UNIVERSITY OF CALIFORNIA

2004-05
Budget *for* Current Operations

Office *of* the President
November 2003

THE PRESIDENT'S MESSAGE

One word – "impact" – provides a compelling description of the University of California and its role in our society today. As I begin my term as 18th president of the UC system, I carry the firm conviction that California remains the envy of the world. No matter what controversy of the moment diverts our attention, the reality is that people throughout the world look to California as a source of innovation, diversity, tolerance, risk-taking, and entrepreneurship. And much of California's success simply would not be possible without the University of California and its contributions to education, health care, job creation, and quality of life in our state.

I think of the University's function largely in terms of *transformation* and *delivery*. Our education programs help *transform* the lives of young people, helping them maximize their creative capabilities and become leaders in our society and economy. And our research and public service programs *deliver* important products and services to the people of California.

Over just a three-year period, according to one recent analysis, there were more than 2,600 University of California inventions – inventions that lead to new technologies and products which, in turn, increase productivity, enhance the lives of our families, and create new jobs, new companies, and whole new industries. UC each year graduates more than 3,000 students with bachelor's degrees who go on to join key industries driving California's economy – aerospace, agriculture, biosciences, computers, information technology, telecommunications, and media/entertainment. UC's health care system handles more than 3.3 million clinic visits, 239,000 emergency room visits, and 120,000 inpatient admissions per year. More than 144,000 young Californians participate in 4-H club, science, and after-school programs administered through UC Cooperative Extension. And the University's museums, performing arts venues, and community service activities enhance the artistic and cultural lives of countless Californians.

Maintaining this kind of impact for the people of California requires continued support from the State. The budget cuts of the last three years have slashed deeply into University programs. We have done our best to keep the worst of the cuts away from the student instructional program, to save money by increasing efficiencies, and to maximize our income from federal and private sources. At the same time, we have maintained our commitment to the Master Plan and admitted all UC-eligible students who wish to attend; preserved recent admissions reforms that ensure we admit the highest achieving students from all backgrounds and all corners of the state; maintained a historically low time to degree for our students; and continued pursuing initiatives to stimulate economic growth in California. Preserving these impacts for the people of California, however, will become increasingly difficult with a continued decline in public resources.

For the last eight years, the University has maintained its side of an agreement, first with Governor Wilson and then with Governor Davis, that established the minimum resources the University should expect from the State, along with the measures of performance by which the State holds the University accountable. Unfortunately, the funding side of this agreement has fallen short; the UC system now is operating with $1 billion less in State funding than it anticipated under the latest agreement. Faculty salaries are now 9% behind the average of our comparison institutions, and the University faces a similar challenge with respect to staff salaries. Student fees have increased significantly. And enrollments have increased by 18% over a three-year period while the University's net State-funded operating budget has fallen 14%.

I hope to work with the Schwarzenegger Administration on a new funding and accountability agreement that will help stabilize State support of the University of California. I also intend to work with the Governor, the Legislature, and the UC community to find ways of handling a still-difficult State budget situation without further compromising the quality and level of service the University offers the state.

To that end – and recognizing that the current uncertainty of the State's budget situation makes the task of proposing a UC spending plan for 2004-05 very difficult – I am offering a different approach to the University's budget this year. Rather than asking The Regents to adopt a 2004-05 budget proposal at this time, I am seeking the Board's approval of a set of principles intended to guide our budget discussions with the State in the coming months. These principles reflect the core values of the University – quality, access, and affordability – and they reflect my personal view that the excellence of an institution like ours stems from its ability to meet all of these obligations. The principles are described in the pages that follow.

The fiscal difficulties facing California ultimately will subside. The question before us is how to make budget decisions in the short term that will preserve the University's ability to maintain its long-term contributions to California – and put us in the strongest possible position as our state emerges from the current fiscal challenges. I believe the University of California can play a key role in helping California through this difficult period, and I look forward to working with State leaders to preserve and enhance our contributions to this great state.

Robert C. Dynes, President
November 2003

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. Merced will begin enrolling undergraduate students in Fall 2005.

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 three Department of Energy Laboratories.

Organization of the Regents' Budget

The *Introduction* and *Overview* provide an overall perspective on the major policy issues, specific objectives, and priorities for 2003-04. In a departure from past years, this budget document does not contain exhaustive detail about each program area. Rather, the focus of the document is on major areas of the budget, such as enrollments, student fees and financial aid, faculty and staff salaries, that are of particular concern to the University during this budget crisis. Each chapter does contain information on funding and a very brief summary of problems currently being faced due to the budget crisis. However, the majority of the document focuses on those issues of primary importance as the University faces the uncertainties associated with the 2004-05 State budget.

The budget is structured to accommodate readers who do not go beyond the *Overview* as well as those who want information on selected topics only. Therefore, important themes are repeated throughout the document. Finally, an index appears at the end of this document to assist readers who are looking for a particular subject area.

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Display 1

UNIVERSITY OF CALIFORNIA
2004-05 BUDGET FOR CURRENT OPERATIONS AND EXTRAMURALLY FUNDED OPERATIONS

E X P E N D I T U R E S

	2003-04 Budget ($000s)	2004-05 Proposed ($000s)	Change Amount ($000s)	%
BUDGET FOR CURRENT OPERATIONS				
Instruction:				
General Campus	$ 2,033,977	$ 2,166,145	$ 132,168	6.5%
Health Sciences	763,099	765,244	2,145	0.3%
Summer Session	10,473	10,473	0	0.0%
University Extension	228,504	235,571	7,067	3.1%
Research	529,014	539,081	10,067	1.9%
Public Service	181,351	182,982	1,631	0.9%
Academic Support:				
Libraries	249,221	255,405	6,184	2.5%
Other	463,760	469,259	5,499	1.2%
Teaching Hospitals	3,257,718	3,353,962	96,244	3.0%
Student Services	397,910	411,962	14,052	3.5%
Institutional Support	474,408	477,428	3,020	0.6%
Operation and Maintenance of Plant	424,232	434,989	10,757	2.5%
Student Financial Aid	436,602	462,881	26,279	6.0%
Auxiliary Enterprises	644,592	676,822	32,230	5.0%
Provisions for Allocation	13,972	7,656	(6,316)	-45.2%
University Opportunity Fund and Special Programs	185,546	194,127	8,581	4.6%
Program Maintenance: Fixed Costs, Economic Factors	--	171,180	171,180	--
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 10,294,379	$ 10,815,167	$ 520,788	5.1%
EXTRAMURALLY FUNDED OPERATIONS				
Sponsored Research	$ 2,294,999	$ 2,393,751	$ 98,752	4.3%
Other Activities	1,200,476	1,234,812	34,336	2.9%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 3,495,475	$ 3,628,563	$ 133,088	3.8%
TOTAL OPERATIONS	$ 13,789,854	$ 14,443,730	$ 653,876	4.7%
MAJOR DEPARTMENT OF ENERGY LABORATORIES	$ 4,263,871	$ 4,391,787	$ 127,916	3.0%

I N C O M E

	2003-04 Budget ($000s)	2004-05 Proposed ($000s)	Change Amount ($000s)	%
BUDGET FOR CURRENT OPERATIONS				
General Fund				
State of California	$ 2,897,965	$ 3,192,365	$ 294,400	10.2%
UC Sources	543,593	510,247	(33,346)	-6.1%
Total General Funds	$ 3,441,558	$ 3,702,612	$ 261,054	7.6%
Restricted Funds				
State of California	$ 74,441	$ 70,012	$ (4,429)	-5.9%
U. S. Government Appropriations	17,000	17,000	--	--
Student Fees:				
Educational, Registration & Professional School Fees	1,084,103	1,163,505	79,402	7.3%
Extension, Summer Session & Other Fees	359,638	371,205	11,567	3.2%
Teaching Hospitals	3,208,123	3,304,367	96,244	3.0%
Auxiliary Enterprises	644,592	676,822	32,230	5.0%
Endowments	152,853	157,439	4,586	3.0%
Other	1,312,071	1,352,205	40,134	3.1%
Total Restricted Funds	$ 6,852,821	$ 7,112,555	$ 259,734	3.8%
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 10,294,379	$ 10,815,167	$ 520,788	5.1%
EXTRAMURALLY FUNDED OPERATIONS				
State of California	$ 196,431	$ 196,431	$ 0	0.0%
U.S. Government	1,939,909	2,036,904	96,995	5.0%
Private Gifts, Contracts & Grants	890,811	917,538	26,727	3.0%
Other	468,324	477,690	9,366	2.0%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 3,495,475	$ 3,628,563	$ 133,088	3.8%
TOTAL OPERATIONS	$ 13,789,854	$ 14,443,730	$ 653,876	4.7%
MAJOR DEPARTMENT OF ENERGY LABORATORIES	$ 4,263,871	$ 4,391,787	$ 127,916	3.0%

INTRODUCTION TO THE 2004-05 BUDGET

The Pursuit of Excellence

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 is well-represented in the memberships of a variety of prestigious organizations, such as the National Academy of Sciences, and among winners of the Nobel Prize and Guggenheim Fellowships. Forty-five researchers affiliated with UC have been awarded Nobel Prizes, the pinnacle of achievement for groundbreaking research; 13 of the Nobel Prizes have been won since 1995. Most recently, UC San Diego researchers Robert F. Engle and Clive W.J. Granger shared the 2003 Nobel Prize in economic sciences. No public university has won more Nobel Prizes than the University of California.

In May 2002, President Bush named five University of California faculty recipients of the National Medal of Science, the nation's highest award for lifetime achievement in fields of scientific research. With those awards, UC affiliated researchers have received 48 Medals of Science—more than 10 percent of the medals presented—since Congress created the award in 1959. In 2003, the National Academy of Sciences announced the election of 72 new members and 18 foreign associates, 11 of whom are affiliated with the University of California. This brings the total to 335 UC researchers who have been elected to this prestigious Academy. UC has more members than any other college or university.

In 2002 and 2003, two UC professors received one of the nation's most coveted honors, a MacArthur Foundation Fellowship, which are often referred to as "genius" grants. Since the first MacArthur Fellowships were bestowed in 1981, about 50 faculty, researchers and others affiliated with UC have been awarded these prestigious no-strings-attached $500,000 grants.

In 2003, seven UC faculty were named Guggenheim Fellows by the John Simon Guggenheim Memorial Foundation. More Guggenheim fellowships have been awarded to UC faculty than to any other university or college. Guggenheim Fellows are appointed on the basis of distinguished achievement in the past and exceptional promise for future accomplishment. They include writers, painters, sculptors, photographers, filmmakers, choreographers, physical and biological scientists, social scientists, and scholars in the humanities.

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.

UNIVERSITY OF CALIFORNIA
2004-05 BUDGET

OVERVIEW AND POLICY ISSUES

For over forty years, the University of California has been committed to the tenets of the California Master Plan for Higher Education, which is the blueprint for higher education in this state. The Master Plan specifies the mission of each public higher education segment and defines the pool of high school graduates from 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 has a special role under the Master Plan for educating the professional and doctoral students essential to meeting California's—and the nation's—workforce needs, including working cooperatively with the California State University, as joint doctoral programs among the two institutions are developed and expanded.

⇒ **Research.** The Master Plan designates the University as the primary State-supported academic agency for research. All universities have a common goal of creating knowledge, educating students to become productive members of society, and helping to train the workforce needed by business and industry. As one of the world's preeminent research universities, UC provides an environment in which leading scholars, researchers, and students (undergraduate and graduate) work together to discover new knowledge and train California's future workforce in state-of-the-art technologies necessary to keep California on the cutting edge of economic, social, and cultural development. Teaching and research are inextricably tied together 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. Outreach and K-14 improvement programs are designed to bolster academic performance and improve a student's chance of success in pursuing higher education. Cooperative Extension programs benefit agriculture, consumers, and local communities by bringing them new technologies and the latest research findings. Health science programs, such as UC's five major teaching hospitals and the outpatient clinical care programs they operate, provide state-of-the-art patient care. Public service programs allow state policy makers to draw on the expertise of UC's faculty and staff to address important public policy issues.

Current Perspective

The University's budget provides the resources needed to support 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 would not be able to meet the high standards of quality that Californians 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 faculty and students, leverages hundreds of millions of dollars in federal and private funding, and promotes the discovery and dissemination of new knowledge that fuels economic growth and betters our society. The investment of State, federal, and private funds that supports the University benefits not only the University's students, faculty, and staff, but also the citizens of the State of California.

The University reached agreement with Governor Wilson in the mid-1990s and with Governor Davis beginning in 1999-2000 on the level of funding needed to provide the University with adequate resources to perform its missions under the Master Plan. This agreement, previously called the *Compact* under Governor Wilson, and now called the *Partnership Agreement*, is a comprehensive statement of the *minimum* resources needed for the University to accommodate enrollment growth and maintain the excellence of the institution to which students seek admission, accompanied by accountability principles that historically have been important to both the State and the University. The expectation underlying the Agreement is that the University would manage its resources in such a way as to achieve certain outcomes that gauge the University's performance in its tri-partite mission of teaching, research, and public service. The Partnership Agreement provides a sensible budgetary framework from which to plan for the future. Both of the last two Administrations placed a high value on establishing such an agreement with the University. It is the University's goal to reach a new agreement with the Schwarzenegger Administration.

Both the Compact and the Partnership Agreement (in its initial years) served the University and the State well. The State provided the resources necessary to adequately fund the University's missions, and in fact often exceeded the minimum level of funding in order to support initiatives of high priority to the Governor and the Legislature. For its part, the University met and often exceeded its goals under the accountability portion of the Partnership. (This history is explained in more detail in the "Historical Perspective" section beginning on page 19 of this *Overview*.)

Now, however, the State is in the midst of a fiscal crisis of unprecedented magnitude and has been unable to live up to the funding principles of the Partnership for the last three years. With the 2003-04 budget, the University has sustained base budget reductions totaling $424 million and an additional $230 million in cuts that have been offset by student fee increases. In addition, no funding has been provided for general salary increases (faculty salaries are now about 9% behind the average of faculty salaries at comparison institutions, and there is a similar problem with respect to staff salaries) or for other cost increases, including inflation, energy, health benefits, and maintenance of new space. As a result, the University's Partnership funding is short of what it should be by $1.078 billion. Said another way, the University should have received $4 billion in State funds under the Partnership Agreement in 2003-04 and instead will receive $2.9 billion.

The State has undergone fiscal crises in the beginning of each decade for at least the last 40 years. The early years of each decade have been characterized by funding shortfalls and budget cuts, and then economic recovery and progress have occurred in the rest of the decade. However, there is one major difference between the current fiscal crisis and those the University has endured in the past: major budgetary shortfalls are now occurring at the same time the University is experiencing dramatic enrollment growth. The University's enrollment has increased by 18% over the last three years while its State budget has decreased by 14% over the same time period.

One of the primary assets of the Partnership was to provide the University with a solid funding base from which to plan for the dramatic enrollment growth expected throughout this decade. Provisions of the Master Plan related to access call for UC to offer a place to any eligible student within the top 12.5% of graduating California high school seniors, as well as to any eligible California Community College transfer student, who wishes to attend. The Master Plan also calls for the State to provide adequate resources to accommodate this enrollment. The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 full-time equivalent students (FTE) over this decade; by 2010-11, the University would reach its planned target of 210,000 FTE. This target was revised upward to account for existing summer enrollment for which State support is being phased in, resulting in a revised target for 2010-11 of 216,500.

The University has experienced far more rapid enrollment growth than the 1999 plan projected, averaging closer to 8,000 FTE per year in recent years rather than the 5,000 FTE growth projected earlier. Now, total enrollment is currently about 12,000 FTE over the level envisioned in the 1999 plan for 2003-04. Such dramatic growth over a prolonged period of time would present the University with a major challenge, even if adequate resources were being provided. However, the State has reduced the base budget of the University to such an extent that it calls into question the State's ability to provide the resources necessary to continue to enroll all eligible students who wish to attend.

It does not appear the State's fiscal crisis is abating. The Legislative Analyst has projected the State will have a structural deficit of at least $7.9 billion by the end of 2003-04. Many actions taken in 2003-04 to balance the budget were temporary in nature. Actions must still be taken to balance revenues and expenditures on a permanent basis. For 2004-05, the Department of Finance has once again asked all State agencies to look at options for making cuts of up to 20%. Officials of the Department are pursuing a process similar to last year's, looking at a wide variety of options in great detail, before making proposals in the Governor's Budget in January. In addition, a trailer bill adopted as part of the 2003-04 budget package included language stating the intent of the Legislature that the Department of Finance include no funding for UC in the 2004-05 Governor's Budget for enrollment growth, salaries, or non-salary price increases. The language is consistent with instructions received from the Department of Finance as it begins development of the 2004-05 budget.

Since the first Compact with Governor Wilson was developed in 1995-96, and continuing with the Partnership Agreement with Governor Davis, it has been the practice of the University to premise its annual budget request on the basis of the funding agreement with the Governor. If the University were to follow previous practice, it would be requesting a State funding increase of about 10% for 2004-05. This percentage increase, however, would be sufficient only to fund normal salary, benefit, non-salary, and enrollment increases as well as restore an $80.5 million one-time cut adopted in the 2003-04 budget. It would not include any funding to restore unfunded Partnership funds. (This is explained in more detail in the "2004-05 Budget" section beginning on page 55 of this *Overview*.) 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.

Given the context in which the Governor's Budget is currently being developed and the considerable uncertainty associated with the transition to a new Governor, the size of the deficit the State is facing, and how the new Administration will address these issues, the University is not submitting a normal budget request to the State for 2004-05. Instead, the University intends to develop its spending plan for 2004-05 once the Governor's Budget has been issued in January.

In the meantime, the University is developing a set of principles to help guide negotiations on the budget. These proposed principles articulate the University's highest priorities for 2004-05. They represent the basic values to which the University has historically been committed and that must be preserved for the long-term success of the University. These will be presented to the Board for approval at the November meeting. As proposed, there are three primary principles and several supporting principles, which are summarized below:

- *Maintain and Enhance the Quality of the University—Quality is the most important asset the University of California offers the state*. The University must not allow quality to erode further. Throughout the University, there is deep concern about the ongoing effects of the budget reductions that have already occurred. This means: market lags in faculty and staff salaries must not deepen—the University must return to paying competitive salaries and paying faculty merits; the University will not permit the student-faculty ratio to deteriorate further; research support must be maintained in order to maintain quality in the University's academic program and to continue to help the economic recovery of the state; and the core infrastructure of the University cannot sustain further budget cuts and continue to support the academic programs of the University. The University will not further risk the quality of the institution. Preserving the quality of the University is in the best interest of all Californians.

- *Maintain Access and Honor the Master Plan—The state needs the highly-skilled, well-educated graduates that are produced by the University of California*. For over forty years, the University of California has
  been committed to the tenets of the California Master Plan for Higher Education. The Master Plan calls for UC to accept the top 12.5% of graduating California high school seniors and calls for the State to provide adequate resources to accommodate enrollment. UC's enrollment has increased by 18% over the last three years while State funding for UC has declined by 14%. Enrollment is currently 12,000 over the level envisioned by the last enrollment plan (updated in 1999). The University has reached a point where taking more students without adequate resources will irreparably harm the University's ability to offer a high quality education to those who attend.

  The State appears to be sending a signal that it may not honor its commitment under the Master Plan to provide adequate resources to fund enrollment. If that point is reached, it is unrealistic to expect that the University can continue to honor the access guarantee of the Master Plan in the same way it has done in the past without adequate resources from the State. Enrollment levels in the University must match the resources provided.

  If actions are taken to reduce enrollments, they should be implemented in such a way as to minimize the impact on UC's commitment to the access goals of the Master Plan and should be adopted on a temporary basis until the State is able to once again fully fund the University's basic needs. Implementation of enrollment constraints or reductions would constitute a major change in policy resulting in turning away potentially thousands of students who have worked hard to become eligible for UC under the expectation that if they achieved eligibility, they would be promised a place in UC. The University remains committed to the tenets of the Master Plan. The University intends to seek the State funding necessary to fulfill its commitments under the Master Plan. If the State ultimately decides not to fund the education of these students at UC, the University will endeavor to ensure that this is a short-term change and will mitigate as much as possible the impact on students.

Access under the Master Plan includes a commitment to diversity and any actions to reduce enrollments should reflect that commitment. Just as major outreach efforts are undertaken to ensure students from disadvantaged circumstances have equal opportunity to attend UC when enrollments are expanding, any proposals for enrollment reduction must remain consistent with this commitment to diversity.

- *Maintain Affordability—Ensure that cost of attendance is reasonable and is not a financial barrier for needy students.* Historically, student fees at the University of California have been very low, primarily due to the fact that the State has heavily subsidized the cost of education. In good economic times, student fees have been frozen or reduced. Student fee increases have helped maintain quality during times of fiscal crisis.

  The University's preference would be to have a fee policy accepted by both the University and those in State government that would provide for annual increases in student fees consistent with an economic measure, such as per capita personal income. Such a policy would be contingent upon the State being able to provide adequate support for the University's basic needs.

  As student fees rise, it is important to provide financial aid to mitigate the impact of fee increases on needy students. The University would continue to use a portion of the revenue raised from an increase in fees in 2004-05 to help ensure access for needy students. Similar to actions taken in 2003-04, the University would provide grant aid to cover the full increase for low-income students and half of the increase for middle-income needy students.

The principles will be transmitted to members of the Board of The Regents as part of the normal agenda for the November meeting.

Given the likelihood the State will be unable to provide the necessary funding to meet the University's minimum needs again in 2004-05, additional options must be considered for increasing revenue and/or decreasing costs. The one option The Regents have opposed historically, even in the toughest fiscal circumstances, is permanently reducing the quality of the University's academic programs. It is the quality of those programs to which students seek access and to which the world's pre-eminent scholars are attracted as faculty. All of the University's programs are created from an underlying foundation of quality; it is what California has come to expect from the University of California. Surveys conducted several different times in recent years indicate that when Californians are asked what they think is most important about the University, a strong majority answers, "quality." The University must not further risk the quality of the institution. Preserving the quality of the University is in the best interest of all Californians.

Certainly, the University's ability to continue to provide a high quality academic experience has been diminished during this fiscal crisis. However, if further base budget cuts occur, it will be impossible to protect the instructional program at the expense of the rest of the budget. Base budget reductions have already cut too deeply into the infrastructure needed to support the academic program. Options for reducing costs and introducing efficiencies are being reviewed and will be implemented where practical to deal with existing budget cuts. However, there is a limit to how much the core can be cut and still maintain its ability to support academic programs, particularly during a time of increasing demand for services and support related to enrollment growth—and the University has reached that limit. With the enrollment growth already experienced, and that which is still to come in this decade, the University must have core services in place to maintain the basic operations of the institution. It would cause irreparable harm to increase enrollment at the predicted rate and continue to cut deeper into these programs.

Therefore, if further cuts to the University's budget occur, options for either reducing enrollments, increasing student fees, or both must be considered.

Enrollments. In 2003-04, the University is enrolling approximately 47,000 new freshmen and transfer students, and another nearly 11,000 new graduate students for a total of over 58,000 new students. If the legislative intent language were ignored and the State were to fund normal enrollment growth for 2004-05, UC would be requesting funding for an increase of about 5,000 students. This includes approximately 2,500 additional new students and, because new enrollment increased substantially over the past several years, 2,500 more continuing students. However, it appears the State may be sending a signal that it will not honor its historic commitment under the Master Plan to provide adequate resources to accommodate all eligible students wishing to attend. If that point is reached, the University may be faced with the prospect of denying access to eligible students until the State's fiscal situation recovers and adequate resources can be provided. There are a variety of scenarios under which it might be necessary to take such actions:

- If the legislative language is interpreted to mean the State will not fund new student growth, but will fund the increased costs associated with continuing students, UC would be requesting funding for over 2,500 *continuing* students.

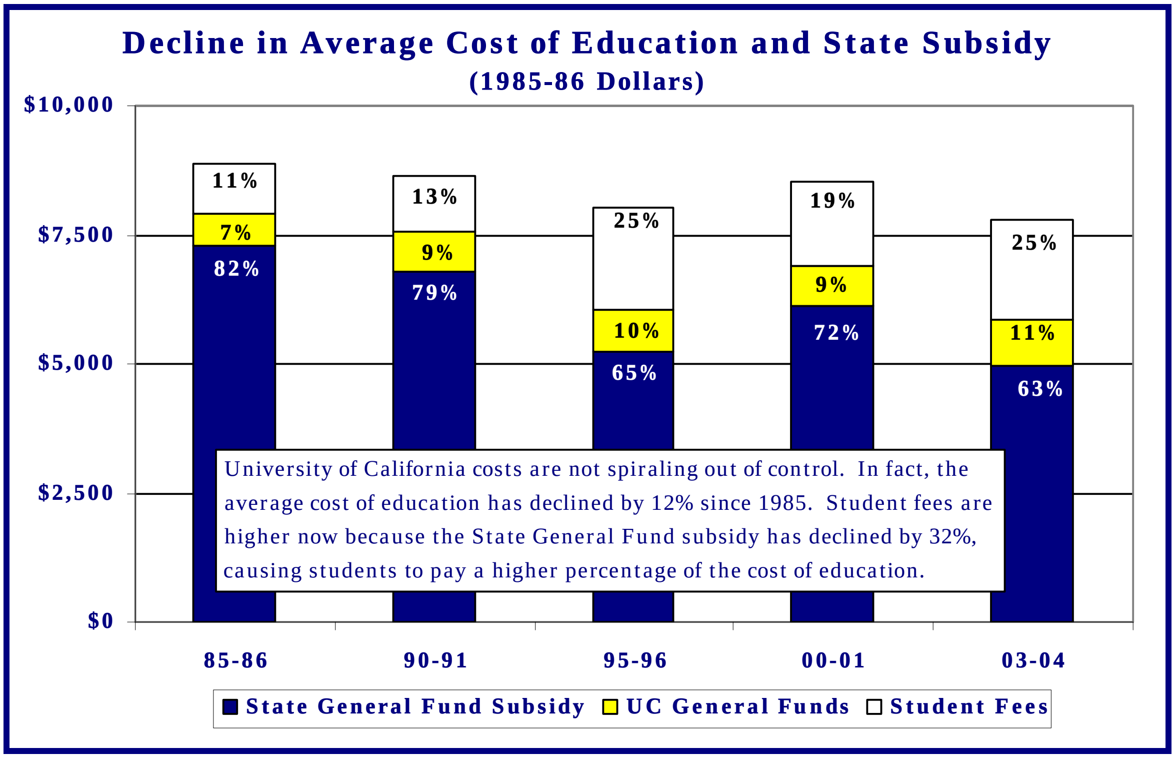
- If the legislative language is interpreted to mean that the State will not fund enrollment growth of any kind, the University must consider reducing the number of *new* students enrolled for 2004-05 in order to have sufficient resources to support the additional 2,500 *continuing* students expected next year.

- If the University sustains further base budget cuts, it may be necessary to consider much deeper reductions in the number of new students enrolled next year.

Decisions about enrollment reductions cannot be made until more is known about the level of funding the University is to receive from the State in 2004-05. Nevertheless, the University remains committed to the tenets of the Master Plan. The University intends to seek the State funding necessary to fulfill its commitments under the Master Plan. If the State ultimately decides not to fund the education of these students at UC, the University will endeavor to ensure that this is a short-term change and will mitigate as much as possible the impact on students.

Student Fees and Financial Aid. Historically, student fees at the University of California have been very low, because the State has heavily subsidized the cost of education. Students currently pay 25% of the cost of their education. Display 1 makes several points. First, contrary to recent news coverage nationally about the skyrocketing costs in higher education, the average cost of a UC education has declined over 18 years by 12%. Second, the State subsidy toward that cost has declined significantly—by 32% over an 18-year period. Third, as the State subsidy has declined, the price students must pay has tended to rise. This happened in the early 1990s and is happening now. Student fee increases have helped maintain quality during times of fiscal crisis.

Display 1



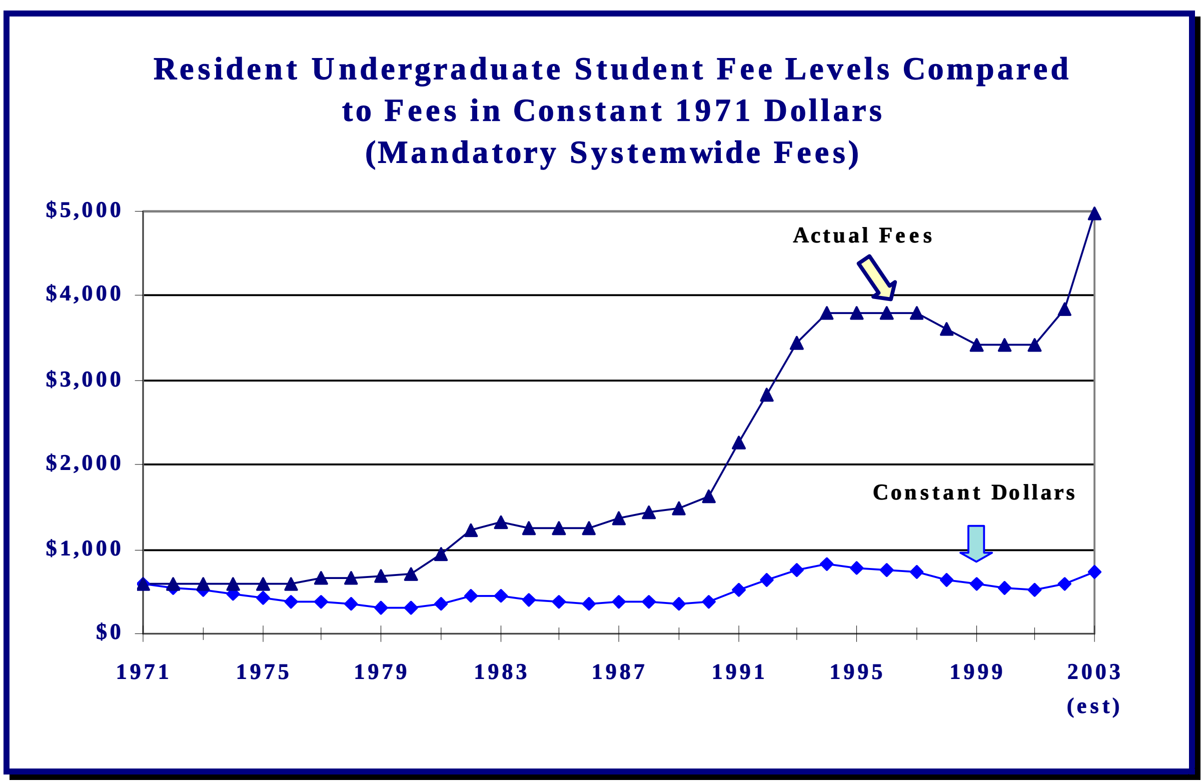
Most recently, there were no increases in mandatory systemwide fees for seven consecutive years until the mid-year student fee increases were instituted for the Spring 2003 term. In fact, as a result of the State's actions in the late 1990s, fees for California resident undergraduates were reduced by 10%; for California resident graduate academic students they were reduced 5%.

The State's fiscal situation began to deteriorate in 2001-02. However, it was not until mid-year budget cuts were instituted for the 2002-03 budget that student fees were increased. As part of the University's effort to offset cuts that otherwise would have been targeted at instructional programs, systemwide student fees were raised by about 11% in 2002-03 ($135 effective Spring term 2003, which when annualized totaled $405) and another 30% ($1,150 for resident undergraduates) for 2003-04. Professional school, graduate, and nonresident student fees also rose significantly.

A calculation of the level total student charges would be this year if fees had increased by 4% annually between 1994-95 and 2003-04 indicates the average UC student charges for undergraduate students in 2003-04 would have been $5,729, which is about $200 more than the current average total fees.

The history of student fees is shown in the top line of Display 2. The display also shows that fee levels in 2003-04, when adjusted to reflect constant dollars, are still relatively low. When adjusted to account for a family's ability to pay (using California per capita personal income), fees are only slightly higher than they were in 1971-72.

Display 2



While fee increases have been significant over the last 18 months, student fees have addressed only about 21% of the shortfall experienced by the University during the current fiscal crisis. This is slightly lower than the 25% proportion of the shortfall in the early 1990s that was addressed through student fees.

Display 3 compares UC fee levels with the average of four public comparison institutions for 2003-04 and estimates fee levels for 2004-05, assuming a 5% student fee increase is instituted, consistent with a normal budget request for 2004-05.

Display 3

University of California and Public Salary Comparison Institutions
Student Fees

Public Salary Comparison 2003-04 Fees at Public Institutions Used for Salary Comparisons	Undergraduate Resident	Undergraduate Non-resident	Graduate Resident	Graduate Non-resident
University of Illinois	$ 7,010	$ 18,046	$ 7,756	$ 18,866
University of Michigan	$ 8,481	$ 25,647	$ 12,933	$ 25,999
State University of New York	$ 5,851	$ 11,801	$ 7,987	$ 11,587
University of Virginia	$ 6,149	$ 22,169	$ 7,856	$ 19,964
2003-04 Average Fees of Comparison Institutions	$ 6,873	$ 19,416	$ 9,133	$ 19,104
2003-04 Average UC Fees *	*$ 5,530*	*$ 19,740*	*$ 6,843*	*$ 19,333*
2004-05 Estimated Average Fees for Public Salary Comparison Institutions	**$ 7,423**	**$ 20,969**	**$ 9,864**	**$ 20,632**
2004-05 Estimated Average UC Fees assuming a 5% increase in systemwide fees and nonresident tuition	***$ 5,779***	***$ 20,701***	***$ 7,104***	***$ 20,219***

* Does not include undergraduate student health insurance fees which may be waived by demonstrating comparable insurance coverage.

As the display shows, UC resident undergraduate fees would continue to be considerably below the average of public comparison institutions—by more than $1,300 in the current year; projections indicate this gap will widen to

$1,600 for 2004-05, even with an increase of 5% in UC student fees. Currently, UC charges the lowest fees, for both resident undergraduates and resident graduates, of any of the public comparison institutions.

The wide fluctuation in student fees tracks fairly closely with changes in the State's economy. In good years, fees were held steady or reduced. In years of fiscal crisis, student fees increased dramatically. The University's preference would be to have a fee policy accepted by both the University and those in State government that would assume student fees would increase annually consistent with an economic measure, such as per capita personal income. Such a policy would be contingent upon the State being able to provide adequate support for the University's basic needs. If the State can afford basic support to maintain quality and access for the University, student fee increases should occur gradually, moderately, and predictably.

The University would increase student fees in 2004-05 with great reluctance. Sudden, steep increases in fees provide little opportunity for students and their families to plan finances adequately and can result in "sticker shock" for some students. However, if the State is unable to continue to provide the resources needed by the University to continue its programs, there may be little choice but to consider further student fee increases in 2004-05. Student fees are discussed in more detail in the *Student Fees* chapter of this document.

As student fees have increased in the past, it has been the policy of the University to maintain affordability for the neediest students through the exceptional financial aid program it has in place. This program has been extraordinarily successful in ensuring that qualified students wishing to attend UC are not prevented from doing so because of financial considerations. By providing assistance through grants, loans, and work-study experiences, funded from UC, State, Federal, and private resources, the University can help ensure that the cost of attending UC is within the reach of students from all backgrounds. Nearly 50% of UC undergraduates receive grant/scholarship aid averaging approximately $6,500 per student; about 62% of graduate academic students receive such aid averaging about $9,800 per student.

The success of the University's financial aid program in helping to ensure access for needy students was illustrated in a study by the James Irvine Foundation published in March 2002. This study examined enrollment of low-income students at the nation's top 40 public and private universities (as designated by U.S. News & World Report 2001 College Guide). It showed that UCLA ranked first among top universities in terms of enrolling low-income students, with nearly 35% of its student body identified as low-income; UC Berkeley ranked second with 30% low-income students; and UC San Diego, with nearly 29% low-income students, ranked third. The three UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (9%), the University of Wisconsin (11%), and the universities of Michigan and North Carolina (both about 12%).

To mitigate the impact of the recent fee increases, the University used one-third of the fee revenue generated by the combined 2002-03 and 2003-04 fee increases and enrollment growth ($127.2 million based on budgeted amounts) to augment its institutional aid program. As shown in Display 4, these funds, in combination with an estimated $52.1 million increase in Cal Grant funds awarded to UC undergraduates and an estimated $20.7 million increase in other scholarship, fellowship and grant funds, raised the total estimated amount of gift aid for UC students over the two-year period by $200 million, from $729.9 million in 2001-02 prior to the fee increases to $929.9 million in 2003-04.

Display 4

University of California
Scholarships, Grants, and Fellowships
by Fund Source, 2000-01 to 2003-04
($ in Millions)

	2000-01	**2001-02**	**2002-03**	**2003-04**
UC Funds				
Student Fees and State General Funds	$ 229.3	$ 256.4	$ 266.0	$ 383.6
Other University Funds	99.7	111.7	114.9	117.6
Subtotal	$ 329.0	$ 368.1	$ 380.9	$ 501.2
Other Funds				
Student Aid Commission	$ 126.3	$ 133.4	$ 148.0	$ 185.5
Federal	155.6	185.3	192.2	196.8
Private Funds	36.8	43.2	45.4	46.4
Total	**$ 647.7**	**$ 729.9**	**$ 766.5**	**$ 929.9**

Note: Numbers for 2002-03 and 2003-04 are estimates; Student Fees and State General Funds are based on budgeted amounts.

This augmentation ensured that the 2003-04 fee increase was offset with at least some grant assistance for all undergraduates with financial need and parent income of less than $90,000. Needy students with parent incomes below $60,000 generally received fee grants that covered the full 2002-03 and 2003-04 fee increases, whereas those with parent incomes from $60,000 to $90,000 generally received fee grants that covered one-half the fee increases. The University would address any fee increase for 2004-05 in the same way. Financial aid is discussed in more detail in the *Student Financial Aid* chapter of this document.

Next Steps. With the transition underway to a new Governor, the University hopes to negotiate a new funding and accountability agreement. As the negotiation process is carried out, it is the University's intention to stress the importance of education, including higher education, to the state. Previous Governors have made all segments of education a priority; the University will advocate continuation of that priority with the hope that expected budget reductions would be minimized. It will be important to remind political leaders of the University's impact on the state's economy and quality of life, the challenge of exceptional enrollment growth in higher education, and the importance of preserving the quality of higher education.

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 have declined and appropriations to the University either held constant or were reduced. When the State's economy has been strong, there have been efforts to "catch up." There is no assurance this pattern will repeat itself during the current recessionary period and subsequent economic recovery. However, the last four decades have all begun with significant economic downturns that were followed by sustained periods of moderate, and sometimes extraordinary, economic growth. History would suggest a return to economic growth in California will occur and thus the University should endeavor to weather the current economic downturn through means that protect the core University budget. This means protecting the quality of its instruction and research programs as much as possible, for once lost, excellence is not easily regained.

The University has met this challenge several times over the last several decades. 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 those at the University's 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 virtually came 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 were 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.

The Budget Crisis in the Early 1990s

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 made budget cuts totaling $433 million, equivalent to roughly 20% of its State General Fund budget in 1989-90, as depicted in Display 5.

In addition, employees received no general cost-of-living increases for three years and salaries were reduced on a one-year basis. Student fees were raised, though significant increases in financial aid helped to mitigate the impact on financially needy low- and middle-income students.

Display 5

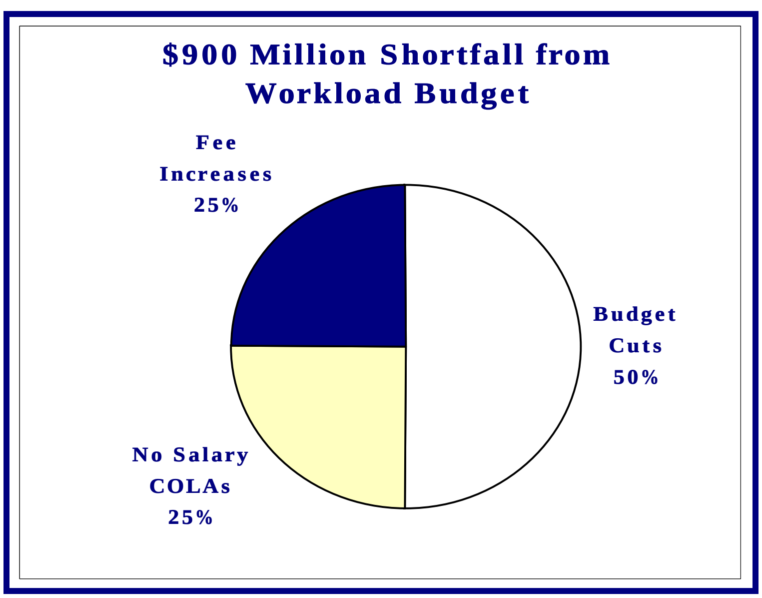
Permanent Cuts to Campus and Office of the President Budgets
1990-91 through 1994-95
($ in Millions)

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 $200 million phased in over two years.	200
1993-94	Reductions in campus and Office of the President budgets, resulting in further workforce reductions.	35
1994-95	Reductions in campus and Office of the President budgets in order to fund restoration of salary funds cut temporarily in 1993-94.	53
	TOTAL	**$ 433**

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 in the interim there had been inflation, other cost increases, and significant enrollment growth between the years 1987-88 and 1991-92; 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 6, about half of the loss was taken through budget cuts, approximately another quarter by providing no cost-of-living increases

Display 6



for employees, and the remaining quarter was made up through student fee increases accompanied by increases in student financial aid.

While regrettable, the fee increases were necessary to address budget cuts of such significant magnitude. At the same time, the University mitigated the impact of these fee increases on financially needy low- and middle-income students through a significant increase in financial aid grants (as opposed to loans). 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.

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—an approach preferred to 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 facilities maintenance. Administration, especially, was assigned deep cuts both on the campuses and in the Office of the President. In addition, the 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 who sought admission at the undergraduate level and providing students with the classes they needed to graduate in a timely manner.

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 over the prior year 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.

While the 1994-95 budget represented a substantial improvement over previous years, the University nonetheless remained in precarious financial condition. The University's share of the State General Fund budget had declined to 4.3% (before the fiscal crisis began, the University's share was 5.3%). Faculty salaries lagged the average of the University's comparison institutions by 7%, the workforce had been reduced by 5,000 FTE without a corresponding decline in workload, and the budget was severely underfunded in several core areas that have a direct relationship to the quality of instructional programs—building maintenance, instructional equipment, instructional technology, and libraries, for example.

1995-96: Governor Wilson's Four-Year Compact with Higher Education

A major turning point came with the introduction of Governor Wilson'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 enrollment 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 University's 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.

The funding provided under the Compact was to be sufficient to prevent a loss of further financial ground as the University entered into a time of moderate enrollment growth (1% per year). It did not lead to restoration of funding that had been cut during the early 1990s, but it did provide the institution with much-needed fiscal stability after years of budget cuts and provided the framework to begin planning for the future.

The Compact was remarkably successful. 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 increases in student fees, allowed for reductions in student fees for California resident students, helped restore UC faculty salaries to competitive levels, provided $35 million for a number of high priority research efforts (including the Industry-University Cooperative Research Program, the UC San Diego Supercomputer Center, and a variety of other legislative research initiatives), and increased funding for K-14 and graduate outreach by $38.5 million to expand existing programs and develop new ones. In addition, general obligation bonds and/or lease revenue bonds were provided each year for high priority capital projects.

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. The University enrolled more students than the Compact anticipated, and the State provided funding to support them. Faculty salaries were restored to competitive levels, allowing the University to recruit the nation's best faculty. As outlined above, the State provided nearly $170 million in funding above the level envisioned in the Compact to support high priority programs including outreach and research, and to avoid fee increases.

A New Partnership Agreement

Governor Davis entered office with a commitment to improve California public education at all levels. For UC, his commitment manifested itself in a new Partnership Agreement, the funding principles of which (see Display 7) were developed in time to guide development of the 2000-01 budget.

Display 7

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 other 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 measures 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 California per capita personal income.

The Partnership includes a wide range of accountability measures and specifies performance data and reporting requirements for each, to be reviewed by the Administration on an annual basis. Many of these reporting requirements are satisfied by information provided throughout this document. Others are met with separate reports provided each year to the Department of Finance. The University's progress in achieving the major goals outlined in the accountability measures in the Partnership Agreement is summarized in Display 8 (see pages 26 & 27).

Display 8

Progress on Accountability Measures
2002-03

- **Access.** UC continues to admit all eligible applicants who wish to attend. UC has exceeded budgeted enrollment levels each year of the Partnership.

- **Student Eligibility**. The University has implemented a new path to eligibility (Eligibility in the Local Context, or ELC) that opens UC's doors to the top 4% of students in each California high school. For Fall 2002, 13,000 ELC students were identified in the top 4% of their high school classes. Of this total, 10,800 students applied to the University and were admitted by a UC campus; of these, 6,500 students enrolled. All ELC-eligible students who apply to the University have been guaranteed a space in the UC system.

- **Community College Transfer**. The Partnership specifies an increase in community college transfers of 6% per year, from 10,150 in 1998-99 to 15,300 in 2005-06. Over the last four years, full-year transfer enrollment growth has met the Partnership goal, increasing on average 6% per year. In 2002-03, UC enrolled 12,780 new community college transfer students.

- **Graduation Rates**. Average time to degree for undergraduates who entered in 1995 is now 13 quarters, down from 13.4 quarters for students who entered in 1984. Of the freshmen who entered UC in 1996, 40% graduated in four years, 71% in five years, and 79% in six years. These rates are an improvement over 10 years ago, when the four-year rate was 34%, the five-year rate was 66%, and the six-year rate was 74%.

- **State-Supported Summer Instruction**. The Governor and the Legislature provided funds in 2001-02 for the first State-supported summer terms at the Berkeley, Los Angeles, and Santa Barbara campuses; UC Davis was added in 2002-03. Funds to reduce student fees at all campuses in the summer to the level of the rest of the year were first provided in 2000-01. As a result, summer enrollments increased substantially, enhancing UC's ability to plan for and accommodate the 216,500 students expected to enroll in the University by 2010. The four State-supported campuses enrolled 8,600 FTE students in Summer 2003, an increase of 9% over the previous summer and 100% since Summer 2000. These campuses increased the number of classes they provided by 14% and the number of regular-rank faculty who were assigned to teach by 16% over Summer 2002. They also provided an estimated $11 million in student financial aid that would not have been available in summer programs without State support.

- **Graduate Enrollments**. In 2002-03, UC enrolled nearly 31,000 graduate FTE students, an increase of 4,400 FTE since 1999-2000.

- **Engineering and Computer Science Enrollment**. UC surpassed its goal in 2001-02 to increase engineering and computer science enrollments by 50%, from 16,000 to 24,000 students – four years ahead of schedule. In 2002-03, enrollments reached 26,500 FTE. Because of demand from industry, UC intends to continue growing in engineering and computer and information sciences, and expects enrollment in these fields to exceed 27,500 in 2003-04.

Progress on Accountability Measures 2002-03

(Display 8, continued)

- **Credential Enrollment** UC more than doubled its education credential enrollment, from 1,000 FTE students in 1998-99 to 2,300 in 2002-03, as agreed under the Partnership with the Governor.

- **Student Fees**. For seven consecutive years, mandatory systemwide student fees were not increased. In 1998-99 and again in 1999-2000, fees for resident undergraduates were reduced 5%. In 2002-03, and again in 2003-04, mandatory systemwide student fees were increased to offset a total of $230 million in base budget cuts that otherwise would have been targeted at instructional programs. As a consequence, fees rose by $1,555 for resident undergraduates over the 18-month period. Annual student fees for resident undergraduates at UC are now about $1,300 below the average of UC's public comparison institutions.

- **Financial Aid**. The amount of aid UC students receive has risen to more than $1.3 billion a year, more than half of it in the form of gift aid.

- **UC Merced**. UC Merced will open to undergraduates in Fall 2005, and will serve 1,000 students in its inaugural year, with the addition of 800 students each year thereafter. In the meantime, the campus has established a system of distributed learning centers in conjunction with local community colleges at three locations: Fresno, Merced, and Bakersfield; a fourth is planned for Modesto. Development of UC Merced is part of the University's strategy to increase its enrollment capacity, to encourage San Joaquin Valley students to attend the University of California, and to provide the benefits of a research university to Californians in the Central Valley. Central Valley outreach programs developed by Merced have led to an increase of 94% (758 students) between 1990 and 2002 in the number of freshmen students enrolled in UC from Central Valley high schools.

- **Science Institutes**. UC has created four *California Institutes for Science and Innovation* that are pursuing cutting-edge research in fields that will be critical to the future of the state's economy by bringing together university researchers and private-sector partners to push the boundaries of knowledge, maintain California's economic leadership, and create jobs for the state's growing population. The Institutes are required to provide non-State matching funds at a 2:1 ratio, and they are expected to meet that requirement.

- **Research Funding**. The Partnership called for the University to seek to increase its share of federal research and development dollars to help maintain high-quality programs. Federal funding for UC research has increased on average by 8%-9% per year in recent years. That rate rose to 16% in 2002-03, due to significant increases in funding for health-related research.

- **Private Support**. Similarly, the University has met with great success in securing private support to supplement State funding, raising $1.2 billion in 1999-2000 – the first year ever over $1 billion – and exceeding $1 billion again each year for the following three fiscal years (through June 30, 2003), in spite of the economic recession and sharp downturn in the stock market.

The importance of the Partnership cannot be overstated. It expresses a commitment on the part of the Governor to support adequate funding for salaries and other cost increases, enrollment growth consistent with the Master Plan, and increases needed to address chronic underfunding of State support for core areas of the budget (building maintenance, instructional technology, instructional equipment, and library materials). It also includes an acknowledgement of the need to either increase fees or provide revenue equivalent to that which would be generated from a student fee increase in order to provide adequate support for student-fee-funded programs. It is a comprehensive statement of the minimum resources needed for the University to maintain quality, accompanied by an expectation that the University would manage these resources in such a way as to achieve certain outcomes outlined in very specific accountability principles. The Partnership Agreement provides a sensible budgetary framework from which to plan for the future. It is the University's hope that a new agreement can be reached with the Schwarzenegger Administration.

Funding During the First Two Years of the New Partnership Agreement

Since 1999-2000, the University has based its budget plan on the funding principles of the Partnership Agreement with Governor Davis. For the first two years of the Partnership, the University's basic budget request was fully funded, consistent with the funding principles of the Partnership. In 1999-2000 and again in 2000-01, the State provided the following basic budget adjustments under the Partnership:

- a 4% increase to the prior year's General Fund base to support the University's basic budget (these funds are primarily used for compensation and benefit increases, non-salary price increases, and other fixed costs);

- funding to support enrollment growth at the agreed-upon marginal cost of instruction;

- a 1% base budget adjustment for core needs to address chronic funding shortfalls in areas of the budget that have a direct relationship to educational quality (instructional equipment, instructional technology, building maintenance, and library materials);

- funding for debt service related to capital outlay projects funded by lease revenue bonds and annuitant health benefits;

- support for State general obligation bond measures 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.

In 2000-01, funding was also provided within the Partnership to fund the first year of the University's initiative to improve undergraduate education.

In addition to this basic funding under the Partnership, support was provided over the two-year period above the Partnership for other high priority needs, including:

- funding to replace foregone revenue related to a second fee reduction of 5% for resident undergraduate students and a 5% fee reduction for resident graduate academic students;

- $19 million in funding to provide salary increases beyond normal cost-of-living and merit increases, primarily for lower paid staff;

- $7.5 million to augment several outreach programs;

- $71.3 million to significantly expand K-12 teacher professional development programs;

- about $53 million for research initiatives (including in the areas of Industry-University Cooperative Research, AIDS, alcohol and substance abuse, brain injury, neurological disorders, engineering and computer science, UC-Mexico collaboration, Internet2, Lupus, spinal cord injury, and labor policy). These funds did not restore support for programs that were deeply cut during the fiscal crisis of the early 1990s, but they did allow the University to initiate and expand research efforts in targeted areas of importance to the Legislature and the Governor;

- nearly $44 million for other initiatives, such as expansion of the California Digital Library, Cooperative Extension, Teacher Scholars and Principal Leaders programs, the California State Summer School for Math and Science, planning for a regional center in the Santa Clara Valley, and development of K-12 Internet connections;

- $25 million in one-time funds for teaching hospital equipment;

- $13.8 million to reduce summer term fees to a level equivalent to what students pay during the regular academic year.

The State also provided $108 million in one-time funding for deferred maintenance, instructional equipment and libraries; endowed chairs and new initiatives in aging and geriatrics; teaching hospital equipment; and several research initiatives.

The significant infusion of State funding over this two-year period was welcome support for the University. Faculty salaries had once again reached competitive levels, the University was beginning to address salary lags for staff employees, enrollment growth was fully funded, progress was being made to reduce shortfalls in funding for core areas of the budget, student fees were kept low, and support was provided for a variety of research and public service initiatives of importance to the State and the University.

Funding During the Current State Fiscal Crisis

Unfortunately, by 2001-02, the State's fiscal situation was beginning to deteriorate. The University based its budget request on the basic Partnership Agreement and included information on other high priorities for the University and the State to be funded when the State's economic situation improved. The Governor's Budget, released in January 2001, proposed full funding for the University's budget request as well as additional funds for initiatives beyond the Partnership Agreement. However, by the time the May Revise was issued, the State's financial situation had weakened to the point of requiring reductions to funding levels the Governor had originally proposed.

The final 2001-02 budget was the first budget in seven years that did not provide full funding of the Partnership Agreement (or the preceding Compact). Partnership funds totaling $90 million were eliminated from the University's proposed 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 final Budget Act for 2001-02 contained Partnership funding for the University as follows:

- $59.9 million for a 2% base budget adjustment sufficient to fund continuation costs related to 2000-01 salary increases, a salary increase package averaging a total of 2% for merit salary increases and COLAs for faculty and staff, salary increases for teaching assistants and clerical staff consistent with collective bargaining agreements, a 9% increase for health benefit costs for faculty and staff, and funding for maintenance of new space that came on line during the budget year. Funds for strengthening the quality of undergraduate education were not provided and UC funding available for debt financing for deferred maintenance projects was reduced from $6 million to $4 million to fund compensation increases;

- $65 million for an enrollment increase of 7,100 FTE (including an 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.

In addition, funding above the Partnership was provided for several initiatives, including:

- $75.6 million for energy costs ($55.9 million for 2000-01 and $19.7 million for 2001-02 and beyond) to cover substantial increases in natural gas prices;

- $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 million for increases in research requested by the Governor and/or the Legislature, including $2 million for the MIND Institute on the Davis campus (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. These funds did not restore support for programs that were deeply cut during the fiscal crisis of the early 1990s, but they did allow the University to initiate and expand research efforts in targeted areas of importance to the Legislature and the Governor; and

- $5 million in one-time clinical teaching support funds for teaching hospitals, neuropsychiatric institutes, and dental clinics.

The final budget also contained two other adjustments: 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; and a $5 million redirection of funds from K-12 School-University Partnership Programs to increase funds for the Mathematics, Engineering, and Science Achievement Program (MESA), Puente, and Early Academic Outreach programs, provide funds for student-initiated outreach, and to help fund campus costs associated with the implementation of comprehensive review of admissions applications.

By the time development of the 2002-03 budget began, the State's fiscal situation had deteriorated markedly, necessitating the unusual action on the part of the Governor and the Legislature to adopt mid-year budget reductions for UC of $40.8 million for the 2001-02 budget. One-time funds provided for energy costs were reduced by $25 million (leaving $50 million), support for the California Professional Development Institutes was reduced by $6 million (leaving a budget of $50.9 million for 2001-02), and funding for the Digital California Project—K-12 Internet—was reduced by $4.8 million (to $27.2 million). An unallocated reduction of $5 million was also include in the mid-year reductions.

The State's budget deficit for 2002-03 eventually grew to $23.5 billion (essentially a two-year deficit covering the period 2001-02 to 2002-03), which was resolved after a long budget stalemate in the Legislature through a combination of budget reductions, revenue enhancements (as opposed to tax increases), securitization of the tobacco settlement, debt restructuring, fund shifts, fund transfers, and loans. The cuts to the overall State budget totaled $9.5 billion and included $750 million associated with Control Sections 3.90 and 3.91, which were added to the Budget Act authorizing the Department of Finance to reduce appropriations for state operations "by up to 5 percent of the amount of expenditure authority appropriated in the 2002 Budget Act. . ." Mid-year cuts to the 2002-03 budget were proposed by the Governor in December and approved by the Legislature in March, 2003.

The final Budget Act for 2002-03 adopted in September, 2002, included the following changes in State funding for the University's budget:

- $47.6 million for a 1.5% increase to the basic budget—instead of the 4% called for in the Partnership Agreement—to fund compensation, benefits, and other increases, including continuation costs for 2001-02 salary increases, merit salary increases for faculty and staff, an increase in health benefit costs for faculty and staff (the amount provided within the Partnership was augmented by The Regents in its action to raise nonresident tuition for undergraduates an additional 6% annually—one-third of which was effective Spring quarter for 2002-03—to help fund the rising costs of health benefits), and a 1.5% price increase for non-salary budgets;

- $69.2 million in funding for 7,700 new FTE students based on the marginal cost of instruction;

- $8.4 million in State support for summer instruction at the Davis campus;

- $16.8 million for annuitant health and dental benefit increases;

- one-time funds of $4 million for faculty start-up costs associated with the development of the Merced campus.

The budget also included the following base budget reductions:

- -$32 million (-10%) across-the-board for research programs;

- -$17 million in financial aid to eliminate the "bonus" that was provided to financial aid in 1998-99 and 1999-2000, when student fees were reduced without a corresponding reduction in financial aid;

- -$15.3 million for the California Subject Matter Projects, leaving a core budget of $20 million;

- -$10 million for K-12 Internet connectivity, leaving $22 million in the budget for this program;

- -$7.6 million from the 2001-02 budgeted level for outreach programs, as explained in detail below;

- elimination of $50.9 million in State General Funds for the California Professional Development Institutes. In proposing elimination of these funds in the May Revise, the Governor stated his intent that UC should contract with individual K-12 schools and school districts to continue the operation of these programs using federal and state funds available in the K-12 budget for teacher professional development purposes. University staff are working with K-12 schools and districts to make this new funding arrangement a success; and

- a one-time reduction of $29 million for core needs, including deferred maintenance, libraries, instructional equipment, and instructional technology.

The final Budget Act also included a compromise package for UC's budget that was formulated during the conference committee's deliberations on the budget. The compromise package did the following:

- restored a total of $18.1 million in funding for specified outreach programs that the Governor had proposed eliminating in the May Revise, including the UC College Preparatory Initiative (online courses), Graduate and Professional School Outreach, student-initiated outreach, UC ACCORD, the charter school on the San Diego campus, and Community Education and Resource Center Initiative;

- provided a $2.5 million augmentation for implementing the Dual Admissions program; and

- designated $4.3 million in new revenue, to be generated from the proposal to increase nonresident tuition for undergraduate students by 6% above the 4% already proposed in the Regents' Budget for 2002-03, to fund additional restorations and expansions of existing outreach programs, including partial restoration of the funding for K-12 School-University Partnerships ($3 million) and the ArtsBridge program ($250,000), full restoration of the funding for Urban Community-School Collaboratives ($361,000), and additional funding for Graduate and Professional School Outreach ($350,000) and Central Valley Outreach ($379,000).

Under the authority granted to the Department of Finance in Control Section 3.90 and with the ultimate approval of the Legislature in March 2003, mid-year cuts were instituted in December, 2002, that included -$70.9 million in further base budget cuts for the University. These cuts were targeted as follows:

- -$4 million in one-time savings from prior years savings from the AP online courses program (UC College Preparatory Initiative);

- -$18 million in one-time savings from prior years savings from research programs, including the Labor Institutes, Substance Abuse Research, and the Mexico/UC program;

- -$2.5 million from other public service programs, approximately equivalent to a 5% reduction;

- -$1.1 million from the K-12 Internet program (the Digital California Project), leaving sufficient funds to maintain current service levels;

- -$20 million from a combination of Academic Support and Institutional Support;

- -$6.3 million from Student Services, which is equivalent to a 5% reduction to Registration-Fee-funded programs;

- -$19 million as an unallocated reduction, which was offset by an increase in mandatory systemwide student fees of $135 approved by the Board in December effective with the Spring 2003 term. When annualized, this increase totaled $405.

By the time the mid-year budget cuts were being approved for 2002-03, the State was facing a deficit for 2003-04 that was unprecedented in magnitude. By the May Revision, the Governor estimated the deficit to total $38.2 billion. The final budget enacted into law on August 2 addressed the State's shortfall through a combination of actions, including: $10.7 billion in borrowing to be paid off over five years; $4.5 billion in other revenues, including $2.2 billion in federal one-time funds received by the State through the fiscal relief provisions of the recent federal tax bill; about $4 billion in new revenue from the vehicle license fee, which will return to previous, higher levels based on a "trigger" pulled by the Director of Finance upon his assessment that there are insufficient State General Funds to support the previous buy-down of the fee; about $6.7 billion from other borrowing and fund shifts; and $13.7 billion in spending reductions and savings, including $1.1 billion (about half of which is General Funds) in reduced compensation costs for State employees, equivalent to about a 10% cut, to be accomplished through a combination of renegotiated employee contracts and elimination of up to 16,000 positions. The package included no tax increases other than the return of the vehicle license fee to previous levels, provided the minimum funding guarantee for Proposition 98, and suspended all statutorily-required new COLAs in 2003-04. The budget assumed a reserve of $2 billion.

Display 9 provides details on the University's final budget for 2003-04. The op half of the table shows cuts proposed by the Governor in January totaling $373.3 million, all of which were approved in the final budget act. The Governor's budget assumed $179 million of these cuts would be offset by increases in student fees.

The next section of the table itemizes further cuts to the University's budget proposed by the Legislature and ultimately included in the final budget. These cuts include an additional unallocated reduction of $98.5 million, of which $80.5 million is designated as one-time and $18 million is designated as permanent. The final budget also includes $7.3 million in one-time start-up funds for Merced. The Governor's Budget had proposed to provide $11.3 million for this purpose; the legislative action reduces this amount by $4 million, as noted in the next section of the table. The base budget reductions included in the final Budget Act total $484 million, which includes $71 million in cuts that first occurred as part of the mid-year cuts for 2002-03 and were made permanent in 2003-04, and $413 million in further cuts related to 2003-04.

The third section of the table shows actions included and not included in the Governor's January budget related to the Partnership, most of which was approved as proposed with the exception of the funding for Merced, as noted above. The University received funding for 13,000 additional FTE students at the agreed-upon marginal cost of instruction, funding for health

Display 9

University of California
2003-04 Final Budget
($ in millions)

2002-03 State General Fund Budget per State Budget Act prior to 2002-03 Mid-Year Reductions	$	3,220.9
Governor's Budget 2002-03 Mid-Year Cuts Plus Additional Cuts Proposed for 2003-04		
AP Online (mid-year one-time reduction of $4 million based on savings from prior years; 2003-04 includes permanent reduction of $4.4 million)	$	(4.4)
Research (mid-year one-time reduction of $18 million based on savings from prior years; 2003-04 includes permanent reduction of $28.8 million		(28.8)
Outreach (no mid-year reduction)		(33.3)
California Subject Matter Projects (no mid-year reduction)		(15.0)
Other Public Service (mid-year reduction of $2.5 million grows to $15 million in 2003-04)		(15.0)
K-12 Internet (mid-year reduction of $1.1 million stays at $1.1 million in 2003-04)		(1.1)
Academic Support and Institutional Support (mid-year reduction of $20 million grows to $36.5 million in 2003-04)		(36.5)
Student Services (mid-year reduction of $6.3 million grows to $25.3 million in 2003-04)		(25.3)
Unallocated Reductions		
Mid-year reduction of $19 million grows to $179.1 million in 2003-04, to be offset by student fee increases		(179.1)
Additional unallocated reduction for 2003-04		(34.8)
Subtotal, Governor's Budget Base Budget Reductions	$	(373.3)
Legislative Actions to Further Reduce the UC Budget		
One-time unallocated reduction (to be partially offset by student fee increases and partially offset by a $47.5 million loan)	$	(80.5)
Additional permanent unallocated reduction (to be totally offset by student fee increases)		(18.0)
Merced, one-time funds		(4.0)
Digital California Project (K-12 Internet; leaves $14 million remaining)		(6.6)
Labor Institutes (leaves $4 million remaining)		(0.5)
Community Teaching Fellowships for Math and Science (eliminates all State funding)		(1.3)
Subtotal, Legislative Actions	$	(110.9)
Total Budget Reductions	$	(484.2)
Other Actions Included in Governor's Budget		
Partnership Funding Provided		
Enrollment of 13,000 FTE students funded at the agreed-upon marginal cost	$	117.2
Start-up funds needed to open the Merced campus by 2005-06 (Legislature reduced by $4 million to $7.3 million and adopted language to delay opening the campus one year as noted above)		11.3
Health benefits for annuitants		16.1
Lease purchase payments		27.4
Other one-time budget adjustments		(6.6)
Partnership Funding Not Provided		
4% increase to the base ($126 million requested)		0
1% increase to the base for core needs ($31.5 million requested)		0
Restoration of one-time reduction for core needs ($29 million requested)		0
Total State General Fund Budget for 2003-04	**$**	**2,902.1**

benefits for annuitants and debt service, and other routine one-time budget adjustments. However, much of the Partnership was not funded, including funding for the 4% annual adjustment to the base budget, funding for core needs (including instructional equipment, instructional technology, maintenance, and libraries), and restoration of the $29 million reduction in 2002-03 to core areas of the budget that had previously been approved as a one-time cut.

The total State General Fund budget for 2003-04 as adopted in the Budget Act totaled $2.902 billion. However, adjustments to the budget subsequent to the passage of the Budget Act have brought the total down to $2.898 billion, which is nearly $320 million less than the State General Fund budget was in September, 2002 when the last budget act was adopted. The difference accounts for both mid-year reductions for 2002-03 and current year changes.

As a result of these actions, the University's budget under the Partnership Agreement will be underfunded by nearly $1.1 billion, the details of which are reflected in Display 10. About $230 million of this shortfall is being offset by increases in student fees, constituting about 21% of the overall solution to the shortfall; another $424 million of this problem is being addressed through base budget cuts to existing programs; and another $423 million is being offset by foregoing salary increases and other unfunded inflation costs.

At this point in time, the University once again stands in a precarious position. Faculty and staff salaries have fallen seriously behind competitive levels—it is currently projected that faculty salaries are about 9% behind the average of the University's comparison institutions; there is a similar problem related to staff salaries. If no salary increases are provided in 2004-05, the lag in faculty salaries could grow to as much as 13%. This is of deep concern to the University, particularly given the need to recruit 7,000 new faculty to accommodate the student enrollment growth expected in this decade and to replace those who leave, as well as the need to maintain programmatic and administrative support functions that provide the underpinnings for the quality instructional and research programs University students have come to expect. While some progress was made in the first two years of the Partnership to close funding shortfalls in core areas of the budget, much of this extra funding was lost during the last two years. Funding for base research budgets has been reduced along with funding for recent research and public service initiatives of great importance to the State

Display 10

University of California
Unfunded Partnership Funds
2001-02, 2002-03, 2003-04 Budgets

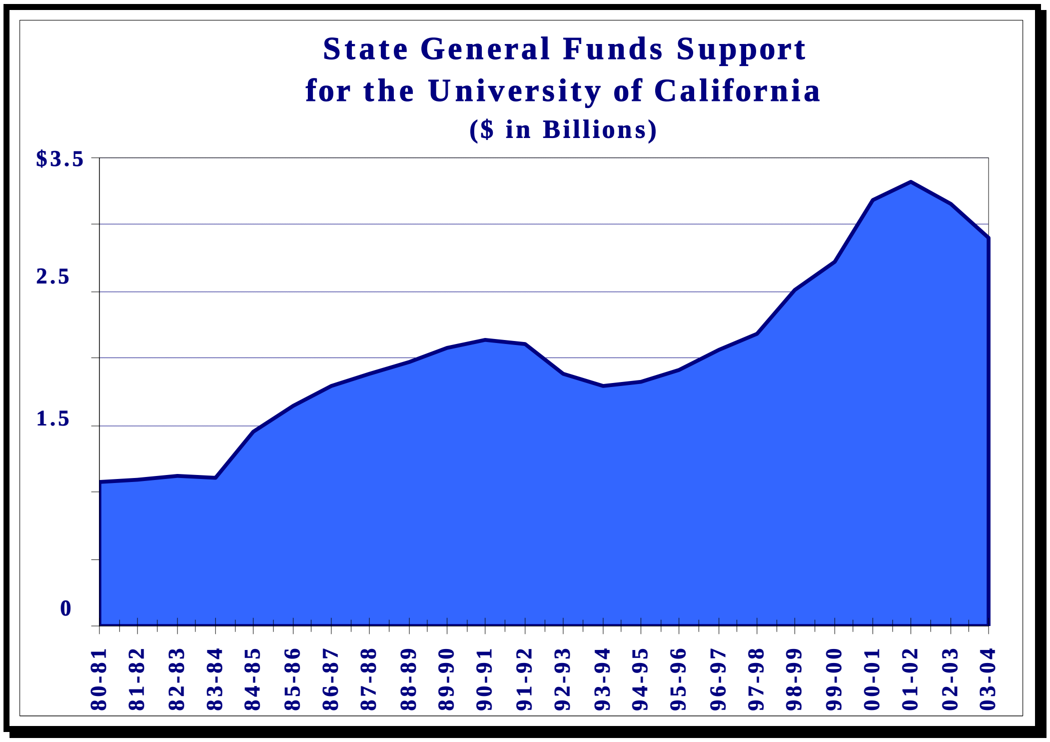
	Amount Unfunded ($ in millions)
2001-02 Partnership Underfunding	$ 90.0
2001-02 Mid-Year Reductions	10.8
2002-03 Partnership Underfunding	147.0
2002-03 Base Budget Reductions Contained in Budget Act Prior to Mid-Year Reductions	162.8
2002-03 Mid-Year Reductions	70.9
2003-04 Proposed Base Budget Reductions	
Governor's Budget Reductions	299.1
Additional Legislative Reductions	110.9
2003-04 Proposed Partnership Underfunding	186.5
Total Unfunded Partnership – 2001-02 through 2003-04	**$1,078.0**
Portion of total unfunded Partnership to be offset by student fee increases	$ 230.1
Portion of total unfunded Partnership to be taken in base budget cuts	$ 424.4
Portion of total unfunded Partnership to be offset by foregoing salary increases and other unfunded inflation increases	$ 423.5

and the University. Given the weak prospects for the economy over the next year or two, the University's primary goal is to minimize the size of further cuts as much as possible and protect core programs from losing further ground.

State Funding for UC Depicted Over Time

Beginning with the first year of the Compact (1995-96) through 2001-02 (including the first two years of the Partnership), the State provided increased funding for the University's budget every year, as Display 11 (next page) shows. The "ups and downs" in Display 11 have largely coincided with the State's economy. The upward trend from 1995-96 through 2000-01 reflects the high priority the State placed on funding for the University during that period.

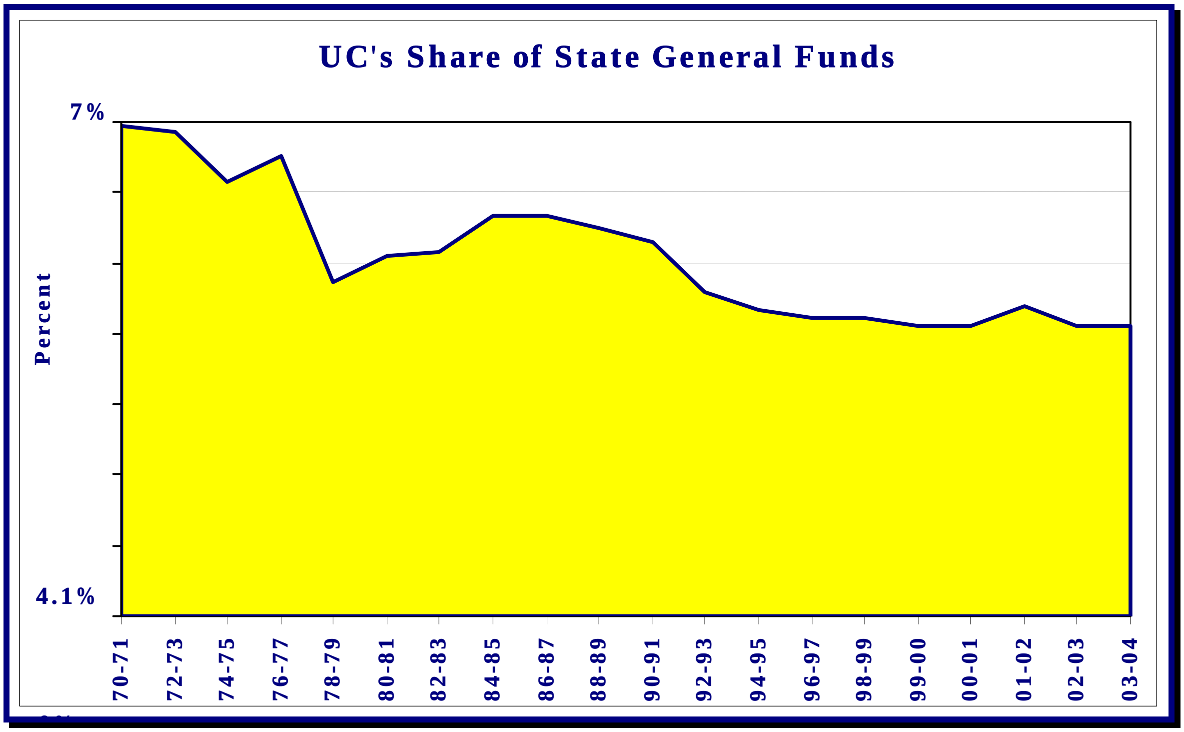
Display 11



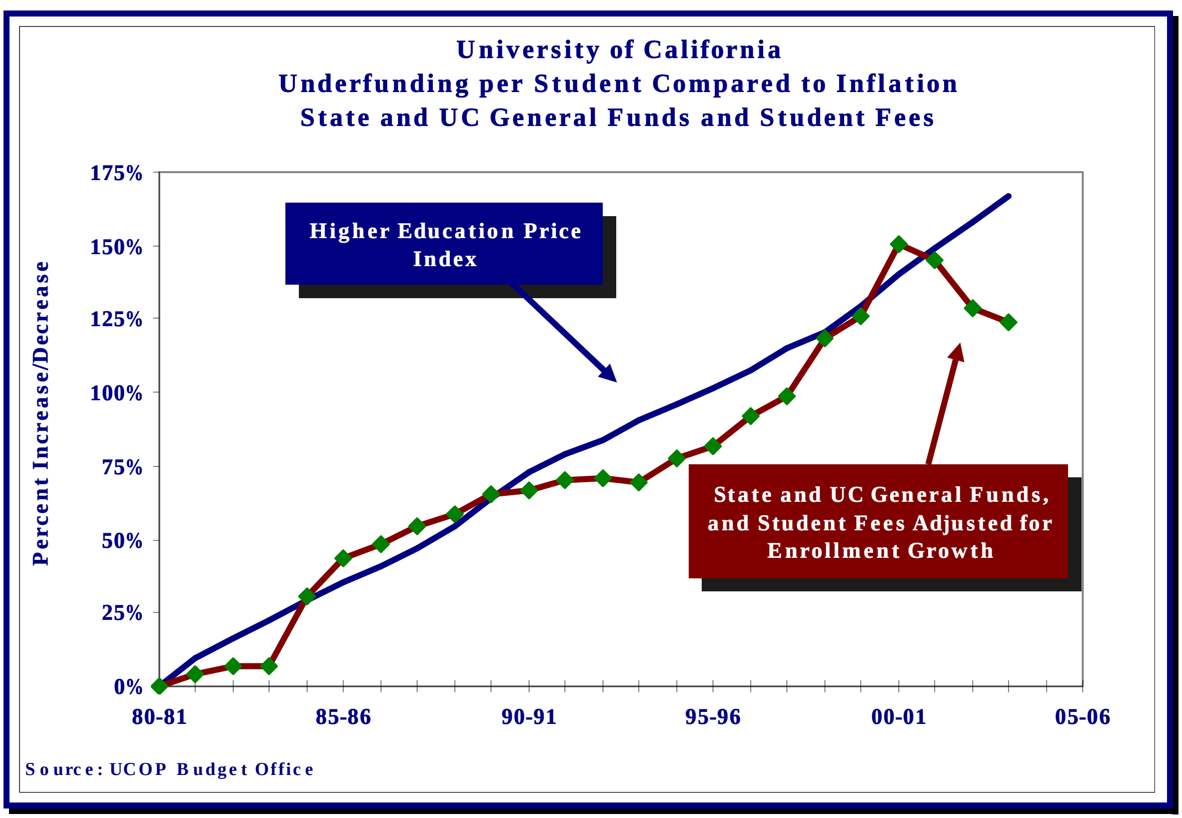
Display 12 shows the University's share of the State General Fund budget over time. Thirty years ago, the University's share was 7%. It has declined markedly over the last three decades and is currently at a low point of 4.1%. Declines and increases track closely with the State's economic cycles.

Another way to look at the University's budget over time is shown in Display 13, which shows the underfunding of the University's budget on a per student basis relative to inflation as gauged by the Higher Education Price Index. It reflects the primary sources of funds used to support the University's basic operations—State and UC General Funds and student fee revenue. The graph shows the University has fared better in some years and worse in others, when compared to inflation, but has remained relatively steady in terms of funding per student. The last two years, however, show a precipitous decline in funding per student when compared to the price index. The University is deeply concerned about this trend and its implications over the next several years. The importance of having sufficient funds to maintain quality cannot be overstated. The erosion of the University's resources must be halted if the educational quality of the University is to be preserved.

Display 12



Display 13



Planning for the Longer Term

Enrollment Projections

Provisions of the Master Plan related to access call for UC to offer a place to any eligible student within the top 12.5% of graduating California high school seniors, as well as to any eligible California Community College transfer student, who wishes to attend. The Master Plan also calls for the State to provide adequate resources to accommodate this enrollment. For the first time in the 40-year history of the Master Plan, the State may be reaching a point at which it cannot provide sufficient resources to fund all eligible students wishing to attend. Legislative intent language adopted as part of the 2003-04 budget package requests the Department of Finance to develop the 2004-05 budget assuming no funding for UC and CSU for salaries, enrollment growth, and non-salary price increases. This language is consistent with instructions issued by the Department of Finance for developing the 2004-05 budget. If the Governor and the Legislature observe the intent of this language and no funding is provided in the 2004-05 budget for enrollment growth, it would signal a major departure on the part of the State from the access provisions of the Master Plan.

The University remains deeply committed to the Master Plan and believes it is the underpinning for one of the finest higher education systems in the world. The interests of the State, its citizens, and the higher education segments in California have been well served by the Master Plan for over 40 years. Although reviewed several times over the decades by legislative and non-legislative groups, its basic tenets have remained unchanged—strong testament to the enduring principles embodied in the Master Plan.

If it becomes necessary for the State to temporarily suspend its commitment under the Master Plan to provide adequate resources to fund all students who wish to attend, it is the University's strongly held conviction that the State will return to full funding for enrollment growth as soon as the fiscal situation improves. It is in this context that the University continues its planning for the longer term.

UC's long-term enrollment projections are based on consideration of four primary factors:

- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (12.5% are eligible, but generally about 7.5% actually enroll);
- 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 academia, industry, and other areas.

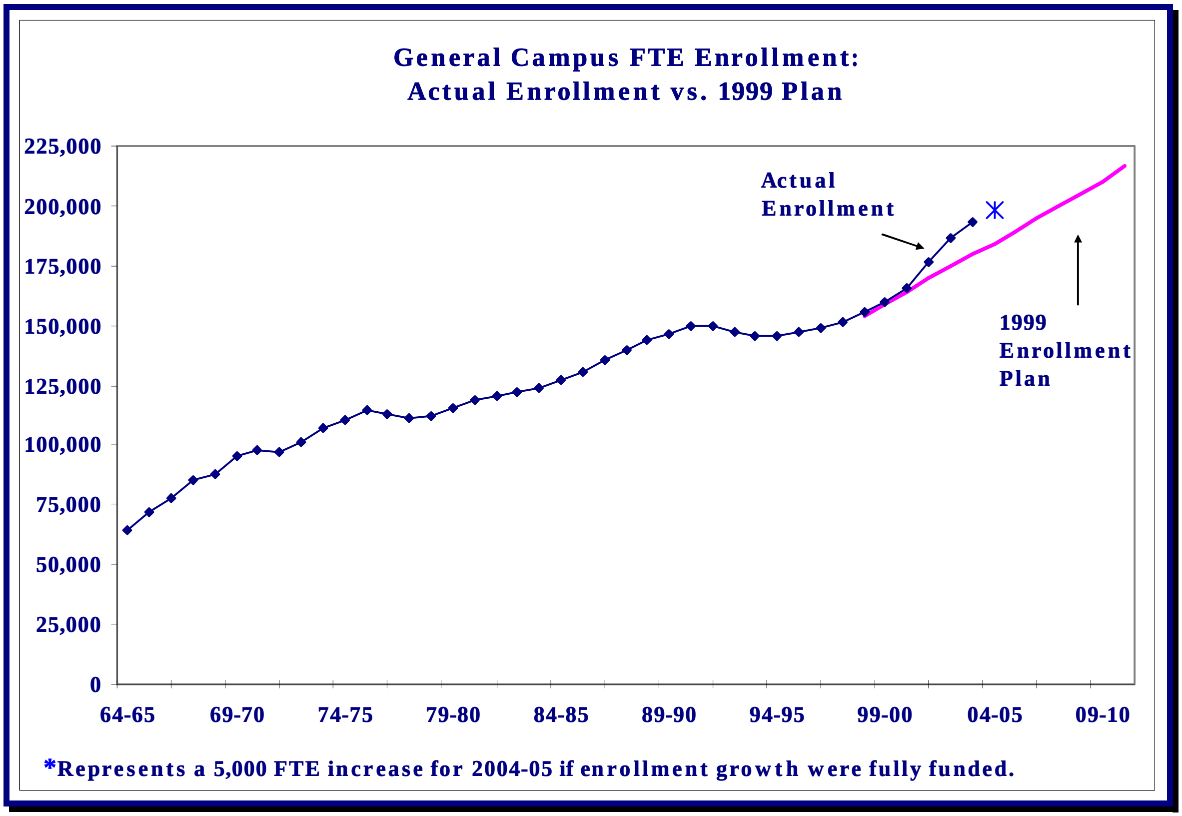
The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 FTE over this decade; by 2010-11, the University would reach its planned target of 210,000 FTE. This target was adjusted upward to account for summer enrollment that existed in 1999 for which State support is being phased in, resulting in a revised target for 2010-11 of 216,500 FTE.

As shown in Display 14 (next page), the University has experienced far more rapid enrollment growth than the 1999 plan projected, averaging closer to 8,000 FTE per year in recent years rather than the 5,000 FTE growth projected earlier. Now, total enrollment is currently approximately 12,000 FTE over the level envisioned in the 1999 plan for 2003-04.

Based on current estimates, the University projects enrollments in 2004-05 would increase by about 5,000 FTE, if adequate resources were provided to fund enrollment growth. This includes approximately 2,500 additional new students and, because new enrollment increased substantially over the past several years, 2,500 more continuing students.

The University will request that the Governor include funding for the full 5,000 FTE enrollment growth needed to maintain the State's and the University's commitments to the Master Plan. If that isn't possible, the University will argue that, while the language specifies no funding for enrollment *growth,* funding may still be provided for *continuing* students.

Display 14



If no additional enrollment funding is provided, the University may need to consider reducing the number of new students enrolled from 58,000 to 55,500 students in order to have sufficient resources for the 2,500 continuing students. If, however, the University sustains further base budget cuts, it may be necessary to consider much deeper reductions in the number of new students enrolled next year.

One rationale for constraining enrollments would be to phase in a return to the enrollment levels envisioned in the 1999 enrollment plan, which projected a total of 216,500 students by 2010. Enrollments could be restricted over the next six years so that the total reached in 2010 remains at the 216,500 FTE level. Some examples of ways in which this could be accomplished are the following:

- UC-eligible students could be admitted by a specific campus but asked to attend the Community Colleges for their first two years of college, using a program similar to the Dual Admissions program.

- The University could gradually scale back to the level envisioned in the previous plan by freezing the number of freshmen it enrolls to existing levels. Consistent with its commitments under the Master Plan, the University enrolls about 33,000 freshmen a year. The University's enrollment plan calls for increases in freshmen of about 1,000 - 2,000 students per year through this decade.

- Growth in community college transfers could be restricted. Currently, the Partnership Agreement calls for growth in the number of community college transfers to UC of 6% per year, or about 700 students. This commitment has resulted in the University exceeding the Master Plan recommendation that it maintain a 40:60 ratio between lower division/upper division undergraduate students. The University could return to a level of community college transfers that meets the 40:60 ratio in the Master Plan, or a decision could be made to change that ratio even further.

Decisions about enrollments cannot be made until more is known about the budget. In the context of this uncertainty, the University will review and revise as necessary both the short-term and long-term assumptions about enrollments through this decade and beyond.

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. Many of the campuses are currently engaged in the lengthy process of updating their LRDPs, which will include a review of longer-term enrollment capacity. The existing LRDPs anticipated an increase systemwide of 34,000 additional FTE students by 2010-11 over the 1998-99 enrollments at the then-existing campuses. In addition, the University is planning for 5,000 FTE students to enroll at the Merced campus by 2010. The 1999 enrollment plan envisioned that, by 2010, the University would need to find a way to accommodate about 28,000 more FTE students than the current LRDPs anticipated. Assuming the State is able to provide adequate resources for enrollment growth in the near future, if not in the coming year, the University is pursuing a number of strategies to address this enrollment growth, including expanding existing campus LRDP enrollment targets where possible, increasing summer instruction, and increasing the number of students educated in off-campus centers.

Eligibility and Admissions Policies

The University has recognized its responsibility to provide an outstanding education to its students and to expand the opportunity for a UC education to a broader cross-section of California students who have prepared themselves for the rigor of a UC education. A number of changes have been made to the University's eligibility and admissions policies to achieve this goal. These changes are described in the sections that follow.

Eligibility Policies. Consistent with the Master Plan for Higher Education, UC's policy is to provide access to students in the top one-eighth of the state's graduating class who wish to attend, although a student may not be offered a place at the campus or within the major of first choice. 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 currently in the process of conducting a new eligibility study and expects to release its report in May 2004.

In 1998, to respond to the last CPEC eligibility study and to increase the breadth of diversity of the UC student body, the University revised eligibility requirements, based upon recommendations of the Academic Senate, for freshman admission to the University. Effective Fall 2001, The Regents approved an additional path by which students may become eligible—Eligibility in the Local Context. Paths to freshman eligibility are described below:

- Statewide eligibility is achieved if a student completes 15 units of work in specified academic courses, commonly referred to as the "a-g" requirements, and meets or exceeds a minimum score on an eligibility index, which includes a combination of high school grade point average (calculated on academic units), and a combination of the ACT or SAT I test scores and three SAT II scores.

  It should be noted that the current ACT and SAT tests are in the process of being reviewed and changed. In June 2002, the College Board agreed to replace the current SAT I with a new test that will be used by colleges and universities nationwide. These changes are consistent with the recommendations for appropriate admissions tests made by UC's Board of Admissions and Relations with Schools (BOARS). Beginning in Winter 2005, the College Board will no longer administer the test currently used. The College Board has been working with the University to create a replacement for the SAT I that would meet the University's goal for a core test that is linked closely to curriculum content and also will reflect a student's writing ability. In a parallel effort, ACT, Inc. has committed to augment its current test with a writing examination. BOARS plans to monitor the development and implementation of the new tests.

- Alternatively, students may become <u>eligible based on test scores alone</u> (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 three SAT II tests, with a minimum score of 530 on each test.

- A third path, <u>Eligibility in the Local Context</u> (ELC, or the 4% path), was implemented for the first time for students entering in Fall 2001. Students who complete 11 of the "a-g" requirements by the end of their junior year in high school and rank within the top 4% of their class (based on GPA earned in those courses) are UC-eligible under this path.

  ELC-identified students have a very high rate of admission at all campuses as they represent the best their schools have to offer. For 2003-04, the third year of implementation, the response in the K-12 community has been enthusiastic, with almost 100% participation by public schools. A total of 13,800 ELC students were identified in the top 4% of their high school classes (these data include both students in the top 4% of their class who also achieved statewide eligibility as well as those who became newly eligible through the ELC path). Of this total, 11,300 applied to the University and were admitted by a UC campus; of these, 7,000 sent in a statement of intent to register. Final enrollment numbers will be available in January 2004. This represents an increase over the 11,000 ELC students identified in the first year of implementation (2001-02), of which 9,000 applied and 5,500 chose to enroll.

  Simulations performed comparing applications in 2001-02 with application patterns in previous years indicated the ELC program likely generated over 2,000 applications from students who otherwise might not have applied. The simulation suggests that many of the additional students came from underrepresented minority groups as well as from rural schools.

The 1996 CPEC report on eligibility estimated that approximately 11.1% of California public high school graduates are eligible through the statewide eligibility and test score paths combined. The additional ELC process adds another 1.4% (approximately) of high school graduates to the eligibility pool, bringing the total eligible to 12.5%, consistent with the Master Plan. The University has found that almost all of the students who were granted eligibility through the ELC process had actually completed all of the statewide requirements as well, indicating that an outcome of ELC is to stimulate attainment of full statewide eligibility.

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 in their high school of University-approved work in Visual and Performing Arts. This change is intended to support academic preparation of students and to bring consistency to the course requirements for admission to UC and CSU.

Admissions Policies. The University continues to be committed to offering a place to all eligible California high school graduates and qualified community college 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, admission selection guidelines are employed to select the entering class.

In November 2001, The Regents of the University of California approved a modified selection process for freshman admissions that leads to a more thorough and complete review of the qualifications a student presents when applying to one of UC's undergraduate campuses. Called "comprehensive review," the process ensures the admission of highly qualified students by allowing UC campuses to consider the broad variety of academic and supplemental qualifications that all students present on the application.

Prior to comprehensive review, individual UC campuses that could not accommodate all eligible students admitted students from the pool of

UC-eligible applicants using a "two-tiered" selection process. Systemwide admissions guidelines specified ten allowable “academic” criteria (including such factors as grades, test scores, outstanding work in a particular subject area, completion of additional college preparatory courses, among others) and four allowable “supplemental” criteria (such as special talents, unusual leadership or intellectual qualities, and academic accomplishments in the face of disadvantaged circumstances). Campuses varied as to the weight given to each criterion, but all campuses worked within the guidelines. The guidelines required that 50 - 75% of the entering class be admitted on the basis of academic criteria alone (Tier I) while the remainder of the class was to be admitted using both academic factors and supplemental criteria (Tier II).

This two-tiered selection process had been part of UC's undergraduate admissions policy and guidelines since the 1960s, though the specific proportions of the class admitted in each tier varied over time and by campus. The two-tiered process was formalized as a Regent’s policy by SP-1, the 1995 resolution that also banned consideration of race and ethnicity in admissions. The Regents rescinded SP-1 in May 2001 (although Proposition 209 continues to prohibit consideration of race in admissions). The Academic Senate, acting on the recommendation of BOARS, approved implementation of the comprehensive review process, which removed the limitation that 50-75% of the entering class had to be admitted by the academic criteria only. This change was approved by the Board of Regents at the November 2001 meeting. While the ten academic and four supplemental criteria were retained, the tier concept was eliminated, enabling use of the combined academic and supplemental criteria for the entire admitted class.

The comprehensive review process, similar to that used by many of the nation's most selective public and private universities, took effect for the class applying for freshman admission for Fall 2002. Applicants admitted under comprehensive review continue to be high-achieving students, admitted from the currently defined UC-eligible pool. All freshman applicants’ records are analyzed not only for their grades, test scores and other academic criteria—important baseline indicators of academic potential—but also for additional evidence of such qualities as motivation, leadership, intellectual curiosity, and initiative. These qualities play an important role in student success in an academic environment as rigorous and challenging as that of UC, and they can be demonstrated in a variety of ways, through a variety of achievements and experiences. Comprehensive review enhances UC campuses' ability to select each year a class of thoroughly qualified students who demonstrate the promise to make significant contributions to the University community and to the larger society beyond. This policy sends a strong signal that UC is looking for students who have achieved at high levels and, in doing so, have challenged themselves to the greatest extent possible.

The Dual Admissions Program (DAP) is a new path to UC admission for promising high school students who rank near the top of their class but have not met all of the requirements to attend UC directly from high school. Under DAP, California high school students who fall between the top 4% and 12.5% of their high school graduating class (as determined via the same process used to identify ELC students), are invited to apply to UC in their senior year and, once admitted, are guaranteed a place at a specific UC campus as a transfer student, provided they satisfactorily complete their lower-division coursework at a California community college.

While approved by The Regents in July, 2001, implementation of the Dual Admissions Program was delayed until sufficient resources were made available to fund the information and support services necessary for the success of the program. The 2002-03 budget included $2.5 million to begin implementation of this program; however, that funding has been reduced by half to $1.25 million with the cuts implemented in the 2003-04 budget.

The first round of participating students received letters notifying them of their DAP status in September and will apply to UC in November 2003, enter a California community college in Fall 2004, and transfer to UC in Fall 2006. (Two years is the shortest amount of time in which DAP students could complete their community college requirements, but they have up to four years to do so).

The Dual Admissions Program will help the University address the need to increase community college transfers and to increase opportunities for students from educationally disadvantaged backgrounds. In addition, DAP will create a closer link between UC and the community college system, ensuring a more effective transfer process as envisioned by the Master Plan. More importantly, it will send a strong signal to students who have excelled academically, but have not quite reached UC eligibility, that they have a straightforward path to a UC degree. The University anticipates DAP will have a positive impact on students from disadvantaged backgrounds, encouraging more of them to seek admission to UC.

UC staff have developed a “course compendium” to serve both DAP and all California community college students pursuing transfer to UC. This compendium delineates the programs and services available to students at each of the 108 California community colleges, and highlights the articulation agreements that have been completed between UC and CCC campuses. Publications, presentations, and a DAP website have been developed to inform K-12 advisors, parents, and prospective students about the program.

In order to provide the outreach and counseling necessary to the success of the program, the University has hired additional counselors to guide DAP students (and other prospective transfer students) through their lower division coursework. These same advisers will begin implementation of the UC-CCC Transfer Partnership Initiative (TPI), which in the first year will provide at least one UC outreach officer or counselor for every three low-transfer community colleges. These staff will ensure that every low-transfer community college will be visited at least once a week.

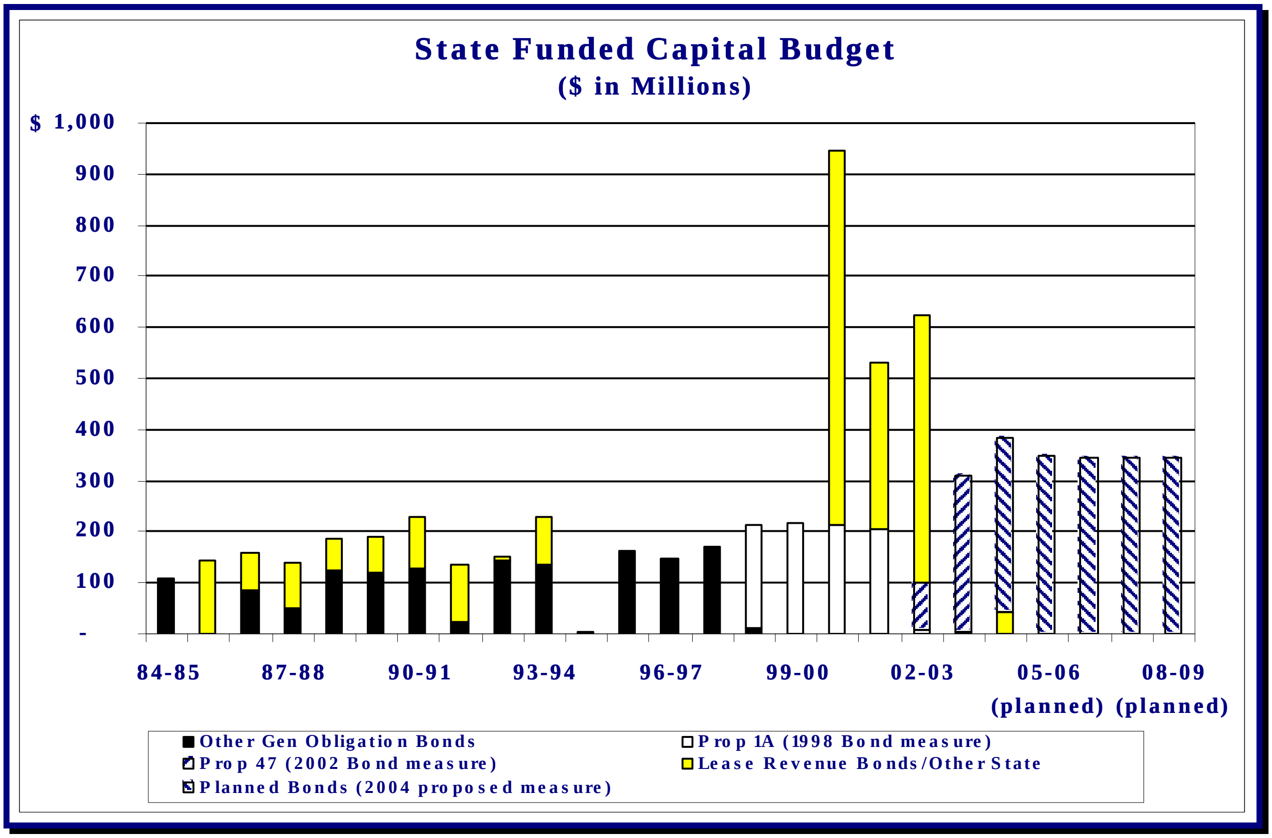
Facilities Needs for Accommodating Enrollment Growth and Maintaining Quality

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 15 indicates, State funding for capital outlay hovered within the range of $100 million - $200 million per year for more than a decade from the mid-1980s to the late 1990s. Since then, it has fluctuated significantly.

In November 1998, voters overwhelmingly approved Proposition 1A, which provided higher education with $2.5 billion in general obligation bonds over four years through 2001-02. The University’s share was about $210 million per year.

In Spring of 2002, the Legislature and the Governor agreed on a new general obligation bond package for education, embodied in Assembly Bill 16 (Chapter 33, Statutes of 2002). This package proposed two public education facilities bond measures, one for 2002 and one for 2004, authorizing a total of $27 billion in general obligation bond funds over four years to help fund K-12 and higher education facility needs. Proposition 47, the 2002 bond measure, authorized more than $13 billion for K-12 and $1.65 billion for higher education and was approved by the voters in the November 2002 statewide general election. The bond measure, to be included on the 2004 statewide

Display 15



primary election ballot in March, would authorize $10 billion for K-12 and $2.3 billion for higher education for the two-year period it covers. UC received $90.2 million in Proposition 47 funds in 2002-03 and $307.5 million in 2003-04.

The University also received capital funds from other State sources in recent years. In 2000-01, UC received $75 million in State General Funds for the *California Institutes for Science and Innovation*, $600 million in lease revenue bonds for hospital seismic projects required by SB 1953, $50 million in State General Funds for hospital infrastructure, and approximately $205.6 million of "Garamendi financing" authorized for four research projects pursuant to Government Code Section 15820.21. (In 1990, the State approved legislation [SB 1308, Garamendi] authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, ongoing maintenance, financing, and related infrastructure of certain research facilities.)

Again in 2001-02, the State provided the University with capital funding above the $206.9 million provided from Proposition 1A funds, including $224.6 million in lease revenue bonds and $4.9 million in State General Funds 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. The State also provided $95 million in State General Funds for the *California Institutes for Science and Innovation;* however, most of the State's General Funds which were later replaced with lease revenue bonds.

In 2002-03, the State authorized $305.8 million in lease revenue bonds to fund design and construction of the Classroom and Office Building at the Merced campus and to accelerate funding for seven projects that originally were scheduled for funding from the 2002 general obligation bonds. This acceleration allowed the campuses to move more quickly on projects originally scheduled for the 2002-03 fiscal year. The State also authorized $3 million from the water bond approved by the voters in March 2000 for a UC Davis watershed project and $308.5 million in lease revenue bonds for the *California Institutes for Science and Innovation* to replace $90 million of State General Funds previously appropriated and to provide the balance of funding needed for construction of the Institutes. Another $11 million of General Funds previously appropriated for the Institutes was replaced with lease revenue bonds in 2003-04. Funding for the Science Institutes was originally to be provided in increments over a four-year period from State General Funds. However, because of the State's deteriorating fiscal situation, funding was shifted to State lease revenue bonds and the entire amount is now authorized.

The University's 2004-05 capital budget request has been developed on the assumption that the bond proposition scheduled for the March 2004 ballot will be adopted. The University's 2004-05 capital budget request is discussed in more detail at the end of this *Overview.*

Future funding for capital outlay continues to be a major issue facing the University. 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. Therefore, the University has developed a five-year capital outlay plan that will address needs related to enrollment growth, seismic and other life-safety requirements, renovation of obsolete facilities, and infrastructure, based on the funding levels that have been agreed to.

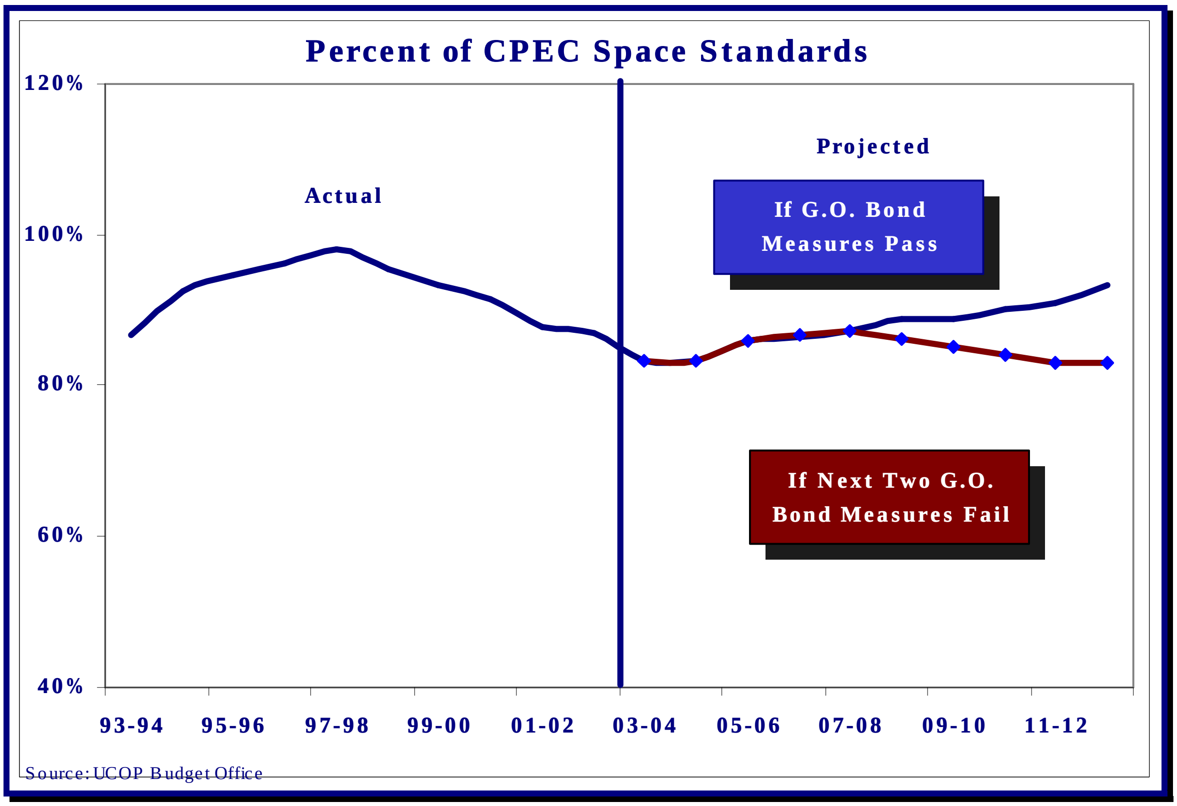
The University estimates that it will require at least $600 million per year over the next decade to address its most pressing facilities needs for core academic and support space traditionally supported by the State. In addition, there are other urgent needs in areas traditionally not supported by the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

To provide a more comprehensive look at the State-funded capital program, the University has prepared a five-year capital improvement program. The State-funded program includes the projects and budget proposed for approval in 2004-05, along with future State funding requirements by campus for the next four years, 2005-06 to 2008-09, assuming that the 2004 bond issue is approved. The State-funded 2004-05 Budget for Capital Improvements will be presented to the Board for approval at the November Regents meeting, consistent with usual practice.

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 $600 million annual 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 capital renewal and deferred maintenance.

While State funding does not meet all the University's needs, the approximately $345 million a year for the University agreed-upon as part of the general obligation bond package is critical to the University's ability to respond to facilities needs related to enrollment growth, life-safety, seismic, and renovation. With that level of funding each year, the University estimates it will construct sufficient space to achieve 90% of the standards for instruction and research space set by the California Postsecondary Education Commission (CPEC space standards) by 2010-11. If the next proposed bond issue fails and State funding is not provided, the percentage drops to 84%, as depicted in Display 16. That level of unmet need would be unacceptable in the context of significant enrollment growth through this decade. Passage of the proposition on the March ballot is key to the University's future.

Display 16



2004-05 Budget

While State funding provides the essential core support for the University's operating budget, 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, is critical to the University's ability to do research, support students, and operate its teaching hospitals. 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, 21% of grant aid received by UC students comes from federal funds. The three Department of Energy Laboratories, for which the University has management responsibility, are entirely supported by federal funds.

State funds that support the University's core operations make it possible to attract funds from other sources. 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 over the long term. Federal and private funds are discussed more fully at the end of this *Overview*.

Since the first Compact with Governor Wilson was developed in 1995-96, and continuing with the Partnership Agreement with Governor Davis, it has been the practice of the University to premise its annual budget request on the basis of the funding agreement with the Governor. If the University were to follow previous practice, it would be requesting a State funding increase of about 10% for 2004-05. This percentage increase, however, would only be sufficient to fund normal salary, benefit, non-salary, and enrollment increases, as well as restore an $80.5 million one-time cut adopted in the 2003-04 budget. It would not include any funding to restore unfunded Partnership funds. 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.

Display 17 identifies the funding that would normally be requested from the State consistent with the Partnership. A normal funding request would reflect the basic funding principles of the Partnership Agreement including:

Display 17

UNIVERSITY OF CALIFORNIA
2004-05 Budget
Revenue Projections Consistent with the Partnership Agreement
($ in millions)

State General Funds (4% increase to the base, excludes debt service for capital outlay)	$114.2
State General Funds (1% increase to the base for core needs)	28.5
State General Funds (restoration of 2003-04 one-time unallocated reduction)	80.5
State General Funds for 5,000 FTE enrollment growth (marginal cost rate)	40.0
Funding for phasing State-supported summer term for four campuses not currently State-supported	31.0
Total increase in State General Funds that would normally be requested from the State consistent with the Partnership Agreement	**$294.2**

- $114.2 million, equivalent to a 4% increase to the prior year's State General Fund budget, excluding debt service and one-time funds. These funds would be used to provide normal cost-of-living and merit salary increases for faculty and staff, pay for increases in health benefits and non-salary portions of the budget, and support the additional maintenance needed for new space coming on line in the budget year. The University estimates that faculty salaries already lag the average of the comparison institutions by 9% and that there is a similar lag with respect to staff salaries. This funding would be sufficient only to prevent any increase in these lags. It would not provide any support for closing the existing lag. If no funding is provided, the faculty salary lag could grow to 13% in 2004-05;

- $28.5 million, representing a 1% increase to the prior year's State General Fund budget, to reduce permanent funding shortfalls in ongoing building maintenance, instructional equipment, instructional technology, and library resources. These are core areas of the budget identified in the Partnership as critical to the University's ability to maintain quality because of their direct impact on the academic program. Each of these areas has suffered chronic shortfalls in State funding, based on agreed-upon standards for measuring the shortfalls, that at the beginning of the Partnership totaled $150 million. Some funding was provided for the first two years of the Partnership, but no funding has been provided for these areas since 2001-02, and a $29 million base budget reduction in 2002-03 that included instructional equipment, instructional technology, deferred maintenance and libraries, exacerbated the problem. The annual shortfall is now estimated to be $120 million;

- $80.5 million to restore funds eliminated on a one-time basis from the University's base budget in 2003-04 as an unallocated cut. The 2003-04 Budget Act includes language specifying that the cut is to be one-time;

- $40 million to fund enrollment growth of 5,000 FTE students (a 2.6% increase) at the agreed-upon marginal cost of approximately $8,000. This funding is based on a formula that reflects the cost *at the margin* of each additional student. It incorporates "discounted" rates for many areas of the budget. For example, the formula uses the salary for an Assistant Professor III as the basis for estimating the faculty salary portion of the formula. Yet, only a portion of the faculty the University hires is paid at that level. Other such "discounts" exist throughout the formula. Thus, it does not represent *average cost*. These funds provide support for faculty salaries, teaching assistant salaries, other academic support (such as salaries and benefits of laboratory assistants, supervisory, clerical, and technical personnel, and some academic administrators, as well as costs of instructional department supplies), and recognition of the growth in student services, administration, libraries and equipment that accompanies growth in enrollment;

- $31.0 million for phasing in State support for summer instruction at the remaining four general campuses. Funding for State-supported summer instruction has already been phased in for Berkeley, Davis, Los Angeles, and Santa Barbara. The four campuses currently receiving State support for summer instruction are able to provide academic programs and financial aid similar in breadth and quality to that offered during the regular academic year.

In addition, the Partnership calls for increases in mandatory systemwide and professional student fees, or the equivalent amount of State revenue, to provide cost increases to student-fee-funded programs similar to those provided for State-funded programs. Therefore, under a normal Partnership request, the University would be assuming funding of $36.5 million in revenue (net of financial aid) would be generated in 2004-05 to help fund the budget related to a 5% increase in mandatory systemwide student fees and professional school fees. In addition, one-third of the total revenue raised from this increase ($18 million) would be directed to financial aid to provide grant aid for needy students. Student fees increased significantly over the 18-month period beginning Spring 2003—by $1,555 for undergraduates—as the State's subsidy for the cost of education was reduced during the current budget crisis. Still, UC mandatory systemwide undergraduate student fees are about $1,300 below the average of comparison public institutions. A 5% increase would mean UC undergraduate fees would still remain below the comparison by more than $1,600.

The University would also expect to increase nonresident tuition by 5%. Consistent with State policy, nonresident tuition is slightly higher than the amount of the average cost of education and total nonresident fees are comparable with the average of comparison public institutions.

Thus, the University would be requesting an increase of nearly $300 million from the State to support its budget for 2004-05, if a request were to be developed based on the Partnership Agreement. However, given the context in which the Governor's Budget is currently being developed and the considerable uncertainty that exists associated with the transition to a new Governor, the size of the deficit the State is facing, and how the new Administration will address these issues, the University is not submitting a normal budget request to the State for 2004-05. Instead, the University intends to develop its spending plan for 2004-05 once the Governor's Budget has been issued in January. In the meantime, the University is developing a set of principles to help guide negotiations on the budget. These proposed principles are summarized earlier in this O*verview* (beginning on page 9), and express the University of California's priorities during this fiscal crisis in terms of maintaining quality, access, and affordability. It is expected that these principles will be acted upon at the November 2003 meeting of The Board of Regents. The Board then will be asked to approve a spending plan after the Governor's Budget is released in January.

Issues Associated with Continued Underfunding of the Partnership

While the ongoing fiscal crisis in California makes it unrealistic to request normal funding under the Partnership for 2004-05, it must be recognized that the impact on the University of the continued underfunding of the Partnership is severe.

Faculty and Staff Salaries. The area of deepest concern as underfunding of the Partnership persists is the growing lag in faculty and staff salaries compared to market. The University's goal has been to maintain market-based competitive salaries for its employees. This means providing sufficient funds, through a combination of merit increases 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.

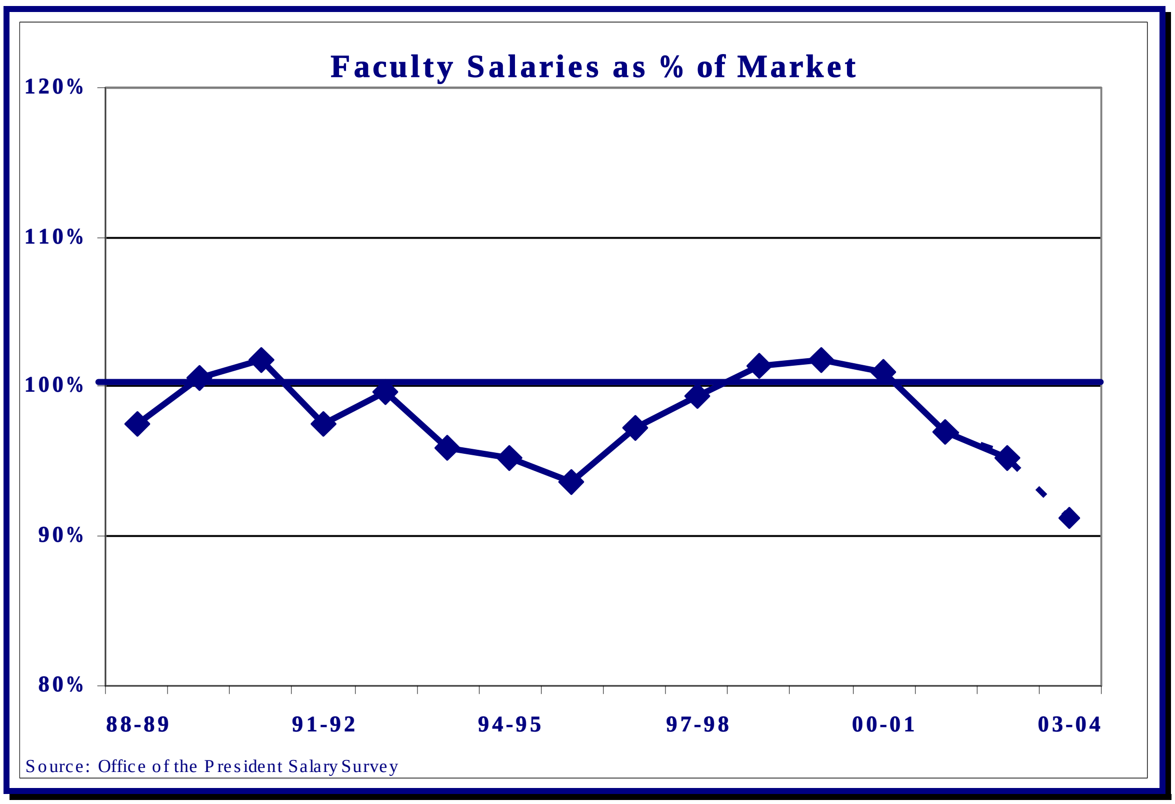
As part of the State's actions to reduce the University's Partnership funding in the 2001-02 and 2002-03 budgets, the University lost funding that had been targeted for COLA and parity increases for faculty and staff. As a result, the University was only able to fund a combination of merit and COLA increases averaging 2% for faculty and staff in 2001-02 and merit increases of 1.5% in 2002-03. No State funding was provided in 2003-04 for either COLA or merit increases. The University instituted additional internal budget cuts in order to fund faculty merit increases for 2003-04, but no employees received a general COLA and staff employees received no general merit increases. As a result, faculty salaries currently lag the average of UC's comparison institutions by 9%, based on the CPEC methodology for calculating this average. It is estimated that a similar problem exists with respect to staff salaries. If no salary increases are provided in 2004-05, the lag in faculty salaries is likely to grow to 13%.

The University must continue to fund faculty merit increases. These increases are based on meritorious performance. 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 peer review of individual achievements. Faculty members in general are eligible for review every three years. If faculty merits are not paid in any one year, the one-third of the faculty who are eligible for their review that year would be inequitably treated compared to faculty whose eligibility occurs in another year. Therefore, the University must make additional budget cuts to fund them if State funding is not provided.

It is impossible to overstate the critical nature of the problems created by salary lags. Paying competitive salaries is a key component in the University's ability to recruit and retain the best faculty. Even if enrollment growth is slowed for a couple of years during the State's fiscal crisis, the University will need to recruit 7,000 faculty during this decade to accommodate increases in enrollment and replace faculty who retire or leave for other reasons. Additional staff will also be needed. It is difficult to recruit such a significant number of faculty and staff even if there are no fiscal challenges presented. However, without an ability to pay competitive salaries, the impact on the University's recruitment and retention efforts will be severe, particularly if this problem persists over a long period of time. In addition, the lag in competitive salaries is exacerbated by the high cost of housing in many of the University's campus communities.

Display 18 shows how faculty salaries over time have compared to the average salaries at the University's faculty salary comparison institutions, and points out the gap that has occurred in recent years, as well as the degree to which this gap increases, without funding for COLAs.

Display 18



A lag in faculty salaries sends a negative message about the University across the nation. Nothing is more certain to undermine quality than a persistent inability to offer competitive salaries. The University must be able to compete for and retain the best faculty if its quality is to be maintained. This is particularly important during a time of unprecedented enrollment growth when campuses must hire thousands of new faculty over this decade.

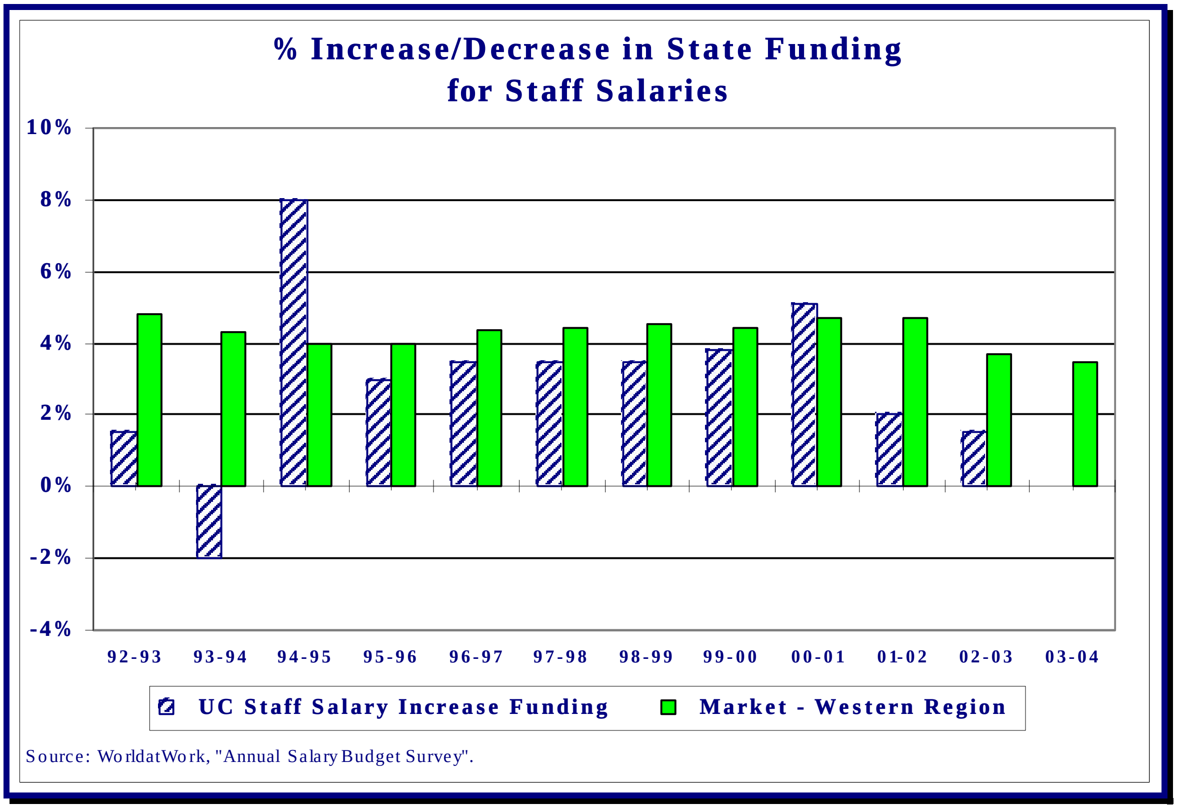
As noted above, the gap with respect to staff salaries presents a similar problem for the University. The University received no funding for COLAs for three years in the early 1990s; before 2000-01, the University's salaries were about 6% behind what they would have been if employees had received 2% COLAs annually in the early 1990s. The 2000-01 Budget Act provided an additional $19 million in recognition of this historical imbalance, which was distributed in a manner that provided lower-paid employees earning $40,000 or less with a salary increase of 2%, while employees 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 was intended to be 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%. Unfortunately, further ground has been lost with the underfunding of the Partnership that has occurred since the State's fiscal crisis began.

Display 19 compares the annual salary increase funding for UC staff employees to market data from over 800 employers of all sizes and industries, including the public sector, in the western United States. As the chart shows, market salaries have been increasing at approximately 4% per year, but UC staff salaries have not kept pace, both in the early 1990s and currently, as the State's fiscal crisis has prevented full funding of the Partnership Agreement.

The University is deeply concerned about the widening gap between funds available to support salary increases and the resources needed to fund more competitive salaries. The Regents have been informed of recent surveys indicating severe market lags in salaries for Chancellors and other high-level administrators. These lags make it difficult to attract and retain senior leadership in the University, which is particularly important during this period of significant enrollment growth. The University cannot continue to accommodate all students wishing to attend and maintain its excellence unless sufficient resources are provided for faculty and staff salaries.

Display 19



Academic and Staff Employee Benefits. Notwithstanding the success of the University in reducing the cost of health benefits in the 1990s, and a continuing commitment to control costs, the University is significantly affected by California and nationwide trends toward dramatically increasing employee health benefit costs in recent years. These costs are expected to increase by about 15% next year. Without adequate resources for employee benefits, costs to employees rise (reducing their net compensation) and/or benefits are reduced. Most employees will have less take-home pay next year as a result of recent health benefit cost increases, although the University is planning to minimize the impact of rising health benefit costs for lower-paid employees. Given the very limited salary increase funds that have been available to the University in recent years, this continuing shortfall contributes to the challenges of recruiting and retaining high quality faculty and staff.

Price Increases. Non-salary price increases offset the impact of inflation on the non-salary portion of the budget and maintain the University's purchasing power. Funds provided for this purpose have fallen significantly short of what is needed. Consequently, the University estimates a shortfall of over $50 million in this area of the budget for 2003-04.

Phasing in State Support for a Summer Term. As part of its effort to accommodate increased enrollment over this decade, the University was in the process of phasing in expanded summer instruction at all eight general campuses when the State's fiscal crisis began. State support makes available to students summer instruction that is similar in quality to course offerings during the regular academic year. State support also permits the University to provide financial aid 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 at the marginal cost rate for existing summer enrollment at three campuses—Berkeley, Los Angeles, and Santa Barbara. State support for summer instruction was added at the Davis campus as part of the 2002-03 budget. These campuses were the first to receive State support for summer instruction 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.

Four remaining UC campuses are not yet receiving State support for summer instruction—Irvine, Riverside, San Diego, and Santa Cruz. Consequently, summer programs at these campuses do not receive funds for faculty salaries, instructional and institutional support (required to offer programs in the summer that are similar in quality and breadth to the regular year), student support services, libraries, and student financial aid that is equivalent to that of the rest of the year. A serious inequity has been created because of the delay in phasing in State support for summer instruction at these four remaining campuses. For example, with regard to financial aid, similarly-situated students at one of the State-supported campuses receive financial aid for summer courses while their counterparts at a non-State-supported campus do not.

Summer instruction helps campuses make more efficient use of facilities and allows students to have more flexibility in their course schedules, which is particularly beneficial for those students enrolled in heavily impacted courses or majors, ensuring that they can make efficient progress toward their degrees. The State funds provided for summer instructional workload at the regular marginal cost rate at the Berkeley, Davis, Los Angeles, and Santa Barbara campuses were central to UC's plan to accommodate significant enrollment growth during the summer.

New Space to Be Maintained. In 2004-05, the University will complete construction of over 1.6 million square feet of new space to house State-supportable programs. A total of $14.9 million is required to provide basic maintenance and utilities service to this space. In 2003-04, the University brought 650,000 square feet of new State-eligible space on line, with $5.9 million needed (but not funded) to supply basic maintenance. If the University does not receive funding for increased workload in 2004-05, it will have grown by a total of 2.25 million square feet in the last two years without receiving any of the $20.8 million necessary to fund the cost of maintaining this new space.

Increased Energy Costs. The State energy crisis severely impacted the University in fiscal years 2000-01 and 2001-02, when natural gas prices spiked, followed quickly by a surge in electricity costs. In 2001-02, the State committed to providing supplemental one-time funding in the amount of $75.6 million to help address this problem. As the State's fiscal condition declined, however, this amount was reduced to $50 million after mid-year budget cuts, and totally eliminated in the next budget. Since that time, the University has managed to accommodate increased costs in this essential area by cutting other elements of the maintenance budget. With energy costs continuing to rise, however, it is anticipated that the University will experience further shortfalls in funding in 2003-04 and that this problem will continue into 2004-05. Thus, the University will be forced to reallocate resources to cover these costs.

Deferred Maintenance and Facility Renewal. The University currently estimates that one-time funding of $500 million is required to deal with the University's highest priority deferred maintenance projects and $200 million annually to adequately address facility renewal needs and to stem the continued build-up of deferred maintenance projects. Prior to the start of the State budget crisis, the University planned to reduce both facilities renewal needs and deferred maintenance backlog with a combination of permanent annual General Fund support from the State as provided by the Partnership, and by using other University fund sources for debt financing. With increases in nonresident tuition pledged as the repayment source, this long-term debt financing produced over $250 million for deferred maintenance projects between 1998-99 and 2001-02. It is now impossible to continue this program of debt financing given other needs for nonresident tuition during the budget crisis. In addition, there are no State funds remaining in the University budget for deferred maintenance.

Where funds are available and where efficiencies can be realized, both facilities renewal and deferred maintenance projects are addressed as an element of the University's capital improvement program. Although some progress has been made in this way, only a fraction of the capital budget can be used to support these two areas, and they remain severely underfunded. As these projects are delayed, the scope and cost of the work increases while the quality of the University's physical plant declines. Resources that should have been used for maintenance and renewal have to be expended on emergency repairs and short-term solutions, and teaching and research programs are severely impacted.

Funding for Historically Underfunded Core Budget Programs. Among the funding principles of the Partnership Agreement with the Governor is a commitment to provide an annual 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. These are considered core areas because they are so directly tied to the University's ability to maintain quality. Chronic funding shortfalls in these areas hinder the University's efforts to attract the high quality faculty and students that are the University's hallmark and provide essential support for academic programs. At the beginning of the Partnership, the annual budget shortfall in the four areas combined was estimated to be about $150 million. As originally envisioned, State funds provided over the four-year period of the Partnership would eliminate over two-thirds of the shortfall. It was expected that the remainder would be funded through a redirection of resources at the campus level.

The 1% base budget adjustment for these programs under 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 not provided in the 2001-02, 2002-03, and 2003-04 budgets. The problems created by this funding gap were exacerbated by the base budget reduction of $29 million included in the 2002-03 budget for three of these four core areas.

It is the University's expectation that the approximately $90 million not provided over the last three years will be restored to the University's budget once the State's fiscal situation improves, and campuses will be on track once again to close the historical funding gaps in these core areas of the budget.

- **Ongoing Building Maintenance**. At the time the Partnership was agreed to, the University estimated the chronic shortfall in funding for ongoing maintenance to be $45 million. Full funding of the Partnership in 1999-2000 and 2000-01 allowed the University to close $8.5 million of that gap. As the State's fiscal condition worsened, however, the ongoing maintenance element of the Partnership could not be funded.

- **Instructional Technology.** Teaching and learning technologies continue to evolve to meet faculty and student needs for systems and tools to enhance the learning environment. Technology-enhanced teaching and learning requires continued investment in new technologies, and recurring expenditures for maintenance and support. 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 State funds, UC funds (through 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, but recent budget cuts have resulted in a $32.9 million gap in permanent funding as of 2003-04. The University expects that this funding gap will be addressed once the State's fiscal situation improves.

This funding gap inhibits the University from making available the broad range of current technologies to enhance the teaching and learning environment on our campuses. These include ubiquitous connectivity via wireless and other secure networks; support for use of laptop computers and other portable devices in the learning environment; development of Web portals through which information (e.g. course catalogues and syllabi) and services are made available to students, faculty and staff; learning management tools to track degree progress, support advising and enhance faculty-student interactions; digital audio and video technologies to enhance the classroom experience, etc. Increasing the use of instructional technology is a critical element of the University's commitment to maintain the quality of its teaching and research programs. Campuses must have current technology in order for students to receive a state-of-the-art educational experience that will prepare them for the best jobs in today's high-technology marketplace. 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.

- **Instructional Equipment Replacement (IER)**. Obsolete equipment ranges from equipment that is functional but lacks the required capability and efficiency of current technology, to devices that are of limited use because replacement parts are not readily available or the equipment is costly to operate and maintain. Using an agreed-upon methodology for calculating need, the State began funding the IER program in 1976-77, and provided full funding from 1984-85 to 1989-90. From 1990-91 to 2000-01, annual permanent State funding fell short of each year's IER need and the annual shortfall accumulated to a total of more than $200 million (unadjusted dollars). Without additional funding in 2004-05, UC expects an annual shortfall of $7.8 million and a cumulative shortfall since 1990-91 of $178 million.

  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 on research as part of their academic training. The need for equipment in engineering and the sciences, disciplines that are expected to grow significantly this decade, 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. Campuses must have current instructional equipment in order for students to receive a cutting-edge educational experience that will prepare them for the best jobs in today's high-technology marketplace. A persistent inability to keep up with equipment needs 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.

- **Library Resources.** 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. As a result, using agreed-upon methodologies to estimate the effects on library budgets of inflation and program growth, there is a chronic shortfall in the budget for acquisition of library materials of $33 million.

  Access to the information resources provided by libraries is at the foundation of the University's academic programs in all subject areas. When students and faculty are unable to gain access to the information resources they need to support their learning, teaching, and research, the quality of the University's programs suffers. While recent budget cuts have further limited the ability of libraries to acquire new material, there has been a steady increase in the growth of knowledge, with worldwide book production nearly doubling over the last decade to over one million new titles per year. Rapid advances in technology, including the advent of electronic publishing and the World Wide Web, have the potential to fill part of the library budget gap and offer enormous improvements in the quality of library service, and the University is aggressively exploring these possibilities through the California Digital Library and a number of library resource sharing initiatives. However, these benefits can only be achieved at additional cost—for the foreseeable future, electronic information resources and services will complement, but cannot replace, the growing traditional collections of the University.

One-Time Funding for Merced

Development of UC Merced is part of the University's strategy to increase its enrollment capacity, to encourage San Joaquin Valley students to attend the

University of California, and to provide the benefits of a research university to Californians in the San Joaquin Valley. The campus will open to undergraduates in Fall 2005. UC Merced will serve 1,000 students in its inaugural year, with the addition of 800 students each year thereafter.

The campus will open with 60 faculty and will offer six initial undergraduate majors in the social sciences-humanities-arts, engineering, and natural sciences, along with the requisite general education courses. The undergraduate majors planned for Fall 2005 are: biological sciences, earth systems sciences, environmental engineering, computer science and engineering, world cultures and history, and social and behavioral sciences. For the graduate program, five graduate groups are planned that have strong interdisciplinary connections: systems biology, environmental systems, computer and information systems, world cultures, and social and behavioral sciences. Additionally, an undergraduate business degree is under development.

UC Merced has hired its 15 founding faculty and these faculty are now actively developing courses, curricula, and degree requirements for the academic programs. They are also planning the configurations and equipment for instructional space (teaching labs and classrooms) and informing library acquisitions. In addition to these responsibilities, the founding faculty are charged with recruiting 45 more faculty as well as temporary faculty over the next two years to deliver instruction in Fall 2005.

One-time funds are needed to continue to help pay for faculty salaries and start-up expenses, including instructional support costs and research support (major equipment is being funded through the capital budget), and essential campus functions (such as start-up funding for the library), until permanent funding begins to be provided through normal enrollment workload funding in 2005-06. Initially, the campus will need supplemental support for a limited number of years, phasing down each year, even after workload funding begins.

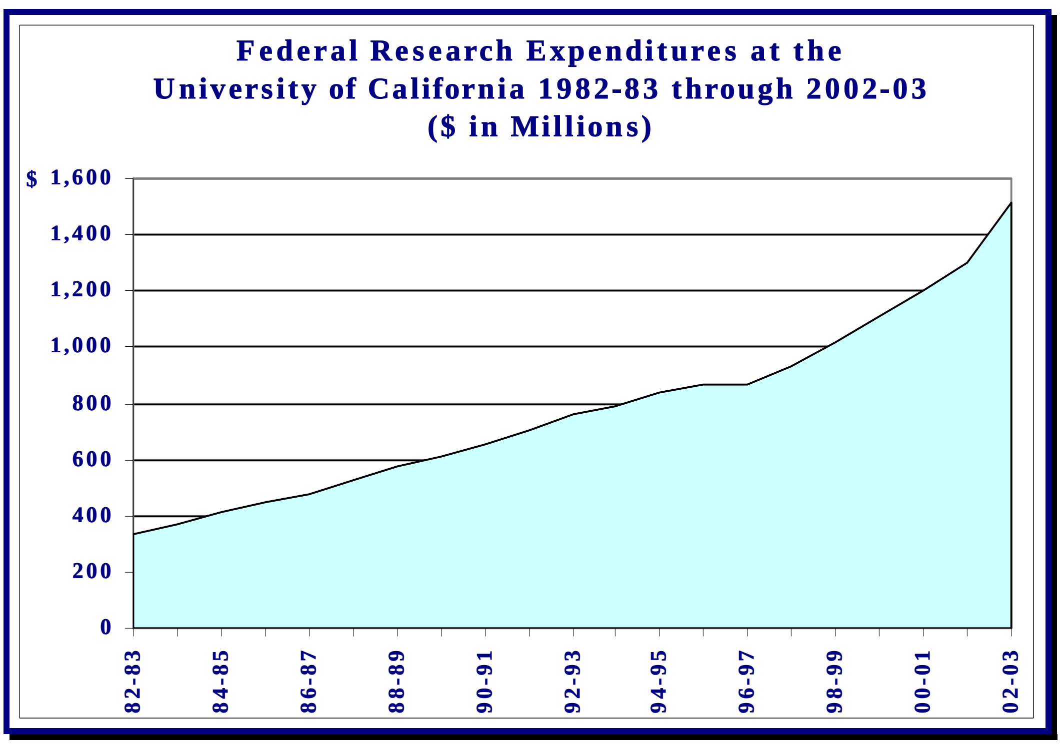
One-time funding totaling $13.3 million has been provided in the last three budgets for faculty hiring and other start-up costs. The University is formulating an additional request for one-time funds to continue faculty hiring and development of essential functions in 2004-05. Such support is critical to fully launch UC Merced in Fall 2005.

Federal Funding

Federal funding is a major source of financial support for the University. The federal government provides almost 55% of University research expenditures, almost all of the student loan and work-study funds, 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.

State funds that support the University's core operations make it possible to attract funds from the federal government for research. 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 1999-2000, 8% in 2000-01, 8.4% in 2001-02, and 16.3% in 2002-03. Display 20 shows how federal funding for research has changed over time.

Display 20



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 from 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 significantly 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. The budget picture improved from a record $290 billion deficit in FY1992 to a record $236 billion unified surplus in 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.

As a result of the terrorist attacks of September 11, 2001, and the subsequent wars in Afghanistan and Iraq, the FY2002 and FY2003 appropriations for federal research and development (R&D) resulted in record increases, with an emphasis on counter terrorism R&D and other defense-related research. The National Institutes of Health (NIH), the largest single sponsor of basic and applied research, also continued its record increases—over 15% in 2002 and 2003. This is especially significant for UC. Health and Human Services (HHS), of which NIH is a part, provided 59% of the total grants to UC in 2002. The large increases in the NIH budget undoubtedly contributed to the large increase in UC's federal research expenditures this year. With the FY2003 appropriations, however, the Congress and the President will have finished their 5-year commitment to double the NIH budget, making large increases in federal and UC research funding less likely without the driving force of the 15% increases to the NIH budget each year.

In addition, the federal budget outlook has deteriorated dramatically since early 2001 due to the 2000 tax cut, the economic slowdown, and expenditures for homeland security and the war in Iraq. On August 26, the Congressional

Budget Office released updated baseline budget projections for fiscal years 2004-2013. The unified budget baseline for 2002 to 2011 deteriorated from a projected surplus of $5.6 trillion in January 2001 to a projected deficit of $2.3 trillion currently, with the projected deficit for FY2004 projected at $480 billion. According to a Brookings Institute analysis, "Although the decline in budget outcomes in 2002 was due mostly to worsening economic conditions, most of the decline in the projected budget surplus from 2004 on is due to tax and spending legislation enacted since 2001."

Adding to the difficult decisions that need to be made in order to pass the annual appropriations bills that constitute the federal budget is the President's recent request of a FY2004 supplemental spending package of $87 billion for Iraq and Afghanistan. Although this request is considered emergency spending, and therefore does not count against the spending total for FY2004, the large amount of the request coupled with the expectation that much more will be required in the years to come, has cast an ominous shadow over the funding for regular federal programs that are already beginning to feel the approaching constraint of the rapidly growing federal deficit.

According to an American Association for the Advancement of Science analysis (AAAS) based on information from bills that have passed and are still pending, the overall funding level for federal R&D will still increase by a record amount in FY2004. This increase will be approximately 7% over FY2003, but over 90% of the increase would go to defense, homeland security, and health R&D. This would mean a modest or no increase across the rest of the federal R&D programs, and funding at agencies such as the United States Department of Agriculture and the Environmental Protection Agency is expected to decline from last year's levels.

On October 1, the start of the federal fiscal year, President Bush signed into law the final versions of the FY2004 Department of Homeland Security (DHS) and Department of Defense (DOD) budgets. As predicted, DHS and DOD will have large increases: DHS will have an R&D portfolio of $1.05 billion in FY2004, up 57% from FY2003, and DOD will have a record-breaking R&D portfolio of $66.0 billion in FY2004. While the overall Defense R&D number is impressive (up over 10%), the bulk of new R&D funding is allocated to missile defense and other weapons development programs, rather than to basic research at universities. Action on other appropriations bills, including an expected 3% - 4% increase in the NIH billion dollar budget, is still pending. Continuing resolutions or temporary appropriations bills will be necessary to keep government programs operating at FY2003 levels until regular appropriations bills can be signed into law. President Bush signed the first continuing resolution on September 30; it funds government programs in unsigned appropriations bills at FY2003 levels through October 31.

More details on the outcome of the federal budget negotiations will be provided at future Regents meetings.

Private Funds

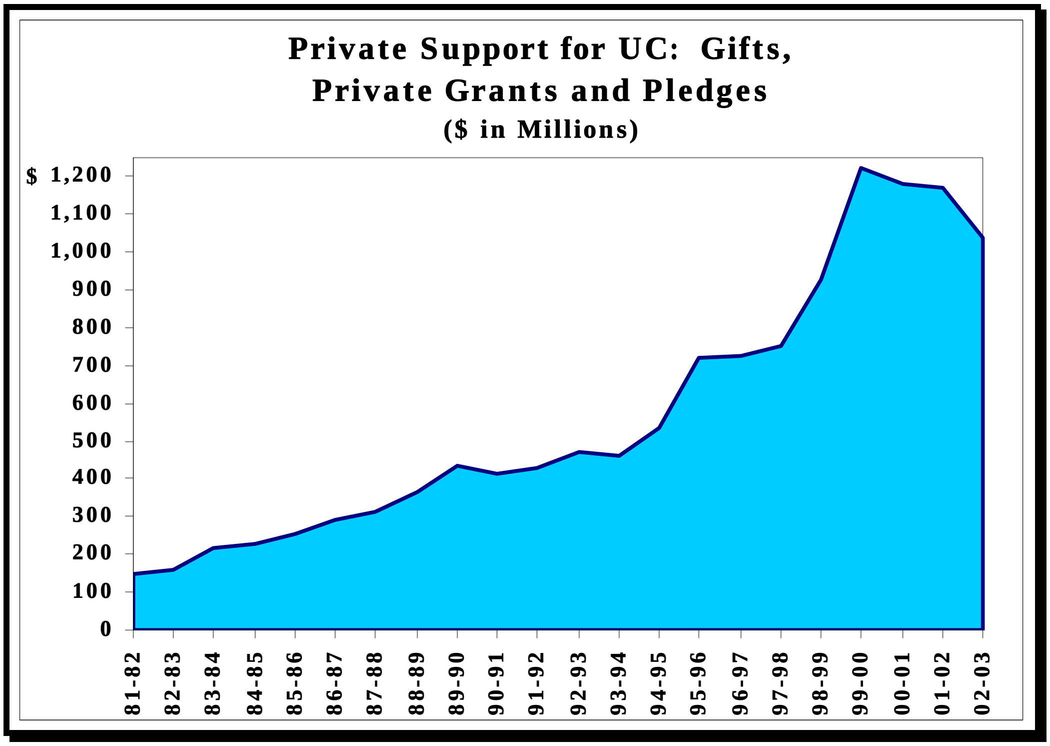
Gifts and private grants are received from alumni and other friends of the University, campus-related organizations, corporations, foundations, and other nonprofit entities; private contracts are received from for-profit and other organizations. For 2004-05, expenditures of funds from gifts, and private contracts, and grants to the University are estimated to be $917.5 million, an increase of 3% over projected 2003-04 expenditures. Expenditures from these sources have increased by almost 159% in the ten-year period from 1993-94 to 2003-04.

The University continues to be aggressive in searching out and developing non-State revenue sources, particularly private funds. After six record-setting years of significant growth, the receipt of gifts, private grants, and pledges has declined during the last three years.

As shown in Display 21, alumni and other supporters committed just over $1 billion in gifts, grants and pledges to the University in 2002-03 to support UC's instruction, research, and public service programs. This total represents a 15.1% decrease from 1999-2000, the year in which the University reached its high point in terms of private giving when donors contributed slightly over $1.2 billion.

Donors in 2002-03 directed $633.9 million (61.1%) of support to University operations, $124.1 million (12.0%) to campus improvement, and $255.3 million (24.6%) to endowments. Of the total donations in 2002-03, $553.9 million (52.4%) was specified for use in the health sciences. Just over 98% 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.

Display 21



Private support for the University is derived from a number of sources. In 2002-03, gifts and grants from non-alumni individuals totaled $205.2 million; from private foundations $403.5 million; corporations, $181.4 million; alumni, $156.8 million; and campus organizations and other sources, $90.4 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 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 reflect the changes in the economy and financial markets, the effect of which is likely to be evident in private giving to the University in 2003-04.

Capital Improvements

The University's 2004-05 request for State funds for capital improvements is presented in more detail in a companion document titled, *2004-05 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.

The University's 2004-05 capital budget request has been developed on the assumption that the March 2004 bond measure will be adopted by the voters. (The proposed bond issue is discussed beginning on page 51 of the "Planning for the Longer Term" section earlier in this *Overview*).

The University's request for $339.4 million in general obligation bond funding for the 2004-05 State capital budget includes funding to equip 3 buildings previously approved for construction and for design and/or construction of 31 major capital projects. Also requested for 2004-05 is $55 million in lease revenue bonds for a specialized agricultural genomics facility at the Riverside campus. Of the 31 general obligation bond-funded major capital projects, funds are requested to support construction or complete design and undertake construction for 22 projects, and to begin or continue design on 9 projects.

Of the 31 major capital projects, 7 address serious seismic and other life-safety hazards; 22 projects involve new buildings or renovation of existing space to expand instruction, research, and support facilities to accommodate enrollment growth; and infrastructure renewal or expansion is the focus of 3 projects.

Organization of this Document

In a departure from past years, this budget document does not contain exhaustive detail about each program area. Rather, the focus of the document is on major areas of the budget, such as enrollments, student fees and financial aid, faculty and staff salaries, and other areas that are of particular concern to the University during this budget crisis. Each chapter contains information on funding and a very brief summary of problems currently being faced due to the budget crisis. However, the majority of the document focuses on those issues of primary importance as the University faces the uncertainties associated with the 2004-05 State budget.

GENERAL CAMPUS INSTRUCTION

Instructional Program Overview

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. This chapter focuses on general campus instruction.)

The general campus Instruction and Research base budget totals $2.0 billion in 2003-04, of which $1.5 billion is UC and State General Funds. The major budget elements and their proportions of the general campus I&R base budget are: faculty and teaching assistant salaries and benefits, 57%; instructional support, 38%, 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—over 800 degree programs in all. The University began awarding degrees in 1870 and since then has conferred more than one million degrees. 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.

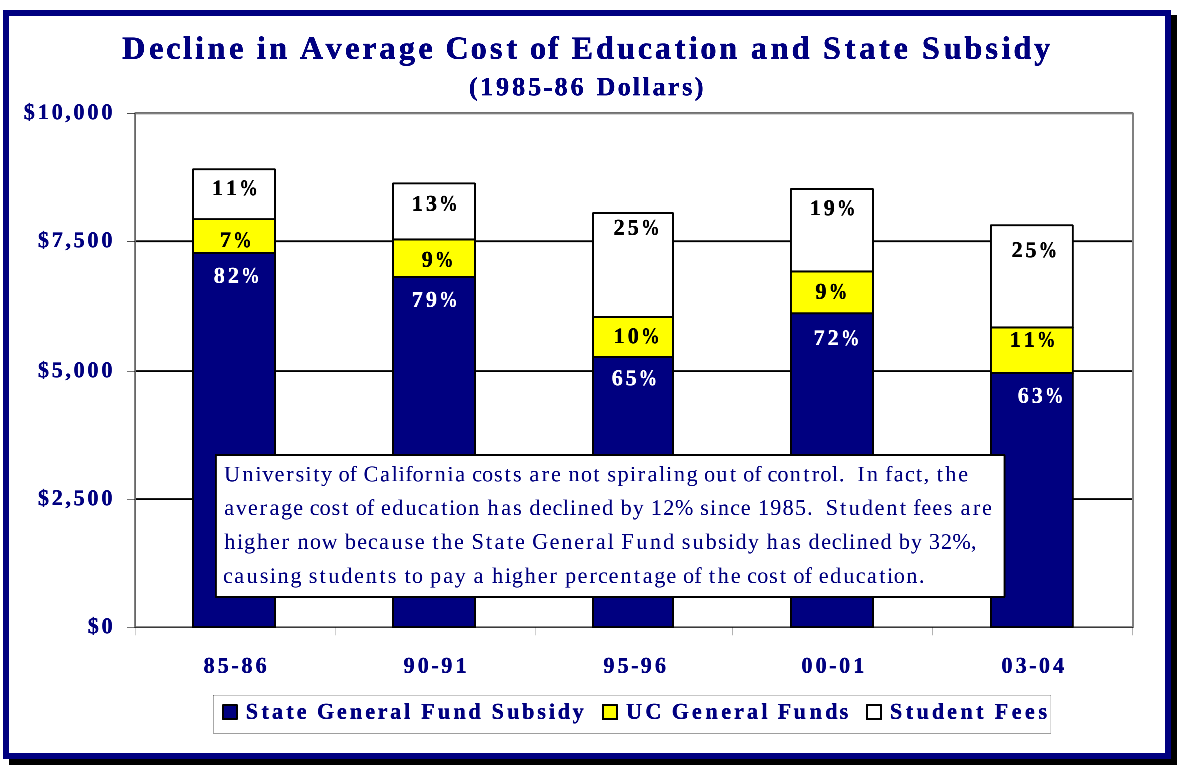
The purpose of graduate programs is to inspire independence and originality of thought in the pursuit of knowledge. Graduate degrees fall into two broad categories. Professional master's and doctoral degrees are awarded to students embarking on careers in such fields as education, business, engineering, architecture, social work, law and the health sciences. Academic master's and doctoral degrees are awarded in recognition of a student's ability to advance knowledge in a given field of study, often in preparation for careers as high school teachers or faculty in higher education.

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 self-supporting, alternatively scheduled programs in business administration, dentistry, education, law, and public health. In addition, the University has begun a new degree initiative, the Master of Advanced Study (MAS), which offers 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.

The State provides funding for each additional full-time equivalent (FTE) student added to the University's current budgeted enrollment level based on the methodology developed and agreed to by UC, CSU, the State Department of Finance, and the Legislative Analyst's Office (the marginal cost of instruction). The calculation reflects the State subsidy provided toward the cost of education as well as the portion of this cost that is paid from student fees. As a result of recent cuts in State funding and increases in student fees, the State's share of the marginal cost decreased from about $9,000 per FTE for 2003-04 to $8,000 for 2004-05, even though the total cost (State funds and student fees combined) decreased only slightly. Based on the current budgeted student-faculty ratio of 18.7:1, marginal cost funding provides salary and benefits for additional FTE faculty positions, salary for teaching assistant positions, and additional funds for instructional equipment, instructional support, institutional support, libraries, and student services.

Historically, the State has heavily subsidized the cost of education. Students currently pay 25% of the cost of their education. Display 1 makes several points. First, contrary to recent news coverage nationally about the skyrocketing costs in higher education, the average cost of a UC education has declined over 18 years by 12%. Second, the State subsidy toward that cost has declined significantly—by 32% over an 18-year period. Third, as the State subsidy has declined, the price students must pay has tended to rise. This happened in the early 1990s and is happening now. Student fee increases have helped maintain quality during times of fiscal crisis.

Display 1



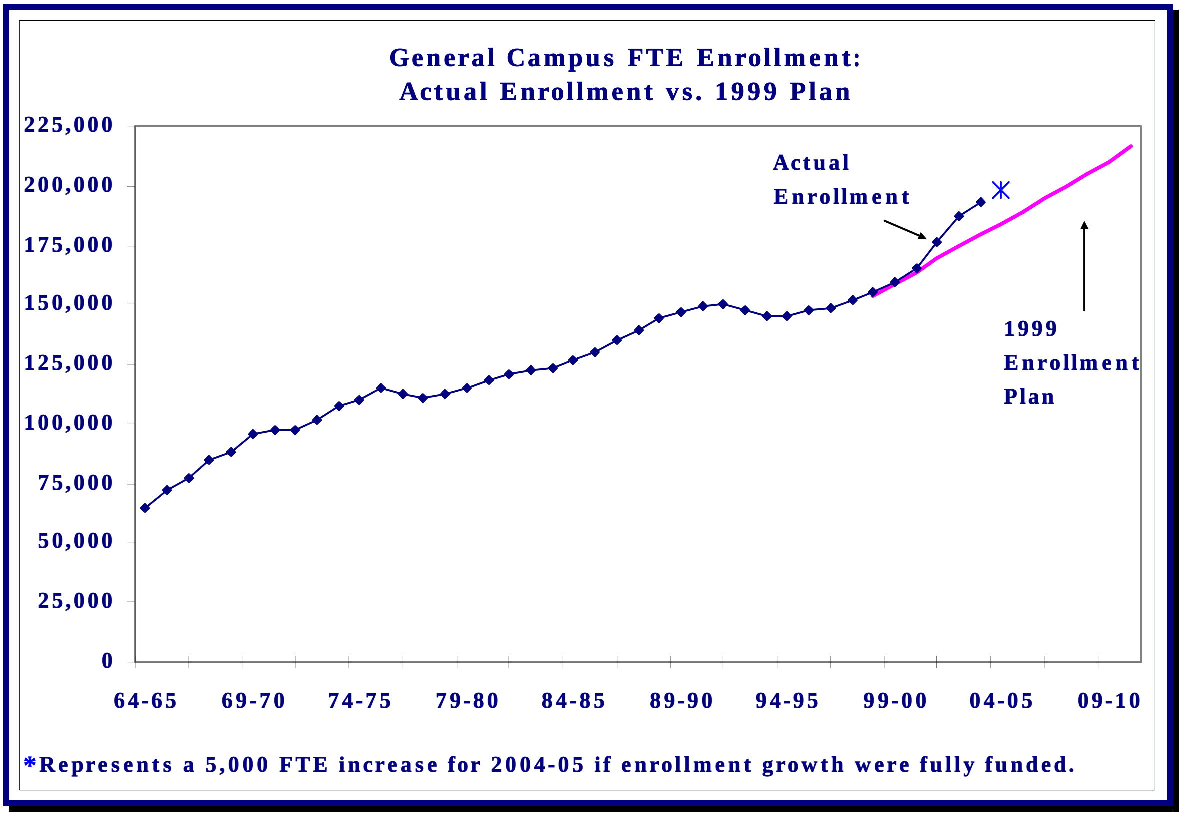
Accommodating Enrollment Growth

The California Master Plan for Higher Education calls for UC to accept all eligible students in the top 12.5% of the statewide high school graduating class and all eligible California Community College transfers. The Master Plan also calls for the State to provide adequate resources to accommodate this enrollment. For the first time in the 40-year history of the Master Plan, the State may be reaching a point at which it cannot provide sufficient resources to fund all eligible students wishing to attend. Legislative intent language adopted as part of the 2003-04 budget package requests the Department of Finance to develop the 2004-05 budget assuming no funding for UC and CSU for salaries, enrollment growth, and non-salary price increases. This language is consistent with instructions from the Department of Finance for developing the 2004-05 budget. If the Governor and the Legislature observe the intent of this language and no funding is provided in the 2004-05 budget for enrollment growth, it would signal a major departure on the part of the State from the access provisions of the Master Plan. If it becomes necessary for the State to suspend temporarily its commitment under the Master Plan to provide adequate resources to fund all students who wish to attend, it is the University's strongly held conviction that the State will return to full funding for enrollment growth as soon as the fiscal situation improves.

The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 FTE over this decade; by 2010-11, the University would reach its planned target of 210,000 FTE. This target was revised upward to account for summer enrollment that existed in 1999 for which State support is being phased in, resulting in a revised target for 2010-11 of 216,500 FTE.

As indicated in Display 2, the University has experienced far more rapid enrollment growth than the 1999 plan projected, averaging closer to 8,000 FTE per year in recent years rather than the 5,000 FTE growth projected earlier. Now, total enrollment is about 12,000 FTE over the level envisioned in the 1999 plan for 2003-04. Actual FTE enrollments in 2002-03 and estimated FTE enrollments for 2003-04 by campus are included in the Appendix to this document.

Display 2



Based on current estimates, the University projects enrollments in 2004-05 would increase by about 5,000 FTE, if adequate resources were provided to fund enrollment growth. This includes approximately 2,500 additional new students and, because new enrollment increased substantially over the past several years, 2,500 more continuing students.

The University will request that the Governor include funding for the full 5,000 FTE enrollment growth needed to maintain the State's and the University's commitments to the Master Plan. If this request is not funded, the University will argue that, while the language specifies no funding for *new* enrollment growth, funding may still be provided for *continuing* students.

If no additional enrollment funding is provided, the University may need to consider reducing the number of new students from 58,000 to 55,500 students in order to have sufficient resources for the 2,500 additional continuing students. If, however, the University sustains further base budget cuts, it may be necessary to consider much deeper reductions in the number of new students enrolled next year.

If faced with restricting enrollments, the University intends to work closely with the California Community Colleges and the California State University to identify the best options for students. Enrollment restrictions could be accomplished in a number of ways, including freezing the number of freshmen enrolled at existing levels or restricting the number of community college transfers. One option could be to admit some UC-eligible students but ask them to attend the Community Colleges for their first two years of college. These students would be admitted to both a specific UC campus and to a California Community College. While the students would take most of the classes during the first two years at the CCC, some courses unavailable at the CCC would be offered at UC. In addition, the University would enhance the educational experience of these students by providing access to the UC libraries and other UC facilities and services.

Maintaining Freshman Student Access

The University has maintained 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. Total enrollment is about 12,000 FTE over the level envisioned in the 1999 plan for 2003-04. Campuses received applications for Fall 2003 admission from more than 66,000 California high school seniors. Almost 31,500 California high school graduates have chosen to attend the University this year, an increase of 7% over two years.

Transfer from California Community Colleges to UC

The Master Plan specifies that UC accommodate all eligible California Community College (CCC) transfer students. The University has significantly increased its enrollment of students from CCC over the past three decades and, as a result of recent partnerships with community colleges and Governor Davis, pledged to further strengthen its commitment to the transfer function. In 1997, the University and the 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 10,900 students transferring in 1995-96. 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. For CCC campuses, it means preparing many more UC "transfer ready" students and encouraging them to apply to a UC campus. Over the last four years, full-year transfer enrollment growth has averaged 6% – meeting the Partnership goal. In 2002-03, UC enrolled 12,780 new community college transfer students.

Graduate Student Growth and Support

To help meet California's need for highly educated workers, UC, with State support, in 1999 began a multi-year plan to increase its graduate enrollments by 1,000 students annually. From 1998-99 to 2002-03, UC's actual graduate enrollment grew from 25,600 to 30,900 FTE, and exceeded the 1999 plan for 2002-03 by 1,500 FTE.

UC will be unable to continue this growth unless it also increases graduate student financial support funding, both to support additional graduate enrollments and to become more competitive in attracting the very best students. Securing adequate support for graduate students was identified by The Regents as one of their highest priorities, following release of a report from the Commission on the Growth and Support of Graduate Education. The Commission concluded that by 2010, a $65 million annual gap will exist between funding and student support need, unless additional funding is obtained.

Most graduate student support is provided through *research assistantships* funded from federal, State, and industrial contracts and grants; *teaching assistantships* funded by the State as part of the marginal cost funding in support of enrollment growth; and *fellowships and grants* funded partly by the increased fee revenue directed toward financial aid that comes with enrollment growth. If the State continues to provide full funding for enrollment growth, increases in teaching assistantships will be available for increasing numbers of graduate students. In addition, UC must continue to garner federal and State research funding so increases in graduate research assistantships can also keep up with graduate enrollment growth, although the 20% reduction to organized research programs that has occurred in the 2002-03 and 2003-04 budget years undermines UC's efforts to provide sufficient research assistantships.

The third source of graduate support—fellowships—is underfunded. While the University is currently seeking to increase funding of fellowships through federal support, collaboration with industry, foundations, and private donors, requests for additional State funding will be made when the State's financial situation improves.

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. Although the high-tech sector has recently suffered an economic slowdown, the demand for engineers and computer scientists is projected to continue in the long term. This situation is of special concern in California, because the State's high-tech industries will remain a driving force in the growth of the economy. California's technology-oriented companies will continue to demand highly-trained engineers and computer scientists as many sectors specialize increasingly in advanced stages of design, research, and development. The University also has responsibility for graduate training for future instructors of engineers for all higher education in the state.

In response to this need, 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. By 2001-02, the University had exceeded that goal by 1,000 FTE, four years ahead of the original plan. Because of demand from industry, UC intends to continue growing in engineering and computer and information sciences. In 2003-04, the University estimates enrollment in these fields will exceed 27,500 FTE, a one-year increase of 1,000 FTE.

Timely Graduation

The University remains committed to maintaining its excellent record and improving graduation rates and reducing time to degree among all students. The University has decreased the amount of time it takes a student to complete an undergraduate program. One way to measure time to degree is by counting terms enrolled. The number of terms enrolled has dropped from 13.4 enrolled quarters (where a four-year degree equals 12 quarters) for the 1984 regularly-admitted freshman class to 13 for the 1995 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, often because they are working part-time. By increasing the average number of units taken during a term and reducing excess units 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 are not counted in UC's calculation of State-supported enrollment.

In the 1950s, only half of the University’s new freshmen graduated within six calendar years following matriculation. Thirty years later, among freshmen regularly admitted in 1984, 31% graduated in 4 years, 67% in five years, and 73% in six years. Graduation rates continue to rise among more recent cohorts. Among freshmen who were regularly admitted in 1996, 40% graduated in 4 years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 71% of the 1996 entering freshmen received a baccalaureate degree within five years and 79% within six years.

Persistence rates—the proportion of an entering class of students who return to enroll in their second and subsequent years—also have shown gains over the past decade. The proportion of freshmen who returned to enroll in their second year increased from about 88% of the 1984 cohort to nearly 93% of the 2001 cohort. Two-year persistence increased from 76% of those entering in Fall 1984 to 85% of those entering in Fall 2000 (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 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 making better use of technology.

Students beginning their higher education at a community college campus have historically done very well after transferring to UC. Nearly 80% of CCC transfer students graduate within four years of transferring, and on 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.

State Support for Summer Instruction

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.

Assuming full funding for summer programs on all UC general campuses, UC plans to accommodate growth of about 17,000 FTE students during the summer in addition to the summer enrollment prior to 2001-02, for a total of 24,000 FTE, or 120,000 headcount students enrolled at current course load levels.

To help begin the conversion from self-supporting to State-supported summer programs, the State provided $13.8 million in 2000-01 to reduce the Summer Sessions fees charged to UC students. 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, the State provided workload funding of $7.4 million, adding UC Davis to the list of campuses fully State-supported in the summer, and provided $1 million to buy down fees for the increased number of students at non-State-supported campuses since fees were first reduced in 2000-01.

In the three years from summer 2000 to 2003, the University expanded its summer enrollments by 6,300 FTE students (an increase of about 27,000 summer headcount students) to 13,100 FTE. The four campuses that were fully funded by the State grew about 100%, or nearly 4,300 FTE students, achieving total enrollment of 8,600 FTE (43,000 headcount enrollment).

The key to achieving significant enrollment growth in the summer is to offer students summer instruction that is similar in quality and breadth to the rest of the year, along with essential student support services, access to libraries, and student financial aid. State funding for the remaining four campuses' summer programs is a central element to UC's overall plan to accommodate increased enrollment of all eligible students. Without the student support and financial aid, for example, that is provided on fully-funded campuses, the remaining campuses cannot provide a summer program equivalent to the State-funded campuses. In a normal budget year, the University would request $31 million from the State to fully fund the 4,500 summer FTE enrollment at the remaining campuses.

The University of California, Merced

Development of UC Merced is part of the University's strategy to increase its enrollment capacity, provide access to students in the San Joaquin Valley, and provide the benefits of a research university to Central Valley Californians. The increased enrollment capacity offered by the Merced campus is particularly crucial given projected growth in California high school graduates during the next several years. In addition, the campus will serve as an engine for economic growth in the Central Valley. The State has made a major investment in facilities and startup funding for UC Merced, and now is the time to begin realizing the returns on this investment. The campus will open to undergraduates in Fall 2005.

Campus Planning

UC Merced will serve 1,000 students in its inaugural year, with the addition of 800 students each year thereafter. This is an aggressive growth plan, but a necessary one as the University continues to face significant enrollment growth through this decade. UC Merced was planned as one of several measures to help the University meet its commitment to accessibility in the State's Master Plan for Higher Education. Construction is well underway at the campus site and the capacity offered by UC Merced is eagerly anticipated.

The campus will open with 60 faculty and will offer six initial undergraduate majors and five graduate majors in the social sciences-humanities-arts, engineering and natural sciences, along with the requisite general education courses. The undergraduate majors planned for Fall 2005 are: biological sciences, earth systems sciences, environmental engineering, computer science and engineering, world cultures and history, and social and behavioral sciences. For the graduate program, five graduate groups are planned that have strong interdisciplinary connections: systems biology, environmental systems, computer and information systems, world cultures, and social and behavioral sciences. Additionally, an undergraduate business degree is under development.

UC Merced's 15 founding faculty are engaged in the on-going development of curricula and degree requirements for the initial six undergraduate and five graduate academic programs, participating in the planning process for laboratory and instructional space, and assisting in recruiting an additional 45 faculty needed to deliver instruction in Fall 2005. These newly-arrived faculty are participating in teaching, seminar and research activities working with UC Merced's concurrent admissions program students who are currently enrolled at Merced Community College, Modesto Junior College and Fresno City Community College. The faculty are deeply committed to teaching and are developing innovative approaches, including partnering with community colleges and other educators in the Central Valley; these joint efforts will also lead to joint applications for grant funding.

One-Time Funding

One-time funds are needed to continue to help pay for faculty salaries and start-up expenses, including instructional support costs and research support (major equipment is being funded through the capital budget), and essential campus functions (such as start-up funding for the library, information technology, and student services) until permanent funding begins to be provided through normal enrollment workload funding in 2005-06. Initially, the campus will need supplemental support for a limited number of years, phasing down each year, even after workload funding begins. One-time funding totaling $13.3 million has been provided in the last three budgets for faculty hiring and other start-up costs. The University is formulating an additional request for one-time funds to continue faculty hiring and development of essential functions in 2004-05. Such support is critical to fully launch UC Merced in Fall 2005. In addition to faculty efforts to prepare for instruction, several instructional support functions are being implemented, including library resources, information technology infrastructure, and student support services.

Campus Buildout

Construction of the site infrastructure (utilities, road systems, etc.) is in its final phase and construction of the first group of campus buildings is well underway. The initial cluster of buildings has been carefully planned and includes three academic buildings, student housing and dining facilities, and a logistical support/services facility. All of the buildings will meet Leadership in Energy and Environmental Design (LEED™) criteria, demonstrating the University's commitment to sustainability.

State bond funds for all three of the academic buildings and the site preparation/infrastructure are secured. Planning funds for the Logistical Support/Services Facilities Project were included in the 2003-04 Budget for Capital Improvements.

The campus has non-State capital projects planned as well. Construction of the first student housing (600 beds) and dining facilities project has begun. Construction of parking lots and a recreation and wellness center is planned to begin in 2003-04.

Other Initiatives

The University is pursuing additional initiatives to expand academic opportunities and further serve the educational needs of the state. Among these initiatives are the Silicon Valley Center and the opportunity to acquire the Monterey Institute of International Studies.

Silicon Valley Center

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 increase collaborative research with industry and with various agencies, including NASA; accommodate projected enrollment demand; develop collaborative relationships with the California State University (CSU) and the California Community Colleges (CCC); and expand outreach programs with K-12 schools and students.

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 gap between the State's workforce needs and the educational attainment of the population; 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.

In 2002-03 and 2003-04, UCSC concentrated much of its efforts on defining its role in carrying out a research agenda for the Silicon Valley. UCSC successfully competed for a major contract with NASA Ames to conduct research in nanotechnology, biotechnology, information sciences, aerospace operations, and fundamental space biology. Under this 10-year $330 million contract, UCSC is establishing a University Affiliated Research Center (UARC), which will conduct collaborative research at NASA Ames, as well as on campuses. This is the largest competitively bid contract in UC history, and creates the opportunity for the University to engage in research projects that are directly relevant to NASA's space missions. This intensive collaboration, combined with discretionary research funding made available to UC under the contract, will spur both research and economic activity through the exploration and development of new technologies.

The University is studying opportunities for offering instruction at the Silicon Valley Center. Joint instructional programs are an important component of the Silicon Valley initiative. Cooperation with San Jose State University and Foothill-DeAnza Community Colleges will continue through the Collaborative for Higher Education, which has the objective of creating a statewide model of higher education institutions working together with a seamless delivery of teaching and training in science, technology, engineering and math (STEM).

Physical planning for the NASA Research Park location of the Silicon Valley Center will also continue in 2003-04, focusing on development that can be supported by existing physical infrastructure.

Monterey Institute of International Studies

The Santa Cruz campus is exploring the possibility of acquiring the Monterey Institute of International Studies (MIIS), a private not-for-profit educational institution principally offering the Master's degree with specialization in several disciplines. Accredited by the Western Association of Schools and Colleges (WASC) and the Association to Advance Collegiate Schools of Business, the MIIS currently enrolls more than 700 students. Major MIIS research units include the Centers for Nonproliferation Studies; East Asian Studies; and Russian and Eurasian Studies. No classified research is conducted by MIIS.

California's future is increasingly global in perspective and bringing together MIIS and the University of California appears to offer synergies that would greatly benefit California. MIIS is comprised of four separate graduate schools: the Graduate School of Translation and Interpretation; the Graduate School of Languages and Educational Linguistics; the Fisher Graduate School of International Business, an accredited school of business; and the Graduate School of International Policy Studies.

As part of its internal, long range academic planning efforts, the Santa Cruz campus has articulated a number of strategic directions to increase the breadth and depth of its academic programs and to grow its graduate programs. Possible synergies between existing MIIS programs and those currently within or anticipated by UCSC will be considered as part of a review and evaluation process to be developed over the course of the next several months.

Instructional Technology

Teaching and learning technologies continue to evolve to meet faculty and student needs for systems and tools to enhance the learning environment. Technology-enhanced teaching and learning requires continued investment in new technologies, and recurring expenditures for maintenance and support. 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 State funds, UC funds (through 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. In 1997-98, the State began to fund this need, but recent budget cuts have resulted in a $33 million gap in permanent funding as of 2003-04. In a normal budget year, the University would request $9 million from the State to help reduce this gap. The University expects that this funding gap will be addressed once the State's fiscal situation improves.

This funding gap inhibits the University from making available the broad range of current technologies to enhance the teaching and learning environment on our campuses. These include ubiquitous connectivity via wireless and other secure networks; support for use of laptop computers and other portable devices in the learning environment; development of Web portals through which information (e.g. course catalogues and syllabi) and services are made available to students, faculty and staff; learning management tools to track degree progress, support advising and enhance faculty-student interactions; digital audio and video technologies to enhance the classroom experience, etc. Increasing the use of instructional technology is a critical element of the University's commitment to maintain the quality of its teaching and research programs. Campuses must have current technology in order for students to receive a state-of-the-art educational experience that will prepare them for the best jobs in today's high-technology marketplace. 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.

Instructional Equipment Replacement

Obsolete equipment ranges from equipment that is functional but lacks the required capability and efficiency of current technology, to devices that are of limited use because replacement parts are not readily available or the equipment is costly to operate and maintain. Using an agreed-upon methodology for calculating need, the State began funding the IER program in 1976-77, and provided full funding from 1984-85 to 1989-90. From 1990-91 to 2000-01, annual permanent State funding fell short of each year's IER need and the annual shortfall accumulated to a total of more than $200 million. Without additional funding in 2004-05, UC expects an annual shortfall of $7.8 million and a cumulative shortfall since 1990-91 of

$178 million. In a normal budget year, the University would request $4.5 million from the State to help reduce this shortfall.

Instructional equipment is essential to maintain the high quality of UC's instructional programs, and the continuing funding shortfall prevents the University from offering the ideal learning environment for its students. 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 on research as part of their academic training. The need for equipment in engineering and the sciences, disciplines that are expected to grow significantly this decade, 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. Campuses must have current instructional equipment in order for students to receive a cutting-edge educational experience that will prepare them for the best jobs in today’s high-technology marketplace. A persistent inability to keep up with equipment needs 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

The instructional program in the health sciences is conducted principally in fifteen health professional schools that 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 (Davis, Irvine, Los Angeles, San Diego, and San Francisco), two schools of dentistry (Los Angeles and San Francisco), two schools of nursing (Los Angeles and San Francisco), two schools of public health (Berkeley and Los Angeles), one school of optometry (Berkeley), two schools of pharmacy (San Diego and San Francisco), and one school of veterinary medicine (Davis). 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 that 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.

The 2003-04 instructional budget for the Health Sciences is $763 million, of which $355 million is UC and State General Funds. Faculty salary and benefit costs constitute about 64% of the total budget for the health science instructional program. Instructional support costs represent 25% of the budget. These costs include salary and benefits for non-faculty personnel, equipment, and supplies that are provided for each faculty position based on support levels determined for each school. The remaining 11% 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. However, 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 medical education, including those incurred in outpatient settings.

Health Science Enrollments in the University

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 and federal economy. These external factors have influenced health science enrollment planning at the university-wide level, which in turn, has provided broad parameters for the internal, decentralized planning process through which campuses initiate proposals to address programmatic concerns.

After peaking in the early 1980s, budgeted enrollments in the health sciences remained relatively stable 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, 1982-83, and

Display 1

Health Science Year-Average Headcount Enrollments: Total
Enrollment And First-Year Class Size for Selected Programs

	1970-71 Budget	**1981-82 Budget**	**1982-83 Budget**	**1989-90 Budget**	**2003-04 Budget**
Total Enrollment	7,015	12,750	12,217	12,022	12,292 (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	167
Optometry	54	68	65	65	65

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

1989-90, and planned budgeted enrollments for 2003-04. After increases through 1981-82, enrollments began to decrease, due in large part to budget cuts sustained by the University.

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 FTE, including 412 health science students. 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.

In recent years, enrollment growth in the University's health sciences has been limited to: 1) 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 an increase of 30 students in the veterinary residency program; 2) increases in graduate academic enrollments in the health sciences at the San Francisco (146) and San Diego (80) campuses for programs in select areas where strong academic and economic demand exists, such as medical information science and bioengineering; and 3) the establishment of a School of Pharmacy at the San Diego campus. The School, which builds on a 25-year partnership with UCSF in clinical pharmacy education, admitted its first class of 25 Doctor of Pharmacy students, 5 graduate academics, and 10 residents 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 graduate academic 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 the University plans for the 21st 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—one such initiative is discussed below. Other initiatives will focus on the critical need to develop stable long-term financing mechanisms to provide support for graduate medical education and other health professions training.

Curriculum Changes: Focus on Cultural Competency and Service to Underserved Populations

The ethnic and demographic composition of California's population is changing rapidly. The University recognizes the importance of training a culturally competent healthcare workforce that is well-suited to meeting the needs of our citizens. In supplemental language to the 2003 Budget Act, the Legislature stated its intent that the University of California consider creating programs at UC schools of medicine that provide specialized curriculum, training and support to medical school students to address the unique medical care needs and health disparities of California's medically underserved populations.

The University's new PRogram In Medical Education (PRIME) is just such a program, designed to address the critical health care needs of California's large and increasing population of underserved, at-risk patients. The PRIME initiative will address issues of pressing importance to California's diverse underserved populations. An essential component of a broad-based program is training to improve the competence of health care providers to address these cultural differences, including development of skills in areas such as language ability and familiarity with folk and alternative remedies. Ideally, students in the clinical health sciences should have ample opportunities to learn about the socio-cultural values, health beliefs, and lifestyles of different ethnic groups.

The first phase of this new University initiative, the PRogram In Medical Education- for the Latino Community (PRIME- LC) at the Irvine Medical School, will focus specifically on the needs of underserved Latino populations, including migrant agricultural workers. Given the State's fiscal situation, PRIME- LC will be initiated on a small scale in 2004-05 with support from private philanthropic sources and matching funds from the University. The Irvine College of Medicine will use the grant funding and University matching funds to enroll its first class of 6-8 students in September 2004. Contingent upon securing future permanent State support, the program received approval from the Liaison Committee on Medical Education to ultimately increase its enrollment by up to 12 students per year. Once underway, and when the State's economic situation improves, the University will request State support to continue this program on a permanent basis and to expand it to other campuses.

The PRIME initiative is also designed to train health care professionals to participate as community and academic leaders in meeting the needs of the underserved. In addition to the benefits derived by students enrolled in these enhanced programs, the PRIME initiative will foster further development of an integrated curriculum to improve the cultural competency training of students within and outside the program.

There are compelling reasons to begin this initiative with health care for the Latino community. Population projections for California indicate that the Latino population will double from 10.6 million in 2000 to over 21 million by 2025. Latinos currently comprise 31% of the state's population. By 2025, the proportion will increase to 41%. At that time, Latinos will be the largest population group in the state and will represent the largest portion of Limited English Proficient (LEP) population in state.

A specialized curriculum is being developed by the Irvine College of Medicine, in coordination with the Office of Health Affairs in the University of California Office of the President, to train physicians to become experts in providing health care to the underserved Spanish-speaking community. Running parallel to the traditional curriculum, the specialized curriculum will provide a group of highly qualified and motivated medical students with an immersion experience in Latino culture and health care needs through class content, language development, clinical experiences, and special electives in Spanish-speaking countries. A research project culminating in a thesis on a subject dealing with health issues of underserved Latinos will be required as part of the PRIME- LC. Completion of the PRIME- LC will result in an MD and an MS, MPH, or equivalent degree depending on the specific nature of the graduate coursework and research project chosen by the student.

Students selected through a competitive process for the specialized curriculum must have demonstrated a commitment to health care delivery for underserved communities in general, and to the Latino community in particular. Not only will the curriculum prepare students for roles in the delivery of health care to Latinos, but it is also expected to serve as a magnet for highly qualified students seeking an outstanding medical education and a multicultural, multidisciplinary approach.

Efforts to expand the PRIME program and other health sciences initiatives 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 improved access to care in underserved communities, greater diversity of the California health workforce, increased care for the poor and uninsured, and support for the health providers and institutions dedicated to filling these needs. The realities of the morbidity and mortality resulting from disparities in access and care are very real. The University is eager to help reduce these disparities, and looks forward to collaborating with others to meet these challenges successfully.

Subsequent phases of the university-wide PRIME program will be headquartered on different campuses and will focus on inner city poor, homeless, rural, and other underserved citizens throughout the state.

SUMMER SESSIONS

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. For UC-matriculated enrollments, funding for summer has been shifted to the general campus instructional budget. Funding for non-UC students remains in the Summer Sessions budget. In 2003-04, the base budget for Summer Sessions is $10.5 million, all of which is non-State Funds.

In 1999-00, the State began providing enrollment funding at the agreed-upon marginal cost of instruction for all UC students enrolled in summer education credential courses. 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, the State provided workload funding of $7.4 million, adding UC Davis to the list of campuses fully State-supported in the summer, and provided $1 million to buy down fees for the increased number of students at non-State-supported campuses since fees were first reduced in 2000-01.

In the three years from Summer 2000 to 2003, the University expanded its summer enrollment of UC students by 6,300 FTE (an increase of about 27,000 summer headcount students) to 13,100 FTE. The four campuses that were fully funded by the State grew about 100%, or nearly 4,300 FTE students, achieving total enrollment of 8,600 FTE (43,000 headcount enrollment).

The key to achieving significant enrollment growth in the summer 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, Davis, Los Angeles, and Santa Barbara campuses were central to UC's plan to accommodate significant enrollment growth during the summer. In a normal budget year, the University would request $31 million from the State to fully-fund the 4,500 summer FTE enrollment at the remaining campuses.

In Summer 2003, approximately 9,000 non-UC students registered for UC summer sessions. Many of these students are regularly enrolled at the California State University, California Community Colleges, and other institutions. Non-UC students pay fees that support the full cost of their education.

UNIVERSITY EXTENSION

University Extension is the largest continuing education program in the nation, providing courses to nearly 325,000 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. In 2003-04, the base budget for University Extension is $228.5 million in non-State funds.

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 more than 20,000 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. More than 380 certificate programs are offered in such areas as computing and information technology, graphics and digital arts, and health and behavioral sciences.

Extension also offers degree-equivalent study in undergraduate education programs, and cultural enrichment and public service programs. Various 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. 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 catalogs 4,650 courses 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, UC Extension Online offers more than 200 high school, university, and professional development courses by mail and fax.

RESEARCH

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.

Budgeted funding for UC research totals $529 million in 2003-04, including $270 million of UC and State General Funds. UC research has absorbed major cuts and shouldered its share of the painful budget reductions suffered by all State-supported entities during the current budget crisis. In 2002-03, all University research programs were cut across-the-board by 10%, for a total of $32 million. As the State's fiscal situation continued to deteriorate, mid-year cuts became necessary. In December 2002, several University research programs were targeted for additional one-time cuts of $18 million. In 2003-04, University research programs were reduced by another 10%, or $28 million. Moreover, all these cuts are in addition to budget cuts made during the fiscal crisis of the early 1990s, when UC research programs were cut by nearly 20%, which was deeper than cuts experienced by other University programs. These research cuts will force reductions in programs and activities that promise wide benefit to the people of California and will threaten UC's ability to attract federal research dollars to the State.

Research is also funded from extramural funding, including federal, State and private contracts and grants. For 2002-03, research expenditures from State, federal and private sources totaled $2.8 billion, an increase of $228 million, or 9%, over the prior year, despite a reduction in State support, because of a strong increase in federal and private support. State funding for UC Research, however, provides critical matching funds that allow UC to meet federal and private requirements and leverage research support from those sources at a rate of over $4 for every $1 of state funding. This is a 300% return on the State's initial investment. UC and the State would lose billions in federal and private funding without state support for research.

Research is woven into the fabric of everything that UC does and lies at the heart of its overall mission. State support of research at UC enables the university to attract the best and brightest faculty, which in turn attracts the most promising graduate students. A superb faculty and excellent graduate student body in turn benefit undergraduate students, who learn from some of the best minds and most innovative curricula in the nation. The state's investment in research provides start-up funding that fosters entirely new fields of research, often ahead of federal programs, giving UC faculty a competitive edge in terms of attracting new federal grants. State funding for research also provides a major source of support for graduate students, who are supported on faculty and direct grants.

Further cuts to UC's research budget will have a devastating domino effect on these essential relationships, and will radically change the character of the University. As a great public research university, the University of California must compete nationally to attract and retain top scholars to teach in its classrooms. Research opportunities help to attract the best faculty. More research cuts will also have a serious effect on UC's ability to support graduate students, which already lags compared to many other state university systems. State support for university research enables the University to provide the outstanding, high-quality education that it has delivered thus far to more than one million living alumni. Further research cuts would jeopardize the University's ability to offer the same opportunities to California's future generations.

The State's economy ultimately suffers from cuts to UC research because research that is essential to the economic future of the state will be reduced further in scope, weakening California's leadership role in areas such as information technology, biotechnology, agriculture, and the health sciences. Additionally, UC's considerable strengths in the humanities, social sciences and the arts—areas that traditionally garner less research support—will continue to be significantly underfunded.

In addition to the federal funds in the University's research budget, the University manages three Department of Energy Laboratories: the Lawrence Berkeley Laboratory (LBL), the Lawrence Livermore National Laboratory (LLNL), and the Los Alamos National Laboratory (LANL). With combined expenditures of $4.1 billion in 2003-04, the Labs conduct research important to the State and the nation, including research on bioterrorism, nuclear nonproliferation, and environmental cleanup.

Importance of University Research

Economists attribute at least 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.

UC is an important generator of ideas and technologies, which can be measured in part by the reporting of inventions created by UC researchers. UC campuses have collectively generated over 2,600 such invention disclosures. The economic and social benefits derived from UC innovations and knowledge are greatest when its research can be quickly used by industry and put into practical applications and products for the office and home. Private firms recognize UC's value by contributing financial resources for research.

UC research provides a constant stream of intellectual property and technological innovation, skilled graduates, opportunities for research collaboration, and state of the art laboratories that are central to providing a competitive advantage that serves as the economic engine to help drive California's recovery. 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. Hundreds of California companies have been founded by UC scientists or graduates, based on UC technology or spun off from a business that has a connection to the University. In addition, UC's health science researchers have contributed to significant advancements in the areas of diagnosis, prevention and treatment of a multitude of diseases, including but not limited to AIDS, cancer, Alzheimer's disease, cardiovascular disease, arthritis, lupus, neurodevelopmental disorders and Down's Syndrome.

A recent key development has been the creation of the California Institutes for Science and Innovation, which bring together UC scientists, engineers and student researchers with private industry to stimulate innovation in fields critical to the state's future. The four institutes are the California Institute for Bioengineering, Biotechnology and Quantitative Biomedical Research; the California Nanosystems Institute, the California Institute for Telecommunications and Information Technology, and the Center for

Information Technology Research in the Interest of Society. Taken together, these four institutes represent a billion-dollar, multidisciplinary effort that focuses public/private resources and expertise simultaneously on research areas critical to sustaining California's economic growth and its competitiveness in the global marketplace.

The new ideas and technologies developed by researchers at the California Institutes for Science and Innovation will help expand our economy into new industries and markets - and bring the benefits of innovation more quickly into the lives of people everywhere. These institutes will open the doors to new understanding, new applications and new products through essential research in biomedicine, bioengineering, nanosystems, telecommunications, and information technology.

The University of California has actively driven and sustained California's economy for more than a century, from its earliest contributions in agriculture to its catalyst role in the development of the biotechnology, telecommunications, engineering, and computer industries during the final decades of the 20th century. Continued State support for the University's research program is essential for UC to lay the groundwork for California's future economic growth in the 21st century through new ideas and breakthroughs and by training the next generation of scientists engineers, farmers, and business leaders.

Federal Funds

Federal funds are the University's single largest source of support for research, accounting for nearly 55% of all University research expenditures in 2002-03. The Department of Health and Human Services (HHS) and the National Science Foundation (NSF) consistently are a major source of grants to UC, including about 76% of the University's 2002 federal research awards. Other agencies that figure prominently in the University's awards are the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Department of Energy (DOE). 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.

In the decade between 1982-83 and 1992-93 and again from 1997-98 through 2002-03, federal 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. Between 1992-93 and 1995-96, 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. 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, a strong economy, 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% to 9% each year between 1997-98 and 2001-02.

As a result of the terrorist attacks of September 11, 2001, and the subsequent wars in Afghanistan and Iraq, the FY2002 and FY2003 appropriations for federal research and development (R&D) included record increases, with an emphasis on counterterrorism R&D and other defense-related research. The National Institutes of Health (NIH) also continued to record increases—over 15% in 2002 and in 2003. This is especially significant for UC since the NIH is the largest single sponsor of basic and applied research, and the Department of Health and Human Services, of which NIH is a part, provided 59% of the award dollars in grants to UC in 2002. For 2002-03, the University's federal research expenditures increased by 16.3%, and the recent large increases in the NIH budget undoubtedly contributed to the large increase in UC's federal research expenditures last year. The record increases in the NIH budget are unlikely to continue. With the FY2003 appropriations, the Congress and the President completed their 5-year commitment to double the NIH budget, making large increases in UC's research funding less likely without the driving force of the 15% increases to the NIH budget each year.

Another factor that may impact future federal research budgets is that the overall federal budget outlook has deteriorated dramatically since early 2001 due to the 2000 tax cut, the economic slowdown, and expenditures for homeland security and the war in Iraq. On August 26, the Congressional Budget Office released updated baseline budget projections for fiscal years 2004-2013. The unified budget baseline for 2002 to 2011 will deteriorate from a projected surplus of $5.6 trillion in January 2001 to a projected deficit of $2.3 trillion currently, with the deficit for FY2004 projected at $480 billion. Adding to the difficult Congressional decisions that need to be made in order to pass the annual appropriations bills that constitute the FY2004 federal budget is the President's recent request of a supplemental spending package of $87 billion for Iraq and Afghanistan. Although this request is considered emergency spending, and therefore does not count against the spending total for FY 2004, the large amount of the request coupled with the expectation that much more will be required in the years to come has cast a shadow over the funding for regular federal programs that are already beginning to feel the approaching constraint of the rapidly growing federal deficit.

On October 1, the start of the federal fiscal year, President Bush signed into law the final versions of the FY2004 Department of Homeland Security (DHS) and Department of Defense (DOD) budgets, two of the 13 appropriations bills that constitute the federal budget. Based on information from bills that have passed and are still pending in the Congress, the American Association for the Advancement of Science (AAAS) predicts that, despite the increasing federal deficit, the overall funding level for federal R&D will still increase by about 7% over FY2003, but over 90% of the increase would go to defense, homeland security, and health R&D. This would mean a modest or no increase across the rest of the federal R&D programs, and funding at agencies such as the United States Department of Agriculture and the Environmental Protection Agency is expected to decline from last year's levels.

As predicted, the bills signed by President Bush include large increases for Homeland Security and Defense. Homeland Security R&D is up 57% from FY2003, and Defense will have a record-breaking R&D portfolio of $66.0 billion. While the overall Defense R&D number is impressive (up over 10%), the bulk of new R&D funding is allocated to missile defense and other weapons development work, mostly performed by industrial firms as defense contractors. Action on other appropriations bills, including an expected 3% to 4% increase in the NIH’s billion dollar budget, is still pending. Continuing resolutions (CR) or temporary appropriations bills will be necessary to keep government programs operating at FY2003 levels until regular appropriations bills can be signed into law. President Bush signed the first CR on September 30; it funds government programs in unsigned appropriations bills at FY2003 levels through October 31. The University will continue to follow developments in the federal budget process.

PUBLIC SERVICE

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. The University's public service programs also help improve the quality of life for the state and stand as models for others in the country to follow. The University's public service programs are valuable to the public they serve because they are based on research conducted by top scholars in their field and reflect the best thinking within the discipline for addressing problems and finding solutions

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 program includes a health sciences program jointly operated with the Los Angeles campus—the Charles R. Drew University of Medicine and Science. The University's Public Service budget totals $181.3 million, of which $99.8 million is UC and State General Funds.

K-12, Community College, and Graduate Outreach 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. Despite unparalleled budget cuts in the current and past fiscal years, the University remains committed to its goal of achieving a diverse student body as well as working with other education segments in helping to close the achievement gap among groups of K-12 students that differ by racial-ethnic backgrounds, geographic regions, and socio-economic status.

In 1995, The Regents adopted SP-1, a resolution that prohibited consideration of race and ethnicity in admissions. The Regents rescinded SP-1 in May 2001, although Proposition 209 (approved by the voters in 1996) amended the California Constitution to prohibit consideration of race, ethnicity and gender as a preference in employment, education, and contracting. In 1997-98, after the adoption of SP-1 and Proposition 209, the University's budget for traditional outreach programs was $17.9 million. The total grew to a high of $85 million in 2000-01, but was reduced by $2 million in 2001-02, by $11.9 million in 2002-03, and by $37.8 million in 2003-04.

These severe cuts are devastating to the University's outreach programs and necessitate a dramatic restructuring of the University's services to K-16 students, schools, and communities. In many of the student academic development programs, whole program sites have been eliminated, specific types of services offered at those sites have been discontinued, and fewer K-12 students are being served.

For example, the Early Academic Outreach Program (EAOP) full-service model will be redesigned to include fewer academic courses and fewer program offerings at each grade level; program enrollment targets will be decreased; professional development for EAOP staff statewide will be eliminated; and the program will no longer be able to provide campuses with publications (in English or Spanish) for students, teachers, and schools. EAOP served 80,497 students at more than 600 middle and high schools in 2002-03. In 2003-04, the program is projected to serve 56,000 students enrolled at 420 schools and in 2004-05, 40,000 students at 300 schools.

The Mathematics, Engineering, Science Achievement Program (MESA) is preparing to eliminate 8 of its 24 MESA Schools Program (MSP) centers in 2004-05, with a projected loss of service to 9,000 students at 120 middle and high schools. MESA's "Success Through Collaboration" programs (a partnership with American Indian education programs, the California Department of Education, tribal governments and communities, industry, and others) will serve an estimated 650 fewer students at 17 middle and high schools in 2003-04. The program will be merged with MSP by 2004-05. MESA will support only 3 of its 5 MESA Community College Programs in 2003-04 with a loss of service to an estimated 500 students.

The full magnitude of the impact of these severe budget reductions on campus programs remains to be seen. Campuses are still in the process of implementing these reductions. They have scaled back long-term engagements in K-12 schools with which they have partnered for years. Substantial layoffs have already taken place, and more are anticipated for this fiscal year.

Most importantly, however, the budget cuts compromise the University's ability to provide access to the State's educationally disadvantaged students. As the University's outreach programs gained momentum, they accounted for a substantial share of new UC freshmen, particularly among underrepresented minority groups—35.8% of African American and 46.6% of Latino public high school students who enrolled in UC in Fall 2002 as freshmen had been involved in UC's outreach programs. These figures are expected to drop as these programs are curtailed.

Budget reductions have also had a damaging impact on the University's graduate and professional school outreach programs. The very successful summer research internship programs at most campuses are now accommodating half the students they did in the past (with some campuses planning to discontinue the programs altogether) and the number of UC LEADS Scholars has dropped from 148 to 90.

The University is working strategically to provide as many students and schools with needed support with the resources that it retains, and is increasingly focused on seeking private and other sources of funding to continue key efforts.

Display 1 (next page) shows the changes in State and University funds for systemwide outreach and K-14 improvement programs from 1996-97 to 2003-04. Changes to teacher professional development programs are also displayed.

The University's outreach programs now include:

- K-12 academic development programs and activities to help prepare students, especially those from disadvantaged backgrounds, for the academic demands of higher education;

Display 1

Outreach and K-14 Improvement Programs
Changes in State and University Funds
($ in Millions)

	State Funds	University Funds	Total
Systemwide K-14 Outreach Programs			
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)
2002-03	(11.9)	4.3	(7.6)
2003-04	(37.8)	-	(37.8)
Subtotal	**$ (3.2)**	**$ 15.5**	**$ 12.3**
K-12 Professional Development Programs			
1999-00	$ 11.8	$ -	$ 11.8
2000-01	71.3	-	71.3
2001-02	(5.3)	-	(5.3)
2002-03	(72.1)	-	(72.1)
2003-04	(15.3)	-	(15.3)
Subtotal	**$ (9.6)**	**$ -**	**$ (9.6)**
All Programs			
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)
2002-03	(84.0)	4.3	(79.7)
2003-04	(53.1)	-	(53.1)
Total	**$ (12.8)**	**$ 15.5**	**$ 2.7**

- P-16 (preschool through university education) Regional Intersegmental Alliances under development to build local and regional educational partnerships for improving educational achievement in California. The partnerships will draw from all segments in education, the business community, philanthropic groups, and community organizations;

- Informational outreach and recruitment programs which include aggressive 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.

The University's outreach programs also include programs to encourage community college students to transfer to UC as well as efforts to encourage students to enter graduate and professional school programs by identifying future applicants and providing information and preparation at various stages of educational development from high school through the senior year in college.

In addition to significant outreach efforts in the Central Valley, the University is working in close collaboration with other higher education segments to implement college-going initiatives in rural and remote counties of California focused on increasing student application, admission, and acceptance rates to baccalaureate-granting institutions of higher education, particularly UC.

The University prepares an annual Legislative Report on Educational Outreach each March. That report contains more detail on each individual outreach program.

California Subject Matter Projects

In 1988, the California Legislature authorized funding for nine Subject Matter Projects based on the Bay Area Writing Project, which began in 1974. The California Subject Matter Projects (CSMPs) provide intensive training institutes which engage K-12 teachers with subject area leaders and faculty from the University of California, California State University, and K-12 schools in the latest advances in the content knowledge based on state standards in the nine subject areas taught in K-12 schools as well as the UC and CSU course content, i.e. the "a-g" requirements. From 2001-02 to 2002-03, almost 70,000 teachers attended CSMP workshops.

The CSMPs were reauthorized in 2002 (AB 2950, Strom-Martin, Chapter 463). In 2003, new legislation (SB 611, Ducheny, Chapter 857) recognizes that seven of the nine projects currently operate with content and skill standards approved by the State Board of Education and authorizes the continuation of State funding support for those programs, including: reading and literature, writing, mathematics, science, history/social science, world history/international studies, and the arts. SB 611 recognizes that the foreign languages and physical education/health projects are seeking content and skill standards approval from the State Board of Education and authorizes maintenance-level funding for those programs. SB 611 also authorizes the integration of instructional strategies for working with English learners into the CSMPs.

Funding for the CSMPs was reduced from a high of $35.5 million in 2000-01 to $20 million in 2002-03 to $5 million in 2003-04; an additional $4.4 million from the federal No Child Left Behind program brings the total CSMP funding to $9.4 million. These severe reductions have resulted in the dismantling of the statewide infrastructure that supported the training of teachers in mathematics and science through the California Professional Development Institutes. There are fewer CSMP sites funded and funds have been reduced at continuing sites resulting in the elimination of services to many districts, schools, and teachers in some regions of the state and significantly reduced efforts in other areas. This has occurred while expectations for student learning remain high and teacher qualifications (especially in mathematics and science) remain below par, particularly in urban and rural districts serving large numbers of low-income children. Research shows that professional development for teachers is critical to improving student achievement. CSMP remains a vital part of the state's capacity to develop California's teacher workforce. The University will continue to seek private and federal funding to continue to provide professional development programs for K-12 teachers.

Cooperative Extension

The University of California, through the Division of Agriculture and Natural Resources (ANR), is uniquely positioned to contribute significantly to solutions to complex problems and challenges facing Californians. The University has an "on the ground" presence in every county through UC

Cooperative Extension, the Agricultural Experiment Station and other ANR programs.

Over 260 county-based Cooperative Extension advisors team with campus-based specialists and scientists to deliver the latest research-based information and technological advances to users across the state. Cooperative Extension advisors also conduct applied research in the field and adapt new technologies from campus labs to meet local and regional needs. Cooperative Extension represents a unique funding and educational partnership involving federal, state, and local entities, and is a key component in the fulfillment of the University's commitment as California's Land Grant University.

For 2003-04, budgeted funding for Cooperative Extension totals $52.6 million, of which $38.5 million is UC and State General Funds. State funding for Cooperative Extension was reduced by an unprecedented 25% ($12 million) over a two-year period. These cuts are on top of the reductions to the Cooperative Extension budget during the difficult fiscal years of the early 1990s when the budget was cut by 20%.

Officials with the UC division of Agriculture and Natural Resources are acutely aware that the decisions made over the next few months will have long-term ramifications for the organization and those who rely on Cooperative Extension, the Agricultural Experiment Station and the Division's statewide operations. The top priority is to maintain programs that directly serve local communities and local needs, but given the magnitude of the budget cuts, every program and unit will be affected.

The cuts to these programs are of deep concern, given their direct impact on the quality of life in this state. California farmers and ranchers produced more than half of the nation's fruits, nuts and vegetables, and generated $29.8 billion in gross cash receipts in 2001. A major employer and revenue generator in the state, agriculture accounts for 1.1 million jobs and more than $60 billion in personal income. California is the nation's leader in agricultural exports, shipping more than $6.5 billion in food and agricultural products around the world. Among the 350 commodities produced in California are the billion-dollar commodities of milk and cream, grapes, nursery products, cattle and calves, and lettuce. The research and educational programs of Cooperative Extension contribute science-based solutions from the University to "real world" agricultural, human, environmental and natural resources-related problems at the regional and local level. In addition, nearly 30,000 Californians extend and enhance Cooperative Extension's educational efforts by serving as volunteers in the UC 4-H Youth Development and Master Gardener programs. With their assistance, more than 140,000 youth (ages 5-19) participate in Cooperative Extension-sponsored 4-H Club and after school activities in California's cities and rural areas.

The Division also operates nine research and extension centers. The centers, representing different climates, landscapes and cropping systems, are located from Oregon to the Mexican border and serve as outdoor laboratories for UC scientists conducting applied research and field tests. They also provide regional venues for Cooperative Extension advisors and specialists and Agricultural Experiment Station scientists to conduct educational meetings for clientele, host field days and demonstrate the latest research findings.

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. Over the last decade, Drew University has experienced financial problems, and most recently, problems with Accreditation Council on Graduate Medical Education accreditation for its graduate medical programs. With State budget augmentations and administrative assistance from the UCLA administration, Drew's financial situation has improved. The Drew University administration is working to resolve its accreditation problems. Despite the large reductions to the Public Service portion of the University of California's budget, Drew University did not receive a budget reduction for 2003-04. The State support provided to Drew in the 2003 Budget Act for both the instructional and public service programs is $8.7 million. Of this amount, $500,000 is contingent upon the University annually providing an additional $500,000 in matching funds from funds available to UC through the State's Medi-Cal Medical Education program, which provides funding from the federal government to help support the cost of providing a medical education. The University also provides cost-of-living adjustments provided from the General Fund, support from University funds, and medical student professional fee revenue to support the program. The total from all University sources available to Drew for 2003-04 is $10.8 million.

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.

Drew University receives State funds for the training of 24 third-year and 24 fourth-year medical students, and for 170 of its 317 residents. The State support for the resident training program is provided through the University of California's budget for Medical Education. The County of Los Angeles pays the salaries of all the residents (State-supported and non-State supported) and contributes to faculty salary support.

ACADEMIC SUPPORT—LIBRARIES

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 library budget totals $249 million in 2003-04 of which $206 million is UC and State General Funds. The budget is divided into four categories that are described below.

- 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 university-wide 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. It has developed in impressive fashion and is now the leader among university digital libraries.

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, resulting in a chronic shortfall in the library materials budget estimated at $33 million.

In addition, due to the State's deteriorating fiscal situation, the libraries will be directly affected by the following budget actions:

- 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 shortfalls in four core areas of the budget, including library materials. This provision would have provided about two-thirds of the funding needed to address the historic shortfall of $33 million over the four-year period of the Partnership, with the remainder to be funded through a redirection of resources at the campus level. This provision has not been funded since 2000-01. Furthermore, the 2002-03 budget included a one-time reduction of $29 million for core needs, including funding for libraries, a cut that was made permanent in the 2003-04 budget.

- Also in 2002-03, the Governor imposed on the University a mid-year cut of $20 million in general administration, academic administration, and libraries.

- In the 2003-04 budget, the permanent cut grew to $36.5 million in general administration, academic administration, and libraries.

At the same time, there has been a steady increase in the growth of knowledge, with worldwide book production nearly doubling between 1989 and 1998 to over 1 million new titles per year. Also, 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 12% per year between 1992 and 2002, greatly exceeding general inflation as measured by both the Consumer Price Index and the Higher Education Price Index

Rapid advances in technology, particularly digital technology, promise enormous improvements in the capability of academic libraries to acquire, store, manage, and deliver the information needed for teaching and research, but at additional cost. 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. To address these issues, the University will continue to employ advanced technology and systemwide collaboration and cooperation to leverage available resources. These strategies continue to be successful, but by themselves will not be sufficient to protect faculty and students from the impact of unprecedented cuts to the University budget.

ACADEMIC SUPPORT—OTHER

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. The 2003-04 budget for Academic Support—Other is $463.8 million, including $174.8 million of UC and State General Funds.

The State's declining revenues and its $38 billion deficit have produced serious budget reductions across State government for 2003-04, and the University of California was not exempt from these cuts. The current fiscal crisis has resulted in significant reductions to Academic and Institutional Support budgets: a mid-year cut of $20 million grew to $36.5 million in 2003-04. Aside from the base budget cuts targeted at Academic and Institutional Support by the State, the University has over $100 million in unavoidable costs related to paying faculty merits, employee health benefits, energy cost increases, and maintenance of new space in 2003-04, most of which must be funded by redirecting resources from Academic Support and other parts of the budget. Given the importance of Academic Support to the instructional program, this is a cause for great concern.

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; 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.

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, from primary to quaternary, in their communities and are sites for the development and testing of new diagnostic and therapeutic techniques. 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 University's academic medical centers comprise one of the largest health care systems in California and are among the largest Medi-Cal providers in the State. The total budget for the centers is about $3.3 billion in 2003-04, of which $49.6 million (1.5%) is State General Funds.

While the University's medical centers face financial challenges similar to other hospitals trying to survive in a price-sensitive managed care competitive 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. Other than Medicare and Medi-Cal, health payors do not recognize the added cost 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 University's medical centers are reimbursed for services provided to patients from a variety of sources. The major sources of patient revenue are government-sponsored health care programs, including Medicare, Medi-Cal and the California Healthcare for Indigents Program, and non-government third parties which reimburse under a variety of payment arrangements, such as: fee-for-service, discounted rates, per-diem rates, contracted rates or per-member-per-month risk contracts. Medicare, at the federal level, and Medi-Cal, at the state level, provide additional funding to the base reimbursement for graduate medical education costs and for treating a high percentage of low income patients. The medical centers receive a small amount of State General Funds, called Clinical Teaching Support (CTS) in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes. These funds are generally used for educational costs and 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, including indigent patients. While CTS funds represent a small portion 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.

The financial viability of the UC medical centers depends upon dedicated and sustained 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. Adequate funding is crucial to acquire and maintain facilities and equipment necessary to survive in a highly competitive environment while providing cutting-edge medical care that is expected of the University's highly regarded academic medical centers. It is essential that well-trained staff are hired and retained to operate and maintain the facilities and equipment used in training of tomorrow's health care professionals and in the care of very ill patients.

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. In light of national and State economic problems, it is unlikely that financial relief such as that provided to hospitals and particularly the UC medical centers in the past few years will be available in the future.

The UC medical centers are facing the following challenges:

- Compliance with SB 1953, the Hospital Seismic Safety Act.

- Medicare and Medi-Cal cuts in reimbursement, such as:

    - the reduction in Medicare Indirect Medical Education (IME) payments from 6.5 % to 5.5%, which will lower the payments to the UC medical centers by $11 million annually,

    - the reduction in the federal portion of the Medi-Cal disproportionate share funding, which will reduce SB 855 funding to the UC medical centers by about $17 million in 2003-04, and

    - the approval of the Upper Payment Limit (UPL) in 2002-03, which reduced amount of SB 1255 and Medi-Cal Medical Education funding by $6.7 million. Further reductions are likely to occur.

- The cost of compliance with the Health Insurance Portability and Accountability Act (HIPAA) – Privacy Standards.

- Increasing salary cost, especially for represented employees under multiple-year contracts.

- The high cost of medical supplies, especially pharmaceuticals.

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.

STUDENT FEES

Overview

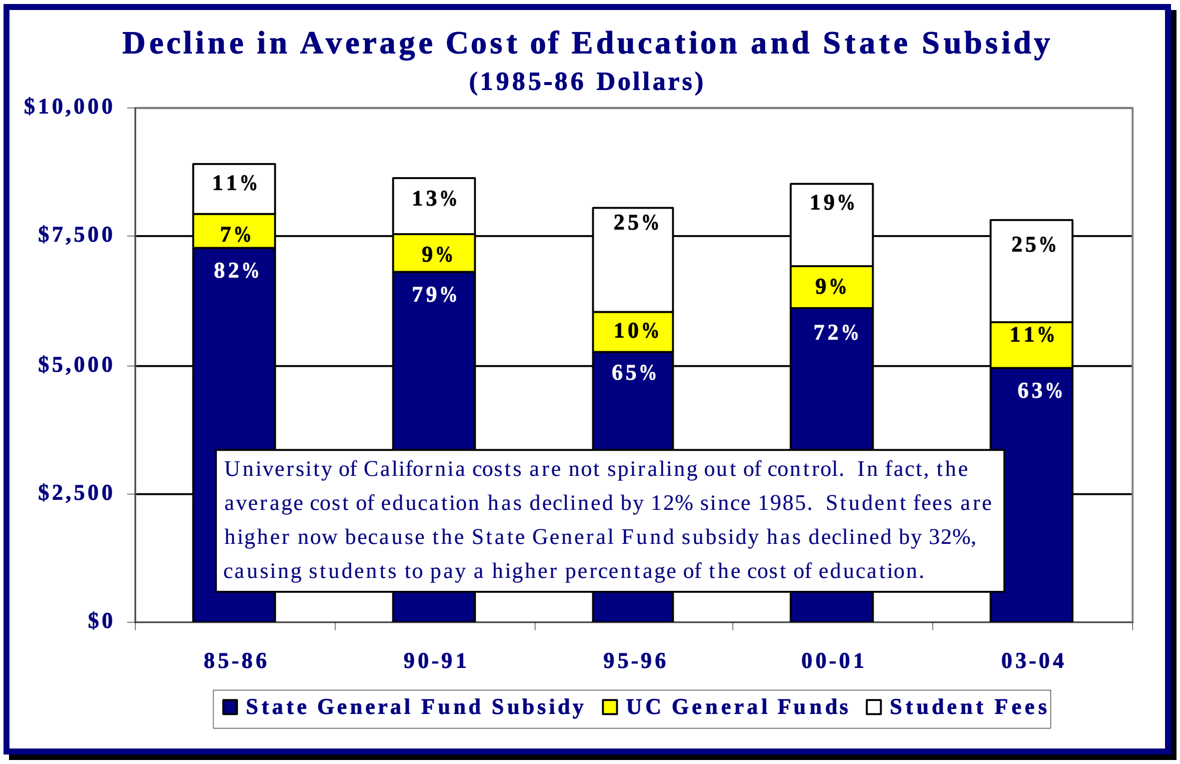
There are two mandatory systemwide fees currently assessed to all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support a share of the University's operating costs, including instruction-related costs, student financial aid, and student services programs. All students also must pay mandatory campus fees, called miscellaneous campus fees, that 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 sports and recreational facilities. In addition to all mandatory systemwide and campus fees, some students pay other fees as follows:

- 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.

- Nonresident students must pay nonresident tuition as well as mandatory fees and any applicable professional school fees.

Historically, student fees at UC have been very low because the State has heavily subsidized the cost of education. Students currently pay 25% of the cost of education. Display 1 makes several points. First, contrary to recent news coverage nationally about the skyrocketing costs in higher education, the average cost of a UC education has declined over 18 years by 12%. Second, the State's subsidy toward that cost has declined significantly—by 32% over the 18-year period. Third, as the State subsidy has declined, the price students must pay has tended to rise. This happened in the early 1990s and is happening now. Student fee increases have helped maintain quality during times of fiscal crisis. A detailed discussion regarding changes in student fees over time is found in the next section of this chapter, titled, "History of Student Fees."

Display 1



Even with the increases in mandatory systemwide fees approved by The Regents, the University's average fees for undergraduate resident students (excluding health insurance fees) are $1,343 less than the average fees charged at the University's four public salary comparison institutions (see Display 2, (next page). In addition, University fees for resident graduate students continue to be well below ($2,290) the average fees charged at the University's four public salary comparison institutions. Moreover, the University charges the lowest fees, for both resident undergraduates and graduate students, of any of the University's public comparison institutions. With the increases in nonresident tuition approved by The Regents for 2003-04, the University's fees for nonresident undergraduate and graduate students are just slightly above the average fees for the comparison institutions.

If the University were submitting a normal budget request for 2004-05, it would include an assumption that mandatory systemwide fees and professional school fees would increase by about 5% to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue, and recognizing the State's continuing fiscal difficulty, it would assume that the State will not have sufficient resources to provide the funds

Display 2

University of California and Public Salary Comparison Institutions
Student Fees

Public Salary Comparison 2003-04 Fees at Public Institutions Used for Salary Comparisons	Undergraduate Resident	Undergraduate Non-resident	Graduate Resident	Graduate Non-resident
University of Illinois	$ 7,010	$ 18,046	$ 7,756	$ 18,866
University of Michigan	$ 8,481	$ 25,647	$ 12,933	$ 25,999
State University of New York	$ 5,851	$ 11,801	$ 7,987	$ 11,587
University of Virginia	$ 6,149	$ 22,169	$ 7,856	$ 19,964
2003-04 Average Fees of Comparison Institutions	$ 6,873	$ 19,416	$ 9,133	$ 19,104
2003-04 Average UC Fees *	*$ 5,530*	*$ 19,740*	*$ 6,843*	*$ 19,333*
2004-05 Estimated Average Fees for Public Salary Comparison Institutions	**$ 7,423**	**$ 20,969**	**$ 9,864**	**$ 20,632**
2004-05 Estimated Average UC Fees assuming a 5% increase in systemwide fees and nonresident tuition	***$ 5,779***	***$ 20,701***	***$ 7,104***	***$ 20,219***

* Does not include undergraduate student health insurance fees which may be waived by demonstrating comparable insurance coverage.

necessary to avoid fee increases in both mandatory systemwide student fees and in professional school fees. Consistent with past practice, an amount equal to about one-third of the revenue generated by a 5% fee increase would be used to mitigate the impact of the fee increase on financially needy students. Display 2 also compares UC fee levels, assuming a 5% increase in student fees at UC, with the estimated average of the comparison institutions for 2004-05. It is estimated that the differential between UC fees and the tuition and fees charged at the University's four public comparison institutions would increase to $1,644 for resident undergraduates and to $2,760 for resident graduate students in 2004-05. UC tuition and fees for nonresident students would be about the same as those charged at the comparison institutions. A normal budget plan for 2004-05 also would assume an increase of 5% in nonresident tuition, raising the nonresident tuition level from $13,730 to $14,418 for undergraduate students and from

$12,245 to $12,858 for graduate students. Taken together with mandatory systemwide fees and campus fees, the total nonresident student charges would be more than $20,000 in 2004-05.

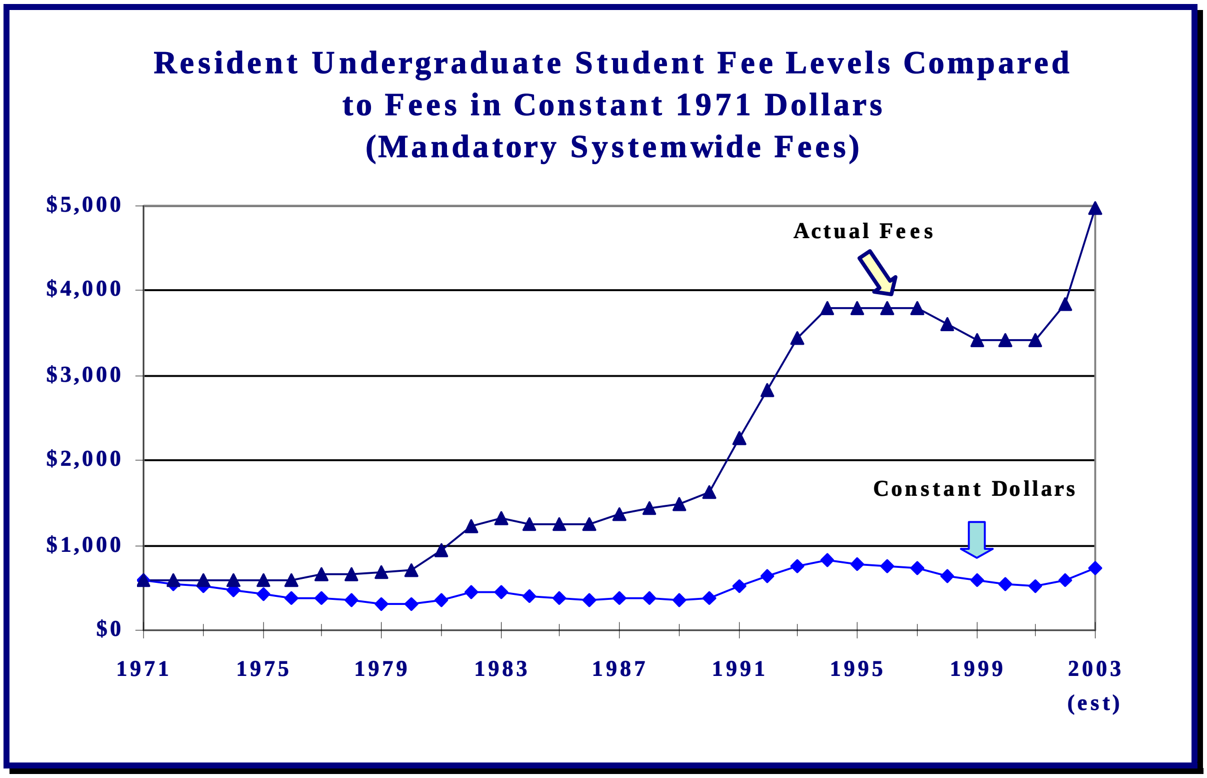
However, given the considerable uncertainty that exists related to the continuing State fiscal crisis, the size of the deficit, the transition to a new Governor, and the priorities of the new administration for addressing budget shortfalls, the University is not submitting a normal budget request for 2004-05. The level of the fee increase will be determined once more is known about the budget following release of the Governor's Budget in January.

As noted previously, from 1995-96 to 2001-02, the State provided additional funding to the University to avoid general increases in student fees during those years. In addition, the State provided funding to reduce mandatory systemwide fees by 10% for resident undergraduate students and 5% for resident graduate students. If, during that same period of time, the University had adjusted mandatory systemwide fees by 4% annually, the average of student charges for UC undergraduate students in 2003-04 would have been $5,729, only $199 more than the actual average of $5,530, and $1,144 less than the average of total tuition and fees ($6,873) charged at the University's public comparison institutions in 2003-04. For 2004-05 undergraduate fees would be $5,989—only $190 more than the estimated actual of $5,779 (assuming student fees would be increased by 5%)—and $1,434 less than the estimated average of total tuition and fees ($7,423) at the comparison institutions.

While fee increases have been significant over the last 18 months, student fees have addressed only about 21% of the shortfall experienced by the University during the current fiscal crisis. This is slightly lower than the 25% proportion of the shortfall in the early 1990s that was addressed through student fees.

The history of student fees is shown in the top line of Display 3 (next page). The display also shows that fee levels in 2003-04, when adjusted to reflect constant dollars, are still relatively low. When adjusted to account for a family's ability to pay (using California per capita personal income), fees are only slightly higher than they were in 1971-72.

Display 3



History of Student Fees

A history of student fees over the past two decades is described below. Display 4 shows fee levels for resident undergraduate and graduate students from 1978-79 through 2003-04.

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.

Display 4

UNIVERSITY OF CALIFORNIA
STUDENT FEE LEVELS
1978-2003

	Average Annual Fees per Resident Undergraduate Student							Average Annual Fees per Resident Graduate Student							
	Reg. Fee	Ed. Fee	Total	% Change	Misc. Fees	(a)	Total *	Reg. Fee	Ed. Fee	Total	% Change	Misc. Fees	(a)	Total Fees	*
1978-79	$ 371	$ 300	$ 671		$ 49			$371	$ 360	$ 731		$ 38		$ 769	
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), (e)	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), (e)	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), (e)	3,964	713	2,896	3,609	(0.0%)	1,138	(d)	4,747	(b, c)
2001-02	713	2,716	3,429	(0.0%)	430	(d), (f)	3,859	713	2,896	3,609	(0.0%)	1,305	(d)	4,914	(b, c)
2002-03 (ANNUALIZED)	713	3,121	3,834	(11.8%)	453	(d), (f)	4,287	713	3,301	4,014	(11.2%)	1,327	(d)	5,341	(b, c)
2003-04	713	4,271	4,984	(30.0%)	546	(d), (f)	5,530	713	4,506	5,219	(30.0%)	1,624	(d)	6,843	(b, c)

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.
(e) From 1998-99 through 2000-01, Miscellaneous Student Fees included fee charged for undergraduate student health insurance established through student referendum at Berkeley and Santa Cruz.
(f) Does not include student health insurance fees which may be waived by demonstrating insurance coverage.

* Total fees are the sum of the Ed/Reg Fees combined and estimated campus miscellaneous fees, which are higher for graduate 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

The historic commitment to low fees was eroded in the early 1990s by the State's severe fiscal difficulties 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 of 1991-92 through 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 2003-04

In the 1995-96 Governor's Budget, the Wilson administration 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. However, for the duration of the Compact, the State provided the University with additional revenue above the proposed Compact levels to "buy out" the annual student fee increases. In 1998-99, the State provided sufficient funds to not only buy out the annual student fee increase (thereby avoiding a fee increase of 10%), but also funds to reduce mandatory systemwide student fees by 5% for resident undergraduate students, consistent with AB 1318. This legislation, among its provisions, specified a two-year freeze on fees for California residents.

By 1999-2000, the Partnership Agreement with Governor Davis was in full effect. It recognized that fee-funded programs should receive cost increases similar to those provided to State-funded programs. Consequently, the Partnership Agreement called for increased 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, to be funded either through student fee increases or revenue from the State.

In 1999-2000, the State provided sufficient funds to avoid a 4.1% student fee increase and for the second consecutive year, to reduce mandatory systemwide fees by another 5% for resident undergraduates. With this fee reduction, undergraduate fees were lowered by a total of 10% over a two-year period. The State also provided sufficient funds to reduce fees for resident graduate academic students by 5%.

In 2000-01 and again in 2001-02, the State followed the funding principles of the Partnership and 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, which increased by 4.5% in 2000-01 and 4.9% in 2001-02.

The University's 2002-03 budget plan anticipated that the State would again provide funding to avoid fee increases in both mandatory systemwide student fees and in professional school fees. However, by 2002-03, the State's fiscal situation deteriorated markedly. The Budget Act adopted for 2002-03 included $160 million in base budget cuts. By December of that year, the continuing deterioration of the State's fiscal situation necessitated mid-year cuts in the State budget; the University's share of these additional cuts was $70.9 million. The Regents adopted a mandatory systemwide fee increase of $135 for all students, effective Spring term 2003 which, when calculated over a full year, was equal to $405; professional fees were increased as well. These increases offset $19 million of the mid-year cut that otherwise would have been targeted at instruction.

Unfortunately, the State's fiscal condition continued to worsen, and the final Budget Act for 2003-04 included additional base budget cuts of over $400 million for the University. To offset a portion of cuts that otherwise would have been targeted at instructional programs, mandatory systemwide fees were increased by 30% or a total of $1,150 for undergraduates; for graduate, professional, and nonresident students the increase was slightly higher. Professional school fees also increased by 30%.

As fees have increased over time, the percentage of additional fee income dedicated to financial aid has increased commensurately, from 16% fifteen 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 early 1990s when fees increased, the percentage of new freshmen from low-income families—those with less than $30,000 in parental income—did not decline. 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.

In the context of reduced State financial support for the University and an anticipated dramatic increase in student demand through 2010-11, 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. The policy recognizes that, for California resident students, funding the cost of a UC education is a shared responsibility among the State, the students, and their families. A goal of the policy is to maintain affordability of 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 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 to be made annually to the Board concerning the proposed levels for the Educational Fee and the University Registration Fee for the next academic year.

Supplemental Language to the 2002 Budget Act directed the California Postsecondary Education Commission (CPEC) to convene a work group to develop for future legislative consideration a new long-term student fee policy. The work group, which met through the summer and fall of 2002, was composed of representatives from the University of California, the California State University, the California Community Colleges, the Department of Finance, the Legislative Analyst's Office, the State Department of Education, and students. In developing policy recommendations, CPEC was charged with considering the impact of its recommendations on: (a) State General Fund revenues, (b) student access to higher education, (c) student financial aid needs and requirements, (d) the resources needed by the state's public university systems to offer high quality instruction programs, and (e) effects on various identifiable student populations. Among the recommendations in the CPEC report (issued December 2002) were the following:

- Changes in resident student fees should be, to the extent possible, gradual, moderate, and predictable, and that any changes should take into consideration and be balanced with available State General Fund revenues to ensure that the access, quality, and affordability of the State's public universities are not adversely affected.

- Changes in resident student fees should take into consideration both the total cost of educating a student as well as public indices reflecting families' ability to pay.

- Efforts should be employed to mitigate any negative impact of changes in resident student fees on financially needy students.

These CPEC recommendations are consistent with the University's own preference to have a fee policy accepted by those in State government that would anticipate student fees would increase annually consistent with an economic measure, such as per capita personal income. Such a policy would be contingent upon the State being able to provide adequate support for the University's basic needs to maintain quality and access. If the State can afford basic support for the University, student fee increases should occur gradually, moderately, and predictably.

Educational Fee

If the University were submitting a normal budget request for 2004-05, it would include an assumption that student fees would increase by about 5% to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue. Consistent with past practice, an amount equal to about one-third of the revenue generated by the fee increase would be used to mitigate the impact of the fee increase on financially needy students.

If implemented, a 5% increase for undergraduate students would equal $249 per year; for graduate academic students, the increase would equal $261 per year; and for graduate professional students and all nonresident students, the increase would equal $273 per year. The increase would generate about $34 million in new revenue, net of financial aid.

The Educational Fee was established in 1970. 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, and again in 1994, following reductions in State General Fund support. As a result, the Educational Fee currently provides general support for the

University's operating budget, including costs related to instruction, and funds student financial aid and related programs, counseling and career guidance, academic advising, tutorial assistance, social and cultural activities, and overhead associated with student services activities (i.e., operation and maintenance of plant and general administration). As discussed earlier, the policy also established a methodology for setting annual Educational Fee levels.

University Registration Fee

The Student Fee and Financial Aid Policy approved by The Regents in January 1994 permits the Registration Fee to vary within a range across campuses. 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 student health services, child care services, 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. The Registration Fee level has remained the same since 1994-95.

Fee for Selected Professional School Students

If the University were submitting a normal budget request for 2004-05, it would include an assumption that professional school fees would increase by about 5%, recognizing that, with its continuing fiscal difficulty, the State will not have sufficient resources to provide the funds necessary to avoid fee increases in both mandatory systemwide student fees and in professional school fees. Consistent with past practice, an amount equal to about one-third of the revenue generated by the fee increase would be used to mitigate the impact of the fee increase on financially needy students. If an increase of 5% in the Fees for Selected Professional School Students were to be implemented, the fee increases would range from $146 for nursing students to $492 for law students. Such increases would generate about $3.8 million in new revenue, of which an amount equivalent to one-third would be used for financial aid purposes.

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 financially as well as benefiting the state. The policy provides that the fee for each selected professional program is to be phased in so that total student charges at UC are approximately the average of fees charged for that program by comparable high quality institutions across the nation. 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 coordinated with the Fee for Selected Professional School Students for those programs. Display 5 shows the fee levels previously approved by The Regents, as well as the fee levels for 2004-05, if a 5% increase in fees were to be implemented.

Display 5

University of California
Fees for Selected Professional School Students
Annual Fee Levels*

	Fees Previously Approved by The Regents							New Fee	
	1994-95	1995-96	1996-97	1997-98	2002-03	2003-04	Assumes 5% Incr.	Level 2004-05	Estimated Total Fees
Medicine	$ 2,376	$ 3,376	$ 4,376	$ 5,376	$ 5,776	$ 8,549	$ 427	$ 8,976	$ 16,084
Dentistry	2,000	3,000	4,000	5,000	5,400	8,060	403	8,463	16,097
Veterinary Medicine	2,000	3,000	4,000	4,000	4,350	6,565	328	6,893	16,165
Law	2,376	4,376	6,376	6,376	6,776	9,849	492	10,341	17,325
Business	2,000	4,000	6,000	6,000	6,400	9,360	468	9,828	17,037
Riverside	2,000	3,000	4,000	5,000	5,400	9,360	468	9,828	17,037
Optometry			2,000	3,000	3,250	4,875	244	5,119	11,533
Pharmacy			2,000	3,000	3,250	4,875	244	5,119	12,285
Nursing			1,500	1,800	1,950	2,925	146	3,071	10,040
Theater, Film, & TV			2,000	2,000	2,150	3,185	159	3,344	9,907

* In addition, professional school students pay mandatory Universitywide fees and miscellaneous campus-based fees.

In 1997, AB 1318 (Chapter 853) was enacted, which, among its provisions, specified a two-year freeze on fees for California residents, including those 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. Professional school fees remained at 1997-98 levels until 2002-03 when these fees were increased mid-year to help offset cuts to the University's budget. They were increased again for 2003-04 to offset cuts that otherwise would have been targeted to instructional programs.

Not only were professional school program fees frozen from 1997-98 through 1999-2000, but the University also received no funds for cost increases associated with programs supported from these fees. The State Budget Acts of 2000 and 2001 recognized this 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 University's 2002-03 budget plan assumed that the State would again provide funding to avoid fee increases in professional school fees. Unfortunately, the State's fiscal situation continued to deteriorate and, for 2002-03 and 2003-04, the State was unable to provide the additional funds to the University to replace the revenue that an increase in these fees would have generated.

Display 6 (next page) shows 2003-04 professional school fees at the University of California in relation to the University's four public salary comparison 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. While they are not used for fee comparison purposes, the table also shows the 2003-04 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.

For all but two programs, fees for resident students enrolled in these selected professional schools remain substantially lower than the average of the tuition and fees charged by comparable public institutions. The differential between UC fees and the tuition and fees charged at comparable public institutions remains particularly significant in Medicine ($5,291) and Business ($4,938). Considerable differentials also are found in Law ($2,936), Pharmacy ($2,149), Optometry ($1,960), and Dentistry ($1,517). Fees for students enrolled in Veterinary Medicine at Davis and the Theater, Film, and Television program at UCLA essentially are at parity with the average of student charges at their comparable public institutions. A 5% increase in fees would be modest and likely would do little to close the gap between the total resident charges for UC students and the average of the tuition and fees charged by comparable public institutions.

Display 6

UNIVERSITY OF CALIFORNIA
2003-04 RESIDENT FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS

University of California	Under-graduate	Graduate	Medicine	Dentistry	Veterinary Medicine	Law	Business Admin.	Optometry	Pharmacy	Nursing	Theater, Film & TV
2003-04 Fees											
Educational Fee, University Registration Fee, and Average Miscellaneous Fees	$ 5,530 *	$ 6,843	$ 7,108	$ 7,634	$ 9,272	$ 6,984	$ 6,209	$ 6,414	$ 7,166	$ 6,969	$ 6,563
Professional Fees	--	--	$ 8,549	$ 8,060	$ 6,565	$ 9,849	$ 9,360	$ 4,875	$ 4,875	$ 2,925	$ 3,185
Total Fees for *2003-04*	**$ 5,530 ***	**$ 6,843**	**$ 15,657**	**$ 15,694**	**$ 15,837**	**$ 16,833**	**$ 15,569**	**$ 11,289**	**$ 12,041**	**$ 9,894**	**$ 9,748**
Comparison Institution Fees											
2003-04 Fees											
Public Salary Comparison Institutions											
University of Illinois	$ 7,010	$ 7,756	$ 22,832	$ 17,258	$ 13,488	$ 14,566	$ 15,960		$ 12,842	$ 10,613	$ 7,754
University of Michigan	$ 8,481	$ 12,933	$ 20,525	$ 19,865		$ 27,863	$ 29,687		$ 16,619	$ 13,833	$ 13,417
State University of New York	$ 5,851	$ 7,987	$ 17,949	$ 14,509		$ 12,849	$ 8,159		$ 13,109		$ 7,992
University of Virginia	$ 6,149	$ 7,856	$ 22,486			$ 23,798	$ 28,220			$ 6,019	$ 7,866
Additional Fee Comparison Institutions for Selected Programs											
University of Alabama								$ 12,000			
Cornell University (statutory college)					$ 16,650						
Michigan State University					$ 14,000						
University of Minnesota					$ 15,911						
University of Missouri								$ 16,752			
Ohio State University								$ 10,995			
University of Wisconsin					$ 15,856						
Average Public Comparison Institution Average Fees for *2003-04*	**$ 6,873**	**$ 9,133**	**$ 20,948**	**$ 17,211**	**$ 15,181**	**$ 19,769**	**$ 20,507**	**$ 13,249**	**$ 14,190**	**$ 10,155**	**$ 9,721**
Private Salary Comparison Institutions											
Harvard University		$ 28,404	$ 34,741				$ 39,288				
Massachusetts Institute of Technology	$ 29,600	$ 29,500					$ 34,680				
Stanford University	$ 28,563	$ 28,563	$ 34,716			$ 32,424	$ 36,252				
Yale University	$ 28,400	$ 28,400	$ 35,450			$ 33,690	$ 34,772				

* Excludes undergraduate student health insurance fees. Effective Fall 2001, undergraduate students must demonstrate proof of insurance to enroll.

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 these students.

Nonresident Tuition

Nonresident students currently pay a nonresident tuition fee totaling $13,730 for undergraduate students and $12,245 for graduate students. In addition, nonresident students pay mandatory systemwide fees and miscellaneous fees, bringing the average total charges paid by nonresident students to $19,740 for undergraduate students and $19,333 for graduate students. In addition, nonresident professional students pay mandatory systemwide fees, miscellaneous fees, and professional fees as well as nonresident tuition; for example, total tuition and fees is $29,078 for nonresident law students and $27,814 for nonresident M.B.A. students for 2003-04.

If the University were submitting a normal budget request for 2004-05, it would include an assumption that both nonresident tuition and mandatory systemwide fees would increase by about 5%. Mandatory systemwide fees for nonresident students would increase by $273 and nonresident tuition would increase by $688 for nonresident undergraduates and $613 for nonresident graduate students. Thus, the University's total charges for nonresident undergraduate students for 2004-05 would be $20,701 (total excludes health insurance fees), and for nonresident graduate students, it would be $20,219. These figures would be less than the projected average of tuition and fees charged at the University's four public salary comparison institutions by $268 for nonresident undergraduate students and $413 for nonresident graduate students. Display 2 (on page 128) shows the 2004-05 projected average nonresident tuition and fees for students at the four public salary 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" at that time 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, "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 Since 1987

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, there were no increases in nonresident tuition during the five-year period 1991-92 through 1995-96, although there were increases in mandatory systemwide fees. Even though nonresident tuition 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.

The *2002-03 Budget for Current Operations* included a proposal to increase the Nonresident Tuition Fee by $428 (4%) for nonresident undergraduate and graduate students over the 2001-02 level. Because the State's fiscal situation continued to decline, the Governor and Legislature proposed additional actions to address the expected State budget deficit in 2002-03. As a result, the Nonresident Tuition Fee, for undergraduate students only, was increased by $1,776 (16%); however, $471 of that total was deferred for implementation in 2003-04. The Nonresident Tuition Fee increase for graduate students was held to 10% to assist the campuses in remaining competitive in the recruitment and enrollment of these students.

For 2003-04, the Nonresident Tuition Fee was increased by 10% for all nonresident students. Display 7 (next page) shows the total tuition and fee charges for nonresident undergraduate students since 1978. Because mandatory systemwide fees did not increase between 1994-95 and 2001-02, increases in the total tuition and fees charged to nonresident undergraduate students were moderate during that period, averaging about 3.4%. However, the increase in total nonresident tuition and fees has averaged about 15% over the past two years.

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 sports and recreational facilities. The level of miscellaneous fees varies from

Display 7

UNIVERSITY OF CALIFORNIA

TOTAL TUITION AND FEE CHARGES
FOR NONRESIDENT UNDERGRADUATE STUDENTS
1978 - 2003

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	(1)	3,799	430	10,704	14,933	2.4%
2002-03 (Annualized)	(1)	4,204	453	12,480	17,137	14.8%
2003-04	(1)	5,464	546	13,730	19,740	15.2%

(1) Does not include undergraduate student health insurance fees which may be waived by demonstrating comparable insurance coverage.

campus to campus and between graduate and undergraduate students. Generally, students must vote to establish or increase campus miscellaneous fees. Display 4 (on page 130 of this chapter) shows miscellaneous campus fees over time.

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. Beginning with Fall 2001, The Regents have required 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.

Summer Instruction Programs

Fees also are charged for Summer Session courses and programs. As part of the 2000 Budget Act, the State provided $13.8 million in 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 2002 Budget Act continued phasing in State support for summer by providing funding for the Davis campus. A normal funding request would reflect the basic funding principles of the Partnership Agreement including $31 million to support the phase in of State support for the remaining four 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.

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.

STUDENT SERVICES

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 supported from non-State funds with a majority of the funds from student fee income. The total budget for student services in 2003-04 is $397.9 million.

Student services programs were adversely affected by severe budget cuts during the early 1990s when the University was forced to make reductions due to the State's fiscal crisis; those cuts have not been restored. In 2002-03, student services programs were again reduced by a mid-year reduction of $6.3 million, which grew to $25.3 million in 2003-04—equivalent to a 20% reduction in Registration Fee-funded programs. 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.

Student Services include a variety of programs:

- Counseling is provided to assist students with scholastic performance, choice of major, personal concerns, assessing interests and aptitudes, or exploring long-range career opportunities.

- Academic support services offer individual and group tutorial services in writing, mathematics, study skills, and preparation for graduate and professional school exams.

- A wide range of cultural and social activities are provided 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 provide primary care and other services to keep students healthy, including general outpatient medical care, specialty medical care, and health education.

- 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.

- 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.

- Services provided to students with disabilities 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.

STUDENT FINANCIAL AID

Current Perspective

In 1994, the Regents adopted a financial aid policy that "is guided by the goal of maintaining the affordability of the University" for all undergraduate students so that "financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree." Consistent with this policy, the University implemented a financial aid program that has been extraordinarily successful in ensuring that students of all income levels are able to enroll at the University. This success was illustrated in a study by the James Irvine Foundation published in March of 2002, which examined enrollment of low-income students at the nation's top 40 public and private universities (as designated by U.S. News & World Report 2001 College Guide). This study showed that UCLA ranked number one among top universities in terms of enrolling low-income students, with 34.8% of its student body identified as low-income; UC Berkeley ranked second with 30.1%; and UC San Diego, with 28.7%, ranked third. These percentages were significantly above other public institutions included in the list such as the University of Virginia (9%), the University of Wisconsin (11%), and the universities of Michigan and North Carolina (both about 12%).

The current challenge is to maintain UC's affordability in the face of significant fee increases. With a mid-year fee increase of $135 for all students in 2002-03 (which, when annualized, equates to a $405 fee increase), the University instituted increases in mandatory systemwide student fees for the first time in seven years and professional school fees for the first time in four years. The 2002-03 increase was followed by an additional $1,150 fee increase for resident undergraduates in 2003-04 that resulted in a total increase over an 18-month period of $1,555 for resident undergraduate students. Fee increases were also adopted for graduate, professional and nonresident students.

To mitigate the impact of the fee increases, the University used the equivalent of one-third of the fee revenue generated by the combined 2002-03 and 2003-04 fee increases and enrollment growth ($127.2 million based on budgeted amounts) to augment its institutional aid program.

As shown in Display 1, these funds, in combination with an estimated $52.1 million increase in Cal Grant funds awarded to UC undergraduates and an estimated $20.7 million increase in other scholarship, fellowship, and grant funds, raised the total estimated amount of gift aid for UC students over the two-year period by $168.7 million, from $729.9 million in 2001-02 prior to the fee increases to $929.2 million in 2003-04.

Display 1

University of California
Scholarships, Grants, and Fellowships
by Fund Source, 2000-01 to 2003-04
($ in Millions)

	2000-01	2001-02	2002-03	2003-04
UC Funds				
Student Fees and State General Funds	$ 229.3	$ 256.4	$ 266.0	$ 383.6
Other University Funds	99.7	111.7	114.9	117.6
Subtotal	$ 329.0	$ 368.1	$ 380.9	$ 501.2
Other Funds				
Student Aid Commission	$ 126.3	$ 133.4	$ 148.0	$ 185.5
Federal	155.6	185.3	192.2	196.8
Private Funds	36.8	43.2	45.4	46.4
Total	**$ 647.7**	**$ 729.9**	**$ 766.5**	**$ 929.9**

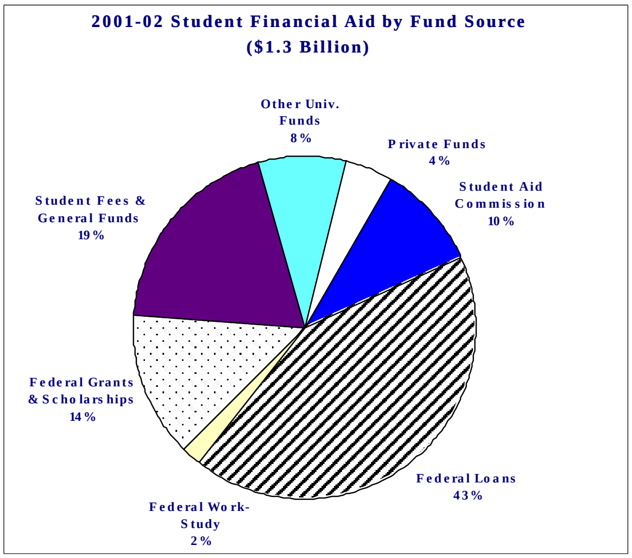
Note: Numbers for 2002-03 and 2003-04 are estimates; Student Fees and State General Funds are based on budgeted amounts.

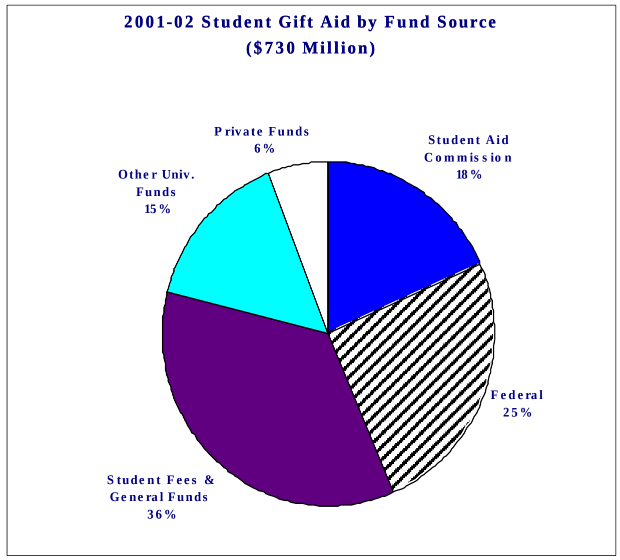
This augmentation ensured that the 2003-04 fee increase was covered with at least some grant assistance for all undergraduates with financial need and parent income less than $90,000. Needy students with parent incomes below $60,000 generally received fee grants that covered the full 2002-03 and 2003-04 fee increases, whereas those with parent incomes from $60,000 to $90,000 generally received fee grants that covered one-half the fee increases. The University would address any fee increase for 2004-05 in the same way.

Historical 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. In 2001-02, (the most recent year for which final data are available) University students received more than $1.3 billion in student aid, including $730 million in gift assistance. Display 2 shows in 2001-02 the proportion each fund source contributed to both the total amount of financial support provided to UC students and the total amount of gift assistance received by UC students.

Display 2





In 2001-02, about 60% of UC undergraduate students and 73% of UC's graduate students received financial aid. Among all undergraduates, 49% received gift assistance averaging $6,500; 62% of all graduate students received gift assistance averaging $9,800. Over half (54%) of the financial aid UC students received was in the form of scholarships, grants and fellowships.

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% fifteen years ago to 33% as of 1994-95. Current University practice requires that an amount equivalent to at least one-third of all new student fee revenue be set aside for financial aid. This is consistent with agreements in the four-year Compact with the Wilson administration and it continued in the Partnership Agreement with the Davis administration.

Between 1994-1995 and 2001-02, resident fees paid by UC students did not increase. In addition, resident student fees were reduced twice. In 1998-99, the State provided funds to reduce fees by 5% for resident undergraduate students. This was followed by a 5% reduction in fees for resident undergraduate and graduate students in 1999-2000. Both times fees were reduced, the State agreed that the University should retain financial aid at existing levels despite the fact that fees had decreased. This "bonus" totaled $8 million in 1998-99 and $17 million annually thereafter, and was used to provide additional grant assistance and reduce the need for recipients to contribute to the cost of their education through work or borrowing.

Display 3 shows total financial aid expenditures for 2001-02 by type of financial award and source of funds for each.

Display 3

University of California
2001-02 Student Financial Aid
by Type of Award and Fund Source
($ in Millions)

			University Funds			
Program	Student Aid Commission	Federal	Student Fees and State General Funds	Other University Funds	Private Funds	Total
Scholarships, Grants, Fellowships						
Pell Grants	$ -	$ 122.9	$ -	$ -	$ -	$ 122.9
Cal Grant A	66.1					66.1
Cal Grant B	62.8					62.8
Other	4.4	62.4	256.4	111.7	43.2	478.1
Subtotal	133.4	185.3	256.4	111.7	43.2	729.9
Loans						
Perkins Loans		35.6				35.6
FFELP/FDSLP		526.5				526.5
Other	-	4.1	2.3	1.0	17.1	24.6
Subtotal	-	566.3	2.3	1.0	17.1	586.7
Work-Study						
Federal		24.0				24.0
State	1.9					1.9
University	-	-	0.1	-	-	0.1
Subtotal	1.9	24.0	-	-	-	26.0
Total	$ 135.2	$ 775.6	$ 258.8	$ 112.7	$ 60.3	$ 1,342.6

Totals do not add due to rounding

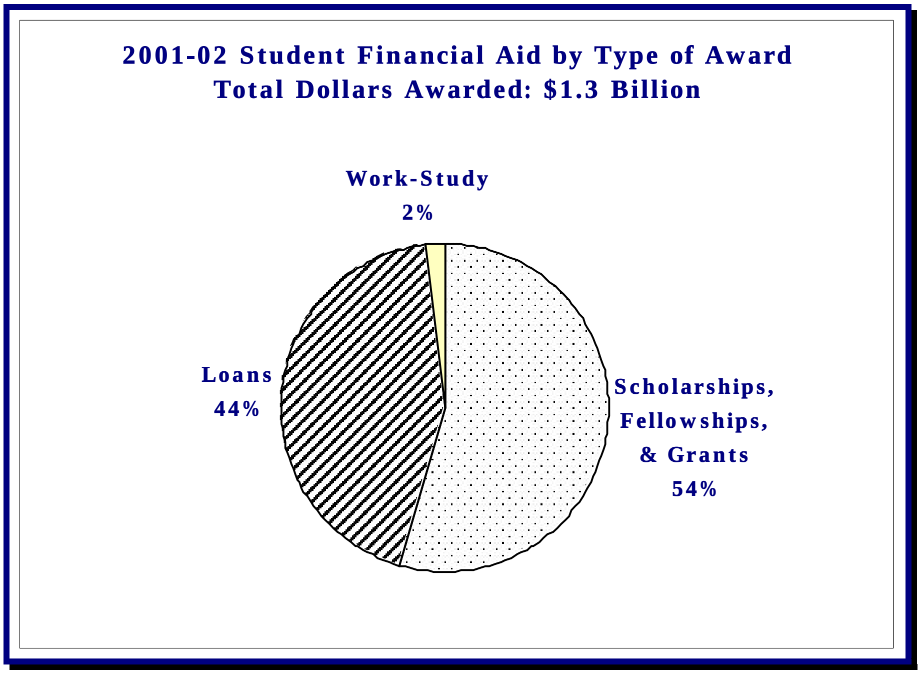
In 2001-02, the State began to feel the effects of the downturn in the economy, and by 2002-03, base budget cuts began to take their toll on the University. As a result, the $17 million "bonus" for financial aid was eliminated from the University's 2002-03 budget. In addition, the University instituted increases in mandatory systemwide student fees for the first time in seven years and professional school fees for the first time in four years. These fee increases were necessary to offset budget cuts that otherwise would have been targeted at instructional programs. The first of these fee increases was instituted mid-year in 2002-03 – a $135 increase for all students effective with the Spring term. When fully implemented in 2003-04, the increase was equivalent to a $405 increase. Fees for professional school students in selected disciplines were also increased. In 2003-04, the University instituted an additional increase of $1,150 for resident undergraduates, equivalent to a 30 percent increase. Fee increases were also adopted for graduate, professional and nonresident students. An amount equivalent to one-third of the fee revenue generated from these fee increases was used to provide grant aid for financially need students. All students who were grant recipients received a grant to fully cover the fee increase. These students are typically from families with incomes of $60,000 or less. Students who qualified as financially needy, but who typically receive only loans, were given grants to cover one-half of the fee increase. These students were generally from families with incomes of between $60,000 and $90,000.

In addition to setting aside at least one-third of new fee revenue for financial aid purposes, the University has supplemented financial aid from other University fund sources. University funds, almost all of which are awarded in the form of grants, scholarships, and fellowships, increased by about 210% between 1990-91 and 2001-02.

The amount of financial aid provided in 2001-02 represents an increase of about $142 million, or 11.8%, over the amount received in 2000-01. Included in that increase was $82 million in the form of additional grants, scholarships, and fellowships. The rate of increase in support for these types of assistance was greater than for any other type of assistance. Display 4 shows the proportion of total financial aid that was used for loans, work-study, and scholarships, grants, and fellowships.

In 2001-02, for the second year in a row, financial aid totals include aid administered for a State-supported summer term at UC. In accordance with

Display 4



the Partnership Agreement, campuses with State-supported summer programs are to provide financial aid packages to UC summer students that are comparable to students' academic year packages. At the four campuses now receiving State support for summer instruction (Berkeley, Davis, Los Angeles, and Santa Barbara), the University has provided new University financial aid funds for summer awards that are generally comparable to University financial support levels for the regular academic year. Consistent with the practice for the regular academic year, one-third of summer fee revenue is directed to University student aid. While the University continues to advocate for the availability of equivalent non-University funding for summer students, federal policy restricts the University from offering federal grant assistance at an equivalent level for year-round students.

In addition, the University has developed a database to facilitate summer enrollment for financial aid recipients attending the summer term at a campus other than their home campus. This database, known as the Intercampus Summer Enrollment (ISE) system, allows UC campuses to share summer financial aid and enrollment information, thereby streamlining the summer enrollment process for UC financial aid recipients wishing to attend another UC campus.

In another effort to accommodate additional enrollment demand and consistent with the Partnership Agreement, the University has adopted a policy to eliminate State support for students who earn an excessive number of units. The financial aid component of this policy calls for ending eligibility for University financial aid programs for those students who have earned substantially more units than are required to graduate. Since 2002-03, students who have earned 120% of the units required to earn a degree have been ineligible for University Student Aid Program awards.

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 in the University's budget until 2002-03, which allowed the University to increase slightly the average gift aid award for needy undergraduate students for several years. As a result, almost $8 million in 1998-99 and $17 million annually thereafter through 2001-02 were made available to reduce the work or loan requirements for both undergraduate and graduate students. (This "bonus" funding was eliminated from the University's budget as part of the budget cuts that occurred in 2002-03.)

The percentage of undergraduate students receiving some type of financial aid in 2001-02 was 60%. Financial aid awards for undergraduate recipients averaged about $9,835 in 2001-02. About 54% 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 72% of all undergraduate aid was awarded on the basis of financial need in 2001-02, 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 28% of aid to undergraduates. The majority (70%) of non-need-based support is awarded in the form of loans, with scholarships comprising the remainder.

Graduate Student Aid

While undergraduate financial aid is intended primarily to promote access, graduate financial aid is used largely as a recruitment tool. In order to support its research mission and fulfill its responsibility to meet California's professional workforce needs, the University needs to attract top graduate students. To do this, it must offer financial assistance packages that can compete with those offered by other institutions recruiting the same prospective graduate students. As a result, a greater portion of graduate students, as opposed to undergraduate students, receives financial support (73%), and their average annual financial aid award is significantly higher. This outcome is also driven by the fact that graduate students generally do not rely on parental support to meet educational costs and are more likely to have dependent family members.

Because the competitive markets for graduate academic and graduate professional students differ substantially, so do the types of financial support provided to these two types of graduate 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

Graduate academic students receive significant support in the form of both aid and teaching and research assistantships. The largest proportion of aid awarded to these students is in the form of fellowships and grants (79% in 2001-02), rather than loans and work-study. In 2001-02, approximately 20,400 graduate students, almost all of whom were graduate academic students, received nearly $334 million from assistantships.

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University today. To assess the competitiveness of the financial support offers made to prospective UC doctoral students, the University surveyed students admitted in Fall 2001 about the aid offers they received from UC as well as those offered by their top-choice non-UC institution. The survey focused on the gift assistance (grants, scholarships, and fellowships) students received as well as research and teaching assistantships. The survey results showed that overall, UC financial support offers made to students applying to academic doctoral programs were not fully comparable to offers from non-UC competitors. Overall, not only did students with financial assistance offers from UC receive stronger offers from other institutions (when accounting for differences in student fees), but students to whom UC was not able to provide assistance were more likely to get offers from competing institutions. The University-wide patterns do not reflect variations that exist among disciplines and among campuses. UC students in the life sciences had stronger financial aid packages than their UC counterparts in other disciplines and, on average, better packages than competing institutions offered. At the other extreme, UC students in the social sciences had packages that were substantially less generous and were far below those offered by competing institutions.

The variation by campus was driven by both differences in UC campuses' financial assistance offers and differences in the sets of institutions with which each campus competes. Thus, while Berkeley had stronger packages than five other campuses, it is the campus that is furthest behind its competing institutions.

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 is used for grant and fellowship awards with some funds set aside for loan repayment assistance programs.

About two-thirds of aid awarded to graduate professional students is in the form of loans, 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 at UC and competing institutions. 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.

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 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 among the campuses, and guide the awarding of aid funds to undergraduate students. The Model is based on the following principles:

- the total cost of attendance (fees, living and personal expenses, books and supplies, and transportation) is considered in assessing funding needs, allocating aid funding, and awarding funds to students;

- meeting the costs of attending the University requires a partnership among students, their parents, federal and state governments, and the University;

- 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 5 (next page). Historically, to meet the grant need determined by the Model, the University has augmented financial aid by an amount equivalent to one-third of any new fee revenue.

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.

Display 5

Education Financing Model

Start with Student Expense Budget:

Less	Reasonable Contribution from Parents
Less	Manageable Student Contribution from Working
Less	Manageable Student Contribution from Borrowing
Less	Federal and State Grant Aid
Equals	**University Grant Aid Needed**

Since 2000-01, all undergraduate student expense budgets have included a mandatory health insurance fee/allowance. 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).

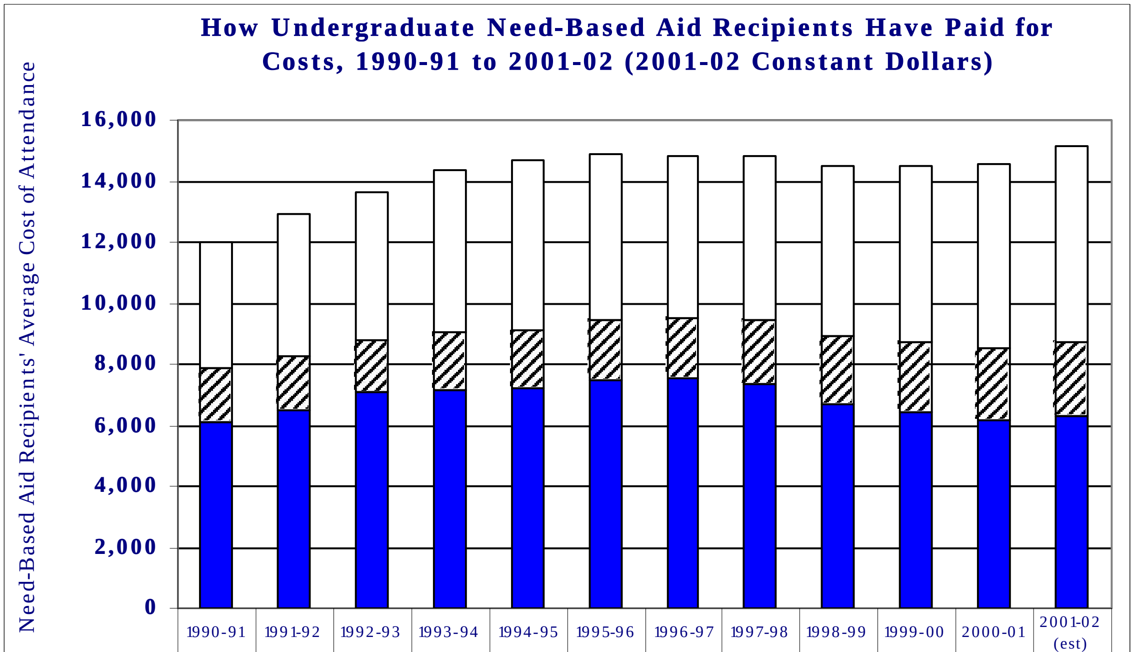
Contribution from Parents

Parents are expected to help pay for the costs of attending the University if their children are considered financially dependent (all students are considered financially dependent unless they meet the requirements contained in 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. Particularly low-income parents have an expected contribution of zero. 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 includes ranges for loan and work expectations based on the University's estimate of the minimum and maximum manageable loan/work levels. They are adjusted annually for inflation, and periodically for market changes in student wages and expected post-graduation earnings. As shown in Display 6, the amount students have had to contribute to their educational expenses from earnings and borrowing declined for four years before edging upward in 2001-02.

Display 6



	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (est)
Gift Aid	4,127	4,685	4,839	5,347	5,567	5,396	5,285	5,405	5,623	5,813	6,060	6,410
Parent Contribution	1,798	1,747	1,715	1,859	1,871	1,988	1,985	2,080	2,208	2,251	2,365	2,437
Loan/Work	6,084	6,505	7,063	7,168	7,238	7,469	7,536	7,340	6,693	6,450	6,165	6,282

Contribution from Federal and State Grant Aid

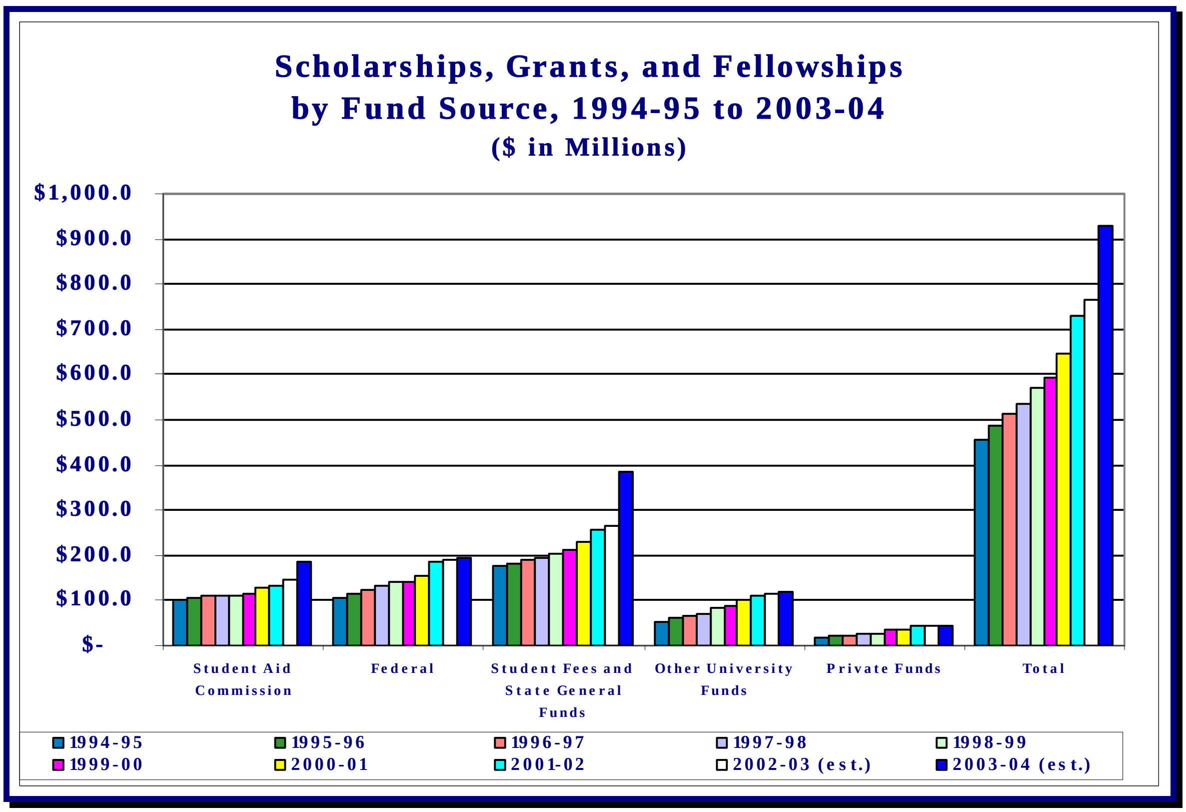
The University's goal is to provide grant support to needy students to cover the gap between the student's expense budget and the expected contributions from parents, student borrowing, and student work. Available federal and State need-based grants are applied toward a student's grant eligibility.

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 7 shows the increases in financial aid expenditures from various fund sources since 1994-95. As indicated, fellowship, scholarship, and grant expenditures from all fund sources have increased dramatically over a ten-year period.

Display 7



University Student Fees and State General Funds

Approximately 37% of enrolled undergraduates and 55% of enrolled graduate students received some form of financial assistance funded from institutional aid programs in 2001-02. UC institutional aid programs funded from student fee revenue and State General Funds function as one piece of the total support received by UC students. For undergraduates, campuses combine University aid programs with awards from federal, State, and private sources to build a financial aid package that is composed of individual aid components awarded in accordance with the intent and requirements of each particular funding agency but that as a combined whole meets the University's financial aid goals. The following is a summary of how the various major programs interact for undergraduates.

The federal Pell Grant program (discussed in more detail following this section) is intended to provide a basic level of financial access to higher education and serves as the floor of the aid package for low-income undergraduates. The program assists eligible low-income students with their total educational costs regardless of the institution the student chooses to attend, with the level of assistance declining from a Congressionally set maximum ($4,050 in 2003-04) as family resources increase.

Supplementing the Pell Grant floor for California residents is the state's Cal Grant program (discussed in more detail following this section). This program includes a small stipend ($1,555 in 2003-04) for non-fee expenses that is targeted to low-income students who are generally eligible for Pell Grants. The stipend augments the basic level of support available from the Pell Grant program for California residents. However, the primary focus of the Cal Grant program is on tuition and fee coverage. The tuition and fee awards serve to level the playing field so that both low- and middle-income students with financial need can choose among California's higher education options. The awards cover systemwide fees at UC and the California State University and an amount up to a legislatively determined maximum ($9,708 in 2003-04) at independent and proprietary institutions. By equalizing tuition across segments, the Cal Grant fee awards allow students to make their enrollment decisions based on educational, rather than financial, considerations. In addition, they facilitate the utilization of independent and proprietary institutions as an alternative to public postsecondary education.

Each postsecondary education segment also has institutional aid programs tailored to the institution's mission and context. Institutions supplement the Pell and Cal Grant funds available to undergraduates to ensure that the total aid packages of their students are consistent with the institution's financial aid goals.

Key to UC's undergraduate financial aid goals are:

- The residential nature of UC's education program, which requires that the context for financial aid reflect students' living expenses away from home as well as their fees;
- The expectation that students attend full time, which limits the amount that students can work during the academic year without interfering with their academic performance and degree progress; and
- The recognition that a UC education generally increases a student's future earning potential, so that students can be expected to invest in their education through manageable levels of borrowing.

UC's institutional grants are used to provide affordability within this context by ensuring that UC's total costs do not make UC financially inaccessible to any UC undergraduate and by mitigating the impact of fee increases on both low- and middle-income students. The grants supplement federal and Cal Grant awards for students who need additional grant assistance in meeting their total costs and provide support to needy students who do not receive fee awards from the Cal Grant program.

In addition, UC needs to maintain the strength of its graduate and professional degree programs and thus must provide student support from fellowships and graduate assistantships that is comparable to the support available at the universities with which UC competes for students. UC uses its own resources to supplement extramural fellowships and research assistantships provided by the federal government and private outside agencies to maintain the competitiveness of graduate and professional degree student awards and to meet the University's contractual obligations to teaching assistants.

Federal Aid

In 2001-02, UC students received $775.6 million in federal financial aid, which represented approximately 57.8% of all support awarded during that year. The vast majority of federal aid was in the form of loans.

Overall, UC students received about 12% more federally funded aid in 2001-02 than they received the previous year. A 21% increase in Pell Grant dollars going to UC students was fueled largely by a $450 increase in the maximum Pell grant in 2001-02. While federal loan volume increased at a slower rate (9%), the significance of the federal student loan programs is demonstrated by the fact that these programs continued to comprise three-quarters of all federally funded aid and nearly one-half (42%) of total financial support received by University students in 2001-02.

The Taxpayer Relief Act of 1997 and the Economic Growth and Tax Relief Reconciliation Act of 2001. The Taxpayer Relief Act (TRA) of 1997 implemented a number of new provisions that continues to affect UC students and their families. The Economic Growth and Tax Relief Reconciliation Act of 2001 extended 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 contracts 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 tax credit, each student is 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 tax credit programs, 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, although the Economic Growth and Tax Relief Reconciliation Act of 2001 expanded eligibility for the program by increasing income ceilings.

  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% indicated that they had claimed either a Hope or Lifetime Learning Tax Credit for tax year 1999. Based on this information, the University estimated 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 is intended to assist middle-income students and their families.

- **Coverdell Education Savings Account**. The Economic Growth and Tax Relief Reconciliation Act of 2001 established the Coverdell Education Savings Account (ESA) to replace the Education IRA and increased from $500 to $2,000 the maximum annual contribution. Although contributions are not tax deductible, earnings on the ESA are tax-free and no taxes will be due upon withdrawal if used for qualified higher education expenses. The maximum contribution is gradually phased out for joint tax filers earning between $190,000 and $220,000. This program 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 2004-05. However, given the nation's economic slow-down and the growing federal deficit, 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. The maximum award for those recipients from the lowest-income families is $4,050 for 2003-04, while it was $2,470 only seven years earlier. Increases in the Pell Grant maximum award for 2003-04 appear to be unlikely. Support for other federal programs—the Supplemental Educational Opportunity Grant Program, 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 (although funding for new Cal Grant T awards and the State Work-Study program was eliminated from the State's 2003-04 budget). These programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. In 2001-02, University of California students were awarded $135.2 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 an eligible California institution of the students' choice. Cal Grant Awards for recipients attending UC and CSU currently cover systemwide student fees.

Cal Grant funding for UC students grew by 4% in 2001-02, the year in which the revised Cal Grant program was first implemented. Pursuant to the enactment of SB 1655, existing new Cal Grant A and B awards were replaced with new 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, each of which is described in the next several pages.

The growth in overall Cal Grant funding for UC students in 2001-02 was lower than it had been in prior years. While each cohort of new Cal Grant recipients had been growing in the years leading up to 2001-02, the first year of implementation of the revised Cal Grant program saw a decline in the number of new awards made to UC students. The revised Cal Grant program's focus on students just graduating from high school led to an increase in the number of UC freshmen receiving awards, but this increase was more than offset by a decline in the number of new awards made to continuing UC students. At the same time, the resulting cohort of new recipients was larger than the cohort graduating in 2000-01, which it replaced, thus leading to an overall 4% increase in Cal Grant support for UC students. The University anticipates that once the new program is fully implemented in 2003-04 and all cohorts of UC recipients have been awarded through the revised program, the net number of new Cal Grant awards received by UC students will be similar to what it was prior to the implementation of SB 1644.

The implementation of the revised Cal Grant program led to one substantial change – a shift in funding from Cal Grant A awards to Cal Grant B awards. This decline in Cal Grant A support and increase in Cal Grant B support is reflective of the revised eligibility criteria making far more new UC recipients eligible for Cal Grant B awards than had been in the past. UC students who are eligible for both a new Cal Grant A and a new Cal Grant B award are awarded a Cal Grant B since in the long run, a Cal Grant B award is worth more to a student than a Cal Grant A award.

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 made based upon 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 eligible 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. A community college student who receives an award may choose to hold his or her award in reserve and activate it upon transfer to a four-year institution. (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.

First-year Cal Grant B Entitlement Award recipients receive a grant of about $1,550 to cover a portion of "access costs," which include transportation, books, supplies and other living expenses. Beginning with the second year, the award includes a tuition and fee award *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 (which are lower than those for the Cal Grant A program), and have met the application deadline in the year following high school graduation.

California Community College Transfer Entitlement Cal Grant Awards. These awards are available to California residents 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 establishment of an entitlement for the Cal Grant program will be of tremendous value in the outreach effort to convince prospective college students that there is funding available to help them attend college. Students who believe that there is financial support available to enable them to attend college are more likely to prepare themselves academically. In addition 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 provisions will greatly expand the number of students who receive a Cal Grant award. While the former Cal Grant A program had a GPA cutoff that varied each year, the entitlement program's GPA cutoff of 3.00 is lower than the cutoff had been in most recent years. While the former Cal Grant B program determined recipients based on a complex formula accounting for such factors as GPA, family income, family size, and parents' education levels, the entitlement program is far simpler. Cal Grant B Entitlement Awards are available to all applicants with a minimum GPA of 2.0 and who have income and assets below established ceilings. 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 are not eligible for an Entitlement Award (for instance the student who has been out of high school for more than one year or missed the entitlement deadline) to compete for one of 22,500 additional Cal Grant Awards. Award recipients are selected on the basis of an index that gives special consideration to disadvantaged students. Half of the awards is reserved for students who enroll at a California Community College. The remaining half is available to all students, and while most of these go to CSU or a community college, some UC students 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.

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 2001-02, about $112.7 million in University aid from these sources was awarded to students, of which nearly all ($111.7 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 2001-02, more than $60 million was awarded to UC students from private agency programs, which represented 4.5% of the financial support students received during that year.

INSTITUTIONAL SUPPORT

Institutional Support includes numerous campus and systemwide activities under five sub-programs. The 2003-04 budget for Institutional Support is $474 million, including $323 million in UC and State General Funds. The sub-programs and examples of activities included in this function are:

- **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.

Funding for administration has failed to keep pace with enrollment growth, the costs of new State and federal mandates, and additionally, general inflation due to a lack of State funds to cover price increases. New expenditures in Institutional Support have been 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.

Institutional Support budgets are often one of the first areas of the budget to be reduced in difficult economic times, and the University's Institutional Support budget has been no exception to this practice over the last two decades. As a result, including all fund sources, Institutional Support expenditures declined from 12% of total expenditures in 1971-72 to 9.5% by 2002-03.

In the early 1990s, already constrained by historical underfunding, Institutional Support budgets were deeply impacted by the State of California's fiscal problems. At that time, University budgets were cut by $433 million, or about 20% of the 1989-90 State-funded budget. Due to legislative intent language, and the shared desire of the University and the State to protect core academic programs, Institutional Support was targeted for additional cuts, along with Research and Public Service programs. 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. In addition, the current fiscal crisis has resulted in significant further reductions to Institutional Support budgets: a mid-year cut of $20 million to Academic and Institutional Support budgets grew to $36.5 million in 2003-04.

Aside from the base budget cuts targeted at Institutional Support by the State, the University has over $100 million in unavoidable costs related to paying faculty merits, employee health benefits, energy cost increases, and maintenance of new space in 2003-04, most of which must be funded by redirecting resources from Institutional Support and other parts of the budget.

Budgets cuts in this area are particularly of concern since the workload demand in Institutional Support is increasing, not decreasing. Federal regulatory burdens, enrollment growth, and State laws are creating significant pressure on Institutional Support budgets. Campuses strongly believe these budgets have been seriously underfunded for years.

Nevertheless, in recognition of the continuing fiscal crisis in the State, the University is undertaking a review of administrative activities across a wide range of programs to identify efficiencies where possible. This review includes examination of purchasing and procurement practices as well as regulatory relief the University should seek to help reduce administrative costs.

OPERATION AND MAINTENANCE OF PLANT

The University comprises over 101 million gross square feet of space. In 2003-04, the University's Operation and Maintenance of Plant (OMP) budget is $424 million, of which $374 million is State and UC General Funds.

The University is severely underfunded for building maintenance, placing the quality of the University's physical plant in jeopardy, and severely impacting teaching and research programs. The following is a summary of the University's current funding shortfall, with additional detail provided below.

- Increased Workload: New space brought on line in 2003-04 required annual support of $5.9 million to meet basic maintenance needs, but no funding was provided. New space being brought on line in 2004-05 will need annual funding of $14.9 million. If funds are not provided for new buildings in 2004-05, the University's annual shortfall for basic maintenance of new space will reach a total of $20.8 million.

- Energy Costs: The University has managed to accommodate increased costs in this essential area by cutting other elements of the maintenance budget. With energy costs continuing to rise, however, it is anticipated that the University will experience further shortfalls in funding in 2003-04 and that this problem will continue into 2004-05.

- Ongoing Maintenance: The University has been unfunded historically in this area based on agreed-upon maintenance standards, which the State has recognized in the Partnership Agreement and in legislative language. To meet this longstanding budget shortfall, a permanent increase of at least $45 million is needed.

- Facilities Renewal: The University estimates that $200 million is required annually to adequately deal with facilities renewal needs. Where funds are available, facilities renewal can be addressed as an element of the University's capital improvement budget; however, the majority must be funded from the regular OMP budget. Facilities renewal (whether budgeted as an operating or a capital improvement cost) has been significantly underfunded, resulting in the continued increase of the University's deferred maintenance backlog.

- Deferred Maintenance: The University estimates at least $500 million in one-time funding is needed to deal with the growing backlog of highest priority deferred maintenance projects. A small percentage of the University's capital improvement budget is expended in this area, but cannot significantly compensate for the accumulated deferred maintenance shortfall.

Background

A longstanding budget shortfall for ongoing building maintenance, and the lack of both permanent funds for facilities renewal as well as one-time funding for deferred maintenance, have combined to create a serious problem throughout the University. The budget shortfalls occurring as a result of the current State fiscal crisis have significantly intensified the problem and resulted in underfunding of the Partnership Agreement during the period 2001-02 to 2003-04. Basic building maintenance is a real and unavoidable cost of doing business, however, and the need for funding in this category grows as new space comes on line and as energy costs increase. If OMP funding is insufficient, essential operating costs are paid for at the expense of other maintenance work.

In a normal budget environment, the University would fund required increases in OMP related to new space, energy costs, etc., with a portion of the 4% base budget adjustment called for in the Partnership Agreement. The Partnership Agreement also includes a commitment to support a 1% increase to UC's General Fund base to address chronic budget shortfalls in four core areas of the budget, including building maintenance. As a result of the State's fiscal crisis, however, funding has not been provided to meet the State's commitments. Yet new space needed to accommodate enrollment growth has come on line and energy costs have continued to rise, causing the University to make reductions in other areas such as janitorial, grounds maintenance, and ongoing maintenance.

The University's maintenance program consists of the following major elements: (1) ongoing maintenance supports building systems on a regular basis in order to keep them operational and includes basic maintenance and essential services such as utilities, janitorial, garbage collection, and grounds work; (2) facilities renewal provides for the timely renewal of infrastructure and building systems (such as roofs, boilers, and elevators) when they reach the end of their useful life; and (3) deferred maintenance consists of accumulated projects that have been delayed for lack of funding. As only a fraction of the capital improvement budget can be used to support facilities renewal and deferred maintenance, both areas remain severely underfunded.

Inadequate funding for all categories of maintenance erodes the University's capital assets, grows more costly over time, and often results in critical, but inefficient emergency repairs. More detail is provided below about the underfunding that has occurred in the separate areas of the University's maintenance program since the State's budget crisis began.

Maintenance of New Space

In 2004-05, the University will complete construction of over 1.6 million square feet of new space to house State-supportable programs. A total of $14.9 million is required to provide basic maintenance and utilities service to this space. In 2003-04, the University brought 650,000 square feet of new space on line that is eligible for State OMP funding, with $5.9 million needed (but not funded) to supply basic maintenance. If the University does not receive funding for increased workload in 2004-05, it will have grown by a total of 2.25 million square feet of new space in the last two years, without receiving any of the $20.8 million necessary to fund the cost of maintaining this new space.

Increased Energy Costs

The State energy crisis severely impacted the University in fiscal years 2000-01 and 2001-02 when natural gas prices spiked, followed quickly by a surge in electricity costs. In 2001-02, the State committed to providing $75.6 million in supplemental one-time funding to help address this problem. As the State's fiscal condition declined, however, this amount was reduced to $50 million after mid-year budget cuts, and was totally eliminated in the 2002-03 budget. Since that time, the University has managed to accommodate increased costs in this essential area by cutting other elements of the maintenance budget. With energy costs continuing to rise, however, it is anticipated that the University will experience further shortfalls in funding in 2003-04 and that this problem will continue into 2004-05. Thus, the University will be forced to reallocate resources to cover these costs.

Ongoing Maintenance

Beginning in 1999-00, the funding principles of the Partnership Agreement called for annual increases to the ongoing building maintenance budget as part of the 1% increase to UC's General Fund base for chronically underfunded core areas of the budget. At the time the Partnership was established, the University estimated the chronic annual shortfall in funding for ongoing maintenance to be $45 million, based on agreed-upon standards. Full funding of the Partnership in 1999-2000 and 2000-01 allowed the University to close $8.5 million of that gap. As the State's fiscal condition worsened, however, the ongoing maintenance element of the Partnership could not be funded.

Facility Renewal

As University facilities age without benefit of predictable funding for facilities renewal, problems with the physical plant gradually become deferred maintenance projects. The University currently estimates that annual funding in the amount of $200 million is required to adequately address facility renewal needs and to stem the continued build up of deferred maintenance projects. While the University would anticipate funding some portion of these costs through renovation projects included in the capital improvement budget, the majority must be funded from the regular OMP budget.

Deferred Maintenance

In addition to the University's annual capital renewal funding needs, it is currently estimated that a total of at least $500 million in one-time funding is required to deal with the University's highest priority deferred maintenance projects. Over the last four years, over $250 million has been provided for the most urgent deferred maintenance projects. This total includes State funds as well as the proceeds of long-term financing, with increases in nonresident tuition pledged as the repayment source. While this infusion of funds has been significant, an increasing number of new projects are added to the list each year due to nearly a decade of insufficient funding for building maintenance, coupled with no regular funding for the systematic renewal of building components that wear out with normal use and require replacement on a periodic basis. The University is no longer able to provide funds for deferred maintenance through debt financing given other competing needs for nonresident tuition. In addition, there are no State funds remaining in the University's budget for deferred maintenance.

Where funds are available and where efficiencies can be realized, both facilities renewal and deferred maintenance projects are addressed as an element of the University's capital improvement program. Although some progress has been made in this way, only a fraction of the capital budget can be used to support these two areas and they remain severely underfunded. As these projects are delayed, the scope and cost of the work increases while the quality of the University's physical plant declines. Resources that should have been used for maintenance and renewal have to be expended on emergency repairs and short-term solutions, and teaching and research programs are impacted.

AUXILIARY ENTERPRISES

UC's auxiliary enterprises are provided to students, faculty, and staff, and are intended to support the academic mission with the highest levels of service. State funds are not provided for auxiliary enterprises; rather they generate sufficient revenues to cover all costs. Annual budgets are based upon income projections, and all budget increases are funded by corresponding increases in revenue. The largest self-supporting auxiliary enterprises include student and faculty housing, parking, and bookstores. In 2003-04, the University's total annual budget for Auxiliary Enterprises is $644.6 million, all of which is non-State funds.

During 2002-03, 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.

The largest program in Auxiliary Enterprises is student housing, comprising approximately 46,808 residence hall and single student apartment bed-spaces and 4,807 student family apartments, for a total of 51,615 bed-spaces. Demand has exceeded the supply of campus housing for some time and the University currently plans to add 36,716 new beds by 2012-13 in response to the shortfall.

Faculty are assisted in their housing needs with a variety of programs, including rental housing, home loan programs, the Salary Differential Housing Allowance Program, the Mortgage Credit Certificate Program (federal tax credit for first-time buyers) and for-sale housing built on University land.

Another major auxiliary enterprise is the parking program, with approximately 106,009 spaces for students, faculty, staff, and visitors.

PROVISIONS FOR ALLOCATION

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 2004-05 are discussed in the *Program Maintenance: Fixed Costs and Economic Factors* chapter of this document.

The University's budgetary savings target is a permanently budgeted negative appropriation. The concept underlying the assignment of a budgetary savings target is that salary savings will accrue naturally during the year as a result of normal employee turnover. The University believes that the 2% target assigned in the mid-1970s was a reasonable target that represented natural savings. However, the University's current budgetary savings target is greater than 2%, which places a burden on campuses because savings in the amount of the assigned target must be achieved each year in order to balance the budget.

The 2004-05 budget reflects adjustments made to eliminate one-time funds from the 2003-04 budget and restoration of an $80.5 million one-time cut adopted in the 2003-04 budget.

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 2003-04, $115.3 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 2004-05 budget continues this level of funding.

PROGRAM MAINTENANCE: FIXED COSTS AND ECONOMIC FACTORS

This segment of the budget 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.

In a normal budget year, consistent with the Partnership Agreement, the University would be requesting a 4% increase to the prior year's State General Fund base which would be sufficient to fund a 3.5% cost-of-living increase, effective October 1, and 1.5% merit increase for faculty and staff; increases in health benefits, which are expected to rise about 15%; non-salary price increases, which are expected to increase about 2.5%, and additional maintenance needed for new space coming on-line in the budget year. These are discussed in more detail below (maintenance of new space is discussed in the *Operation and Maintenance of Plant* chapter of this document). The 4% base budget adjustment would only provide funding to prevent further erosion of the University's budget. It would not provide any restoration of shortfalls that have occurred during the budget crisis.

The Legislature adopted intent language requesting that, in developing the 2004-05 Governor's Budget, the Department of Finance include no funding for the University for enrollment growth, salaries, or non-salary price increases beyond the 2003-04 budget. However, many of the increases that would otherwise be funded within the 4% base budget adjustment are unavoidable costs that the University must fund. If there are no State funds provided for these purposes, the University will develop a plan to address those needs that are high priority and therefore must be funded even if additional budget cuts, student fee increases, or enrollment reductions must be implemented to do so. These priorities are:

1) faculty merit increases, which recognize and reward excellence and are critical to the preservation of the quality of the University. One-third of the faculty is eligible for these increases each year. The University must pay these costs, because if in any one year merit increases are not funded, a significant inequity would occur;

2) staff merit increases, which are needed because of significant lags compared to the market due to years of inadequate funding for merit and cost-of-living increases. The University reduced budgets beyond

the amount reduced by the State in 2003-04 in order to fund faculty merit increases, but no such general increases were provided to staff. It would not be reasonable to exclude staff again if merit increases are to be paid to faculty;

3) health benefit costs, which continue to out-pace inflation and are expected to increase 15% in 2004-05; and

4) price increases, needed for non-salary expenses to preserve the University's purchasing power.

Background

Since 1995-96 the University has based its budget request on the Compact with Governor Wilson or, beginning in 1999-2000, the Partnership Agreement with Governor Davis. Among the funding principles of both agreements was a commitment to provide a base budget adjustment of 4% to the University's State General Funds to provide support for the high priority purposes of faculty and staff merit and cost-of-living (COLA) increases, employee health benefit increases and non-salary price increases. Both the Compact and Partnership Agreements were fully funded—and in some years the funding provided by the State exceeded the minimum required—through the 2000-01 budget. Beginning in 2001-02 however, the State's fiscal crisis began to impact funding provided to the University. As a result, the Partnership is underfunded by nearly $1.1 billion, the majority of which is related to salaries, benefits, and non-salary price increases.

In a normal year, consistent with the Partnership Agreement, the University would request a total of $47.7 million for faculty and staff merit increases, $73.4 million for COLAs, $28.3 million for health benefit increases, and $27.7 million for non-salary price increase.

Each of the programs and the effect of the underfunding is discussed in more detail below.

Merit Salary Increases

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 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. If faculty merits are not paid in any year, the one-third of the faculty who are eligible for review that year would be inequitably treated compared to faculty whose eligibility occurs in another year. In 2003-04, the University did not receive State funding for merit increases, causing the University to institute an additional internal budget cut in order to fund faculty merit increases.

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 2003-04, the University received no State funding for staff merit or COLA increases.

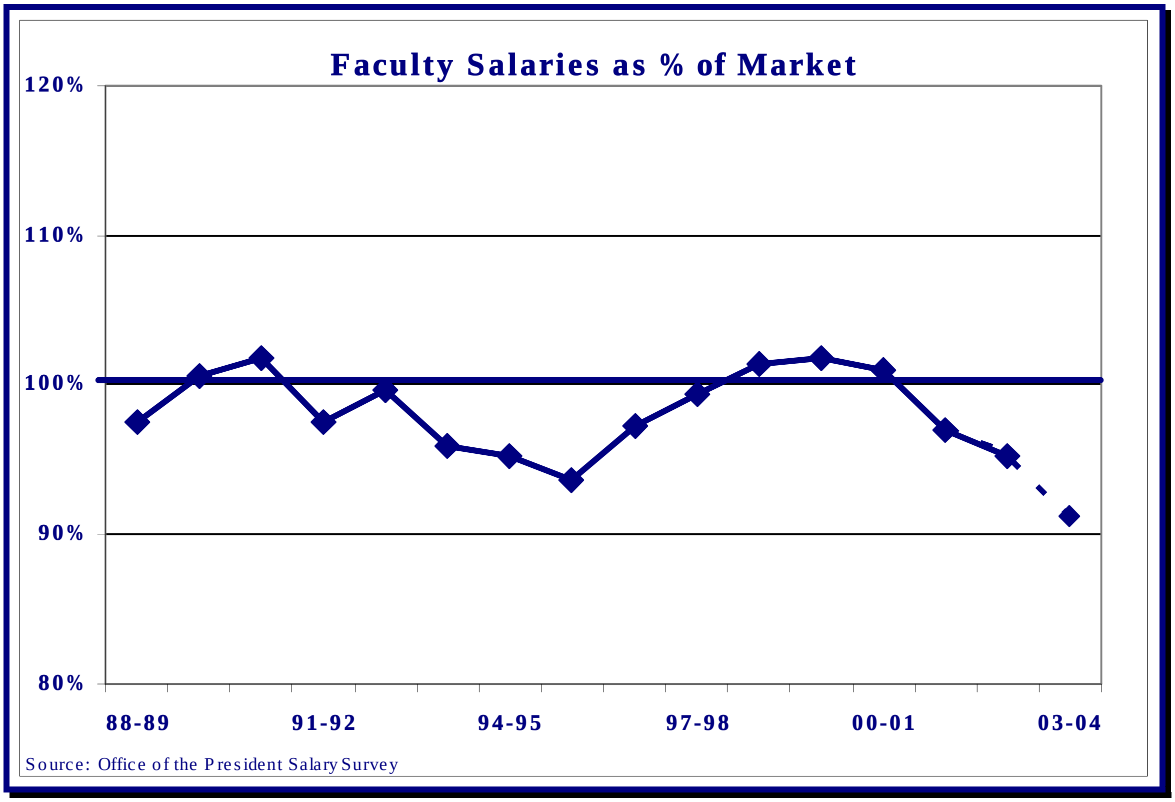
Cost-of-Living-Adjustment Salary Increase

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 maintain 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.

As part of the State's actions to reduce the University's Partnership funding in the 2001-02 and 2002-03 budgets, the University lost funding that had been targeted for COLAs and parity increases for faculty and staff. As a result, the University was only able to fund a combination of merit and COLA increases averaging 2% for faculty and staff in 2001-02 and merit increases of 1.5% in 2002-03. The University did not receive any State funding for faculty and staff COLAs in 2003-04.

As shown in Display 1, it is estimated that salaries for faculty are likely to lag the average of the University's comparison institutions in the current year by about 9%; the University estimates it will have a similar gap with respect to staff salaries. Language adopted by the Legislature as part of the final budget package for 2003-04 states legislative intent that no funding be provided for UC in 2004-05 for salaries or non-salary price

Display 1

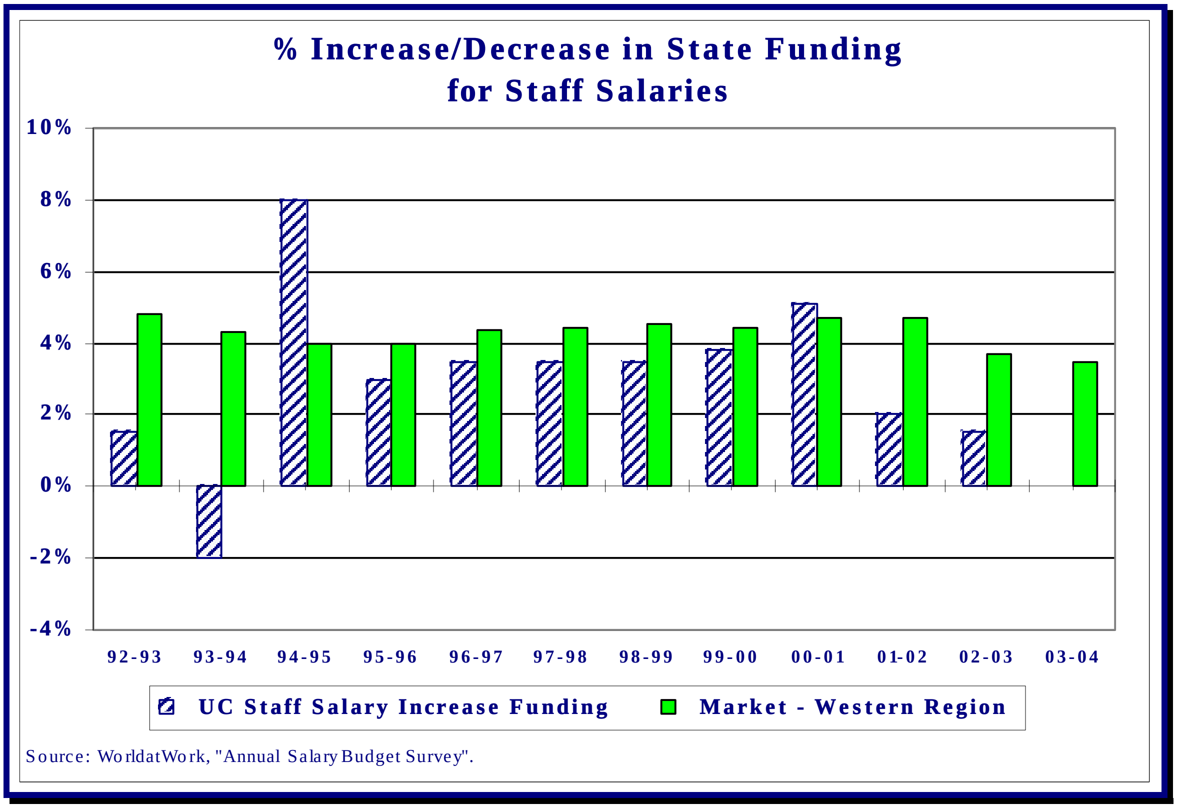


increases. If no funds are provided for salaries in 2004-05, the lag in faculty salaries is likely to grow to 13%.

There is considerable concern within the University about its ability to recruit and retain high quality faculty and staff as the institution continues to lose ground in terms of its ability to offer competitive salaries. 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. Even if enrollment growth is slowed for a couple of years during the State's fiscal crisis, the University will need to recruit 7,000 faculty during this decade to accommodate increases in enrollment and replace faculty who retire or leave for other reasons.

Additional staff will also be needed. As a result of the lack of salary funding in the early 1990s and in the last three years, staff salaries have also fallen seriously behind. Display 2 compares the annual salary increase funding for UC staff employees to market data from over 800 employers of all sizes and industries, including the public sector, in the western United States. As the chart shows, market salaries have been increasing at approximately 4% per year, but UC staff salaries have not kept pace, both in the early 1990s and currently, as the State's fiscal crisis has prevented full funding of the Partnership Agreement.

Display 2



Without an ability to pay competitive salaries, the impact on the University's recruitment efforts will be severe, particularly if this problem persists over a long period of time. Nothing is more certain to undermine quality than a persistent inability to offer competitive salaries. In addition, the lag in competitive salaries is exacerbated by the high housing costs in many campus communities.

The University is deeply concerned about the widening gap between funds available to support salary increases and the resources needed to fund more competitive salaries. The University cannot continue to maintain its excellence unless sufficient resources are provided for faculty and staff salaries. Funding for salary increases is among the University's highest priorities. It is the University's expectation that when the State's fiscal situation improves, the Partnership funds eliminated from the 2001-02, 2002-03 and 2003-04 budgets will be restored, allowing the University to bring faculty and staff salaries back to competitive levels.

Academic and Staff Employee and Annuitant Benefits

While the University was successful in containing the cost of employee health benefits in the 1990's, it is currently being adversely affected by the nationwide trend toward dramatically increasing employee benefit costs. The University anticipates a 15% increase in employee health benefit costs for 2004-05. Without adequate resources for employee benefits, costs to employees rise (reducing their net compensation) and/or benefits are reduced. Most employees will have less take-home pay next year as a result of recent health benefit cost increases, although the University is planning to minimize the impact of rising health benefit costs for lower-paid employees. This contributes to the challenges of recruiting and retaining high quality University employees. For annuitants, the University has received funding in prior years that was equivalent to that provided for the State's annuitants. This is consistent with the principles of the Partnership Agreement, under which these costs are funded separately.

Non-Salary Price Increases

In recent years, the University has been significantly underfunded in this category. Non-salary price increases are intended to offset the impact of inflation on the non-salary portion of the budget and thus maintain the University's purchasing power. The absence of additional funding for price increases is effectively a budget cut, since UC cannot avoid the higher costs resulting from price increases. Significant increases are anticipated for several major commodities, including subscriptions and serial services which represent more than 65% of the library materials budget. The University is also expecting higher cost increases for other commodities such as equipment, and liability and property insurance. The University incurs substantial costs for all of these items.

UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS

Federal Reimbursement

Federal reimbursement is the source of three University funds: the University Opportunity Fund, the Off-the-Top Overhead Fund, and the Department of Energy (DOE) Management Fee. These funds are used to support high priority needs to help fulfill the University's missions in Instruction, Research and Public Service.

Federal contract and grant activity generates costs that are divided into two basic categories—direct and indirect. Direct costs are expenditures that can be identified as solely benefiting a specific contract or grant. These costs are charged directly to individual contracts or grants. Indirect costs are expenses that 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 has an agreement with the State regarding the disbursal of federal reimbursement. Pursuant to this agreement, the first 20% of the reimbursement (after withdrawals for Garamendi projects) accrues directly to the University for administrative costs related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund, which is used to support costs in areas such as campus contract and grant offices, academic departments and Organized Research Units (ORUs). 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. This Fund is used to support high priority needs in areas such as Research, Instruction, and Institutional Support. Funding in these areas provides support for a variety of programs and activities, such as: the Education Abroad Program; administrative computing; Environmental Health and Safety; the Keck Observatory; and costs related to the recruitment of faculty, including laboratory renovations, research assistants, and equipment.

In 1990, the State approved legislation (SB 1308, Garamendi) authorizing 100% of the reimbursement received as a result of new research conducted in, or as a result of, certain new research facilities to finance and maintain those facilities. Any reimbursement received in excess of what is needed to finance and maintain a facility is allocated as described above.

The DOE Laboratory Management Fee is the annual compensation provided to the University for management and oversight of the DOE Laboratories at Berkeley, Livermore and Los Alamos. This Fee is discussed in greater detail in the Income and Funds Available section of this budget document.

INCOME AND FUNDS AVAILABLE

General Fund Income and Funds Available

The programs described in this budget document will require General Fund resources in 2004-05 of $3.7 billion, including $3.2 billion in State General Funds, and $510 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 $219.9 million in University General Fund income. This income estimate is based on the 2004-05 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 General Fund income totaling $19.5 million.

Overhead on State agency agreements totaling $10 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 that 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 disbursal 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 $97.6 million will be provided from this source in 2004-05.

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 $216.4 million will be provided from this source in 2004-05. The remaining 45% is the source of the University Opportunity Fund, estimated to be $176.7 million in 2004-05. Approximately 6% of these funds is 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 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 compensation to the University for its management of the Laboratories. The compensation for federal FY2004 will be as follows:

1. reimbursement of actual costs for support of the Office of the Vice President for Laboratory Management in an amount not to exceed $7.4 million, the same as last year.

2. reimbursement of indirect costs associated with management of the Laboratories that are incurred by the University. The amount for FY2004 is set at about $10.4 million. 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 $17.4 million annually, dependent on the Department of Energy's evaluation of performance at the three Laboratories. The existing contract for managing LBNL ended on September 30, 2002. On July 31, 2002, DOE announced its intent to enter into negotiations to extend the contract to September 30, 2007. The new contract, which has yet to be negotiated, might contain some changes in the size of the fees and the way they 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 Los Alamos and Livermore 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 $70 million in appropriations from State special funds including, for example, $22.8 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 $14.8 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

If the University were submitting a normal budget request for 2004-05 consistent with the Partnership Agreement, it would assume a student fee increase of 5% in mandatory systemwide student fees to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue. Based on the number of students expected to enroll, income from mandatory university-wide fees (Educational Fee and University Registration Fee) is currently projected to be $1.1 billion in 2004-05.

Income from the Educational Fee provides general support for the University's operating budget, including costs related to instruction, and for student financial aid and related programs, counseling and career guidance, academic advising, tutorial assistance, social and cultural activities, overhead associated with student services activities (i.e., operation and maintenance of plant and general administration). Income from the University Registration Fee is used to support activities such as student health services, child care services, 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* chapter of this document, student financial aid grew substantially as well during this time. There were no increases in the Educational Fee or the University Registration Fee between 1994-95 and 2001-02 and in fact, during the late 1990s, these fees were reduced by 10% for California resident undergraduate students and 5% for California resident graduate academic students.

The State's fiscal situation began to deteriorate in 2001-02. However, it was not until mid-year budget cuts were implemented for the 2002-03 budget that student fees were increased. As part of the University's effort to offset cuts that otherwise would have been targeted at instructional programs, systemwide student fees were raised by about 11% in 2002-03 ($135 effective Spring term 2003, which when annualized totaled $405) and another 30% ($1,150 for resident undergraduates) for 2003-04. Professional student, graduate academic, and nonresident student fees also rose significantly.

If the University were submitting a normal budget request for 2004-05 consistent with the Partnership Agreement, it also would assume a student fee increase of 5% in the Fees for Selected Professional School Students, ranging from $146 for nursing students to $492 for law students. In 2004-05, income from the professional school fees is currently projected to be approximately $79.4 million, based on the number of students expected to enroll and an assumed fee increase of 5% for 2004-05. 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. University student fees are discussed in detail in the *Student Fees* chapter of this document.

Income from University Extension fees paid by nearly 400,000 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.

In 2004-05, expenditures of hospital income for current operations are projected to increase by $96.2 million or about 3%. The main reasons for the increase are: 1) an increase in patient activity, 2) general cost increases, including increases in the cost of pharmaceuticals, and 3) costs incurred related to compliance with new regulations, e.g., Health Insurance Portability and Accountability Act (HIPAA) - Privacy Standards.

Sales and Services

Income from sales and services of educational and support activities is projected to total $787 million in 2004-05. 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 actual income received. At that time "income" was defined as dividends, interest, rents, and royalties. In 1998-99, The Regents approved a payout rate based on the total return of the GEP over the previous 60 months. The long-term target rate was set at 4.75%. The initial rate was set at 4.35% for expenditures in 1999-2000. In 2002, The Regents approved a payout rate of 4.5% for expenditure in 2003-04, an increase from 4.45% in 2002-03.

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 1992-93 and 2002-03, actual expenditures from endowments increased by over 138%. The University is projecting expenditures of $157.4 million in 2004-05.

Auxiliary Enterprises

Auxiliary enterprises are non-instructional support services provided primarily to students in return for specified charges. Programs include residence and dining services, parking, intercollegiate athletics, bookstores and faculty housing. 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 $644.6 million in 2003-04 to an estimated $676.8 million in 2004-05.

Extramural Funds

Extramural Funds are provided for specified purposes by various sources: the federal government, usually as contracts and grants; State agency agreements; and private gifts and grants from individuals, corporations, and foundations. The majority of these funds is used for research and student financial aid.

Research

For 2004-05, extramural research funding is projected to be $2.39 billion, including $1.64 billion of federal funds. Federal funds are the University's single most important source of support for research, accounting for nearly 55% of all University research expenditures in 2002-03. 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 76% of the University's federal research contract and grant awards in 2001-02.

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 1999-2000, by 8% in 2000-01, by 8.6% in 2001-02, and by 16.3% in 2002-03.

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. The longer-term outlook is more uncertain. The Congress and the President have finished their 5-year commitment to double the NIH budget, making large increases in research funding less likely without the driving force of 15% increases to the NIH budget each year. Another factor that may impact future federal research budgets is that the overall federal budget outlook has deteriorated dramatically since early 2001 due to the 2000 tax cut, the economic slowdown, and expenditures for homeland security and the war in Iraq. The projected $1.64 billion of federal funds for UC in 2004-05 represents a 5% increase over the estimated 2003-04 budget.

In addition to the funding of research contracts and grants, federal funds provide the entire support for the Department of Energy Laboratories, for which the University has management responsibility. In 2004-05, this support is projected to be approximately $4.39 billion.

Student Financial Aid

In 2001-02, UC students received $775.6 million in federal financial aid, including $185.3 million in gift aid and the remainder in the form of loans and work-study. Overall, UC students received about 12% more in federally-funded aid in 2001-02 than they received in the previous year. The significance of the federal loan programs for UC students is demonstrated by the fact that these programs continued to comprise three-quarters (75%) of all federally funded aid and nearly one-half (42%) of the total financial support received by UC students in 2001-02. 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. A 21% increase in Pell Grant dollars going to UC students was fueled largely by a $450 increase in the maximum Pell grant in 2001-02. 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 federally-funded 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

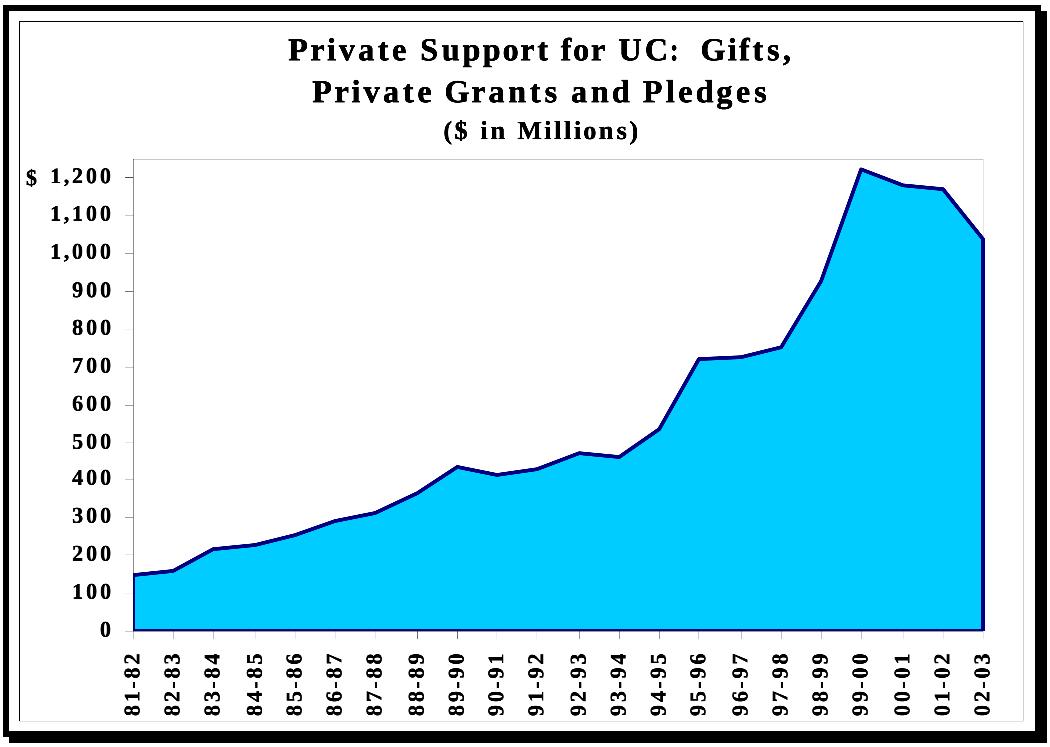
Gifts and private grants are received from alumni and other friends of the University, campus-related organizations, corporations, foundations, and other nonprofit entities; private contracts are received from for profit and other organizations. For 2004-05, expenditures from gifts and private contracts and grants to the University are estimated to be $917.5 million, an increase of 3% over projected 2003-04 expenditures. Expenditures have increased by over 159% in the ten-year period between 1993-94 to 2003-04.

The University continues to aggressively seek and develop non-State revenue sources, particularly private funds. After six record-setting years of growth, the receipt of gifts, private grants, and pledges declined during the last three years. As shown in Display 1, in 2002-03, alumni and other supporters committed just over $1 billion in gifts, grants, and pledges to the University.

This total represents a 15.1% decrease from 1999-2000, when donors contributed slightly over $1.2 billion to support UC's instruction, research and public service programs.

Donors in 2002-03 directed $633.9 million (61.1%) of support to University operations; $255.3 million (24.6%) to endowments; and $124.1 million (12.0%) to campus improvement. Of the total donations in 2002-03, $553.9 million (52.4%) was specified for use in the health sciences. Just over 98% of the private support was restricted by the donors as to purpose.

Display 1



Private support for the University is derived from a number of sources. In 2002-03 gifts and grants from non-alumni individuals totaled $205.2 million; from private foundations $403.5 million; corporations, $181.4 million; alumni, $156.8 million; and campus organizations and other sources, $90.4 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 reflect the changes in the economy and financial markets, the effect of which is likely to be evident in private giving to the University in 2004-05.

INCOME AND FUNDS AVAILABLE
($000s)

	Estimated 2003-04	Proposed 2004-05	Proposed Changes
STATE APPROPRIATIONS			
General Fund	$ 2,897,965	$ 3,192,365	$ 294,400
Special Funds	74,441	70,012	(4,429)
TOTAL, STATE APPROPRIATIONS	$ 2,972,406	$ 3,262,377	$ 289,971
UNIVERSITY SOURCES			
General Funds Income			
Student Fees			
Nonresident Tuition	$ 209,400	$ 219,870	$ 10,470
Application for Admission and Other Fees	19,500	19,500	--
Interest on General Fund Balances	26,100	26,100	--
Federal Contract & Grant Overhead	206,377	216,377	10,000
DOE Allowance for O/H & Management	10,400	10,400	--
Overhead on State Agency Agreements	10,000	10,000	--
Other	8,000	8,000	--
Subtotal	$ 489,777	$ 510,247	$ 20,470
Prior Year's Income Balance	53,816	--	(53,816)
Total UC General Fund Income	$ 543,593	$ 510,247	$ (33,346)
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	866,184	938,258	72,074
Registration Fee	142,251	145,816	3,565
Special Law/Medical Fee	1,820	1,820	--
Professional School Fees	73,848	77,611	3,763
University Extension Fees	228,504	235,571	7,067
Summer Session Fees	10,473	10,473	--
Other Fees	120,661	125,161	4,500
Sales & Services - Teaching Hospitals	3,208,123	3,304,367	96,244
Sales & Services - Educational Activities	549,909	566,406	16,497
Sales & Services - Support Activities	214,592	221,030	6,438
Endowments	152,853	157,439	4,586
Auxiliary Enterprises	644,592	676,822	32,230
Contract and Grant Off-the-Top Overhead	93,052	97,569	4,517
DOE Management Fee	17,000	17,400	400
University Opportunity Fund	168,546	176,727	8,181
Other	205,056	209,157	4,101
Total Special Funds	$ 6,778,380	$ 7,042,543	$ 264,163
TOTAL, UNIVERSITY SOURCES	$ 7,321,973	$ 7,552,790	$ 230,817
TOTAL INCOME AND FUNDS AVAILABLE	$ 10,294,379	$ 10,815,167	$ 520,788

BUDGET FOR CURRENT OPERATIONS
EXPENDITURES BY PROGRAM AND FUND TYPE
($000s)

	2003-04 Budget			2004-05 Proposed			Proposed Increases		
	STATE & UC GENERAL FUNDS[1]	RESTRICTED FUNDS	TOTAL FUNDS	STATE & UC GENERAL FUNDS[1]	RESTRICTED FUNDS	TOTAL FUNDS	STATE & UC GENERAL FUNDS[1]	RESTRICTED FUNDS	TOTAL FUNDS
INSTRUCTION									
General Campus	$ 1,546,003	$ 487,974	$ 2,033,977	$ 1,661,558	$ 504,587	$ 2,166,145	$ 115,555	$ 16,613	$ 132,168
Health Sciences	355,423	407,676	763,099	357,568	407,676	765,244	2,145	--	2,145
Summer Session	--	10,473	10,473	0	10,473	10,473	--	--	0
University Extension	--	228,504	228,504	--	235,571	235,571	--	7,067	7,067
RESEARCH	270,369	258,645	529,014	270,369	268,712	539,081	--	10,067	10,067
PUBLIC SERVICE									
Campus Public Service	61,302	67,448	128,750	61,302	68,797	130,099	--	1,349	1,349
Cooperative Extension	38,507	14,094	52,601	38,507	14,376	52,883	--	282	282
ACADEMIC SUPPORT									
Libraries	206,271	42,950	249,221	211,271	44,134	255,405	5,000	1,184	6,184
Organized Activities	174,807	288,953	463,760	174,807	294,452	469,259	--	5,499	5,499
TEACHING HOSPITALS	49,595	3,208,123	3,257,718	49,595	3,304,367	3,353,962	--	96,244	96,244
STUDENT SERVICES	--	397,910	397,910	--	411,962	411,962	--	14,052	14,052
INSTITUTIONAL SUPPORT	323,367	151,041	474,408	323,367	154,061	477,428	--	3,020	3,020
OPERATION AND MAINTENANCE OF PLANT	373,775	50,457	424,232	383,775	51,214	434,989	10,000	757	10,757
STUDENT FINANCIAL AID	52,199	384,403	436,602	52,199	410,682	462,881	--	26,279	26,279
AUXILIARY ENTERPRISES	--	644,592	644,592	--	676,822	676,822	--	32,230	32,230
PROVISIONS FOR ALLOCATION	(10,060)	24,032	13,972	(16,376)	24,032	7,656	(6,316)	--	(6,316)
UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS	--	185,546	185,546	--	194,127	194,127	--	8,581	8,581
SUBTOTAL	$ 3,441,558	$ 6,852,821	$ 10,294,379	$ 3,567,942	$ 7,076,045	$ 10,643,987	$ 126,384	$ 223,224	$ 349,608
PROGRAM MAINTENANCE									
Fixed Costs, Economic Factors	--	--	--	134,670	36,510	171,180	134,670	36,510	171,180
TOTAL UNIVERSITY	$ 3,441,558	$ 6,852,821	$ 10,294,379	$ 3,702,612	$ 7,112,555	$ 10,815,167	$ 261,054	$ 259,734	$ 520,788

[1] General Funds include both State General Funds and UC General Funds. UC General Funds do not support Teaching Hospitals or Financial Aid. For all other budgeted programs, UC General Funds represent about 14% of the General Fund Budget. State funds represent the remaining 86%.

GENERAL CAMPUS AND HEALTH SCIENCES

Full-Time Equivalent Enrollments—Year Average

	2002-03		*2003-04*	
	Budgeted	***Actual***	***Budgeted***	***Increase in Budget***
BERKELEY				
General Campus	31,420	32,469	32,350	930
Health Sciences	757	714	757	0
Total	32,177	33,183	33,107	930
DAVIS				
General Campus	24,597	25,919	27,100	2,503
Health Sciences	1,898	2,086	1,898	0
Total	26,495	28,005	28,998	2,503
IRVINE				
General Campus	20,500	21,553	22,400	1,900
Health Sciences	1,040	1,103	1,040	0
Total	21,540	22,656	23,440	1,900
LOS ANGELES				
General Campus	32,160	32,768	33,100	940
Health Sciences	3,719	3,874	3,719	0
Total	35,879	36,642	36,819	940
RIVERSIDE				
General Campus	14,000	14,439	15,400	1,400
Health Sciences	48	52	48	0
Total	14,048	14,491	15,448	1,400
SAN DIEGO				
General Campus	20,600	21,162	22,700	2,100
Health Sciences	1,106	1,366	1,106	0
Total	21,706	22,528	23,806	2,100
SAN FRANCISCO				
Health Sciences	3,698	3,935	3,698	0
SANTA BARBARA				
General Campus	20,985	21,082	21,850	865
SANTA CRUZ				
General Campus	13,100	13,666	14,600	1,500
TOTALS				
General Campus	177,362	183,058	189,500	12,138
Health Sciences	12,266	13,130	12,266	0
Total	189,628	196,188	201,766	12,138
Set Aside for Future Allocation for Health Sciences Growth and Campus Overenrollment			862	862
GRAND TOTAL	**189,628**	**196,188**	**202,628**	**13,000**

GENERAL CAMPUS

Full-Time Equivalent Enrollments—Year Average

	2002-03		*2003-04*	
	Budgeted	***Actual***	***Budgeted***	***Increase in Budget***
BERKELEY				
Undergraduate	23,850	24,499	24,400	550
Graduate	7,570	7,970	7,950	380
Total	31,420	32,469	32,350	930
DAVIS				
Undergraduate	20,937	22,164	23,250	2,313
Graduate	3,660	3,755	3,850	190
Total	24,597	25,919	27,100	2,503
IRVINE				
Undergraduate	18,070	18,874	19,500	1,430
Graduate	2,430	2,679	2,900	470
Total	20,500	21,553	22,400	1,900
LOS ANGELES				
Undergraduate	24,980	25,089	25,620	640
Graduate	7,180	7,679	7,480	300
Total	32,160	32,768	33,100	940
RIVERSIDE				
Undergraduate	12,290	12,860	13,650	1,360
Graduate	1,710	1,579	1,750	40
Total	14,000	14,439	15,400	1,400
SAN DIEGO				
Undergraduate	17,810	18,201	19,500	1,690
Graduate	2,790	2,961	3,200	410
Total	20,600	21,162	22,700	2,100
SANTA BARBARA				
Undergraduate	18,495	18,238	19,050	555
Graduate	2,490	2,844	2,800	310
Total	20,985	21,082	21,850	865
SANTA CRUZ				
Undergraduate	11,840	12,395	13,260	1,420
Graduate	1,260	1,271	1,340	80
Total	13,100	13,666	14,600	1,500
GENERAL CAMPUS				
Undergraduate	148,272	152,320	158,230	9,958
Graduate	29,090	30,738	31,270	2,180
Total	177,362	183,058	189,500	12,138
Set Aside for Future Allocation for Health Sciences Growth and Campus Overenrollment			862	862
GRAND TOTAL	**177,362**	**183,058**	**190,362**	**13,000**

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