievement in the new technology and knowledge-based economy.

### ***Admission to the University of California***

At present, UC policy enables students to become UC-eligible through three paths: 1) by statewide standards which make eligible 11.1% of California high school graduates (statewide eligibility); 2) by test scores alone—achieving a total score of at least 1400 on the SAT I and earning a total score of 1760 or higher on the three SAT II subject tests, with a minimum score of 530 on each test; and 3) by ranking in the top 4% of their individual high schools. Taken together, these three paths create an eligibility pool of 12.5%

of California high school graduates, which is consistent with the Master Plan. All eligible students are guaranteed admission to a UC campus.

A fourth path to eligibility, the Dual Admissions Program, has been approved by The Regents, but implementation is being delayed until sufficient resources are available to fund the support services necessary for the success of the program. This path is intended to address the need to increase community college transfers and to help with the University's efforts to increase opportunities for students from educationally disadvantaged backgrounds. Under this program, students who are within the top 12.5% of their high school class, but who do not meet eligibility requirements through either the statewide eligibility or 4% paths, would be admitted simultaneously to a community college and a UC campus. After satisfactorily fulfilling their freshman and sophomore requirements at a community college, students would be enrolled at the UC campus that admitted them when they were first identified as "Dual Admission" students.

The Dual Admission Program will create a closer link between UC and the community college system and ensure a more effective transfer process as envisioned by the Master Plan. It will also help UC meet the transfer goals set forth in the Partnership Agreement with the Governor to increase the number of community college transfers by 6% annually, to 15,300 students by 2005-06. More importantly, it will send a strong signal to students who have excelled academically in disadvantaged high schools that they have a straightforward path to a UC degree. It is anticipated that this program, in concert with the new Cal Grant entitlement program (described in the *Financial Aid* chapter of this document), will have a positive impact on encouraging more students from disadvantaged backgrounds to seek admission to UC.

The University will continue to work with the Governor and the Legislature to obtain funds necessary for successful implementation of this program. This program is also discussed in the *General Campus Instruction* chapter of this document.

### ***Counselor Professional Development***

To make sure that up-to-date and accurate information about transfer preparation and application are widely available at community colleges, the University sponsors training sessions for both high school and community college counselors.

**“Ensuring Transfer Success” Community College Counselor Institutes.** Each spring, the University offers, with the California State University and the California Community Colleges, three CCC counselor institutes, *Ensuring Transfer Success*. The institutes provide focused workshops addressing transfer issues at both the California State University and the University of California. New and veteran transfer counselors are provided comprehensive information about transfer admission policies and practices, transfer support services, and general education and graduation requirements in a small, interactive environment, allowing in-depth discussion. Last year, over 800 counselors from nearly 80 community colleges were served at these events.

**UC Counselor Conference.** Each fall, the University hosts large-scale conferences around the state for both community college and high school counselors. A special workshop series was added in 2000 for California Community College counselors, focusing on their particular informational and outreach needs, including sessions on University eligibility requirements and selection criteria, completing the UC application, financing higher education, and non-academic factors affecting transfer performance.

### ***Outreach Programs***

**Increasing contact.** University staff and faculty are increasing their personal contact with students and CCC counselors.

- ***UC Transfer Days.*** These events include representatives from all UC campuses, who meet with students to chart strategy for their admission to UC. UC Transfer Days are held on CCC campuses to accommodate student schedules for personal meetings with UC admissions representatives. Last year over 1,000 students were served at these statewide events.
- ***Puente and MESA.*** These long-standing and highly successful student development programs prepare students academically for college and eventual transfer to four-year institutions. Last year these programs served over 8,000 CCC students with academic advising, tutorial assistance, and mentoring.

**The Transfer Center Program.** This jointly-funded program was initiated in 1985-86 as an intersegmental program involving the University, CSU, and CCC. Transfer Centers are located on CCC campuses and serve as the focus of transfer activities. Center staff provide direct services to identify,

encourage, and assist potential transfer students. The Centers help students prepare for upper division work by providing academic planning services and employing articulation agreements to ensure that CCC course work will be accepted for transfer.

**Building technologies to serve outreach.** Two university-wide programs are designed to provide students and counselors with up-to-date transfer information.

- ***ASSIST***, which is described later in this section.
- ***Gateways***, which is a Web-based electronic tool that is dramatically expanding student access to and understanding of the information needed to prepare for higher education. *Gateways* is an interactive site where current high school students, and soon CCC students, have access to tools for planning and gaining admission to a UC campus. Via *Gateways*, students have a personalized guide to enrollment on a UC campus, and soon these tools will be available to facilitate the transfer process.

### ***Articulation and Evaluation***

Transfer students must know how the courses they take at a community college will apply toward a degree at a particular UC campus. “Course articulation” refers to agreements between educational institutions that specify for students how a course they complete at one institution (e.g., a community college) can be used to satisfy a requirement at a second institution (e.g., a UC campus). Course articulation falls into several different categories:

- **University-wide Articulation.** The curricula of each California Community College is reviewed by the Office of the President annually to determine those courses transferable as elective credit to all campuses of the University.
- **Major Preparation Articulation.** Articulation of courses needed for the major is critically important for students planning to transfer to UC. In order to make it easier for CCC students to satisfy the lower-division major requirements of similar majors at different UC campuses, the Intersegmental Committee of Academic Senates has sponsored the Intersegmental Major Preparation Articulated Curriculum project (IMPAC). Currently in its third year, this five-year program is designed to coordinate the lower-division preparation requirements of various

high-demand majors with the goal of creating common intersegmental major-preparation curricula. Regional and statewide conferences of UC, CSU, and CCC faculty have been held to discuss common course requirements and to coordinate systemwide articulation agreements on high demand majors. IMPAC has made progress on agreements in the physical sciences, mathematics, biological sciences, and social sciences. Future conferences will focus on humanities and fine arts majors.

- **General Education Articulation and the Intersegmental General Education Transfer Curriculum (IGETC).** Articulation agreements also are developed for UC campus-specific general education and/or breadth agreements. The Intersegmental General Education Transfer Curriculum allows California Community College students to complete a single curriculum that, when completed prior to transfer, satisfies the general education requirements at any campus of the University of California or the California State University.

Completing IGETC is not advisable for all students in all majors, however. Students studying engineering, physical sciences, and other high-unit and highly sequenced majors are advised to complete pre-major courses rather than IGETC or other UC general education courses at the lower division level.

To increase transfer enrollment significantly, especially among students from educationally disadvantaged backgrounds, UC campuses will need to draw students from community colleges across the state, not just in their local regions. For this purpose, UC campuses must have articulation agreements with all 109 colleges. All UC campuses have an articulation agreement with every community college campus in their service area where campuses direct most of their outreach programs. Moreover, these agreements will need to include at least 20 of the most popular majors, as required by the new Partnership Agreement with Governor Davis. Such a goal is daunting, requiring the individual evaluation of over 45,000 community college courses per year, every year. Yet, it is achievable and sustainable if staff are in place to regularly review and evaluate these courses. It is these agreements that are then entered into the ASSIST system, discussed below.

### ***ASSIST—The Articulation System Stimulating Inter-Institutional Student Transfer***

The Articulation System Stimulating Inter-institutional Student Transfer (ASSIST) is California's official statewide repository for course articulation

and transfer information. Students, faculty, and staff are currently receiving over 150,000 course articulation reports each month (or 8,000 reports each day) from ASSIST. The Web site is getting up to 2 million hits a month.

Operating since 1985, ASSIST is a cooperative, intersegmental effort overseen by a Board of Directors whose membership includes the California Community Colleges, California State University, University of California, and California Postsecondary Education Commission.

ASSIST is a computerized information system that provides counselors and students with detailed course transfer and articulation information to help them plan their academic careers, facilitate a seamless transfer process, and reduce the number of redundant courses they may take as they move from community colleges to universities. Counselors and students use ASSIST to determine how courses taken at various community colleges will be applied to specific major programs of study at universities once they transfer. This helps students plan a more efficient package of coursework, significantly reducing the frustration and cost of retaking what may have appeared to be similar courses. Students also use ASSIST to help decide alternative courses of study as their interests change by providing them with information to compare how courses they have already taken may apply to different areas of study.

Every University of California and California State University campus is required to maintain in ASSIST all of the most current agreements that have been established with any of the California Community Colleges. Since 1996, the extensive ASSIST database has been available free of charge to all students, faculty, and staff via the Internet at *www.assist.org*. Many colleges and universities integrate the use of ASSIST into a variety of local student services, including college preparatory courses, counseling centers, outreach, and individual campus Web sites. Throughout the state, there is an increasing commitment to provide more major-specific course articulation with more community colleges. ASSIST is recognized as a critical component for colleges and universities to manage this increasing database of information.

The information in ASSIST is entered and updated throughout the year by college and university staff. The ASSIST Coordination Site, located in Irvine, manages the day-to-day operations of ASSIST, including all software development, technical operations, data coordination, training, and user support.

Supplemental Report Language was adopted by the Legislature as part of the 2001-02 budget process that requests UC and CSU to honor all articulation and transfer information that is provided through the ASSIST Web site and to set up a mechanism for reporting if a campus does not honor an online articulation agreement. A preliminary report is required by November 1, 2001 and a final report on November 1, 2002. ASSIST is already in compliance with the provisions of the Supplemental Language and will provide the requested reports.

Currently, ASSIST is funded jointly by the three public higher education systems at a combined level of \$1.4 million. The University of California's portion of the ASSIST budget is \$381,000. The 2001-02 Governor's Budget included an augmentation of \$1.1 million for the expansion of ASSIST. However, due to the rapid deterioration of the State's fiscal situation, the funds were vetoed by the Governor in the final Budget Act. When the State's fiscal situation improves, and the University once again requests funding above the Partnership for public service programs of critical importance to the State, ASSIST will be among the University's priorities for additional funding.

### **Central Valley Outreach**

College readiness and access for San Joaquin Valley students at the primary and secondary levels are critical to the future of the University of California and to UC Merced particularly. Since 1986, the University has maintained outreach operations to encourage Central Valley students to attend the University of California. Programs now target K-12 and community college students throughout the San Joaquin Valley and are designed to inform, motivate, and help students prepare academically for the University of California and, more specifically, for the Merced campus when it opens in 2004. Services have been expanded to include 144 high schools, and 11 community colleges in 13 counties, which now also include Inyo and Mono Counties. Comprehensive school-university partnerships have been formed with four high school districts and their feeder middle and elementary schools in Merced, Fresno, and Kern Counties. New school-university partnerships will be developed in Stanislaus County in 2001-02.

The impact of the services provided by these programs between 1990 and 1999 has been substantial. The number of San Joaquin Valley high school students applying to UC increased 127%, from 1,309 to 2,976. The number of

students admitted also improved, from 1,061 to 2,510, an increase of 137%. During this period, approximately 85% of the applicants were admitted. The number of freshmen students from the San Joaquin Valley who enrolled at the University of California has also climbed steadily, from 808 students in 1990 to 1,359 students in 1999, a 68% increase. In addition, for fall 2000 there was a slight increase in freshmen enrollment reaching 1,368 students. Although freshmen enrollment numbers for fall 2001 are not final, Statements of Intent to Register (SIRs) from the region are up from fall 2000 by over 12.5%. A 15% increase in freshmen enrollment is projected for fall 2001.

The new strategies have been productive in increasing interest and potential enrollments in UC and the opening of UC Merced in 2004 will likely increase the number of admitted students who actually matriculate at a UC campus. However, the rates for UC eligibility (5-6%) and participation rates (3.3-3.5%) among Central Valley high school graduates are about half the statewide averages. Since eligibility has a direct correlation with potential for enrollment, it is essential to continue these efforts to increase eligibility rates to ensure a sustained increase of participation among Central Valley students to UC campuses. Therefore, UC Merced's objective is to continue to work directly with schools to address UC eligibility and academic achievement through School/University Partnerships, EAOP, and other school engagement activities.

Community College outreach is a key element in UC Merced's outreach efforts. Nearly 30% of Central Valley high school graduates begin their postsecondary education at a community college. However, the UC transfer rates have been historically low. Outreach efforts have had a significant impact in this arena. During 2000-01 the transfer unit reached 11,341 students, an increase of over 14% from the previous year. Classroom presentations, workshops, conferences, and individual advising were provided to an additional 3,384 students in 2001-01.

From fall 1995 to 2000, there has been a steady increase in applicants and enrollment to the University from area community colleges. In fall 1995, 255 students transferred to UC campuses from the region. In fall 2000, there were 410 transfers, an overall 60% increase.

## **Graduate and Professional School Outreach**

Graduate and professional school outreach programs are designed to identify, prepare, and encourage students from educationally disadvantaged backgrounds to attend and succeed in graduate and professional school.

To foster graduate academic outreach, the University received State funds in 1999-2000 in the amount of \$562,500 to establish the UC LEADS Program. This program was designed to identify undergraduate students from educationally disadvantaged backgrounds enrolled in science, engineering, and mathematics programs at the University of California, and to provide these students with an immersion program of undergraduate educational experiences to prepare them to assume positions in industry, government, public service, and academia following the completion of their doctoral degree at the University of California. Scholars receive an undergraduate mentorship experience and campus academic enrichment opportunities, and participate in annual University-wide symposia, summer research programs, and professional and scientific societies. Participants also travel to other UC campuses for training and exposure to graduate study. Seventy-four Scholars were funded in the program's first year. In 2000-01, the University received \$485,000 to double the number of UC LEADS scholars, bringing the program to a steady-state level of 148 first- and second-year participants.

The University was able to put the UC LEADS Scholars program in place very quickly in large part because of the University's prior experience with the Summer Research Internship Program.

The University's Summer Research Internship Program is a very successful effort intended to give promising undergraduate students intensive exposure to graduate-level research and provide them with an opportunity to develop relationships with faculty and graduate student mentors who can help them pursue and excel in graduate level work. More than half of the participants in UC's Summer Research Internship Program—currently serving about 300 students—go on to doctoral programs. Program participants, who are comprised of promising juniors and seniors from educationally disadvantaged backgrounds, are placed into a graduate school research atmosphere for 8 to 10 weeks during the summer, the ideal time for a hands-on research experience. Program evaluations indicate that the faculty mentorship and one-to-one training of disadvantaged students that this program features are primary factors that convince student participants to select UC for graduate

school and that convince faculty to admit these students to their graduate programs.

Over the past four years, the five UC medical schools received almost \$1.3 million in State funds, to be matched equally by the medical schools (\$74,000 in 1997-98, \$312,500 in 1998-99, \$562,500 in 1999-2000, and \$335,000 in 2000-01). In combination, these funds are being used for post-baccalaureate re-applicant and applicant programs which support students who need to improve their eligibility status; undergraduate medical school preparation programs; liaisons with local community colleges which focus on academic preparation for medical school; and a variety of other outreach activities.

Over the same four-year period, UC's three law schools were allocated \$755,000 also requiring a one-to-one match (\$12,000 in 1997-98, \$187,500 in 1998, \$375,000 in 1999-2000, and \$180,000 in 2000-01). These funds are being used to identify potential students, and prepare and encourage them to apply to law school through programs such as:

- summer opportunities to strengthen writing and study techniques;
- visits to undergraduate institutions nationwide;
- regional and national law forums; and
- support for student organizations' efforts to recruit diverse student populations.

Law schools are also using these funds to expand efforts by staff, faculty, alumni, student organizations, and law students themselves to encourage applicants who have been admitted to UC law schools to select UC over other higher education institutions. These efforts include regional orientations and receptions; pre-law advising on admitted applicants' undergraduate campuses; and hosting admitted applicants for campus visits, tours, and receptions.

Recognizing the importance of expanding graduate and professional school outreach efforts, the University proposed an increase of \$1.5 million in funding above the Partnership for the 2001-02 budget. Throughout the budget process, the Legislature and the Governor supported the increase, but the State's rapidly deteriorating fiscal situation resulted in a veto of the proposed augmentation. In addition, the Governor vetoed \$2 million from outreach programs in the final Budget Act. Subsequently, legislation was enacted, AB 1287 (Cardenas, Chapter 564), specifying how the University must distribute the \$2 million veto, including a reduction of \$250,000 in the

budgets that support graduate and professional school outreach programs. When the State's fiscal situation improves, graduate and professional school outreach programs will be among the University's priorities for additional funding above the Partnership.

As shown in Display 2 earlier in this chapter, the total budget for 2001-02 for outreach in the University's graduate and professional school programs, including matching funds from schools, is \$9.1 million. In addition, it is anticipated that the program will receive approximately \$2.3 million in private and federal funds.

### **Informational Outreach and Recruitment**

The Outreach Task Force recommended an aggressive program of informational outreach to provide better and more timely information to students, families, teachers, and counselors to improve planning and preparation for college. With the new funds provided for these efforts in 1998-99, the University increased considerably its visits to K-12 schools and expanded counseling to reach more students and their families in order to more carefully and thoroughly explain the requirements for eligibility and avenues for admission to all UC campuses. The University has increased its efforts to reach families at the critical, early stages of their children's education to help them become more involved in the process for planning for college.

Activities include: college counseling programs for potential students, community and media relations activities such as visits and press conferences by University leaders, telephone campaigns, direct-mail campaigns to targeted students, campus visits, visits of current UC students to their home schools, events with high-level campus administrators, and campus efforts to increase visibility. Each year, the President sends personal letters to over 13,000 high-achieving students throughout California inviting them, on the basis of academic work completed and standardized test scores attained, to consider the University of California for enrollment. The University uses several Internet programs to provide students, parents, and counselors with up-to-date admissions and transfer information, including *Gateways* and *ASSIST*, which are described earlier in this section.

Graduate and professional schools have been increasing visits to national conferences, expanding personal contact, and using direct mail, campus tours

and receptions to attract highly qualified students. The law schools are establishing community outreach legal clinics, participating in career-based outreach programs for undergraduates and employing direct-mail techniques to reach students. Medical schools are working with K-12 students to promote science skills and expose children to the notion of medical careers. Faculty and students are visiting colleges and universities to meet with potential applicants, holding campus conferences, and expanding summer academic programs.

Due to the State's rapidly deteriorating fiscal situation, the Governor vetoed \$2 million from outreach programs in the final Budget Act. Subsequently, legislation was enacted, AB 1287 (Cardenas), specifying how the University must distribute the \$2 million veto, including a reduction of \$1 million in the budget for Informational Outreach and Recruitment. This represents the elimination of all new funds received for these efforts in the 1998-99 outreach augmentation. The University is in the process of implementing this reduction and is making every effort to preserve effective publications and communication programs.

### **Evaluation of Outreach Programs**

Beginning in 1998-99, the State provided \$1.2 million to evaluate the University's outreach programs. The University of California has implemented a sophisticated evaluation program to assess the impact of the University's outreach and K-12 Improvement Programs on students and schools. Multiple methods, multiple designs, and an integrated data-collection and analysis system provide information on program effectiveness. The primary objectives of the evaluation are fourfold:

- measure the progress each program has made in achieving the numerical goals for UC eligibility and enrollment established in the Outreach Task Force Report;
- assess the effectiveness and "value-added" impact of outreach programs using a rigorous comparison-group design;
- describe and document the structure, operation, and evolution of outreach programs; and
- provide feedback to campus program staff to facilitate continuous program improvement.

Student-level and school-level data collection, site visits, case studies, formal accountability reporting, and a network of data sharing agreements provide UC staff with a wide set of tools to assess not only the implementation of programs, but also progress toward attaining the eligibility goals. The evaluation also assesses the “value-added” of outreach efforts by comparing the progress and outcomes of students in outreach programs and in partnership schools with similar students and schools that have not participated in the University’s programs. These analyses will augment the University’s ability to judge the educational merit and cost-effectiveness of programs.

At the very core of the evaluation is the objective to use data and research findings to direct and redirect program efforts to their greatest utility. For the major programs of educational outreach and K-12 improvement, systematic outcome indicators are measured on an annual basis, including UC eligibility, applications, admission, and enrollment. In addition, matriculation patterns into other higher education segments are tracked (California State University, the California Community Colleges, California private, and out-of-state institutions).

The University has also implemented and begun to measure a set of benchmarks consistent with UC eligibility: satisfactory completion of critical academic courses. Data collected from student records at UC partner high schools indicate that the modest eligibility rates for underrepresented students are often the result of inadequate preparation in high school in courses that meet the “a-f” requirements (“a-g” requirements for students entering UC in fall 2003).

In many cases, as many as 85% of underrepresented students are off-track by ninth grade, having failed to satisfactorily complete algebra, or not having taken the course at all. Many students are also off-track in other required courses, including English, the sciences and social sciences. As a result, the progress that schools are making often begins with extremely low baseline eligibility rates in the initial years. The tracking of course-taking patterns allows for year-over-year measurement of progress as well as substantial opportunities to redirect and support students through outreach programs.

Because success in high school is dependent upon early grade proficiency, the impact of the University’s program efforts will likely be incremental. Students participating in the University’s outreach programs who are in elementary and middle schools will not become “UC-eligible” for years,

although their progress on course benchmarks may be dramatic in the near-term. As a result, programs as ambitious and broad-ranging as the University's outreach programs require sufficient time to produce results.

The evaluation of the California Professional Development Institutes is being guided by a team of external evaluators, in cooperation with researchers within the UC Office of the President. The cooperation enables evaluation work to include investigations of the combined effects of different programs that are in place in the same school or district.

The most recent report of evaluation findings can be found in *Expanding Educational Opportunity: Status Report on the Educational Outreach and K-12 Improvement Programs of the University of California*, UC office of the President, Fall 2001. The Outreach evaluation is a joint faculty/administrative effort, with oversight from a distinguished panel of faculty researchers and evaluation experts from across the University system.

## **Research**

The Outreach Task Force recommended using the University's research expertise to identify the root causes of educational disparity within California's school system from K-12 through postsecondary education. A systemwide faculty planning group recommended the creation of the UC All Campus Consortium on Research for Diversity (UC ACCORD) that builds on existing faculty expertise and research infrastructure to examine the problems and challenges of access to higher education by California's disadvantaged schoolchildren. Working in concert with the University's Outreach programs, ACCORD ensures that the University maintains a multi-pronged, and knowledge-based approach to meeting this challenge.

UC ACCORD, now housed at UCLA, has undertaken a program of research that embodies the University of California's substantial, long-term commitment to improving access to education for California's schoolchildren. All of its projects seek to support and inform efforts to replace the current inequalities in K-12 schooling and disparities in access to higher education with equitable conditions and outcomes for children from all regions of California.

In 2001-02, ACCORD supports the work of 25 UC scholars from 8 UC campuses with dissertation fellowships, post-doctoral and junior faculty

fellowships, research augmentation grants, faculty research seed grants, and research synthesis grants. These projects examine the structures, practices, and beliefs in California's public schools and universities that advantage and disadvantage different student populations, and investigate the strategies, systems of support, and policies that enable students to navigate successfully the pathway through K-12 and on to (and through) California's public universities. All of these ACCORD research projects seek to help fulfill the commitment to diversity and point to solutions in ways useful to policy-makers, teachers, students, and parents. Additionally, a team of ACCORD faculty researchers is developing a set of statistical indicators that will monitor and track the state's progress toward more equitable K-12 and college experiences. Beginning in fall 2002, these indicators will be reported annually to the public.

ACCORD is governed by a board comprised of representatives from all 10 campuses, and its activities are overseen by three faculty working groups. The Research Working Group identifies how new research can fill gaps in existing knowledge about Outreach strategies. The Professional Community Working Group is responsible for ensuring that ACCORD develops and strengthens as a scholarly community that includes both researchers and Outreach practitioners. The Public Engagement Working group will develop a communication strategy for making UC ACCORD research visible and useful to the UC outreach community, education leaders, elected officials, and the public.

UC ACCORD received \$300,000 in new State funds in 1998-99 and an additional \$509,000 in 2000-01 for a total budget of \$809,000.

### **K-12 Professional Development Programs for Teachers and Staff**

In 2000-01, the Governor proposed a dramatic expansion of programs to provide professional development for teachers in K-12 schools. The Governor's plan included expansion of the California Subject Matter Projects (CSMPs), the California Reading Professional Development Institutes, and the English Language Development Professional Institutes; and the creation of new institutes for high school English, elementary mathematics, algebra, and high school mathematics. These programs were designed to serve over 70,000 participants, including 25,000 participants in the California Subject Matter Projects and 46,000 in the California Professional Development

Institutes (CPDIs). A statute authorizing expansion of existing institutes and development of all but one of the new institutes was adopted by the Legislature and signed by the Governor (AB 2881, Wright). The Algebra Academies Professional Development Institute was enacted into law in SB 1688 (Polanco).

Between 1999-2000 and 2000-01 the California Professional Development Institutes received a total of \$61.7 million to support its programs. In 2001-02, the program budgets for the California Professional Development Institutes were reduced by \$5 million in order to align the level of program funding with the level of funding provided in the K-12 budget for teacher stipends.

Display 2, in an earlier section of this chapter, shows the total funds available from all fund sources for the professional development programs for 2001-02. Display 8 shows the augmentations and decreases in funding for the University's professional development programs from 1999-2000 to 2001-02.

**Display 8**

<b>University of California                      Annual Augmentations, Reductions                      K-12 Professional Development Programs                      for Teachers and Staff (a)                      State Funds                      (\$000s)</b>				
	1999-00	2000-01	2001-02	Total Augmentations
California Subject Matter Projects	\$ -	\$ 20,000	\$ (250)	\$ 19,750
<u>California Professional Development Institutes</u>				
California Reading Professional Development Institutes	\$ 6,000	\$ 14,000	\$ (1,616)	\$ 18,384
English Language Development Professional Institutes	5,000	5,000	(822)	9,178
High School English Professional Development Institutes	-	12,000	(970)	11,030
Elementary Mathematics Professional Development Institutes	-	7,500	(606)	6,894
Algebra Professional Development Institutes	-	2,500	(202)	2,298
Algebra Academies Professional Development Institutes	-	1,700	(137)	1,563
High School Mathematics Professional Development Institutes	-	8,000	(647)	7,353
<b>Subtotal California Professional Development Institutes</b>	<b>\$ 11,000</b>	<b>\$ 50,700</b>	<b>\$ (5,000)</b>	<b>\$ 56,700</b>
Pre-Intern Teacher Academies	750	-	-	750
New Teacher Center	-	600	-	600
<b>Total All Programs</b>	<b>\$ 11,750</b>	<b>\$ 71,300</b>	<b>\$ (5,250)</b>	<b>\$ 77,800</b>

(a) Totals exclude California Subject Matter Projects' base budget, funding for cost adjustments.

Each of these programs is described in more detail below.

## ***California Subject Matter Projects***

The University has statutory responsibility to establish, administer, and maintain a network of professional development programs designed to enhance the academic content knowledge, teaching effectiveness, and student achievement of teachers, principally from the K-12 segment. While an improvement in teacher's content knowledge is an important focus of both the California Subject Matter Projects and the California Professional Development Institutes, the California Subject Matter Projects (CSMPs) also have the additional role of identifying and developing teacher leaders. A nine-member policy board, the Concurrence Committee, oversees the CSMPs. The CSMPs work in close collaboration with public and private higher education institutions as well as K-12. The CSMP network currently consists of six projects supported by the State, each addressing subject areas taught in K-12 schools. These six subject areas are writing, reading and literature, mathematics, science, history-social science, and world history and international studies. The University is funding three additional projects in the areas of foreign language, the arts, and physical education-health. In 2001-02, the CSMPs served more than 25,000 teachers in 129 projects throughout the State. The total annual funding for the program in the University's budget for 2001-02 is \$35.3 million.

K-12 teachers, those from low-performing schools in particular, are invited to participate in the projects' intensive training institutes with faculty and academic staff from the University and other institutions of higher education as well as accomplished teachers. Follow-up activities are provided for participants during the academic year. Participants are organized and supported to share what they learn with colleagues in their schools and districts through workshops, coaching, mentoring, and other academic programs.

Ongoing work conducted by the regional sites comprising the CSMP network reflects an expanded set of priorities outlined by AB 1734 (Mazzoni), the 1998 statute reauthorizing State support of the CSMPs. CSMP sites continue to develop programs in order to support teaching and learning consistent with the statewide academic content and performance standards being developed for K-12 schools by the State Board of Education.

Consistent with the provisions of AB 1734, which requires an evaluation with progress reports each year, the Concurrence Committee approved the University's decision to select the American Institutes for Research (AIR) as the independent evaluator for this program. The comprehensive evaluation is

focused on measuring the impact of CSMP programs on student achievement and teacher performance, leadership, and professionalism. A final report is due to the University in July 2002.

As part of the Governor's California Professional Development Initiative of 2000, the CSMP received an augmentation of \$20 million bringing the total annual funding for the program in the University's budget for 2000-01 to \$35.6 million. The purpose of this augmentation was to dramatically expand the number and capacity of regional sites from 99 sites in 1999-2000 to 135 sites in 2001-02, in order to make CSMP services available to a wider number of teachers across the state. In 2001-02, the Legislature redirected \$5 million from University/K-12 School/Community Programs to shorter-term recruitment efforts as shown earlier in Display 7, including a \$250,000 reduction in the California Subject Matter Projects.

In addition to ongoing project and site-based work, many CSMP sites (particularly those from the Reading and Literature Project and the California Writing Project) have been involved in developing and hosting California Reading Professional Development Institutes (CPDIs) described below. During the summer of 2001, 16 of the 34 Reading and Literature and Writing projects hosted 134 CPDI Reading institutes and collectively served thousands of new and under-prepared teachers across the state.

### ***California Professional Development Institutes***

In 2000-01, the budget included a significant increase in funds for the California Professional Development Institutes (CPDIs). However, the final 2000-01 State budget for K-12 did not provide for \$10 million of the stipend portion of the program. In 2001-02, the Legislature approved a proposal made by the Governor to align program and stipend funding by reducing the program funds by \$5 million and increasing the stipend budget by a like amount. The final Budget Act also includes language requiring a one-time reversion of \$10.7 million in unspent funds from the 2000-01 CPDI's budget.

The principle aim of the California Professional Development Institutes is to help teachers across California improve student achievement in the core content areas. The University of California was asked to coordinate this effort, in full partnership with the California State University, independent colleges and universities, and K-12. Colleges and universities throughout California host institutes on campuses and in school districts during the summer and inter-session followed by academic year sessions. Stipends are provided to teacher participants.

The programs build upon the accomplishments of the California Subject Matter Projects and the successful implementation of the 1999 and 2000 California Reading Professional Development Institutes.

All institutes are intended to strengthen teachers' content knowledge and build teachers' instructional leadership capacity. To the extent participants gain improved knowledge of content and teaching techniques, they can act as teacher leaders within their own schools to help other teachers improve their skills. Each institute, however, has its own challenges relating in large part to the subject area it covers. For example, teachers who have large proportions of students who are English language learners must develop special techniques to help students move beyond conversational English to achieve proficiency in the use of academic English as it applies to various academic content areas. Mathematics and algebra are highlighted in these institutes (with institutes for elementary, middle, and high school teachers) because nearly half of the middle and high school teachers currently teaching mathematics have no major or minor in mathematics, and, therefore lack the minimal preparation required for a credential. Many elementary teachers do not have the academic background in mathematics required to help students meet or exceed California's high academic content standards. Meanwhile, algebra has been identified as a key "gate-keeping" subject influencing subsequent academic progression, and represents a central focus on the high school exit exam.

Display 9 shows the 2001-02 budget and descriptions of each institute's content base, the number of teachers served last year (2000-01), a break-out of summer and school-year activities, and the grade levels participants teach.

In sum, with the funds provided in 2000-01, the California Professional Development Institutes delivered approximately 861 institutes that served 43,913 participants who work in 4,227 schools and represent 700 school districts that encompass nearly every county in the state. In 2002-03, the CPDI projects its total institute enrollment will be approximately 48,500, assuming that funding remains constant.

**Display 9**

<b><i>California Professional Development Institutes</i></b>					
<b>Institute</b>	<b>2001-02 Budget</b>	<b>Content</b>	<b># Teachers Served in 2000-01</b>	<b>Primary Activities</b>	<b>Grade Level</b>
California Reading Professional Development Institutes	\$18.4 m	Strengthen teachers' abilities to teach reading and build instructional leadership capacity	27,243 teachers from 1,875 schools hosted by 26 universities	40-hour intensive summer seminars; 80 hours school-year follow-up	Teachers in grades Pre-K-3
English Language Development Professional Institutes	\$9.3 m	Training for English language learner teachers who do not hold cross-cultural or bilingual cross-cultural certificates	8,488 teachers Emphasis on new and inexperienced teachers	40-80 hours intensive summer seminars; 80 hours school-year follow-up	Teachers in grades K-12
High School English Professional Development Institutes	\$11 m	Deepen teachers' content and instructional knowledge; particular emphasis on high school exit exam	3,409 teachers	40-80 hours intensive summer sessions; 80 hours school-year follow-up	Teachers in grades 9-12
Elementary Mathematics Professional Development Institutes	\$6.9 m	Deepen teachers' content and instructional knowledge	1,529 teachers	40-120 hours intensive summer sessions; 80 hours school-year follow-up	Teachers in grades 4-6
Algebra Professional Development Institutes	\$2.3 m	Deepen teachers' content and instructional knowledge	2,465 teachers	40-120 hours intensive summer sessions; 80 hours school-year follow-up	Algebra, Pre-algebra teachers in grades 6-12
Algebra Academies Professional Development Institutes	\$1.6 m	Deepen teachers' content through practice-based opportunity to apply new skills during K-12 summer session	90 teachers	40-hour intensive summer seminars; 80 hours school-year follow-up	Teachers in grades 7-8
High School Mathematics Professional Development Institutes	\$7.4 m	Deepen teachers' content and instructional knowledge	689 teachers	40-120 hours intensive summer sessions; 80 hours school-year follow-up	Teachers in grades 9-12

### ***Mathematics and Reading Professional Development Program***

Professional Development programs based on the CPDI model are likely to grow substantially in 2001-02 and future years as a result of the enactment of AB 466 (Strom-Martin, Chapter 737), which creates the Mathematics and Reading Professional Development Program. The 2001-02 Budget Act provides one-time funding of \$80 million for the program. The program will provide school districts that elect to participate up to \$2,500 per eligible teacher in return for a commitment to: (1) select textbooks from the State Board-approved adoption lists for these subjects, (2) provide selected textbooks to all students as of the first day of class, and (3) provide training to qualifying teachers similar to the training provided to teachers by the CPDI in mathematics and reading. AB 466 provides school districts with two methods for obtaining the required teacher training: training developed by the district in accordance with criteria to be established by the State Board of Education, and approved by the State Board of Education prior to implementation; or training from an existing CPDI mathematics or reading site.

### ***Pre-Intern Teacher Academies***

In 1999-2000, the University received \$750,000 for *Pre-Intern Teacher Academies*, a program first proposed by Assemblywoman Denise Ducheny. The Academies are designed to prepare K-8 teachers who are presently teaching on emergency credentials to meet subject matter requirements in order to pass the Multiple Subject Assessment for Teachers examination and to fulfill other necessary requirements for entry into teacher preparation programs leading to certification. The program is also designed to provide support in the core academic subject areas for English language learner teachers. Beginning in 2000-01, the Academies are being administered by the Santa Cruz campus in coordination with the New Teacher Center, described below.

### ***New Teacher Center***

In 2000-01, the State provided \$600,000 for the expansion of New Teacher Center (NTC) programs, which provide consultation and technical assistance to schools, colleges, and universities statewide, all of which will be hiring or training unprecedented numbers of new teachers over the next eight years. The New Teacher Center, which began in 1988, integrates research and practice, by supporting effective induction and teacher development programs to help ensure better teaching, higher teacher retention, and increased

student achievement. Private foundations will contribute approximately \$1.6 million to the NTC in 2001-02.

The New Teacher Center provides direct services to 1,000 beginning teachers in 31 school districts in the Monterey Bay/Silicon Valley region. Teachers in these induction programs have contact with their mentors on a weekly basis and such meetings occur at their own school. In addition, the NTC's training and technical assistance reaches thousands of teachers and administrators throughout California

With the funds provided by the State, UC Santa Cruz continues to expand the New Teacher Center's services; designing and implementing high-quality induction programs in collaboration with school districts, colleges, and universities; serving as a resource to policy makers; conducting research; supporting program development; disseminating information about effective induction practices; creating training materials, including video, online, and print formats in the areas of teacher performance, classroom practice, mentoring and coaching, training new teachers, and effective instruction; and sponsoring statewide and regional conferences and forums focusing on new teacher learning. In addition, the Center works in cooperation with the California Department of Education and the Commission on Teacher Credentialing on a number of initiatives, including the Beginning Teacher Support and Assessment Program (BTSA).

The NTC also works with approximately 2,000 pre-intern K-12 teachers who are presently teaching on emergency credentials to help prepare them to pass subject matter assessments and to fulfill other necessary requirements for entry into teacher preparation programs leading to certification.

### **The Digital California Project (K-12 Internet Initiative)**

In 2000-01, the University received \$32 million to develop a network for K-12 access to the California portion of Internet2. This network, called the Digital California Project (DCP), will extend the high-speed California networks now used by the University of California and the California State University to points within reach of every K-12 school district in California, giving them access to such educational enrichments as advanced placement courses for high school students, professional development materials for teachers, and library resources for students and teachers.

The Internet is a worldwide system of computer networks—a network of networks in which users at any one computer, if they have authorization, can get information from any other computer. The potential for increased access to information for education is unlimited.

Access to information resources, via networks, is now generally viewed as an effective means to reach K-12 students and educators with programs and services. While the use of information technology is not a panacea, many resources are available across the network that can help enrich curricula and teaching-learning experiences in K-12. Library materials, NASA science materials, living history documents, and interactive access to human resources in universities and corporations are but a few examples. Both higher education and industry believe these resources must become accessible to all California's K-12 educators so they can be integrated into regular curricula and services at the K-12 level.

With the funding provided by the State, the University has contracted with the Corporation for Education Network Initiatives in California (CENIC) to implement the proposal to develop geographically-dispersed access points for K-12 to link K-12 schools to one another, to link K-12 schools to California Higher Education and to link K-12 schools to the Internet. In order to extend and maintain the high-speed CalREN-2 network to the counties, funds are required for installation of equipment, reserves for equipment replacement on a 4-year cycle, ongoing fees for telecommunications bandwidth, and ongoing staffing to maintain operations.

CENIC is working with every county to install necessary equipment in or near every county education office to create a "node" that is directly connected to CalREN-2. Specifically, the DCP network plan extends the Internet infrastructure backbone into all 58 counties in the state by providing 13 DCP backbone hub sites strategically located regionally throughout California, and 71 primary access nodes, at least one in each county. By the end of 2001-02, all the hub sites and 90% of the initial 71 access nodes will be in place. After the initial complement is complete, up to another 60 secondary access nodes may be added to DCP.

Connections from the county node to individual school districts and buildings will be decided on locally and paid from Digital High School funding, federal E-rate funding or other resources available locally. Local districts and schools will be responsible for providing their own on-site computing

equipment, purchasing access to curricular resources, and supporting professional development and specialized teaching staff.

## **Cooperative Extension**

Included in the Partnership Agreement with the Governor is a recognition that the University may request funding above the Partnership for initiatives in public service, research, and other high priority areas that are of critical importance to the State and the University. As previously noted, given the State's weakened fiscal situation, the University is making no requests for funds above the Partnership for 2002-03 and instead will focus on obtaining full funding of the Partnership Agreement with the Governor and on restoring Partnership funds eliminated from the 2001-02 budget.

However, the University has identified several initiatives that, when the State's fiscal situation improves, would be high priorities for additional funds. Included are two Cooperative Extension initiatives which originally were part of the University's budget request for 2001-02: \$1 million to support the basic budget to ensure the capacity of Cooperative Extension to respond in a timely and effective manner to the high priority needs of California's agricultural, natural, environmental and human resources sectors; and \$100,000 to support a new Research and Extension Center to be located in the central coast region of California. For 2001-02, the University received a one-time allocation of \$118,000 that will be used to support preliminary planning, including identification and evaluation of potential facility sites, for the Center, described in more detail below.

The University of California, through the Division of Agriculture and Natural Resources, is uniquely positioned to contribute significantly to solutions to complex problems and challenges facing California today. The Division maintains a public service research and outreach capability through the 64 offices of the Cooperative Extension and 10 Research and Experiment Centers.

UC's Cooperative Extension (CE) offices constitute the most extensive, science-based information dissemination system in the state. Serving as local problem-solving centers, more than 400 campus-based specialists and county-based farm, home, and youth advisors work as teams to bring the University's research-based information to Californians. CE is a full partnership of federal, state, county, and private resources linked in applied

research and educational outreach. The program tailors its activities to meet local needs. CE's many teaching tools include meetings, conferences, workshops, demonstrations, field days, video programs, newsletters and manuals. Thousands of volunteers extend CE's outreach, assisting with nutrition and 4-H youth development programs along with Master Gardener, Master Food Preserver, and Master Food Shopper education.

During the difficult fiscal years of the early 1990's, the Cooperative Extension budget was cut by \$9 million, or 20%, including a targeted cut of 5% to all University research programs in 1990-91. In recognition of the need to restore the extra 5% cut targeted to these programs, the State provided augmentations for agricultural research (\$2.75 million in the 1998-99) and Cooperative Extension (\$2 million in the 1999-2000 Budget and \$1 million in 2000-01). The augmentation provided in the 1999 Budget Act was accompanied by provisional language authorizing the \$2 million augmentation for Cooperative Extension only upon reversion of land used by the Bay Area Research and Extension Center (BAREC) to the State. At its March 15, 2000 meeting, The Board of Regents took action to allow the land to revert to the State and the \$2 million augmentation for Cooperative Extension was appropriated to the University. The augmentations in 1999-2000 and 2000-01 have enabled the University to begin to address the significant reductions in Cooperative Extension programs that occurred throughout the state, and to emphasize high priority programs and develop new county- and campus-based programs to address the emerging issues and challenges facing California agriculture. There is, however, still a tremendous unmet need.

The Division operates ten research and extension centers, or field stations, to test agricultural research and support UC's outreach to local growers and ranchers. Each research and extension center (REC) is located in a different terrain and climate, from the Oregon border to the desert 700 miles south. They provide UC researchers with diverse field conditions essential for basic and applied research.

The Central Coast region encompasses eight counties (Monterey, San Benito, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz and Ventura) and includes the rich Salinas Valley. The region generates in excess of \$5 billion dollars a year in revenue at the farm gate and it supports substantial acreage of summer and winter vegetables, strawberries and wine grapes. With the pending closure of the small, 17-acre Bay Area Research and Extension Center in highly urbanized Santa Clara County, the region is

left without a research and extension center. The optimal size for the central coast REC would be in the 200-400 acre range. It would be located on land suited to vegetable and strawberry production. As the microclimates of the central coast support a wide variety of crops, it would be advantageous to also acquire a much smaller piece of land as a satellite site in south Monterey County on which to grow grapes and warm season vegetables.

Industry support for a central coast REC is solid, broad-based, long-term, and growing. The University is actively seeking a donation of land for the new center, and funding for facilities construction is included in the University's five-year capital outlay plan. Once established, the University will seek on-going funding to support the center.

### **Charles R. Drew University of Medicine and Science**

Since 1973, the State has appropriated funds to the University to support a program of clinical health science education, research and public service operated by the Los Angeles campus in conjunction with the Charles R. Drew University of Medicine and Science.

The Charles R. Drew University of Medicine and Science is a private, nonprofit corporation with its own Board of Trustees. Drew University conducts educational and research programs in south central Los Angeles in collaboration with Martin Luther King, Jr. County Hospital, also known as King-Drew Medical Center. State General Funds are provided to Drew under two separate contracts, each administered by the University. One contract relates to State support for medical instruction, including the Postgraduate Medical Education Program and the joint Drew/UCLA Undergraduate Medical Education Program. The second contract covers a separate public service program operated by Drew to provide funding for a prescribed list of health science educational, research and clinical public service programs in the Watts-Willowbrook community.

Between 1982-83 and 1990-91, State funding for the Drew programs did not include regular adjustments for inflation, which resulted in a funding deficiency for Drew. In the annual Regents' Budgets for 1990-91, 1991-92 and 1992-93, the University requested a \$500,000 compensatory adjustment in Drew's budget to begin to address the underfunding. None of these requests was funded by the State. Although the Drew programs were sheltered from the budget cuts assigned to UC programs between 1990-91 and 1994-95 (in

fact, the University augmented the Drew budget by \$340,000 from UC discretionary funds beginning in 1990-91), the negative effects of the earlier underfunding remained.

In 1996-97, Drew began to receive income from the Fee for Selected Professional School Students, which is used to support the instructional program at Drew. The fee is discussed in the *Student Fees* chapter of this document. Also, in recognition of the serious funding deficiency, the 1997 and 1998 State budgets included augmentations for Drew. The 1997 budget augmentation was \$500,000 and required the University to provide equivalent matching funds, for a total augmentation of \$1 million. The 1998 augmentation provided an additional \$1 million for Drew programs. With subsequent price increase adjustments, the current total State funding for Drew is \$10.1 million. For 2001-02, Drew will receive the same fixed cost increases as other State-funded University programs.

While the earlier augmentations made the current budget whole, the negative effects of the earlier period of underfunding remained, and for 2000-01, the State provided a one-time allocation of \$7.85 million for Drew Medical Center. Budget language attached to this appropriation requires that UC increase its oversight of Drew's expenditure of funds. This infusion of funding had a substantial and beneficial impact, allowing Drew's financial position to stabilize. Pursuant to the Legislature's request, the University has intensified its financial oversight of Drew. The University held monthly meetings with senior officials from Drew and continues to work with Drew to improve the quality of management information available.

### **California College of Podiatric Medicine**

The California College of Podiatric Medicine is undergoing organizational changes that may effect an existing cooperative arrangement between the College and UC San Francisco, through which the College receives State funds. The 1974 State Budget Act provided \$541,000 to support a program of basic and clinical health sciences education and primary health care delivery in the field of podiatry, to be developed and conducted cooperatively by the University of California at San Francisco and the California College of Podiatric Medicine. State funding has been provided to assure that the instruction provided by the only college of podiatric medicine in California will maintain a high level of quality, and to assure support for essential programs in the areas of basic medical science, general medical and surgical

science, clinical medicine and surgery, and educational support. The State has continued to support this program each year at its 1974-75 level of \$541,000, with adjustments for inflation, bringing the 1994-95 appropriation to \$926,000. However, budget cuts allocated during the 1990s, due to reductions in State support for the University, eroded the amount of funding available. The 2001-02 appropriation for this program is \$857,000. If the cooperative arrangement between the College and UCSF continues, Podiatry will receive the same fixed cost increases as other State-funded University programs for 2002-03.

## ACADEMIC SUPPORT—LIBRARIES

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 248,766,000</b>
General Funds	207,916,000
Restricted Funds	40,850,000
<b>2002-03 INCREASE</b>	
General Funds	5,000,000
Restricted Funds	2,451,000

The University of California libraries are a vital academic resource, providing books, documentary materials, and other information resources required by UC students and faculty for effective study and research. In addition, the libraries provide services to students and faculty of other California colleges, universities, and public schools, to business and industry, and to the general public, both directly and through cooperative programs with other California libraries.

The University's 2002-03 budget plan includes a request for \$5 million for additional library materials, including expansion of the shared digital collection of the California Digital Library, consistent with the funding principles of the Partnership Agreement with Governor Davis. Among those funding principles is the commitment to support a 1% increase to UC's general fund base to address shortfalls in four core areas of the budget, including library materials. The University's 2001-02 budget included an increase of \$5 million for this purpose. However, these funds were eliminated from the University's budget in the May Revise. It is the University's expectation that the \$5 million will be restored to the University's budget once the State's fiscal situation improves.

Over more than a decade, the combined effects of growth in enrollments and academic programs, inflation, and reduced budgets, have seriously eroded the libraries' ability to support the University's academic programs. At the same time, there has been a steady increase in the growth of knowledge and rapid

advances in technology, particularly digital, that promise enormous improvements in the capability of academic libraries to acquire, store, manage, and deliver the information needed for teaching and research. For the foreseeable future, electronic information resources will complement the growing traditional collections of the University. In the coming years, the library program will also be affected by unprecedented levels of enrollment growth.

The historic shortfall in library resources will be addressed with funding provided through the Partnership and through a redirection of campus resources. However, if the University were to adhere to traditional methods of providing library collections and services, even these new resources would be insufficient to cope with future increases in library materials prices that continue to outpace inflation, or with the impact of anticipated enrollment growth on existing library facilities and services. For these reasons, the University's strategy addresses the existing shortfall in ways that lay the foundation for innovation in library development by:

- Fully exploiting the capabilities of available technology, in particular digital library services.
- Integrating the digital and print service environments.
- Developing alternative models of scholarly communication.
- Expanding digital library services to the people of California.

To achieve this, the University's strategic program for libraries includes three components:

- Rebuilding and sustaining campus print collections.
- Enhancing and expanding the ability to use library resources in all formats more efficiently and effectively through resource sharing.
- Building one shared digital collection, the California Digital Library, to support the work of faculty and students at all campuses on an equal basis.

The University's library budget is divided into the following four categories:

- Acquisitions-processing, which represents 55% of the budget, includes expenditures for library materials and binding, and all staffing activities related to acquiring library materials and preparing them for use, such as ordering, receiving, and cataloging.
- Reference-circulation, which represents 39% of the library budget, includes providing users with information and materials, managing circulation of materials, shelving and re-shelving books, maintaining periodical and document collections, providing reference services, and instructing students and faculty in the use of the library and its printed and electronic information resources.
- The systemwide Library Automation unit, which provides universitywide bibliographic access to the resources of the University's libraries through the MELVYL online union catalog, represents 2% of the total library budget.
- The California Digital Library (CDL), which was established in 1997-98, represents 4% of the total budget.

### **2002-03 Budget Request**

The University's 2002-03 budget plan includes an increase of \$5 million for library materials and more effective sharing of these materials among the campuses, consistent with the provisions of the Partnership. This proposal builds on the budgetary momentum of the last four years. During this period, the State provided \$7 million to support the development and expansion of the California Digital Library (CDL), and \$8.7 million for library materials and expanded sharing of library collections that begins to address a permanent budget shortfall that was estimated at \$33 million in 1999-2000. During the same period, the State also provided \$14 million in one-time funds for library materials.

The 2002-03 budget request continues a multi-year strategy to address the library budget shortfall and prevent further erosion in the quality of current print collections and services. This multi-year strategy, which grew out of a major UC planning effort initiated in 1996, recognizes the need to balance print and digital resources; develop innovative services to provide access to

information resources regardless of format; and establish new partnerships between faculty, libraries, professional societies and publishers to develop viable alternative models of scholarly and scientific communication that can succeed in a new fiscal and technological environment.

### ***Sustaining Print Collections (\$4,000,000 Increase)***

Of the \$5 million increase in funding for campus library material provided within the Partnership, \$4 million will be used to expand campus collections and reduce the permanent budget shortfall over time. For the foreseeable future, traditional print collections will continue to be essential for teaching and learning and to the scholarly and research activities of students and faculty. Improved resource sharing and the creation of a shared digital collection are essential complementary strategies that will leverage limited University resources.

Although the quantity of information available in digital formats is growing rapidly, it represents only a small portion of the total published literature and other content required to support teaching and research. For example, according to the industry standard reference, Ulrich's Directory of Periodicals, about 20,000 of the 164,000 periodical titles in publication in 2000 were available in digital form, about 12% of the total. The strategy of sharing library materials among campuses to help maximize limited financial resources can work only if the print collections remain viable. Funds must be invested in print collections that support core campus programs as well as collections of specialized resources that both maintain the richness of the campuses' libraries and ensure a cost-effective resource-sharing program.

The University's plan for print collections only partially offsets the effects of inflation and the information explosion and prevents further erosion in the purchasing power of the materials budget. The University has joined its colleagues in other academic institutions to support several important initiatives intended to convince the publishing community that the current pricing patterns are unacceptable and cannot be sustained. Given the continuously spiraling rate of increases for print materials, it is critical that these efforts are continued and expanded.

### ***The California Digital Library (\$1,000,000 Increase)***

Of the \$5 million increase, \$1 million will be used to continue the expansion of the shared digital collection of the CDL. The University's groundbreaking effort to create the CDL complements the proposed increase in funding for

print resources by creating a shared university-wide collection of high-quality digital content. By bringing together technology and the acquisition of knowledge, the CDL paves the way for a future when the distinguished library collections developed to support the teaching, learning, research, and scholarship of the University's faculty and students will be available without regard to the conventional limits of time and space.

In 1998-99, the State provided \$3 million to support the initial implementation of the CDL. These funds were used primarily to build digital resources in science disciplines. In 1999-2000, the State provided \$1.5 million and in 2000-01, \$2.5 million, to continue development of the CDL, allowing expansion into other disciplines as well as an increase in the number of constituents served. Additional funding will support the expansion of new digital resources in the arts, humanities, sciences and social sciences, including additional published digital journals and secondary sources, thousands of digital images of unique and valuable materials from special collections, archives and museums, and original digital publications in areas as diverse as archaeology, international and area studies, and cultural studies.

Since the CDL opened its "digital doors" in January 1999, it has made available to faculty, students and staff from all UC campuses almost 5,500 journal titles, 190 reference databases, and nearly 6,000 finding aids that provide access to unique special collections resources. In 2000, almost 27 million searches were conducted in CDL catalogs and reference databases, and over 2.3 million digital journal articles were used, more than double the 1999 level. As a complement to adequate campus collections and expanded resource sharing, the CDL promises enduring benefits through innovation and transformation of library service in the University of California. Among the benefits already delivered or achievable are:

- **Leverage from Economies of Scale and Technology.** As a collaborative effort of all UC campuses, the CDL is able to utilize institutional strength to negotiate with external vendors, alleviate pressures on print collections, achieve economies of scale, and relieve the campuses of the need to provide additional support for the development of digital collections. Universitywide licensing has provided extremely favorable discounts. Many of these titles, now available digitally to all UC students and faculty, were previously purchased in print form by only a few campuses. The evidence suggests that the CDL has made access available which would have cost the University more than \$4 million in

additional funds if the campuses had tried to provide the same level of access separately.

- **Expanded Access.** Not only does the UC community have access to a wealth of material that individual campuses might not have been able to afford if they had acted independently, but also these digital resources are equally accessible to all students and faculty at any time of the day or night, regardless of location.
- **Managing Enrollment Growth.** The capabilities of the CDL are particularly significant as a means to provide high-quality service to students and faculty in the face of unprecedented levels of enrollment growth over the next ten to fifteen years, at manageable cost and with minimum impact on existing library facilities, collections and services. Although there are noticeable marginal costs involved in serving additional users with digital collections (including network and computing infrastructure and operating costs, as well as licensing and support costs for the digital materials), these costs are likely to be considerably less than would be incurred to provide the same level of support using conventional library facilities, collections and services.
- **New Forms of Digital Information Resources.** In addition to the 5,500 journal titles available through the CDL, and dozens of journal citation and abstracting databases that provide users with convenient access to these rich collections, the CDL has continued to expand the creation of collections of high-quality material that have never been available in digital form. Special collections and archives of the UC campuses and their California partners, including some California State University campuses, museums such as the Getty, and private institutions such as the University of the Pacific and Stanford University, are being made available to the University and the public through the CDL's Online Archive of California. Access to information describing these unique collections and their tens of millions of items is now available. Many of the items themselves are currently being digitized with UC and external grant funding. For example, the initial phase of the Japanese American Relocation Digital Archive (JARDA) was completed in 2000-01, and the CDL is now embarking on California Cultures, an OAC project related to California's ethnic minorities. In addition, with support from the California State Library, in July 2001 the CDL unveiled the prototype of a new collection called *Counting California*, which provides easy and convenient access to a wide variety of numeric data about California.

Some 3,000 numeric datasets are currently included. The goal is to provide a single easy-to-use interface through which users can find, combine, and use data about population, health, crime, income, education and other topics.

- **Innovative Services.** The digital environment is capable of supporting a host of innovative computer-based tools that enable library users to more easily locate, access, and use a wide variety of digital and print information resources. In addition, most digital journals available through the CDL are linked to its journal abstract and index databases; when a user retrieves a citation to a journal for which the CDL has digital access, the user can retrieve and display the cited article with a single click of the mouse. A search tool called *Searchlight* makes it possible for CDL users to search multiple databases and digital collections simultaneously and easily, producing a consolidated list of resources that may satisfy the user's information need. In 2001-02, *Searchlight's* capabilities will be expanded, and the CDL will begin examining strategies for management of visual resources, such as art and architectural images, that are particularly important for teaching and research in the arts, humanities, and professions.
- **New Methods of Scholarly Communication.** The CDL provides the foundation by which the University and its faculty may experiment with, promote and implement new methods of scholarly communication. Through its *eScholarship* initiative, the CDL has provided support for a number of scholar-led initiatives that use digital technologies to make leading-edge information available to the world in innovative ways. At the present time, *eScholarship* publishes, co-publishes or sponsors one online journal (with more scheduled to appear during 2001-02), about 70 online monographs co-published with the UC Press or California International and Area Studies (CIAS) Publications (a UC multicampus research collaboration), and an innovative research database, the Electronic Cultural Atlas Initiative, which is of particular value to scholars in the social sciences and humanities. As a foundation for these and other efforts, *eScholarship* also supports a set of prototype e-print repositories which can support self-publishing for virtually any discipline.
- **Service to All Californians.** Because digital library resources are available and accessible without regard to distance, the CDL provides the capability to offer increased access to the library resources of the University for all Californians. All CDL resources are available to the

public through workstations located in the UC Libraries, and resources for which access is not restricted by a publisher contract or license are freely available to anyone with an Internet connection. The *Counting California* collection of government-produced statistics is now available to the public in prototype form, and a special version of the *Searchlight* multi-database search tool is customized for public use. To further expand access to the CDL for California citizens, and to help make its technologies, collections and experience available to assist in the development of library services throughout California, the CDL has entered into a collaborative agreement with the State's Library of California Board. The Board oversees a statutorily authorized program, under the direction of the California State Library, to expand cooperative and collaborative services among California libraries of all types.

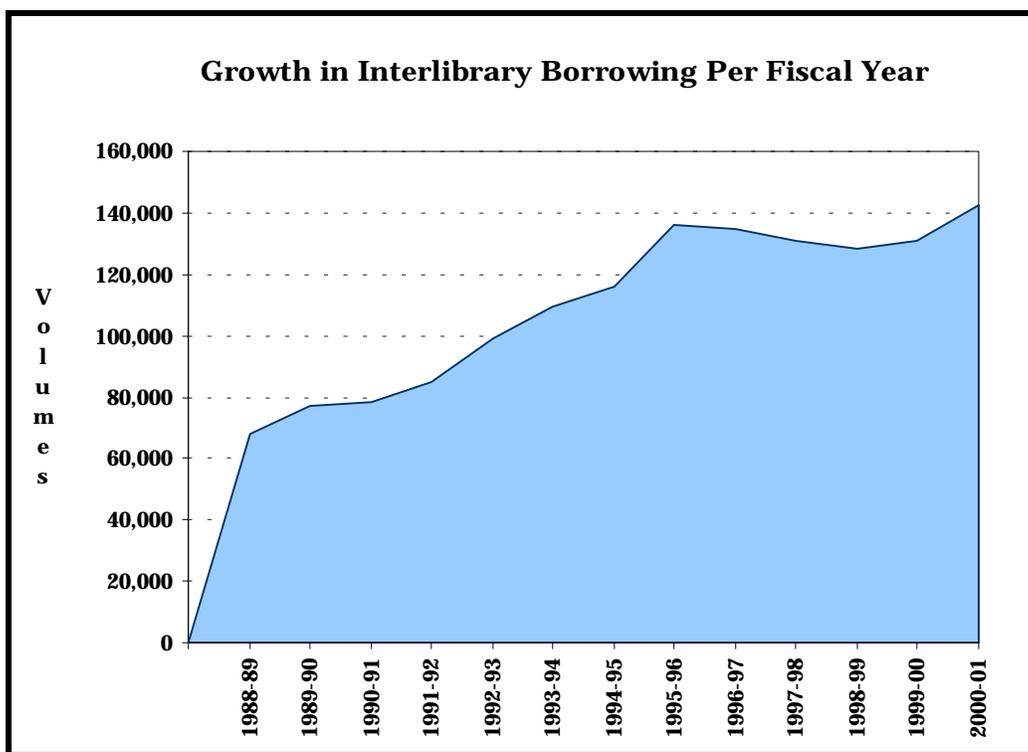
### ***Resource Sharing***

The University will continue to expand and improve resource sharing, which is an effective strategy to leverage limited resources and build diverse print collections systemwide. As part of this strategy, the University will continue to: (1) provide incentives for campus libraries to participate in expanded resource sharing, (2) develop and maintain systems and data to support resource sharing, (3) plan, coordinate, and monitor resource sharing activities, and (4) provide for rapid delivery of materials from campus to campus. The California Digital Library (CDL) plays a critical role in the University's library resource sharing program, not only by creating a shared digital collection available to all campuses, but also in developing systems and services that provide technological support for sharing of campus print resources. For 2002-03, the University proposes to continue the expansion of the CDL, as described above, while sustaining its other library resource sharing programs with existing funds. The University regards expansion of the resource sharing program as a high priority once the State's fiscal situation improves.

Interlibrary borrowing among UC's libraries (which accounts for about 75% of all items borrowed from other libraries) has more than doubled since 1988-89, while borrowing from libraries outside UC increased by 82% (Display 1, next page). However, between 1988-89 and 2000-01, while intercampus lending and borrowing was growing at an average annual rate of nearly 10% per year, the ratio of budgeted student FTE per library FTE increased sharply, from 60 students per library staff FTE to over 70 students per FTE, an increase of nearly 18%. New permanent State funding provided through the Partnership and additional one-time State funding for library materials have begun to

provide some relief from the growing pressures on interlibrary resource sharing. It is nonetheless critical that the University continue to reinvest in campus resource sharing capabilities and provide the campuses with the capacity to meet anticipated increases in lending and borrowing activity through the duration of the Partnership.

Display 1



The growth in interlibrary borrowing among UC's libraries can be attributed in large part to the high level of coordination that exists in the UC library system and the effectiveness of existing automated tools, such as the MELVYL online union catalog and associated journal index databases, which help users to locate the materials they need in the collections of the other UC campuses. The University will continue to invest in this essential foundation for resource sharing by upgrading the shared and linked bibliographic systems of the UC Libraries and providing support for the database resources that have contributed to the success of these efforts.

Considerable progress has already been made in this direction with support from Resource Sharing funds. Introduced in January 1999, a new service called *Request* permits authorized University users of the CDL to directly borrow material held at another campus without going through time-consuming and costly interlibrary loan procedures. The service has

proven remarkably successful; between 1999 and 2000, *Request* transactions grew from 36,000 per year to 117,000, in increase of 225%. In its first phase, *Request* provided access for faculty, graduate students and staff to separately-cataloged books. In January 2000, the second phase of this service enabled UC users to request articles from periodicals held anywhere in the UC system. In September 2000, this service was further expanded to include undergraduate students.

A new enhancement to *Request*, called *Desktop Delivery*, will be in place during the 2001-02 academic year. This new service would deliver to faculty and students copies of requested articles at their desktop using World-Wide-Web technology. *Desktop Delivery* would substitute for photocopying and mailing/faxing of requested articles and provide a faster and more responsive service for library users.

## **Background**

In 1977, the University adopted a comprehensive library plan to improve library service and reduce the rapid rise in library costs. To achieve these goals, the plan recommended increased cooperation among the libraries of the University and creation of a library system that would serve all University users, regardless of campus or location. Between 1977 and the late 1980s, the State provided most of the operating and capital resources called for in the library plan. The State's support helped the University create a nine-campus library system with capabilities for coordination, collaboration and sharing of resources that are unequalled by the research libraries of any similar university system. Those capabilities were essential in helping the UC libraries cope with the forces that have acted in concert to erode the quality of campus library collections over the last decade. However, the programs and strategies of 1977 are no longer sufficient to deal with the library and scholarly communication problems of today.

Over the last decade, the ability of the existing library budget to sustain traditional library collections and services has been eroded by three principal factors:

- Growth in both enrollments and the number of approved academic programs requiring library support;
- Persistent high inflation in the costs of published scholarly and educational materials; and

- The State's fiscal difficulties, which resulted in reduced overall funding for the University in the early 1990s.

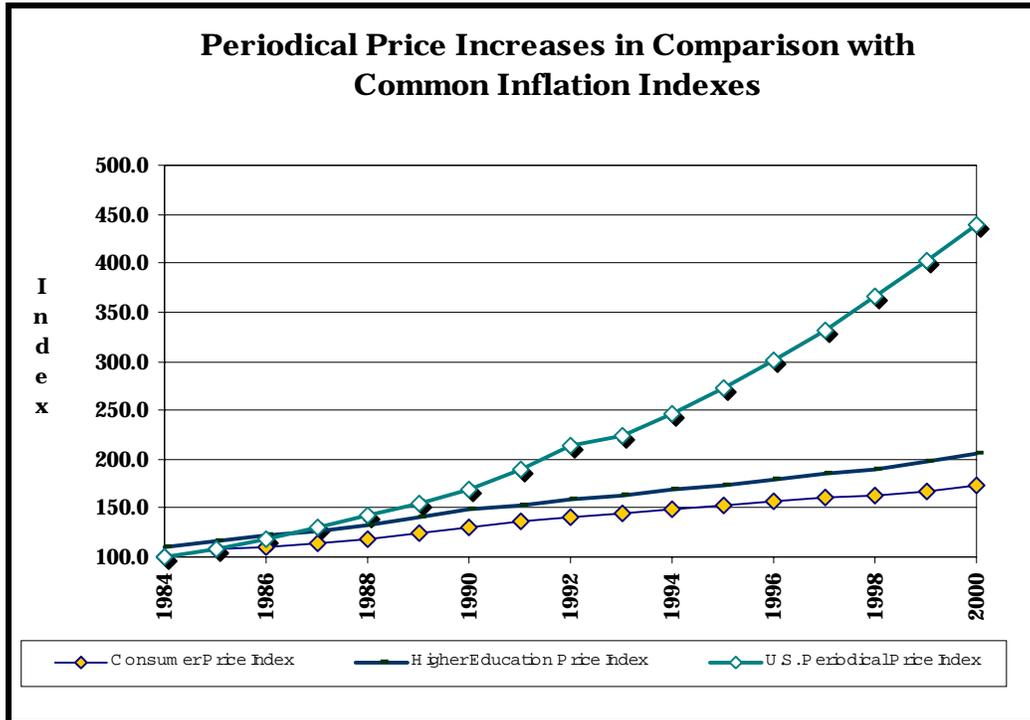
### ***Enrollment and Program Growth***

A key factor affecting the quality of library service is the growth in enrollment and in the number of graduate programs offered by the University since the current budgeted library acquisition rate of 614,000 volumes was established in the late 1970s. The budgeted acquisition rate has not been adjusted despite a 41% increase in enrollment since 1977-78 and the addition of numerous new graduate and professional degree programs. Based on the most recent University projections, enrollment is expected to grow by about 5,000-7,000 students annually through 2010-11. Even if inflationary costs had been fully funded during this period, the libraries would still find themselves unable to fully support the approved academic program of the University.

### ***Inflation in Library Materials Costs***

Over the last decade there have been extraordinary increases in the costs of many library materials, especially periodicals in the sciences, technology, engineering, and the health sciences, while the State has been unable to provide full funding to meet the impact of inflation on the library materials budget. According to published industry statistics, U.S. periodical prices rose at an average annual compound rate of almost 14% per year between 1990 and 2000, greatly exceeding general inflation as measured by both the Consumer Price Index and the Higher Education Price Index (Display 2). Over the past ten years, the University's estimate of annual price increases for all forms of library materials has averaged about 7% per year, almost three times the rate of inflation in the general economy. Consequently, the libraries have lost nearly 65% of their purchasing power since 1988. The severity of this problem is manifested by the cancellation of serial subscriptions (scholarly journals and other periodical items) estimated at almost 41,000 titles, or 12% of the total, since 1988. The rate of inflation in the cost of library materials continues to outpace cost increases in the general economy.

Display 2



Funding has been provided by the State for non-salary price increases, but these resources only partially address the problem. The University estimates that, after accounting for additional permanent State funding provided for library collections in 1999-2000, erosion of buying power through unfunded price inflation has reduced the collections budget from 614,000 budgeted volumes to the equivalent of only 331,000 budgeted volumes. New permanent funding totaling \$8.7 million provided by the State over the last three years has begun to address this deficiency. The \$14 million in one-time funds provided by the State in 1998-99 and 2000-01 provided welcome temporary relief, but did not restore the purchasing power of the permanent budget.

### ***The Early 1990s***

During the early 1990s, the purchasing power of the University's library budgets eroded further as a result of cuts to campus budgets totaling \$433 million. While campuses took steps to protect their libraries from the full force of these cuts, library budgets nonetheless shared in the overall budget reductions during this period. To cope with budget reductions while protecting the funds available to purchase materials, the libraries resorted to measures such as closing branch libraries; deferring equipment purchases and maintenance; and reducing operating hours, the number of reference

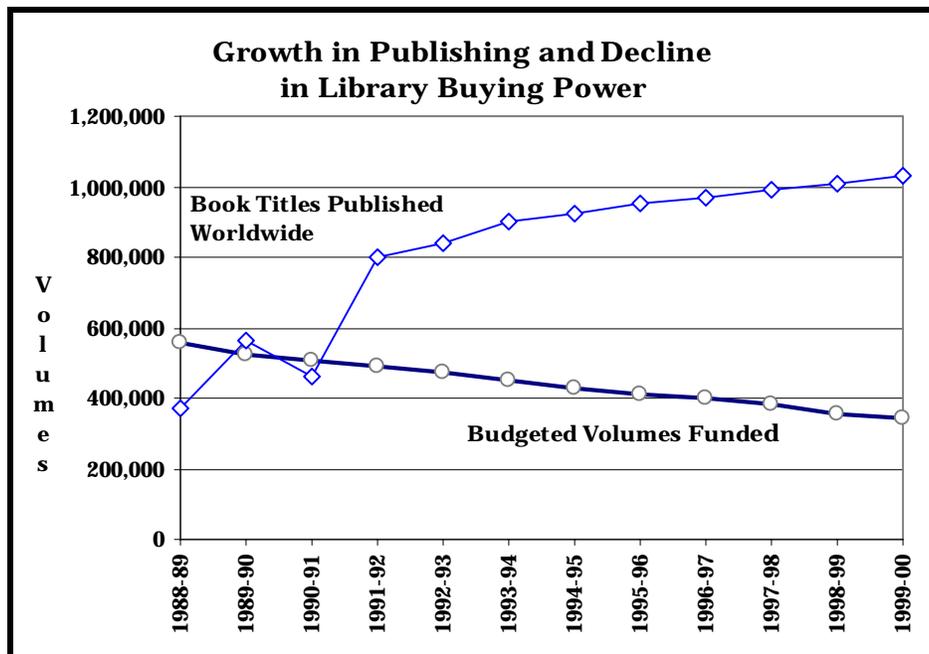
librarians, and the public services available. For example, between 1988-89 and 1999-2000, the ratio of budgeted student FTE per library FTE increased by nearly 18%, from about 60 students per library staff FTE to over 70 students per FTE.

The cumulative impact of these factors on the ability of the libraries to support the University's programs will continue to grow. In the coming years, additional adverse effects may result from the growth in new knowledge and changing information technology.

### ***Continued Growth of Knowledge***

As shown in Display 3, the amount of new knowledge published each year has continued to grow at a constant pace, with the result that the University's libraries are able to acquire an ever-smaller share of the universe of documented knowledge. To illustrate, between 1989 and 1998, world book production nearly doubled, from about 565,000 new titles to over 1,000,000 new titles per year. Thus, even if the University's budget had kept pace with inflation, acquisition of materials by the UC libraries would not have kept pace with the continually increasing base of the world's published knowledge.

**Display 3**



The erosion of buying power described previously exacerbates this deficiency. As a result of all these forces, the UC libraries are increasingly less able to support faculty and student needs from existing campus collections.

### ***Digital Technologies***

Rapid growth and change in information technology and its increasing importance in publishing, scholarly communication and library service have created new opportunities, but at the same time have added new problems, complexities, and unfunded costs. Over the last ten years, advances in the development and use of new technologies to create, publish, store, search for, and deliver published information have accelerated significantly. In most disciplinary areas, electronic information resources have already achieved significance as a method for publishing and communication, and are indispensable for support of teaching and research. As described previously, the University, through its California Digital Library, has positioned itself to provide many of the potential benefits of the new digital forms of scholarly and educational materials.

Digital publication also raises challenging new issues for library planning, budgeting and operation, for example:

- The digital publishing industry is still immature. While industry practices have advanced considerably over the last five years, significant issues of format, distribution, technical standards, pricing, and use restrictions based on copyright law and licensing practice still remain to be resolved before digital publications can be routinely incorporated into the UC libraries.
- Although pricing practices for digital publications remain a matter of speculation, the prices charged by commercial publishers for digital publications are unlikely to be significantly lower than for print; based on experience to date, digital prices are higher.
- Digital publications are beginning to replace print in many disciplines, a trend that is likely to escalate as the technological means to store, retrieve and deliver electronic information become more robust. However, it remains unclear to what extent digital publications may ultimately replace most printed publications. It appears that the surge in digital publishing and use of the Internet to access and distribute information has had little effect on the continued growth in the amount of information published in

paper form or the ongoing inflation in the cost of conventional publications.

- A key mission of the University of California libraries is to maintain an archival record of information needed for research, teaching and learning. The emergence of networked technology, digital publishing and scholarly communication in electronic form challenge our existing strategies for archival collection management. This new environment requires new and untested techniques for preserving and enhancing access to existing material now in other formats, and raises pressing issues related to archival methods and management for materials originally collected in digital format or in both digital and print forms.

Comprehensive digital collections and associated facilities and services will not be available immediately, nor will digital publications develop and mature at the same rate in all disciplines and subjects. As a result, the University must maintain and enhance existing collections and services in parallel with the development of digital library services. In addition, establishing the digital library will require major new investments for equipment, network facilities, software, and training. These investments will bring returns quickly in terms of educational quality, but more slowly in terms of opportunities for reallocation of traditional library materials and staffing budgets.

### **Planning for the Future**

As with all research universities, the University of California faces significant challenges in providing faculty and students access to the scholarly information they need for research, teaching, and learning. Over the next decade, the formidable task for universities will be to develop a financially sustainable model for managing scholarly information, including its production as well as its access and use. In the long run, only fundamental changes in the methods of scholarly publishing and communication can successfully address the structural issues underlying the current problems.

The magnitude of the challenge to develop this model is such that it cannot be addressed in a single year. Effecting changes so fundamental and far-reaching will require a focused effort over an extended period. At the same time, it is imperative to address the existing deficiencies described

above, but to do so in a way that acknowledges the need for change and builds a foundation for the future.

Over its 130-year history, the University, with the ongoing support of the State, has built a remarkable library resource, second in size only to the Library of Congress. The University is committed to sustaining the greatness that has characterized the UC Libraries for over a century, even as it confronts the economic and technological forces that will reshape the understanding of library excellence in the next century.

## ACADEMIC SUPPORT—OTHER

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 428,256,000</b>
General Funds	176,893,000
Restricted Funds	251,363,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	12,353,000

Included in the category Academic Support—Other are various support activities that are operated and administered in conjunction with schools and departments. These partially self-supporting activities provide basic clinical and other support essential to instructional programs, and contribute significantly to the quality and effectiveness of health sciences and general campus curricula. State support is an essential part of the income of these clinical activities.

Among the clinical facilities that support health sciences programs are: outpatient clinics at the five academic medical centers at Davis, Irvine, Los Angeles, San Diego, and San Francisco (for a discussion of the hospitals and clinics, see the *Teaching Hospital* chapter of this document); two dental clinics (Los Angeles and San Francisco) with off-campus community dental clinics; occupational health centers in the north and in the south; the veterinary medicine clinical teaching facilities at Davis and in the San Joaquin Valley and a satellite site in San Diego; an optometry clinic at Berkeley; and two neuropsychiatric institutes (Los Angeles and San Francisco). In addition, a number of demonstration schools, vivaria, and other activities provide academic support to health sciences and general campus programs. Most of these facilities provide experience for students as well as valuable community services. Their financial support is derived from a combination of State funds, patient income, and other revenue.

The University's clinics are largely self-supporting through patient fees. State funds for Clinical Teaching Support (CTS) are appropriated to the University for the hospitals, neuropsychiatric institutes, and the dental clinics, in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes.

The funds are generally used to provide financial support for patients who are essential for the teaching program, but who are unable to pay the full cost of their care. During the early 1990s, actual reductions to the University's State-funded base budget totaled more than \$400 million. As part of the plan for accommodating these reductions, the University permanently reduced \$20 million in CTS funding, eroding the University's ability to provide services to low-income patients and ensure an adequate patient base for teaching purposes.

In recognition of the financial hardships UC's clinics are still experiencing related to the cuts in the early 1990s, the State provided a one-time allocation of \$5 million in the 2001-02 budget for CTS, including \$2 million for the hospital clinics (\$400,000 per medical center), \$2.5 million for the NPIs (\$1.7 million for Los Angeles and \$800,000 for San Francisco), and \$500,000 divided equally among the two dental clinics.

### **Description of Programs**

The on-campus and community dental clinics at Los Angeles and San Francisco serve primarily as teaching laboratories in which dental students and graduate professional students enrolled in the schools of dentistry pursue organized clinical curricula under the supervision of dental school faculty. The community dental clinics provide a spectrum of teaching cases that are generally not available in the on-campus clinics. The dental clinics give students actual clinical experience and a broader perspective in determining treatment plans, thereby enhancing the required training in general and pediatric dentistry. While providing valuable clinical experience for students, the clinics also serve to meet the dental health needs of thousands of low-income patients, many of whom would not otherwise receive dental care.

The occupational health centers were created as a joint project of the California Department of Industrial Relations and the University of California to help serve the occupational health needs of California. The major functions of the centers are teaching (the training of occupational

physicians and nurses, toxicologists, epidemiologists, and industrial hygienists); public service (providing a referral service for occupational illnesses, promoting health in the workplace, and providing clinical care); and research (stimulating research on the causes, diagnosis, and prevention of occupational illnesses). Each center serves as the focal point for occupational health-related activities on the campuses in its geographical area, thereby strengthening the University's programs of teaching and research in these fields.

The two veterinary medicine clinical teaching facilities, one at Davis and the other in the San Joaquin Valley, are specialized teaching hospitals and clinics that support the School of Veterinary Medicine. Students enrolled in veterinary medicine are trained at these facilities by faculty of the School of Veterinary Medicine in the clinical aspects of diagnosis, treatment, prevention, and control of diseases in animals.

The optometry clinic at Berkeley serves primarily as a clinical teaching laboratory for the School of Optometry, while providing a complete array of visual health care services. At the clinic, optometry faculty supervise students in the clinical aspects of the prevention, diagnosis, and remediation of visual problems. In addition, students receive clinical experience at various Bay Area community health centers, which exposes them to a broad range of cases and provides a much-needed public service to the community.

The two neuropsychiatric institutes are among the State's principal resources for the education and training of psychiatric residents and other mental health professionals and for the provision of mental health services. The primary missions of the institutes are to treat patients with diseases of the nervous system and to strive for excellence in the development of approaches to problems associated with mental retardation, psychological disorders, and neurological disorders.

Demonstration schools serve as teaching laboratories for experimentation, research, and teacher training in the field of education. The schools educate hundreds of children and contribute to the advancement of education through research efforts and application of results. Vivaria are centralized facilities for the ordering, receiving, and care of all animals essential to instruction and research. Other activities under Academic Support—Other include support for the arts and specialized physical sciences and engineering projects.

## TEACHING HOSPITALS

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 2,732,506,000</b>
General Funds	52,437,000
Restricted Funds	2,680,069,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	53,505,000

### **The Role of the University Teaching Hospitals**

The University of California owns and operates five academic medical centers—Davis, Irvine, Los Angeles, San Diego, and San Francisco. Their primary mission is to support the clinical teaching programs of the five schools of medicine and the educational programs in the University's other health sciences schools (e.g., dentistry, nursing, and pharmacy). In addition to supporting the clinical teaching programs, the academic medical centers provide a full range of health care services in their communities and are sites for the development and testing of new diagnostic and therapeutic techniques. Three of the hospitals are former county hospitals and are the safety net providers in their counties. The University of California's academic medical centers are a major resource for California and the nation as they perform their tripartite mission of teaching, research and public service.

The core clinical experiences for health science students occur at the five academic medical centers and at a variety of affiliated teaching sites. The medical centers support a broad range of educational programs for medical students, postgraduate physicians (interns and residents), practicing physicians in the community, nurses, and allied healthcare professionals, preparing them for current and future healthcare needs. The medical centers provide all levels of care from primary to quaternary. In response to changes in the financing and delivery of health care, and as the result of the

University's efforts to expand training opportunities in primary care, the medical centers have developed more outpatient clinical training sites and primary care networks.

The UC medical centers conduct basic and clinical research which are essential to continued advancement in the understanding and treatment of diseases and the improvement in the health status of the population. Research projects include clinical trials of investigational drugs, devices and medical procedures, as well as, epidemiological studies that contribute substantially to the general public's well-being and to the education and patient care missions.

The University's academic medical centers comprise one of the largest health care systems in California and one of the largest Medi-Cal providers in the State.

In 2001-02, the University medical centers will have a combined licensed capacity of 3,490 beds and are expected to generate more than 773,000 patient days and more than 3.6 million visits.

The five UC medical centers have different histories and serve unique roles in their communities. Prior to the 1960s, the University had two medical schools, one at San Francisco and one at Los Angeles. The University owned and operated teaching hospitals on both campuses in fulfillment of its mission to educate medical students and residents in a clinical setting. Both medical schools also had affiliation arrangements with county, Veterans Affairs, and other hospitals to provide educational experiences for the campus' medical students and residents.

In the 1960s, the decision was made to develop three new medical schools at the Davis, Irvine, and San Diego campuses. The University's plan was to repeat the San Francisco and Los Angeles models with on-campus teaching hospitals and affiliations with county, Veterans Affairs, and other hospitals. However, while supporting the University's education and research efforts, the Legislature wanted the University to give a higher priority to providing medical care for the poor. Therefore, the Legislature provided resources to purchase three existing county hospitals and to initiate capital projects to renovate the facilities to make them more suitable for the University's education, research, and patient care missions.

## **Financial Issues Facing the Teaching Hospitals**

Throughout their history, the three former county hospitals have provided care to a disproportionately high percentage of Medi-Cal patients and the uninsured. Since most of these services are government-financed, these medical centers are vulnerable to changing public policies related to the funding and provision of health care for the poor. They continue to be the “safety net” provider in their respective counties, and rely heavily upon supplemental payments from Medi-Cal disproportionate share programs.

The UCLA and UCSF Medical Centers are also struggling with financial issues. While they don’t serve as “safety net” providers in their counties, they are more dependent upon Medicare and contract payors for reimbursement than Davis, Irvine and San Diego Medical Centers. The market forces related to increases in managed care have resulted in declining revenues per patient. The financial impact of declining revenues are intensified by dramatic increases in labor, pharmaceuticals, energy and other operating expenses. Although the UCLA and UCSF Medical Centers serve many Medi-Cal patients, they don’t qualify as disproportionate providers and are ineligible for Medi-Cal disproportionate share supplemental payments.

While the University’s medical centers face financial challenges similar to other hospitals trying to survive in a price-sensitive managed care environment, they have added responsibilities related to their function as academic institutions. The costs associated with new technologies, biomedical research that has the potential to improve lives, the education and training of health care professionals, and provision of care for a disproportionate share of medically underserved Californians make it difficult for the UC medical centers to compete with providers that do no teaching or research. While academic medical centers receive some compensation for teaching costs from government payors, including Medicare and Medi-Cal, it is below actual costs. Also, the level of compensation does not include teaching costs incurred in outpatient settings. No other payors (i.e., commercial, contract, county, etc.) recognize the added costs of teaching in their payment to academic medical centers. Therefore, one of the University’s highest priorities is to ensure that the medical centers have a dedicated and sustained source of funding to support graduate medical education.

The financial viability of UC medical centers directly affects the quality of the instructional programs at the University’s Schools of Medicine. Schools of

Medicine are heavily dependent upon revenues generated from patient care by the medical centers and faculty practice plans. Financial support from the academic medical centers enables the Schools of Medicine to recruit and retain good faculty, as well as expand existing and create new academic programs, and support primary care initiatives. Therefore, the medical centers must generate sufficient funds for their operational and capital needs, as well as for their respective Schools of Medicine and primary care networks.

Since managed care has become the primary system for delivering and financing health services, the University has experienced a shift in the delivery of services, with the major growth occurring in outpatient settings. Market forces have required that the UC medical centers accept negotiated rates from private and some public payors that do not recognize educational costs. Like all hospitals, the University's academic medical centers were affected by the Balanced Budget Act (BBA) of 1997, and the Balanced Budget Refinement Act (BBRA) of 1999, that were designed to slow future rate increases in Medicare and Medicaid. In addition to reduced Medicare reimbursement for patient care to all Medicare providers, reimbursement to academic medical centers has been severely cut by the changes in federal Medicare medical education funding.

Over time, the University's medical centers have pursued with the State both short-term and long-range solutions to address fiscal challenges and avert significant losses. State-funded capital and operating subsidies were provided to the three former county hospitals in the mid-1980s to assist them in reaching a broader patient base. Special supplemental funding is being provided by the State to all California hospitals, including UC's three former county hospitals, that treat a disproportionate share of Medi-Cal and other low-income patients. In addition to the federal Medicare program, which recognizes the costs of medical education, the University began using State Clinical Teaching Support (CTS) funds in 1997 to leverage additional federal Medicaid dollars to support educational costs incurred in providing services to Medi-Cal patients. More recently, the State provided one-time funds in 2000-01 for equipment (\$25 million) and infrastructure (\$50 million), and authorized lease revenue bonds for seismic needs (\$600 million). The State provided a one-time augmentation in 2001-02 for Clinical Teaching Support (CTS) that will be shared among medical centers, the neuropsychiatric institutes and the dental clinics. This augmentation was provided in recognition of CTS budget cuts in the early 1990s. Throughout the history of UC's teaching hospitals, State assistance has been vital to their financial

stability and therefore has had a beneficial impact on the hospitals' ability to conduct their teaching mission and provide patient care.

The medical centers have taken steps to remain competitive in their respective markets by holding down costs and by expanding their presence in the market through affiliation with physician groups or the addition of hospital sites. As part of their strategy to capture greater market share and to improve their patient mix, three of the UC medical centers expanded their patient care by adding hospitals at different locations. In 1990, Mount Zion Health Systems integrated with UCSF Medical Center; in 1993, UCSD built the Thornton Hospital on the La Jolla campus; and the UCLA Medical Center acquired the Santa Monica Hospital in 1995.

The financial viability of the University's medical centers depends upon a dedicated and sustained source of funding to support medical education and care for the poor, as well as payment strategies that recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment, and invest in infrastructure and program expansion. In recent years, there has been considerable legislative interest in and recognition of the financial difficulties facing the University's medical centers. Some of this interest has been generated by concerns over the University's ability to provide health care to the State's indigent population as the medical centers pursue long-term strategies to ensure their fiscal viability while supporting the University's academic mission. Another major concern is compliance with SB 1953, the Hospital Seismic Safety Act, which requires acute care hospitals to ensure that their facilities can maintain uninterrupted operations following a major earthquake.

The remainder of this chapter reviews the major sources of funding for patient care and teaching, changes in the financing and delivery of health care that have occurred over the past decade, and the challenges that lie ahead.

### **Funding for Patient Care**

The University's medical centers are paid for services provided to patients. The major sources of patient revenue are government-sponsored health care programs (i.e., Medicare, Medi-Cal and the California Healthcare for Indigents Program); commercial insurance companies (i.e., managed care contracts and private insurance); and self-pay patients. Several government-sponsored programs provide supplemental payments in

recognition of the role the UC medical centers play in providing a disproportionate share of care to the State's indigent population.

### ***Medicare***

The federal Medicare program (Title XVIII of the Social Security Act) is a third-party payor managed by the Social Security Administration that underwrites the medical costs of persons 65 years of age and older, and persons under 65 who are disabled or have end-stage renal disease. Inpatient acute care services provided to Medicare beneficiaries are paid at prospectively determined rates, which vary according to a patient's diagnosis. Inpatient non-acute services, certain outpatient services and medical education costs are paid, based in part, on a cost reimbursement methodology. Effective August 1, 2000, Medicare implemented a prospective payment system for hospital outpatient care – the Ambulatory Payment Classification (APC) - in an attempt to hold down rising costs in such settings.

The Medicare population is an important segment of the patient mix seen at UC medical centers; and it will become increasingly important as a large portion of the nation's population lives longer.

In 2000-01, the number of Medicare days were 201,986, representing approximately 26.5% of total patient days. The Medicare program generated \$659.1 million of net operating revenue, accounting for approximately 24.1% of the total net operating revenue of the UC medical centers.

### ***Medi-Cal***

Medicaid, known as Medi-Cal in California, is a State-administered third-party payor designed to reimburse medical costs of the medically indigent and those on certain public welfare programs, such as Aid to Families with Dependent Children (AFDC) and Supplemental Security Income for the aged, blind, and disabled. Inpatient services provided to Medi-Cal beneficiaries are paid under a contract at a prospectively determined, negotiated per-diem rate. Reimbursement for outpatient services is based on prospectively determined fee schedules.

In 1982 the California Legislature established the Selective Provider Contracting Program (SPCP). The program operates under a federal waiver in accordance with Section 1915 (b) (4), Title XIX, of the Social Security Act. The SPCP has worked to provide adequate access to hospital services for

Medi-Cal beneficiaries, while at the same time achieving significant savings over the traditional “cost based” reimbursement system. In addition to the SPCP, Medi-Cal implemented managed care programs in 1994.

In 2000-01, the number of Medi-Cal days were 172,157, representing 22.6% of total patient days. The Medi-Cal program generated \$430.9 million of net operating revenue, accounting for approximately 15.8% of the total net operating revenue of the UC medical centers.

### ***Supplemental Medi-Cal Payments***

**SB 1255 Funds.** In 1989-90, the State established the Disproportionate Share and Emergency Services Fund, also known as the SB 1255 program. Through the SB 1255 program, public agencies that own eligible disproportionate share hospitals, including the University, voluntarily transfer funds to the State. These funds are used to secure federal Medicaid matching funds. The pool of funds is then distributed by the State to public and private hospitals that treat a disproportionate share of Medi-Cal and low-income patients. The Davis, Irvine, and San Diego Medical Centers qualify as disproportionate share providers. The distributions result from negotiations between the University and the California Medical Assistance Commission (CMAC).

From May 1990 to June 2001, the University received about \$232.7 million in new federal funds from this program. The continuation of this program, which has been a significant source of funding for the Davis, Irvine, and San Diego Medical Centers, is uncertain in light of federal attempts to constrain Medicaid’s growth. The elimination of the SB 1255 program would mean the loss of about \$50 million a year for the eligible UC medical centers.

**SB 855 Funds.** In 1991-92, the State created a second vehicle, known as the SB 855 program, to provide supplementary payments to hospitals providing a disproportionate share of their inpatient services to Medi-Cal or other low-income patients. In 2000-01, the University received approximately \$60.7 million in SB 855 funds, accounting for about 4.6% of the total net patient revenue at the Davis, Irvine and San Diego Medical Centers. From

1991-92 through 2000-01, the University received about \$509 million in new federal funds from this program.

The SB 855 program requires governmental entities, such as counties, hospital districts, and the University, which own eligible disproportionate share hospitals, to make mandatory transfers to the Department of Health Services (DHS) for deposit into the Medi-Cal Inpatient Payment Adjustment Fund. Unlike the SB 1255 program, these are mandatory transfers, the levels of which are determined by formula. These funds are used to secure matching federal Medicaid dollars. The pool of funds is then distributed by the DHS to all public and private disproportionate share hospitals. The distribution of SB 855 funds is derived by a formula based on the previous year's data regarding the number of Medi-Cal days and the percentage of other low-income beneficiaries served.

Beginning in 1993-94, distributions from the SB 855 program were subject to federal provisions which set a ceiling on the distributions that could be made to individual hospitals and, cumulatively, to each state. This ceiling is referred to as a hospital's OBRA CAP. All Medi-Cal reimbursement, including SB 1732 – capital funds for Medi-Cal disproportionate share hospitals, the Medi-Cal Medical Education funds and SB 1255 are factors in determining a hospital's OBRA CAP. The SB 1732 and the Medi-Cal Medical Education programs are described later in this section.

In 1999-2000, the net benefit to eligible disproportionate share hospitals was approximately \$20 million less than the amount received in 1998-99 because the total amount of federal funding available to the State of California decreased. The decrease was due to a combination of factors, including a reduction in Medi-Cal days and Medicaid cuts in the Balanced Budget Act of 1997. The total number of Medi-Cal inpatient days across the State is declining as managed care plans exert tighter controls on admissions and length of stay. The number of inpatient Medi-Cal days will decrease further if legal and illegal immigrants are removed from the Medi-Cal rolls as a result of federal welfare and immigration reform. A continued decrease in Medi-Cal patients hinders the University's clinical teaching programs, and could limit the University's ability to participate in the SB 855, SB 1255, and SB 1732 programs. The Balanced Budget Refinement Act of 1999 ensured SB 855 funding by not only extending indefinitely the sunset date for high disproportionate share hospitals, but also by redefining high disproportionate share hospitals to include all public disproportionate share hospitals which are all capped at 175% of costs. All three UC disproportionate share hospitals qualify under the 175% OBRA CAP.

## ***Tobacco Tax Funds***

In November 1988, voters approved Proposition 99, which imposed an additional tax on cigarettes and other tobacco products. Proposition 99 created six separate accounts from which funds are appropriated for specific purposes, including indigent care, the prevention and cessation of tobacco use, and the prevention and treatment of tobacco-related diseases. Funds from the “Hospital Services and Unallocated Accounts” are available for payment to public and private hospitals for treatment of patients who cannot afford to pay, and for whom payment will not be made through private coverage or by any program funded in whole or in part by the federal government.

In 1989, the State approved a plan (AB 75) specifying how Proposition 99 funds were to be distributed. Since 1989, there has been a decline in smoking and in the use of other tobacco products, which has reduced the total amount of Proposition 99 funds. In 2000-01, the University medical centers received a total of \$2.9 million as compared to \$14.6 million in 1989-90. The amount of Proposition 99 funds in 2001-02 is projected to remain fairly constant over the next few years, about \$3 million. Although the amounts have declined over the years, these funds are an important source of revenue for indigent care at the UC medical centers.

## ***Changes in Health Care Financing***

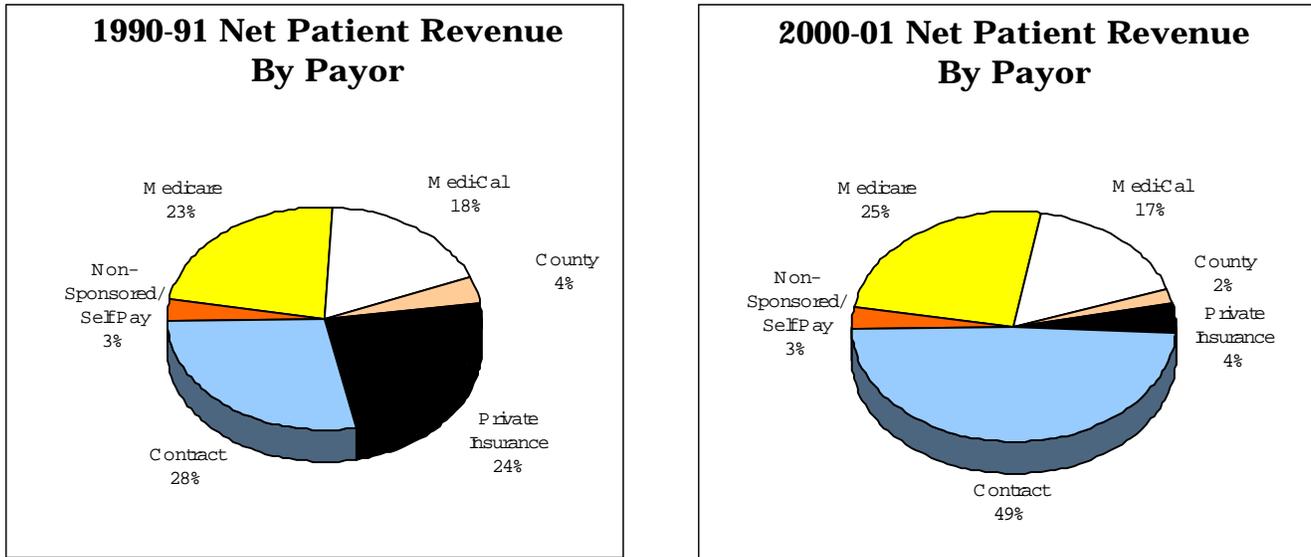
Rising health care costs in the 1980s, demographic changes, and changing economic conditions caused the State, the Congress, and the private sector to initiate fundamental changes in the financing of health care services.

The traditional fee-for-service reimbursement system has been almost completely replaced by competitively established fixed-price payments, (i.e., capitated, per-diem, or global rates by diagnosis). As a result, costs unique to academic settings (e.g., treating sicker patients, providing services to a disproportionate number of uninsured or under-insured patients, and providing a medical education in a clinical setting) are not fully reimbursed. In addition, the loss of fee-for-service or cost-based reimbursement in the private sector has eliminated the opportunity to cover some of these costs through cross-subsidization.

Over a ten-year period, 1990-91 through 2000-01, the percentage of net patient revenue from patients covered by fee-for-service (i.e., private payors) decreased from 24% to 4%, while net patient revenue from patients covered by contractual or capitated arrangements increased from 28% to 49%. The

slight decrease in the percentage of Medi-Cal net patient revenue is due to Medi-Cal managed care days being reported as contract days because of their similarity in payment arrangements.

Display 1



Changes in health care financing that have negatively affected the medical centers began in 1982, when reforms of the State Medi-Cal program instituted selective hospital contracting for inpatient services at flat per-diem pricing, stricter eligibility requirements, and the transfer of responsibility for the Medically Indigent Adults (MIAs) from the State to the counties (funding for the MIAs was provided at less than the 70% of projected State expenditures for the base year 1982-83). The transfer of the MIA patients directly affected the three former county hospitals—Davis, Irvine, and San Diego—because the local tax dollars used to subsidize hospitals operated by local government were not available to University-operated medical centers.

In 1982, private health care insurers were provided, through legislation, with the same ability as the State to contract selectively with health care providers on behalf of their enrollees.

At the same time, changes in federal Medicare payment policies for hospitals included a prospective payment system for inpatient care based on payments-per-case according to Diagnosis Related Groups (DRGs), rather than on actual hospital costs. These changes, also, limited payments for teaching costs and phased out cost-based payments for capital improvements. Effective August 1, 2000, outpatient care provided to Medicare patients was

changed from cost-based reimbursement to a prospective payment system, which uses the ambulatory payment classification system.

In the early 1990s, DHS was given authority to hasten the transition of Medi-Cal from a fee-for-service to a managed care system for approximately 2.5 million Aid to Families with Dependent Children (AFDC) beneficiaries. Under these managed care programs, the provider agrees to treat Medi-Cal enrollees for a fixed rate-per-member-per-month; thereby, the provider is at risk and is liable for any expenses incurred beyond the monthly capitation payments. The University's medical centers are at increased financial risk for managing the care of patients covered under these managed care programs. The type and the size of the Medi-Cal managed care programs varies among counties.

### ***Special Subsidies for the Three Former County Hospitals***

The 1985 Budget Act authorized the Legislative Analyst to contract for a study of the effectiveness of the management of the three former county hospitals operated by the Davis, Irvine and San Diego Medical Centers. In April 1986, the consultant reported that management of the three hospitals was effective and that their operating losses were fundamentally attributable to the environment in which they must operate. The consultant also emphasized that the fiscal survival of these hospitals would depend upon a State-funded operating subsidy to help cover their significant volume of uncompensated and undercompensated patient care. The outcome of a management review of the operations of the three medical centers resulted in an agreement with the State. As a result of that agreement, the State provided \$86 million to fund cost-saving and revenue-enhancing capital outlay projects and equipment purchases, and \$28.6 million to mitigate operating losses. The Irvine Medical Center received all of the \$28.6 million operating subsidy because it was the only UC medical center that incurred losses.

### ***Meeting the State and University Budget Shortfalls***

In the early 1990s, in recognition of the fact that the State provided more than \$80 million of assistance by funding needed capital improvements at the three former country hospitals during the 1980s, the University and the State turned to the medical centers to help alleviate some of the University's budgetary problems. At that time, the University was experiencing unprecedented cuts in its operating budget and the academic medical centers were experiencing modest gains.

In 1992-93, the medical centers funded a \$43 million shortfall in the University's operating budget. In 1993-94 and 1994-95, the State redirected \$237 million in SB 855 transfer funds from all transferring entities when they would otherwise have been used to capture federal Medicaid dollars. This redirection of dollars by the state reduced the total amount of SB 855 funds available for distribution. In addition, the University's share of SB 855 funds was reduced by \$15 million on a one-time basis by the Legislature.

The University's plan for accommodating cuts in its 1993-94 State-funded budget included a reduction in health sciences clinical activities, which resulted in both permanent and one-time cuts in CTS for the medical centers.

In 1994-95, the University and the State reached agreement to shift \$18 million of State support from the medical centers on a one-time basis to help meet needs in critically underfunded areas in the general operating budget, (i.e., libraries, instructional equipment, and deferred maintenance). The shift recognized actual and estimated operating gains at the medical centers during 1992-93 and 1993-94, which were above the 5% recommended by the Legislative Analyst, and supported by the Legislature.

In response to this action, the University undertook a study to look at the medical centers' needs for working capital, capital outlay, and equipment, as well as maintaining a prudent reserve. The study concluded that future actions by the Legislature to limit the medical centers' ability to accumulate adequate reserves would make it even more difficult to compete in price-sensitive markets. Notwithstanding this finding, the 1995 State Budget Act redirected \$5.5 million, a portion of the medical centers' net gain above 5%, from CTS funds to help fund the University's deferred maintenance budget on a one-time basis. The medical centers only achieved a 2.8% operation margin in 1995-96, and the \$5.5 million of CTS funds were restored to the medical centers in 1996-97. No cuts in CTS funding have occurred since 1996-97.

## **Funding For Teaching**

Traditionally, funds supporting medical education in a clinical setting have been generated from patient care revenues. A number of significant changes in both the delivery of and payments for patient care have occurred that place these sources at risk. For example, as price becomes a major factor in the medical centers' ability to compete, the centers have accepted negotiated rates that do not recognize the medical education costs. This is occurring at

the same time that patient care revenues are declining. At the same time, the federal Medicare program has reduced the support for reimbursement of indirect costs associated with medical education it provides for graduate medical education. In addition, more care is being provided in ambulatory care centers for which the reimbursement rates do not recognize teaching costs. The following is a brief summary of the major sources of revenue that currently support teaching.

### ***Graduate Medical Education Funds***

Medicare provides teaching hospitals with Graduate Medical Education (GME) payments to help pay for the direct medical costs (DME) of providing a medical education and for the direct programmatic costs allowable under Medicare, such as salary and benefits for full-time-equivalent residents.

Medicare Indirect Medical Education (IME) payments are provided to teaching hospitals for some of the indirect costs associated with medical education, such as the extra demands placed on the medical center staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents.

The combined of DME and IME payments in 2000-01 were \$108.7 million, about 16.5% of Medicare reimbursement to the five medical centers. This is about the same amount that was received in the previous fiscal year. More information about DME and IME funding is provided later in this chapter under *Current Issues – Medicare and Medicaid Budgets*.

### ***Clinical Teaching Support***

State General Funds, called Clinical Teaching Support (CTS), are appropriated to the University in recognition of the need to maintain a sufficiently large and diverse patient population at the medical centers for teaching purposes. These funds are generally used to provide financial support for patients who are essential for the teaching program, but who are unable to pay the full cost of their care.

The 2001-02 budget includes about \$52 million in CTS funds for the five UC medical centers. While CTS funds represent less than 2.2% of the total operating revenue for the medical centers, they continue to be important to the quality of the clinical teaching programs and to the financial stability of the medical centers.

### ***Medi-Cal Medical Education Funds***

In 1996-97, the Legislature adopted supplemental language asking the University to develop options for dealing with the costs of providing medical education in a clinical setting.

The University reviewed many alternatives, and successfully pursued an option to help fund graduate medical education costs through the Medi-Cal program by securing federal matching funds. In 1996-97, the University, working with the California Medical Assistance Commission (CMAC), the Department of Finance (DOF), and the Department of Health Services (DHS), developed a program, specifically for the University's medical centers, that allowed the University to use existing CTS funds to leverage an additional \$50 million in federal Medicaid funds to support educational costs incurred in the treatment of Medi-Cal inpatients.

The State approved legislation (SB 391) to continue the program through 1998-99 and to expand it by creating two supplemental payment funds that are financed through voluntary intergovernmental transfers and then matched with federal Medicaid funds. The supplemental payment funds are the Medi-Cal Medical Education Supplemental Payment Fund, and the Medi-Cal Large Teaching Emphasis Hospital and Children's Hospital Medical Education Supplemental Payment Fund. Medi-Cal contracting hospitals that meet the definition of the university teaching hospitals (e.g., UC medical centers) or major (non-university) teaching hospitals are eligible to negotiate for funding from CMAC to cover the medical education costs associated with Medi-Cal inpatient care.

In 1997, the State approved legislation (SB 1130) which expressed legislative intent that the University take the lead in pursuing a more comprehensive approach to health professionals education funding and report to the Governor and Legislature regarding progress toward a long-term solution. The University submitted to the Governor and the health policy committee of each house of the State Legislature two progress reports, one in December 1998 and the other in March 2000. The University has committed to providing at least one additional report that will propose options for long-term funding of GME. In addition to the reports, the University has worked with the CMAC, the DHS, the DOF, and other stakeholders to develop a proposal for long-term funding of graduate medical and health professions education.

In 1996-97, the University's five medical centers received \$50 million in new federal dollars through this program to help support medical education in a clinical setting. From 1996-97, the inception of this program, to 2000-01 the UC medical centers, received about \$232 million of new federal funds, an average of \$46 million per year. While these funds are critical for the teaching mission of the medical centers, the amount provided is insufficient to fund the actual costs of medical education in an inpatient setting; and no funding is provided to cover costs in an outpatient setting. This program was scheduled to sunset on June 30, 2000. The University worked with the Legislature and the Administration, to secure adoption of a trailer bill to the 2000 State Budget that extended authorization for the program to June 30, 2002.

The University is continuing to work with the State on a broader, longer-term program to fund graduate medical education in both inpatient and outpatient settings, and to include other health care professionals. In April 1999, the University hosted a "Medical Education Financing and Policy Forum" to discuss the current and future financing of graduate medical and related health professions education. This forum provided opportunities for dialogue among leaders and stakeholders of the State agencies, health sciences educational institutions, professional associations, and others in discussing new options and alternative approaches for supporting teaching hospitals and clinics in California. The University created GME task forces comprised of stakeholders to develop a proposed long-term GME funding model for the state. Data are critical for developing options for funding the training of an appropriate health care work force, including non-physician professionals. The University is working with the Office of Statewide Health Planning and Development to develop an assessment of the health care workforce needs of California. The University is also working with the State Legislature to extend the Medi-Cal Medical Education Program beyond the sunset date of June 30, 2002.

## **Other Funds**

### ***Capital Funds for Medi-Cal Disproportionate Share Hospitals (SB 1732)***

The SB 1732 program, the Construction and Renovation Reimbursement Program, provides supplemental Medi-Cal reimbursement to disproportionate share hospitals for debt service costs (i.e., principal and interest) of approved capital construction. Both the Davis and San Diego Medical Centers received approval (Davis in 1998-99 and San Diego in

1999-00) from the DHS for annual supplemental funding of approximately \$7.5 million and \$2.5 million, respectively, over the life of the debt service, assuming the medical center continues to meet all requirements. These funds are for the following projects: The Tower II, the Ambulatory Care Center, Inpatient Radiology Renovations, and the Central Plant at the Davis Medical Center, and Thornton Hospital at the San Diego Medical Center. UC Irvine, also a disproportionate share hospital, had no projects that qualified.

## **Current Issues**

### ***Medicare and Medicaid Budgets***

The 1997 BBA contained some of the most sweeping and significant changes to Medicare and Medicaid since the inception of these programs. These changes were expected to reduce Medicare spending by \$115 billion by 2002. Over the same time, federal Medicaid spending would have been reduced by \$10 billion.

Two of the more significant Medicare cutbacks that affect the University are reductions in the annual inflation adjustments to the Prospective Payment System (PPS) rates for hospitals and in the IME payments for medical education.

The BBA would have reduced the annual PPS adjustment by 1% for each year from 1997 to 2002, thus achieving about \$11 billion in savings over five years. The impact on the UC medical centers was estimated to be about \$45 million during this time. The annual impact was estimated to range from about \$4 million in 1997 to about \$14 million in 2002.

The BBA proposed to reduce the IME factors from 7.7 in 1997 to 5.5 in 2002. This reduction was predicted to achieve \$4.2 billion in savings over five years. Another \$3.4 billion in savings over the same period would have been achieved through changes in DME payments. The impact to the UC medical centers was estimated to be more than \$70 million over the course of the five years. On average, the impact was estimated to range from \$6 million in 1997 to over \$20 million in 2002.

The BBA was expected to cut Medicaid spending by \$10 billion, primarily from reductions in payments for disproportionate share hospitals. These reductions would have greatly affected the UC medical centers because 16% of net operating revenue comes from Medi-Cal. About 27% of all UC medical

center Medi-Cal payments come from disproportionate share payments, (i.e., SB 855 and SB 1255 funds).

A number of groups including UC medical centers and the Association of American Medical Colleges (AAMC) voiced concern that the BBA's significant payment reductions would put teaching hospitals at financial risk. An analysis prepared by the AAMC concluded that the average teaching hospital would lose \$45.8 million in Medicare reimbursement between 1998 and 2002. An analysis prepared by the University of California projected Medicare reimbursement losses of about \$200 million for the five UC medical centers.

Congress responded to the outcries by passing the BBRA in 1999. The BBRA provides temporary relief from the dramatic cuts proposed by the BBA. After the BBRA sunsets September 30, 2002, the cuts imposed by the BBA are slated to resume. The University continued to work vigorously with members of Congress to maintain the momentum established to restore funding or to reduce the impact of future cuts to the Medicare and Medicaid programs. As a result of these efforts and the efforts of other Academic Medical Centers, Congress passed the Benefit Improvement and Protection Act of 2000 (BIPA). The BIPA of 2000 provides temporary relief by delaying for one year the dramatic cuts proposed by the BBA. The BIPA extends temporary relief from the BBA cuts to 2003 and increases the DME funding to 85 percent of the national average.

There are two additional federal actions which are projected to have significant impacts on the UC medical centers: the Health Insurance Portability and Accountability Act (HIPAA) - Privacy Standards and the Medicaid Upper Payment Limits.

The HIPAA privacy standards empower the patient to request, amend and obtain certain information are not unreasonable. However, academic medical centers, given the many arenas in which they interact with protected health information, are more likely than their community hospital counterparts to be the subject of an extensive number of patient requests. The cost to comply with a potentially extraordinary number of requests is an unfunded mandate with significant financial consequences for academic medical centers.

In January 2001, the Health Care Financing Administration (HCFA) finalized the regulation that revised Medicaid's "Upper Payment Limit" rules, ending certain accounting techniques that allow states to inappropriately inflate their share of federal Medicaid matching funds. Though the State of

California did not inappropriately inflate Medicaid matching funds, the new federal regulations may significantly reduce the funding the UC medical centers receive from Medi-Cal supplemental funding programs.

### ***Impacts of Managed Care***

Academic medical centers are profoundly affected by changes in the delivery and financing of health services. These changes are the direct or indirect result of an increase in the percentage of the population enrolling in “managed care plans” for health care coverage. Approximately, 63% of Californians receive their health care through managed care plans, compared to 30% nationwide. When reimbursement was provided on a fee-for-service basis, the medical centers were able to generate the patient volume and dollars needed to support teaching and research. Patients were attracted to the cutting-edge quality of the specialized treatments for complicated health problems offered by academic medical centers.

Managed care seeks to reduce costs in two primary ways. First, managed care emphasizes prevention and primary care intervention in order to reduce the need for more costly hospitalization and specialist services later on. Primary care physicians serve as “gatekeepers,” coordinating care and controlling referrals to more costly specialized services, including inpatient care. Some services that have traditionally been provided on an inpatient basis are now provided in outpatient facilities as efforts are made to reduce costs. Improvements in procedures and new technologies will continue to allow more services to be performed in outpatient settings.

As a result of these trends, the UC medical centers have experienced a shift from inpatient to outpatient settings, a shift that threatens both volume of patients seen in an inpatient setting and reduces revenues.

Consistent with these and other market-driven changes, the University’s clinics show increases in outpatient visits. While there is pressure from accrediting bodies and other policy makers to shift the locus of medical training from inpatient to outpatient care sites, the costs of medical training in outpatient settings are generally higher than in inpatient settings. Further financial challenges have been created by this change, given that medical education costs for outpatient services are not directly reimbursed by Medicare or Medi-Cal. The University is working with the State to identify the costs of medical education in outpatient settings, with the hope that this leads to adjustments in reimbursement by the State and federal governments.

The second way in which managed care seeks to control costs is by contracting with a network of preferred providers to deliver services at negotiated (discounted) rates and to assume risk for a defined population. To compete successfully for these contracts, physicians are joining with hospitals and other providers to form integrated delivery systems that provide the full range of care, from outpatient and lab services to inpatient and skilled nursing care. Integrated delivery systems offer a continuum of care and derive competitive advantages from economies of scale that can result in lower prices; data collection capabilities that can monitor outcomes over time, which can be an advantage in attracting patients; and convenience for insurers, who can negotiate with many doctors and multiple services as a group rather than on a one-on-one basis. Providers who remain outside these networks face a reduced market for their services, as more of the population uses managed health care on either a voluntary or mandatory basis.

As major purchasers of services on behalf of Medi-Cal and Medicare beneficiaries, the State and federal governments are encouraging the development of contractual arrangements with selected providers for these populations. Unless the negotiated rates recognize the legitimate costs incurred by academic medical centers and provide the necessary funding, the University's medical centers will not be able to recover full costs for providing the services.

### ***Seismic Safety Issues***

SB 1953, the Hospital Seismic Safety Act was enacted in late 1994. This legislation requires general acute-care inpatient hospitals to meet standards designed to prevent collapse in a major earthquake by 2008, even though the hospital may not remain operational after the earthquake. By 2030, hospitals would be required to meet higher building standards that would increase the probability of remaining operational following a major earthquake. No provisions for funding were included in the legislation.

Compliance with SB 1953 will affect the State's hospital industry and the delivery of health care, as well as the teaching and research activities conducted at the UC medical centers.

Preliminary estimates suggest that costs to the University's teaching hospitals for compliance with SB 1953 through the year 2008 will be significant, at least \$600 million.

A trailer bill to the 2000 State Budget Act authorized the State Public Works Board (SPWB) to issue up to \$600 million in state lease revenue bonds for seismic work required by the Alfred E. Alquist Hospital Seismic Safety Act (Senate Bill 1953). As with previous SPWB funding for other University projects since the mid-1980s, the SPWB will lease the applicable hospital facility (or a substitute facility under asset transfer) from The Regents and issue lease revenue bonds to finance all or a portion of the costs associated with seismic upgrading required for compliance with SB 1953. The University will build or renovate the project under an agreement with the SPWB. The SPWB retains ownership of the leased facility through the term of the lease or full repayment of the SPWB bonds used for the project, after which ownership is returned to the University.

The University will pay rent to the SPWB for those facilities. This rent will constitute the revenue from which the Board will repay interest and principal on the obligations of the Board issued to refinance the facility. Negotiations between the University and the Department of Finance will determine the repayment arrangements on the debt service.

In anticipation of the sale of the \$600 million of state lease revenue bonds, The Regents approved the following allocations at their meeting in November 2000: Davis - \$120 million, Irvine - \$235 million, Los Angeles - \$180 million, San Diego - \$40 million and San Francisco - \$25 million.

The State's lease revenue bonds will be sufficient to fund the seismic requirements set by SB 1953 through January 1, 2008. In addition, the medical centers have other significant capital needs, such as upgrades necessary for programmatic changes, which cannot be addressed with the State's lease revenue bonds. Therefore, the UC medical centers will be required to use hospital reserves and conduct significant funding campaigns to supplement available funds. The Los Angeles Medical Center has significant funding provided from insurance and from the Federal Emergency Management Agency (FEMA) as a result of damage done by the Northridge earthquake in January 1994.

The 2000 Budget Act also provided \$25 million in one-time funds for medical center equipment and \$50 million capital outlay funds to support urgent infrastructure needs at the medical centers.

The \$25 million appropriation for medical center equipment was provided in recognition of the financial projections which indicate that the medical

centers would not have a sufficient operating margin at the end of 1999-00 to allow for normal capital and equipment costs. The State funds were used for equipment in 2000-01. As a condition for receiving these funds, the Legislature required the University to prepare a report that explained how the funds were used and demonstrated that the funds did not supplement other funds that would have otherwise been used for equipment in 2000-01. Each medical center was allocated \$5 million. The required report was submitted in February 2001.

The 2000 Budget Act also provided \$50 million in State General Funds for infrastructure projects that were non-seismic capital improvements at the medical centers. This funding was appropriated in recognition of the millions of dollars required for improvement apart from the seismic problems to address deficiencies and remain competitive in today's managed care market. Such needs include a broad range of high-priority projects, such as the upgrade of operating rooms, modernization of patient facilities, correction of deficiencies in clinical laboratories, upgrade of deteriorated utility services, and replacement of aged and inadequate building systems. This allocation was made in parallel to the State lease revenue bonds allocation so that the infrastructure work could be done in conjunction with the seismic work. The \$50 million for infrastructure needs were allocated among the medical centers as follows: \$25 million to San Diego, \$10 million to Los Angeles and \$5 million each to the Davis, Irvine and San Francisco Medical Centers.

### ***UCSF Stanford Health Care***

In 1997, The Regents approved the merger of the UCSF Medical Center (Moffitt/Long Hospital and Mount Zion Medical Center) with Stanford Health Services (Stanford Hospital and Clinics, and Lucile Salter Packard Children's Hospital). As a result of the merger, the two medical centers focused on: (1) improving their ability to compete in a managed care environment and to negotiate more favorable provider contracts; (2) sustaining an adequate patient base to support the clinical education mission of the schools of medicine; and (3) consolidating some programs to reduce costs and create efficiencies while maintaining quality. The November 1, 1997 merger created a separate non-profit corporation, UCSF Stanford Health Care, to support the clinical teaching programs of the UCSF School of Medicine and the Stanford School of Medicine.

In its first fiscal year (November 1, 1997 to August 31, 1998, ten months), UCSF Stanford Health Care (USHC) reported a net gain of \$29.5 million. In its second full fiscal year it lost \$78.5 million. The loss was attributable to an

unexpected decline in hospital occupancy, cuts in reimbursements from Medicare and Medi-Cal, rising costs of pharmaceuticals, upgrades to computer systems, increases in staffing, and significant losses at Mount Zion.

In December 1998, management of UCSF Stanford Health hired the Hunter Group, a national health care consulting practice that specializes in turning around financially troubled hospitals. The Hunter Group worked successfully with the UC San Diego Medical Center, which, following a \$20 million loss, has now realized several consecutive successful years.

Given their concern over the financial losses of USHC and the prospect of closing Mount Zion, Bay Area legislators requested an audit of UCSF Stanford Health Care by the State Auditor General. The audit, which was released on August 31, 1999, stated that USHC was unable to achieve the clinical and financial goals of the merger to the degree anticipated. Specifically, the audit noted the failure to combine the intellectual capital of each institution and that the merger costs exceeded savings. In an attempt to reduce losses, the Mount Zion Medical Center closed its inpatient facility in December 1999. Eventually, both Stanford and UC agreed to end the merger, effective March 31, 2000.

### **Responding to the Challenges**

UC medical centers face legitimate concerns regarding the need for adequate funding to support their tripartite mission. In recent years, temporary fixes have provided short-term relief. Significant among these have been the Benefits Improvement and Protection Act of 2000; the extension of Medi-Cal Medical Education program to June 30, 2002, SB 1732 funds for the Davis and San Diego Medical Centers; one-time appropriations in the 2000-01 State Budget for hospital equipment (\$25 million) and for infrastructure (\$50 million); and authorization for the SPWB to issue up to \$600 million of lease-revenue bonds for medical centers to comply with SB 1953, and one-time CTS augmentation of \$5 million in the 2001-02 State Budget.

The medical centers have adapted to the managed care environment by expanding their outpatient and primary care services to complement their existing inpatient services. This has enabled the centers to compete more successfully for commercial contracts, and to provide students with more exposure and training in primary care services. The expanded primary care

patient base has also resulted in more referrals to the University's own inpatient and specialty services.

The University's academic medical centers are also responding by reducing costs through restructuring and improved efficiencies. The centers are developing stronger links with other providers, especially community hospitals and physicians in larger networks.

The following is a brief description of how each of the University's five academic medical centers has or is responding to the changes in the health care industry.

### ***UC Davis Medical Center***

With its exceptionally strong market position and proactive financial management, UC Davis Medical Center has continued to strengthen its teaching, research and public service missions in an ever more challenging health care environment.

With an inpatient occupancy rate pushing 90% and unrelenting demand for its tertiary, emergency and other acute care services, UC Davis Medical Center is striving to maintain its leadership position in the community while responding to the financial realities of the current marketplace.

To meet an unprecedented demand for services, the Medical Center is implementing innovative strategies for managing emergency department patient load, reducing hospital length of stay, expediting admissions and transfers and enhancing operating room capacity. Noteworthy success in recruiting and retaining nurses can be attributed to the medical center's all-RN nursing staff, its acclaimed nursing research program, its status as a "Magnet Hospital". Two new inpatient units under construction in the Tower II will improve access to labor and delivery and certain other high-demand inpatient services.

An integrated management structure that enables the School of Medicine, hospital and physician group to function together as a single entity allows for more focused and efficient responses to market conditions. Strategic contracting, creative cost-reduction initiatives and collaborative approaches to healthcare delivery have enabled the medical center to maintain a relatively stable financial position. With an eye on potential reductions in State and federal funding; substantial seismic upgrade costs and the rising

costs of supplies, labor, and regulatory compliance, medical center leaders are taking a proactive approach to strategic and financial planning.

UC Davis Medical Center continues to forge collaborative relationships throughout the region, strengthening its position as a referral center and building its reputation as a public service provider and “good citizen”. Collaborations with community hospitals from Merced to Redding are bringing cancer care, pediatric intensive care and other tertiary services to rural regions of northern California. Collaborations with scientists at Lawrence Livermore National Laboratory boost UC Davis Medical Center’s strengths in basic science research and help position the cancer center in its bid for National Cancer Institute designation. Strong ties to local community organizations and agencies – from schools to social service providers – reinforce UC Davis Medical Center’s position as a leader in the Sacramento region.

### ***UC Irvine Medical Center***

UC Irvine Medical Center has just completed the most successful year in its 25-year history, for the fiscal year ending June 30, 2001.

UCIMC recorded its sixth consecutive year of operational gains. This success was achieved by continued growth in outpatient and inpatient referral business, tight control of expenses, and substantial growth in patient care revenues. In addition, the Medical Center achieved an outstanding score of 96 on its Joint Commission on Accreditation of Healthcare Organizations (JCAHO) accreditation survey, the faculty physician group was named as one of the finest in California and the hospital was named one of the nation’s top hospitals in the field of gynecology by U.S. News and World Report.

Planning for a new hospital will continue to be the major focus in the coming months. The growing demand for UCIMC’s specialty services coupled with Orange County’s growth rate and aging population necessitates that a facility be built that will be large enough to serve the academic and patient care missions while meeting the needs of the community. Adding to the capital needs of UCIMC are the costs of advances in diagnostic and treatment technology and new compliance information systems required by the federal HIPAA standards. Advances in the electronic medical record, physician order entry, and systems to minimize risk of medical errors are also sorely needed.

In order to meet the significant capital needs of the next five to ten years, UCI Medical Center is developing plans for a strategy that will provide it

with the capital needed to maintain momentum and continue the transformation of UCIMC into one of the regions most successful hospitals.

Now in the fourth year of our Health Sciences Strategic Plan, the Medical Center and College of Medicine continue to meet or exceed all research, educational, and clinical enterprise goals. The success of the plan can be attributed to an institution-wide focus on quality, customer satisfaction, and financial performance, as well as a renewed commitment to the highest ethical standards in the conduct of research and patient care.

However, UCIMC faces a number of formidable challenges as it enters fiscal year 2001-02. Like other markets in California, Orange County continues to be a very difficult environment for physicians and hospitals. There have been a number of well-publicized medical group bankruptcies over the last several years and there continues to be significant uncertainty throughout the physician community. Pressure on the remaining physician groups from managed-care forces is putting additional financial stress, leading many of them to take a tough approach to contract renewal negotiations with UCIMC. Since the Medical Center increasingly serves as a tertiary care referral center for many of these regional medical groups, their financial health will continue to be a concern. The Medical Center is looking for any signs of financial distress among these referral sources so that it will be prepared to mitigate the negative impact of any additional bankruptcies.

Financial weakness among the large payors like Pacificare is also a concern. Although the Medical Center has now eliminated capitated contracts, except for Cal-OPTIMA (managed Medi-Cal), Health Net, and Aetna. UC employees, it is concerned about the impact of health plan financial problems on its referral network. The Medical Center has been successful with rate negotiations with some insurance plans, while other negotiations are slow and contentious.

The Medical Center is also currently in negotiations with Orange County Health Care Agency for several services UCI has historically provided the Orange County residents. The Medical Center hopes to establish a long-term partnership with the County of Orange for the care of county-responsible patients.

The rising costs of providing patient care is also a major concern. Shortages of nurses and other health professionals are contributing to significant wage inflation and increasing the use of registry staff at higher hourly rates. The

Medical Center is beginning to experience shortages of anesthesiologists and radiologists and must raise the salaries of these hospital-based physicians to continue to provide these hospital services for its patients. In addition, double-digit increases in pharmaceutical costs are worrisome. Some of the recent biotechnology treatment marvels are costing thousands of dollars per dose and are not being appropriately reimbursed by governmental or third party insurers. The Medical Center is currently negotiating with Medi-Cal and Cal-OPTIMA to secure carve-outs for the most expensive new drugs, it is unclear if such an agreement can be reached.

### ***UCLA Medical Center***

The UCLA Medical Center continues to remain viable in a very difficult and competitive southern California environment. This market is experiencing further payor consolidation with financial failure of marginal health plans (e.g., Maxicare, Watts Health Foundation), resulting in increased leverage among the remaining health plans.

During the past fiscal year, there has been a continuing trend of financially distressed Independent Practice Associations (IPA) and medical groups closing or filing Chapter 11 bankruptcy (e.g., Chaudhuri Medical Group, Health Source, Family Health Care Medical Group and Little Company of Mary Health Service's Medical Institute). This trend increases the risk of underpayment and/or no payment for hospital services rendered to patients of failing IPA's and medical groups.

With respect to the local hospital industry, both independent and some health system non-profit hospital providers are barely breaking-even or experiencing financial losses. On the other hand, for-profit hospital systems, which have met or exceeded Wall Street's expectations, are selectively acquiring failing non-profit hospitals (e.g., Daniel Freeman Hospitals, Inc.), expanding clinical program capabilities and physical plants, and in one instance, planning to build a brand new hospital (Palmdale, California). While not an immediate threat, the questionable long-term financial stability of the Los Angeles County health system and implications for UCLA Medical Center will need to be evaluated.

On the state level, "deconsolidation" of one of the major non-profit statewide hospital systems is occurring, as the previous Daughters of Charity (DoC) hospitals (three in Los Angeles) are in the process of separating from Catholic Healthcare West (CHW), the largest non-profit hospital system in the state. The Medical Center will need to watch the impact of this separation, since it

has clinical program relationships with selected CHW hospitals. The energy crisis that has absorbed much of the State's attention during the past year has and may continue to increase the energy costs of the Medical Center. Mandated salary increases have also negatively impacted the Medical Center's expenses. Looking forward, passage of legislation requiring high nurse-to-bed staffing ratios has the potential to add to the cost of care at the Medical Center.

On the federal level, the Medical Center may be burdened with additional costs associated with implementing the requirements of the 1996 HIPAA. Another potential future financial challenge to the Medical Center's bottom line will be the Centers for Medicare and Medicaid Services (CMS), formerly HCFA, proposed ruling to reduce outpatient pass-through payments.

Despite its challenging environment, UCLA Medical Center continues to be successful as management implements the recommendations from the "1997 Medical Enterprise's Primary Care Network" and leveraging the capabilities and resources of Santa Monica – UCLAMC, the Medical Center has strengthened its primary service area position. UCLA's regional strategy has also been effective in maintaining and increasing specialty referrals from outside its immediate service area.

The fruits of these endeavors are reflected by the Medical Center's increased utilization. As of fiscal year-to-date August 24, 2001, the Medical Center is operating at an average daily census (ADC) of 470, compared with ADC of 451 during the same time period last year. Since July 1, 2001, the Medical Center's ADC has risen above 500 on ten separate occasions.

During the upcoming 2002-2003 fiscal year, UCLA Medical Center's major financial objectives will be to: 1) improve its financial operating performance; and 2) increase cash reserves. With respect to the former, management will focus its efforts to reduce out-of-network costs and other significant controllable costs (e.g., pharmaceuticals), increase work productivity, and leverage Santa Monica-UCLAMC to match patient acuity with an appropriate level of acute cost of care.

To enhance the Medical Center's cash position, management will continue to prioritize timely accounts receivable collections throughout the organization, limit the organization's capital expenditures, effectively manage the costs of the hospital replacement building programs, and reduce the level of transfers

for support to the School of Medicine from the medical center to an as needed basis.

With successful implementation of these actions, UCLA Medical Center should continue to serve as an important and prestigious academic, research, and clinical resource for the residents of California.

### ***UC San Diego Medical Center***

The UC San Diego Medical Center continues to remain financially sound with a strong cash position and profitable operations for the fifth straight year in a row (i.e., 1996-97 through 2000-01). This profitability is attributable to efforts to secure disproportionate share funding, manage costs in a period of labor shortages and significant increases in medical supply and utility costs, and successfully access the capital markets to reduce debt service.

For fiscal year 2000-01, the Medical Center reported a net profit of \$36.7 million. Revenues grew 7% over last fiscal year as a result of increased patient activity and improved contract performance. Inpatient admissions increased by 4% over last fiscal year due in part to the success of the Medical Center's two-site strategy. Patient admissions increased at both the Hillcrest and La Jolla facilities. Expenses also grew related to several factors: the nursing shortage, recently negotiated wage increases resulted in a significant increase in labor costs, inflationary increases to pharmaceuticals and medical supplies were significant, and natural gas costs tripled.

Challenges faced by the Medical Center include the regulatory changes being proposed which could significantly reduce the amount of disproportionate share and medical education support available in the future, the continued tight San Diego labor market, additional increases in utility costs as fixed-rate contracts for electricity expire and accumulating capital resources needed to meet seismic and infrastructure requirements of the primary teaching facility in Hillcrest.

To meet these challenges, the UCSD Medical Center's strategic plan focuses on the following initiatives: 1) enhance centers of excellence to retain and attract patients; 2) focus on core operations through partnerships with physicians to manage operations and control cost; and 3) enhance revenues. As part of the strategy to enhance revenues, the Medical Center is evaluating its relationships with managed care payors.

## ***UC San Francisco Medical Center***

The San Francisco Medical Center, maintains an outstanding national reputation, ranking 9<sup>th</sup> in the US News and World Report Survey.

Patient activity at the Medical Center continues to be very strong, built largely on referrals of patients from physicians throughout Central and Northern California. Inpatient occupancy exceeds 80%, and the acuity of the patients seen is among the highest in the University of California system. Outpatient activity continues to grow at the robust rate with over 600,000 visits a year.

UCSF Medical Center's programs in areas ranging from Woman's Health through neurosurgery and organ transplantation continue to be national models. The first clinical building of the only Comprehensive Cancer Center in Northern California was opened October 2000, and is now seeing patients at the rate of 50,000 visits per year. The Medical Center's leading children's health programs, far larger than those at competing regional children's hospitals, are growing and is appropriately recognized as a University Children's Hospital.

UCSF Medical Center's themes for fiscal year 2000-01 were to improve operational efficiency and achieve financial stability, following the dissolution of the merger with Stanford Health Services. Management was strengthened, with the retention of a permanent Chief Financial Officer and Chief Information Officer, and the conclusion of the Hunter Group hospital management contract in March 2001. Staffing was stabilized and steps were taken to improve morale, including the initiation of a hospital-wide employee incentive program. The hospital prepared for and successfully completed its tri-annual Joint Commission on Accreditation of Healthcare Organizations (JCAHO) Survey and received a three year accreditation. Inpatient capacity continues to be an important issue for UCSF Medical Center. During 2000-01, the Medical Center completed renovation of the 11<sup>th</sup> floor critical care unit, which increased critical care capacity by 16 beds, Mount Zion Hospital was reopened for short-stay surgery, and projects to renovate and expand the Moffitt Operating Rooms and Emergency Department were initiated.

Financial performance in 2000-01 reflects the beginning of the post-merger financial turn-around at UCSF Medical Center. The net loss in fiscal year 2000-01 of \$16.8 million (i.e., the Medical Center reported an \$8 million loss and Physician Services reported an \$8.8 million loss) was better than the

\$25.0 million loss projected in the budget and far less than the \$59.6 million annual rate of loss experienced in the final quarter of 1999-2000. There was \$54 million in cash reserves at the beginning of 2000-01 but the cash reserves dropped to \$22 million by December 2000. By the end of the fiscal year cash reserves increased to \$36 million.

UCSF Medical Center's focus for 2001-02 will be to utilize the stable operational and financial base to rebuild strong operating fundamentals. The goals of the Medical Center are:

- to improve the quality of care, as measured by the standards used by the JCAHO.
- to improve patient satisfaction, as measured through patient surveys.
- to reduce losses to \$10 million or less by year-end.

Efforts to achieve these goals will include the following major projects:

- Improvement of controls over operating and capital disbursements.
- Better utilization of inpatient capacity – particularly during the busy winter months.
- Continuation of major construction projects to expand or enhance the Operating Rooms, the Emergency Department and the seismic safety of the facilities.
- Re-design of “the front-end” (i.e., registration, financial evaluation, cashiering, etc.) of ambulatory care to increase patient and physician satisfaction, as well as, increase professional fees and hospital ancillary services collection rates.
- Simplification and clarification of the clinical income funds flow between the Medical Center and Medical Group.

Finally, UCSF Medical Center, working with the faculty, will complete a strategic plan for the Medical Center and the clinical practices that will cover the next three to five years. The plan will contain the operational and financial blueprint for how the clinical enterprise will develop, expand and rebuild its facilities to meet the needs of out-patients and faculty.

## **Future Issues**

As UC medical schools and medical centers look to the future, the University remains committed to excellence in health sciences education and responsiveness to societal health needs. Meeting these challenges successfully will require increasing collaboration among educators, teaching hospitals, managed care organizations, and others to ensure that the quality of patient care and medical education continue to meet the high standards of American medicine and modern society.

With their tripartite mission of teaching, public service, and research, UC's academic medical centers constitute a major resource for California and the nation by providing excellent training for tomorrow's health professionals, educational opportunities for community health professionals who participate in the University's clinical teaching and continuing education programs, and health care services to thousands of patients each day.

Below is a partial list of issues that the UC medical centers are addressing:

- Compliance with SB 1953.
- Increasing energy costs.
- Increasing salary costs, especially for represented employees.
- Sunset of the Medi-Cal Medical Education Program on June 30, 2002.
- The costs of compliance with HIPAA.
- Medicare and Medicaid cuts in reimbursement after BIPA legislation sunsets in 2003.
- The financial impact of the Upper Payment Limits.
- Sustainable support for the Schools of Medicine.

# STUDENT FEES

## Overview

There are two mandatory systemwide fees currently assessed all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support student financial aid, student services programs, and a share of the University's operating costs, including instruction-related costs.

In the early 1990s, mandatory systemwide student fees increased dramatically as one of the many ways in which the University was able to weather the State's fiscal difficulties. As the State emerged from its economic difficulties, the Governor and the Legislature placed a renewed priority on higher education and provided additional revenue to the University to keep fee levels from increasing. As a result, there have been no increases in mandatory systemwide student fees since 1994-95. In 1998-99, consistent with Assembly Bill 1318 (Chapter 853, Statutes of 1997), mandatory systemwide fees for California resident undergraduate students were reduced by 5% (\$190). For California resident graduate and professional school students, as well as for all nonresident students, these fees were maintained at the 1997-98 levels. In 1999-2000, the State provided the University with revenue equivalent to what would have been generated had mandatory systemwide fees been increased by 4.1% (the estimated growth in California per capita personal income), eliminating the need to increase these fees in 1999-2000. In addition, the State provided sufficient funds in 1999-2000 to: (1) reduce mandatory systemwide fees by an additional 5% for California resident undergraduate students (with the result that 1999-2000 fees were about 10% below 1994-95 levels); and (2) reduce mandatory systemwide fees by 5% for California resident graduate academic students. The fee reduction was not applicable to graduate students who are subject to the Fee for Selected Professional School Students. In 2000-01 and again in 2001-02, the State eliminated the need to increase student fees by providing the University with revenue equivalent to the amount that would have been generated had mandatory systemwide fees been increased by the estimated growth in California per capita personal income—4.5% in 2000-01 and 4.9% in 2001-02.

The Partnership Agreement recognizes that programs funded from student fee income must also receive cost increases for salaries, benefits, and cost

adjustments to those portions of the budget funded by student fee revenue and specifies that they should be funded either through an increase in student fee equivalent to the rate of increase in California per capita personal income or the State will provide the equivalent in funding to avoid the student fee increase. In each of the last seven years, the State has chosen to provide funding to avoid increases in student fees.

Given the State's commitment to avoid fee increases for the last seven years, and an indication from the Department of Finance that the Governor continues to support buyouts of student fee increases, the University's 2002-03 budget plan assumes that the State will once again provide funding to avoid fee increases in both mandatory systemwide student fees and in professional school fees, equivalent to a 7.82% increase for 2002-03. This percentage increase is equal to the estimated rise in California per capita personal income in 2000, consistent with the funding principles of the Partnership. However, the State's weakened fiscal situation may mean the University is faced with base budget cuts in 2002-03. Depending on the severity of such cuts, the University's initial position on avoiding fee increases in 2002-03 may need to be re-evaluated. Display 1 (next page) shows fee levels for resident undergraduate and graduate students from 1978-79 through 2002-03 (estimated).

All students seeking specified degrees in medicine, dentistry, veterinary medicine, law, business/management, pharmacy, optometry, nursing, and theater/film/television (at the Los Angeles campus only) are required to pay a professional school fee, as provided in the Fee Policy for Selected Professional School Students approved by The Regents in January 1994. In addition to reducing fees for resident undergraduate students, AB 1318 (Ducheny, 1997) put into place a two-year freeze on fees for students enrolled in graduate or professional school programs; as a result, fees for these students were kept at 1997-98 levels. In 2000-01 and again in 2001-02, the Governor proposed, and the Legislature approved, additional funding of \$1.4 million in 2000-01 and \$1.5 million in 2001-02 for the University in lieu of increasing professional school fees, net of financial aid, so that programs from these fees could be cost-adjusted. The 2002-03 budget plan assumes the State will provide funding equivalent to a 7.82% increase in professional fees, net of financial aid, for salaries, benefits, and other cost adjustments to portions of the budget funded by professional fee revenue.

Display 1

UNIVERSITY OF CALIFORNIA  
STUDENT FEE LEVELS, 1978-2002

	Average Annual Fees per Resident Undergraduate Student					Average Annual Fees per Resident Graduate Student				
	Reg. Fee	Educ. Fee	Ed/Reg Fees Combined	Miscellaneous Fees (a)	Total Fees (a)*	Reg. Fee	Educ. Fee	Ed/Reg Fees Combined	Miscellaneous Fees (a)	Total Fees (a) *
	1978-79	\$ 371	\$ 300	\$ 671	\$ 49	\$ 720	\$ 371	\$ 360	\$ 731	\$ 38
1979-80	385	300	685 (2.1%)	51	736	385	360	745 (2.1%)	39	784
1980-81	419	300	719 (5.0%)	57	776	419	360	779 (5.0%)	45	824
1981-82	463	475	938 (30.5%)	60	998	463	535	998 (30.5%)	45	1,043
1982-83	510	725	1,235 (31.7%)	65	1,300	510	785	1,295 (31.7%)	51	1,346
1983-84	523	792	1,315 (6.5%)	72	1,387	523	852	1,375 (6.5%)	58	1,433
1984-85	523	722	1,245 (-5.3%)	79	1,324	523	782	1,305 (-5.3%)	63	1,368
1985-86	523	722	1,245 (0.0%)	81	1,326	523	782	1,305 (0.0%)	64	1,369
1986-87	523	722	1,245 (0.0%)	100	1,345	523	782	1,305 (0.0%)	82	1,387
1987-88	570	804	1,374 (10.4%)	118	1,492	570	804	1,374 (10.4%)	100	1,474
1988-89	594	840	1,434 (4.4%)	120	1,554	594	840	1,434 (4.4%)	125	1,559
1989-90	612	864	1,476 (2.9%)	158	1,634	612	864	1,476 (2.9%)	222	1,698
1990-91	673	951	1,624 (10.0%)	196	1,820	673	951	1,624 (10.0%)	482	2,106 (b)
1991-92	693	1,581	2,274 (40.0%)	212	2,486	693	1,581	2,274 (40.0%)	557	2,831 (b)
1992-93	693	2,131	2,824 (24.2%)	220	3,044	693	2,131	2,824 (24.2%)	608	3,432 (b)
1993-94	693	2,761	3,454 (22.3%)	273	3,727	693	2,761	3,454 (22.3%)	703	4,157 (b)
1994-95	713	3,086	3,799 (10.0%)	312	4,111	713	3,086	3,799 (10.0%)	786	4,585 (b, c)
1995-96	713	3,086	3,799 (0.0%)	340	4,139	713	3,086	3,799 (0.0%)	836	4,635 (b, c)
1996-97	713	3,086	3,799 (0.0%)	367	4,166	713	3,086	3,799 (0.0%)	868	4,667 (b, c)
1997-98	713	3,086	3,799 (0.0%)	413	4,212	713	3,086	3,799 (0.0%)	923	4,722 (b, c)
1998-99	713	2,896	3,609 (-5.0%)	428 (d)	4,037	713	3,086	3,799 (0.0%)	839 (d)	4,638 (b, c)
1999-2000	713	2,716	3,429 (-5.0%)	474 (d)	3,903	713	2,896	3,609 (-5.0%)	969 (d)	4,578 (b, c)
2000-01	713	2,716	3,429 (0.0%)	535 (d)	3,964	713	2,896	3,609 (0.0%)	1,138 (d)	4,747 (b, c)
2001-02 (excl. health ins)	713	2,716	3,429 (0.0%)	430 (d)	3,859					
2001-02 (incl. health ins)	713	2,716	3,429 (0.0%)	917 (d)	4,346	713	2,896	3,609 (0.0%)	1,305 (d)	4,914 (b, c)
2002-03 (excl. health ins)	<b>713</b>	<b>2,716</b>	<b>3,429 (0.0%)</b>	<b>430 (d)</b>	<b>3,859</b>					
2002-03 (incl. health ins)	<b>713</b>	<b>2,716</b>	<b>3,429 (0.0%)</b>	<b>917 (d)</b>	<b>4,346</b>	<b>713</b>	<b>2,896</b>	<b>3,609 (0.0%)</b>	<b>1,305 (d)</b>	<b>4,914 (b, c)</b>

Notes:

(a) Represents the average of fees charged by the nine campuses.

(b) The \$376 annual Special Fee for Law and Medicine is not included in figures shown.

(c) The Fee For Selected Professional School Students is not included in figures shown.

(d) Beginning in 1998-99, campus miscellaneous fees are calculated on a weighted basis using enrollments.

Miscellaneous fee levels include charges for waivable mandatory student health insurance established through student referendum at the Berkeley and Santa Cruz campuses.

\* Total fees are the sum of the Ed/Reg Fees combined and estimated campus miscellaneous fees, which are higher for graduate students.

Finally, in addition to all mandatory systemwide fees, campus-based fees, and any applicable professional school fees, nonresident students must pay nonresident tuition. For 2001-02, the nonresident tuition is \$10,704. The University's 2002-03 budget plan includes a proposal to increase nonresident tuition by \$428, consistent with State policy (described in more detail later in this chapter). Assuming no increase in mandatory systemwide fees, with the proposed increase in nonresident tuition, the increase in total 2002-03 charges will be less than 3% for nonresident students.

## **History of Student Fees**

### ***Student Fees in the 1980s***

In 1981-82 and 1982-83, reductions to the University's State-funded budget resulted in significant increases in fee levels, and student fees were used to fund programs previously supported from other sources, primarily State funds. In 1984-85, the State reversed the pattern of annual fee increases by approving a \$70 per student reduction in student fees. In 1985, the State adopted a long-term student fee policy that provided for gradual and moderate fee increases and established guidelines for fee increase calculations, financial aid, notification to students of fee increases, and consultation with students.

In 1985-86 and again in 1986-87, mandatory systemwide student fees were held to their 1984-85 levels. In each of these three years, the State provided an increase in General Funds for student financial aid which, in turn, released an equivalent amount of student fee income to offset the 1984-85 fee reduction and to compensate for the impact of inflation on student services programs for those three years. In 1987-88, 1988-89, and 1989-90, student fees were increased by about 10%, 4%, and 3%, respectively.

### ***Student Fees 1990-91 through 1994-95***

Historically, the combination of adequate State support and low student fees maintained the affordability of the University; financial aid programs also helped to maintain access for needy students. The commitment to low fees was eroded by the State's severe fiscal difficulties in the early 1990s and the resulting dramatic decline in State support for the University. The shortfalls in State funding were accommodated in three ways: about half through budget cuts, roughly a quarter by not providing employees with cost-of-living salary adjustments, and another quarter through general student fee

increases. Thus, there was considerable volatility in fee increases during the early 1990s.

Mandatory systemwide fees increased significantly during the three-year period between 1990-91 and 1993-94. In 1994-95, when State support for the University's budget was still severely constrained, the University was nevertheless able to hold the fee increase to 10%. A higher increase had been proposed in order to generate sufficient revenue to fund the budget; instead the State authorized the use of \$25 million in debt financing for deferred maintenance, thereby releasing General Funds previously budgeted for deferred maintenance that could then be used to support the budget and keep the fee increase to 10%. Throughout this period, fees were accompanied by significant increases in financial aid that helped offset the impact of the fee increases on needy students. The commitment to financial aid, which is addressed in the *Student Financial Aid* chapter of this document, has helped maintain the affordability of a UC education.

### ***Student Fees 1995-96 through 2001-02***

The 1995 Governor's Budget proposed a four-year Compact with higher education, with a goal of providing fiscal stability to the University after years of budget cuts and allowing for growth through a combination of State General Funds and student fee revenue. The Compact included the expectation that General Fund budget increases averaging 4% per year over the four-year period would be provided. The Compact also anticipated general student fee increases averaging 10% a year, as well as additional fee increases for students in selected professional schools.

During the Compact, the State provided the University with additional revenue above the proposed Compact levels to "buy out" the annual student fee increases. In addition, in 1998-99, the State provided sufficient funds to maintain fees at the 1997-98 levels (thereby avoiding a fee increase of 10%) and to reduce mandatory systemwide student fees by 5% for resident undergraduate students, consistent with AB 1318.

In 1999-2000, consistent with the new Partnership Agreement, the State provided sufficient funds to avoid the need for a 4.1% student fee increase and, beyond that, to reduce mandatory systemwide student fees by an additional 5% for resident undergraduate (resulting in a total reduction over a two-year period of 10%) and by 5% for graduate academic students.

In 2000-01 and again in 2001-02, the State eliminated the need to increase student fees by providing the University with revenue equivalent to the amount that would have been generated had mandatory systemwide fees been increased by the estimated growth in California per capita personal income—4.5% in 2000-01 and 4.9% in 2001-02.

For 2001-02, University fee levels for undergraduate resident students (excluding health insurance fees) are approximately \$1,726 less than the average fees for the University’s four public salary comparison institutions. In addition, University fees for resident graduate students continue to be below the average fees charged at the University’s four public salary comparison institutions. The University’s fees for nonresident undergraduate and graduate students also remain less than the average fees for the comparison institutions. Display 2 shows the average resident and nonresident fees charged at the University’s four public comparison institutions.

Display 2

<b>University of California and Public Salary Comparison Institutions Student Fees</b>				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
<b>Public Salary Comparison Institutions 2001-02 Fees</b>				
University of Illinois	\$5,754	\$13,574	\$6,414	\$14,298
University of Michigan	\$7,375	\$22,405	\$11,523	\$23,163
State University of New York	\$4,790	\$9,690	\$6,118	\$9,434
University of Virginia	\$4,421	\$18,453	\$5,178	\$18,268
<b>2001-02 Average Fees of Comparison Institutions</b>	\$5,585	\$16,031	\$7,308	\$16,291
<b>2001-02 Average UC Fees (excluding undergraduate health insurance fees)</b>	<b>\$3,859</b>	<b>\$14,933</b>	<b>\$4,914</b>	<b>\$15,808</b>
<b>2001-02 Average UC Fees (including undergraduate health insurance fees)</b>	<b>\$4,346</b>	<b>\$15,420</b>	<b>\$4,914</b>	<b>\$15,808</b>
<b>2002-03 Estimated Average Fees for Public Salary Comparison Institutions</b>	<b>\$5,864</b>	<b>\$16,832</b>	<b>\$7,674</b>	<b>\$17,105</b>
<b>2002-03 Estimated Average UC Fees with no increase in Systemwide Fees (excluding undergraduate health insurance fees)</b>	<b>\$3,859</b>	<b>\$15,361</b>	<b>\$4,914</b>	<b>\$16,236</b>
<b>2002-03 Estimated Average UC Fees with no increase in Systemwide Fees (including undergraduate health insurance fees)</b>	<b>\$4,346</b>	<b>\$15,848</b>	<b>\$4,914</b>	<b>\$16,236</b>

For 2001-02, the mandatory systemwide fees paid by resident undergraduate students are about 21% of the actual cost of their education, with the State providing most of the remainder.

As fees have increased over time, the percentage of additional fee income dedicated to financial aid has increased commensurately, from 16% 13 years ago to 33% at present. Financial aid provided to UC students through the Cal Grant program also has increased. Funds from the Cal Grant program and financial aid provided from student fee revenue helped cover fee increases for UC students who demonstrated financial need.

During the period when fees increased, the percentage of new freshmen from low-income families—those with less than \$30,000 in parental income—did not decline. In the fall of 1998, the University enrolled about the same proportion of new freshmen from low-income families as it did in fall 1991. The *Student Financial Aid* chapter of this document provides a full discussion of financial aid, including State, federal, private, and University sources.

### **Policy on Adjustment of Student Fee Levels**

In 1985, the State adopted a long-term student fee policy which provided for gradual and moderate fee increases and established guidelines for fee increase calculations, financial aid, notification to students of fee increases, and consultation with students. In addition, the policy provided for fee increases of up to 10% when expenditures were projected to exceed available State revenues. Although The Regents adopted the policy in 1985, it was routinely suspended beginning with the 1991-92 budget. The policy was not reauthorized by the Legislature and is no longer in effect.

At their meetings in October and November 1993, The Regents discussed the need to establish a new student fee policy coupled with a formal financial aid policy. These discussions were held within the context of reduced State financial support for the University and an anticipated dramatic increase in student demand over the next 15 years. During these discussions, the necessity to generate additional revenue in order to maintain the academic quality of the University, as well as student access, was acknowledged. It was also recognized that, for California resident students, funding the cost of a UC education is a shared responsibility among the State, the students, and their families. Further, because student fees cover only a portion of the cost to educate students, it was understood that all students receive a substantial

State subsidy, including those from high-income families who have the resources to contribute more. Data from a 1997-98 survey (the most recent year for which data are available) of students' expenses and resources indicate that about a third (34.1%) of undergraduates had parents with incomes above \$72,000, while about 21% had incomes of \$96,000 and above.

In January 1994, based on extensive discussions with the State and within the University community, The Regents approved a Student Fee and Financial Aid Policy that applies to the Educational Fee and University Registration Fee. The policy recognizes that the commitment to low fees has been eroded by dramatic declines in State support, and specifically authorizes the use of Educational Fee revenue for general support of the University, including costs related to instruction. A goal of the policy is to maintain access to a quality educational experience at the University for low- and middle-income students without unnecessarily subsidizing high-income students.

Under the policy, the Educational Fee continues to be a mandatory charge assessed to all resident and nonresident students. The policy calls for the Educational Fee to be established annually, based on the following factors: (1) the resources necessary to maintain access under the Master Plan, to sustain academic quality, and to achieve the University's overall missions; (2) the amount of support available from various sources to assist needy students in funding the cost of their education; (3) overall State General Fund support for the University; and (4) student charges at comparable public institutions. Income from the Educational Fee is used for the general support of the University's operating budget, including costs related to instruction. The policy also established a methodology for setting annual University Registration Fee levels that may vary among the campuses within a range established annually by The Regents. Finally, to assist students and their parents in planning for future educational expenses, the policy provides for recommendations annually to the Board concerning the proposed levels for the Educational Fee and the University Registration Fee for the next academic year.

## **Educational Fee**

The Educational Fee was established in 1970. Though use of revenue from the Educational Fee initially was designated primarily for capital outlay purposes, in subsequent years, an increasing proportion of the Fee was

allocated for student financial aid. In 1976, The Regents adopted a policy that Educational Fee income was to be used exclusively for support of student financial aid and related programs. The Regents modified that policy in 1981 following a reduction in State General Fund support. As a result, the Educational Fee, which continued to fund student financial aid and related programs, also began to support social and cultural activities, counseling and career guidance, supplemental education (e.g., academic tutoring), and overhead (i.e., operation and maintenance of plant and general administration) associated with student services activities.

In 1994, The Regents adopted a policy permitting the use of Educational Fee revenue for general support of the University's operating budget, including costs related to instruction. As discussed earlier, the policy also established a methodology for setting annual Educational Fee levels.

### **University Registration Fee**

The University Registration Fee is a charge made to each registered student for services that are necessary to students but not part of the University's programs of instruction, research, or public service. Included in these services are activities such as counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students. Chancellors are authorized to determine specific allocations of Registration Fee income on their campuses, within appropriate University policies and guidelines. Each campus has a Registration Fee Committee, which includes a majority of student members, to advise the Chancellor on pertinent issues.

Between 1977-78 and 1988-89 the Registration Fee level differed by campus in order to allow each campus to meet specific program needs. This approach included the expectation that the Registration Fee could be increased differentially, up to a universitywide ceiling, to meet future campus needs. However, the Registration Fee was frozen from 1984-85 through 1986-87. In 1987-88, the University began moving toward a uniform Registration Fee level among the campuses, a goal achieved in 1989-90.

The Student Fee and Financial Aid Policy approved by The Regents in January 1994 no longer required the Registration Fee to be uniform across campuses. Because there have been no increases in mandatory systemwide fees and the reductions in mandatory student fees implemented in 1998-99

and 1999-2000 were not applied to the Registration Fee, the Registration Fee level has remained the same since 1994-95. In lieu of increases in the Registration Fee, programs supported by the Registration Fee continue to receive inflationary adjustments, funded from State General Funds, equivalent to what is provided to General Fund and Educational Fee-funded programs (e.g., cost-of-living and merit salary increases, and price increases).

### **Fee for Selected Professional School Students**

Pursuant to the provisions of the 1990 State Budget Act, a Special Fee for Law School and Medical School Students of \$376 per year was implemented, effective as of 1990-91.

In January 1994, The Regents approved a Fee Policy for Selected Professional School Students. In approving the new fee policy, the University reaffirmed its commitment to maintain academic quality and enrollment in the designated professional school programs, and recognized that earning a degree in these programs benefits the individual as well as the state. The policy provides that the fee for each selected professional program will be phased in to approximately the average of fees charged for that program by comparable high quality institutions across the nation. Until the fee is fully phased in, the level of the fee remains the same for each student for the duration of his or her enrollment in the professional degree program, with increases in the fee applicable to new students only. In addition, professional school students pay mandatory systemwide fees and miscellaneous campus-based fees and, when appropriate, nonresident tuition. The Special Fee for Law and Medical school students is now coordinated with the Fee for Selected Professional School Students. Display 3 (next page) shows the fee levels previously approved by The Regents.

In 1997, AB 1318 (Chapter 853) was enacted, which, among its provisions, specified a two-year freeze on fees for California residents enrolled in graduate academic or professional school programs. Thus, the planned professional school fee increases for 1998-99 that were previously reviewed by The Regents were not implemented. Since that time, it has been the policy of the Governor and the Legislature to continue to avoid fee increases, including increases in professional school fees. Therefore, professional school fees remain at the 1997-98 levels.

**Display 3**

<b>Fees for Selected Professional School Students</b>				
<b>Annual Fee Levels by Year of First Enrollment*</b>				
	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>	<b>1997-98</b>
Medicine	\$2,376	\$3,376	\$4,376	\$5,376
Dentistry	2,000	3,000	4,000	5,000
Veterinary Medicine	2,000	3,000	4,000	4,000
Law	2,376	4,376	6,376	6,376
Business	2,000	4,000	6,000	6,000
Riverside	2,000	3,000	4,000	5,000
Optometry			2,000	3,000
Pharmacy			2,000	3,000
Nursing			1,500	1,800
Theater, Film, & TV			2,000	2,000

\* In addition, professional school students pay mandatory systemwide fees and miscellaneous campus-based fees.

In 2000-01 and again in 2001-02, the Governor proposed, and the Legislature approved, additional funding of \$1.4 million in 2000-01 and \$1.5 million in 2001-02 for the University in lieu of increasing professional school fees, so that programs supported from these fees could be cost-adjusted. These increases were equivalent to a 4.5% and 4.9% increase respectively in professional school fees, net of financial aid.

New revenue from the Fee for Selected Professional School Students will be generated in 2002-03 from new students paying previously approved fees. However, because the fee levels for all affected programs have been fully phased in and enrollment increases in professional programs are small, the amount of new professional fee revenue will be minimal.

Display 4 shows 2001-02 professional school fees at the University of California in relation to the University's four public salary comparison institutions. In every case, the fees for resident students enrolled in these selected professional schools are lower than the average of the tuition and fees charged by comparable public institutions. Because most of the University's four public salary comparison institutions do not offer degree programs in Veterinary Medicine and Optometry, additional public institutions are used for fee comparison purposes.

The differential between UC fees for these programs and the tuition and fees charged at comparable public institutions has grown significantly over the

**Display 4**

<b>UNIVERSITY OF CALIFORNIA 2001-02 FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS</b>											
<b>University of California</b>	<u>Under-graduate</u>	<u>Graduate</u>	<u>Medicine</u>	<u>Dentistry</u>	<u>Veterinary Medicine</u>	<u>Law</u>	<u>Business Admin.</u>	<u>Optometry</u>	<u>Pharmacy</u>	<u>Nursing</u>	<u>Theater, Film &amp; TV</u>
<b>Current 2001-02 Fees</b>											
Educational Fee, University Registration											
Fee, and Average Miscellaneous Fees	\$ 3,859 *	\$ 4,914	\$ 5,062	\$ 4,886	\$ 7,002	\$ 4,799	\$ 5,193	\$ 4,123	\$ 4,909	\$ 4,820	\$ 4,740
Fee for Selected Professional School Students	--	--	\$ 5,376	\$ 5,000	\$ 4,000	\$ 6,376	\$ 6,000 **	\$ 3,000	\$ 3,000	\$ 1,800	\$ 2,000
<b>Total Fees for 2001-02 (excl. health ins</b>	<b>\$ 3,859 *</b>	<b>\$ 4,914</b>	<b>\$ 10,438</b>	<b>\$ 9,886</b>	<b>\$ 11,002</b>	<b>\$ 11,175</b>	<b>\$ 11,193</b>	<b>\$ 7,123</b>	<b>\$ 7,909</b>	<b>\$ 6,620</b>	<b>\$ 6,740</b>
<b>Comparison Institution Fees</b>											
<b>Current 2001-02 Fees</b>											
<i>Public Salary Comparison Institutions</i>											
University of Illinois	\$ 5,754	\$ 6,414	\$ 19,374	\$ 13,370	\$ 11,090	\$ 11,332	\$ 13,564		\$ 10,142	\$ 6,414	\$ 6,414
University of Michigan	\$ 7,375	\$ 11,523	\$ 19,331	\$ 17,665		\$ 23,349	\$ 25,685		\$ 13,863	\$ 11,523	\$ 11,523
State University of New York	\$ 4,790	\$ 6,118	\$ 11,870	\$ 11,980		\$ 10,180	\$ 6,090		\$ 9,840		\$ 6,118
University of Virginia	\$ 4,421	\$ 5,178	\$ 15,450			\$ 18,090	\$ 22,283			\$ 5,178	
<i>Additional Fee Comparison Institutions for Selected Programs</i>											
University of Alabama								\$ 7,560			
Michigan State University					\$ 11,800						
University of Minnesota					\$ 12,436						
University of Missouri								\$ 15,529			
Ohio State University								\$ 10,400			
University of Wisconsin					\$ 14,660						
<i>Average Public Comparison Institution</i>											
<b>Total Fees</b>	<b>\$ 5,585</b>	<b>\$ 7,308</b>	<b>\$ 16,506</b>	<b>\$ 14,338</b>	<b>\$ 12,497</b>	<b>\$ 15,738</b>	<b>\$ 16,906</b>	<b>\$ 11,163</b>	<b>\$ 11,282</b>	<b>\$ 7,705</b>	<b>\$ 8,018</b>
<i>Private Salary Comparison Institutions</i>											
Harvard University	\$ 26,039	\$ 24,854	\$ 30,547			\$ 28,316	\$ 31,945				
Massachusetts Institute of Technology	\$ 26,960	\$ 26,960					\$ 31,200				
Stanford University	\$ 25,917	\$ 26,646	\$ 32,497			\$ 30,127	\$ 31,731				
Yale University	\$ 26,100	\$ 23,650	\$ 30,900			\$ 29,800	\$ 28,930				
* Excludes undergraduate student health insurance fees. Effective Fall 2001, undergraduate students must demonstrate proof of insurance to enroll.											
** Except the Riverside campus which charges \$5,000 per MBA student per year.											

past four years, ranging from \$1,085 in Nursing to as much as \$6,083 in Medicine. The greatest differentials are seen in Medicine, Business, and Law, but significant differentials are found in Dentistry, Optometry and Pharmacy as well.

For information only, the table also shows the 2001-02 tuition and fees at the University's four private salary comparison institutions. The private comparison institutions do not offer all of the professional degree programs that UC offers, therefore the comparisons focus on medicine, law, and business administration.

Due to a concern about the ability of students with high debt to pursue public interest occupations, some professional schools have developed programs to assist students in meeting their loan repayment obligations after graduation. The University will continue to monitor the debt levels of students.

### **Nonresident Tuition**

Consistent with the statewide policy on nonresident tuition, the University's 2002-03 budget plan includes an increase of \$428 (4.0%) in nonresident tuition. This increase is expected to generate about \$6 million in new revenue.

With the proposed increase in nonresident tuition, assuming there is no increase in mandatory systemwide fees, the University's total 2002-03 charges for nonresident undergraduate students who purchase health insurance will be \$15,848. The University's total charges for nonresident graduate students will be \$16,236. These figures are less than the projected average of tuition and fees charged at the University's four public salary comparison institutions by \$984 for nonresident undergraduate students and \$869 for nonresident graduate students. Display 2 (depicted earlier in this chapter) shows the 2002-03 projected average nonresident tuition and fees for students at the four public salary comparison institutions. Consistent with State policy, future increases in UC nonresident tuition are anticipated to keep the University's charges near the average nonresident tuition and fees charged at comparison institutions.

University of California students who do not qualify as California residents under Section 110.2, Matters Relating to Residency, of the Standing Orders of The Regents, are required to pay nonresident tuition. In addition to paying

nonresident tuition, out-of-state students must also pay the Educational Fee, the Registration Fee, miscellaneous campus fees and, if applicable, the Fee for Students in Selected Professional Schools.

In May 1992, The Regents adopted stricter requirements for establishing residency for tuition purposes. This action allowed the University to be consistent with the federal definition of "financial independence" and to give full weight to this factor in assessing whether undergraduate and graduate students should be classified as residents for tuition purposes. Effective fall 1993, students seeking classification as residents are considered financially independent if they are at least one of the following: at least 24 years old; a veteran of the U.S. Armed Services; married; a ward of the court; both parents are deceased; have legal dependents other than a spouse; a graduate student and not claimed on another's income tax as a dependent for the immediately preceding tax year; or a single undergraduate student who is financially self-sufficient and who was not claimed on another's income tax return as a dependent for the preceding two years.

### ***State Policy on Adjustment of Nonresident Tuition***

In 1988-89, the Legislature adopted Senate Concurrent Resolution 69 (Morgan) expressing its intent to adopt a long-term nonresident student fee policy. The resolution called on the California Postsecondary Education Commission (CPEC) to convene meetings of representatives from the University of California, the California State University, Hastings College of the Law, the California Community Colleges, the Department of Finance, the Legislative Analyst's Office, and students, to develop recommendations for a long-term nonresident student fee policy. The Advisory Committee convened by CPEC issued a report in June 1989, which concluded with the following recommendation:

*As California's public postsecondary education segments annually adjust the level of nonresident tuition they charge out-of-state students, the nonresident tuition methodologies they develop and use should take into consideration, at a minimum, the following two factors: (1) the total nonresident charges imposed by each of their public comparison institutions and (2) the full average cost of instruction in their segment.*

*Under no circumstances should a segment's level of nonresident tuition plus required fees fall below the marginal cost of instruction for that segment.*

*In addition, each segment should endeavor to maintain that increases in the level of nonresident tuition are gradual, moderate, and predictable, by providing nonresident students with a minimum of a ten-month notice of tuition increases. Each governing board is directed to develop its own methodology for adjusting the level of nonresident tuition, but those methodologies should be consistent with this recommendation.*

The Advisory Committee's recommendations for adjusting the level of nonresident tuition subsequently were signed into law (Chapter 792, 1990). In addition, the legislation includes the proviso that "in the event that State revenues and expenditures are substantially imbalanced due to factors unforeseen by the Governor and the Legislature," nonresident tuition will not be subject to the bill's provisions.

### ***Nonresident Tuition Levels in the 1980s and 1990s***

Between 1987-88 and 1991-92, fees for nonresident students increased substantially, creating a significant differential between the University's total tuition and fees and those charged at other public institutions. In recognition of that differential, in the five years between 1991-92 and 1995-96, there were no increases in nonresident tuition although there were increases in mandatory systemwide fees. Even though the nonresident tuition fee did not increase during these five years, the number of students paying nonresident tuition declined in the early 1990s. Notwithstanding subsequent increases in nonresident tuition, the number of nonresident students paying the tuition fee began to rebound beginning in 1995-96. Consistent with the statewide policy on adjustment of nonresident tuition, The Regents have approved annual increases in nonresident tuition since 1996-97. Display 5 shows the total tuition and fee charges for nonresident undergraduate students since 1978. Because mandatory systemwide fees have not increased in seven years, increases in the total tuition and fees charged to nonresident undergraduate students have been modest, averaging about 3.7% since 1998-99.

### **Miscellaneous Campus Fees**

Other campus mandatory fees, also called miscellaneous fees, cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government, and construction, renovation and repair of

### Display 5

UNIVERSITY OF CALIFORNIA						
TOTAL TUITION AND FEE CHARGES FOR NONRESIDENT UNDERGRADUATE STUDENTS 1978-2002						
Year	Mandatory Systemwide Fees	Average Campus Fees	Nonresident Tuition	Total Fees & Tuition	Total % Increase in Tuition and Fees	
1978-79	\$ 671	\$ 49	\$ 1,905	\$ 2,625	--	
1979-80	685	51	2,400	\$ 3,136	19.5%	
1980-81	719	57	2,400	\$ 3,176	1.3%	
1981-82	938	60	2,880	\$ 3,878	22.1%	
1982-83	1,235	65	3,150	\$ 4,450	14.7%	
1983-84	1,315	72	3,360	\$ 4,747	6.7%	
1984-85	1,245	79	3,564	\$ 4,888	3.0%	
1985-86	1,245	81	3,816	\$ 5,142	5.2%	
1986-87	1,245	100	4,086	\$ 5,431	5.6%	
1987-88	1,374	118	4,290	\$ 5,782	6.5%	
1988-89	1,434	120	4,956	\$ 6,510	12.6%	
1989-90	1,476	158	5,799	\$ 7,433	14.2%	
1990-91	1,624	196	6,416	\$ 8,236	10.8%	
1991-92	2,274	212	7,699	\$ 10,185	23.7%	
1992-93	2,824	220	7,699	\$ 10,743	5.5%	
1993-94	3,454	273	7,699	\$ 11,426	6.4%	
1994-95	3,799	312	7,699	\$ 11,810	3.4%	
1995-96	3,799	340	7,699	\$ 11,838	0.2%	
1996-97	3,799	367	8,394	\$ 12,560	6.1%	
1997-98	3,799	413	8,984	\$ 13,196	5.1%	
1998-99	3,799	428	9,384	\$ 13,611	3.1%	
1999-2000	3,799	474	9,804	\$ 14,077	3.4%	
2000-01	3,799	535	10,244	\$ 14,578	3.6%	
2001-02 (excl. health ins.)	3,799	430	\$ 10,704	\$ 14,933	2.4%	
2001-02 (incl. health ins.)	3,799	917	\$ 10,704	\$ 15,420	5.8%	
2002-03 (excl. health ins.)	3,799	430	11,132	\$ 15,361	2.9%	
2002-03 (incl. health ins.)	3,799	917	11,132	\$ 15,848	2.8%	

sports and recreational facilities. The level of miscellaneous fees varies from campus to campus and between graduate and undergraduate students. Generally, students must vote to establish or increase campus miscellaneous fees.

Miscellaneous campus fees also include student health insurance fees. Between 1990 and 1991, graduate students at all UC campuses voted to establish a mandatory student health insurance fee. Effective Fall 2001, The Regents require all undergraduate students to have health insurance. Students can purchase a health insurance plan from their campus or they can demonstrate they have such insurance from other sources and opt out of the campus health insurance plan. The coverage provided in the health insurance plans and the fees to cover the cost of the premium are determined by each individual campus and, as a result, these fees are considered

miscellaneous campus fees. Display 1 at the beginning of this chapter shows miscellaneous campus fees over time.

### **Self-Supporting Programs**

In addition to the fees charged for regular degree programs, the University also charges fees for courses and programs in University Extension, and Self-Supporting Graduate and Professional Degree Programs. These programs are not supported by State funds and varying fees are charged to cover the costs of offering those courses and programs.

Fees also are charged for Summer Session courses and programs. As part of the 2000 Budget Act, the State provided \$13.8 funds to reduce summer session fees at all general campuses, on a per-unit basis, for UC-matriculated students enrolled in UC degree courses in summer 2001 and beyond to an amount equivalent to mandatory systemwide fees charged during the regular academic year. The 2001 Budget Act provided funding to begin phasing in State support for the summer at three general campuses—Berkeley, Los Angeles, and Santa Barbara. The University's 2002-03 budget plan includes funding to continue phasing in State support for summer at the remaining five general campuses. The plan to increase State support for summer instruction is discussed in more detail in the *General Campus Instruction* chapter of this document.

## STUDENT SERVICES

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 312,692,000</b>
General Funds	--
Restricted Funds	312,692,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	11,859,000

Student services programs and activities contribute to students' intellectual, cultural, and social development outside of the formal instructional process. Student services programs and activities include counseling and career guidance, tutoring, student health services, social and cultural activities, admission and registrar operations, financial aid and loan collection administration, and services to students with disabilities. Student services are primarily supported from student fee income.

Included in the funding principles in the Partnership Agreement with the Governor is a recognition that the University may request funding above the general support provided for the basic budget for special initiatives that are of importance to the State. Funding for these initiatives is dependent upon the availability of additional State resources.

In 2001-02, the University requested an increase of \$6 million for student retention programs to expand counseling and career guidance programs, tutoring, summer bridge and orientation programs, and services to students with disabilities. Funds would also have been used to expand retention programs within the University's MESA Engineering Program, and the Science, Mathematics, and Technology Program. Half of the University's request (\$3 million) was included in the Governor's January budget. Because of the State's deteriorating budget situation, however, these funds were eliminated from the final budget approved by the Governor. Given the State's weakened fiscal situation, the Department of Finance has informed State

agencies, including the University, that they will not consider funding proposals for any new initiatives in 2002-03. Therefore, the University is making no requests for funds above the Partnership for 2002-03 and instead will focus on obtaining full funding of the Partnership Agreement with the Governor. The University will also seek restoration of Partnership funds eliminated from the 2001-02 budget when the State's fiscal situation improves. Increased funding for student retention services will continue to be a high priority for the University.

Student services programs were adversely affected by severe budget cuts during the early 1990s, when the University was forced to make reductions totaling \$433 million due to a fiscal crisis in the State. Those cuts have not been restored in the student services area. The strain on student services budgets has been exacerbated over time by the increasing demand for services to students with disabilities described later in this section. Many of the services those students require are very expensive and cause limited student services funds to be even more scarce.

### **Community Service**

In July 1999, the Governor requested that the University of California consider his call to establish a community service requirement for undergraduate students. In addition, the new Partnership Agreement with the Governor includes an objective for the University to provide opportunities for all students to participate in community service or service learning activities.

There is broad support for community service within the University. In a recent review of community service, the Academic Council has developed several proposals to increase voluntary student public service at the University. These proposals will offer ways to increase the visibility of public service programs among students; make participation possible among more low-income students, who often cannot afford to participate in community service activities without compensation; focus on projects that present learning opportunities; and increase UC undergraduate student participation in community service from the current level of 33% of all undergraduate students to a goal of 66% or more by 2005-06. It is projected that most of this increase will be accomplished by 2002-03.

In spring 2001, President Atkinson allocated \$25,000 to each campus to enhance community service activities, which may include: describing the range and scope of community service activities taking place, employing new ways to stimulate students to engage in community service, identifying quality indicators and best practices that can guide campuses in advancing and institutionalizing a range of quality public service activities for students, ensuring campus involvement in community service initiatives in the state and nation, and clarifying the role of community service at UC and establish a set of recommendations for the long-term enhancement of service learning at the campuses. A university-wide conference on community service is being planned for spring 2002.

### **Counseling and Career Guidance**

Students may visit a counselor concerning such issues as scholastic performance, choice of major, personal concerns, assessing interests and aptitudes, or exploring long-range career opportunities. Group counseling is provided on many campuses. In addition, campuses sponsor career planning and placement services that provide students and alumni with assistance in defining their career objectives, teach job search skills, and promote on-campus interviewing opportunities for summer or career employment.

### **Learning Skills Assistance**

Campuses provide academic support services that offer tutoring and learning skills assistance to students at learning centers. Learning skills staff provide individual and group tutorial services in writing, mathematics, study skills, and preparation for graduate and professional school exams.

### **Social and Cultural Activities**

Campuses offer a wide range of cultural and social activities to enhance the quality of life for students and the campus community. Such activities include music, dance and drama events; speakers; and sports activities.

## **Student Health Services**

Student Health Services provide students with primary care and other services to keep students healthy. Services include general outpatient medical care, specialty medical care, and health education. On-campus services are supported primarily through student fees and fees-for-service. Graduate students on all campuses and undergraduate students on the Berkeley and Santa Cruz campuses have approved campus ballot initiatives requiring all students to have health insurance as a condition of attending the University. In September 2000, The Regents approved a proposal to require proof of health insurance coverage as a non-academic condition of enrollment for all University undergraduate students, effective with the fall term 2001. The requirement for health insurance is waived if students provide proof of comparable coverage.

## **Admissions and Registrar Operations**

Campus admissions and registrar operations include the processing of applications for admission, enrollment and registration of students, scheduling of courses, maintaining and updating student academic records, preparing diplomas, and reporting statistics. Through *Pathways*, the University's new Web-based application and advising system, prospective applicants can explore each campus, receive admissions and financial aid information, and initiate their application for admission by completing forms at the Web site. Students can also communicate online with University staff regarding admissions questions.

The final Budget Act for 2001-02 redirected \$5 million in funding from longer-term school-university partnership outreach programs to provide support for several shorter-term programs, including \$750,000 for the comprehensive review of applications, contingent on the elimination of the two-tiered admissions system and the establishment of a unitary admissions review process.

## **Financial Aid Administration**

Campus financial aid officers counsel students about their financing options, determine and monitor the eligibility of students for financial assistance, and develop financial aid packages for students which include scholarships,

fellowships, grants, loans, and work-study jobs from federal, State, University, and private fund sources. The University is committed to providing adequate financial aid as one means of ensuring that a student's financial circumstances do not preclude access to higher education. This is discussed in more detail in the *Financial Aid* chapter of this document.

### **Services to Students With Disabilities**

State and federal laws require that the University provide to students with disabilities academic support services necessary to the pursuit of their studies. These services include readers for the blind, interpreters for the deaf, note-taker services, mobility assistance, tutors, provision of adaptive educational equipment, and disability-related counseling, among other services. The State has never fully funded services to students with disabilities at the University of California, due primarily to severe budget constraints in the State budget in the 1980s, early 1990s, and at present. These services represent unavoidable costs that must be covered whether or not funds are provided by the State. In the absence of adequate State funds for this purpose, funds are redirected from other programs within student services in order to adequately fund this program. The University currently provides services to approximately 5,100 students with disabilities and currently spends \$5.6 million on these services.

## STUDENT FINANCIAL AID

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 291,482,000</b>
General Funds	85,938,000
Restricted Funds	205,544,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	8,012,000

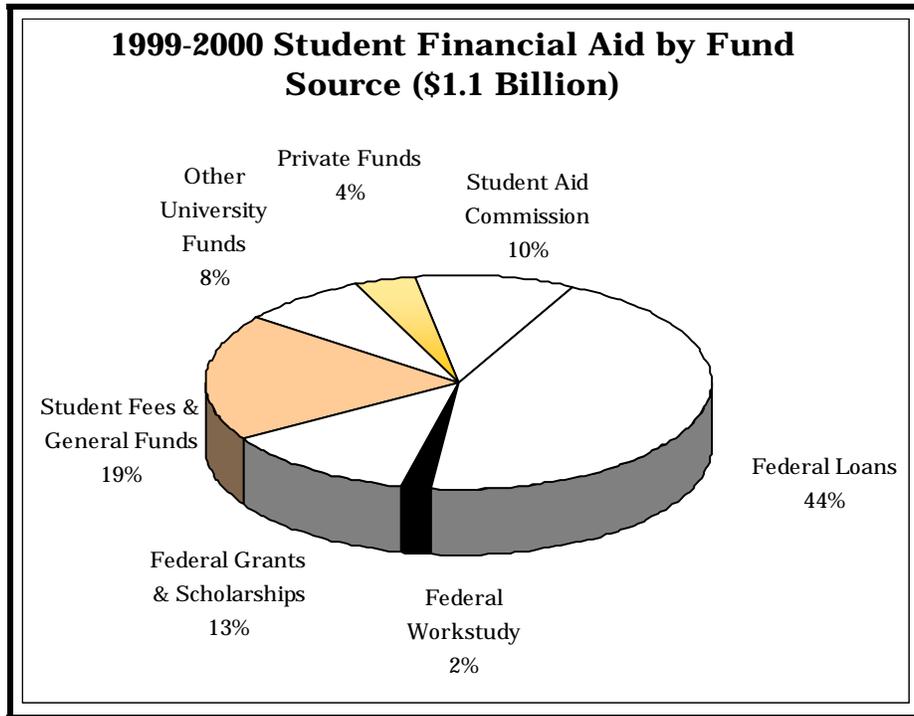
Financial aid plays an important role in making the University accessible to students. Inherent in such a role is the concern that financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree. This basic concern is at the heart of the University's Financial Aid policy.

### Overview

UC students receive scholarships, fellowships, grants, loans, and work-study jobs to assist them in meeting the educational costs of attending the University such as fees, living expenses, books and supplies, and transportation. Financial assistance comes from four sources: the federal government; University funds, including student fees, State General Funds, endowments, and discretionary funds; the State's Cal Grant programs; and private agencies. University students received more than \$1.1 billion in student aid in 1999-2000, the most recent year for which final data are available. Display 1 shows the proportion each fund source contributed to the total amount of financial support provided to UC students in 1999-2000.

In 1999-2000, about 60% of UC undergraduate students and 73% of UC's graduate students received financial aid. Just over half of the financial aid UC students received was in the form of scholarships, grants and fellowships.

Display 1



Historically, the University has been committed to setting aside a portion of revenue from fee increases for financial aid for needy students. As fees increased over time and as the percentage of students with financial need increased, the percentage of revenue from fee increases dedicated to financial aid also increased, from 16% more than ten years ago to 33% at present. Current University policy requires that one-third of all new student fee revenue be set aside for financial aid. This policy was consistent with agreements in the four-year Compact with the Wilson administration and it has continued in the current Partnership Agreement with the Davis administration.

In 1999-2000, the State provided funds to reduce fees by 5% for both California resident undergraduate students and California resident graduate academic students. This fee reduction was preceded by an additional 5% fee reduction in 1998-99 for resident undergraduate students. Included in the additional State revenue were sufficient funds to maintain financial aid at previous levels, even though the decrease in fees could have justified a corresponding decrease in financial aid. The additional revenue generated by undergraduate students was used to reduce the amount financial aid recipients are required to earn or borrow as part of their contribution to their education. Display 2 (next page) shows total financial aid expenditures for 1999-2000 by type of financial award and source of funds for each.

**Display 2**

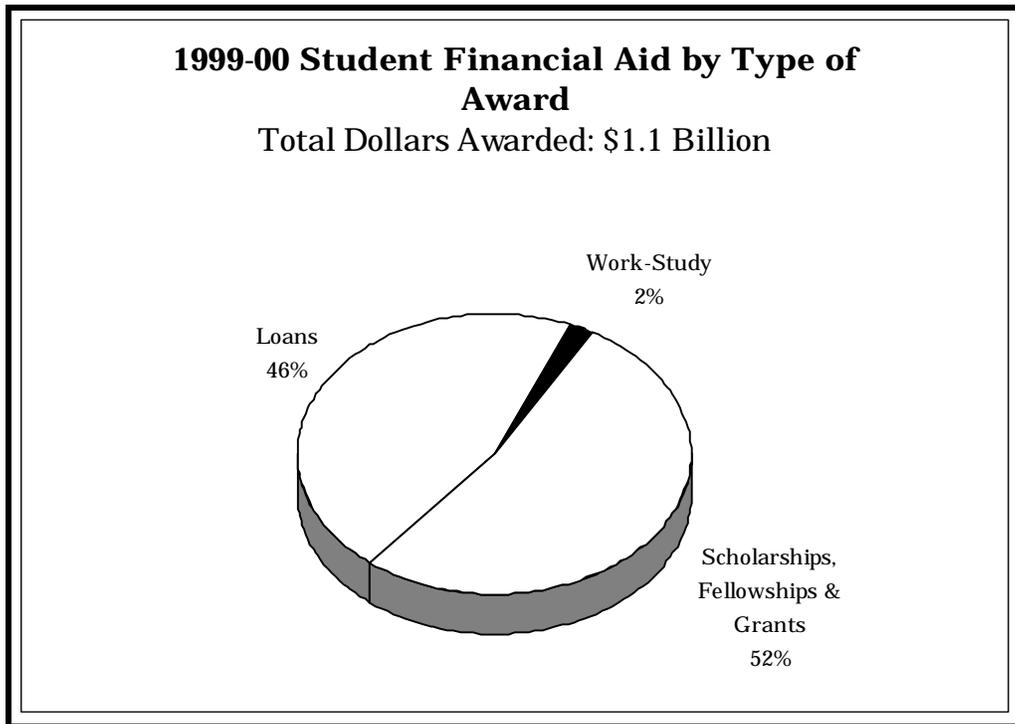
1999-2000 Student Financial Aid by Type of Award and Fund Source (\$ in Millions)						
Program	Student Aid Commission	Federal	University Funds		Private Funds	Total
			State General Funds and Student Fees	Other University Funds		
<b>Scholarships, Grants, Fellowships</b>						
Pell Grants		\$95.2				\$95.2
Cal Grant A	\$71.8					71.8
Cal Grant B	41.1					41.1
Other	1.7	45.7	\$211.4	\$90.3	\$33.6	382.7
<b>Subtotal</b>	<b>\$114.6</b>	<b>\$140.9</b>	<b>\$211.4</b>	<b>\$90.3</b>	<b>\$33.6</b>	<b>\$590.8</b>
<b>Loans (All Students)</b>						
Perkins Loans		\$28.4				\$28.4
FFELP/FDSLSP		466.6				466.6
Other	\$0.1	3.2	\$3.7	\$1.6	\$9.0	17.6
<b>Subtotal</b>	<b>\$0.1</b>	<b>\$498.2</b>	<b>\$3.7</b>	<b>\$1.6</b>	<b>\$9.0</b>	<b>\$512.6</b>
<b>Work-Study (All students)</b>						
Federal		\$20.7				\$20.7
State	\$0.7					0.7
University			\$0.2	\$0.1		0.3
<b>Subtotal</b>	<b>\$0.7</b>	<b>\$20.7</b>	<b>\$0.2</b>	<b>\$0.1</b>		<b>\$21.7</b>
<b>TOTAL</b>	<b>\$115.4</b>	<b>\$659.8</b>	<b>\$215.3</b>	<b>\$92.0</b>	<b>\$42.6</b>	<b>\$1,125.1</b>

In both 2000-01 and 2001-02, the State provided sufficient revenue to the University to hold mandatory systemwide student fees and fees for professional school students at their 1999-2000 levels. Overall, financial aid related to revenue generated by enrollment growth (student fee revenue and State funds) increased by about \$9 million in 2001-02.

In addition to setting aside at least one-third of new fee revenue for financial aid purposes, the University has supplemented financial aid from fee income with other University funds. Looking at all University fund sources, funding for financial aid increased by more than 150% between 1989-90 and 1999-2000.

The amount of financial aid provided in 1999-2000 represents an increase of about \$32 million, or 2.9%, over the amount received in 1998-99. Two-thirds of that increase was in the form of grants, scholarships, and fellowships. Increases in these University aid programs occurred in all fund sources and these increases allowed students to reduce their reliance on borrowing. In 1999-2000, per capita borrowing among undergraduates declined for the second consecutive year, resulting in a two-year per capita decline of \$141.

**Display 3**



### **Undergraduate Student Aid**

Mandatory systemwide fees for undergraduate students were reduced by 5% in 1998-99 and an additional 5% in 1999-2000. Although fees decreased, the State did not correspondingly reduce associated financial aid, which allowed the University to increase slightly the average gift aid award for needy undergraduate students. As a result, \$15 million was made available to reduce the work or loan requirements for students.

The proportion of undergraduate students receiving some type of financial aid in 1999-2000 was about 60%. Financial aid awards for undergraduate recipients averaged about \$9,250 in 1999-2000. Fifty percent of undergraduate aid was awarded in the form of "gift" aid (scholarships, fellowships, and grants) rather than "self-help" aid (loans and work-study). About 74% of all undergraduate aid was awarded on the basis of financial need in 1999-2000, reflecting the principle that undergraduate financial support is primarily intended to provide access to a University education for those students who otherwise would be unable to afford to attend. Non-need-based support comprised the remaining 26% of aid to undergraduates. The majority (75%) of non-need-based support is awarded in the form of loans, with scholarships comprising the remainder.

## **Graduate Student Aid**

The financial support provided to graduate academic students is substantially different from that provided to professional students. The largest proportion of aid awarded to graduate academic students is in the form of fellowships and grants. In contrast, the largest proportion of aid awarded to graduate professional students is in the form of loans. These differences are discussed below.

### ***Graduate Academic Student Aid***

Compared to undergraduate students, a greater proportion of graduate students receive financial support (73%), and typically their average annual financial aid award, which excludes research and teaching assistantships, is significantly higher. Because graduate students generally do not rely on parental support to meet educational costs and are more likely to have dependent family members, graduate students tend to have a greater need for financial support. Graduate students also generally incur higher educational expenses and have higher student debt.

The largest proportion of aid awarded to graduate academic students is in the form of fellowships and grants (76% in 1999-2000) rather than loans and work-study. In addition to this aid, graduate students also receive significant financial support as teaching and research assistants. In 1999-2000, approximately 19,000 graduate students received nearly \$273 million from such appointments. Assistantships form an important part of the total financial support structure for graduate academic students, accounting for over half of their total financial support. In 1999-2000, the per capita graduate academic award from assistantships (\$11,558) exceeded the combined amount received from fellowships, grants, loans, and work-study (\$8,213).

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University today. This issue is discussed more fully in the *General Campus Instruction* chapter of this document.

### ***Professional School Student Aid***

In 1994, The Regents approved a Fee Policy for Selected Professional School Students, which was implemented beginning with the fall 1994 academic term. While some campuses have set aside more, the policy provides that an amount of funding equivalent to at least one-third of the total revenue from

the fee be used for financial aid to help maintain the affordability of professional school programs. The majority of the funds are used for grant and fellowship awards with some funds set aside for loan repayment assistance programs.

The largest proportion of aid awarded to graduate professional students is in the form of loans (67%) rather than fellowships or grants. The differences in support patterns for graduate academic and graduate professional students reflect the contrasting approaches to graduate student support. Fellowship, grant, and assistantship support are viewed as more successful and loans less successful for recruiting and retaining doctoral students whose academic programs are lengthy and whose future income prospects are relatively low. In contrast, student loans are viewed as more appropriate for students pursuing professional degrees. These programs are relatively shorter and students' incomes have the potential to be substantially higher.

The remainder of this chapter: (1) outlines the goals of the University's financial aid policy and how student need for University aid is determined using the Education Financing Model; and (2) describes financial aid expenditures for 1999-2000 by source of funds.

## **Education Financing Model**

As discussed in the *Student Fees* chapter of this budget, UC fees increased significantly during the 1990s, largely due to major shortfalls in State funding for the University's budget. In January 1994, The Regents adopted a new University policy for setting fees that specified at least one-third of new fee revenue will be used for financial aid purposes. Accompanying this fee policy was a new financial aid policy that called for maintaining the affordability of the University and focused on providing enough University financial aid to maintain accessibility for all students.

As a result, the University developed the Education Financing Model, which is used to determine undergraduate student aid funding needs, allocate undergraduate aid funds to the campuses, and guide the award of aid funds to undergraduate students. The Model is based on the following set of principles:

- The total cost of attendance (fees, living and personal expenses, books and supplies, and transportation) is considered in assessing financial need;

- Meeting the costs of attending the University is a partnership among students, parents, federal and state governments, and the University;
- All students should be expected to make some contribution toward their cost of attendance through work and/or borrowing;
- Students should have flexibility in deciding how to meet their expected contribution; and
- Campuses should have flexibility in implementing the Model to serve their particular student bodies and are encouraged to supplement centrally distributed financial aid funds with their own resources.

The formula for determining the amount of grant aid needed is shown in Display 4.

**Display 4**

<b>Education Financing Model</b>	
<b>Student Expense Budget</b>	
<i>Less</i>	Reasonable Contribution from Parents
<i>Less</i>	Manageable Student Contribution from Working
<i>Less</i>	Manageable Student Contribution from Borrowing
<i>Less</i>	Federal and State Grant Aid
<i>Equals</i>	<b>University Grant Aid Needed</b>

### ***Student Expense Budget***

The total undergraduate educational expenses associated with attending the University are considered in assessing need. These expenses include direct educational expenses—fees, books, and supplies—for a California resident, plus a modest allowance for living, transportation, and miscellaneous expenses. A uniform method is used by the campuses to determine standard undergraduate student expense budgets. The method recognizes regional variations in costs and in student spending patterns. Beginning in 1998-99, the undergraduate student expense budgets included a health care allowance,

and as of 2001-02, all campuses have a mandatory health insurance fee. In addition, as of 2000-01, the budgets also include a component for computer-related expenses (the purchase of a computer is not in the standard student budget although a student's budget can be adjusted if he or she is purchasing a computer).

### ***Contribution from Parents***

Parents are expected to help pay for the costs of attending the University if their children are considered financially dependent using the Federal definition of independence. The amount of the parental contribution is determined by a federally mandated formula for determining need, which takes into account parental income and assets (other than home equity), the size of the family, the number of family members in college, and non-discretionary expenses. If parents do not contribute the amount expected under the Federal need analysis standards, the student is expected to make up the difference through extra borrowing and/or work, or by reducing his or her expenses.

### ***Contribution from Work and Borrowing***

Students are expected to make a contribution to their educational expenses from earnings and borrowing. The expected contribution should be manageable so students are able to make steady progress toward completion of the baccalaureate degree and to meet loan repayment obligations after graduation. The Model provides ranges for loan and work expectations, which are adjusted annually for inflation, and periodically for market changes in student wages and expected post-graduation earnings.

### ***Contribution from Federal and State Grant Aid***

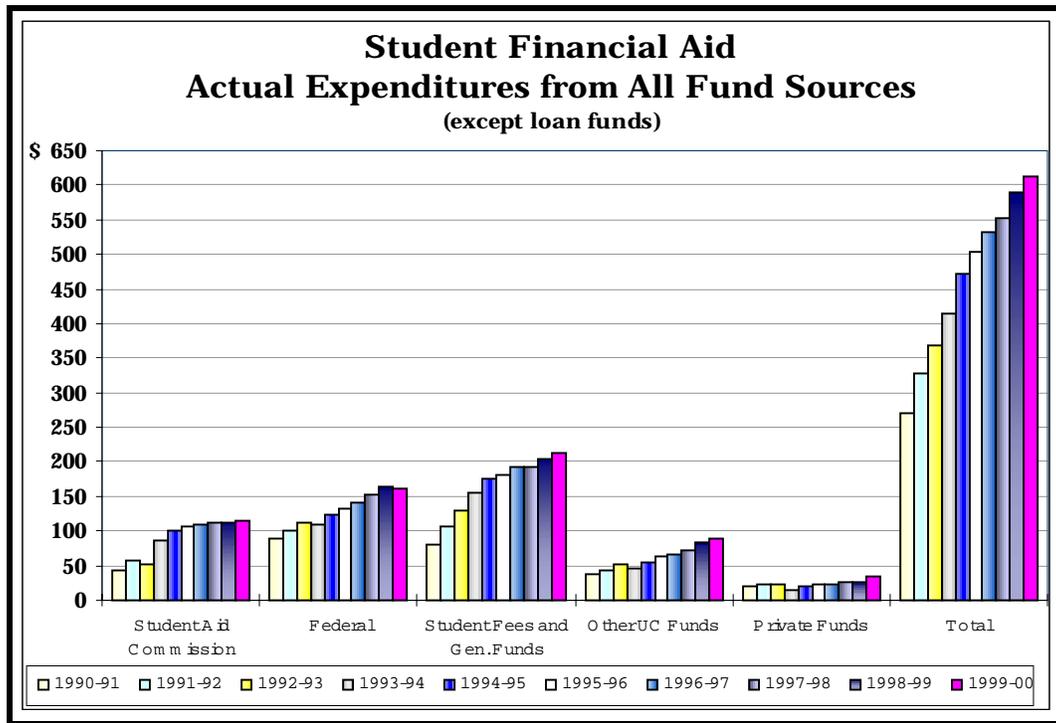
The University's goal is to provide grant support to needy students to cover the gap between the student's expense budget and the expected contributions from parents, student borrowing, and student work. Available Federal and State need-based grants are applied toward a student's grant eligibility.

Campus-based scholarships and grants from gifts, endowments, campus discretionary funds, the Regents' Scholarship Program, and scholarships and grants from outside agencies are excluded from the framework of the Education Financing Model. These funds generally are used to reduce the loan and work expectations of students. The University began phasing in the Education Financing Model in 1997-98 and fully implemented the Model in 2001-02.

## Fund Sources for Financial Aid

Display 5 shows the changes in financial aid expenditures (except loan funds) from various fund sources since 1990-91. Total funds increased dramatically over the ten-year period.

Display 5



### ***Federal Aid***

In 1999-2000, UC students received \$659.8 million in federal financial aid, which represented approximately 58.6% of all support awarded during that year. The vast majority of federal aid was in the form of loans.

Overall, UC students received about the same amount of federally funded aid in 1999-2000 as they received the previous year. Growing family incomes driven by the strong California economy resulted in a small decrease in Pell Grant funding for UC students, which was offset by a small increase in total borrowing through the federal loan programs. The continued significance of the federal student loan programs is demonstrated by the fact that these programs comprised three-quarters (76%) of all federally funded aid and nearly one-half (44%) of total financial support received by University students in 1999-2000.

**Taxpayer Relief Act of 1997 and Economic Growth and Tax Relief Reconciliation Act of 2001.** The Taxpayer Relief Act (TRA) of 1997 implemented a number of new provisions that will continue to affect UC students and their families in future years. The Economic Growth and Tax Relief Reconciliation Act of 2001 expended eligibility for some of the TRA benefits and established some additional tax benefits. The TRA included reporting requirements for institutions of higher education, which impose significant administrative tasks on the University. To comply with the reporting requirements, the University contracted with an outside vendor to collect, maintain, and report the required data to the IRS and to students and their families. To assist them in claiming the credit, each student was provided access to the information mailed and reported via a secured web site, as well as a toll-free number to call with questions regarding the Act, the tax credits, the information reported to the IRS, and the financial amounts provided.

- **Hope and Lifetime Learning Tax Credits.** The Taxpayer Relief Act of 1997 established two new tax credit programs effective with the 1998 tax year, which provide tax credits to qualified taxpayers for tuition and fees paid for postsecondary education. The Hope Tax Credit provides tax credits for payments made for students who are in their first two years of postsecondary education. The “Lifetime Learning” Tax Credit provides smaller tax credits, but taxpayers are not limited to payments made during the first two years of postsecondary education. In general, middle- and lower-middle-income students and their families benefit from the two tax credit programs.

In an effort to ascertain the benefit of the tax credits to UC students and their families, the University solicited and received a grant from the Lumina Foundation to survey UC students on their use of the Hope and Lifetime Learning Tax Credits. Of those students surveyed, 29 percent indicated that they had claimed either a Hope or Lifetime Learning Tax Credit for tax year 1999. Based on this information, the University estimates that UC students and their families received tax credits totaling nearly \$80 million in 1999.

- **Penalty-Free IRA Withdrawals.** Taxpayers may withdraw funds penalty-free from either a traditional Individual Retirement Account (IRA) or a Roth IRA for undergraduate, graduate, and postsecondary vocational education expenses. Previously, withdrawals from IRAs prior to retirement were subject to early withdrawal penalties. This provision

permits students and their families to withdraw funds for educational purposes without penalty. This provision is intended to assist middle-income students and their families.

- **Education IRA.** The Economic Growth and Tax Relief Reconciliation Act of 2001 increased from \$500 to \$2,000 the maximum annual contribution to an Education IRA. Although contributions are not tax deductible, earnings on the IRA are tax-free and no taxes will be due upon withdrawal if used for qualified higher education expenses. The Education IRA is phased out for families with incomes between \$150,000 and \$160,000. This provision is intended to assist middle-income students and their families.
- **Student Loan Interest Deduction.** Taxpaying borrowers may take a tax deduction for interest paid on student loans (available even if the taxpayer does not itemize other deductions). While the original provisions limited the deduction to individuals in the first 60 months of repayment, the Economic Growth and Tax Relief Reconciliation Act of 2001 eliminated the limitation. Because eligibility for the deduction is phased out for taxpayers with higher incomes, middle-income and lower-middle-income borrowers with high debt levels are the primary beneficiaries of the reinstatement of the tax deduction of student loan interest.
- **U.S. Savings Bonds.** The interest on U.S. savings bonds is, in certain circumstances, tax-free when bond proceeds are used to cover eligible education expenses. Individuals who purchase Series EE or Series I bonds when they are at least 24 years of age, may withdraw bond proceeds tax-free if they are used to cover tuition, fees, or contributions to a qualified state tuition program, such as Scholarshare or an Education IRA. Eligibility for tax-free withdrawals is a function of income level when the bond is redeemed and is intended to assist middle-income students and their families.

**Future Funding Prospects.** As of this writing, Federal support for student aid programs remains uncertain for 2002-03. However, given the nation's economic slow-down, it appears unlikely that there will be funding available to expand support for federal student aid programs. Thus, any changes in programs and funding levels are anticipated to be small and expected to have only a marginal overall impact on UC students.

The Pell Grant Program is the federal aid program that has seen the most significant increases in funding in recent years. For 2001-02, the maximum award for the program increased from \$3,300 to \$3,750 for those recipients from the lowest-income families. This increase is projected to result in \$12.9 million of additional grant aid for the 39,800 University students who are Pell Grant recipients. Any increases in the Pell Grant maximum award for 2002-2003 are expected to be modest. Support for other federal programs—the Federal Work-Study Program, the Leveraging Educational Assistance Programs, and the Perkins Loan Program—will likely be flat.

### ***Cal Grant Programs***

California university and college students receive financial support from a number of State programs. These programs, administered on behalf of the State by the California Student Aid Commission, include the Cal Grant A, B, C, and T programs and the State Work-Study Program. These programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. In 1999-2000, University of California students were awarded \$115 million in financial aid from all programs administered by the Student Aid Commission.

The Cal Grant Program provides undergraduates with "portable" financial aid that can be used at eligible California institutions of the students' choice. Cal Grant Awards for recipients attending UC and CSU currently cover systemwide student fees.

Cal Grant funding for UC students has grown by about 33% from \$85 million in 1993-94 to \$113 million in 1999-2000. Because there have been no increases in mandatory systemwide fees since 1994-95 and undergraduate fees actually decreased in 1998-99 and again in 1999-2000, increases in Cal Grant funding for UC students since that time have been modest. Expenditures since 1990-91 from the Student Aid Commission for the University's Cal Grant recipients were shown earlier in this section.

The 2001-02 award cycle marks the first-year implementation of a newly reconfigured Cal Grant Program. The enactment of Senate Bill 1644 in 2000 replaced the existing Cal Grant A and B awards with Cal Grant A Entitlement Awards, Cal Grant B Entitlement Awards, California Community College Transfer Cal Grant Entitlement Awards, and Competitive Cal Grant A and B Awards. In addition, a teaching service requirement was added to the Cal Grant T program.

It was initially projected that there would be a large increase in expenditures for the reconfigured Cal Grant Program. Due to a lower number of new awards than anticipated, estimated expenditures for the program have been reduced by \$35 million. The number of new awards under the reconfigured Cal Grant Program should increase in subsequent years due, in part, to the statutory language which delayed implementation of the Cal Grant Transfer Entitlement Awards. Only students graduating from high school in 2001-02 or later are eligible for a Transfer Entitlement Award, so these awards will not be fully implemented before 2004-05.

The changes to the Cal Grant Program should have little impact on the number of awards received by new UC freshmen. However, the re-configured Cal Grant Program should ultimately increase the number of awards among students who transfer from a community college to UC.

**Cal Grant A and B Entitlement Awards.** These awards are given to students entering college directly from high school. Any California resident student graduating from high school is eligible to apply for an award through the Cal Grant Program. Awards are determined by a student's financial need and grades, and they are made independent of a student's admission to a college or university. Once a student has received an award, the student may use the award to help pay college expenses at the California institution of the student's choice.

Cal Grant A Entitlement Awards are used to help financially needy California residents pay tuition and fees at qualifying *four-year* institutions. If a student has qualified for an award, but decides to attend a California Community College first, the student may choose to hold his or her award in reserve for up to two years. (While at the community college, any student qualifying for a Cal Grant A Entitlement Award would be eligible for community college financial aid, such as the Board of Governors' Fee Waiver.) While the law specifies that the award can be held for a maximum of two years, the law also gives the California Student Aid Commission the ability to extend the time it may be held in reserve for an additional year, for a maximum of three years, if the Commission believes the rate of academic progress has been appropriate given the student's personal and financial circumstances. To be eligible for a Cal Grant A Entitlement Award, applicants must have a high school GPA of at least 3.0, have family income and assets below the established ceilings for this program, and have met the application deadline in the year following high school graduation.

Cal Grant B Entitlement Awards cover “access costs” which fund a portion of transportation, books, supplies and other living expenses (about \$1,550 in 2000) for financially needy California residents during the first year they receive the award. Beginning with the second year, the award includes tuition and fees *in addition to* access costs at qualifying four-year institutions. To be eligible for a Cal Grant B Entitlement Award, applicants must have a high school GPA of at least 2.0, have family income and assets below the established ceilings for this program, and have met the application deadline in the year following high school graduation.

**California Community College Transfer Cal Grant Entitlement Awards.** These awards are available to California residents attending community college who were not awarded a Cal Grant A or B Entitlement Award within a year of graduating from high school but who, at the time of transfer to a qualifying four-year institution, have a community college GPA of at least 2.4, are under 24 years old, and have family income and assets below the same established ceilings as those for the Cal Grant A and B Entitlement Awards. The award amounts are the same as the Cal Grant A and B Entitlement Awards and will depend on the family income and assets determination.

The Entitlement Awards will significantly improve a student’s ability to develop a plan for meeting the costs of attending college—a student will know in advance that at least a Cal Grant will be available to help fund his or her educational costs through four years of college, whether he or she attends a four-year institution or attends a combination of community college and a four-year institution.

The new Entitlement Awards will also greatly expand the number of students who receive a Cal Grant B Entitlement Award because the minimum high school GPA for this award under the new program is set at 2.0, a significantly lower cut-off than is currently in place. In addition, revisions to the application procedures will result in more students having the opportunity to apply for Cal Grant B Entitlement Awards. Students attending CSU or a community college are most likely to benefit from the expanded program; however, students wishing to come to UC also will benefit to the extent that the new program facilitates transferring from a community college to UC.

**Competitive Cal Grant A and B Awards.** The law also establishes Competitive Cal Grant A and B Awards that provide additional awards beyond the Entitlement Awards. These Competitive Awards allow certain

students with financial need who do not meet the eligibility requirements under one of the Entitlement Awards (for instance the student who has been out of high school for more than one year and missed the entitlement deadline) to compete for an additional 22,500 Cal Grant Awards. Award recipients are selected on the basis of an index that gives special consideration to disadvantaged students. Half of the awards will be reserved for students who enroll at a California Community College. The remaining half will be available to all students, and while most of these will likely go to CSU or a community college, some UC students may benefit as well.

### ***Scholarshare Trust College Savings Program***

In addition to increasing support for the Cal Grant programs, the State also established a program to encourage all families, especially those from middle-income backgrounds, to embark upon a system of long-term savings for their children's college expenses. These families have been turning to borrowing in order to meet these costs. In response to this trend, the State created the "Scholarshare Trust College Savings Program," a tax-exempt college savings fund administered by the California State Treasurer. The program began in 1999.

The Scholarshare Trust manages individual accounts, which are pooled into large funds and invested in a number of different financial instruments by the State or its agent. Investments are capped so that the yield from the account does not exceed the projected education expenses at an independent college or university. Earnings from the investments are not taxed at either the federal or state level provided that they are used to cover qualified education expenses.

### ***Governor's Scholars Program***

Senate Bill 1688 (Chapter 404, 2000) established the Governor's Scholars Program, which provides a \$1,000 scholarship to each public high school student who demonstrates high academic achievement on certain standardized tests. The bill also established the Governor's Distinguished Mathematics and Science Scholars Program, which provides a \$2,500 scholarship to public high school students who also obtain a specified score on an advanced placement examination in calculus and an advanced placement examination in biology, chemistry, or physics. The intent of both programs is to provide an incentive for high achieving students to perform even better. It is anticipated that a high proportion of these scholarship recipients will attend UC.

## ***University Student Fees and State General Funds***

Thirty-seven percent of enrolled undergraduates and 55% of enrolled graduate students received some form of financial assistance from University aid programs. Educational Fee income is used to support both need-based and merit-based programs, while State General Fund income is statutorily restricted to the support of need-based financial aid. Display 5, which appears earlier in this chapter, shows the increases in financial aid expenditures from student fee revenue and State General Funds since 1990-91.

University student aid programs funded from student fee revenue and State General Funds increased again in 1999-2000 (the last year for which data are available). The total amount of aid from student fees and State General Funds increased by about \$9 million to \$215.3 million. In 1998-99, the State provided the University with sufficient funds to reduce mandatory systemwide fees by 5% for California resident undergraduate students. The decrease in fees could have justified a corresponding decrease in financial aid. However, the State included sufficient funds to avoid a reduction in financial aid. The \$9 million increase reflected the \$7.5 million of State funds associated with the fee reduction and the additional aid related to increases in total enrollment and the additional students subject to the Fee for Selected Professional School Students.

In 1999-2000, the State provided sufficient revenue to the University to reduce mandatory systemwide student fees again by 5% for resident undergraduate students and 5% for resident graduate students. Once again, the State provided enough funds to cover the fee reduction and avoid a reduction in financial aid. Overall, financial aid funded by student fee revenue and State funds increased by about \$6.6 million as a result of revenue generated by enrollment growth.

In both 2000-01 and 2001-02, the State provided sufficient revenue to the University to hold mandatory systemwide student fees and fees for professional school students at their 1999-2000 levels. Overall, financial aid funded by student fee revenue and State funds increased by about \$9 million in 2001-02 related to enrollment growth.

## ***Other University Aid***

In addition to the universitywide programs described above, University financial aid is also provided through various campus-based programs funded

by endowment income, current gifts, repayments from University loans, and campus discretionary funds. In 1999-2000, about \$92 million in University aid from these sources was awarded to students, of which nearly all (\$90 million) was awarded in the form of fellowships, scholarships, and grants.

### ***Aid through Private Sources***

Private agencies and companies also provide student financial support through scholarships and other forms of aid. Small scholarships from a student's local PTA or Rotary Club are reported here alongside traineeships and fellowships from private companies (e.g., Hewlett Packard and IBM) and associations and foundations (e.g., the National Merit Scholarship Foundation and the American Cancer Society). Nearly all funds in this category are awarded to students in the form of grant support. In 1999-2000, more than \$43 million was awarded to UC students from private agency programs, which represented 3.8% of the financial support students received during that year.

## INSTITUTIONAL SUPPORT

2001-02 BUDGET	
<b>Total Funds</b>	<b>\$ 470,100,000</b>
General Funds	324,775,000
Restricted Funds	145,325,000
2002-03 INCREASE	
General Funds	--
Restricted Funds	1,579,000

Institutional Support includes numerous campus and systemwide activities under five sub-programs. The sub-programs and examples of typical activities included in each are listed below.

- ***Executive Management***—Offices of the President, Vice Presidents, Chancellors, and Vice Chancellors; planning and budget offices.
- ***Fiscal Operations***—Accounting, audits, and contract and grant administration.
- ***General Administrative Services***—Computer centers, information systems, and personnel.
- ***Logistical Services***—purchasing, mail distribution, and police.
- ***Community Relations***—development and publications.

The University is concerned about the steady erosion of its Institutional Support budget. Funding for administration has failed to keep pace with enrollment growth, general inflation, and the costs of new State and federal mandates.

Historically, State budgeting formulas did not provide additional administrative support to accompany enrollment growth, although more

students mean, for example, more record-keeping related to students and employees, additional purchasing, increased police and security requirements, and more faculty whose payroll records must be maintained and whose laboratories must meet environmental health and safety regulations. As a result, campus administrative capacities are only minimally adequate.

This historical lack of funding was compounded by the fact that State funds to cover general price increases fell far short of inflation during the mid-to-late eighties. During that time, new expenditures in Institutional Support were mandated as a result of a growing body of State and federal laws and regulations covering areas such as environmental health and safety, collective bargaining, accommodation of disabled employees, fair employment practices, and increased accountability requirements. Failure to comply with these mandates can often result in fines and penalties or more severe sanctions.

Institutional Support budgets, already constrained by historical underfunding, were further impacted by the University's severe fiscal problems in the early 1990s when, due to the State of California's fiscal problems, the University experienced severe budgetary shortfalls. As a result, University budgets were cut by \$433 million, or about 20% of the 1989-90 State-funded budget. Further base budget reductions totaling \$40 million occurred between 1995-96 and 1998-99, due to required productivity improvements under a four-year Compact between then-Governor Wilson and higher education. The budget cuts sustained in the early 1990s were deep and affected every aspect of University activity. In order to protect the instructional program as much as possible, campuses made deeper cuts in other areas. On the systemwide level, core administrative activities in the Office of the President were reduced substantially, including a 20% cut over the two-year period between 1993-94 and 1994-95. The Office of the President took additional cuts related to the \$40 million in productivity improvements achieved by 1998-99.

Looking at all fund sources, Institutional Support expenditures declined from 12% of total expenditures in 1971-72 to 11.5% in 1983-84. From 1983-84 to 1991-92, the percent fluctuated between 11% and 12%. By 2000-01, Institutional Support expenditures as a percentage of total expenditures had declined to less than 10%.

Notwithstanding the substantial budget reductions in Institutional Support,

investments in technology have enabled the University to make significant progress in increasing the efficiency of University operations while maintaining or improving services. Examples of cost saving procedures and activities include: systematically replacing high-volume and labor-intensive transactions such as payroll, personnel, purchasing, and reimbursements, with online systems; allowing administrative units and academic departments to reduce administrative costs by sharing resources; renegotiating rate structures with various energy providers; using electronic tools to increasingly disseminate information ranging from course materials to news releases and job postings; and contracting for the management and disposal of hazardous wastes, which will result in large cost reductions.

As noted above, the four-year Compact with the Wilson Administration required productivity improvements of \$10 million per year for a total of \$40 million by 1998-99. Each year, the University reported on its ongoing efforts to streamline administrative processes and business practices as well as plans to achieve the \$10 million of productivity improvements within all functions of the University. Productivity improvements applied to both academic and nonacademic activities.

The Partnership Agreement with Governor Davis also contains productivity provisions. The funding principles of the Partnership include a 1% increase to the prior year's State General Fund base each year for four years, with the funding to be committed to addressing permanent funding shortfalls in four critical areas of the budget: ongoing building maintenance, instructional equipment replacement, instructional technology, and library materials. The University estimates its total shortfall in these areas to be about \$150 million. State funds provided within the Partnership will eliminate over two-thirds of the shortfall. The remainder is expected to be funded through a redirection of resources at the campus level through productivity savings.

Unfortunately, achieving the goal of full funding for these critical programs has been delayed. The 2001-02 Governor's budget included increases consistent with the Partnership agreement related to funding for core needs. However, as a result of the State's deteriorating fiscal situation, these funds were eliminated from the University's budget in the May Revise. It is the University's expectation that funding will be restored to the University's budget once the State's fiscal situation improves. At that point, the University will resume its plan to fully fund these core areas of the budget through Partnership funds and a redirection of University resources.

The University will continue working to achieve efficiencies wherever practical. At the same time, The Regents' fiduciary responsibilities must be met and the University must continue to maintain appropriate management capability and accountability both at the campuses and centrally. This includes proper management of programs, expenditures, and investments.

## OPERATION AND MAINTENANCE OF PLANT

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 500,697,000</b>
General Funds	438,346,000
Restricted Funds	62,351,000
<b>2002-03 INCREASE</b>	
General Funds	27,500,000
Restricted Funds	935,000

The University maintains more than 94 million gross square feet of space at the nine campuses and the agricultural field stations. Of the total gross square feet, over 47 million square feet, or 50%, is maintained with State funds.

The University's teaching and research programs depend upon adequate facilities and are affected when systems in the buildings fail. A budget shortfall for ongoing building maintenance and the lack of permanent funds for facilities renewal and deferred maintenance for many years have combined to create a serious deferred maintenance problem throughout the University. The limited availability of State capital outlay dollars for building and infrastructure renewal has also been a significant constraint, leaving the University with maintenance and renewal problems that cannot be adequately addressed with current resources.

Recognizing the magnitude of the budget problem and the fact that the State's fiscal situation is severely strained, the University is limiting its budget request for 2002-03 to full funding of the Partnership Agreement with the Governor, which includes the following:

- ***Support for the operation and maintenance of new space.*** A permanent increase of \$8.5 million is included to pay for the operation and maintenance of new State-supportable space that will come on line in 2002-03;

- ***Increased funding for ongoing building maintenance.*** An additional \$13 million is requested as part of a multi-year strategy to fully fund ongoing building maintenance; and
- ***Long-term financing of deferred maintenance projects for 2002-03.*** The budget plan proposes to use \$6 million in UC General Funds to pay for the fifth year of the program to provide long-term financing of deferred maintenance.

### **Maintenance of New Space (\$8,500,000 Increase)**

For 2002-03, \$8.5 million is requested to provide funds for approximately 950,000 square feet of additional space that will be occupied by programs eligible for State support. Several campuses have large facilities that will be coming on line in 2002-03—the most significant of these include Mission Bay at San Francisco, Sprague Hall and Natural Sciences I at Irvine, and Natural Sciences at San Diego.

### **Ongoing Building Maintenance (\$13,000,000 Increase)**

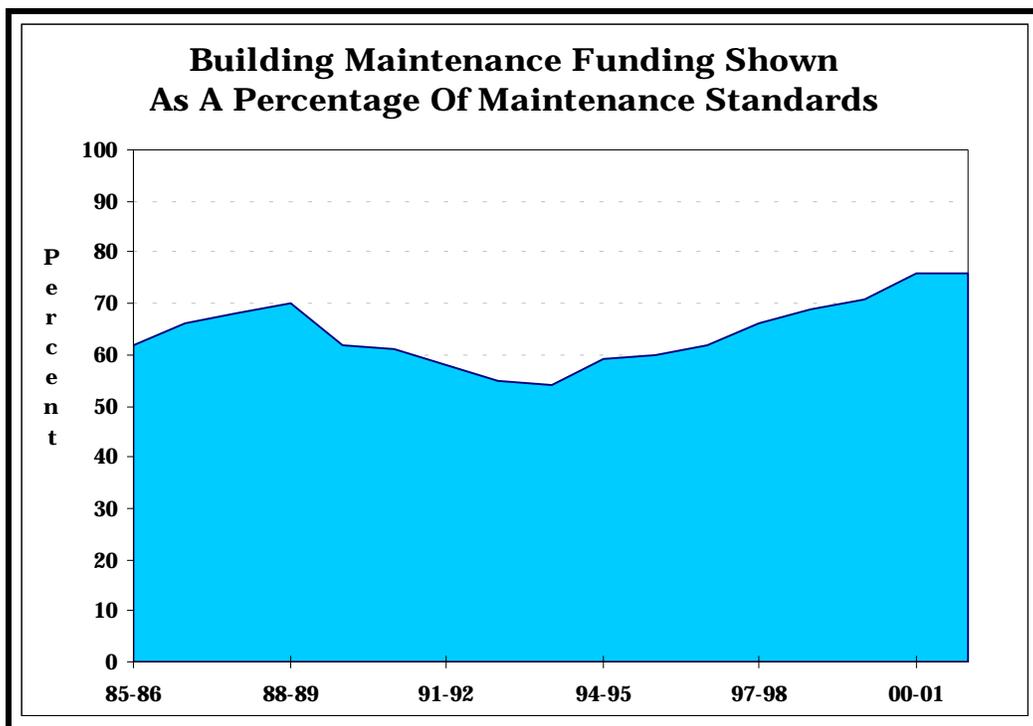
The University's 2002-03 budget plan includes a request for a \$13 million increase for building maintenance, consistent with the funding principles of the new Partnership Agreement with Governor Davis. Among those principles is the commitment to support a 1% increase to UC's General Fund base to address budget shortfalls in four core areas of the budget, including building maintenance.

During the 1980s, the University worked with the California State University, the Department of Finance, and the Legislative Analyst's Office to develop workload standards for the maintenance of the physical plant. Based on these standards, annual ongoing building maintenance has been chronically underfunded. In an attempt to provide a solution to the problem of inadequate funding for ongoing building maintenance, the Legislature proposed a plan to eliminate the annual shortfall in funding for ongoing building maintenance over a period of four years. The Legislature's plan proposed to augment the University's 1996-97 budget by \$7.5 million, to be matched one-to-one by University funds for a total annual increase of \$15 million. In each of the following three years, the University was to use funds from within the Compact (funding agreement with then Governor Wilson) to

increase the budget for building maintenance by \$7.5 million to be matched each year by an equal amount from the University over and above funding provided within the Compact. This plan was to have resulted in annual increases of \$15 million for ongoing building maintenance.

However, the Governor vetoed the \$7.5 million augmentation proposed by the Legislature in 1996-97 in order to provide an adequate reserve for the State. Notwithstanding this action, the University honored its commitment and included \$7.5 million for building maintenance in 1997-98, and an additional \$6 million in 1998-99.

Display 1



Beginning in 1999-00, the funding principles of the Partnership Agreement with Governor Davis called for annual increases to the ongoing building maintenance budget as part of the 1% increase to UC's General Fund base for underfunded core areas of the budget. Among the stated goals of the Partnership Agreement was the Administration's commitment to provide four years of augmentations to the funding base from within the Partnership for building maintenance (between 1999-00 and 2002-03), at which point the State was to have funded two-thirds of the annual shortfall in this area. The remainder of the shortfall was to be funded, by 2002-03, from a redirection of existing resources at the campus level.

Consistent with the Partnership funding principles, \$4 million was provided in 1999-2000 and \$4.5 million in 2000-01 from Partnership funds. However, \$11 million in Partnership funds originally proposed for this program in the University's budget for 2001-02 was eliminated in the May Revise, due to the State's deteriorating fiscal situation. Full restoration of the unfunded 2001-02 Partnership funds is essential if the University is to maintain its assets and curb the growth in the deferred maintenance backlog. This is discussed in more detail later in this chapter.

### **Deferred Maintenance and Facilities Renewal (\$6,000,000 Increase)**

Addressing the deferred maintenance and facilities renewal problem is one of the University's highest priorities. The University's 2002-03 budget plan includes \$6 million in increased income from UC General Funds to pay for the long-term financing of approximately \$60 to \$65 million in critical, high-priority deferred maintenance projects. The exact level of funding will depend on the market conditions at the time the bonds are sold. This is the fifth year of the plan, first approved by The Regents in 1998-99, to provide a source of funding for deferred maintenance.

#### ***A Long-Term Plan to Address the University's Facilities Renewal and Maintenance Needs***

The proposed budget seeks to address the University's long-term funding needs for supporting its vast facilities inventory. To adequately maintain the University's physical plant, funding must be provided for four different, but related, purposes:

- ***Ongoing building maintenance***—maintenance required for building systems on a regular basis in order to keep a building operational;
- ***Facilities renewal***—annual need for replacement of building systems, as they approach the end of their useful life, i.e. wear and tear;
- ***Deferred maintenance***—a category of need which exists because of unfunded ongoing maintenance and facility renewal, it represents how far “behind” the University is at any point in time; and
- ***Capital outlay for renovation and adaptation of obsolete facilities***—funding for major renovation or building structures and systems.

Inadequate funding for any one of these purposes will result in the deterioration of the University's physical assets. A number of factors have contributed to the existing deferred maintenance backlog and facility renewal problems, including the following:

- funds for ongoing maintenance have been inadequate to properly maintain systems;
- there has been no systematic funding for facilities renewal;
- there are only limited funds in the capital budget to address the replacement of building systems, and there is resistance to using capital funds to address deferred maintenance; and
- due to tremendous growth throughout the University during the 1950s and 1960s, almost two-thirds of all State-supportable space was built before 1970. The systems in these facilities, many of which are now 35 to 45 years old, are exceeding their useful lives.

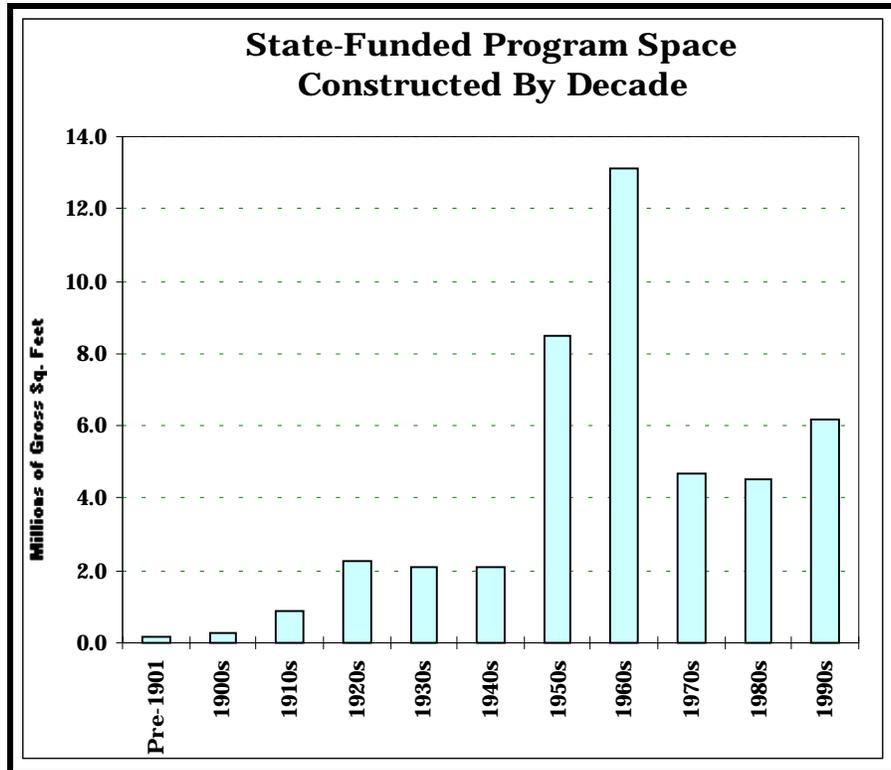
Discussions of facilities renewal and deferred maintenance tend to focus on buildings, but attention must also be given to the infrastructure that constitutes the major support systems for the campuses. These are extensive, complex systems that are costly to maintain or replace. Examples of infrastructure are utility systems such as electricity and water distribution systems, roads, sidewalks, and bridges.

The need for facilities renewal funding is driven by the normal use of building systems, which inevitably causes wear and tear on building systems to the point that their useful lives are exceeded and the systems must be replaced, regardless of how well they are maintained. Heating and ventilation systems, elevators, and roofs are a few examples of these systems. As proper maintenance has not been available for building systems on a timely basis, their useful lives are shortened. For example, even though a building is designed to last 50 to 100 years, its roof will have to be replaced every 25 years, and built-in equipment, such as fume hoods and cold rooms, need to be replaced over a 20- to 30-year cycle.

Over time, unfunded facilities renewal turns into an unfunded deferred maintenance. Systems still need to be replaced, but it becomes more costly, and continued deferral increases the need for emergency repairs. This leads to the deterioration of the capital assets and ultimately affects the quality of

facilities provided for teaching and research. When laboratory and research space is outdated or substandard, the ability to attract and retain outstanding faculty and students is compromised. Display 2 illustrates the decades of growth in square footage of State-funded program space, specifically in the 1950s and 1960s, which impact the renewal and deferred maintenance critical path requirements.

Display 2



### ***Identifying the Extent of the Problem***

Funding for facilities renewal must be addressed in a systematic and predictable way if the University is to significantly reduce the backlog of deferred maintenance projects as well as stem the flow of new deferred maintenance projects.

The University needs a reliable, cost-effective method of determining its facilities renewal needs. Rather than applying a simple depreciation model, or relying on costly facilities audits, the University has chosen to develop a mathematical budget model that can be applied equitably across all facilities. The intent is to have an analytical tool to predict funding needs over time for facilities renewal, and to estimate the current backlog of deferred maintenance projects. Using this model, the University has been able to

compile consistent and comparable data for all campuses at a lower cost than by the more traditional method of surveying facilities.

The model “de-constructs” a building into the systems that need to be renewed or replaced on a periodic basis, such as electrical equipment, plumbing systems, or roofs. The model estimates the year in which renewal will be required for each system based on the estimated life cycle of the system and the original construction date of the building. A different renewal cycle can be projected for each building component by profiling each building system, construction date and projected renewal dates. The model can project annual renewal costs over any time period as specified, for example 10, 25, or 50 years into the future.

With this model, the University is attempting to determine systemwide facilities renewal needs, so that appropriate funding strategies can be developed to best address the challenge of preserving the University’s physical assets.

### ***Funding History***

Prior to 1994-95, the University’s budget included nearly \$20 million a year in permanent funding for deferred maintenance. While not sufficient to address the University’s deferred maintenance needs, it was a reliable and predictable source of funding. In 1994-95, the State and the University reached agreement on a plan that redirected this permanent funding to help limit fee increases to no more than 10%.

As a result of this agreement, the State authorized the University to use \$25 million in long-term financing in 1994-95 to pay for high priority deferred maintenance projects. A second authorization for \$25 million was included in the 1995-96 budget. Consistent with the agreement with the State, repayment of the debt is included in the University’s State-funded budget. The 1996 State Budget Act appropriated \$5 million in general obligation bonds for deferred maintenance, and the University allocated \$19 million in a combination of one-time University funds and excess UC General Funds that were reappropriated for deferred maintenance. In 1997-98, the University reappropriated \$7.9 million in excess UC General Funds for deferred maintenance. While these increments of funding were welcome support for a critical area of the budget, the University still had no dedicated source of funds for deferred maintenance and facilities renewal.

In February 1998, The Regents approved a new approach to deferred maintenance that has provided significant levels of funding over the last several years. The Regents authorized the Treasurer to sell bonds that provided \$64.8 million for deferred maintenance projects in 1998-99, and \$64 million in both 1999-00 and 2000-01. The bonds will be repaid by using a portion of the increase each year in UC General Funds. Only high priority projects with long-term benefits to the University are eligible to be funded through this mechanism.

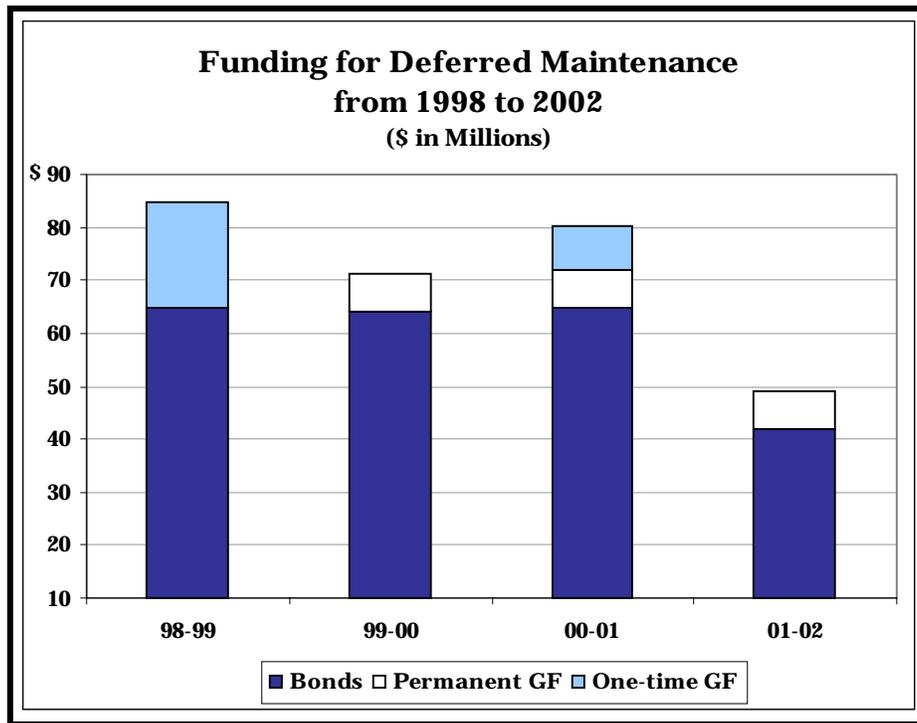
The University has established procedures to ensure that funds are used for the most urgent deferred maintenance. Campuses were able to begin projects on a much larger scale than was possible before. The Santa Barbara campus, for example, committed over \$2 million of funding in the first year for the complete renewal of the electrical system in the Biology II building—a project that could not have been undertaken when funds for deferred maintenance were very limited and sporadic.

In addition to the funding provided through debt-financing, the State provided \$20 million in one-time funds for high priority deferred maintenance projects in 1998-99, and, in lieu of providing the University with additional one-time funding for deferred maintenance projects in 1999-2000, the State provided the University with a permanent General Fund increase of \$7.1 million for deferred maintenance.

In 2000-01, the State also provided one-time funds of \$8 million. Display 3 illustrates that over the last four years, approximately \$285 million has been generated for the most urgent deferred maintenance problems. However, new projects are added to the list each year due to almost a decade of insufficient funding for building maintenance, coupled with a lack of funding for systematic renewal of building components that wear out with normal use and require replacement on a periodic basis. While many University buildings may be designed to last from 50 to 100 years, certain components and systems within buildings require replacement two to three times during the life of the building.

Consistent with the new Partnership Agreement, the University will continue to use a portion of the increases to the General Fund base and campuses will redirect resources to eliminate annual budgetary shortfalls for ongoing

Display 3



building maintenance by 2002-03. However, the deferred maintenance problem cannot be eliminated until ongoing building maintenance is adequately supported and funding is provided to address the costs associated with the predictable renewal of building systems before critical deficiencies develop.

### Restoration of Unfunded 2001-02 Partnership Funds

Among the funding principles of the Partnership Agreement with Governor Davis is the commitment to support a 1% increase to UC's General Fund base to address budget shortfalls in four core areas of the budget, including building maintenance. However, due to the State's fiscal situation, \$11 million in Partnership funding for on-going building maintenance was eliminated from the University's 2001-02 Budget. As noted earlier, State funding for this program provided through the Partnership was to have closed two-thirds of the historical funding gap that exists in building maintenance; the remaining one-third was to have been funded through a redirection of resources at the campus level. Due to the elimination of Partnership funds in the 2001-02 budget, the timeframe for closing the funding gap has been delayed. When Partnership funds eliminated from the

University's budget are restored, the University will resume its plan to close the historical funding gap.

Other Partnership funds eliminated from the budget had direct implications for the University's deferred maintenance bond program by reducing from \$6 million to \$4 million the amount available for debt service on long-term financing for deferred maintenance projects. Using this mechanism, the University was able to fund approximately \$42 million of projects (as opposed to the \$65 million level achieved during each of the first three years of the program).

It is expected that any Partnership funding not received in 2001-02 will be restored to the University's budget when the State's economic situation improves.

## **Other Operation and Maintenance of Plant Functions**

### ***Janitorial Services***

The 2002-03 budget provides funding at about 65% of the recommended standard for janitorial services. Under these circumstances, reasonable levels of cleanliness for both health and quality of life are difficult to maintain. In the future, the University will consider improving the levels of funding for Janitorial Services as a part of the next Partnership Agreement.

### ***Utilities Maintenance and Operations***

The 2002-03 budget provides funding at about 70% of the recommended standard.

### ***Grounds Maintenance***

The 2002-03 budget provides funding at about 60% of the recommended standard for grounds maintenance, which is an essential component of both safety and quality of life at the campuses.

### ***Hazardous Materials and Toxic Site Remediation***

The costs of disposing of hazardous materials are of continuing concern. Materials not formerly regulated by State and federal agencies are now defined as hazardous, and contribute to an increase in volume. Increasingly, stringent requirements have added to the costs of handling, treatment, and

disposal. The remediation of contaminated sites is expensive and urgent, and is often mandated by State and federal regulatory agencies.

### ***Purchased Utilities***

The University experienced significant increases in purchased utility costs in 2000-01 as a result of the statewide energy crisis. While the direct access contract with Enron Corporation largely protected most UC campuses from the volatility of statewide electricity rates, the University paid substantially more for natural gas. Spikes in natural gas rates had the greatest impact on campuses such as UCLA, with large cogeneration facilities. The State provided the University with \$75 million for budget shortfalls for 2000-01 and 2001-02 to help offset the increased costs; \$20 million of the funding provided is a permanent allocation. Due to the continued uncertainty in the natural gas and electricity markets, the University may return to the State to negotiate funding for additional deficits expected in 2001-02.

The University is currently negotiating with Enron for an extension of the University's current four-year direct access contract, which will end in March 2002. Whatever the outcome of these negotiations, it is clear that in 2002-03, electricity costs will increase dramatically across the University. After the negotiations are completed, the University will provide estimates to substantiate any projected shortfall in electricity for 2002-03 budget.

Campuses have implemented energy-related projects to reduce consumption or to lower rates in anticipation of the energy crisis. These projects have ranged from the installation of energy efficient lighting fixtures, motors, and pumps, to large-scale projects such as energy-efficient co-generation facilities at the San Francisco, Los Angeles, and San Diego campuses. To the extent that resources are made available by the State, the University will continue to implement energy conservation measures.

## AUXILIARY ENTERPRISES

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 550,761,000</b>
General Funds	--
Restricted Funds	550,761,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	24,478,000

The University's primary goal in administering auxiliary enterprises is to support its academic mission with the highest levels of service. Auxiliary enterprises are self-supporting services that are primarily provided to students, faculty, and staff. Student and faculty housing, parking, and bookstores are the largest auxiliaries. No State funds are provided for auxiliary enterprises; therefore, they must generate sufficient revenues to cover all of their direct and indirect operating costs. The annual budget is based upon income projections, and all budget increases are funded by corresponding increases in revenue.

During 2001-02, revenue from auxiliary enterprises will be expended as follows: 50% for residence and dining services; 10% for parking operations; 8% for intercollegiate athletics; 27% for bookstores; and 5% for other expenditures.

### **Student Housing**

The largest program in Auxiliary Enterprises is student housing, comprised of approximately 40,672 residence hall and single student apartment bed-spaces and 4,585 student family apartments, for a total of 45,257 spaces.

Affordable student housing is an important component of the University's ability to offer a high quality education. Rapid enrollment growth has

presented the University with many challenges; creating affordable, accessible student housing to accommodate this growth is high among those challenges.

In accommodating demand, campuses identified guaranteed housing for freshman as one of their highest priorities. Planning and providing for additional housing opportunities for transfer and graduate students is also a top priority for all campuses.

While the University was better prepared in Fall 2000-01 to meet the housing demand of students than in previous years, most campus residence halls continued to be occupied at over 100% design capacity (systemwide occupancy of residence halls was 106%). Campuses accommodate this by increasing design capacity of rooms from doubles to triples as well as modifying study areas into temporary quarters. All campuses housed freshman who met enrollment and housing deadlines. However, none of the campuses was able to accommodate all of the continuing students and few were able to satisfy all transfer students who sought housing.

Constrained on-campus housing conditions are predicted to continue as enrollment increases over the next several years. Off-campus housing market vacancies and rates, although improved last year, are still generally congested in the areas surrounding the University campuses. For these reasons, a Housing Task Force with representatives from all segments of the University community (as well as participation from the private sector and State government) has been formed to seek ways to make housing more available and affordable for students, faculty and staff.

The Housing Task Force includes three major subcommittees to address the following specific issues:

- traditional student housing,
- third-party development opportunities, and
- new financial programs for faculty/staff housing.

The Housing Task Force has begun a campus-by-campus review of expected enrollment increases, campus housing goals, critical factors in the housing market for each campus, and the design capacity and utilization of housing at each campus. Integration into campus educational programs will be emphasized (i.e., construction of housing with computer communications capability). They will also focus on identification of additional external

funding for the financing of faculty housing. Finally, they will keep surrounding communities informed of the housing situation and challenges at the individual campuses.

By the fall 2005 term, should construction proceed as planned, the University will add 19,025 new spaces (both bed spaces and spaces in apartment units) to its existing housing stock, and will have space to accommodate 64,282 students.

### **Faculty Housing Programs**

The California housing market is a continuing deterrent to faculty recruitment efforts, particularly for junior faculty. Various programs to alleviate this problem have been implemented since 1978. One of these programs provides rental housing to the faculty. The units are self-supporting without subsidy from student rental income, and are made available to newly appointed faculty on the basis of criteria established by each campus. There are currently 677 units available at seven campuses: Berkeley, Irvine, Los Angeles, San Diego, San Francisco, Santa Barbara, and Santa Cruz.

Home loan programs have provided mortgage loans with favorable interest rates and/or down payment requirements to 3,295 faculty members and other designated employees. In addition, the Salary Differential Housing Allowance Program has provided 1,521 faculty members with housing assistance during their first years of employment with the University, and the Mortgage Credit Certificate Program has furnished a federal tax credit for 51 faculty who were first-time home buyers.

The University continues to explore other faculty housing alternatives. Six campuses, in coordination with the Office of the President, have developed for-sale housing on land owned by the University. The land is leased to the purchaser of a unit built by a private developer. Resale restrictions control prices and determine eligibility for new buyers. The Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz campuses have projects underway and/or completed which will provide over 1,000 units, including townhouses, condominiums, and single-family structures. No State funds are provided for faculty housing programs.

## **Parking**

Another major auxiliary is the parking program with approximately 99,299 spaces for students, faculty, staff, and visitors. Recognizing the serious need for parking on each of the campuses, the University approved several parking projects in 2001-02 which will yield over 2,000 new spaces.

## PROVISIONS FOR ALLOCATION

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 106,055,000</b>
General Funds	87,356,000
Restricted Funds	18,699,000
<b>2002-03 INCREASE</b>	
General Funds	(56,538,000)
Restricted Funds	--

Provisions for allocation serve as a temporary repository for certain funds until final allocation decisions are made. For instance, funds allocated for fixed cost increases, such as salary adjustments (i.e., cost-of-living, parity, and merit increases), employee benefit increases, and price increases, are held in provision accounts pending final allocation. Fixed cost increases for 2000-01 are discussed in the *Program Maintenance: Fixed Costs and Economic Factors* chapter of this document. The 2002-03 budget reflects the reduction of one-time funds appropriated in the 2001-02 budget that are not available in 2002-03.

### **Rental Payments for Facilities Funded from Lease Revenue Bonds**

Funds to pay for rental payments for University facilities constructed from lease revenue bonds were initially appropriated to the University in 1987-88. Under the conditions of this funding mechanism, the University contracts with the State to design and construct facilities, provides the State Public Works Board (SPWB) with a land lease for the site on which buildings will be constructed, and enters into a lease purchase agreement for the facilities with the SPWB. Annual lease payments are appropriated from State funds and used to retire the debt. At the end of the lease term, ownership of the facilities automatically passes to the University. In 2001-02, \$99.6 million was appropriated to the University for revenue bond lease payments.

## **Debt Service Payments for Deferred Maintenance Projects**

In 1994-95 and again in 1995-96, the State authorized \$25 million in long-term debt financing to pay for high priority deferred maintenance projects involving the renewal or replacement of capital assets. All projects funded by this mechanism are required to have a useful life of at least 15 years. It was determined that the University should provide the financing and that funds to repay the principal and interest would be provided in future years in the annual State Budget.

The 1999 State Budget Act appropriated a total of \$5.1 million to pay for the principal and interest related to the 1994-95 and the 1995-96 deferred maintenance projects. The 2001-02 budget continues this level of funding.

### **2002-03 Funding Request**

The University is working with the Department of Finance and the State Treasurer to determine the appropriate amount required in 2002-03 for debt service related to major capital projects funded by lease revenue bonds. Consistent with the provisions of the new Partnership Agreement, the funding for these capital-related costs will be provided separate from the University's basic budget appropriation for operating support. The University will work with the Department of Finance to ensure that the correct amount of funding needed for the debt service, and related insurance premiums and State administrative costs, will be available in time to be included in the 2002-03 Budget Act.

### **Cost of Compliance with Recently Enacted Legislation**

Among the provisions of the new Partnership Agreement with the Governor is the principle that funding for the cost of legislation enacted by the State should be provided in addition to funding provided for support of the University's basic budget within the Partnership. Each year the University identifies pending State legislation, which, if enacted, would generate additional costs. During the legislative session, the University develops cost estimates for each bill and those estimates are submitted to the Department of Finance to be considered for funding in the subsequent year.

The University intends to work with the Department of Finance to acquire funds in 2002-03 to cover the cost of implementing recently enacted legislation.

## PROGRAM MAINTENANCE: FIXED COSTS AND ECONOMIC FACTORS

2002-03 INCREASE	
General Funds	\$ 172,154,000
Restricted Funds	--

This segment of the budget proposal includes funding for employee salary and related benefit adjustments, and for general and specific price increases required to maintain the University's purchasing power at present program levels.

### 2002-03 Budget Request

The University's request for a 2002-03 budget increase was calculated on a budget base of \$4.16 billion, which includes programs funded from State and University General Funds and student fees (Educational Fee, Registration Fee, and the Fees for Selected Professional School Students). This funding base is consistent with those used for preparation of the University's past seven budgets and the one used for review by the Department of Finance and the Legislature. Funds required for program maintenance in 2002-03 are summarized in Display 1.

### ***Continuation Costs of 2001-02 Salary Increases (\$2,600,000 Increase)***

The Governor's January budget proposal for 2001-02 originally fully funded the Partnership, which included sufficient funds for merit salary increases and a 2% cost-of-living adjustment (COLA). As part of the final actions on the 2001-02 State budget, \$90 million in Partnership funds for the University's basic budget were eliminated from the budget. Remaining funds were sufficient to fund a total compensation package of merit salary and COLA increases averaging 2% for eligible University employees. Since COLA increases are effective on October 1 of each year, and thus funded for only nine months, funding for the remaining three months must be provided in the

following fiscal year. In 2002-03, the continuation cost for three months, including related employee benefits, is \$2.6 million.

It is the University's expectation that the Partnership funding for compensation increases eliminated from the 2001-02 budget will be restored when the State's fiscal situation improves.

**Display 1**

<b>Funds Required for Program Maintenance in 2002-03</b>	
<b><i>Requested within Partnership:</i></b>	
Three months continuation cost of 2001-02 salary increases	\$ 2,600,000
Merit salary increases for eligible employees	\$ 44,800,000
Cost-of-living salary increase averaging 2% for employees on October 1, 2002	\$ 40,300,000
Parity increase averaging 2% for faculty and staff on October 1, 2002	\$ 40,300,000
Employee health and dental benefit increases of 10%	\$ 14,900,000
Price increase of 2.6%	\$ 29,200,000

***Merit Salary Increases (\$44,800,000 Increase)***

Funding for merit salary increases, which are increases within existing salary ranges, is again among the University's highest budget priorities. The merit salary programs recognize and reward excellence and are critical to the preservation of the quality of the University.

Academic merit salary increases provide an incentive to maintain and expand teaching and research skills, and enable the University to be competitive with other major research universities in offering long-term career opportunities. Academic merit increases are never automatic. They are awarded on the basis of each individual's academic attainment, experience, and performance in teaching, research and creative work, professional competence and activity, and University and public service. The additional funding required to finance 2002-03 merits is equal to 1.78% of the academic salary base.

Staff merit salary increases are also awarded on the basis of individual performance and are not automatic. Eligible employees are considered for a merit increase once a year. Many staff positions are only eligible for performance-based merit salary increases, which are funded from a pool created by combining funds for COLAs with those provided for merit increases. In 2002-03, the University will require an amount equal to 1.54% of the staff salary base to fund merits.

With the addition of related employee benefits, a total of \$44.8 million in State funds will be required to pay for merit increases in 2002-03.

***Cost-of-Living-Adjustment Salary Increase on 10/1/02  
(\$40,300,000 Increase)***

The University's goal is to maintain market-based competitive salaries for its employees. This means providing sufficient funds, through a combination of merits and COLAs, 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.

With the shortfall in Partnership funding in the 2001-02 budget, the University lost funding that had been targeted for COLAs and parity increases for faculty and staff. Instead of a 2% COLA in addition to merit increases for all eligible employees, as originally planned with full Partnership funding, the University was only able to fund a combination of merit and COLA increases averaging 2% for faculty and staff. As a result, salaries for faculty are likely to lag the average of the University's comparison institutions in the current year by about 2 to 3%, while many staff salaries will continue to lag the market. It is the University's expectation that when the State's fiscal situation improves, the Partnership funds eliminated from the 2001-02 budget will be restored, allowing the University to bring faculty salaries back to competitive levels and provide increases in staff salaries that will prevent further deterioration relative to the market.

The University is requesting funding for COLA salary increases averaging 2% for eligible faculty and staff employees, effective October 1, 2002. The cost of this increase, including related employee benefits, is \$40.3 million. As indicated below, the University is also requesting funding in addition to the 2% COLA salary increase to address essential market related compensation needs for faculty and staff employees.

Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA). Many staff positions are only eligible for performance-based merit salary increases, which are funded from a pool created by combining funds for COLAs with those provided for merit increases.

***Parity Increase for Faculty and Staff Employees Effective 10/1/02 (\$40,300,000 Increase).***

Funding for an additional 2% parity salary increase for faculty and staff employees is requested to bring faculty salaries closer to the average salary of the eight comparison institutions, and allow the University to provide salary increases for certain categories of staff employees that will bring salaries closer to market levels.

Because of the underfunding of the Partnership Agreement in 2001-02, even with funding in 2002-03 for normal merit increases, a COLA salary increase averaging 2%, and a parity salary increase averaging 2%, preliminary estimates indicate that salaries of University faculty will lag the average salary at the comparison institutions by about 2 to 3%. Updated projections will be available in November. It is the University's expectation that this gap will be closed when the lost Partnership funds are restored to the University's budget once the State's fiscal situation improves.

A lag in faculty salaries sends a negative message about the University across the nation, making it more difficult to recruit and retain individuals who meet the University's traditional high standards. This is particularly critical because of the major increase in faculty hiring expected over this decade in order to accommodate enrollment growth. Nothing is more certain to undermine quality than a persistent inability to offer competitive salaries. Maintenance of the University's historic position in the marketplace is essential if its quality is to be maintained.

The 2% parity increase for staff employees will provide market-based increases needed to help restore salaries lagging the market to levels that are competitive. The University received no funding for COLAs for three years in the early 1990s; prior to 2000-01, the University's salaries were about 6% behind what they would have been if employees had received 2% COLAs annually in the early 1990s.

The 2000-01 Budget Act provided an additional \$19 million in recognition of this historical imbalance. This funding was distributed in a manner that generally provided lower-paid employees earning \$40,000 or less with an additional salary increase of 2%, while employees earning between \$40,000 and \$80,000 generally received an additional 1% increase. These increases were over and above the regular merit increases and COLAs provided to University employees.

The \$19 million provided in 2000-01 represented the first part of a multi-year plan to make up for the lack of salary increases in the early 1990s, and provide more competitive salaries to University staff employees in the coming years. With the additional \$19 million increase in 2000-01, the gap between what University employees would have received with normal increases throughout the decade and what they did receive was reduced to about 4%. Competitive staff salaries are critical to maintaining the University's ability to recruit and retain a talented staff workforce.

Consistent with this plan, the University is including \$40.3 million in its basic budget plan for 2002-03 to be used primarily for salary increases for employees whose salaries are lagging the market. The University will request additional funds in future budgets, once the State's fiscal situation improves, to help eliminate these market lags and the deficiencies caused by three years of no COLAs for University employees. Of course, restoration of the Partnership funds lost in 2001-02 will also help bring salaries to more competitive levels.

***Academic and Staff Employee and Annuitant Benefits  
(\$14,900,000 Increase)***

The University is requesting funds to provide a 10% increase in funding for health and dental insurance for its employees. Since the University utilizes a total compensation approach, in which funding for salary increases and benefit costs are pooled, any increases in health and dental insurance costs greater than those assumed above would need to be funded from dollars that would otherwise be allocated for COLAs. Another alternative for dealing with larger than anticipated increases in the cost of insurance would be to use savings generated by reductions in health and dental benefits.

Notwithstanding the success of the University in reducing the cost of health benefits in recent years, and a continuing commitment to efforts to control costs, employee benefit costs are expected to increase over the next several years. The cost of these increases in employee health and dental insurance costs is expected to be \$14.9 million in 2002-03.

For annuitant benefits, the University is requesting funding that is equivalent to the funding provided for the State's annuitants. The Department of Finance traditionally calculates these costs based on the most recent available data and, consistent with the principles of the Partnership, provides the funding separately. Thus, estimates of the rise in actual costs related to annuitant benefits are not included in the Regents' Budget at this time.

### ***Provision for Price Increases (\$29,200,000 Increase)***

The University is requesting \$29.2 million, a 2.6% increase, to offset the impact of inflation on non-salary budgets and maintain the University's purchasing power. Although the University purchases many commodities, whose expected cost increases exceed current inflation estimates, the request for funding is limited to a 2.6% increase to stay within funding available under the Partnership. Recent economic forecasts are projecting an overall inflation rate of about this level.

Increases significantly greater than 2.6% are anticipated for several major commodities. Based on an annual report from campus libraries and industry sources, such as *The Bowker Annual* for 2000, the University anticipates increases of about 4.6% for monographs, 8.9% for subscriptions, and 7.3% for serial services. This means that the average annual increase in the costs of library materials will be approximately 7% in 2002-03. Subscriptions and serial services represent more than 60% of the library materials budget, and the purchase of library materials is one of the largest expenditures made each year. The University will also experience higher cost increases for other commodities, such as laboratory and agricultural chemicals, equipment, and liability and property insurance. The University incurs substantial cost for all of these items.

### **Productivity Improvements**

The University remains committed to, and continues to work toward, achieving productivity improvements. Consistent with the Partnership Agreement with the Governor, savings that result from these efforts will be reallocated to meet funding shortfalls in high priority areas, including instructional equipment replacement, ongoing building maintenance, instructional technology, and library materials.

## UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS

<b>2001-02 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 146,091,000</b>
General Funds	--
Restricted Funds	146,091,000
<b>2002-03 INCREASE</b>	
General Funds	--
Restricted Funds	8,182,000

The following section discusses three fund sources: the University Opportunity Fund, the Off-the-Top Overhead Fund, and the Department of Energy (DOE) Laboratory Management Fee. The Management Fee is the annual compensation provided to the University for management and oversight of the DOE Laboratories at Berkeley, Livermore and Los Alamos and is discussed at the end of this chapter.

### **Federal Reimbursement**

All federal contract and grant activity generates costs which are divided into two basic categories—direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting a specific contract or grant. These costs are charged directly to individual contracts or grants. Indirect costs are those expenses which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The University Opportunity Fund and the Off-the-Top Overhead Fund derive from this reimbursement.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University General Funds and is used, along with State General Funds, to help fund the University's basic budget. The remaining 45% is the source of the University Opportunity Fund. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated.

In 1990, the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities, the related infrastructure, and financing of these projects. Under the provisions of the legislation, the University is authorized to use 100% of the reimbursement received as a result of new research conducted in, or as a result of, the new facility, to finance and maintain the facility. Any reimbursement received in excess of what is needed to finance and maintain the facility is allocated as previously described. Of the sixteen projects approved by the Legislature to be financed in this manner, eleven have been completed, one received gift funding and was removed from the program, and four are in the planning and construction stages, and are the four projects authorized in the 2000-01 Budget Act). The California Institutes for Science and Innovation program have added seven new projects using this financing mechanism; these new facilities are in various stages of planning and design.

### **Off-The-Top Overhead Fund**

The Off-the-Top Overhead Fund is used to support administrative costs related to federal contract and grant activity in areas such as campus contract and grant offices, academic departments and Organized Research Units (ORUs).

### **University Opportunity Fund**

Allocations to campuses from the University Opportunity Fund are based on the amount of indirect cost reimbursement generated by the campus. This

approach represents a reinvestment in research and an incentive to further develop the University's research capacity. Each campus has discretion as to the use of University Opportunity Funds. The following is a programmatic description of functional areas under which campuses expend these funds.

### ***Research***

Campuses often use their University Opportunity Fund allocations to enhance their faculty recruitment efforts by providing support for such research needs as laboratory alterations, equipment, research assistants, fieldwork, and debt service for new buildings. The adequacy of funding for these and other basic research needs has a substantial impact on the success of efforts to recruit and retain high-caliber faculty. The level of research support that can be offered is often a pivotal factor in the success of efforts to recruit the most promising junior faculty members. The University must be in a position to offer a level of research support that is competitive with other institutions. In the physical and natural sciences, it is not unusual for the University to provide several hundred thousand dollars in research support in the recruitment of a faculty member.

Research support is also critical in retention of distinguished faculty members, who regularly receive attractive offers from other institutions. Department chairs report that it is difficult, and occasionally impossible, to replace key faculty members lost to other institutions with scholars of equal stature. Loss of a faculty member disrupts both the instructional and the research programs of the University. The future of the University is dependent upon the quality of its faculty. The use of the University Opportunity Fund for the recruitment and retention of distinguished faculty members helps to secure that future.

Since 1970, The Regents have used University Opportunity Funds to provide core support for high priority systemwide research programs not adequately funded from other sources. Such programs include the Keck Observatory, the Energy Institute, and the Institute for Mexico and the United States. Some campuses use a portion of the University Opportunity Fund allocation as seed money for a continued and selective expansion of their research programs. They also use University Opportunity Funds in combination with State and other University funds to address the special needs encountered by individual faculty members in the conduct of research, such as funding for equipment and supplies, text preparation, research assistants, and fieldwork and travel.

## ***Instruction***

Allocations for instruction are designed to provide continuing incentives to explore new instructional approaches and programs. Innovative instructional activities are essential for maintaining dynamic, high quality academic programs. The Education Abroad Program is typical of those funded. This Program furthers students' academic progress and enhances their communication skills, cultural enrichment, and understanding of the contemporary world through intensive involvement in a different culture. University Opportunity Funds help to support guest students on University campuses who are here as a result of reciprocal arrangements with foreign institutions that are hosting University of California students. This is an essential part of the operation of the Education Abroad Program, but is not supported by State funds.

Some campuses use University Opportunity Funds to provide support for programs designed to give special recognition to excellence of undergraduate instruction or to support course evaluations to give faculty the feedback needed to improve teaching. In all, about \$11 million is allocated annually to support instructional activities.

## ***Institutional Support***

Currently, a portion of the University Opportunity Fund is used to support administrative activities for which adequate State support has not been provided, for example, administrative computing and environmental health and safety. Activities discussed below are typical of those funded in the Institutional Support category.

Funds are provided under Institutional Support to maintain and improve the University's capabilities to attract external funding, primarily from private sources. Such programs have been funded since the mid-1960s from a combination of various funds. Support is provided to meet alumni and development data processing requirements and for management information systems. Allocations from the University Opportunity Fund also provide support for the University's public safety, and staff and management development programs.

## **Department of Energy Laboratory Management Fee**

Contracts for University management and oversight of the Department of Energy National Laboratories at Berkeley (LBNL), Livermore (LLNL) and

Los Alamos (LANL) provide compensation to the University for its management of the Laboratories. Modifications to the contracts for managing LLNL and LANL, adopted in January, 2001, and the establishment of the new position of Vice President for Laboratory Management (VPLM) at the University, have resulted in some detailed changes to the compensation agreement. The compensation for federal fiscal year (FY) 2002 will be as follows:

1. Reimbursement of actual costs for support of the Office of the VPLM in an amount not to exceed \$6.6 million. The increase from the previous limit of \$4.5 million compensates for the addition of the VPLM and the transfer of some costs previously funded as indirect costs.
2. Reimbursement of indirect costs associated with management of the Laboratories that are incurred by the University. The amount for FY2002 is provisionally set at \$10.4 million, pending the outcome of a new allocation study based on changes in the rules for applying federal Cost Accounting Standards. The decrease in this figure from the previous \$11 million compensates for the transfer of some costs to the Office of the VPLM, as described above. Annual contract indirect payments are distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. The \$10.4 million is budgeted as UC general fund income and helps to fund the University's operating budget.
3. Payment of performance management fees of up to \$16 million annually, dependent on the Department of Energy's evaluation of performance at the three Laboratories. The modified contracts for managing LLNL and LANL do contain some changes in the way the size of the fees are determined.

These performance management fees are used to cover costs related to audit disallowances at the Laboratories, other federally-unreimbursed costs incurred in the course of contract performance, and to support two University research program funds. The UC Directed Research and Development (UCDRD) Fund supports high priority research needs at the Laboratories, with emphasis given to collaborative research with the campuses. The Complementary and Beneficial Activities (CBA) Fund fosters collaborative research efforts between the Laboratories and the UC campuses.

UC has recognized the benefit to the University as a whole of encouraging collaborations and has supported these efforts with funds derived from the Department of Energy contracts for managing the Laboratories. The CBA Fund supports a number of collaborative research activities including two Multicampus Research Units: the Institute on Global Conflict and Cooperation and the Institute of Geophysics and Planetary Physics. In addition, the Campus-Laboratory Collaborations (CLC) Program was established in 1994 to enhance and facilitate greater technical collaboration and cooperation between the UC campuses and the Laboratories. Supported by the CBA Fund, the CLC Program provides seed money to encourage non-traditional long-term collaborative research programs. New awards granted in 2001 totaled approximately \$2.0 million for the first two years of a three-year grant program. Five projects were funded in areas as diverse as medical imaging, advanced research in superconductors, and innovative use of radiocarbon dating for the study of global climate processes. In addition, one-third of the CLC Program funding was set aside in 2001 to establish a new initiative, the Campus Laboratory Exchange (CLE) Program. The goal of the CLE Program is to encourage greater exchange of faculty, Laboratory staff, students, and postdoctoral students between the Laboratories and the Campuses. Six projects were selected from 17 proposals for the first year of this new initiative.

UCDRD funding is provided in support of research projects at each of the three Laboratories. Collaborative research with UC campuses is a high-priority use for these funds. LLNL's UCDRD funds are invested in a variety of areas. These include CLC projects, "mini-grants" to UC faculty and students for research with LLNL institutes, instrumentation for the Lick and Keck Telescopes, a robotic telescope for the Taiwanese-American Occultation Survey Project, new University-LLNL institutes, and small UC-LLNL collaborations as targets of opportunity.

At Los Alamos UCDRD funds are also directed toward campus collaboration. The Collaborative University-Los Alamos Research (CULAR) Program funds joint Laboratory-UC campus research in areas that match the Laboratory's core competencies in materials, earth and environmental systems, and bioscience and biotechnology. In FY2000, the CULAR program supported 31 projects. The UC Research Partnerships Initiatives (UCRPI) supply seed funds for collaborations that are of strategic importance to Los Alamos and that have significant potential for attracting external funds. There were 24

UCRPI collaborations in FY2000. Los Alamos also has similar UCDRD-funded programs with four New Mexico universities. In FY2000, a total of 16 projects were supported.

LBNL has utilized UCDRD funds during the past year to purchase or develop instrumentation for collaborative work with UC researchers. Examples include: components for a femtosecond x-ray beam line at the Advanced Light Source (ALS); engineering and design of superconducting dipole magnets to provide capacity for up to 12 new beamlines for intermediate energy x-ray experiments at the ALS; purchase of a multiphoton microscope that gives researchers a unique capacity for correlative live-cell microscopy and high resolution x-ray microscopy on the same cell; acquisition of a Nd:YAG laser, with an enhanced energy option, for the newly established Glenn T. Seaborg Center; and supplementary funds to renovate the animal facility. UCDRD funds also provided support for the France-Berkeley fund, which aids joint UC Berkeley and French educational and research projects.

## **INCOME AND FUNDS AVAILABLE**

### **General Fund Income and Funds Available**

The programs described in this budget document will require General Fund resources in 2002-03 of \$4.1 billion, including \$3.65 billion in State General Funds, and \$410 million in University General Funds. University General Funds are comprised of nonresident tuition, a portion of the federal indirect cost reimbursement, overhead on State agency agreements, and income from the application for admission and some other smaller fees.

Nonresident tuition will produce \$167.1 million in University General Fund income. This income estimate is based on the 2002-03 nonresident tuition level proposed in this budget and on the number of students expected. In addition, the application fee and a number of smaller fees will produce University fund income totaling \$19.5 million.

Overhead on State agency agreements totaling \$9.7 million will be used to help fund the University's budget.

### **Federal Indirect Cost Reimbursement**

All federal contract and grant activity generates costs, which are divided into two basic categories—direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting a specific contract or grant. These costs are charged directly to individual contracts and grants. Indirect costs are those expenses, which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not directly charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The basis for this reimbursement is arrived at through a series of complex negotiations between the University and the federal government that result in indirect cost rates that are then applied against contract and grant activity.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, approximately 20% of the reimbursement accrues directly to the University for costs related to

federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. It is estimated that \$76 million will be provided from this source in 2002-03.

The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University General Funds and is used, along with State General Funds, to help fund the University's budget. It is estimated that \$169.4 million will be provided from this source in 2002-03. The remaining 45% is the source of the University Opportunity Fund, estimated to be \$138.3 million in 2002-03. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated. Expenditures from the University Opportunity Fund are discussed more fully in the *University Opportunity Fund and Special Programs* chapter of this document.

In addition, in 1990 the State approved legislation allowing the special use of incremental indirect cost recovery generated by research activities in certain new research facilities. Under the legislation (SB 1308, Garamendi), 100% of the reimbursement can be used to pay for construction and ongoing maintenance of the research facility. In such a case, the designated indirect cost recovery is taken off the top of the total indirect cost reimbursement before any other split is made.

Contracts for University management and oversight of the Department of Energy National Laboratories at Berkeley (LBNL), Livermore (LLNL) and Los Alamos (LANL) provide for compensation to the University for its management of the Laboratories. Modifications to the contracts for managing LLNL and LANL adopted in January, 2001, and the establishment of the new position of Vice President for Laboratory Management (VPLM) at the University have resulted in some detailed changes to the compensation. The compensation for federal FY2002 will be as follows:

1. Reimbursement of actual costs for support of the Office of the VPLM in an amount not to exceed \$6.6 million. The increase from the previous limit of \$4.5 million compensates for the addition of the VPLM and the transfer of some costs previously funded as indirect costs.
2. Reimbursement of indirect costs associated with management of the Laboratories that are incurred by the University. The amount for

FY2002 is provisionally set at \$10.4 million, pending the outcome of a new allocation study based on changes in the rules for applying federal Cost Accounting Standards. The decrease in this figure from the previous \$11 million compensates for the transferal of some costs to the Office of the VPLM, as described above. Annual contract indirect payments are distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. The \$10.4 million is budgeted as UC general fund income and helps to fund the University's operating budget.

3. Payment of performance management fees of up to \$16 million annually, dependent on the Department of Energy's evaluation of performance at the three Laboratories. The modified contracts for managing LLNL and LANL do contain some changes in the way the size of the fees are determined.

These performance management fees are used to cover costs related to audit disallowances at the Laboratories, other federally-unreimbursed costs incurred in the course of contract performance, and to support two University research program funds. The UC Directed Research and Development (UCDRD) Fund supports high priority research needs at the Laboratories, with emphasis given to collaborative research with the campuses. The Complementary and Beneficial Activities (CBA) Fund fosters collaborative research efforts between the Laboratories and the UC campuses.

## **Restricted Fund Income and Funds Available**

### ***Other State Funds***

In addition to State General Fund support, the University's budget for current operations includes \$61.8 million in appropriations from State special funds including, for example, \$22 million from the California State Lottery Education Fund, \$19.4 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program, and \$14.7 million for the Breast Cancer Research Program, also funded from the Cigarette and Tobacco Products Surtax Fund. Also included in State special funds is \$480,000 for the Breast Cancer Research Program appropriated from the Breast Cancer Research Fund, which derives revenue from the personal income tax check-off.

## ***Student Fees***

University student fees are discussed in detail in the *Student Fees* chapter of this document. The 2002-03 budget plan assumes the State will provide funding equivalent to a 7.82% increase in mandatory systemwide student fees. Based on the number of students expected to enroll, income from mandatory universitywide fees (Educational Fee and University Registration Fee) is currently projected to be \$640 million in 2002-03.

Income from the Educational Fee is used to support student services, student financial aid, and a share of the University's operating costs, including instruction, libraries, operation and maintenance of plant, and institutional support. Income from the University Registration Fee is used to support counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students.

UC student fees increased substantially during the early 1990s, largely due to major shortfalls in State funding for the University's budget. As discussed in the *Financial Aid* section of this document, financial aid grew substantially as well during this time. There have been no increases in the Educational Fee or the University Registration Fee since 1994-95; in fact, these fees have been reduced by 10% for California resident undergraduate students and 5% for California resident graduate academic students.

In 2002-03, income from the Fee for Selected Professional School Students will be approximately \$45.4 million based on the number of students expected to enroll and the fee levels previously approved by The Regents. An amount equivalent to at least one-third of the revenue will be used for financial aid. Remaining fee income will be used to support the professional school programs. Fee income can be used to hire faculty and teaching assistants as well as for instructional and computing equipment, libraries, other instructional support, and student services.

Income from University Extension fees paid by nearly 500,000 registrants supports the largest continuing education program in the nation. Extension is entirely self-supporting and its programs are dependent upon user demand.

As part of the 2000 Budget Act, the State provided sufficient funds to reduce Summer Session fees for summer 2001 and beyond to an amount equivalent, on a per-unit basis, to mandatory university-wide fees charged during the regular academic year. This was done with the expectation that summer

session enrollments will increase to accommodate a portion of the University's projected enrollment growth. A full discussion of State-supported summer instruction is included in the *General Campus Instruction* chapter of this document.

### ***Teaching Hospitals***

The University's academic medical centers generally receive three types of revenue: (1) patient service revenue, (2) other operating revenue, and (3) non-operating revenue.

- Patient service revenues are charges for services rendered to patients at a medical center's established rates, including rates charged for inpatient care, outpatient care, and ancillary services. Major sources of patient service revenue are government-sponsored health care programs (i.e., Medicare, Medi-Cal and the California Healthcare for Indigents Program), commercial insurance companies, contracts (e.g., managed care contracts), and self-pay patients. The rate of growth in revenues has slowed significantly in recent years due to fiscal constraints in government programs and the expansion of managed care.
- Other operating revenues are derived from the daily operations of the medical centers as a result of non-patient care activities. The major source is Clinical Teaching Support, provided by the State to help pay for the costs of the teaching programs at the medical centers. Additional sources of other operating revenue are cafeteria sales and parking fees.
- Non-operating revenues result from activities other than normal operations of the medical centers, such as interest income and salvage value from disposal of a capital asset.

Medical Center revenues are used for the following expenses: salaries and benefits, supplies and services, depreciation and amortization, malpractice insurance, interest expense, and bad debts. Remaining revenues are used to meet a medical center's working capital needs, fund capital improvements, and provide an adequate reserve for unanticipated downturns. The *Teaching Hospitals* chapter of this document discusses the history of the financial problems confronting the medical centers and how those problems have been and continue to be addressed.

In 2002-03, expenditures of hospital income for current operations are projected to increase by \$53.5 million or about 2%. The main reasons for the

increase are: 1) an increase in patient activity, 2) growth in labor costs, especially due to new labor contracts, 3) the increase in the cost of pharmaceuticals, and 4) increasing energy costs.

### ***Sales and Services***

Income from sales and services from educational and support activities is projected to total \$764 million in 2002-03. This includes income from the health sciences faculty compensation plans and a number of other sources, such as neuropsychiatric hospitals, the veterinary medical teaching hospital, dental clinics, fine arts productions, publication sales, and athletic facilities users.

### ***Endowment***

The Treasurer of The Regents invests endowment and similar funds. The vast majority of these funds participate in the General Endowment Pool (GEP) or in the High-Income Pool (HIP). The GEP portfolio is designed to promote capital growth in line with or in excess of the rate of inflation, along with steady increases in income. The HIP portfolio is designed to produce a relatively high and stable level of current income.

In 1998-99, The Regents changed the methodology for calculating the amount available for expenditure from funds invested in the GEP. From 1958 through 1997-98, the procedure had been to generate payments to the endowed activities based only on income generated. Income at that time was defined as dividends, interest, rents, royalties and the like. Under the new methodology, each year, as approved by the Regents, and depending on the recommendations of the President and the Treasurer, the GEP will pay out up to 4.75% of the 60-month moving average of the market value of a unit invested in the GEP. Each year, campuses are able to use up to a maximum of 15 basis points (0.15%) of the total payout amount to support endowment administrative costs. In 1998-99, The Regents approved a payout rate of 4.35% for expenditures in 1999-00, an increase of 9.1% of the amount available for expenditure in 1998-99. The Regents will be asked to approve a payout rate of 4.45% for expenditure in 2002-03, continuing the rate of the preceding year.

The amounts shown in the Endowment category on the Income and Funds available schedule at the end of this chapter represent the expenditure of the payout distributed on endowments and similar funds. Endowments require that the principal be invested in perpetuity with the income or approved

payout used in accordance with terms stipulated by donors or determined by The Regents.

In the ten-year period between 1990-91 and 2000-01, actual expenditures from endowments increased by over 138%. The University is projecting expenditures of \$147 million in 2002-03.

### ***Auxiliary Enterprises***

Auxiliary enterprises are non-instructional support services provided primarily to students in return for specified charges. Services include residence and dining services, parking, intercollegiate athletics, and bookstores. Faculty housing is also an auxiliary enterprise. No State funds are provided for auxiliary enterprises. Budget increases for each service are matched by corresponding increases in revenue. Revenue from auxiliary enterprises is projected to increase from \$543.9 million in 2001-2002 to an estimated \$568.4 million in 2002-03.

## **Extramural Funds**

Extramural Funds are provided for specified purposes by the federal government, usually as contracts and grants; through State agency agreements; and through private gifts and grants from individuals, corporations, and foundations. The majority of these funds are used for research and student financial aid.

### ***Research***

For 2002-03, extramural research funding is projected to be \$1.95 billion, including \$1.36 billion of federal funds. Federal funds are the University's single most important source of support for research, accounting for approximately 52% of all University research expenditures in 2000-01. While UC researchers receive support from virtually all federal agencies, the National Institutes of Health and the National Science Foundation are the two most important, accounting for approximately 73% of the University's federal research contract and grant awards in 1999-2000.

In the decade between 1982-83 and 1992-93 federal support for research at the University grew dramatically. With a commitment to research established as a national priority by both President Clinton and the Congress, annual federal research expenditures increased by an average of almost 10%

during this period. After 1992-93, however, the focus of the federal government was on deficit reduction. While research expenditures continued to increase, the rate of growth slowed. Between 1992-93 and 1995-96 federal research expenditures at the University increased by an average of about 4% per year, and in 1996-97 there was no increase over the previous year. However, progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in continuing gains for federal research programs; the University's federal research expenditures increased by 7% in 1997-98, by nearly 9% in 1998-99, by 9.5% in 1999-00, and by 8% in 2000-01.

While final decisions regarding research funding are yet to be made, the recognized link between research and the economy, and between research and national security, will likely result in support for research funding. While projections may change pending the outcome of the current budget negotiations between the Congress and the President, at this point it appears that most non-defense R&D programs will either increase or at least stay even with inflation to the year 2005, with some programs, such as defense and medical research, faring better than others. The projected \$1.36 billion of federal funds for UC in 2002-03 represents a 7% increase over the estimated 2001-02 budget.

In addition to the funding of research contracts and grants, federal funds entirely support the Department of Energy Laboratories, for which the University has management responsibility. In 2002-03, this support is projected to be approximately \$3.26 billion.

### ***Student Financial Aid***

In 1999-00, UC students received \$659.8 million in federal financial aid, mostly in the form of loans. Overall, UC students received only about 1% more federally funded aid in 1999-00 than they received in the previous year. This increase occurred despite a slight decrease in the total dollar amount of Pell Grants awarded to UC students. The significance of the federal loan programs for UC students is demonstrated by the fact that these programs comprised three-quarters (76%) of all federally funded aid and nearly one-half (44%) of the total financial support received by UC students in 1999-00. Federal aid also assists undergraduate and graduate students through a variety of other programs. Needy students are eligible for federally funded grant programs such as Pell Grants, and they may seek employment under the College Work-Study Program, where the federal government subsidizes up to 75% of the student employee's earnings. Graduate students

receive fellowships from a number of federal agencies such as the National Science Foundation and the National Institutes of Health.

The *Student Financial Aid* chapter of this document discusses these and other financial aid programs. It also discusses the potential impacts on federal financial aid that could result from a slowing economy and the effects of the Economic Growth and Tax Relief Reconciliation Act of 2001.

## **Private Funds**

Gifts and private grants are received from alumni and other friends of the University, campus-related organizations, corporations, foundations, and other nonprofit entities; private contracts are received from for profit and other organizations. For 2002-03, expenditures of gifts, and private contracts, and grants to the University are estimated to be \$753 million, an increase of 2% over projected 2001-02 expenditures. Expenditures have increased by almost 134% in the ten-year period from 1991-92 to 2001-02.

The University continues to be aggressive in searching out and developing non-State revenue sources particularly private funds. After six years of significant growth in the receipt of gifts, private grants, and pledges, a slight decline did occur during the last year. In 2000-01, alumni and other supporters committed just under \$1.2 billion in gifts, grants and pledges to the University. The 2000-01 total represents a 3.6% decrease from 1999-00, when donors contributed slightly over \$1.2 billion to support UC's academic, research and public service programs. This is the first decrease in giving to the University since 1993-94.

Donors in 2000-01 directed \$745.7 million (63.3%) of support to University operations; \$194.1 million (16.5%) to campus improvement; and \$206.7 million (17.5%) to endowments. Of the total donations in 2000-01, \$506.1 million (42.9%) was specified for use in the health sciences. More than 97% of the private support was restricted by the donors as to purpose, which underscores the need for continued support from the State and Federal governments.

Private support for the University is derived from a number of sources. In 2000-01, gifts and grants from non-alumni individuals totaled \$242.1 million; from private foundations \$459.8 million; corporations, \$174.5 million; alumni, \$219.1 million; and campus organizations and other sources, \$82.8 million.

The University's remarkable achievement in obtaining funding in recent years is a testament to UC's distinction as the leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations, and other supporters hold the University. Additionally, the results underscore the continued confidence among donors in the quality of UC's programs and the importance of its mission. At the same time, this year's private support totals began to reflect the changes in the economy and financial markets, the effect of which is likely to be more pronounced in private giving to the University in 2002-03.

**INCOME AND FUNDS AVAILABLE**  
**(\$000s)**

	Estimated 2001-02	Proposed 2002-03	Proposed Changes
<b>STATE APPROPRIATIONS</b>			
General Fund	\$ 3,357,837	\$ 3,649,637	\$ 291,800
Special Funds	61,791	61,791	--
<b>TOTAL, STATE APPROPRIATIONS</b>	<b>\$ 3,419,628</b>	<b>\$ 3,711,428</b>	<b>\$ 291,800</b>
<b>UNIVERSITY SOURCES</b>			
General Funds Income			
Student Fees			
Nonresident Tuition	\$ 149,200	\$ 167,100	\$ 17,900
Application for Admission and Other Fees	15,500	19,500	4,000
		-	
Interest on General Fund Balances	22,600	26,100	3,500
Federal Contract & Grant Overhead	159,377	169,377	10,000
DOE Allowance for O/H & Management	10,400	10,400	--
Overhead on State Agency Agreements	7,000	9,700	2,700
Other	7,500	7,500	
Subtotal	\$ 371,577	\$ 409,677	\$ 38,100
Prior Year's Income Balance	56,538	--	(56,538)
Total UC General Fund Income	\$ 428,115	\$ 409,677	\$ (18,438)
Special Funds Income			
GEAR UP State Grant Program	\$ 5,000	\$ 5,000	\$ --
United States Appropriations	17,000	17,000	--
Local Government	58,916	58,916	--
Student Fees			
Educational Fee	490,867	509,941	19,074
Registration Fee	125,298	130,259	4,961
Special Law/Medical Fee	1,820	1,820	--
Professional School Fees	45,449	45,449	--
University Extension Fees	235,597	247,377	11,780
Summer Session Fees	19,718	20,507	789
Other Fees	94,395	100,059	5,664
Sales & Services - Teaching Hospitals	2,680,069	2,733,574	53,505
Sales & Services - Educational Activities	523,742	549,929	26,187
Sales & Services - Support Activities	210,300	214,366	4,066
Endowments	139,975	146,974	6,999
Auxiliary Enterprises	543,945	568,423	24,478
Contract and Grant Off-the-Top Overhead	71,821	76,339	4,518
DOE Management Fee	16,000	16,000	--
University Opportunity Fund	130,091	138,273	8,182
Other	238,567	250,495	11,928
Total Special Funds	\$ 5,648,570	\$ 5,830,701	\$ 182,131
<b>TOTAL, UNIVERSITY SOURCES</b>	<b>\$ 6,076,685</b>	<b>\$ 6,240,378</b>	<b>\$ 163,693</b>
<b>TOTAL INCOME AND FUNDS AVAILABLE</b>	<b>\$ 9,496,313</b>	<b>\$ 9,951,806</b>	<b>\$ 455,493</b>

**BUDGET FOR CURRENT OPERATIONS  
EXPENDITURE BY PROGRAM AND FUND TYPE  
(\$000s)**

	2001-02 Budget			2002-03 Proposed			Proposed Increases		
	GENERAL	RESTRICTED	TOTAL	GENERAL	RESTRICTED	TOTAL	GENERAL	RESTRICTED	TOTAL
	FUND	FUNDS	FUNDS	FUND	FUNDS	FUNDS	FUND	FUNDS	FUNDS
INSTRUCTION									
General Campus	\$ 1,473,750	\$ 316,633	\$ 1,790,383	\$ 1,597,839	\$ 332,656	\$ 1,930,495	\$ 124,089	\$ 16,023	\$ 140,112
Health Sciences	342,946	385,788	728,734	344,103	405,077	749,180	1,157	19,289	20,446
Summer Session	--	19,718	19,718	0	20,507	20,507	--	789	789
University Extension	--	235,597	235,597	--	247,377	247,377	--	11,780	11,780
RESEARCH	335,149	264,839	599,988	335,149	272,033	607,182	--	7,194	7,194
PUBLIC SERVICE									
Campus Public Service	206,398	61,746	268,144	206,398	64,448	270,846	--	2,702	2,702
Cooperative Extension	54,048	12,295	66,343	54,048	13,295	67,343	--	1,000	1,000
ACADEMIC SUPPORT									
Libraries	207,916	40,850	248,766	212,916	43,301	256,217	5,000	2,451	7,451
Organized Activities	176,893	251,363	428,256	176,893	263,716	440,609	--	12,353	12,353
TEACHING HOSPITALS	52,437	2,680,069	2,732,506	52,437	2,733,574	2,786,011	--	53,505	53,505
STUDENT SERVICES	--	312,692	312,692	--	324,551	324,551	--	11,859	11,859
INSTITUTIONAL SUPPORT	324,775	145,325	470,100	324,775	146,904	471,679	--	1,579	1,579
OPERATION AND MAINTENANCE OF PLANT	438,346	62,351	500,697	465,846	63,286	529,132	27,500	935	28,435
STUDENT FINANCIAL AID	85,938	205,544	291,482	85,938	213,556	299,494	--	8,012	8,012
AUXILIARY ENTERPRISES	--	550,761	550,761	--	575,239	575,239	--	24,478	24,478
PROVISIONS FOR ALLOCATION	87,356	18,699	106,055	30,818	18,699	49,517	(56,538)	--	(56,538)
UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS	--	146,091	146,091	--	154,273	154,273	--	8,182	8,182
SUBTOTAL	\$ 3,785,952	\$ 5,710,361	\$ 9,496,313	\$ 3,887,160	\$ 5,892,492	\$ 9,779,652	\$ 101,208	\$ 182,131	\$ 283,339
PROGRAM MAINTENANCE									
Fixed Costs, Economic Factors	--	--	--	172,154	--	172,154	172,154	--	172,154
TOTAL UNIVERSITY	\$ 3,785,952	\$ 5,710,361	\$ 9,496,313	\$ 4,059,314	\$ 5,892,492	\$ 9,951,806	\$ 273,362	\$ 182,131	\$ 455,493

**GENERAL CAMPUS AND HEALTH SCIENCES**

**Full-Time-Equivalent Enrollments--Year Average**

	<i>2000-01 Actual</i>	<i>2001-02 Budgeted</i>	<i>2002-03 Proposed</i>	
			<i>Total</i>	<i>Change</i>
<b>BERKELEY</b>				
General Campus	28,987	29,300	29,900	600
Health Sciences	700	757	757	0
Total	29,687	30,057	30,657	600
<b>DAVIS</b>				
General Campus	21,628	22,700	23,700	1,000
Health Sciences	1,958	1,898	1,898	0
Total	23,586	24,598	25,598	1,000
<b>IRVINE</b>				
General Campus	17,980	19,200	20,500	1,300
Health Sciences	1,092	1,040	1,040	0
Total	19,072	20,240	21,540	1,300
<b>LOS ANGELES</b>				
General Campus	29,496	30,000	30,800	800
Health Sciences	3,741	3,719	3,719	0
Total	33,237	33,719	34,519	800
<b>RIVERSIDE</b>				
General Campus	11,954	12,800	13,900	1,100
Health Sciences	49	48	48	0
Total	12,003	12,848	13,948	1,100
<b>SAN DIEGO</b>				
General Campus	18,086	19,300	20,500	1,200
Health Sciences	1,269	1,092	1,092	0
Total	19,355	20,392	21,592	1,200
<b>SAN FRANCISCO</b>				
Health Sciences	3,744	3,712	3,712	0
<b>SANTA BARBARA</b>				
General Campus	18,835	19,600	20,200	600
<b>SANTA CRUZ</b>				
General Campus	11,726	12,500	13,000	500
<b>TOTALS</b>				
General Campus	158,692	165,400	172,500	7,100
Health Sciences	12,553	12,266	12,266	0
Total, Excluding Buyout	171,245	177,666	184,766	7,100
Summer enrollment buyout		3,365	7,397	4,032
<b>TOTAL with buyout</b>		<b>181,031</b>	<b>192,163</b>	<b>11,132</b>

## GENERAL CAMPUS

### Full-Time-Equivalent Enrollments--Year Average

	<i>2000-01 Actual</i>	<i>2001-02 Budgeted</i>	<i>2002-03 Proposed</i>	
			<i>Total</i>	<i>Change</i>
<b>BERKELEY</b>				
Undergraduate	21,645	21,830	22,330	500
Graduate	7,342	7,470	7,570	100
Total	28,987	29,300	29,900	600
<b>DAVIS</b>				
Undergraduate	18,309	19,200	20,040	840
Graduate	3,319	3,500	3,660	160
Total	21,628	22,700	23,700	1,000
<b>IRVINE</b>				
Undergraduate	15,892	17,020	18,070	1,050
Graduate	2,088	2,180	2,430	250
Total	17,980	19,200	20,500	1,300
<b>LOS ANGELES</b>				
Undergraduate	22,523	22,850	23,620	770
Graduate	6,973	7,150	7,180	30
Total	29,496	30,000	30,800	800
<b>RIVERSIDE</b>				
Undergraduate	10,582	11,320	12,190	870
Graduate	1,372	1,480	1,710	230
Total	11,954	12,800	13,900	1,100
<b>SAN DIEGO</b>				
Undergraduate	15,848	16,810	17,710	900
Graduate	2,238	2,490	2,790	300
Total	18,086	19,300	20,500	1,200
<b>SANTA BARBARA</b>				
Undergraduate	16,517	17,140	17,710	570
Graduate	2,318	2,460	2,490	30
Total	18,835	19,600	20,200	600
<b>SANTA CRUZ</b>				
Undergraduate	10,710	11,290	11,740	450
Graduate	1,016	1,210	1,260	50
Total	11,726	12,500	13,000	500
<b>GENERAL CAMPUS</b>				
Undergraduate	132,026	137,460	143,410	5,950
Graduate	26,666	27,940	29,090	1,150
Total, Excluding Buyout	158,692	165,400	172,500	7,100
Summer enrollment buyout		3,365	7,397	4,032
<b>TOTAL with buyout</b>		<b>168,765</b>	<b>179,897</b>	<b>11,132</b>

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