

2006-07
Budget for Current Operations

Teaching

Research

Public Service



University of California
Office of the President
November 2005

PRESIDENT'S MESSAGE

The 2006-07 budget I am submitting to The Regents is one grounded in the objective of building and enhancing the quality and impact of the University of California. It is a budget that has been crafted in recognition of several critical factors: the importance of the University's major, continuing contribution to California's economy, health, and quality of life; the measure of stability offered by the Compact after several years of sizeable budget cuts to the University; the broader, and extremely threatening, trend of long-term disinvestment in public higher education, both in California and across the nation; and the importance of making the right decisions today to sustain the University's quality and impact for the California of tomorrow.

The University's accomplishments provide important context for our planning for the future. Today, in Nobel Prizes, recipients of the National Medal of Science, and membership in such organizations as the National Academy of Sciences and American Academy of Arts and Sciences, our faculty are unmatched. Of the 62 members of the Association of American Universities – the top research universities in the country – six are UC campuses, a record unrivaled by any other state. UC is one of the state's largest health care providers and the source of training and education for 60% of California's medical students. The University's work in K-12 education, in agriculture, in the arts and culture, and in environmental stewardship has all helped make California one of the most exciting and desirable places to live.

UC's impact is particularly seen in California's economic successes, which have come about largely due to the availability of venture capital and the innovation generated by the state's research universities. UC is the largest recipient of federal research money and for 11 consecutive years has led the nation's universities in the number of new patents issued for inventions. UC research has led to the creation of new products, new companies, and entire new industries for California – and the University's education programs have helped prepare a highly skilled workforce to help fill the newly created jobs in this knowledge-based economy. Thanks to the support of the State, federal government, business and industry, and private supporters, the resources provided to the University been leveraged into an unparalleled enterprise that creates new knowledge, teaches the next generation of creators, and transfers these creations to society for the public benefit.

These benefits can easily erode, however. Across the country, we are witnessing a disinvestment in higher education – at the very moment that other nations are increasing their competitive position by investing in their educational and technical capacity. At UC, the effects of long-term disinvestment may be obscured by the fact that we continue to admit all eligible undergraduate students who wish to attend, continue to offer outstanding programs, and continue to construct new buildings.

The reality is that the University of California is doing these things under the pressure of a number of serious challenges:

- The State contributed about \$15,500 to the cost of education for each UC general campus student in 1985, and now only contributes about \$9,500 per student per year – a 40% decline (figures in constant dollars).
- Enrollment in the University grew by 19% between 2000-01 and 2004-05 while State support dropped by 15%.
- Largely because of budgetary constraints, as well as the State's and the University's commitments to providing access for undergraduates, UC graduate enrollment did not increase proportionately in the 1980s and early 1990s despite California's increased need for employees with advanced degrees. And despite the need for more health care professionals to serve a growing population, there has been almost no increase in UC health sciences enrollments in 20 years.
- Even though basic research is critical to knowledge-based industries, State support for UC research has declined by \$73 million (25%) in the last four years. Federal research spending is now leveling off after years of growth, and an increasing federal deficit suggests tighter years ahead.
- Due largely to the drop in State support, the student-faculty ratio at UC has worsened and is now at a level The Regents have decided must be reversed.
- Salaries are significantly behind the market for both faculty and staff.
- Core areas that support the academic enterprise – such as libraries, instructional equipment, instructional technology, and building maintenance – are all significantly underfunded.

This combination of problems threatens to undermine very seriously the quality and public impact of the University. This is precisely the reason we believed strongly in developing a Compact with the Governor that outlines the resources we need to stem the tide of erosion and, as the State's economy improves, to begin to recoup some of the losses the University has sustained. We are extremely grateful for the Legislature's support of the funding level in the Compact for the current year. Our budget request for 2006-07 will again be based on the funding provisions outlined in the Compact, and again, we will seek the Legislature's support of its proposed funding level. The Compact stops the erosion in salaries and in later years helps to close some of the gaps mentioned above – albeit slowly. We are building into our budget plan each year \$10 million toward restoring funding for instructional budgets. Beginning in 2008-09, the Compact calls for an increment of funding each year to address core academic support needs.

The Compact provides basic stability, but the challenge is larger. Our problems are complex because of the mix of funding sources that support the basic operation of the University – State funds are only part of the answer. Our academic medical centers are facing new financing challenges with changes in publicly supported programs, including Medicaid. Budgets funded from all fund sources will be challenged when an anticipated re-instatement of the employer contribution to the retirement system occurs, possibly by 2007-08. And federal sources are no longer likely to provide the kind of increased funding the University has enjoyed in recent years – double digit increases will decline to growth rates sufficient only to cover inflation costs, if that. The President's FY2006 budget calls for a 1% increase in domestic discretionary spending, the category from which student financial aid and research programs are funded.

We intend first to help ourselves. We are achieving major savings through efficiencies, such as our Strategic Sourcing Initiative, a disciplined process intended to leverage the University's enormous buying power in the marketplace, increase purchasing efficiency in the organization, and lower the cost of goods and services in a large array of categories. This budget proposes to use some of the savings achieved in programs funded by State funds and student fees for an initiative to increase graduate student support, one of the major competitive challenges facing the University. It is anticipated that such savings could generate \$10 million for graduate student support in 2006-07, growing to \$40 million per year over time. Savings achieved from other fund sources, estimated to be in excess of another \$100 million, will be needed to help cover cost increases for programs funded from these sources. In addition, we have increased private support to the University by 24.5% in the last five years – during one of the worst downturns in the stock market in recent memory – and will work to secure even more private support in the future.

State funding remains critical, however, as it funds the core instructional program and is the base upon which federal and private support is built. The State continues to face the challenge of bringing revenues and expenditures back into balance, and projections indicate there will be at least one or two more years of stringent budgets as the State continues to address the structural deficit – estimated to be about \$5-6 billion going into next year. At the same time, the California economy is well-positioned to strengthen and grow over the rest of this decade. We remain hopeful that the State budget will soon be brought back into balance and that broad economic growth will continue. As this happens, the University will request additional funds to restore some of our lost funding and help address the problems created by years of fiscal crisis and underfunding.

In the meantime, student fees must also be part of the solution to help address the University's fiscal problems. Unfortunately, as State funds have been withdrawn from support of the University – a 40% reduction on a per-student basis, in constant dollars, over the last 20 years – student fees have increased to help address a

portion of the loss. Unlike the dramatic fee increases that occurred in the last four years, however, student fee increases for undergraduates and graduate academic students have moderated – in the current year, fees went up by 8% for undergraduates and 10% for graduate academic students. Similar increases are proposed for these students for the 2006-07 year, consistent with the Compact. These fee increases are essential to the overall support of the University, given the loss of State funding the University has experienced, given the need to enhance and preserve quality in the core instructional program, and given the investments UC must make to serve California well in the future.

Financial aid will help mitigate the impact of fee increases for many students. For 2006-07, the University is proposing an average return-to-aid of 33% (30% for undergraduates and 45% for graduate academic students), which will cover the fee increase for grant-eligible students and will support several initiatives, including grants for middle-income financially needy students who typically do not qualify for grant aid, and relief from nonresident tuition for graduate students who have advanced to candidacy. Financial aid helps maintain the affordability so that financial considerations need not be an insurmountable obstacle to student decisions to seek and complete a University degree. Our campuses rank at the top in the country among research universities in terms of enrolling low-income students, in spite of recent fee increases – in fact, the proportion of low-income students enrolled at UC is increasing.

We at the University are committed to working diligently to address the complex array of challenges we face. The University of California has made a tremendous contribution to the California we have today – a state that is the most dynamic, creative, entrepreneurial, diverse, risk-taking society on the planet. It has taken committed investments, wise decision-making, and a great deal of hard work on the part of many, many people to build the capacity of the University of California to serve the state so well. But running in place is not an option – UC has always been an institution that worked to address the changing needs of California, and we must continue to do so. We must remain focused on meeting the needs of the California of tomorrow, and to do that we will need the support of the state we serve. The alternative is a gradual decline – a decline of benign neglect, a decline rooted in resting on the accomplishments of the past – that will fundamentally threaten what the Californians of an earlier generation succeeded in building at UC. As someone who came to California for the promise it represents and the new opportunity it continually generates, I do not believe that will happen. With the support of our friends and of the people of California, we look forward to an era of serving our state more successfully than ever.

Robert C. Dynes, President
November, 2005

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 offer undergraduate, graduate, and professional education; one, San Francisco, is devoted exclusively to the health sciences.

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 next chapter, *Overview*, provides an overall perspective on the major policy issues, specific objectives, and priorities for 2006-07. The following chapter, *Summary of the University's 2006-07 Budget Request*, outlines the University's budget plan for 2006-07. Subsequent chapters discuss programs in more detail and provide fuller justification of requests for funding increases. The budget is structured to accommodate readers who do not go beyond the *Overview* and *Summary* chapters 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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INTRODUCTION TO THE 2006-07 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.

The 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-nine researchers affiliated with UC have been awarded Nobel Prizes, the pinnacle of achievement for groundbreaking research; 17 of the Nobel Prizes have been won since 1995. In 2004, three UC faculty were awarded Nobel Prizes, including two from UC Santa Barbara—David J. Gross (Nobel in physics), director of the Kavli Institute for Theoretical Physics, and Finn E. Kydland (Nobel in economic sciences), who is the Jeff Henley Endowed Chair in Economics at UC Santa Barbara—and UC Irvine scientist Irwin Rose (Nobel in chemistry). No public university has won more Nobel Prizes than the University of California.

In 2005, President Bush named three University of California researchers recipients of the National Medal of Science, the nation's highest award recognizing scientists whose pioneering research in the areas of physical, biological, mathematical, engineering, behavioral, or social sciences have led to a better understanding of our world. With those awards, UC affiliated researchers have received 56 Medals of Science—more than 10 percent of the medals presented—since Congress created the award in 1959. In 2005, the National Academy of Sciences announced the election of 72 new members and 18 foreign associates in recognition of their achievements in scientific and engineering research—12 of the new members are affiliated with the University of California. Membership in the Academy is considered one of the highest honors that can be accorded a scientist or engineer. Total active Academy membership is 1,976—with this latest election, there are now 358 UC researchers who are members. The University of California has more active members than any other U.S. college or university.

In 2005, four UC faculty 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 60 faculty, researchers and others affiliated with UC have been awarded these prestigious no-strings-attached \$500,000 grants.

In 2005, eight UC faculty were named Guggenheim Fellows by the New York-based John Simon Guggenheim Memorial Foundation. More Guggenheim fellowships have been awarded to UC faculty than to any other university or college. There have been approximately 1,250 Guggenheim fellows from UC since 1930, according to the Guggenheim Foundation. 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.

Overview

The University of California is more important to the state's economy and the quality of life of its citizens than ever before. Through its instruction, research, and public service programs, the University educates the workforce needed by business, industry, education, and other sectors; conducts research that fuels the economy; creates jobs and increases productivity, leading to higher standards of living; provides an unmatched combination of state-of-the-art patient care facilities and path-breaking research programs, which are integrated with medical education programs to improve the health of Californians; works with K-12 schools to improve the quality of instruction and expand educational opportunities; is a key source of innovation and entrepreneurs, which are essential to the industries that will be driving California's competitiveness; and provides social, cultural, and economic benefits to the communities in which its campuses reside.

As important as the University's contributions to the state's economic growth and job creation are its many contributions to health care and cultural programs that enhance the quality of life for Californians. "Considering UC's contributions across the board," ICF Consulting concluded, "it is no exaggeration to say that perhaps no other institution in the state benefits the quality of life of more Californians in every sphere of their daily life — learning, working, playing, living — than the University of California."

The excellence of the University's programs attracts the best faculty and students, leverages billions of dollars in federal and private funding, and promotes the discovery and dissemination of new knowledge that fuels economic growth that benefits not only the University's students, faculty, and staff, but also citizens in every part of the state. With this investment of State, federal, and private funds, the University does not just teach 200,000 students; it touches the lives of every Californian.

Modern research universities fulfill their multiple missions through complex interrelationships among teaching, research, and service functions. The University's total budget provides the resources needed to teach, conduct research, and perform those public services for which the institution is uniquely qualified. Adequate resources to perform these functions are critical to the University's ability to meet the high standards of quality that Californians have come to expect of their world-renowned university. Moreover, quality must be protected if this valuable asset is to continue to be an engine of economic growth.

However, four years of budget cuts during California's most recent fiscal crisis, on top of similarly dramatic cuts during the early 1990s, have strained the University of California's ability to contribute to the economic and social welfare of the state.

In times of stress, priorities must be set in order to make the best use of limited resources. In spite of a 15% reduction in State funding over the last four years, the University addressed the State's highest priority for higher education—access for undergraduate students—by expanding as rapidly as possible in order to accommodate an exceptional increase in high school graduates, commonly called “Tidal Wave II.” Other aspects of the University's mission, including research and public service, have sustained disproportionate budget cuts and graduate and professional programs have not expanded rapidly enough to meet the state's growing needs. As a result, the University is now at a tipping point that may well determine whether it remains an international center of academic excellence, with a deep impact on California's quality of life, or becomes just another university through gradual decline in the coming years.

Fortunately, the Compact with Governor Schwarzenegger, reached in the spring of 2004, recognized the importance of higher education in a knowledge-based economy and prevented further erosion of the University's research and advanced education programs. While the Compact stopped the erosion in State funding, the years of disinvestment have left academic support levels, the student-faculty ratio, and graduate and professional education significantly underfunded, and faculty and staff salaries, as well as graduate student financial support, are well below what our competitors provide. This budget document describes the resources needed to implement a multi-year plan to restore funding to competitive levels, based upon goals and priorities established by The Regents of the University of California in November 2004.

This *Overview* describes the critical role the University plays in the economic, social, and cultural well-being of the State and the importance of adequate resources to enable the University to perform its tripartite missions of teaching, research, and public service. The *Overview* also provides a history of funding for the University and outlines the critical policy issues facing the University through the remainder of this decade. Finally, information is provided on federal and private sources of funds that are critical to the overall support of the University's budget. A detailed discussion of the University's budget plan for 2006-07 is contained in the next chapter of this document, *Summary of the 2006-07 Budget Request*.

Is the U.S. Losing Its Competitive Edge?

As revolutionary as the shift from an agrarian economy to one based upon manufacturing decades earlier, America's economy was reshaped by new technologies and global competition at the end of the 20th century. With the shift to a knowledge-based economy, more of a product's value was added *before* and *after* manufacturing. Companies employed fewer workers

on assembly lines and paid an "educational premium" for well-educated professionals and managers who added the most value to products and services.

The United States has been a world leader in the transition to a knowledge-based economy because it has a legal system that protects intellectual property; a school system that fosters creativity, not just rote learning; more of the world's best research universities; and an environment that encourages entrepreneurship, including access to capital for starting new businesses. Prominent in that list are America's world-class research universities, which are critical to economic development and global competitiveness. As Alan Greenspan, Chairman of the U.S. Federal Reserve Board said:

"In a global environment in which prospects for economic growth now depend importantly on a country's capacity to develop and apply new technologies, our universities are envied around the world. If we are to remain preeminent in transforming knowledge into economic value, the U.S. system of higher education must remain the world's leader in generating scientific and technological breakthroughs and in preparing workers to meet the evolving demand for skilled labor."

America's economic success late in the 20th century did not, however, go unnoticed. Others throughout the world watched as the Internet Boom created wealth, and they, too, wanted to start companies based on new technologies. In the past, new companies with global ambitions started in regions rich in natural resources with an infrastructure that supported trade.

However, it became increasingly possible to compete in the global marketplace at the end of the 20th century, as powerful desktop computers, advanced software, and improved communications lowered the barriers to entry for highly motivated entrepreneurs in other countries. Or, as Thomas Friedman says in his best selling book with a similar title, the world became flatter. However, while technology advancements allowed participation, they did so rapidly without the intellectual and educational infrastructure to sustain the move forward. Companies have been moving low-skill manufacturing jobs to other nations for many years, but a fundamental shift occurred at the beginning of the 21st century, as companies began off-shoring customer service, routine programming, and packaging jobs. These same companies have been keeping the high value-added and high-wage jobs (e.g., product design, business strategy, engineering, strategic marketing) close to the corporate headquarters. While there has been growing concern about the loss of U.S. jobs to other countries, a study by the International Monetary Fund showed that the rest of the world outsources more in high-wage service jobs to the United States than the U.S. outsources in lower-skilled jobs to other countries.

The United States has led the world in the transition to a global, knowledge-based economy, but several recent reports, such as the ones authored by

the Task Force on the Future of American Innovation and the Council on Competitiveness, warn that other nations are investing in order to improve their competitive position while the U.S. is resting on its laurels. As evidence of increasing competition, these reports cite the growth in research and development investments by other nations, the growth of high-tech equipment production in China, the increase in patents filed by entrepreneurs outside the United States, and the increase in scholarly publications by faculty in other nations.

Skeptics have questioned some of the statistical evidence in these reports and suggested that there is no cause for alarm because the United States appears to be holding its own. In rebuttal, those who worry that the U.S. is losing its competitive edge argue that stable output and “holding our own” is no longer sufficient. They argue that America is squandering its advantage and will lose ground, if it is content to stay at current levels on important indicators. Indeed, it is hard to argue that the U.S. is even holding its own when one looks at international comparisons of school children on standardized tests and the magnitude of the U.S. trade deficit.

In addition, too few American undergraduates are majoring in science, engineering, and mathematics, and pursuing master’s and doctoral degrees. In the past, this was partly ameliorated by the many highly qualified and motivated individuals from other countries who came to U.S. universities for advanced degrees in these fields. Many of them stayed in the United States after graduation to become successful entrepreneurs, such as Jerry Yang, the Taiwanese national who was the co-founder of Yahoo!. However, more students from China, South Korea, and Taiwan are attending universities in their own countries and more foreign students who earn their advanced degrees from American universities are returning home after graduation.

To meet the nation’s growing workforce needs in the 21st century, American universities must increase their graduate enrollments in science, engineering, mathematics, and professional fields. Stable enrollments, or worse an erosion of America’s scientific and engineering base, could lead to a crisis for the nation. It generally takes 25 - 30 years to develop a scientist or engineer who eventually makes a major contribution to the creation of new knowledge. Thus, it could take the nation decades to recover if sufficient numbers of graduate students are not being trained in scientific and engineering fields as part of the educational infrastructure for a knowledge-based economy. In addition, U.S. spending on research and development (R&D) must increase if the country wants to remain technologically dominant. After three decades of decline, the United States is at a tipping point. As the Hart-Rudman Commission on National Security wrote in 2001:

The U.S. government has seriously underfunded basic scientific research in recent years... If we do not invest heavily and wisely in rebuilding these two core strengths (research and education), America will be incapable of maintaining its global position long into the 21st century.

Another matter of growing concern is the weakened condition of America's public research universities. The United States has the world's best private universities and they continue to improve, but America's leading public research universities are not keeping up. In papers written in 2003 and 2004, Thomas Kane and Peter Orszag have shown that the gap between public and private universities has been growing on several indicators over the past 25 years and that increased state spending on Medicaid is crowding out funding for higher education. With so many other pressing needs for limited government funding at the national and state levels, it has been difficult to convince political leaders that these are matters that threaten economic competitiveness and our quality of life. While several other nations are waking to the challenge of global competitiveness, the American public is largely unaware and unconcerned.

This is not to say that increasing government appropriations to colleges and universities is a sure-fire route to future prosperity that will yield proportionate increases in economic output, because other factors also affect economic competitiveness over the long-term, such as access to capital for business expansion, transportation infrastructure for goods and information, government regulation, costs of doing business, quality of life for employees, etc. In a knowledge-based economy, however, government leaders and the general public must come to understand that investing in research and higher education is an important component of a region's economic development strategy. As Fortune Magazine concluded in its lead story on whether America can compete in the relentless, global, tech-driven, cost-cutting struggle for business, "the greatest challenge will be changing a culture that neither values education nor sacrifices the present for the future as much as it used to — or as much as our competitors do."

Is California Losing Its Comparative Advantage?

This state has had a long record of strong economic performance with a history of successful companies and high-paying jobs. If California were a country, its economy would be among the top 10 in the world. In comparison to other states, salaries in California have been among 10%-15% above the national average for the last three decades. However, there are signs that California is losing its comparative advantage.

Californians suffered more economically than residents in most states during the long and deep recession of the early 1990s, as shown by the sharp drop in per capita personal income relative to the national average. While there was some recovery during the Internet boom period of the late 1990s, California, particularly Silicon Valley and the San Francisco area, was hit particularly hard when the Internet bubble burst in the spring of 2000. In September 2005, the Silicon Valley Leadership Group released a 38-page report detailing the region's competitiveness in relation to seven other technology centers in the United States.

“Daring to Compete: A Region-to-Region Reality Check” suggests that the Silicon Valley is no longer the undisputed leader for innovation that it once was. Noting that the costs of doing business in California are high and that knowledge-based industries have become much more globally competitive over the last five years, the report states that “major technology bellwethers like Intel have announced their intention to do much of their future hiring outside the United States, closer to where their fastest growing markets and an increasing share of their customers now reside.”

Last year, the respected UCLA Anderson Forecast took a long-term look at California's demography and economy. In its September 2004 report, the Forecast attributed California's relative drop in income to a growing “education gap” with the rest of the United States. *“Those with 4 years of college or more rose by 8 percentage points in the rest of the U.S. (between 1985 and 2003), from 18.6% to 26.8% of the population 25 years and older. Here in California, the proportion only rose by 5 percentage points, from 24.7% to 29.8%.”* They concluded that a lack of investment in education and infrastructure will continue to erode the economic advantages that California has enjoyed and impact the quality of life in the state.

Governor Schwarzenegger has said that he is focused on an agenda of economic growth and creation of jobs, and that he wants to regain California's competitive edge. An effective long-term economic development strategy for creating high-wage jobs must center on two key factors: 1) strong companies creating more jobs, and 2) a workforce with the knowledge and skills to compete for those jobs.

In the 19th century, California's rich natural resources were the mainstay of the State's economy. In the mid-20th century, California benefited from strength in the aerospace and entertainment industries, and from manufacturing. Then, along with the rest of the nation, the state's economy was transformed by new technologies and global competition at the end of the 20th century. Agriculture continues to be a critical part of the California economy with an estimated annual economic impact of \$65 billion, and it is being transformed by research advances in our fundamental knowledge of genomics and the functions of the cell.

Manufacturing industries are also important to the economy, but there are fewer jobs on assembly lines and most of a product's value is added *before* and *after* manufacturing by professionals in R&D, marketing, finance, and others.

While natural resources and manufacturing are still important components of the economy in the 21st century, the industries that will be driving California's economic recovery in the short term and leading the way to longer-term competitiveness in the future will be knowledge-based industries. Computers and software, biotechnology and pharmaceuticals, microelectronics and nanotechnology, communications, and entertainment companies tend to form industry clusters in regions, such as the high technology industries in Silicon Valley, the aerospace industry in Los Angeles, the entertainment and interactive media industries in the corridor from San Diego to Los Angeles, and the biotechnology and pharmaceutical industries in San Diego. Several factors are important to the location decisions of these companies that will be creating good jobs: excellent research universities, highly educated and skilled workers, access to capital, efficient infrastructure, and a high quality of life.

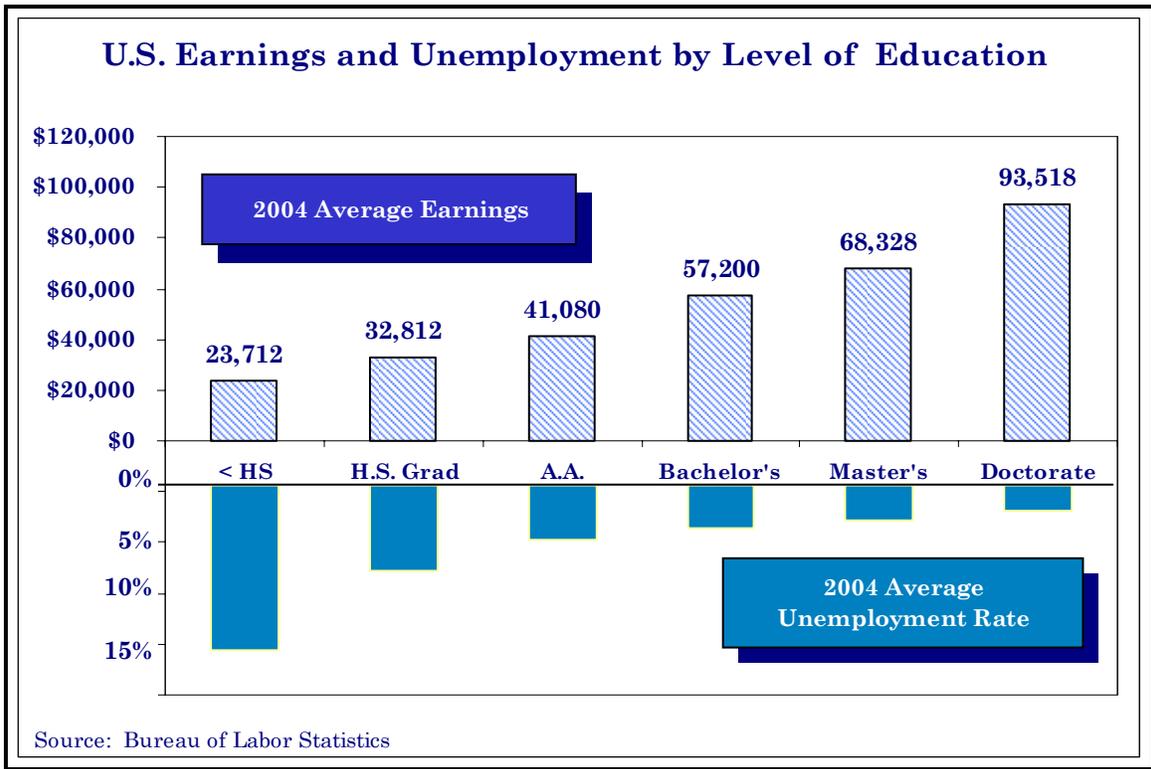
California became one of the world's leading economies in the second half of the 20th century in part because it had a greater number of excellent research universities and more venture capital than other states, which helped create and attract knowledge-based companies. For example, basic research at California's research universities created the biotechnology industry and hundreds of biotechnology companies have been founded by UC faculty and former students. Knowledge-based companies depend upon discoveries and highly-educated employees from university research laboratories and technology transfer because these companies typically focus their own research and development spending on applied research and product development for the highest return on investment in the shortest period of time.

Knowledge-based industries cluster around universities because they want to be where new ideas are percolating and because they rely upon university graduates to fill their professional and managerial jobs. With the shift to a knowledge-based economy, individual income is linked to level of education. As shown in Display 1 (next page), average earnings are higher and unemployment rates are lower for those with more advanced levels of education.

However, California has been underinvesting in higher education in recent years:

- The University's share of the State budget has decreased from 7% to 3.5% over the last 35 years.

Display 1



- The State contributed about \$15,500 to the cost of education for each UC general campus student in 1985, and now only contributes about \$9,500 per student per year (figures in constant dollars).
- Enrollment in the University grew by 19% between 2000-01 and 2004-05 while State support dropped by 15%.
- Despite the increased need for employees with advanced degrees, UC graduate enrollment did not increase proportionately in the 1980s and early 1990s.
- Despite the need for more health care professionals to meet the needs of a growing population, there has been almost no increase in UC health sciences enrollments in the last 20 years.
- The University's graduate and professional programs have not been keeping pace with California employers' workforce needs.
- Even though basic research is critical to knowledge-based industries, State support for UC research has declined by \$73 million (25%) in the last four years.

The companies in knowledge-based industries that will be driving economic competitiveness can locate anywhere in the world because they are not tied to the land, like natural resource-based industries. These companies typically say that one of the most important factors in their location decision is the quality of the

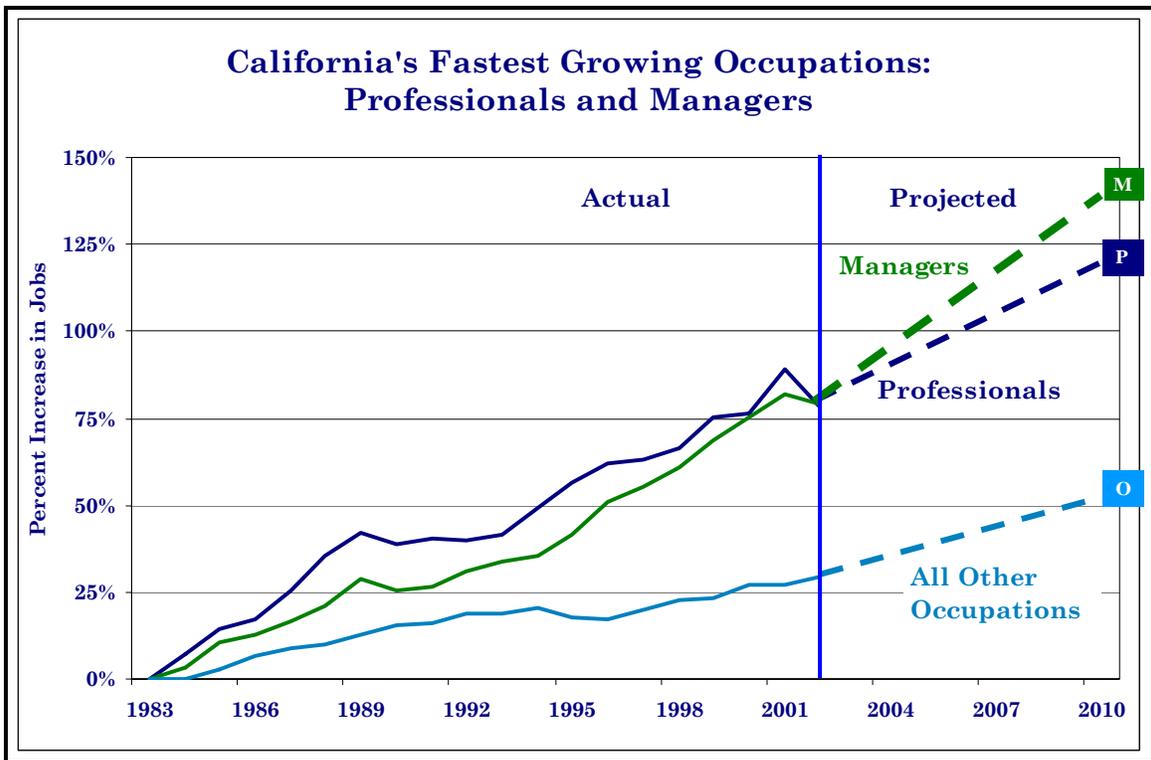
workforce in the region. In this new age, the critical factor is the availability of “knowledge workers” – a term coined by Peter Drucker, the noted management consultant, for those individuals with advanced formal and continuing education who can apply theoretical and analytical knowledge, create new product ideas, and add value through ingenuity. Knowledge workers are key to the success of brainpower industries because intellectual capital is a technology-generating company’s most important asset.

These corporate location decisions are another indicator that the U.S. is losing its competitive advantage. Thomas Friedman says that almost all of the CEOs he interviewed for his book, “The World Is Flat,” indicated that they are investing in R&D abroad. Later he quotes John Chambers, the CEO of Cisco Systems, as saying:

The jobs are going to go where the best-educated workforce is with the most competitive infrastructure and environment for creativity and supportive government. It is inevitable. And by definition those people will have the best standard of living.

As Display 2 indicates, California’s fastest growing occupational categories are professional and managerial jobs. In the early 1980s, one-fourth of all jobs in

Display 2



California were held by professionals and managers. Today, that fraction has grown to one-third of all jobs in the state. Most of these new professional and managerial jobs require at least a bachelor's degree and often a master's or doctorate.

However, a study conducted by the Public Policy Institute of California in 2000 estimates that half of the college graduates in California filling new positions and replacing knowledge workers were educated in other states. California companies were willing to pay the extra price to recruit professionals and managers from out-of-state in the past, but they have other alternatives today, such as locating new plants out-of-state and moving jobs offshore. If California wants to raise per capita incomes, it should try to keep those well-paying jobs here.

California's companies will be creating thousands of new professional and managerial jobs over the next ten years. The only question is whether they will be created in California, moved to other states, or out-sourced to other countries. The best way to keep these good jobs in California is to have a workforce with the knowledge and skills to compete in the global marketplace—and the CEOs of Intel, Hewlett-Packard, and Microsoft have all said that the best way to compete is to have a strong university system.

The same message has been heard from the California business leaders who serve on the UC President's Board of Science and Innovation. They have defined California's challenge—global competitiveness requires continuous cycles of birth and maturation of strong knowledge-based companies which, in turn, depend critically upon the institutions that produce the essential steady stream of research innovations, the research and development leaders, and a highly educated workforce. For the California economy, the outcomes are critical: strong companies attract increasing rounds of capital investment to the state, define entirely new technologies, products, and markets, and create high-wage jobs. Innovation is the key to productivity growth, which in turn leads to higher standards of living. Therefore, the quality of the University of California must be protected while its production of new knowledge and graduates increases, if it is to continue to be an engine of economic growth.

The California Master Plan for Higher Education

The California Master Plan for Higher Education has been the blueprint for higher education in this state for four-and-a-half decades. It specifies the mission of each public higher education segment and defines the pool of high school graduates from which each segment will admit its undergraduate 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. Under the Master Plan, UC has sole responsibility in public higher education for doctoral education and for professional education in law, medicine, veterinary medicine, and dentistry, with the exception that CSU can offer a specific Ed.D. in educational leadership and can offer joint doctoral degree programs with UC or AICCU institutions.

- ⇒ **Research**. The Master Plan designates UC as the state's primary State-supported academic agency for research. 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. This synergy helps to build the continuing and evolving critical thinking skills so important to successful professionals. University research also provides a vital link for the private sector to the development of new knowledge and the innovations that lead to new industries and the creation of more jobs.

- ⇒ **Public Service**. The University's public service mission is to contribute to the well-being of the community, state, and nation. The University fulfills its public service mission by providing a broad range of services important to the state. Student academic preparation programs are designed to bolster academic performance and improve a student's chance of success in pursuing higher education. UC Agricultural Extension and Cooperative Extension programs benefit agriculture, consumers, and local communities by bringing them new technologies and the latest research findings. Health science programs, including UC's five major teaching hospitals and the outpatient clinical care programs they operate, provide state-of-the-art patient care. University Extension programs help retrain and expand learning for nearly 325,000 students a year. 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 Master Plan has produced the best system of public higher education in the world. Every year, visitors from many countries come to learn how to change their

system of higher education to be more like California's. The past investment in UC's development into a world renowned institution cannot alone preserve the University's excellence. Continued adequate financial support for the University of California is essential if UC is to fulfill its missions under the California Master Plan for Higher Education, contributing to a higher standard of living and better quality of life for citizens of the state.

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. The University has weathered these fiscal crises and prospered during better economic times. Unfortunately, budget cuts during the early 1990s and again in the last four years have been very deep; better economic times in the late 1990s did not permit full recovery from the devastating effects of earlier major funding shortfalls in the University's core operating budgets.

Therefore, the University entered into the latest four-year fiscal crisis in an already weakened position. In 2000-01, faculty and staff salaries had recovered some ground from the problems created in the early 1990s, but considerable progress still needed to be made to once again reach competitive levels. Some progress had also been made in closing the funding gaps in core areas of the budget critical to the academic program—instructional technology, libraries, maintenance, and instructional equipment—however, once the most recent fiscal crisis began, progress that had been made was lost. Core research programs had been particularly hard hit by targeted cuts in the early 1990s and had not recovered these losses, even though funding had been provided for new research initiatives during the State's prosperous years. Administrative budgets have not been increased in decades and yet demands from increased regulatory and reporting requirements at the federal and state level have continued to grow. The University benefited from significant funding increases during the late 1990s and in 2000-01 (as explained in the next section of this *Overview*), but much of the funding was for special initiatives rather than for restoring earlier budget cuts in many core functions, and thus could not help sustain of the University's infrastructure that is the foundation of academic quality.

Four years of further major reductions as part of the State's response to the latest fiscal crisis have again taken a heavy toll on the University's ability to perform its missions under the Master Plan and contribute to the state's economic development:

- base budget reductions totaled about \$490 million during the four-year period covering 2001-02 through 2004-05;
- another \$420 million in budget cuts were offset by student fee increases;
- another \$550 million represents unfunded costs associated with a normal

workload budget, including salary and merit increases, employee health benefits, facilities maintenance, energy costs, non-salary price increases, and other costs. Many of these costs are escalating dramatically, requiring the University to make even further internal cuts to keep pace with rising costs. Faculty salaries are estimated to lag the average of comparison institutions by approximately 10%—there is a similar problem with respect to staff salaries.

The University clearly found itself at a crossroads. It was no longer possible to maintain quality and accommodate all eligible students wishing to attend, or continue to recruit the highly-qualified graduate students needed to help conduct research and meet the state's workforce needs for highly-skilled workers in knowledge-based industries. Base budget cuts were straining the ability of the University to perform its basic missions. Yet the State appeared to be facing several more years of severe budgets. Something had to change.

Governor Schwarzenegger, too, was concerned about the future of higher education in the state. Recognizing the importance of the University of California and the California State University systems to the economic and social well-being of the State, in May of 2004 the Governor entered into a new long-term Compact with the four-year institutions for the six-year period 2005-06 through 2010-11.

The funding agreement is a comprehensive statement of the *minimum* resources needed for the University to accommodate enrollment growth and sustain the institution to which students seek admission. In addition, the agreement is a statement of the State's expectations of the University in terms of accountability and performance, based on measures that have historically been important to both the State and the University. The Compact provides a sensible budgetary framework from which to plan for the future.

The University had similar agreements with the last three Governors, and these agreements served both the University and the State well. Until the onset of the State's fiscal crisis in 2001-02, 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, acting as a good citizen, met and often exceeded its goals under the accountability portion of these agreements. Moreover, the University brought economic development and enhanced prosperity to the State—for example, for every State dollar specifically invested in research, UC leverages nearly \$6 more from the federal government and other non-state sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

The Compact is intended to provide fiscal stability and stop further erosion to the University's budget in the early years and allow the University to begin

recovering lost ground in the later years. As with similar past accords, it is an agreement with the Governor for which the University and the Governor must seek the support of the Legislature through the normal budget process each year.

The fiscal provisions of the Compact are designed to provide sufficient resources for base budget adjustments to help fund salary, health benefit, and non-salary price increases; enrollment growth consistent with the Master Plan at the agreed-upon marginal cost of instruction; beginning in 2008-09 and continuing through 2010-11, funding to address chronic budgetary shortfalls in State funding for core areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance; and continued support for bond financing of at least \$345 million annually to meet capital outlay needs. The Compact also specifies fee increases for undergraduates and graduate academic students for 2004-05 through 2006-07. Following that period, the Compact envisions fee increases equivalent to the annual increase in California per capita personal income or more—up to 10% per year—if fiscal circumstances require increases that exceed the rate of growth in per capita personal income to provide sufficient funding for programs and preserve quality. The Compact also calls for the University to develop a long-term plan for increasing professional school fees. Revenue from student fees will remain with the University and will not be used to offset reductions in State support. The specific provisions of the Compact are described in more detail later in this *Overview* beginning on page 30.

The Compact also includes accountability measures relating to issues that are high priorities for the State. Thus, the University agrees to maintain and improve where possible performance outcomes in a variety of areas, including maintaining student access and program quality, implementing predictable and moderate fee increases, community college transfer and articulation, persistence and graduation rates, time-to-degree, helping the State address the shortage in science and math K-12 teachers, returning to paying competitive salaries, closing long-term funding gaps in core areas of the budget, and maximizing funds from the federal government and other non-State sources. The University will report to the Administration and the Legislature on its progress in these areas by October of each year.

The agreement with the Governor staved off the possibility of further budget cuts beyond those originally proposed in the Governor's Budget for 2004-05 and provided the basis for the University's budget plan for 2005-06. The Compact will continue to provide the University with a solid basis from which to plan in the next several years.

This is vital, since it is anticipated the State will continue to experience financial constraints in 2006-07 and perhaps beyond. Estimates of the State's ongoing permanent deficit range from \$5 - \$6 billion. This can be mitigated in part on

a one-year basis because there is nearly \$4 billion in unspent deficit reduction bonds available to help fund the 2006-07 budget. However, the Governor projects ongoing structural deficits for future years if no corrective action is taken and is seeking structural reforms to reduce the fiscal pressure on the State's funding situation on a permanent basis. Thus, he has called a special election for November 8, scheduled to occur after the publication of this document, to consider ballot measures related to state spending limits, redistricting, and K-12 teacher tenure, among other initiatives also on the ballot. One initiative, related to school funding and state spending, is proposed as a constitutional amendment that would, among other things, limit State spending to the previous year's spending level plus the average revenue growth over the previous three years. If passed, this ballot initiative could have a significant impact on future budgets, particularly if structural deficits continue to occur and mid-year reductions again become a necessity.

Because of these continuing fiscal constraints on the State's budget, it is unlikely that the University will be able to obtain more funding than called for in the basic provisions of the Compact through at least 2006-07. The next chapter of this document, "*Summary of the 2006-07 Budget Request*," includes a discussion of The Regents' priorities for additional funding once the State's fiscal situation permits.

Consistent with the Compact, the University's budget plan for 2006-07 includes the following:

- a 3% budget adjustment to the State General Fund base budget to help fund salary, health benefit, and non-salary price increases;
- enrollment growth of 5,000 FTE students funded at the agreed-upon marginal cost of instruction. This is consistent with the University's most recent enrollment plan developed in 1999, which called for annual enrollment growth of about 2.5% (or about 5,000 students) per year throughout this decade;
- an increase in mandatory systemwide student fees (Educational Fee and Registration Fee combined) of 8% for undergraduate students, 10% for graduate academic students, and 5% for professional school students. In addition to mandatory systemwide student fee increases, professional school students will pay a temporary increase in the Educational Fee previously approved by The Regents to cover lost revenue associated with a lawsuit currently before the courts brought by professional school students who are seeking relief from recent fee increases and an increase of 5% in the professional school fee charged to students in most professional schools. For students enrolled in law and business programs on the Berkeley and Los Angeles campuses and the law school on the Davis campus, the professional school fee increase will be 10%, in recognition of disproportionate cuts taken by these programs in 2004-05. The Regents have requested a longer-term plan for future increases in the professional school fees.

This is consistent with the provisions in the Compact which call for the University to develop long-term plans for increasing fees for selected professional school students. The Office of the President and the campuses have engaged in a series of discussions and analytical activities as part of the planning for increases in fees for professional schools over the next several years. However, a multi-year plan for fee increases for professional school students is not being presented at this time. Instead, fee increases for professional school students proposed for 2006-07 are included as part of the 2006-07 budget plan to be brought to the Board for approval at the November meeting. Longer-term planning issues related to professional school fee increases for 2007-08 and 2008-09 will be presented separately to The Regents for discussion at the November meeting. Professional school fees and related longer-term planning issues are discussed in more detail in the *Student Fees* chapter of this document;

- several initiatives related to undergraduate and graduate student aid. In total, the University proposes to dedicate an amount equivalent to 33% of all *new* systemwide fee revenue to student financial aid in 2006-07 (30% for undergraduates and 45% for graduate academic students). In addition, the plan addresses special concerns about the burden of fee increases on middle-income undergraduate families, the ability of the University to enroll top international and out-of-state students in graduate academic degree programs, and the impact of growing debt levels on professional degree students interested in pursuing public service careers. In total for the current year (2005-06), approximately 25% of all fee revenue raised from undergraduate fees is being used for undergraduate student financial aid, which is consistent with the historical average. For 2006-07, the initiatives proposed for undergraduate student aid (which will result in a return-to-aid from additional fee revenue of approximately 30%) will slightly improve this proportion. In addition, UC undergraduate students are expected to receive support through the Cal Grant Program generally equivalent to another 25%.

The University will also be seeking permanent support for student academic preparation programs. Funding provided in the current year is one-time with the understanding that the University will work with the Administration to fully evaluate the effectiveness of each program and eliminate those that cannot demonstrate an adequate return on investment. The University has developed a framework for accountability, with the assistance of representatives from the Legislature and the Department of Finance, that will be used to demonstrate effectiveness of each program. This information will be used to support the University's request for permanent funds for 2006-07 and beyond.

State General Funds and student fee revenue levels called for under the Compact for 2006-07 will be sufficient to stop the erosion in faculty and staff salaries and

provide funding to help cover employee health benefit increases, maintenance of new space, and other non-salary cost increases. The Compact agreement with the Governor allows the University to once again move forward and rebuild its academic and programmatic infrastructure so that students have access to the high quality education Californians have come to expect from UC.

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." The last four decades have all begun with significant economic downturns followed by sustained periods of moderate, and sometimes extraordinary, economic growth.

The University has met this challenge several times in the last four 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 3.

Display 3

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

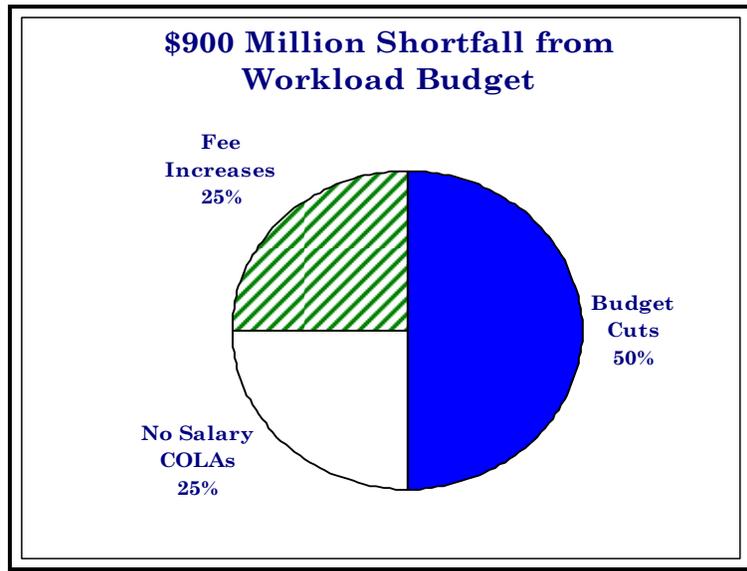
In addition, employees received no general cost-of-living increases for three years and salaries were reduced on a one-year basis. Student fees were raised, though significant increases in financial aid helped to mitigate the impact on financially needy low- and middle-income students.

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 enrollment growth of 6,200 students (4.3% increase) between the years 1987-88 and 1993-94. 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 4, about half of the loss was taken through budget cuts, approximately another quarter by providing no cost-of-living increases 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,

Display 4



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 approximately 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 staff 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 1990s 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.

Funding During the Second Half of the 1990s: 1995-96 through 1999-2000 Based on the Compact with Governor Wilson

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 Budget for 1995-96 included a Compact with Higher Education that ultimately was operational through 1999-2000. 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 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 provide 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 as well as a framework to begin planning for the future.

The Compact was remarkably successful. During the four years beginning in 1995-96 and ending in 1999-2000, 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, although a priority was placed on providing access for undergraduate students. Graduate enrollments grew only modestly, exacerbating the imbalance between graduate and undergraduate enrollments that has occurred over the last two decades. Faculty salaries were restored to competitive levels, allowing the University to once again recruit the nation's best faculty. Declining budgets were stabilized and further deterioration of the University's budget was halted.

In fact, the Legislature and the Governor not only honored the funding principles of the Compact, but also 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 more quickly, 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 all, the State provided nearly \$170 million in funding above the level envisioned in the Compact for high priority programs. In addition, general obligation bonds and/or lease revenue bonds were provided each year for high priority capital projects.

A New Partnership Agreement with Governor Davis

Governor Davis entered office in January 1999 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 were developed in time to guide development of the 2000-01 budget. The Partnership Agreement was a comprehensive statement of the minimum resources needed for the University to

maintain quality and accommodate enrollment growth projected throughout the decade, accompanied by the expectation that the University would manage these resources in such a way as to achieve certain outcomes outlined in very specific accountability principles.

Specifically, the Partnership Agreement expressed a commitment on the part of the Governor to support a 4% increase to the base budget each year to provide adequate funding for salaries and other cost increases; funding for enrollment growth at the agreed-upon marginal cost consistent with the Master Plan; and a further 1% annual increase to the base budget to address chronic underfunding of State support for core areas of the budget (building maintenance, instructional technology, instructional equipment, and library materials). It also included an acknowledgement of the need to either increase fees or provide revenue equivalent to that which would be generated from a student fee increase to provide adequate support for student fee funded programs, as well as a commitment to provide State support for summer instruction at each of the University's general campuses.

The accountability measures included in the Partnership Agreement covered a wide range of issues, including goals related to maintaining quality (such as preventing further deterioration in the student faculty ratio); improving relationships with K-12 schools (including major initiatives in outreach and K-12 teacher professional development); increasing community college transfer; and phasing in State-supported summer instruction at each of the campuses, as well as a variety of other issues. The Partnership specified performance data and reporting requirements for each goal, to be reviewed by the Administration on an annual basis.

Funding During the First Year of the Partnership Agreement—2000-01

For the first year of the Partnership, the University's basic budget request was fully funded, consistent with the funding principles of the Partnership. Funding was also provided within the Partnership to support the first year of the University's initiative to improve undergraduate education.

In addition to this basic funding, support above the Partnership level was provided 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; provide salary increases beyond normal cost-of-living and merit increases, primarily for lower paid staff; augment several outreach programs and significantly expand K-12 teacher professional development programs; support research initiatives (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); expand the California

Digital Library; augment Cooperative Extension; initiate the Teacher Scholars, Principal Leaders programs; expand the California State Summer School for Math and Science; begin planning for a regional center in the Santa Clara Valley; development of K-12 high-speed Internet connections; and 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.

Augmentations over this period totaled \$476 million in permanent and \$108 million in one-time funds. The total State General Fund Budget in 2000-01, before the State's fiscal crisis began, was \$3.2 billion. 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 Initial Years of the Current State Fiscal Crisis – 2001-02 through 2003-04

Unfortunately, by 2001-02, the State's fiscal situation was beginning to deteriorate. The University based its budget request on the 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. However, the budget did provide an increase of \$131 million, including partial funding of the Partnership as well as funding above the Partnership for initiatives representing high priorities for the Governor and the Legislature. This funding allowed the University to fund merit and COLA salary increases for faculty and staff, employee health benefit costs, 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 help fund compensation increases. Enrollment growth of 7,100 FTE was also funded (including an additional 1,400 FTE proposed in the May Revise). Cost adjustments to student-fee-funded programs were provided, avoiding student fee increases for the seventh consecutive year, and funding was provided to convert summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses to State-support.

Several initiatives also were funded above the level called for under the Partnership, totaling \$75 million in one-time and \$3 million in permanent funds. These included energy costs, Internet2 access for faculty and students, faculty start-up costs associated with accelerated hiring at the Merced campus, increases in research requested by the Governor and/or the Legislature, and one-time clinical teaching support funds for teaching hospitals, neuropsychiatric institutes, and dental clinics.

The final budget also reduced funding for the California Professional Development Institutes and redirected \$5 million 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 help fund campus costs associated with the implementation of comprehensive review of admissions applications. The University's State General Fund budget for 2001-02 totaled \$3.3 billion.

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, and support for the California Professional Development Institutes for K-12 teachers and the Digital California Project (K-12 Internet) was reduced. An unallocated reduction of \$5 million was also included in the mid-year reductions. The State's budget deficit for 2002-03 eventually grew to \$23.5 billion.

The final budget act for 2002-03 budget provided funding to the University 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. It also included funding for enrollment growth of 7,700 new FTE students and State support for summer instruction at the Davis campus. Increases to UC's State General Fund budget totaled \$149 million.

While the increases to the budget were welcome, the budget also included base budget reductions totaling \$322 million, including a 10% across-the-board cut to research programs; elimination of 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; reductions to the California Subject Matter Projects,

K-12 Internet connectivity, and outreach programs; elimination of all State General Funds for the California Professional Development Institutes; and a one-time reduction of \$29 million for core needs, including deferred maintenance, libraries, instructional equipment, and instructional technology. State General Funds provided to the University in the 2002-03 Budget Act totaled \$3.2 billion.

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 at UC College Preparatory Initiative (which provides online courses for K-12 students), savings from prior years related to several research programs that had received large augmentations in the late 1990s, public service programs, the K-12 Internet program, academic and institutional support, and student services. In addition to cuts targeted at specific programs, \$19 million was designated as an unallocated reduction, which the University offset by instituting an increase in mandatory systemwide student fees of \$135 approved by the Board of Regents in December effective with the Spring 2003 term. When annualized, this fee 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. With the release of the May Revision, the Governor estimated the deficit to total \$38.2 billion. The final budget for 2003-04 addressed the State's shortfall through a combination of actions, including borrowing, assumptions about increased federal funding, an increase in the vehicle license fee, fund shifts, and spending reductions and savings.

For the University, cuts proposed by the Governor in January totaling \$373.3 million were all approved in the final budget act. These reductions affected nearly every area of the budget and included another 10% cut to research as well as targeted reductions to the University of California College Preparatory program (on-line courses to K-12 students), outreach, the California Subject Matter Projects, K-12 Internet, other public service programs, academic and institutional support, and student services. Also included in the total reduction to the University's budget was \$179 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. The Regents adopted an increase in mandatory systemwide student fees of \$713, or 30%, to offset this reduction in 2003-04. Also, \$34.8 million of the total cut proposed to be targeted at increasing the University's student-faculty ratio was instead taken by the University as an unallocated reduction. In addition to cuts proposed by the Governor, the Legislature proposed \$98.5 million in unallocated cuts that ultimately were included in the final budget. Of the total, \$80.5 million was designated as one-time and \$18 million was designated as permanent. The final budget did include some funding increases as well, including one-time start-up funds for the Merced campus, funding for 13,000 additional FTE students

at the agreed-upon marginal cost of instruction, funding for health benefits for annuitants and debt service, and other routine one-time budget adjustments. However, most 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 specified as a one-time cut. The 2003-04 State General Fund budget approved in the budget act for the University was \$2.87 billion, \$282 million less than the State General Fund budget for 2002-03 adopted in September, 2002.

Another round of mid-year reductions occurred in December, 2003 totaling \$29.7 million. Originally, mid-year cuts were targeted at outreach (\$12.2 million) and the Institute for Labor and Employment (\$2 million), with another \$15 million designated as an unallocated reduction. While these mid-year reductions originally were intended by the Governor to be permanent reductions, the budget agreement for 2004-05 restored funding for outreach and for the Institute for Labor and Employment. Consequently, the mid-year reductions were taken on a temporary basis in 2003-04 and only the \$15 million associated with the unallocated reduction was ultimately approved as a permanent reduction. That reduction was taken as a temporary unallocated reduction for 2003-04 and offset on a permanent basis as part of the student fee increases approved for 2004-05.

A New Compact with Governor Schwarzenegger

For 2004-05, the State was facing its fourth year of the budget crisis, with estimates of the deficit reaching \$15 billion in December, 2003. In his January budget, Governor Schwarzenegger proposed further significant reductions to the University's budget, including over \$140 million in additional base budget reductions, another \$200 million in reductions to be offset by student fee increases, and an unprecedented enrollment reduction of 3,200 FTE. For the first time since the adoption of the California Master Plan for Higher Education more than 40 years ago, the University was being asked to turn away eligible students from freshman enrollment.

As the State's economic recovery remained slow, prospects for further cuts in the May Revise grew. Moreover, while the Governor's proposed solution to the overall deficit included major budget reductions in most areas of the budget, it also included heavy borrowing and several one-time actions that would only delay further cuts into future years. The University was gravely concerned about the future of the institution and the potential long-term effect on quality of the academic enterprise as the State fought its way out of its economic crisis over the next several years.

Governor Schwarzenegger was equally concerned about the University's future and asked his administration to work with the University and with the California State University on a new long-term funding agreement for the four-year institutions, similar to those developed with Governors Deukmejian, Wilson, and Davis in the past. The new higher education Compact was announced by Governor Schwarzenegger in May, 2004.

The fiscal provisions of the Compact are designed to provide sufficient resources for the following:

- **Block Allocation for Salaries, Employee Benefits, and Other Basic Support**—adjustments of 3% in 2005-06 and 2006-07, and adjustments of 4% for 2007-08 through 2010-11. The importance of this element of the Compact cannot be overstated. Faculty salaries are estimated to be about 10% behind the average of comparison institutions; there is a similar problem related to staff salaries. The Compact will allow the University to stop the erosion in salaries in the first two years, and, in later years as the State's fiscal situation improves, begin to close the gap and address salary inequities that exist between newly-hired faculty and staff and longer-term employees. Returning to paying competitive salaries is one of the University's highest priorities and is critical to our ability to maintain academic quality and restore the University's—and California's—competitive edge.
- **Core Academic Support Needs**—beginning in 2008-09 and continuing through 2010-11, an additional 1% adjustment to the base to be used to address annual budgetary shortfalls in State funding for core areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance.
- **Enrollment**—funding for enrollment growth consistent with the Master Plan at the agreed-upon marginal cost of instruction. UC estimates enrollment will grow about 2.5%, or 5,000 students, a year through this decade.
- **Student Fees**—undergraduate fee increases of 14% in 2004-05 and 8% in both 2005-06 and 2006-07; graduate fee increases of 20% in 2004-05 and 10% in both 2005-06 and 2006-07. Beginning in 2007-08, the University will develop its budget plan each year based on the assumption that fees will be increased consistent with the Governor's proposed long-term student fee policy. That policy states that increases in student fees should be equivalent to the rise in California per capita personal income. However, in years in which the University determines that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, UC may decide that fee increases of up to 10% are necessary to provide sufficient funding for programs and preserve academic quality. Revenue from student fees will remain with the University and will not be used to offset reductions in State support. The Compact also calls for the University to develop a long-term plan for increasing

professional school fees that considers the following factors: average fees at other public comparison institutions, average cost of instruction, total cost of attendance, market factors, the need to preserve and enhance the quality of the professional programs, the State's need for more graduates in a particular discipline, and financial aid requirements of professional school students. Revenue from professional school fees will remain with the University and will not be used to offset reductions in State support.

- **Other Budget Adjustments**—annual adjustments for debt service, employer retirement contributions, and annuitant health benefits.
- **One-time Funds and New Initiatives**—consideration of additional resources for one-time purposes and new initiatives when the State's fiscal situation improves.
- **Capital Outlay**—continued support for bond financing of at least \$345 million annually to meet capital outlay needs.

The Compact also includes accountability measures relating to issues that traditionally have been high priorities for the State. Thus, the University has agreed to maintain and improve where possible performance outcomes in a variety of areas, including maintaining access and quality; implementing predictable and moderate fee increases; enhancing community college transfer and articulation; maintaining persistence, graduation rates, and time-to-degree; assisting the State in addressing the shortage in science and math K-12 teachers; returning to paying competitive salaries and closing long-term funding gaps in core areas of the budget; and maximizing funds from the federal government and other non-State sources. The University will report to the Administration and the Legislature on its progress in these areas by October of each year.

The 2004-05 Final Budget

While the Compact stemmed the tide of budget reductions, the reductions for 2004-05 remained significant. State General Funds for 2004-05 totaled \$2.721 billion, \$147 million less than the funding level provided in the previous year.

Base budget reductions included another 5% cut to research (\$11.6 million) and a 7.5% reduction to academic and institutional support (\$45.4 million). Another \$34.8 million cut had originally been targeted at increasing the University's student-faculty ratio, but was instead taken by the University as an unallocated reduction.

Also included in the total reduction to the University's budget was \$183.5 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. While the Governor had originally proposed a 10% increase

in undergraduate student fees and a 40% increase in graduate academic student fees to help offset these cuts, as part of the negotiation of the Compact the Governor agreed to a three-year plan for student fee increases requiring undergraduate students to pay a slightly higher fee increase in 2004-05 in order to help moderate the fee increase for graduate students.

Thus, in 2004-05, undergraduate fees increased by \$700, a 14% increase over 2003-04 rather than the 10% proposed in January, and graduate fees increased by \$1,050, an increase of 20% rather than the 40% proposed in January. As specified in the Compact, in the second and third year of this plan, undergraduate students will pay increases of 8% per year in order to achieve an average increase over the three-year period of 10% per year, and graduate fees will rise by 10% per year.

The 2004-05 budget also included an average increase of 30% for most professional school students (at the request of the Governor, nursing professional school fees did not increase in 2004-05), which generated \$5 million less in revenue than the Governor had originally assumed in his budget. The University believed that the increases needed to achieve the level of revenue proposed by the Governor would have been too steep to accomplish all in one year. As a result of the shortfall, campuses were asked to absorb an unallocated reduction of \$5 million on a temporary basis until fees could be raised in 2005-06 to cover the shortfall. Nonresident tuition was also increased by 20% in 2004-05 for undergraduate and graduate academic students. It should be noted that nonresident students pay mandatory systemwide student fees and campus-based fees in addition to nonresident tuition.

One of the most difficult issues facing the University in the 2004-05 budget related to funding for enrollment. For the first time in recent history, the University was asked to reduce enrollment to help meet budget reductions. The Governor's January budget had proposed a 10%, or 3,200 FTE, reduction in University freshman enrollments and called for the University to redirect these students to the California Community Colleges for their first two years of study. Upon successful completion of their lower division work, as specified by the UC campus that originally accepted and redirected them, these students would enroll for their upper division work at that UC campus. The University implemented the Governor's proposal in the spring and called the redirection program the Guaranteed Transfer Option, or GTO. The University initially offered GTO to 7,600 eligible freshman applicants.

As part of the actions taken on the final budget for 2004-05, the Governor and the Legislature reached a compromise that lowered the reduction in enrollment from 3,200 FTE to 1,650 FTE. This compromise allowed the University to offer freshman admission to all students who originally received the GTO offer. Because the offers were made very late in the admissions process, many students had already made

other plans. Nevertheless, the actions taken by the Governor and the Legislature on enrollments were important for preserving the Master Plan guarantee of access for eligible students.

Following the compromise, the University immediately sent offers for freshman admission to all eligible students who had not yet received a UC freshman offer. Among the roughly 7,600 applicants initially offered GTO and later offered freshman admission, approximately 1,854 enrolled at UC during 2004-05. Another 500 remained as GTO students and will later transfer to the University as upper division students.

Funding for student academic preparation programs was also a challenging issue in the 2004-05 budget. In his January budget, the Governor proposed eliminating funding for these programs. Ultimately, after significant negotiation, all but \$4 million of the funds for these programs was restored on a one-time basis, leaving the program with a total of \$29.3 million for 2004-05.

The Governor's January budget had also proposed elimination of all State funds (\$4 million) for the Institute for Labor and Employment, a multi-campus research unit housed on the Berkeley and Los Angeles campuses. As part of the final budget package, the Governor and the Legislature agreed to restore \$3.8 million of these funds, leaving the program with a \$200,000 reduction, equivalent to the 5% reduction to the overall research budget that year.

The final budget eliminated all remaining funding for the Digital California Project (K-12 Internet) from the University's budget. Instead, the State budget included a total of \$21 million in Proposition 98 funding specifically designated for schools to contract with providers for access to the high-speed Internet.

Consistent with the last several years, the 2004-05 budget again provided one-time funding to allow the Merced campus to continue its preparations to open the campus by Fall 2005. The budget increased one-time funding by \$2.7 million to \$10 million. This funding was provided for faculty start-up costs and to help establish the systems and core infrastructure needed to ready the campus for its opening in September, 2005.

In addition, the one-time reduction of \$80.5 million from 2003-04 was also restored, consistent with the prior year budget act and, consistent with past practice, funding for annuitant health benefits and lease revenue bond payments was provided.

The University did not receive funding for increases to salaries, employee health benefits, maintenance, energy, inflation, core needs, and other cost increases. Faculty salaries were about 8-10% behind the average of other comparison institutions—a similar problem existed with respect to staff salaries. Employee benefit costs were skyrocketing, energy costs were increasing significantly, new

space was coming on line with no funds to support maintenance, and funding for core needs that provide the infrastructure to support the academic program, such as libraries, instructional equipment, and instructional technology, was falling further behind.

With the 2004-05 budget, as a result of the State's fiscal crisis, the University's State General Fund budget was nearly \$1.5 billion below what it would have been if a normal workload budget had been funded for the previous four years. A little more than 1/3 of this shortfall was accommodated through base budget cuts to existing programs; a little more than 1/4 was addressed through student fee increases; and the remainder represented foregone salary and other unfunded cost increases.

Funding in 2005-06: A Turning Point

As mentioned earlier, negotiation of the Compact with Governor Schwarzenegger late in the budget process for the 2004-05 budget helped stem the tide of budget cuts that had prevailed for four years. Further cuts that were likely to be targeted at UC in the May Revision were avoided. With the 2005-06 budget, the Compact represents a true turning point. For the first time since the State's recent fiscal crisis began, the State is providing the University with a normal workload budget, the elements of which are described below. While this budget helps keep further erosion from happening, it provides very little relief against the significant reductions that have occurred in recent years.

Consistent with the funding provisions of the Compact, the State's 2005-06 budget for UC includes a 3% base budget adjustment of \$76.1 million for normal cost adjustments and enrollment growth funding of \$38 million. The budget assumes student tuition and fee revenue from increases as follows:

- an 8% increase in undergraduate student fees;
- a 10% increase in graduate academic student fees;
- increases ranging from 3% - 10% in professional school fees;
- a 5% increase in nonresident tuition for undergraduate students.

State General Funds provided in the budget are being used along with student fee revenue and UC General Fund income to support the following:

- merit salary increases, cost-of-living adjustments (COLAs), health benefit cost increases, and equity increases for faculty and staff. Eligible faculty received normal merit increases effective July 1 plus a 2% COLA effective October 1. Staff compensation differs from faculty compensation in that many staff are represented and therefore subject to collective bargaining agreements. In addition, most non-represented staff are paid entirely on a merit-based system, with no differentiation between COLA and merit salary adjustments. Staff

salary adjustments were made as appropriate, generally effective October 1. Funding was also provided for health benefit cost increases and equity adjustments to help address the inequities that have occurred as new faculty and staff have been brought in at market rates, which are higher than the salaries of existing employees who have had no or low salary increases for several years. Funding is insufficient to address all inequities throughout the system; therefore, priority for these funds is targeted at critical recruitment and retention efforts. The total increase in the cash compensation package averaged about 3.5%. The increases for faculty and staff were very welcome; however, they are helping only to prevent further erosion in salaries compared to the marketplace. No progress has been made in reducing existing salary lags;

- funding to support 5,000 FTE growth in enrollment (\$38 million), representing a 2.5% increase, at the agreed-upon marginal cost. This funding is being used to support 1,000 planned student enrollment at the Merced campus in its inaugural year (fall enrollment totals about 875 students, but the campus will continue to enroll more students in the Spring semester), 2,000 FTE additional enrollment growth on remaining campuses, and the continued phase-in of State support for summer instruction for 2,000 FTE summer students at the four campuses not yet on State support for summer (Irvine, Riverside, San Diego, and Santa Cruz), approximately representing the growth in summer enrollments at these campuses since the summer conversion began. About \$490,000 of the total provided is being used to support the first two cohorts of students (a total of 20 students) in the University's Program In Medical Education for the Latino Community (PRIME LC) at the Irvine medical school, a program designed to provide intensive, specialized training in health care for Latino communities;
- \$10 million as a first step toward a multi-year effort to restore unallocated reductions to instructional budgets. The Governor's Budgets for both 2003-04 and 2004-05 proposed increases in the budgeted student-faculty ratio as part of the targeted reductions needed to help address the State's fiscal crisis. In both years, The Regents established a high priority for maintaining quality, including avoiding any further deterioration in the student-faculty ratio. Instead, campuses were asked to absorb unallocated reductions totaling \$70 million over the two-year period. This funding is being used to restore instructional budgets;
- a 2.25% increase (\$23 million) for inflation adjustments on non-salary portions of the budget;
- maintenance of new space (\$16 million) for core instruction and research space and for the California Institutes for Science and Innovation. State funding has not been provided for this purpose since 2002-03. The \$16 million is being combined with \$7 million already redirected from existing University resources to address this critical need;

- \$750,000 in State funds, matched by \$750,000 in University funds, to support the initial infrastructure needed to implement the new science and math initiative, *California Teach: One Thousand Students – One Million Minds*. This exciting initiative, the largest of its kind in the nation, is intended to provide students the opportunity to complete in four years and one summer both a bachelor's degree in science, mathematics, or engineering and the coursework required to become a K-12 science or math teacher. State and University funds will be used to develop resource centers to operate the program. Other funds needed to support stipends for participants in field experiences and K-12 teachers acting as mentors and supervisors, summer institutes, and follow-up professional development activities will be raised from K-12, industries, and private sources. The State also authorized an additional 300 additional APLE warrants (Assumption Program for Loans for Education), which provide loan forgiveness funds for teachers. While the existing APLE program gives priority to teachers in math and science, the University is seeking language in the statute specifying that the increased warrants are for participants in the University's and the California State University's math and science program. The Governor has indicated his intention to support such legislation in the coming year. Fundraising for the initiative has already topped \$4 million. This initiative is described in more detail in the *General Campus Instruction* chapter of this document;
- \$14 million in one-time funds needed to open the Merced campus in 2005. This is an increase of \$4 million over the one-time funds provided in 2004-05. These funds are in addition to the ongoing base appropriation of \$10 million in permanent funds, the enrollment growth funding for the campus' first 1,000 students, and student fee revenue the campus will receive from its students. One-time funds are needed to help support faculty salaries and recruitment costs, instructional technology, library materials, student services, and expanded general support needed to fully operate the campus until the campus enrollment reaches a critical mass sufficient to support ongoing operations, expected to occur when the campus reaches its planned enrollment level of 5,000 in 2010-11.

Funding for student academic preparation programs was once again a major issue in the budget process for 2005-06. The Governor's January budget proposed eliminating \$17.3 million that had been provided on a one-time basis for these programs in the 2004-05 budget, leaving only the University's \$12 million in support for student academic preparation as called for in the Compact. The Regents adopted a resolution at the January 2005 meeting affirming that student academic preparation programs are a fundamental part of the University's mission. Convinced of the importance of funding these programs at an adequate level, the University worked diligently throughout the process to arrive at an agreement with the Governor and the Legislature to provide State support for student academic preparation. The final budget act for 2005-06 restores the \$17.3 million in State

support once again on a one-time basis with the understanding that the University will work with the Administration to fully evaluate the effectiveness of each program and redirect funding from those that cannot demonstrate an adequate return on investment to those that can.

The final budget act also specifies that the University will report on the outcomes and effectiveness of these programs consistent with an accountability framework developed in April 2005 with the participation of representatives from the Legislature, the Department of Finance, as well as the University.

The budget also provides increases for annuitant health benefits and lease revenue bond payments, consistent with past practice.

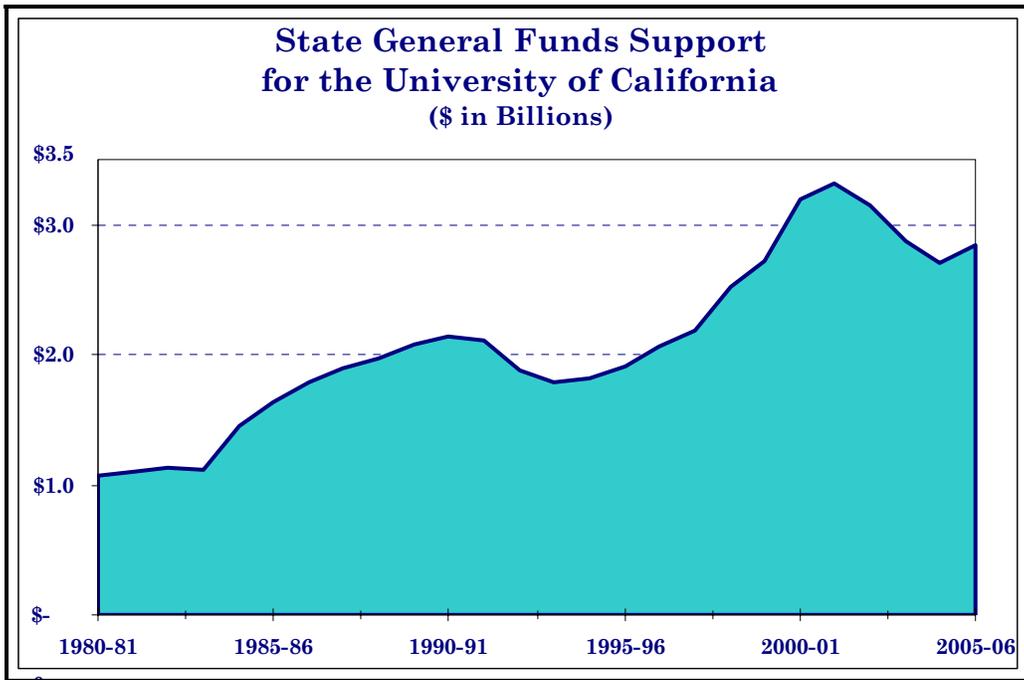
The State-funded budget for 2005-06 totals \$2.845 billion, which is a 5% increase over the prior year.

State Funding for UC Depicted Over Time

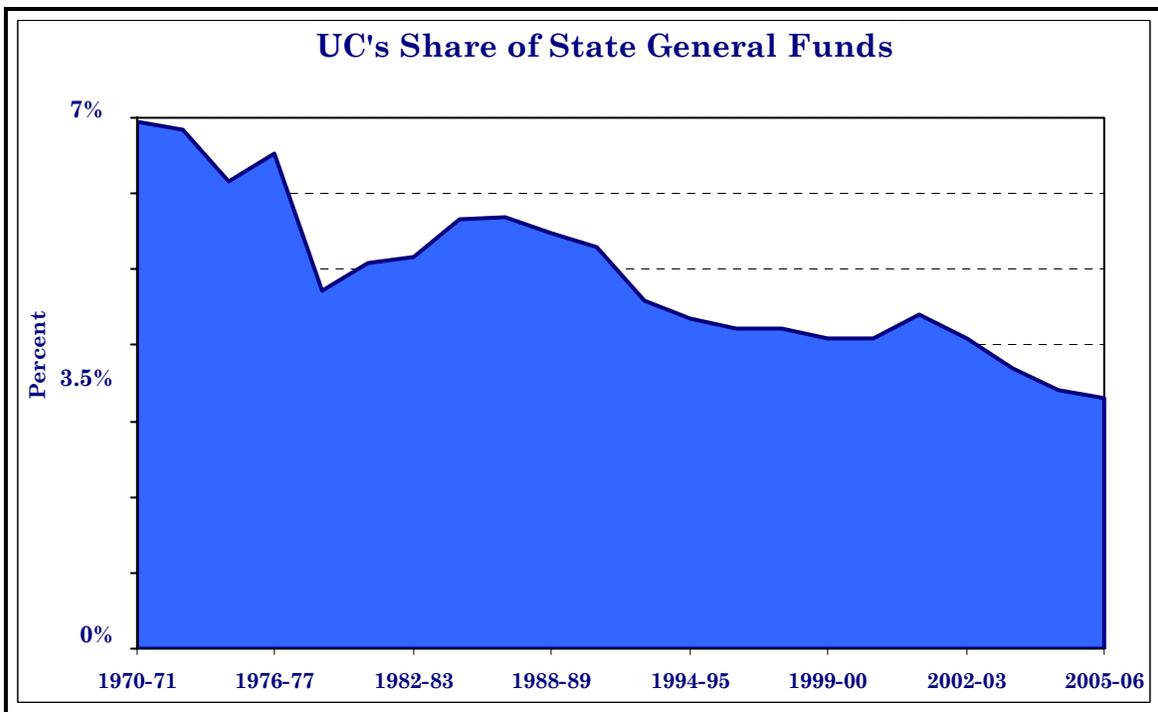
Beginning with the first year of the first Compact with Governor Wilson (1995-96) through 2001-02 (including the first two years of the Partnership), the State provided increased funding for the University's budget every year, as Display 5 shows. The "ups and downs" shown in Display 5 have largely coincided 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 6 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 3.3%. 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 7 (page 40) 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 that 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, until the last several years. After 2000-01, the graph shows a precipitous decline over several years in funding per student when compared to the price index. While this decline has leveled off recently, the gap between funding per student and the increase in inflation has widened considerably. The University is deeply concerned about this trend and hopes the new Compact with the Governor will help to reverse this trend 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.

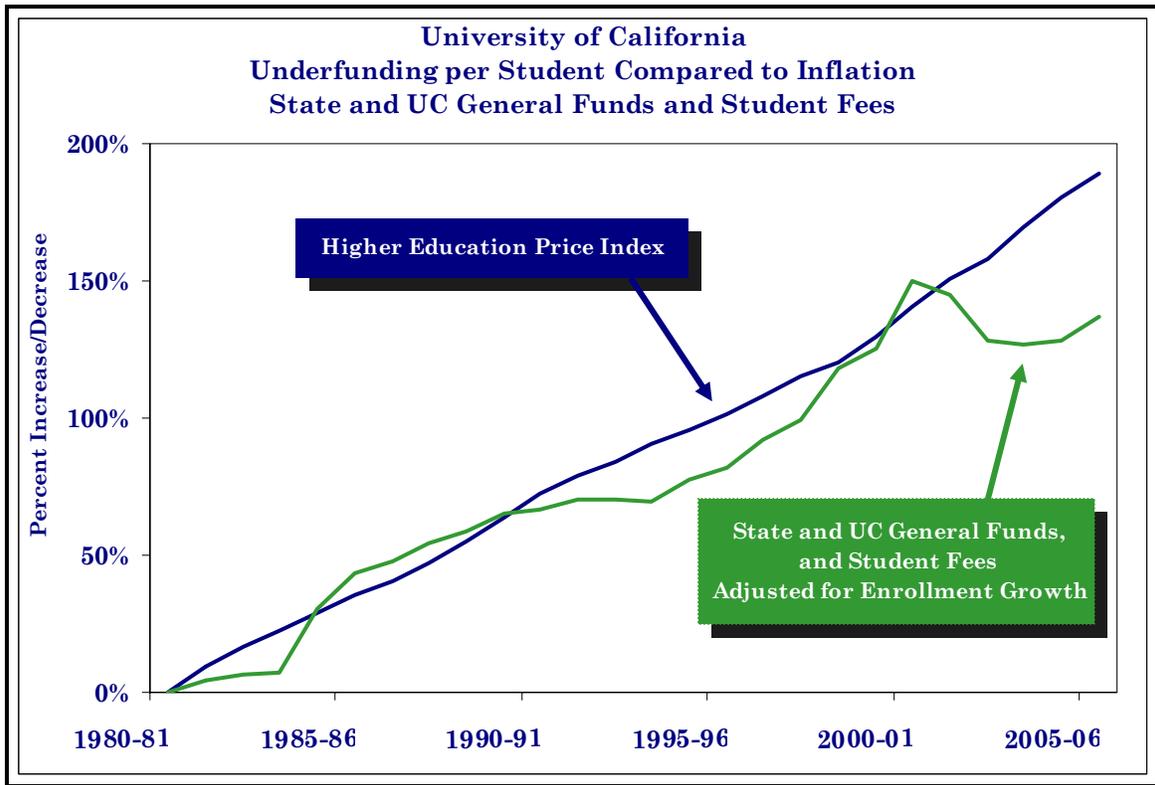
Display 5



Display 6



Display 7



Planning for the Longer Term

While the point has been reached where, after years of budget cuts, the University is optimistic that some stability can be achieved in the State-funded budget, it is imperative that the University look beyond the annual budget cycle to take a longer view, looking at least twenty years into the future. The University must consider what the State of California will need from the University in 2025 and identify the ways in which the University can contribute to meeting those needs. As part of this process, consideration should be given to, among other things, the changing nature of the state's economy and demographics, the balance of the University's missions and roles, and global competition for intellectual capital.

The economy and demographics of California are changing. The knowledge-based economy means that higher education is more important than ever to economic competitiveness and the quality of life. Higher education is a pathway to upward social mobility for a changing population. More Californians will want and need a university education for tomorrow's jobs. Innovations that result from the University's research and the creative solutions and visionary thinking of its graduates lead to new products, better processes, new companies, and sometimes entirely new industries. Both access to the University and protection of its quality

are imperative if this valuable public asset is to continue to keep California competitive.

To maintain and enhance quality, the University must ensure that its missions and roles are in balance. The University is an enormous and complex institution, whose missions of undergraduate and graduate teaching, research, and public service are intertwined. When actions affect one part, the other parts of the University are also affected.

For example, consider the balance between undergraduate and graduate education. To address the state's highest priority, UC has been growing to accommodate more high school graduates. Undergraduate enrollments have increased dramatically in the last 40 years, from approximately 49,000 FTE in 1965-66 to 160,000 in 2005-06. Graduate enrollments grew, too, but at a slower pace, from 20,000 students in 1965-66 to 33,000 in 2005-06. Thus, the proportion of graduate enrollments has declined. Graduate enrollments in high quality programs are critical to the state's continuing economic vitality, as well as its social and cultural development. In addition, UC graduate students play a vital role as future faculty in higher education in California, as well as serving a key function in enhancing the quality of the instructional and research enterprise while enrolled at UC.

The proportion of Californians with doctorates has declined so that California now is in 9th place among the 15 largest states. While in the past, California was able to rely heavily on importing highly educated workers from other states and countries, these sources cannot be relied upon in the future. Not maintaining the proportion of graduate enrollments has had implications for undergraduate education, research, and the state's economic and social well-being. The University is mindful of the importance of regaining and maintaining balance among all its missions.

Economically, California is more like another country than it is like any other state. Around the world, other nations, such as China, India, Singapore, Ireland, and Australia, are aggressively boosting their economic competitiveness. These countries are investing heavily in higher education. In California, it cannot be assumed that investments made 20 or 30 years ago will be sufficient in the future to maintain the quality of life and standard of living that Californians have enjoyed in the past. The investments that California makes over the next 10 years in California's competitiveness may well determine the state's economic fortunes for the next 40 or 50 years, just like the investments California made in the 1960s. To keep California competitive, the state must ensure that the University has the intellectual capital to stay competitive in a global economy.

In this context, the University is engaged in an on-going long-range planning process, designed to create a vision of the University of California in twenty years and how it will best serve the State. Careful consideration is being given to what will be the intellectual capital and other needs of the State and how the University

can help to meet those needs in 2025 and beyond. Recognizing the State's current financial difficulties, this budget, and those that will follow, will be consistent with the Compact with the Governor through 2010-11 and will be informed by the longer-term perspective as well.

Enrollment Projections

Under the California Master Plan for Higher Education, UC is to offer access to all eligible applicants in the top 12.5% of the statewide public high school graduating class who choose to attend. University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class and to guarantee admission to all applicants who meet the eligibility requirements and apply on time. In addition, the Master Plan calls for UC to guarantee a place for all California Community College transfer applicants who meet eligibility requirements. Framers of the Master Plan further envisioned maintaining or enhancing the proportion of graduate student enrollment at UC. To enable the University to fulfill these access provisions, the Master Plan calls for the State to provide adequate resources to accommodate undergraduate and graduate student enrollment.

The University remains committed to the Master Plan and believes it is the underpinning for one of the finest higher education systems in the world. There is continued interest in replicating the California model in developing economies throughout the world and the Master Plan is the envy of other states. The interests of the State, its citizens, and the higher education segments in California have been well-served by the Master Plan for over 45 years. Legislative reviews of the Master Plan in 1989 and 2002 have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students.

For several decades, a compelling State priority has been placed on providing undergraduate access for the rapidly growing high school graduate population. However, adherence to this priority has not been without some consequences for the overall academic balance of the University and its impact on the State's supply of highly-skilled workers needed in California's knowledge-based economy. Thus, while the University has expanded access for undergraduates, graduate and professional enrollments have not kept pace, as was intended in the Master Plan.

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

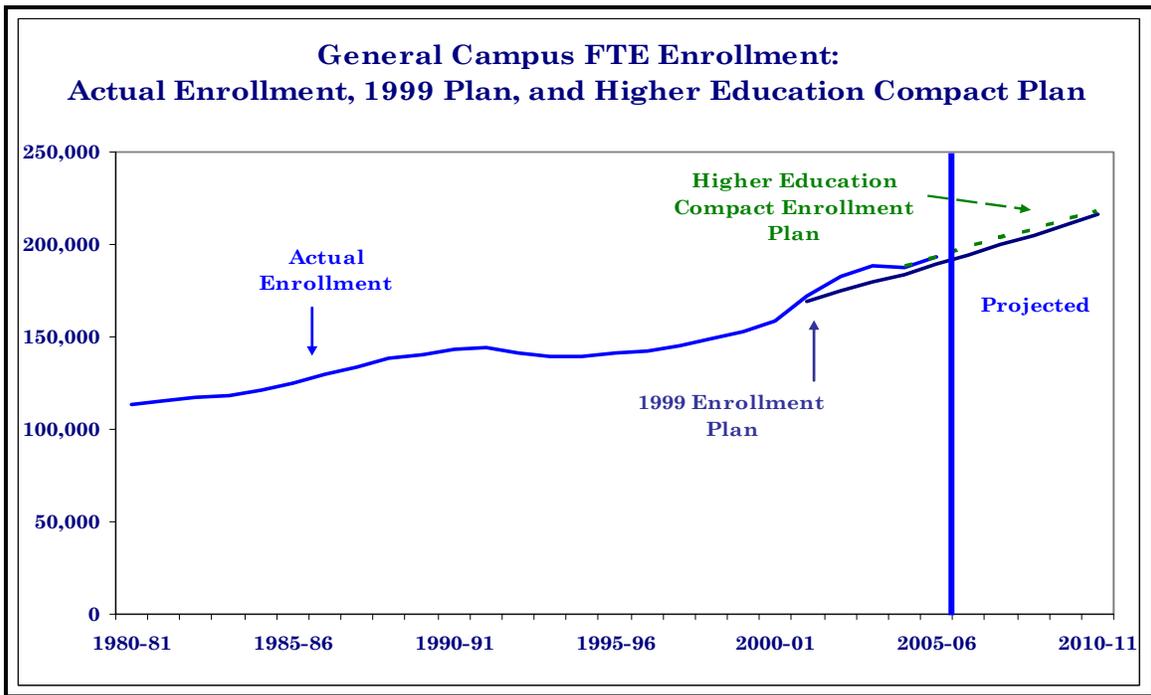
- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (University policy has been to establish eligibility criteria

designed to identify the top 12.5% of the high school class, but generally about 7.8% actually enroll);

- assumptions about community college transfer rates, consistent with the University's commitment to continue to improve these rates; and
- increases in graduate and professional 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 2.5%, or about 5,000 FTE, over this decade; by 2010-11, the University would reach its planned target of 216,500 FTE. As shown in Display 8, between 2000-01 and 2003-04, the University experienced far more rapid enrollment growth than projected in the 1999 plan, averaging closer to 8,000 FTE student growth per year in recent years rather than the 5,000 FTE

Display 8



growth projected earlier. Now, despite the budgeted enrollment decrease in 2004-05, total enrollment remains 6,000 FTE over the level envisioned in the 1999 plan for 2005-06. The Compact with Governor Schwarzenegger calls for UC to return to its earlier estimates of 2.5% enrollment growth per year.

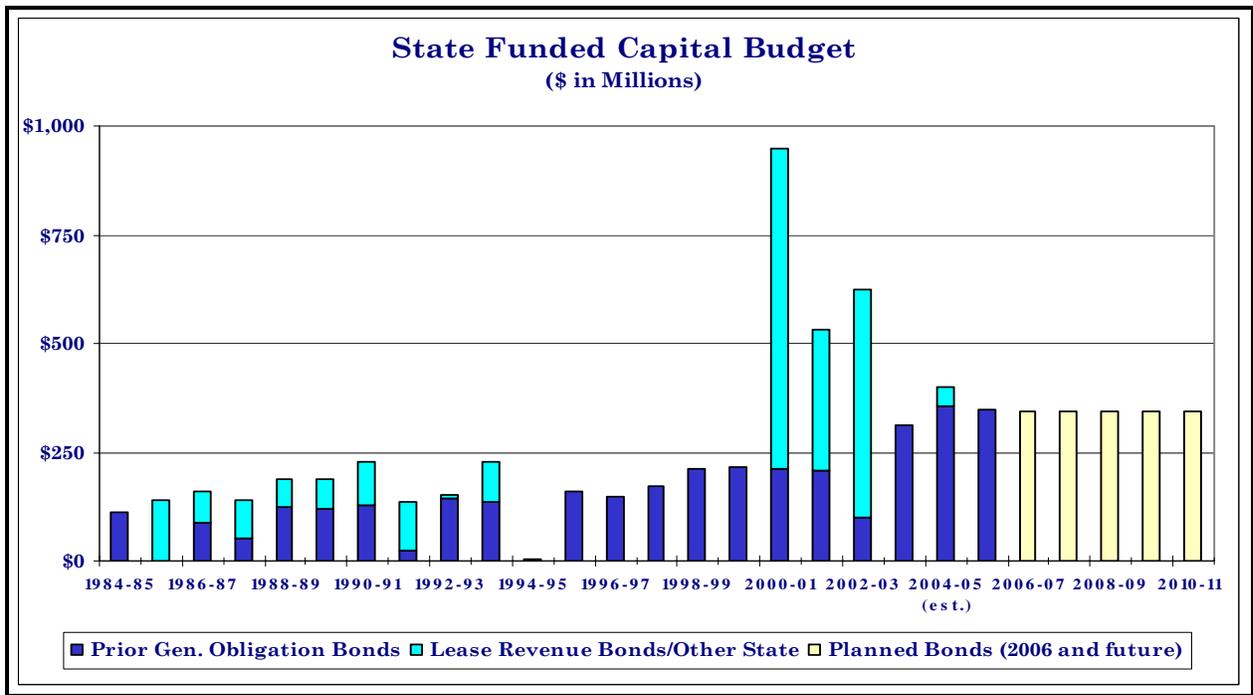
Therefore, the 2006-07 budget request will include workload funding at the agreed-upon marginal cost for 5,000 students. The Merced campus opened its doors officially in 2005-06 and plans to enroll 1,000 students in its inaugural year (fall enrollment totals about 875 students, but the campus will continue to enroll more

students in the Spring semester). In the coming years of this decade, the campus plans to enroll another 800 students each year; therefore, 800 of the increased enrollment planned for 2006-07 will be directed to the Merced campus. Consistent with campus plans, funding for another 2,000 FTE will be used to complete conversion of summer instruction at the four campuses still not fully funded for the summer. The remaining growth of 2,000 FTE will be assigned to the campuses consistent with campus enrollment plans.

Facilities Needs to Accommodate Enrollment Growth and Maintain 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 9 indicates, the State provided funding for capital outlay within the range of \$100 million to \$250 million per year for more than a decade from the mid-1980s to the late 1990s. Since then, the level of capital outlay funding has fluctuated significantly.

Display 9



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 two-year 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, was approved in November 2002 and authorized more than \$13 billion for K-12 and \$1.65 billion for higher education. UC received \$90.2 million in Proposition 47 funds in 2002-03 and \$307.5 million in 2003-04. The second bond measure, approved by voters in March 2004, authorized \$10 billion for K-12 and \$2.3 billion for higher education for the two-year period 2004-05 and 2005-06, with UC receiving \$339.4 million and \$352.5 million respectively from the bonds.

The University also received capital funds from other State sources in recent years, including both State General Funds and lease revenue bonds, including more than \$650 million in lease revenue bonds and State General Funds for hospital seismic projects required by SB 1953 and hospital infrastructure needs; \$261 million for planning and construction of the initial buildings for the Merced campus; \$400 million for the California Science and Innovation Institutes, which was matched at a rate of 2:1 by non-State funds (the Science and Innovation Institutes are discussed in more detail in the *Research* chapter of this document); \$282 million for miscellaneous other projects that were high priorities for the Governor and the Legislature; 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.)

Funding for the University’s 2006-07 capital budget request totaling \$340 million will require passage of a new General Obligation bond measure or provision of State lease revenue bonds, consistent with the Compact with Governor Schwarzenegger, which states the Governor’s support for continued funding for capital outlay of about \$345 million per year either through general obligation bonds or other bond financing. At the time this document is being written, no decision has been made about which fund source the Administration will support for 2006-07. Technically, a decision about a GO bond measure does not need to be made until mid-to-late summer of 2006 to qualify for the November 2006 ballot. State lease revenue bonds are less preferable to the University because they are counted against the University’s debt capacity and thus inhibit the use of debt financing for projects that the State does not fund, such as housing, parking, and other non-State facilities. The capital budget request for 2006-07 is discussed in more detail at the end of this *Overview* and in a companion document, *2006-2007 Budget for State Capital Improvements*.

Future funding for capital outlay continues to be a major issue facing the University. Continued enrollment growth presents significant challenges. However, even without enrollment growth, the University has significant capital needs related to seismic and life-safety requirements, modernization of out-of-date facilities that no longer adequately serve the academic programs they house, new infrastructure for growing campuses, and renewal of infrastructure and other facility systems that are worn out and cannot accommodate even present needs.

The University's capital program is particularly challenged by recent changes in the construction market that have resulted in an extraordinary increase in building cost. Prices for certain materials, such as steel and cement, have increased dramatically and there is great concern that the reconstruction effort required on the Gulf Coast may trigger a new round of increases in materials and labor costs. Further, California is experiencing a major increase in the volume of construction, resulting in fewer bidders and less competition for University contracts, much higher bid proposals, and great volatility in bids. In response, the University has dramatically increased its emphasis on management of cost and cost risk, and the importance of improving the way projects are implemented. That said, it is clear that with the current volatility in the construction market, the \$345 million per year in State financing called for in the Compact does not support as many projects as originally envisioned, exacerbating the already difficult challenge of meeting projected enrollment growth, essential seismic correction, and renewal needs.

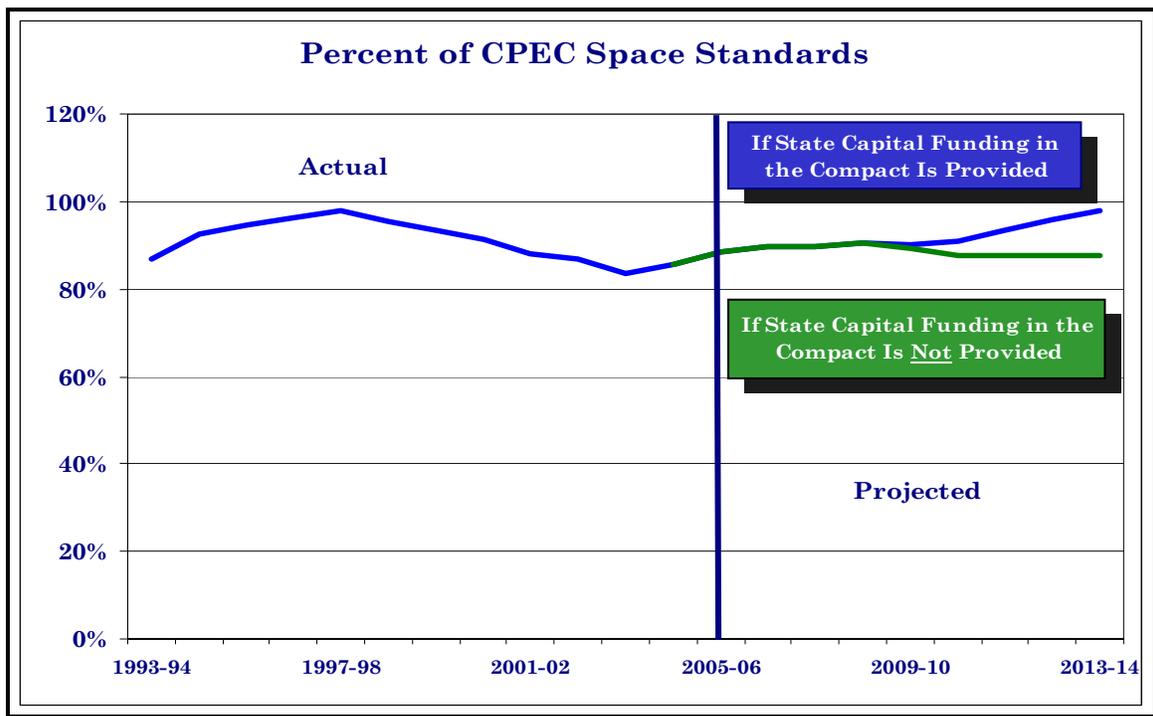
It is in this context that the University has prepared its annual a five-year capital outlay plan that will address needs related to enrollment growth, seismic and other life-safety requirements, and renovation of obsolete facilities and infrastructure based on the funding levels called for in the Compact. The State-funded program includes the projects and budget proposed for approval in 2006-07, along with future State funding requirements by campus for the next four years, 2007-08 through 2010-11. The State-funded 2006-07 Budget for Capital Improvements will be presented to the Board for approval at the November Regents meeting, consistent with usual practice. In addition, both the five-year State and non-State capital plans will be presented for discussion in November.

The University estimates that it will require more than \$700 million per year over the next decade to address its most pressing facilities needs for core academic and support space traditionally funded by the State. 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 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. 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. Unfortunately, the magnitude of these non-State funded facilities needs is creating significant pressure

on the University’s debt capacity. Moreover, the current financial context and a volatile construction cost market seriously constrains all fund sources available to the University, limiting what can be done.

While State funding does not meet all the University’s needs, the \$345 million per year proposed in the Compact is critical to the University’s ability to respond to facilities needs related to enrollment growth, life-safety, seismic, and renovation. If that level of funding continues each year, the University estimates it will construct sufficient space to achieve 91% of the standards for instruction and research space set by the California Postsecondary Education Commission (CPEC space standards) by 2010-11. If the next bond issues envisioned in the University’s five-year plan are not approved and other State funding is not provided, the percentage drops to 88%, as depicted in Display 10.

Display 10



That level of unmet need would be unacceptable in the context of significant enrollment growth through this decade. Passage of future bond measures is key to the University’s ability to accommodate enrollment and maintain adequate facilities.

The Compact states that, as the State’s fiscal situation permits and one-time funds become available, the State may provide “one-time funds to address high priority infrastructure needs, such as capital renewal of facilities and deferred maintenance.” The Compact goes on to state that “for UC, at least \$200 million

per year is needed for systematic capital renewal of existing facilities and utilities, and the deferred maintenance backlog for high-priority projects exceeds \$500 million.” These estimates are based on a sophisticated model developed by the University to project normal renewal costs for facilities. The model, which is updated annually, includes a detailed inventory of all State-maintained facilities at each campus and breaks down each building or infrastructure system into components having life cycles between 20 and 50 years and thus need to be renewed on a predictable basis. This includes components such as roofs, fire alarm systems, heating and ventilation systems, central plant chillers, and underground utility cabling. The model assumes standard life cycles and costs for renewing each system, and from these elements develops a profile for each building or system, projecting the renewal date and cost for a 50-year period. The model also estimates the deferred maintenance backlog by tracking those systems that have deteriorated to the point that they currently need repair or renewal. The University welcomes the acknowledgement in the Compact of these serious deficiencies and as funds become available, will seek investments from the State in these critical areas of infrastructure.

Summary of the University's 2006-07 Budget Request

While State funding provides essential core support, the University's overall operating 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, federal funds represent an estimated 22% of grant aid received by UC students in 2004-05. 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 private and federal funds for research, capital outlay, and other support. For example, for every State dollar specifically invested in research, UC leverages nearly \$6 more from the federal government and other non-state sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries. Many of the funds leveraged from other sources are restricted in nature, but such sources provide the means for one of the greatest institutions in the world to create and disseminate new knowledge, meet workforce needs of the state, and help fuel economic prosperity. The University remains optimistic that there are continued opportunities for raising private funds. For federal funds, however, projections for the next several years show very little growth, if any. In fact, current projections indicate increases will only be sufficient to cover inflation, if that. Federal and private funds are discussed more fully at the end of this *Summary*.

With one exception since the Compact with Governor Wilson was developed in 1995-96, it has been the practice of the University to premise its annual budget request on the funding agreement with the Governor. The sole exception occurred in 2004-05 when considerable uncertainty surrounding the State's fiscal situation prevented the University from submitting a budget request. Now, with the Compact in place, the University is again basing its request for 2006-07 on the agreement with the Governor.

This chapter discusses general support for the University's budget, including State General Funds, UC General Fund income, and student fee revenue based on the

Compact Agreement with the Governor. A more complete discussion of the existing base budget, other fund sources, and associated policy issues within the major functional areas of the budget is contained in the following chapters of this document.

In addition, this chapter includes a discussion of the University's needs for restoration of its fiscal health, once the State's financial circumstances permit. Years of devastating cuts have reduced the University's competitiveness and have destabilized the quality of the academic program. The historic investment the State has made to develop the finest public university system in the world must be preserved if the University is to continue to provide the State with the economic and social benefits that derive from a great institution of research and learning. Restoration of funds for high priority needs will be a critical step in preserving and nurturing the State's investment for the future.

Display 1 identifies the components of the 2006-07 budget plan, with increases totaling \$286.7 million. This total includes an increase of \$131.2 million in State General Funds for the purposes described below:

- \$80.4 million, representing a 3% increase to the prior year's State General Fund budget, excluding debt service and one-time funds. These funds will be used to support the general salary program (cost-of-living and merit salary increases, as applicable) for faculty and staff, cost increases in health benefits, and non-salary portions of the budget. The University estimates that faculty salaries already lag the average of comparison institutions by 10% and that there is a similar lag with respect to staff salaries. This funding will be sufficient only to prevent any significant increase in these lags. It will not provide support to close the existing lag as it relates to the competitive marketplace;
- \$47.5 million to fund enrollment growth of 5,000 FTE students (about a 2.5% increase) at the agreed-upon marginal cost;
- \$3.3 million to support two initiatives for 2006-07: \$2.9 million to restore State funding eliminated from the 2005-06 budget for labor research and \$375,000 to provide the remaining initial increment of State funding for the basic operation of the Science and Math Initiative;

In addition to the increases in State General Funds described above, income from student fees and UC General Funds will increase as follows:

- \$107 million resulting from proposed increases in mandatory systemwide student fees of 8% for undergraduates and 10% for graduate academic and professional school students;

Display 1

**University of California
2006-07 Budget Request
(\$ in millions)**

2005-06 Operating Budget

Estimated State General Funds (excluding one-time funds and lease revenue payments)	\$	2,681.0
Estimated State and UC General Funds plus student fee income (excluding one-time funds and lease revenue payments)		4,639.9

PROPOSED INCREASES IN EXPENDITURES

(Based on the Compact)

Fixed Costs

Compensation and benefit increases for faculty and staff for merit, COLA, continuation costs related to 2005-06 salary increases, employee benefits, and equity increases (equivalent to 4% of total salaries and benefits)		126.0
Price increase for non-salary budgets (2.25%)		23.1

Workload and Program Growth

Enrollment growth of 5,000 FTE students (includes \$8.3 million related to introduction of maintenance of new space factor in revised marginal cost formula)		
State funds		47.5
Student fee funds (includes \$10.4 million related to financial aid for new enrollment)		31.5
Financial aid related to fee increases (33% average total return-to-aid--30% for UG and 45% for graduate academic students)		35.3
Graduate student support—redirection of \$10 million in savings from Strategic Sourcing Initiative		--
Initiatives for 2006-07, including remaining increment of State funds for the Science and Math Initiative and restoration of funding for labor and employment research		3.3
Student academic preparation programs (provide permanent instead of one-time funds)		--
Professional school funding		9.4
Restoration of unallocated cuts related to previously proposed increase to the student-faculty ratio)		10.0

Total Increase Under the Compact

	\$	286.1
<i>% increase in State and UC General Funds, and Student Fee Income</i>		<i>6.2%</i>

PROPOSED INCREASES IN INCOME

State General Funds (3% increase to the base, excludes debt service for capital outlay)		80.4
State General Funds for enrollment growth (based on revised marginal cost rate)		47.5
Initiatives for 2006-07, including remaining increment of State funds for the Science and Math Initiative and restoration of funding for labor and employment research		3.3
Revenue from an increase in mandatory systemwide student fees		107.0
Revenue from an increase in professional school student fees		9.4
Increase in fee income related to increase in enrollment		31.5
UC General Funds income (including 5.0% increase in undergraduate nonresident tuition and reflecting decline in revenue related to new nonresident tuition exemption for nonresident graduate students advanced to candidacy)		7.0

Total Increase in State and UC General Funds, and Student Fee Income

	\$	286.1
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- a financial aid package totaling 33% return-to-aid (30% for undergraduates, 45% for graduate academic students), including several major initiatives such as assistance for middle-income needy students, graduate student support, and waiver of nonresident tuition for students who are advanced to candidacy (doctoral students are "advanced to candidacy" after they successfully complete all requirements for the Ph.D. except for completion of the doctoral dissertation);
- \$9.4 million associated with a base increase in professional school fees of 4% to fund salary and other cost increases for programs supported from these fees plus additional increases at selected schools needed to maintain quality and provide sufficient financial aid;
- \$31.5 million in student fee income related to enrollment growth; and
- \$7.0 million in UC General Funds, including a 5% increase in undergraduate nonresident tuition and reflecting decline in revenue related to new exemption for nonresident graduate students advanced to candidacy).

The \$286.7 million increase in revenue to support the general budget from the sources described above is an increase of about 6.2%, when calculated on a base that includes programs funded from State and UC General Funds and student fees (Educational Fee, University Registration Fee, and the Fee for Selected Professional School Students).

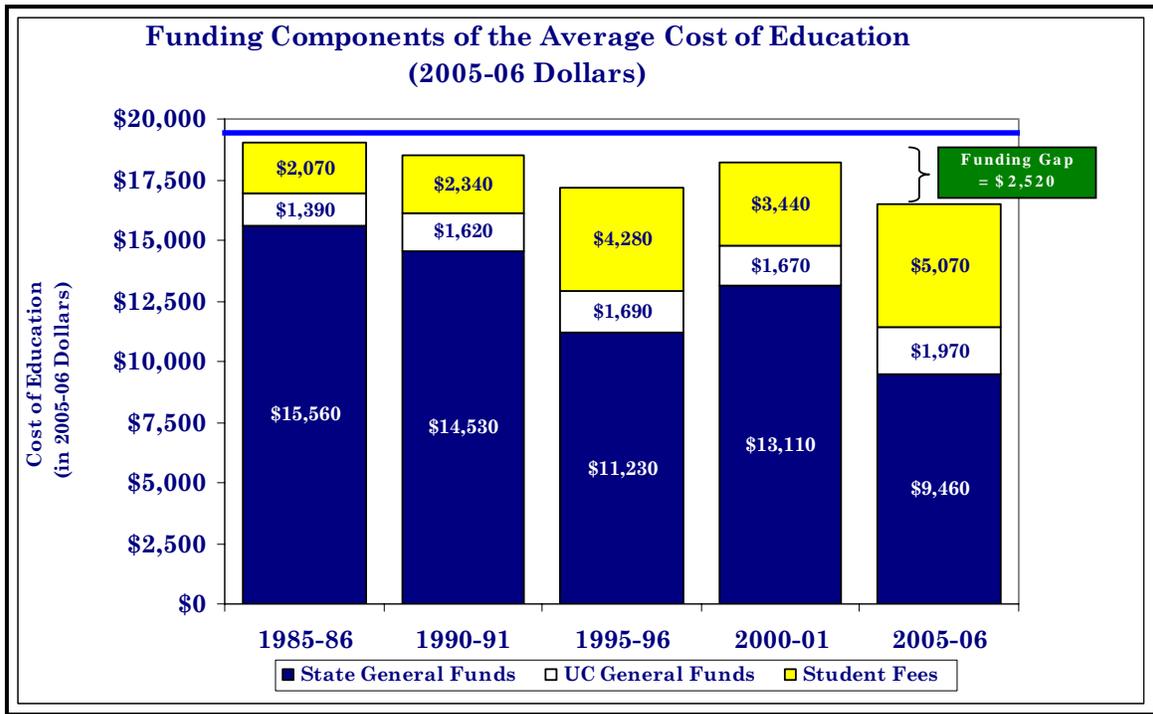
The next sections provide a discussion of the budget plan for student fees and financial aid, followed by an explanation of the specific expenditure components that make up the budget request. Near the end of the chapter, future funding needs, federal and private funds, and the capital budget are addressed.

Student Fees and Financial Aid

Historically, the State has heavily subsidized the cost of education. However, as with all public universities, student fees have tended to increase as the State's subsidy has declined. Display 2 shows the funding components of the average cost of a UC education from 1985-86 through 2005-06 (in 2005-06 dollars) and the funding gap that has developed between the cost of a UC education in 1985-86 and the resources available in 2005-06. Display 2 yields several findings.

- The average expenditure per student for a UC education has declined. In 1985-86, the cost to educate a UC student was approximately \$19,020 in 2005-06 dollars. Over 20 years, funding per student in inflation adjusted dollars declined by 13.5%, from \$19,020 in 1985-86 to \$16,500 in 2005-06, resulting in a funding gap of \$2,520 per student.

Display 2



- The State subsidy per student for the cost of a UC education has declined significantly—by 40% over a 20-year period. In 1985-86, the State contributed \$15,560 per student—82% of the total cost. By 2005-06, the State share declined to \$9,460, just 57%.
- As the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1985-86 students contributed 11% toward their education, they currently pay 31% of the cost of their education.

These findings raise further additional points. First, the funding gap that has developed since 1985-86 represents lost support totaling \$500 million. Although the University has struggled to meet the challenge presented by this substantial decline in state funding, it must be recognized that certain elements of the educational research and public service functions have been steadily sacrificed in order to preserve the core missions of the University. It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. When the State's financial situation permits, the University will seek funds to reduce this funding gap, as discussed at the end of this chapter.

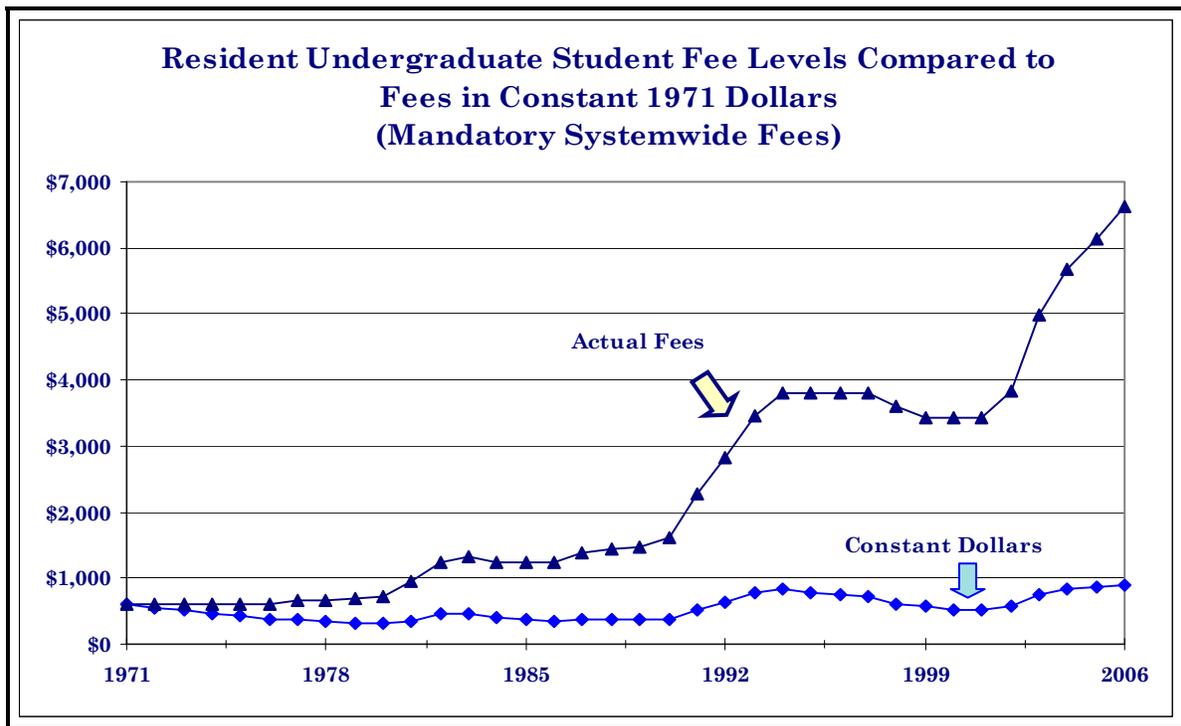
Second, recent national news coverage about the skyrocketing cost of college tuition masks what has really happened at UC. University expenditures per student have not increased rapidly, but rather have fallen (in constant dollars). Instead, fees

paid by students have risen as funding from the State has declined. Student fee increases have helped maintain quality during times of fiscal crisis, but have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low.

Third, despite rising fees for students, the University has striven to maintain student access. While fees have increased, the University has provided significant increases in financial aid to help ensure access for low-income students. UC has maintained affordability for lower-income students by maintaining a strong financial aid program.

Display 3 presents the history of student fees. 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 display also shows that 2006-07 fee levels, when adjusted to reflect 1971-72 constant dollars, will be about the same as they were in 1994-95; overall, they have increased from approximately \$500 to \$1,000 over the 35-year period (in constant 1971-72 dollars).

Display 3



Student Fees for Undergraduate and Graduate Academic Students

There were no increases in mandatory systemwide fees for seven consecutive years from 1995-96 through 2001-02 until the mid-year student fee increases instituted for the Spring 2003 term. In fact, as a result of the State's actions in the late 1990s, fees were reduced by 10% for California resident undergraduates and by 5% for California resident graduate academic students.

Even though the State's fiscal situation began to deteriorate in 2001-02, student fees did not increase until mid-year cuts were instituted in 2002-03. As part of the University's effort to offset cuts 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% for 2003-04 (\$1,150 for resident undergraduates). Professional school, graduate, and nonresident student fees also rose significantly. Again in 2004-05, student fees were raised to offset cuts that otherwise would have been directed at instruction: undergraduate fees rose by \$700 (14%), graduate fees rose by \$1,050 (20%), and professional school fees rose by an average of 30%, with increases varying by school. Nonresident students also paid an additional 20% in nonresident tuition (a \$2,746 increase for undergraduates).

Increases in student fees for undergraduate and graduate academic students implemented for 2005-06 were not as steep as in the previous three years: resident undergraduate student fee increases total 8% (\$457) and resident graduate academic student fees rose by 10% (\$628). Professional school fees also rose by 3% in all schools subject to the fee to cover basic cost increases for programs funded from this source of revenue. In addition, professional school fees increased in 2005-06 for individual schools at varying amounts within a range of \$205 in nursing to \$1,163 for MBA students at UCLA in order to protect the academic quality of the programs in these schools and provide sufficient financial aid. UC's professional schools in the past have ranked among the top in the nation. However, because of the magnitude of recent budget cuts, they are losing prominence and, unless action is taken to reverse the downward trend, will no longer be able to provide the top-quality programs students who work hard to qualify expect from UC professional schools.

While increases in student fees have been regrettable, they have been necessary to address the dramatic decreases in State funding for the University's instructional programs. UC student fees were relatively low for many years because the State provided a sufficient subsidy to adequately fund the academic program. When the State was no longer able to provide the same level of subsidy because of the revenue deficits it faced, either student fees had to go up or quality had to decline—and in this recent fiscal crisis, both have occurred. Student fee increases have helped hold the line so that quality has not eroded beyond the point of no return, but quality in some areas has declined and we must be mindful that once lost, it is difficult to gain

back excellence. Recognizing that student fee increases should not be a barrier to attendance for those who cannot afford it, the University remains deeply committed to ensuring that access is provided to needy students through a strong financial aid program, as discussed in the next section of this chapter and in the *Student Financial Aid* chapter of this document.

Display 4 compares UC fee levels with the average of four public salary comparison institutions for 2005-06 and estimates fee levels for 2006-07, assuming an 8% student fee increase is instituted for undergraduates and a 10% increase is instituted for graduate students, consistent with the Compact. As Display 4 shows, the University's average fees for undergraduate resident students are approximately \$1,000 less than the average fees charged at the University's four public comparison institutions. In addition, University fees for resident graduate students continue to be well below (by nearly \$1,900) the average fees charged at the University's four public salary comparison institutions. Currently, only three of the four public comparison institutions charge higher fees to resident undergraduate students and all four charge higher fees for resident graduate students.

Display 4

University of California and Public Salary Comparison Institutions Total Student Fees *				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
Public Salary Comparison Institutions 2005-06 Fees				
University of Illinois	\$ 8,634	\$ 22,720	\$ 8,878	\$ 21,718
University at Buffalo (SUNY)	\$ 6,068	\$ 12,328	\$ 9,427	\$ 13,447
University of Virginia	\$ 7,370	\$ 24,290	\$ 9,800	\$ 20,400
University of Michigan	\$ 9,213	\$ 28,689	\$ 14,271	\$ 28,689
2005-06 Average Fees of Comparison Institutions	\$ 7,821	\$ 22,007	\$ 10,594	\$ 21,064
<i>2005-06 Average UC Fees</i>	\$ 6,802	\$ 24,622	\$ 8,708	\$ 23,669
<i>2006-07 Estimated Average Fees for Public Salary Comparison Institutions</i>	8,212	23,107	11,124	22,117
<i>2006-07 Estimated Average UC Fees assuming increases in systemwide fees consistent with the Compact**</i>	\$ 7,294	\$ 26,020	\$ 9,398	\$ 24,383

* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident students
** Increases of 8% for undergraduate students and 10% for graduate students in systemwide fees; and 5% in nonresident tuition for undergraduates.

However, the comparisons for nonresident students are a different matter. In the past, the University's fees were among the lowest, for both nonresident undergraduates and graduate students, of any of the University's public comparison institutions. With the increases in mandatory systemwide fees and nonresident tuition approved by The Regents for 2005-06, the University's fees for nonresident undergraduate and graduate students are now higher than the average fees for the comparison institutions by more than \$2,600. As a result, the University's tuition and fees for nonresident students now rank second highest among these institutions behind the University of Michigan. For 2006-07, it is estimated that UC resident undergraduate fees will continue to be about \$900 below the average of public comparison institutions and graduate fees will be about \$1,700 below the average.

The Compact includes an agreement about student fee increases over its six-year term. As noted earlier, student fees rose by 14% in 2004-05 for undergraduates and by 20% for graduates. For the following two years, 2005-06 and 2006-07, undergraduate fees are to increase by 8% per year and graduate student fees by 10% per year. At the end of the three-year period, fee increases for undergraduates will have averaged 10% per year.

For the period after 2006-07, the Schwarzenegger Administration has proposed a long-term student fee policy that calls for increases in student fees based on the annual increase in California per capita personal income. However, in years in which The Regents determine that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, UC may decide, after consultation with the Governor, that fee increases of up to 10% are necessary to provide sufficient funding for programs and to preserve quality.

This fee policy is contingent on the provision of State resources for the basic budget at the level called for in the Compact. It also is contingent on no further erosion of the University's base budget, and it assumes that revenue from student fees will remain with UC, rather than being used as an offset to reductions in State support.

This student fee policy preserves the concepts of predictable, moderate, and gradual student fee increases, as envisioned in past student fee policies adopted by The Regents and proposed in past years by the State. Importantly, it also recognizes the need to provide adequate funding for cost increases for student fee-funded programs and preserving the academic quality of the University.

Fees for Professional School Students

In general, UC professional schools have historically held a place of prominence in the nation, promising a top-quality education for a reasonable price. The funding cuts that have occurred, both in the early 1990s and during the more recent budget crisis, have decimated the resources available to the professional schools to such a degree that the schools are very concerned about their ability to recruit and retain

excellent faculty, provide a top-notch curriculum, and attract high-caliber students—all of which are important components of excellence in these schools. Once started on a downward spiral, it is very difficult to recover previous levels of excellence. The professional schools see this as a crisis of quality and believe significant steps, including raising student fees, must be taken to regain the program quality that recent budget cuts have threatened.

Professional school fees were first instituted in 1994-95. For three years, revenue from professional school fee increases was used to help restore cuts from the early 1990s, maintain and enhance the quality of their programs, and to provide for additional financial aid. AB 1318 (Ducheny) was enacted in 1997, freezing all fees for two years, including the Fee for Selected Professional School Students. This fee did not increase again until the 2002-03 budget year. Professional school fees have increased dramatically since then in direct correlation to the withdrawal of State support from these programs. For example, in 2002-03, professional school fees ranged from \$1,950 – \$6,776. In 2005-06, the range is \$3,218 – \$17,371 (annualized). When added together with other mandatory student fees paid by professional school students, the range went from \$6,739 - \$11,411 in 2002-03 to \$12,275 - \$24,868 (annualized) in 2005-06.

Revenue from professional school fee revenue increases in 2005-06 will stay with the schools, rather than being used to offset State budgeted funds as was done in recent years. As noted earlier, professional school fee increases approved for 2005-06 range from \$205 – \$1,163, which represents an increase of 3% – 10% above the previous year's level. However, because final action on the proposed increases was taken at the July meeting very close to the beginning of the academic year, 2/3 of the annual professional fee increases were approved for implementation beginning in Winter quarter/Spring semester to ensure that students received adequate notice. An amount equivalent to 25% of the new revenue from the professional school fees and mandatory systemwide fee increases generated from students subject to the professional fees will be set aside for financial aid for those students.

Since the initial implementation of professional school fees, professional schools have been largely supported by a combination of sources including State General Funds, Educational Fee revenue, and professional school fee revenue, among other sources. The last four years of sustained budget cuts have resulted in a dramatic reduction in State support for the University's professional schools, and the ability of the professional schools to maintain the quality of their academic programs and to be competitive with other professional schools of comparable quality has been significantly affected. Because fee increases have been used to offset budget cuts and have generated little or no additional revenue for the schools, they have fallen further behind in their ability to offer competitive salaries to their faculty and staff.

The financial circumstances of the schools are severely strained and will require a sustained program of fee increases over time.

It is within this context that The Regents have requested a longer-term plan for future increases in the professional school fees. This is consistent with the provisions in the Compact which call for the University to develop long-term plans for increasing fees for selected professional school students. The Office of the President and the campuses have engaged in a series of discussions and analytical activities as part of the planning for increases in fees for professional schools over the next several years. The planning assumes that fees for professional school students will be adjusted annually and that campuses will retain the revenue from professional school fees to cover salary costs, employer retirement contributions, and other cost increases, provide additional financial aid, and begin to make modest improvements to their academic programs.

The Compact with the Governor provides that the University will develop plans to achieve student fee levels in professional schools taking into consideration a number of factors. Planning activities have been undertaken with these in mind:

- average fees at other public comparison institutions;
- average cost of instruction;
- total cost of attendance;
- market factors;
- the need to preserve and enhance the quality of the professional programs;
- the State's need for more graduates in a particular discipline; and
- the financial aid requirements of professional school students.

The University's continuing commitment to provide financial aid for professional school students is reaffirmed by the Compact, and the University will continue to provide an amount equivalent to a specified proportion of new fee revenue annually for financial aid for professional students.

A multi-year plan for fee increases for professional school students is not being presented at this time. Instead, fee increases for professional school students proposed for 2006-07 are included as part of the 2006-07 budget plan to be brought to the Board for approval at the November meeting. Longer-term planning issues related to professional school fee increases for 2007-08 and 2008-09 will be presented separately to The Regents for discussion at the November meeting.

Professional Fee Increases Proposed for 2006-07. For the *Educational Fee* charged to professional school students, the University is proposing increases of 5% as part of the 2006-07 budget plan. For the portion of the professional schools' budgets that are funded from the Educational Fee, the revenue generated from the Educational Fee increases would be used to cover salary increases and non-salary

price increases, provide additional financial aid, and make modest program improvements.

In addition, for 2006-07 professional school students will pay a \$1,050 temporary increase in the Educational Fee previously approved by The Regents to cover lost revenue associated with a lawsuit currently before the courts brought by professional school students who are seeking relief from recent fee increases. The court has issued a preliminary injunction preventing the University from charging professional school fee increases in 2004-05 and 2005-06 to the specified class of students. This lawsuit is discussed in more detail in the *Student Fees* chapter.

For *professional school fees*, increases of 5% for most professional degree programs are proposed in the 2006-07 budget plan. These increases will stop further erosion to the programs. For that portion of the schools' budgets that are funded from professional school fees, the revenue generated from professional school fee increases would be used to cover salary increases and non-salary price increases, provide additional financial aid including funding to develop new loan assistance programs or expand existing ones, and make modest program improvements.

Because of disproportionate cuts in State General Funds to law and business programs in the last few years, the schools of law and business at Berkeley and UCLA and the law school on the Davis campus are finding it particularly difficult to remain competitive with their peer institutions without additional resources. As described earlier, the 2004-05 Governor's Budget presented in January 2004 assumed the University would develop a plan for achieving \$42.2 million in new revenue from increases in professional school fees to be used to offset base budget cuts that otherwise would have been targeted at instructional programs. However, the University was asked to exempt nursing from these increases and to implement a smaller than average increase for students in the schools of medicine. As a result, State-funded budgets for law and business were disproportionately cut in 2004-05.

As noted previously, the University's professional schools are in danger of losing prominence among their peers. The disproportionate cuts taken in law and business have resulted in a number of deficiencies that must be addressed. For example, Berkeley's goal is to return the law school to its former ranking among the top 5 schools in the nation. To reach that goal, the school needs to address the following: the rising student-faculty ratio that has led to increased class sizes; faculty salaries that are well below the average of peer public and private institutions; student services programs that have not kept pace with student needs; and financial aid programs that can ensure public interest options are available to students. If the law school is to reach its goal, additional funding beyond the minimum increases in professional school fees is needed. A similar situation exists at the UCLA and Davis law schools, and at the business schools at Berkeley and UCLA.

While the level of fee increase proposed for other professional school programs in 2006-07 would provide funding for cost increases and some additional financial aid, they would not be sufficient to address the effects of the budget cuts applied disproportionately to these programs. Therefore, The Regents will be asked to approve professional school fee increases of 10% for 2006-07 for the law and business schools at Berkeley and UCLA and for the law program at the Davis campus. It will be important to closely evaluate the impact of these higher increases on enrollments and the schools' ability to be competitive with their peer institutions. If successful, this model could be replicated in future years in other schools.

A return-to-aid of 33% is proposed for both the Educational Fee and professional school fee increases in 2006-07.

Longer-Term Planning Issues. While the campuses have engaged in planning for the 2006-07 budget year, they also have focused on the need for additional resources for the longer-term. As noted previously, the last four years of sustained budget cuts have resulted in a dramatic reduction in State support for the University's professional schools. The financial circumstances of the professional schools are severely strained, and the ability to maintain the quality of their academic programs and to be competitive with other professional schools of comparable quality has been significantly affected.

As a result, longer-term planning for fee increases for professional school students has been undertaken to address three objectives: (1) to address ongoing needs for salary increases, employer retirement costs, other price increases, and provide funding for additional financial aid; (2) to stabilize funding for the schools so they can begin repairing the damage that has been sustained as a result of the cuts; and (3) to begin re-building high quality programs that are competitive with those offered at comparable public and private institutions.

Such longer-term planning will need to address the recruitment and retention of excellent faculty, including meeting salary and employer retirement contribution costs; ensure the development or maintenance of a high-quality curriculum; and improve the school's ability to recruit high-caliber students. At the same time, campuses also are committed to providing additional financial aid to students, including funding to develop new loan assistance programs or expand existing ones. Rebuilding the quality of the professional programs and providing more financial aid will require a multi-year effort, including a sustained program of fee increases in the Educational Fee and professional school fee.

For 2007-08 and 2008-09, increases in the range of 7% - 8% in the Educational Fee and professional school fees are likely to be needed for most professional school programs to cover salary increases, employer retirement contributions, and other

price increases. Additional revenue will be needed to fund increases in financial aid and to fund higher salary increases to begin addressing the chronic gap in salaries for professional school faculty. A sustained program of fee increases over and above the levels proposed for other professional schools is recommended for the law and business schools at Berkeley and UCLA to begin to restore excellence and ensure broad accessibility. Accordingly, just as the proposed fee increases for the law and business schools at Berkeley and UCLA for 2006-07 are higher than those proposed for other programs, increases for these programs in future years also are likely to be higher—at least 10% per year and perhaps more if additional funds are needed to restore quality to those programs, including hiring additional faculty, paying competitive salaries, and providing increased financial aid.

Some uncertainties exist, however. It is unclear how employer retirement contribution costs will be funded or when employer retirement contributions are likely to begin, perhaps as early as 2007-08. Under the Compact, the administration is committed to covering the portion of employer retirement contributions that is funded from State funds. Because student fees have increased dramatically in recent years to offset significant State budget cuts, it would be unreasonable to also raise fees to cover employer contributions to the retirement system for programs funded from student fees. Therefore, the University intends to seek funding from the State to also cover the portion of employer retirement contributions that is funded from student fees. However, it is not clear whether that will be achievable. In the context of these uncertainties, the University is not proposing specific increases in professional school fees at this time and will, instead, make specific proposals after more is known about funding for and timing of the reinstatement of retirement contributions.

Nonresident Tuition

An increase in nonresident tuition of 5%, or \$864, for undergraduate students is also proposed for 2006-07. Total fees and tuition charged to nonresident undergraduate students at the University are estimated to be about \$2,913 above the projected tuition and fees at the public higher education institutions that are used by the University for faculty salary comparison purposes, as presented earlier in Display 4.

The University is concerned about future increases in nonresident tuition. A dramatic decline has occurred in the number of undergraduate nonresidents applying to the University—nearly 15% over the last four years. Revenue from nonresident tuition is an important component in the sources supporting the University's budget, and as costs increase, so must the revenue sources supporting the budget.

However, as discussed in greater detail in the *Student Financial Aid* chapter of this document, the inadequacy of graduate student support is a serious issue for the

University. Therefore, nonresident tuition for graduate students will not be increased in order to avoid exacerbating an already difficult problem.

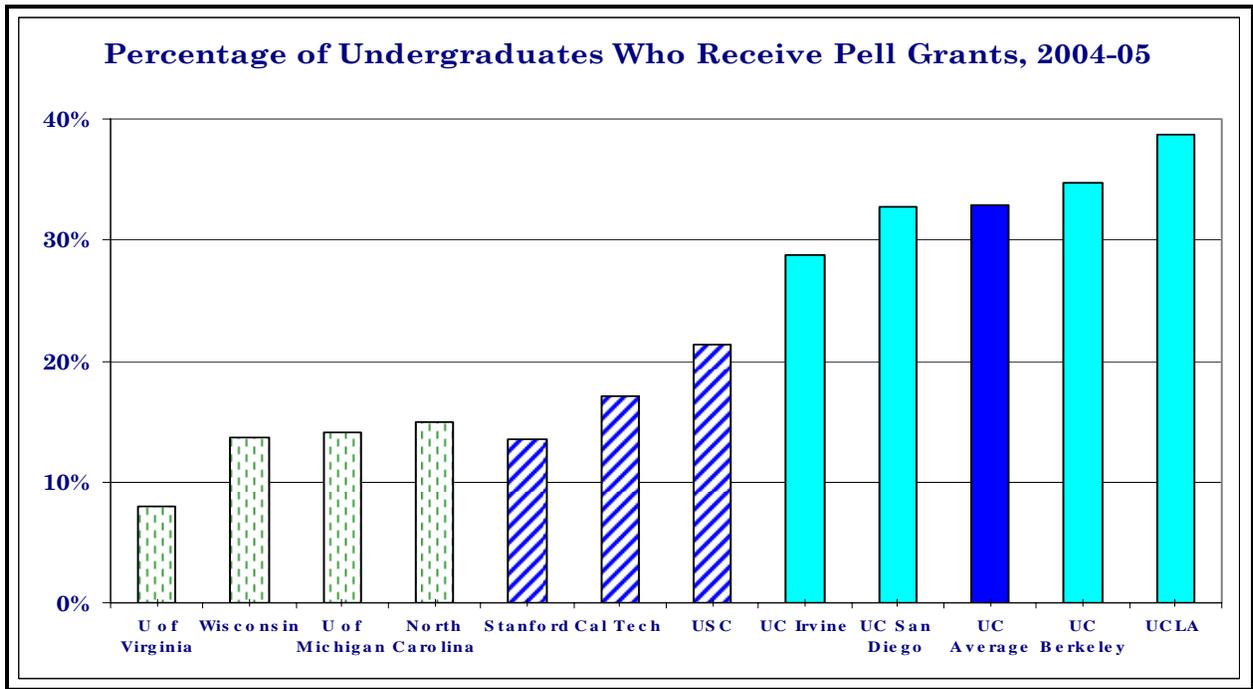
When determining increases in nonresident tuition for future years, it will be important to consider the effects of recent tuition increases on nonresident enrollment. It should be noted that nonresident students pay mandatory systemwide student fees and campus-based fees in addition to nonresident tuition.

Student Financial Aid

In 1994, The Regents adopted a financial aid policy that established the guiding principles of the University's undergraduate and graduate financial aid programs. At the undergraduate level, the University's policy "is guided by the goal of maintaining the affordability of the University" for all students so that "financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree." At the graduate level, the policy calls upon the University to "attract a diverse pool of highly qualified students" by providing a competitive level of support relative to the cost of attending the University, informed by a periodic "assessment of the competitiveness of University support levels with those at comparable universities." Because graduate students are critical to the research enterprise, providing competitive support packages for graduate students is part of the bedrock upon which rests the University's ability to both conduct research that creates knowledge and innovations to fuel the State's economy and also to train the knowledge-based workforce needed in California today.

The success of the University's financial aid program in helping to ensure access for needy students is illustrated in a study by the James Irvine Foundation published in March 2002. This study examined enrollment of low-income undergraduate students at the nation's top 40 public and private universities (as designated by U.S. News & World Report College Guide). It showed that UCLA, UC Berkeley, and UC San Diego ranked first, second, and third among top universities in terms of enrolling low-income undergraduate students. Display 5 (next page) shows more recent data, indicating that UCLA still ranked first with 39% of its student body identified as low-income; UC Berkeley again ranked second with 35% low-income students; and UC San Diego, with 33% low-income students, ranked third. In addition, UC Irvine—newly ranked among the nation's top 40 national universities—ranked fourth, with 29%. The four UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (8%), the University of Wisconsin (14%), the University of Michigan (14%), and the University of North Carolina (15%). As a system, the University enrolled a higher percentage of low-income students (33%) than any other institution on the list, public or private.

Display 5



Over half (57%) of UC undergraduates receive grant/scholarship aid averaging approximately \$7,100 per student; about 60% of graduate students receive such aid averaging about \$11,100 per student. The difference in average grant level is attributable primarily to the different purposes of undergraduate and graduate assistance: while undergraduate awards are sized to make the university accessible, graduate awards must be sized to make the University accessible *and* to be competitive with the awards that prospective students receive from competing institutions. This competitive context reflects the fact that graduate students generally have a higher cost of attendance; are more likely to pay non-resident tuition; are generally financially independent and do not rely on parental support; and are more likely to be married and have dependents.

At the graduate level, the University's financial aid program plays an important role in the University's ability to compete with other universities for the most talented students. Enrolling these students benefits both the University and the state as a whole.

Funding for graduate student support increased significantly in recent years. Aggregate grant/fellowship funding for all graduate students increased by \$105.3 million (55%) between 1998-99 and 2003-04; per capita support increased by \$1,503 (32%). While this increased financial support is welcome, the fact remains that the University has a serious problem in terms of its ability to offer competitive support packages for graduate students. Surveys conducted in 2001

and 2004 of students admitted to the University's academic doctoral programs indicated that the University's financial support of graduate students was not fully competitive with the support offered by the institutions with which the University competes.

To mitigate the impact of fee increases on all students over the last four years, as well as increases in other educational expenses, the University has used a portion of the revenue raised from student fee increases to support financial aid.

As shown in Display 6, student financial aid increased by 40% over three years, from \$790 million in 2002-03 to \$1.1 billion in 2005-06. This included funding set aside from fee increases, in combination with an estimated \$129.3 million increase in funds awarded by the California Student Aid Commission (including an increase of \$111.3 million in Cal Grant funds awarded to UC students) and an estimated \$53.4 million increase in other scholarship, fellowship and grant funds.

Display 6

University of California Scholarships, Grants, and Fellowships by Fund Source, 2002-03 to 2005-06 (\$ in Millions)				
	2002-03	2003-04	2004-05	2005-06
<i>UC Funds</i>				
Student Fees and State				
General Funds	\$ 262.7	\$ 330.8	\$ 356.8	\$ 400.1
Other University Funds	<u>125.4</u>	<u>159.1</u>	<u>163.5</u>	<u>167.3</u>
Subtotal	\$ 388.1	\$ 489.9	\$ 520.3	\$ 567.4
<i>Other Funds</i>				
Student Aid Commission	\$ 148.7	\$ 219.3	\$ 257.3	\$ 272.6
Federal	203.2	214.5	211.3	216.3
Private Agency Funds	<u>49.6</u>	<u>52.4</u>	<u>47.5</u>	<u>48.6</u>
Total	\$ 789.7	\$ 976.0	\$ 1,036.4	\$ 1,104.9
Note: Numbers for 2004-05 and 2005-06 are estimates; Student Fees and State General Funds are based on budgeted amounts.				

The current challenge is to maintain UC's affordability and, at the graduate level, to improve UC's competitiveness in the face of significant cost increases. The Compact anticipates further increases in undergraduate and graduate fees that, combined with non-fee cost increases and slower growth in extramural resources, will generate additional student support needs.

In 2002-03 and 2003-04, the University used approximately one-third of *new* fee revenue for financial aid purposes. In the 2004-05 budget, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with the Governor's proposal for financial aid. Beginning in 2005-06, the Compact provides the University with flexibility in determining what proportion of new fee revenue should be devoted to financial aid within a range of 20% to 33%.

For 2006-07, the University is proposing a plan for student support that addresses the University's most pressing student support needs within the context of the full range of UC budgetary priorities. While recognizing that UC's student support needs extend beyond coverage of UC tuition and fees, the primary focus of the plan is on mitigating the impact of the proposed 2006-07 systemwide fee increases. In addition, the plan addresses concerns about the burden of fee increases on middle-income undergraduate families, the ability of the University to enroll top international and out-of-state students in graduate academic degree programs, and the impact of growing debt levels on professional degree students interested in pursuing public service careers.

Under the plan, the University proposes to dedicate an amount equivalent to 33% of all new systemwide fee revenue to student financial aid in 2006-07. The University also plans to require campuses to provide additional graduate student support funding using savings in General Fund and fee revenue expenditures produced by UC's Strategic Sourcing Initiative. These proposals, in conjunction with other measures described below, will allow the University to significantly augment student financial aid for undergraduate students, graduate academic students, and graduate professional degree students over 2005-06 levels, consistent with goals articulated in the University's financial aid policy.

At the undergraduate level, the proposal is to augment the University's current need-based grant program by an estimated \$27.7 million of new fee revenue returned to aid. In addition, the University proposes to continue its five-year plan to restore the \$5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04, resulting in a further augmentation of undergraduate aid of \$1.5 million. Together with Cal Grant award increases, these measures will provide enough additional funding to cover fully the systemwide fee increases of UC's grant eligible undergraduates (generally those with a family income below about \$60,000) along with some coverage of other cost increases.

The University also proposes to use an additional \$2 million of new undergraduate fee revenue to mitigate the impact of proposed 2006-07 systemwide fee increases on financially needy middle-income undergraduates who would not otherwise be eligible for fee-paying grant assistance. This one-year program would cover half of the proposed 2006-07 fee increase (providing a grant of about \$250) to undergraduates with financial need from families with income below \$100,000.

While there is no evidence at this point to suggest that middle-income students are finding recent fee increases a barrier to attendance (i.e., enrollment of these students has not declined), the deep concerns expressed by middle-income students and their parents that the burden of recent fee increases has been significant have led to a growing concern about the debt burdens these students are incurring and the *potential* loss of these students. This program is similar to the program adopted by the University for the 2003-04 academic year. The University will develop a longer term strategy for ensuring that access for middle-income students is preserved in subsequent years.

Together, the University's initiatives represent an increase of \$31.2 million in funding for the University's undergraduate student aid programs, equivalent to 30% of new undergraduate student fee revenue.

At the graduate level, the University proposes to mitigate the impact of the proposed 2006-07 systemwide fee increases on graduate academic degree students by dedicating 50% of the new fee revenue generated by these students to augment graduate student financial support programs, less the proposed restoration of \$1.5 million to undergraduate student support. The proposal would augment student support for graduate academic students by a net amount of \$13.2 million, which is equivalent to 45% of the new fee revenue generated by these students. The revenue would provide additional support for UC graduate academic degree students who receive fee remissions associated with their teaching or UC-funded research assistantships, or who rely on UC fellowships to cover their fees.

The University also proposes to require campuses to allocate additional funds to graduate student support derived from savings in General Fund and fee revenue expenditures produced by UC's Strategic Sourcing Initiative. Strategic sourcing is a disciplined process intended to leverage the University's enormous buying power in the marketplace, increase purchasing efficiency in the organization, and lower the cost of goods and services in a large array of categories. The proposal to use savings achieved from General Fund and fee revenue for an initiative to increase graduate student support will begin to address the competitive disadvantage in UC's student support offers to graduate academic doctoral students, which was exacerbated by fee increases prior to 2005-06. It is anticipated that such savings could generate \$10 million for graduate student support in 2006-07, growing to \$40 million per year over time. Savings achieved in other fund sources will be needed to cover cost increases anticipated for programs funded by these sources.

For graduate professional degree students, the University proposes to use 33% of new systemwide fee revenue generated by these students and an amount equivalent to at least 33% of new revenue generated by professional degree fee increases for financial aid. This additional funding will allow the University to mitigate the impact of proposed 2006-07 systemwide fee increases on professional degree students and to help moderate the debt levels for professional degree students.

Other components of the University's 2006-07 plan related to student financial aid include the following:

- To encourage international students in doctoral programs to make timely progress towards their degree, the University proposes to eliminate the nonresident tuition charged to graduate academic doctoral students who have advanced to candidacy. These students currently are charged 25% of the graduate nonresident tuition level for a maximum of three years. Eliminating nonresident tuition will provide a further incentive for these students to reach the advanced to candidacy stage. A three-year limit on the exemption will encourage them to complete their dissertation work promptly. The proposal will reduce nonresident tuition revenue by an estimated \$8.8 million in 2006-07; however, it will also reduce the burden on research grants and other fund sources that are often used to fund this cost as part of a student's financial support package.
- To enhance the quality of the University's graduate academic and professional degree programs by improving the University's ability to enroll top international and out-of-state students, the University proposes to maintain nonresident tuition at 2004-05 levels for all graduate and professional degree students.
- To prevent professional degree student loan debt from deterring the pursuit of public service career opportunities that have comparatively low remuneration levels, the University intends to expand its loan repayment assistance programs (LRAPs) to help borrowers pursuing public service employment meet their student loan repayment obligations.
- To ensure that all students, including international students and other high risk borrowers, have access to loans needed to meet their contributions to their educational expenses, the University intends to leverage UC's size to negotiate systemwide access to private loans for high risk borrowers.

In total for the current year (2005-06), approximately 25% of all fee revenue raised from undergraduate fees is being used for undergraduate student financial aid, which is consistent with the historical average. For 2006-07, the initiatives proposed for undergraduate student aid (which will result in a return-to-aid from *new* fee revenue of approximately 30%) will slightly improve this proportion. In addition, UC students are expected to receive support through the Cal Grant Program generally equivalent to another 25%. The University will continue to monitor the effectiveness of its financial support both at the undergraduate and graduate level to evaluate its success in adhering to the principles, articulated by The Regents, of affordability at the undergraduate level and competitiveness at the graduate level.

Financial aid is discussed in more detail in the *Student Financial Aid* chapter of this document.

Expenditures

Fixed Costs – Compensation Increases for Academic and Staff Employees

One of the areas of greatest concern resulting from years of underfunding of the University's budget is the growing lag in faculty and staff salaries compared to the market. UC faculty salaries currently lag the market by over 10% and there is a similar problem with respect to staff salaries. The University's goal has been to maintain a market-based competitive total compensation program for its employees. With respect to cash compensation, this means providing sufficient funds—through a combination of merit increases, COLAs, and market and equity adjustments—to keep UC faculty salaries at the average of the salaries provided at the eight comparison institutions, and to provide salary increases for other employees that, on average, remain competitive with the relevant labor market.

It is impossible to overstate the critical nature of the problems created by salary lags. Paying competitive salaries is a key component in the University's ability to recruit and retain the best faculty. The University needs to recruit 6,000 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 a significant number of high quality faculty and staff even if there are no fiscal challenges. However, a persistent inability to pay competitive salaries has had an impact on the University's recruitment and retention efforts. In addition, the lag in competitive salaries is exacerbated by the high cost of housing in many of the University's campus communities.

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

As part of the State's actions to reduce the University's budget in 2001-02 and 2002-03, the University lost funding that had been targeted for general salary and equity increases for faculty and staff. As a result, the University was only able to fund a combination of merit and COLA increases averaging 2% in 2001-02 and merit increases of 1.5% in 2002-03 for faculty and staff. No State funding was provided in 2003-04 or 2004-05 for COLA, merit salary, or health benefit cost increases. Faculty merits and some health benefit cost increases were funded in those years by instituting additional internal budget cuts, but no employees received a general increase or COLA and staff employees received no merit increases. The result of years of underfunding for compensation increases is the more than 10% lag noted above.

For the first time in several years, with the new Compact, funding was provided in the University's 2005-06 budget for merit salary increases, cost-of-living adjustments (COLAs, where applicable), health benefit cost increases, and equity increases for faculty and staff. Eligible faculty received normal merit increases effective July 1 plus a 2% COLA effective October 1. Staff compensation differs from faculty compensation in that many staff are represented by unions and therefore subject to collective bargaining agreements. In addition, most non-represented staff are paid entirely on a merit-based system, with no differentiation between COLA and merit salary adjustments. Staff salary adjustments were made as appropriate, generally effective October 1. Funding was also provided for health benefit cost increases and equity adjustments to help address the inequities that have occurred as new faculty and staff have been brought in at market rates, which are higher than the salaries of existing employees who have had low or no salary increases for several years. Equity funding is insufficient to address all inequities throughout the system; therefore, priority for these funds is targeted at significant recruitment and retention efforts. The increase for the general salary program averaged about 3.5%.

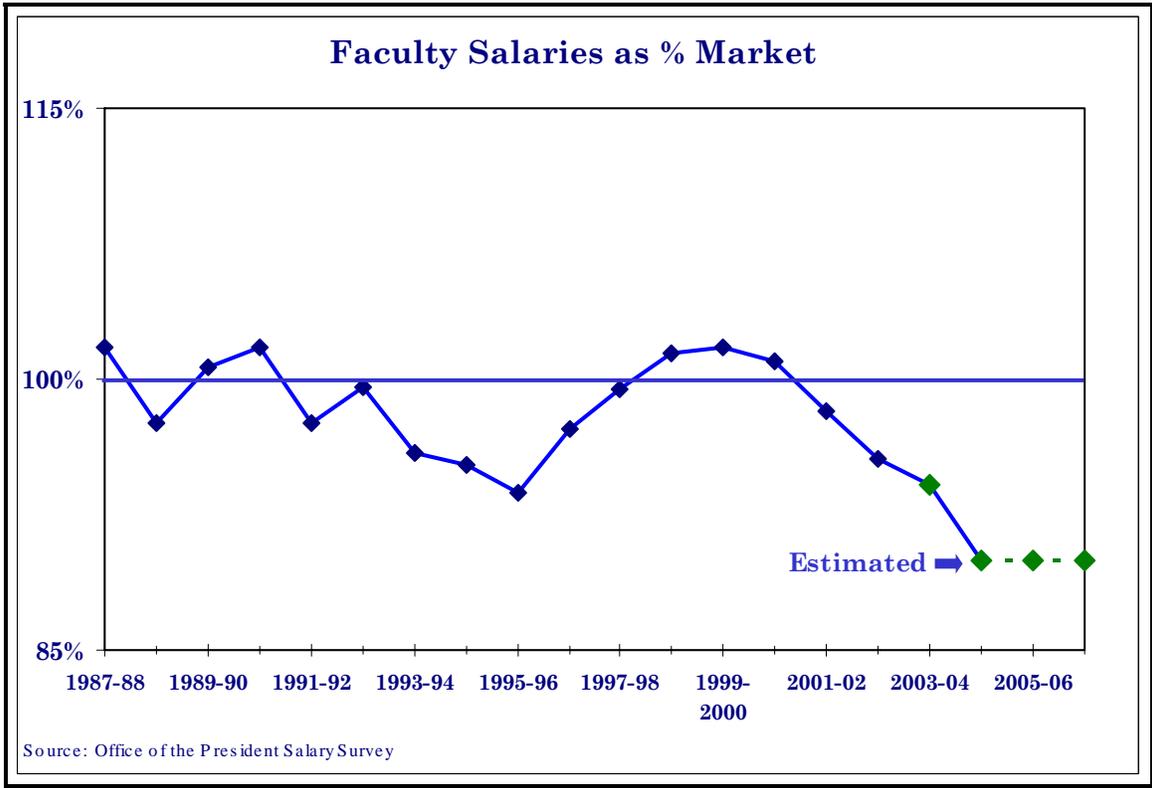
These increases for faculty and staff were welcome; however, they helped only to prevent further erosion in salaries compared to the marketplace. No progress has been made in reducing existing salary lags.

Display 7 shows how faculty salaries compare to the average salaries at the University's faculty salary comparison institutions over time, and points out the gap that has occurred in recent years.

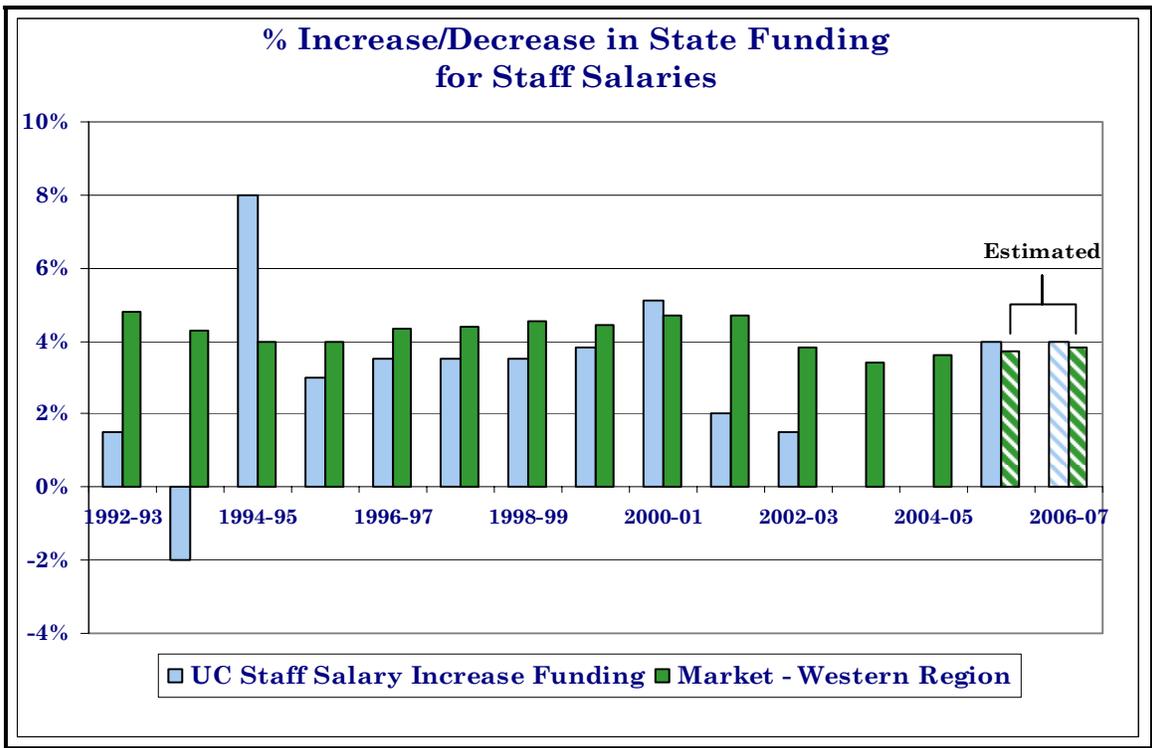
The funding gap with respect to staff salaries presents a similar problem for the University. Display 8 compares the annual State salary increase funding for UC staff employees to market data from over 800 employers of all sizes and industries, including the public sector, in the western United States. As the chart shows, market salaries over the period have been increasing at approximately 4% per year, but funding for UC staff salary increases have not kept pace, both in the early 1990s and currently, as the State's recent fiscal crisis has prevented full funding of a normal workload budget.

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 an additional salary increase of 2%, while employees earning between \$40,000 and \$80,000 received an additional 1% increase. These increases were over and above the regular merit increases and COLAs provided to University employees.

Display 7



Display 8



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, because of the underfunding of normal workload costs that has occurred since the State's fiscal crisis began, salaries have not kept up with inflation or the market, so further ground has been lost.

The University is deeply concerned about the widening gap between funds available to support salary increases and the resources needed to fund more competitive salaries. The Regents have been informed of recent surveys indicating severe market lags in salaries for Chancellors, Deans, and other high-level administrators. These lags make it difficult to attract and retain senior leadership in the University, which is particularly important during this period of significant enrollment growth.

The Regents recently commissioned a study to review the University's total compensation program. The results of the study indicate that in general, salaries are substantially below that of the market average. However, the total compensation package, including salary, health and welfare benefits for active employees and annuitants, and retirement system benefits, is close to the market average. It is anticipated that the value of the benefit package will decrease in the next few years as employer and employee contributions to the retirement system are phased-in, as required, to ensure the solvency of the retirement program. Employees have not had to contribute to the retirement system since 1990. In addition, funding over the next several years likely will not be adequate to match the inflationary cost increases in health benefits, requiring that employees pick up a larger share of their medical insurance premiums.

The University's long range plan is to rebalance the components for the value of the benefit package to approach the market average concomitant with salaries also approaching the market average. In order to maintain the quality of its programs, the University is determined to remain competitive in the market. The University cannot continue to accommodate all students wishing to attend and maintain its program excellence unless sufficient resources are provided for faculty and staff salaries.

2006-07 Proposed Compensation Increases for Faculty and Staff. As specified by The Regents, one of the University's highest priorities is to stop the erosion in competitive salaries in the short run and in coming years, to the extent possible, begin to close the gap. Consistent with the Compact, the University's

plan for 2006-07 includes a base building adjustment of 3% to help fund increases in employee salaries, health benefit increases, and non-salary price increases. However, market-based compensation costs are increasing at a faster rate, estimated to be 4% for 2006-07. Because the University's goal for 2006-07 is to at least stay even with the market and lose no further ground in terms of salaries, the University must use a combination of State General Funds, UC General Funds, and income from student fees to provide a total compensation package of about 4% for 2006-07. Other fund sources will need to pay for a similar increase for faculty and staff supported by these sources. The 4% package will provide sufficient increases to stay even with the marketplace—salaries for both faculty and staff have been steadily increasing at about 4% per year in comparison markets. Beginning in 2007-08, the base budget adjustment under the Compact is proposed to increase from 3% to 4%. At that point, depending upon funding availability, the University plans on closing the salary gap at a rate of 1 – 1.5% per year.

The 4% compensation package proposed for 2006-07 includes the following elements:

- continuation costs for salaries and health benefits that were provided in the previous year, but effective for only part of the year;
- funding for merit salary increases for eligible employees;
- a cost-of-living-adjustment (COLA) effective October 1;
- equity increases; and
- health benefit cost increases

Salary continuation costs occur because the 2005-06 budget included salary increase funding for only 9 months of the year (they were effective October 1, 2005). Therefore, the 2006-07 budget includes the remaining 3 months of funding needed to support the annualized salary increases for 2005-06. Similarly, the 2005-06 budget provided funding for health and dental insurance increases, effective December 1. Thus, the five-month continuation costs for these benefits must be provided in 2006-07.

Funding for normal merit salary and COLA increases continues to be among the University's highest budget priorities. COLA increases help keep salaries from falling further behind the market in terms of purchasing power. The merit salary programs recognize and reward excellence and are critical to the preservation of the quality of the University. Merit salary increases are not automatic—academic merit salary increases are awarded only once every two-to-three years following extensive review of individual achievements. Similarly, most non-represented staff receive increases that are totally merit-based.

Funding will be provided for a second year to address salary inequities that have occurred among longer-term faculty and staff who have seen no increases in recent years while new employees have been hired at market rates. This has created serious market lags and issues of equity where newly-hired faculty and staff are paid significantly more than individuals with similar experience, skills, and knowledge who have been employed at the University during the extended periods of low, or no, salary increases. Unfortunately, funding is not sufficient to address all inequities that may exist throughout the University, so emphasis will be placed on using equity funding for significant retention purposes.

Funding will also be provided for health benefits cost increases; however, it is expected that some of the increases in cost will continue to be borne by employees themselves. Notwithstanding UC's success in reducing the cost of health benefits in the 1990s, and a continuing commitment to control costs, the University is impacted by California and nationwide trends toward dramatically increasing employee health benefit costs in recent years; they are expected to increase significantly again next year. On the other hand, in comparing UC health benefits with other institutions' health benefit plans, the University's plans historically have been very competitive.

The University will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market. In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical plan premiums on lower-paid employees. While UC continues to pay the greater portion of monthly medical premiums for all employees, UC covers an even larger portion of the premium for those in the lower salary brackets.

Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements for represented employees under the Higher Education Employer-Employee Relations Act (HEERA).

Fixed Costs – Non-Salary Price Increases

To offset the impact of inflation on the non-salary budget and maintain the University's purchasing power, \$23.1 million in funding within the Compact is proposed to cover non-salary price increases averaging 2.25%, although the Higher Education Price Index (HEPI), an index which reports changes in cost for the goods and services employed for education, is a more accurate indicator for colleges and universities than the Consumer Price Index (CPI) and is expected to again exceed the CPI in 2006-07. During the State's recent budget crisis, funds provided for this purpose have fallen significantly short of what was needed. Consequently, the University estimates a shortfall of over \$40 million in this area of the budget for

2005-06. Funding provided in 2006-07 will not restore any of this lost ground, but rather will prevent further deterioration in the University's purchasing power.

Workload and Other Budget Adjustments

Funding for Enrollment Growth of 5,000 FTE Students. The Compact calls for UC to accommodate all eligible undergraduate students under the Master Plan who wish to attend. In addition, the University is embarking on a multi-year initiative to re-balance the proportion of graduate and undergraduate students enrolled to better meet State workforce needs. To accomplish these goals, it is estimated the University will grow by 5,000 students per year through the end of the decade. The University is planning for substantial growth in graduate and professional enrollments after 2010-11, when demographic projections indicate there will be a significantly slower rate of growth in undergraduates. For 2006-07, the University is seeking \$47.5 million in State funds to support an increase of 5,000 FTE students, representing a 2.5% increase over 2005-06 budgeted enrollments.

Of the total, \$294,000 is for the next cohort of 12 students in the PRogram In Medical Education for the Latino Community (PRIME LC) at the Irvine medical school, a program designed to provide intensive, specialized training in health care for Latino communities, which has been identified as a seriously medically underserved community. This program represents the first of a series of proposals the University will put forward in the next several years to help meet the state's shortages in medically underserved areas. In April 2005, the University's universitywide Health Sciences Committee (HSC) issued a report, "Workforce Needs and Enrollment Planning," to guide future health sciences decision-making and help plan health sciences enrollment growth over the coming decade. For each profession, a set of findings and recommendations regarding the steps UC might take in meeting state needs is developed. Consistent with this report, other PRIME initiatives focusing on the special needs of urban and underserved rural areas are planned for each of the medical school campuses, with two additional PRIME initiatives planned for the 2007-08 budget year. This program is discussed in more detail in the *Health Sciences Instruction* chapter of this document. The remainder of the funds will be used to support undergraduate and graduate enrollment growth based on the marginal cost of instruction, which is the level of support the State provides for each new budgeted FTE student, based on a negotiated formula agreed to by the State. Supplemental language to the 2005 Budget Act requested the University, the California State University, the Department of Finance and the Legislative Analyst's Office to review the existing marginal cost formula and make recommendations for changes in time for the development of the 2006-07 budget. Those discussions are currently underway and a resolution is expected in the next couple of months.

In the meantime, the University has developed its 2006-07 budget plan based on an estimate of \$9,500 per FTE student for 2006-07, a rate that more appropriately recognizes the actual salaries paid to hire faculty and includes funding for the cost of maintaining new space. Enrollment workload funding will provide salary and benefits for additional faculty positions; related instructional support such as clerical and technical personnel, supplies and equipment; support for teaching assistant positions; institutional support; support for libraries and student services; and, as already mentioned, support for maintenance of new space, which for 2006-07 is estimated to be \$8.3 million.

The Merced campus opened officially in September, 2005, and plans to enroll 1,000 students in its inaugural year (fall enrollment totals about 875 students, but the campus will continue to enroll more students in the Spring semester). Through the end of the decade, the Merced campus expects to enroll an additional 800 students per year to reach its goal of 5,000 students by 2010-11. Therefore, 800 FTE of the growth in enrollment proposed for 2006-07 will be directed to the Merced campus.

Funding for another 2,000 FTE will be directed to complete phasing in State support for summer instruction at the four campuses not yet fully funded for the summer (Irvine, Riverside, San Diego, and Santa Cruz), approximately representing the growth in summer enrollments at these campuses since the summer conversion began. The remaining 2,000 FTE will be assigned to the campuses, consistent with campus enrollment plans.

In 2005-06, in recognition of the urgent need to expand the State's nursing workforce, the University received \$1.7 million in General funds over and above funds received through the Compact to expand its involvement in nursing education (SB73, Committee on Budget and Fiscal Review, 2005). The first year of funding will be used for one-time expenditures for instructional equipment, classroom and laboratory renovations, curriculum development, and faculty recruitment. Beginning in 2006-07 and following in subsequent years, the funding will support at least 130 additional students in the University's nursing education programs. The University is not only adding enrollments to existing nursing schools at the Los Angeles and San Francisco campuses, but is also planning for new undergraduate and graduate nursing programs at the Irvine campus and possibly other UC campuses.

The University's plan to expand its nursing programs has been developed in response to the well-reported shortage in nursing that exists in the state today and includes plans for preparation of new faculty for nursing programs and the education and training of advanced practice nurses. It also is looking at re-establishing and adding new undergraduate nursing programs. All are important to help meet the State's future nursing needs.

In total, the University's plan would result in a 50%-70% increase in UC nursing school enrollments—from 913 currently enrolled students to a total of roughly 1,550 students. The plan would increase the annual number of UC graduates proportionally, from approximately 300 to slightly more than 550 graduates. This growth would include: (1) re-establishment of one and the addition of a second undergraduate bachelor's degree program at UCLA and UCI, which will provide educational opportunities for students and will help build the graduate pool; (2) development of a new master's program at UCSF focusing on preparation of faculty; and (3) growth and expansion of master's entry programs at UCLA and UCSF.

These plans are discussed in more detail in the *Health Sciences Instruction* chapter of this document.

Funding to Restore Unallocated Reductions to Instructional Budgets. The University of California is known for its academic program excellence. It is the reason so many work hard to become eligible and seek admission to the University each year. Yet, as a result of the recent fiscal crisis, students are being asked to pay more and are receiving less. The University must make a special effort to ensure that instructional programs remain at a level of quality all have come to expect of the University, particularly as students and their families pay a greater share of their educational costs.

The Governor's Budgets for both 2003-04 and 2004-05 proposed increases in the budgeted student-faculty ratio as part of the targeted reductions needed to help address the State's fiscal crisis. In both years, The Regents established a high priority for maintaining quality, including avoiding any further deterioration in the student-faculty ratio. Instead, campuses were asked to absorb unallocated reductions totaling \$70 million over the two-year period.

Consistent with the high priority placed on maintaining quality in the instructional program and preventing further deterioration in the student-faculty ratio, the University's 2005-06 budget included a first increment of \$10 million as a modest first step toward a multi-year effort to recover some of the ground lost in the instructional program during the State's fiscal crisis. The University proposes once again to include \$10 million in the 2006-07 budget plan to continue to address this critical shortfall. Funding will be used to strengthen the student-faculty ratio, permitting the University to offer both smaller classes in some subjects and a wider range of courses which will help students complete requirements and graduate more quickly. A sufficient student per faculty ratio also increases opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service.

Preserving the student-faculty ratio at the University is among the highest priorities of The Regents. Faculty instructional workload policies at UC are

similar to those at comparison institutions. It is critical for the quality of UC programs to maintain current workload policies to help the University stay competitive in its efforts to recruit and retain the highest quality faculty. The future of California is dependent on the ability of the University to remain competitive with the best universities in the nation. Over the last three years, the University has been reviewing its methodology for measuring faculty instructional effort. A forthcoming report of the Task Force for the Implementation of Faculty Instructional Workload Reporting Policy will recommend a new approach to describing and reporting faculty instructional workload that more fully captures the broad range of faculty instructional activity for which students receive course credit.

Student Academic Preparation Programs

The State of California is facing a future of educational challenges, including changing demographics and an existing educational achievement gap that encompasses a large proportion of students who have been part of the minority population of the state and will soon be the majority population of the state. In national comparisons of 8th graders, California scored last in the country in science and 7th from the bottom in mathematics (National Science and Engineering Indicators, 2004). In high schools with the lowest Academic Performance Index (API) scores, 56% of physical science teachers do not have a credential in their subject area, compared with just 4% in high-API schools. Only one-third of California high school students are successfully completing a rigorous college-preparatory curriculum, and the rates are lower for students in many regions of the state and for students in educationally disadvantaged environments. At UC today, 57% of public high school students enrolled at UC come from just 20% of the state's high schools. In recognition of these challenges, The Regents have adopted a resolution affirming the work of the University's student academic preparation programs as a fundamental part of the University of California's mission.

The University's student academic preparation programs are geared toward improving the educational performance of educationally disadvantaged students who attend low-performing schools, are the first in their generation to consider going to college, and/or come from families with low income levels. Evaluations of University programs demonstrate clearly their capacity to improve participants' readiness for college and/or employment. The University's programs achieve these goals by:

- providing academic support, mentoring, information, and other services to individual disadvantaged students so that they may complete a rigorous college preparatory curriculum in high school and enroll in college;
- contributing to improvement in the school conditions that shape students' opportunity to learn, such as directing teachers and administrators to programs that provide effective professional development; helping to build college-going

cultures in middle and high schools; providing access to technology-based learning resources; and training parents to be more effective participants in their children's education;

- identifying through research what works—and doesn't work—in individual schools and throughout the state's educational system; and
- enhancing the academic preparation of undergraduates from educationally disadvantaged communities in order to promote their readiness for graduate and professional level training.

Most of the programs that are currently part of the University's Student Academic Preparation and Educational Partnerships program (SAPEP) have long track records of success in addressing academic preparation challenges, yet a fundamental misunderstanding of what these programs do has contributed to years of funding instability and cut-backs that have debilitated these efforts.

Currently, the SAPEP budget totals \$29.3 million, down from a high of \$85 million in 2000-01. Of the total, \$17.3 million is State General Funds and \$12 million is funding that has been reallocated from other activities supported from University resources. In proposing his 2005-06 budget in January 2005, the Governor called for elimination of all State funds for these programs until effectiveness of the efforts are demonstrated at a higher level of precision.

The University worked diligently throughout the budget process to arrive at an agreement with the Governor and the Legislature to provide continued State support for student academic preparation. The final budget act for 2005-06 restores the \$17.3 million in State support on a one-time basis with the understanding that the University will work with the Administration to fully evaluate the effectiveness of each program and eliminate those that cannot demonstrate an adequate return on investment. The final budget act also specifies that the University will report on the outcomes and effectiveness of these programs consistent with an accountability framework developed in April 2005 with the participation of representatives from the Legislature, the Department of Finance, and the University.

The University is strongly committed to securing permanent State support for SAPEP programs and is developing factual data to demonstrate the effectiveness of each program. A preliminary report will be developed by November as a basis for negotiations on the Governor's Budget; a final report will be submitted in April as required by the Budget Act. The University is firmly resolved to redirecting funds from programs that cannot adequately demonstrate effectiveness to those that can.

One-Time Funding for Merced

UC Merced began undergraduate instruction in September, 2005. The campus is offering nine initial undergraduate majors in the social sciences-humanities-arts, engineering, and natural sciences, along with the requisite general education courses.

The campus has 50 tenure-track faculty and 15 lecturers carrying out instruction in all of the subjects that comprise the major fields of study offered this first year. The courses taught are tailored to the entering class, which is comprised of freshman, junior, and graduate students. Next year, courses for sophomores and seniors will be added, as well as new courses associated with expanded major offerings. Efforts will continue throughout the year to recruit another 40-50 faculty and lecturers to carry out instruction in 2006-07.

One-time funding has been provided in the last five budgets, including \$14 million in 2005-06, for faculty hiring and other start-up costs. Supplemental funds are again required in 2006-07 for faculty salaries and recruitment costs, as well as instructional technology, library materials, student services, and expanded general support needed to fully operate the campus. As specified in the new Compact, the State will continue to support one-time funds needed for initial development of the UC Merced campus until the campus reaches a level of enrollment (5,000 FTE students) sufficient to generate an adequate level of workload funding, anticipated to be in 2010-11. The amount of one-time funds provided for 2006-07 will be negotiated as part of the budget process.

Funding for New Initiatives

Science and Math Initiative

The Higher Education Compact with Governor Schwarzenegger identified a critical shortfall in the number and quality of K-12 teachers in science and math in California. The Compact called on the University to develop, in collaboration with the California State University, a major initiative to improve the supply and quality of science and math teachers in the State of California and thus help provide the skilled workforce that California will require if it is to remain an economic leader in an increasingly more competitive global economy. In response to the needs of California, UC and CSU are launching a new program, "California Teach," to improve the quality of K-12 science and mathematics teachers in California.

The University's program, *One Thousand Teachers, One Million Minds*, will quadruple the number of UC graduates who go on to teach K-12 science and

mathematics by 2010, annually providing California with more than 1,000 additional highly qualified math and science teachers. To achieve this goal, the program will provide every UC student with the opportunity to complete a STEM major and the required courses to become an “intern credentialed” K-12 teacher in California within four years. In addition, the program will introduce undergraduates to the K-12 classroom as freshmen and sophomores through mentored classroom assistantships and seminars taught by UC faculty and K-12 Master Teachers, provide intensive summer institutes that will help students develop the skills required to be the most effective teachers in a specific STEM subject area, and prepare teachers throughout pre-service, service, induction, and professional development experiences to become National Board Certified Teachers.

The new UC program will help address California’s severe shortage of highly qualified mathematics and science teachers. Recent data illustrate the seriousness of the problem.

- Statewide, 25-35% of California’s science and mathematics teachers either have no credentials or are not qualified, i.e., they have neither a major nor minor in the subject area they are teaching. The situation is much worse in lower performing schools where as many as 80% of science and mathematics teachers are not qualified.
- Nearly 25,000 teachers in California are teaching with emergency credentials. These teachers will not be employable after 2006 due to requirements in federal No Child Left Behind legislation.
- Projections indicate that more than 30% of California’s teacher workforce will be eligible to retire in the next decade.
- This year, California has a shortage of more than 2,000 mathematics, 1,000 life sciences, and 1,000 physical science teachers.

The California Teach program is being launched on 8 of the 9 UC general campuses in 2005-06; the 9th campus will launch the program in 2006-07. During 2005-06, campuses will recruit and provide opportunities for freshmen to serve in elementary classrooms. In addition, individual campuses, their academic senates, and the systemwide UC Academic Council will work in concert to define curricula. In 2006-07, participating campuses will provide the early freshman field experience for students as well as a similar program for sophomore students in middle school classrooms. During subsequent years (beginning in the summer of 2007), the University will launch UC-wide summer institutes, where students will receive instruction in the latest pedagogy required to be highly qualified teachers in their areas. Development of curricula for these summer programs will begin during the 2005-06 academic year.

In 2005-06, the State provided \$750,000, which was matched by \$750,000 in University funds, to support the initial infrastructure needed to implement the new initiative. These funds are being used to develop resource centers on UC campuses to operate the program. In addition, UC has obtained funding from California business and industry to support freshman student field experiences and support of both mentor supervising teachers and Master teachers. Fundraising for the initiative has already topped \$4 million.

The State also authorized an additional 300 APLE warrants (Assumption Program for Loans for Education) during 2005-06, which provide loan forgiveness funds for teachers. While the existing APLE program gives priority to teachers in math and science, the University is seeking language in the statute designating that the increased warrants are specifically for participants in UC's and CSU's science and math initiatives. The Governor has indicated his intention to support such legislation in the coming year.

The University is requesting \$375,000 from the State in 2006-07, which is the remaining increment of funding needed for the initial infrastructure for the program. The University will again match these funds, for a total State investment of \$1.2 million, and a total for the infrastructure, including University funds, of \$2.4 million. The University will also seek authorization of additional APLE warrants for 2006-07 to match the growth in the number of program participants.

This initiative is described in more detail in the *General Campus Instruction* chapter of this document.

Labor Research (\$2.9 million increase)

The University is requesting restoration of \$2.9 million in State General Funds to support a program of Labor and Employment (L&E) Research, including a Universitywide competitive grants program and campus programs at Berkeley and UCLA.

Funding for a new Institute for Labor and Employment (ILE) was first provided in the 2001-02 budget, when the Legislature proposed and the Governor sustained an additional \$6 million in the University's budget to establish a multi-campus research program focused on research issues related to labor and employment. The State's fiscal crisis necessitated cuts to the University's research budget, including the funding provided for ILE. By 2004-05, funding for the Institute had been reduced to \$3.8 million and concerns about the research and activities of the ILE had also led to a restructuring of the program. The multi-campus research program was disbanded and instead, while still targeted at research on labor and employment issues, funding was divided as follows: one-third each to the Berkeley and Los Angeles Departments of Industrial Relations and the remaining one-third

committed to a systemwide competitive grants program for which faculty from any campus could compete under a normal peer review process.

Unfortunately, concerns about the use of the funds continued in the Governor's administration and among various legislators. As a result, the total \$3.8 million committed for labor and employment research was eliminated in the final 2005-06 Budget Act.

Given the importance of continued research in this area and the high priority placed on it by several in the Legislature, the University is maintaining support in 2005-06 on a short-term basis for research-only components of the program. Funds have been redirected from research programs that were also initiated as legislative priorities and have received large amounts of State funds in the past. These funds will be combined with other funds available within the Berkeley and Los Angeles programs to ensure that the research aspects of the program continue operating for 2005-06. The award cycle for the systemwide faculty grants program does not occur until late in the academic year. Therefore, a decision about funding for systemwide research grants to be awarded in the current year will be made once more is known about potential State funding in 2006-07.

For the longer term, the University is requesting restoration of \$2.9 million in funding for a research-only program. Funding would be divided as follows: \$850,000 to the Berkeley campus and \$800,000 to the Los Angeles campus for continuation of their research work on labor and employment issues, and \$1.25 million to continue the systemwide competitive grants program. Funds for this program will be strictly limited to research; these funds may not be used for public service or training activities, as had been the case in the past. For those activities, campuses are being asked to seek outside funds.

Future Funding for High Priority Needs

The University of California is a key part of the State's economic engine. It helps train the workforce needed for California's knowledge-based economy, conducts research and creates new discoveries that lead to new industries and jobs, provides state-of-the-art health care for those who are most ill and in need of advanced medical care, and offers public services that add to the social well-being of California's citizens. Yet, the University's ability to contribute to the State's economic recovery and prosperity has been severely affected by the recent years of devastating cuts. Without adequate resources, it is a difficult task to maintain academic quality and provide the educational and research experience that undergraduate and graduate students expect from UC. Moreover, these recent difficult years have come on top of the fiscal crisis in the early 1990s that at the time led to unprecedented levels of budget reductions, most of which also have

not been restored. As a result of two State fiscal crises and little progress toward restoring cuts that have occurred, the University has lost its competitive advantage among research universities and because of that, the quality of its academic programs is threatened. We must be mindful that once lost, excellence is difficult to regain.

Fortunately, the Compact with the Governor and the support of the Legislature for its funding principles have helped to stem the erosion in funding levels. However, halting the deterioration in the budget is not enough if the University is to meet the State's expectations for academic quality and productivity. The University has high priority needs that, if it is to return to being competitive, must be met when the State's fiscal situation improves.

The Regents first identified the University's highest priorities for recovering excellence when, at the November, 2003 meeting, the Board endorsed short-term and long-term budget priorities developed for the 2004-05 budget in response to the looming State fiscal crisis. The list of priorities endorsed by The Regents is shown as Display 9 on the next two pages.

The long-term priorities in this list continue to reflect the University's overall highest budget priorities. Understandably, even with a strong State economy, it could take years for the long-term priorities endorsed by The Regents to be fully realized. For the nearer term, the University has developed a list of budget priorities for restoration of cuts, shown in Display 10 on page 87 which, if funded, would go a long way toward restoring the University's competitiveness and ensuring its ability to maintain academic quality.

As shown in Display 10, the cost of funding the highest priorities totals \$500 million, which is equivalent to the funding gap that has occurred in terms of State dollars per student over a 20-year period (as noted on page 59 of this *Summary*, funding per student in inflation adjusted dollars declined by 13.5%, from \$19,020 in 1985-86 to \$16,500 in 2005-06, resulting in a funding gap of \$2,520 per student). The Compact with the Governor provides that, "Depending on the State's fiscal situation, there may be initiatives mutually agreed upon by the segments, the Governor, and the Legislature, either through legislation or through the budget process, that may be funded in addition to the basic budget funds provided as part of the Compact to meet high priority needs of the University and the State."

Some of the priorities identified above are being addressed to some degree in the Compact—the \$10 million targeted from within Compact funds in the current year and with a similar increment planned for 2006-07 to restore the cuts originally designated for increasing the student-faculty ratio will have a significant impact on the campus' ability to recruit and retain faculty. The 4% base budget adjustment scheduled in the Compact to begin in 2007-08 will help to begin to address our

Display 9
University of California
Primary Principles and Priorities for the 2004-05 Budget

The Regents are committed to two Primary Principles for the 2004-05 Budget as follows:

- I. The quality of the University shall be maintained and enhanced – quality is basic to delivering its mission and is the most important asset that the University of California offers the state.**
- II. The University shall maintain access and affordability, and honor the Master Plan. The state needs the highly-skilled, well-educated graduates that are produced by the University of California.**

In order to support these Principles, the University recognizes that, due to the current funding challenges, it is necessary to establish certain priorities. These priorities are as follows, organized within the context of the two Primary Principles:

- I. The quality of the University shall be maintained and enhanced – quality is basic to delivering its mission and is the most important asset that the University of California offers the state.**

SHORT TERM PRIORITIES

LONG TERM PRIORITIES

STUDENT/FACULTY RATIO

The University must maintain a viable student/faculty ratio to achieve its research and teaching mission and to attract high quality students.

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|---|---|
| 1. The University will not permit the student-faculty ratio to deteriorate further. | 1. The University will achieve a student/faculty ratio of 17.6:1. |
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FACULTY & STAFF SALARIES

To attract quality personnel needed to maintain the effectiveness of the University and its ability to accomplish its mission, faculty and staff salaries must be competitive.

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| 2. The University will continue to pay faculty merit increases. | 2. The University will return to paying competitive salaries for faculty and staff. |
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RESEARCH MISSION

The University's basic mission is that of a research institution. Adequate support of the research program is essential for the University to continue to be a quality research institution, to continue stimulate the economic vitality of the state, and to provide the human resources to meet this goal.

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| 3. Graduate student quality and ratios that exist today shall be maintained. That means that the net cost to attend and related financial support shall be maintained. | 3. Restore research funding and instructional support to previous levels, and seek funding for new research initiatives that represent high priorities. |
| 4. The instructional support of the University will be maintained at current levels. | 4. Depending on each campus' needs, specific ratios and support levels for graduate students necessary to meet the University's quality and research missions will be established. |

II. The University shall maintain access and affordability, and honor the Master Plan. The state needs the highly-skilled, well-educated graduates that are produced by the University of California.

ENROLLMENT

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| <p>5. Enrollment levels shall match the resources provided. Enrollment reductions may be necessary in the face of reduced financial support from the State. Any actions to reduce enrollments shall be implemented in such a way as to minimize the impact on UC's commitment to the access goals of the Master Plan and our promise to young people of California.</p> | <p>5. The University will adhere to the Master Plan, thus meeting its part of the promise to the youth of California.</p> |
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FEES

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| <p>6. As student fees rise, financial aid will rise accordingly to mitigate the impact of fee increases on needy students.</p> | <p>6. A stable State funding formula shall be established that allows for the predictability of fees and revenues.</p> |
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The University will continue to use a portion of the revenue raised from any increases in student fees in 2004-05 as necessary to offset increases for needy students.

7. The University's fee policy shall be based on established economic indicators, including State funding levels actually provided to the University, personal income growth, and other related items.

STUDENT ACADEMIC PREPARATION

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| <p>8. Cooperative efforts shall be made to achieve interim support.</p> | <p>8. Key aspects of the University's outreach programs shall be restored consistent with priorities identified by the Chancellors.</p> |
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Display 10

<i>Priorities for Restoring Cuts Critical to UC Academic Quality</i>	<i>Funding Needed to Close Shortfall</i>
<p>Support to Close \$2,500 Education Funding Per Student Gap</p> <p>Restoring competitive salaries (General Fund and Student fee-funded portion) \$280</p> <p>Restoring unfunded price increases for non-salary Budgets 40</p> <p>Restoring the student-faculty ratio 60</p> <p>Restoring funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) 100</p> <p>Restoring student service reductions <u>20</u></p> <p>Total Support Needed to Close Education Funding per Student Gap \$500</p>	<p>(\$ in millions)</p>
<p>Funds to Restore Research Cuts and Provide for New Research Initiatives Important to State's Economic Development</p>	<p>\$50</p>

need to return to paying competitive salaries. Similarly, the provision in the Compact that provides for an additional 1% for core needs beginning in 2008-09 will help as well. But progress would be very slow and other high priority areas, for example restoration of cuts to student services, are not addressed in the Compact.

Consequently, when the State's fiscal situation improves, the University will be submitting budget requests to restore lost funds over time and help close the funding gap resulting from years of underfunding and devastating budget cuts. This is critical to restoring and maintaining academic quality, which is in the best interest of all of California.

While the University's top priority has been and will continue to be providing access for students to the high quality education the University offers, the University is also strongly committed to its role in helping the State's economic development and prosperity. In order to continue to be able to enhance the contribution the University makes to the State's competitive edge in the global market, the University is in the process of identifying research initiatives for future years that will be targeted to areas of knowledge creation and workforce development that are key to California's future. Such initiatives will restore some of the funds cut in areas critical to the State (such as agriculture, Scripps Institution for Oceanography, and others) and begin new research initiatives that

will develop new technologies and discoveries that lead to economic development and creation of jobs. The University strongly believes in the significant impact of UC research on the State's economy.

The following is a discussion of those needs that are among the University's highest priorities over the remainder of this decade.

Restoring Competitive Salaries

As noted earlier, the University's faculty salaries are estimated to lag the market of its comparison institutions by 10%, based on the CPEC methodology. There is a similar problem with respect to staff salaries. Restoring the University's ability to pay competitive salaries is critical if the University is to recruit and retain the top quality faculty and staff needed to maintain excellence. It is estimated that closing the existing gap will require approximately \$280 million in State funds, which is equivalent to 10% of the University's salary base. Other fund sources will have to bear their share of increases for faculty and staff paid from non-State funds.

The Compact with Governor Schwarzenegger calls for 3% base budget adjustments through 2006-07, which in combination with student fee revenue and UC General Fund income is sufficient to stem the tide of further erosion in salaries, but does not provide any funding to address salary lags compared to the market. Beginning in 2007-08, the Compact calls for 4% base budget adjustments, which will *begin* to address salary lags. Unfortunately, progress would be very slow—too slow to restore competitiveness to the University in time to meet the demand for recruitment and retention of faculty and staff needed to accommodate enrollment growth through this decade. When the State's fiscal situation permits, additional funds will be sought to quicken the pace of restoring competitive faculty and staff salaries.

Restoring Unfunded Price Increases for Non-salary Budgets

The University estimates that as a result of budget cuts and underfunding during the recent fiscal crisis in California, non-salary budgets have suffered a \$40 million shortfall. Regular price increases are necessary to offset the impact of inflation and to maintain the University's purchasing power. The total shortfall that now exists already reflects savings that have occurred through efficiencies and productivity improvements. Shortfalls of the magnitude experienced by the University cannot be addressed entirely through such efficiencies. Eventually, these real costs must be funded if the University is to return to being competitive in the global marketplace.

Restoring the Student-Faculty Ratio

As noted earlier in this chapter, in the last several years the University has rejected proposals to further increase (i.e., degrade) the student-faculty ratio. Preserving

and ultimately improving the student-faculty ratio at the University is among the highest priorities of The Regents. Currently, the University's student-faculty ratio compares unfavorably to its eight comparison institutions, which average 17.0:1 at the public institutions and 10.4:1 at the private institutions. Before the cuts of the early 1990s, the University's student-faculty ratio was 17.6:1. In 1994, the University and the Legislature agreed to phase in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University's budgeted enrollment; the Legislature adopted supplemental budget language to this effect. This represented a significant deterioration in the budgeted ratio, equivalent to 500 FTE faculty members and continued the erosion that began in the 1960s.

The University simply must reverse this trend. Having a sufficient student-faculty ratio is one of the most critical factors in maintaining the quality of the instructional program. The fact that the University's student-faculty ratio is so far behind the ratio at other institutions clearly illustrates the University's weakened competitiveness.

The total in funding cuts that had originally been targeted at increasing the student-faculty ratio was \$70 million. While these cuts were absorbed as unallocated reductions and the budgeted student-faculty ratio of 18.7:1 was not increased, these cuts mean the University does not have the resources to support the number of faculty reflected in the current budgeted student-faculty ratio. The University directed \$10 million toward this purpose in the 2005-06 budget. Over time, the University plans to restore the remaining \$60 million, including another \$10 million increment as part of the 2006-07 budget plan. The University's long-term goals call for returning to a student-faculty ratio of 17.6:1, which is the ratio that existed before the cuts of the early 1990s. The former Partnership Agreement with Governor Davis explicitly recognized this as an important goal tied to improving academic quality. The University must be able to compete effectively for the best faculty if it is to provide the top-notch education those who attend have come to expect and have worked hard to deserve. While salaries are critical to this effort, so, too, is the student-faculty ratio. This need must be addressed if the University is to return to maintaining academic quality and once again become competitive with other excellent institutions.

Restoring Funding for Core Academic Support

Several areas of the budget are critical to maintaining academic quality and yet have been historically underfunded, including ongoing building maintenance, instructional technology, instructional equipment replacement, and library resources. The former Partnership Agreement with Governor Davis recognized this shortfall and planned a 1% adjustment to the base each year to help address the gap. Funds were provided for this purpose for one two years. Once the State's fiscal crisis began, however, not only were increases discontinued, but program cuts

erased any of the progress that had been made from earlier funding increases. The shortage in these areas is estimated to be over \$100 million.

The Compact Agreement with Governor Schwarzenegger again recognizes the critical nature of the shortfall in these budget areas and proposes a 1% annual adjustment in the base budget beginning in 2008-09 to help address the shortfall. However, even if that rate were continued through the Compact and beyond, it would be 2012-13 before this shortfall will have been funded. If the State's fiscal situation permits, the University will request additional funding in the near term to address this shortfall sooner.

Restoring Student Services Reductions

Among the priorities identified for additional funding by students and staff on the campuses is restoring funds for student services. The University's enrollment grew by 19% between 2000-01 and 2004-05 (during the State's fiscal crisis), yet its State funded budget declined by 15% over that same period. Student services were hit hard by these cuts—a total of \$20 million in budget reductions was targeted specifically to this program area. As a result, students are paying more fees but receiving fewer services. This inequity must be remedied by restoring the funds targeted directly at student service cuts. Student services are critical to student life on the campus. Campuses need more funding for academic support programs, such as tutoring and preparation for graduate school exams; increasing costs associated with services to students with disabilities; additional counselors to address both academic and mental health needs of our students; and upgrades for information technology systems so that students can access important web-based information such as registration, financial aid, accounting, and student service organizations. The University will seek restoration of these cuts once the State's fiscal situation improves.

Funds to Restore Research Cuts and Provide for New Research Initiatives Important to the State's Economic Development

The University's research program forms the basis for new knowledge and innovation that creates new products, new companies, new jobs, and entire new industries. University researchers are on the forefront of discoveries that lead to cures for diseases, improve the food we eat, help buildings withstand earthquakes, improve transportation systems, develop techniques for addressing global climate change, identify best practices for K-12 educational improvement, and strengthen ties to Mexico and Asian countries, along with a wide variety of other benefits to the state.

State funds for University research are a good investment: for every State dollar specifically invested in research, UC leverages nearly \$6 more from the federal government and other non-state sources, although this is in large part made

possible by the State funds also provided for the support of faculty salaries. Some of these funds are used for direct student support for graduate students who work on research projects with faculty; some are used to support the development of new knowledge; and some are used to provide programs and services for which the University has no State support. A series of State and University research initiatives have enhanced the potential for the University to have a beneficial impact upon the State's economy, including the two recent initiatives described below that are now bearing fruit for the State:

- Since 1996-97, the Industry University Cooperative Research Program (IUCRP) has worked with 501 California R&D firms to collaboratively develop 1,764 research projects, involving UC researchers and students as well as employees from partner companies. These projects have resulted in an investment of \$327 million (including private sector contributions of \$193 million). Studies of the IUCRP's impact on California's economy indicate that participating companies created thousands of net new high wage jobs in California and 54 young startup companies raised \$1.7 billion in venture capital.
- The California Institutes for Science and Innovation (Cal ISI) is another partnership among the State, California industry, and the University of California initiated in December 2000. The four Institutes engage UC's world-class research faculty directly with California companies in attacking large-scale issues critical to California's economy and its citizens' quality of life—health care, traffic congestion, environmental management homeland security, and novel energy systems are among the areas of focus for new research within the Institutes. The \$100 million in capital invested by the State for each Institute has not only returned the required two-to-one match from federal and private sources, but in some cases achieved nearly a four-fold return on the State's investment. The 275 partner companies that have invested over \$200 million in these Institutes come from all parts of the economy—entertainment, transportation, high tech, biotech, nanotech, aerospace, and more. The Institutes are expected to increase the state's capacity for creating the new knowledge and highly skilled workforce that will drive entrepreneurial business growth and expand the California economy into new industries and markets.

Despite the direct connection between University research and economic development, State funding for research has significantly declined in recent years—by 25% (\$70 million) in the most recent budget crisis and this is on top of an additional 20% in cuts to research that occurred during the early 1990s. In the current year, the University has begun a phased plan to redistribute research funding among current programs over a 2- or 3-year period in order to continue to meet high priorities even as budget cuts have occurred to research programs overall. Programs that received large augmentations in the late 1990s and early 2000s are being cut more in order to restore across-the-board cuts to core programs

that have been hard hit by the fiscal crises in both the 1990s and the 2000s, such as agricultural research, Scripps Institution of Oceanography, and others of significant importance to the State.

Given the State's current fiscal circumstances, the University is not requesting additional funding above the Compact for research initiatives in 2006-07. However, because of the important role University research can play in California's future, particularly in terms of fueling economic recovery after years of fiscal crisis, the University is developing a major initiative for future years that will help address the State's need to strengthen California's economic competitiveness by infusing industry with new knowledge and discoveries that lead to the creation of new ideas, products, and more jobs. The University's research initiative, projected to be approximately \$50 million funded over a multi-year period, will be aimed at restoring some of the research cuts that have occurred to core programs or research institutes critical to the State such as agricultural research, Scripps Institution for Oceanography, and others. Funding will also build on the foundation already laid by the IUCRP and Cal ISI programs and thus be used to begin new initiatives in research that hold promise for significant returns to the State's economic prosperity.

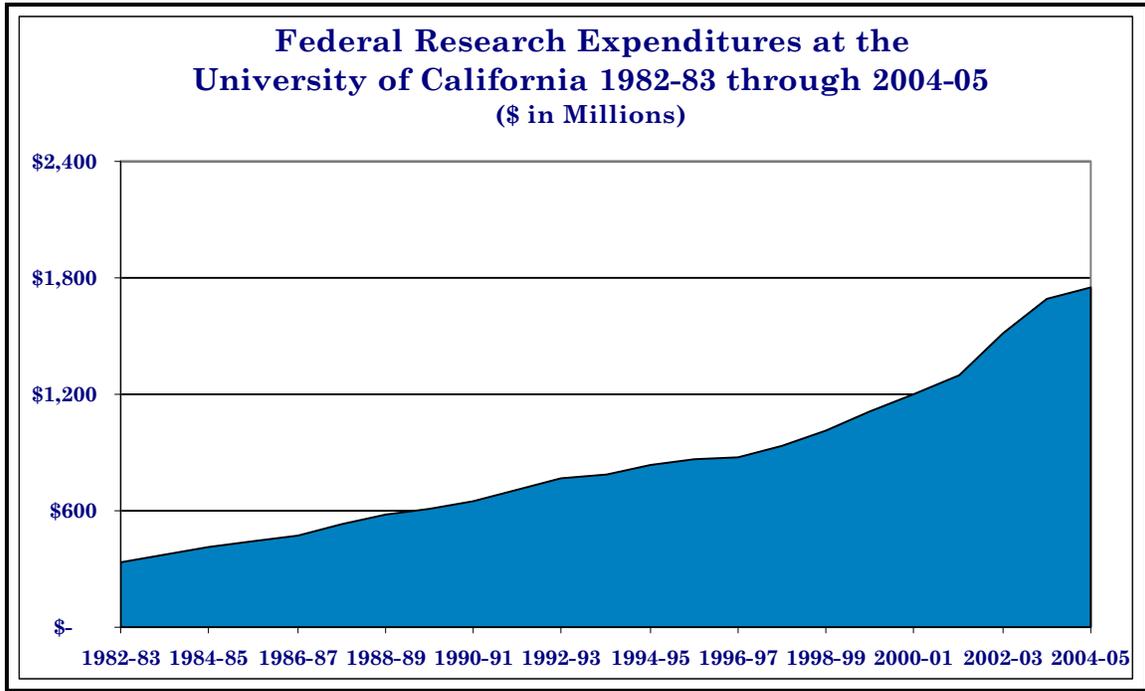
Federal Funds

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, federal funds represent an estimated 22% of grant aid received by UC students in 2004-05. 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.

Display 11 illustrates trends in federal research funding for the University over the eighteen-year period between 1982-83 and 2004-05. In the decade between 1982-83 and 1992-93 and again from 1997-98 through 2003-04, 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, in a pattern that may be repeating itself beginning in 2004-05, the focus of the federal government was

Display 11



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.

But progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in new growth for funding. 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 dramatically reduced funding for University research.

After the 1997 agreement, however, there was a dramatic turn-around due in large part to the sustained strength of the national economy. Revenues increased more rapidly than had been projected, and the budget was balanced three years ahead of schedule. By 1998, the government recorded a surplus for the first time in three decades. As the federal budget went into its first surplus in more than 30 years, federal research and development (R&D) funding experienced rapid increases. A push to double the NIH budget began in 1999 and resulted in five years of increases averaging 15%. As a result of the terrorist attacks of September 11, 2001, and the

subsequent wars in Afghanistan and Iraq, the FY2002, FY2003, and FY2004 appropriations for federal R&D resulted in record increases, with an emphasis on counter terrorism R&D and other defense-related research.

After 1997-98, the University's federal research expenditures increased by: 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, 8% in 2000-01, 8.5% in 2001-02, 16.3% in 2002-03, and 11.8% in 2003-04.

Beginning in 2004-05, however, the renewed concern at the federal level over the size of the national deficit and the resulting return to a period of more limited increases for federal research funding have also had an effect on the University's federal research expenditures, which increased by only 3.5% during the past year. Over the next few years, it is likely that federal research funding increases will be more limited because of administrative and congressional concern over record breaking federal budget deficits. The costs of responding to hurricanes Katrina and Rita, a continuing and costly war in Iraq, continuation of tax cuts, and an expansion of Medicare to pay for prescription drugs are all factors contributing to the deficit. These put enormous pressure on overall domestic discretionary spending, the source of most of UC's federal research funding. This will change only if government receipts are significantly higher, or entitlement spending is significantly lower than now expected.

In its analysis of President Bush's FY2006 Budget Proposal, the American Association for the Advancement of Science (AAAS) notes that total Federal investment in R&D continued to increase in FY2005:

“. . . because of defense and homeland security increases, but in completing FY2005 appropriations last December Congress went along with the President's proposals to freeze most domestic discretionary spending at FY2004 levels. As a result, the non-defense, non-homeland security R&D portfolio stagnates this year, with modest increases in some areas offset by cuts in others. The FY2006 budget for next year would continue this austerity and extend it to defense R&D. As a result, growth in the federal R&D portfolio would fail to keep pace with inflation for the first time in a decade, and most R&D programs would suffer cuts in real terms.”

For the fiscal year that began on October 1, only two of the projected ten appropriations bills that will constitute the FY2006 federal budget have been acted upon by both houses of the Congress and signed into law by the President. These are related to the Department of Interior and the Legislative Branch. A continuing resolution provides temporary funding through November 18 for programs in unsigned appropriations bills at the lowest of the FY2005 House-proposed or Senate-proposed funding levels.

As the House Appropriations Committee versions of the remaining bills currently stand, total R&D federal funding would increase by 1.8% next year, more generous than the Administration's proposed 0.6%. The House version, however, includes only a 0.5% increase for NIH. If passed into law, this will mark the first time in 24 years that the NIH R&D budget fails to keep pace with inflation. The Senate is proposing an overall 2.3% increase for total R&D, a more generous 3.7% increase for NIH, but only a 1.6% increase for NSF. (The House version proposes a 2.6% increase for NSF.) Most R&D funding agencies are likely to receive flat funding or modest increases that fall short of inflation.

More details on the federal budget are included in the *Research* chapter of this document. Also, information on the outcome of the federal budget negotiations will be provided at future Regents meetings.

Private Funds

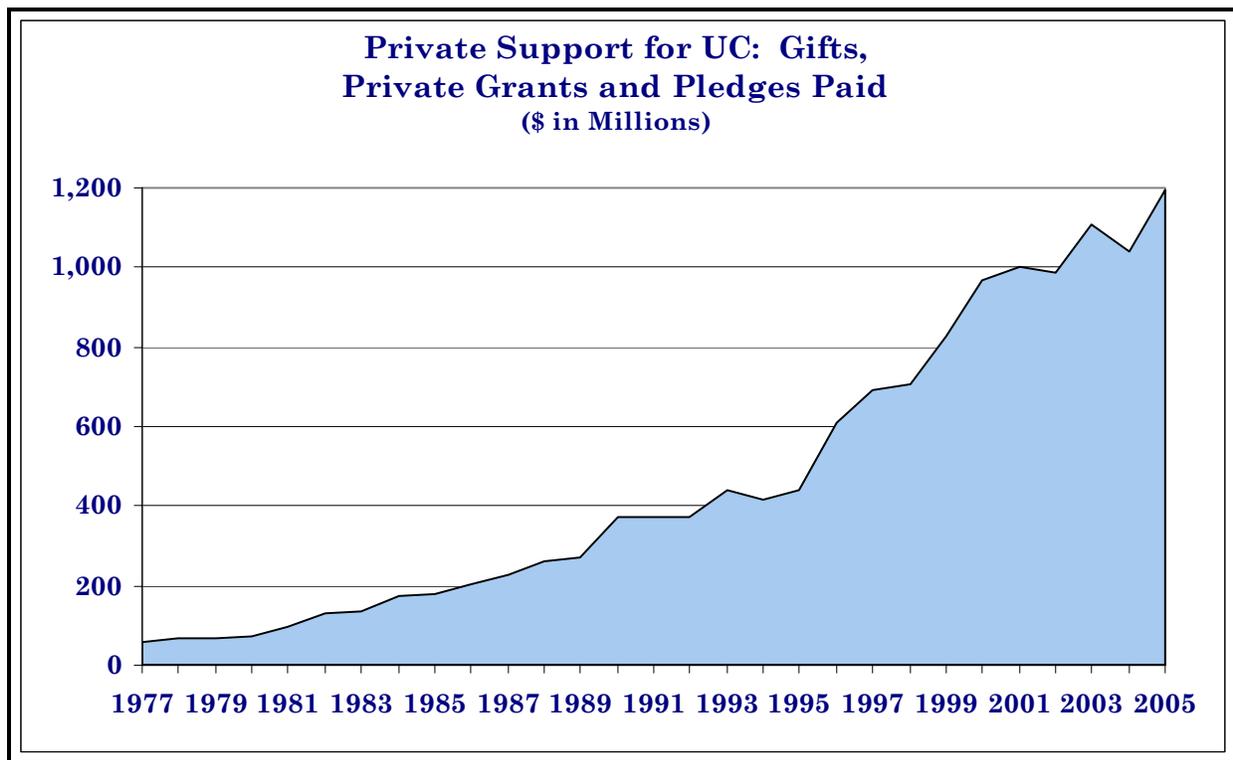
Private funds include gifts, private grants, and private contracts. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations, private foundations, and other nonprofit entities. Private contracts, which are *quid pro quo* transactions, are entered into with for-profit and other organizations. For 2006-07, expenditures from gifts and private contracts and grants to the University are estimated to be \$1,039 million, an increase of 4% over projected 2005-06 expenditures. Expenditures from private gifts and grants have increased by over 140% in the ten-year period between 1995-96 and 2005-06.

The University continues to aggressively seek and develop non-State revenue sources, particularly private funds. Over the last two decades, the University has experienced large, steady increases in private funds received. More recently, private support for the University has exceeded \$1 billion a year, even with the recent economic downturn.

As of the 2004-05 fiscal year, the method of reporting private support changed. The University now employs the same cash reporting system used across the country by other educational institutions, a system which is the basis for inter-institutional comparisons. Included in the private support figures are outright gifts and grants, and pledge and grant payments received during reporting period. Previously, the private support numbers included new pledges made during the reporting period, but not yet paid, along with outright gifts and grants actually received during the period. In business terms, the new system is a cash-based system; the former system was an accrual system.

Recent trend data show that pledges declined somewhat from 2000-01 to 2002-03, but increased again in 2003-04 and 2004-05. As shown in Display 12, in 2004-05, alumni and other supporters committed almost \$1.2 billion in gifts and grants to the University. New pledges totaled another \$387 million.

Display 12



Donors in 2004-05 directed \$734.1 million (61.4%) of support to University operations; \$243.2 million (20.3%) to campus improvement, \$194.2 million (16.2%) to endowments, and \$25.1 million (2.1%) as unrestricted general support. Of the total donations in 2004-05, \$569.6 million (47.6%) was specified for use in the health sciences. Just under 98% of the private support was restricted by the donors as to purpose.

Private support for the University is derived from a number of sources. In 2004-05, gifts and grants from non-alumni individuals totaled \$248.9 million; from private foundations, \$462.5 million; corporations, \$247.6 million; alumni, \$132.5 million; and campus organizations and other sources, \$105.0 million.

The University’s remarkable achievement in obtaining funding in recent years—even during state and national economic downturns—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 a slight improvement in the changes in the economy and financial markets.

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.

The University's request for \$315 million from general obligation bonds and \$25 million in State lease revenue bonds for the 2006-07 State capital budget includes funding to support construction or complete design and undertake construction for 18 projects and to begin or continue design on 11 projects. Funds are also requested to equip one building previously approved for construction.

Of the 30 major capital projects, 4 address serious seismic and other life-safety hazards; 21 projects construct new buildings, renovate existing space, or expand the campus infrastructure to accommodate enrollment growth; and facility modernization or infrastructure renewal is the focus of 4 projects.

The University's 2006-07 request for State funds for capital improvements is presented in more detail in a companion document titled, *2006-2007 Budget for State Capital Improvements*.

GENERAL CAMPUS INSTRUCTION

2005-06 BUDGET	
Total Funds	\$ 2,121,849,000
General Funds	1,480,065,000
Restricted Funds	641,784,000
2006-07 INCREASE	
General Funds	39,575,000
Restricted Funds	33,655,000

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. This combination of educational opportunity and the discovery and delivery of new knowledge has helped build the economic diversity that keeps California one of the largest economies in the world. 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. The University accommodates all qualified undergraduates and increasingly must provide graduate academic and professional instruction in accordance with standards of excellence, the growing needs of California, one of the ten largest economies in the world, and in the face of restricted 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 University's 2006-07 budget plan is based on the Higher Education Compact with Governor Schwarzenegger. The Compact provides a long-term resource plan for UC that addresses base budget allocations, enrollment, student fees, and other key program elements for 2005-06 through 2010-11. In exchange for this long-term stability, UC commits to focusing resources to address long-term accountability goals for enrollment, student fees, financial aid, and program quality. The key funding provision of the Compact related to general campus instruction is support for enrollment growth of approximately 2.5% per year through the end of the decade. This growth rate represents an increase of 5,000 full-time equivalent (FTE) students annually at UC and will allow UC to achieve enrollment levels consistent with earlier projections. The State will provide funding for this enrollment growth at the agreed-upon marginal cost of instruction as adjusted annually. For 2006-07, the University's budget plan includes \$47.5 million to support a budgeted enrollment increase of 5,000 FTE.

Included in the University's enrollment plan for 2006-07 is the expansion of the University of California at Merced. The campus officially opened its doors in 2005-06, and plans to enroll 1,000 students in its inaugural year, including freshmen, transfers, and graduate students (fall enrollment totals about 875 students, but the campus will continue to enroll more students in the Spring semester). The campus will grow by 800 students during 2006-07. Development of UC Merced is part of the University's strategy to increase statewide enrollment capacity, essential now that all other existing UC campuses are selective, enhance access to students in the San Joaquin Valley, and provide the benefits of an additional research university to all Californians.

A portion of enrollment funding (2,000 FTE) in 2006-07 will also be used to complete implementation of State support for existing summer enrollment on campuses not currently receiving full State support for summer instruction. As a crucial strategy for accommodating projected enrollment demand, during 2000-01 the University began converting summer instruction from a self-supporting to a State-supported program. The key to achieving significant enrollment growth in the summer is to offer students summer instruction that is critical to student progress, along with essential student support services, access to libraries, and student financial aid. Without State funding, campuses cannot afford to offer the breadth of courses and additional support necessary for maximizing efficiency and student progress toward the degree. Four campuses are fully converted; the remaining four campuses were partially funded for State-supported summer instruction in 2005-06 and will receive additional funding to complete conversion during 2006-07. The remaining 2,000 FTE will be assigned to the campuses, consistent with campus enrollment plans.

In addition to enrollment funding, the University proposes to use \$10 million for restoring instruction funding following several years of undesignated cuts. These funds will be used to restore instructional resources and strengthen the student-faculty ratio.

Instructional Program Overview

The general campus Instruction and Research (I&R) budget includes direct instructional resources associated with schools and colleges located on the nine 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 \$2.1 billion in 2005-06, 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 instructional support staff such as laboratory assistants, supervisory, clerical, and technical personnel, and some academic administrators, and some costs of instructional department supplies; and some funds for instructional equipment replacement and technology, 5%.

The University offers critical instructional programs spanning more than 150 disciplines from agriculture to zoology, as well as many emerging interdisciplinary fields. The Academic Senate of the University authorizes and supervises courses offered within instructional programs, and 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 that will successfully prepare a student for employment in the California labor market. In University surveys, more than 60% of graduating seniors report they have gained “very good” or “expert” abilities to write clearly and effectively, think critically, and express views; understanding in their field of study and of culturally diverse viewpoints; and research, quantitative, and leadership skills.

The purpose of graduate programs is to demonstrate independence and originality of thought in the pursuit of knowledge. These programs also provide the core of individuals trained in California who constitute a significant part of the State's brain trust. 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, public policy, 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, or as scholars who further the State's and the nation's cultural, social, and economic development through discovery and innovation. 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. In addition to the University's full-time master's and doctoral degree programs in the liberal arts and professions, the University offers a number of self-supporting, alternatively scheduled programs in business administration, dentistry, education, law, and public health, and 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.

Enrollment Growth in 2006-07 (\$47,500,000 Increase)

The Higher Education Compact with Governor Schwarzenegger includes the commitment to provide UC with funding for enrollment growth consistent with access under the Master Plan for Higher Education at an agreed-upon rate per FTE student, the "marginal cost of instruction." The University's budget plan includes a request for \$47.5 million to support budgeted enrollment growth of 5,000 FTE students in 2006-07. Funding for enrollment growth provides the base resources necessary to recruit excellent faculty, which in turn affects the quality of instructional programs, both because of the critical quality of the faculty and, in today's competitive environment, the faculty's ability to attract the extensive resources necessary to recruit and train the high quality undergraduate, graduate and professional students so much needed in 21st century California. Thus, funding for enrollment remains among the University's highest priorities.

State Support for Enrollment Growth

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.

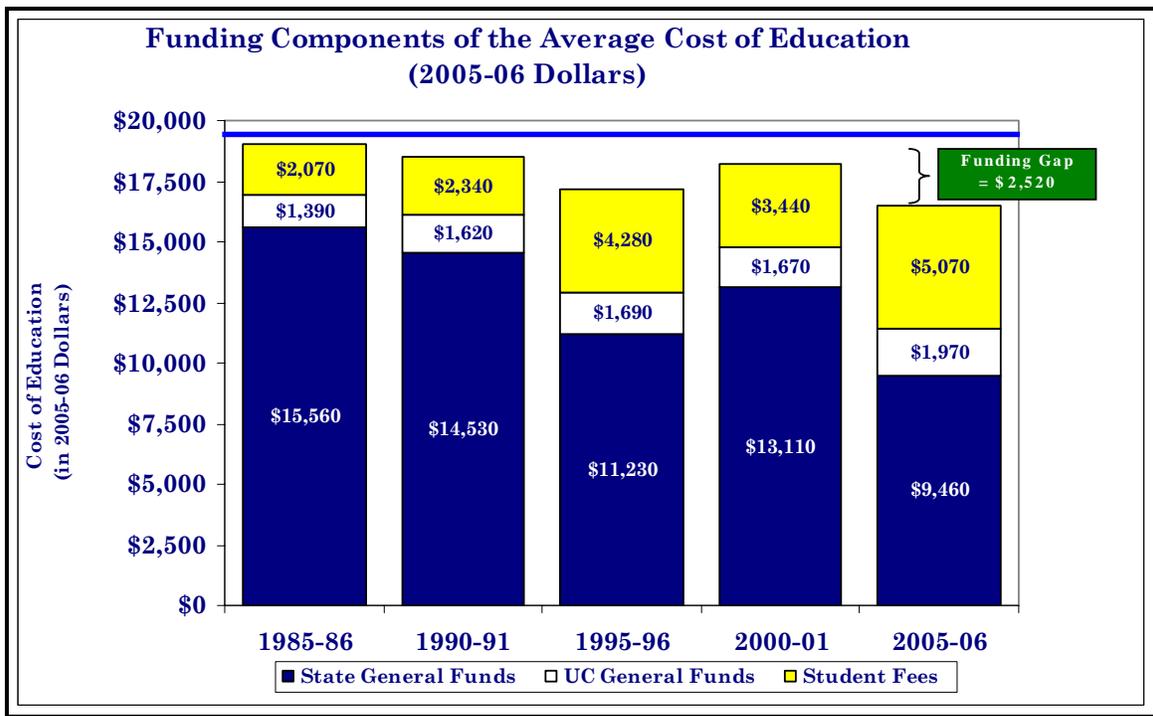
Supplemental language to the 2005 Budget Act requested the University, the California State University, the Department of Finance, and the Legislative Analyst's Office to review the existing marginal cost formula and make recommendations for changes in time for the development of the 2006-07 budget. Those discussions are currently underway and will be resolved in the next few months.

In the meantime, the University has developed its 2006-07 budget plan based on an estimate of \$9,500 per FTE student for 2006-07, a rate that more appropriately recognizes the actual salaries paid to hire faculty and includes funding for the cost of maintaining new space. Over the past several years, funding for maintenance of new space has not been provided. It is the University's position that funding for

operation and maintenance of plant (OMP) should be included in the marginal cost calculation as a cost of enrollment growth. Enrollment workload funding will provide salary and benefits for additional faculty positions (based on the current budgeted student-faculty ratio of 18.7:1); related instructional support such as clerical and technical personnel, supplies and equipment; support for teaching assistant positions; institutional support; support for libraries and student services, and, as already mentioned, support for maintenance of new space, which for 2006-07 is estimated to be \$8.3 million. The *Operation and Maintenance of Plant* chapter of this document provides further information about new funding in this area.

Historically, the State has heavily subsidized the cost of education. However, as with all public universities, student fees have tended to increase as the State's subsidy has declined. Display 1 shows the funding components of the average cost of a UC education from 1985-86 through 2005-06 (in 2005-06 dollars) and the funding gap that has developed between the cost of a UC education in 1985-86 and the resources available in 2005-06. Display 1 yields several findings.

Display 1



- The average expenditure per student for a UC education has declined. In 1985-86, the cost to educate a UC student was approximately \$19,020 in 2005-06 dollars. Over 20 years, funding per student in inflation adjusted dollars declined by 13.5%, from \$19,020 in 1985-86 to \$16,500 in 2005-06, resulting in a funding gap of \$2,520 per student.

- The State subsidy per student for the cost of a UC education has declined significantly—by 40% over a 20-year period. In 1985-86, the State contributed \$15,560 per student—82% of the total cost. By 2005-06, the State share declined to \$9,460, just 57%.
- As the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1985-86 students contributed 11% toward their education, they currently pay 31% of the cost of their education.

These findings raise several additional points. First, the funding gap that has developed since 1985-86 represents lost support totaling \$500 million. Although the University has struggled to meet the challenge presented by this substantial decline in state funding, it must be recognized that certain elements of the educational, research, and public service functions have been steadily sacrificed in order to preserve the core missions of the University. It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. When the State's financial situation permits, the University will seek support to reduce this funding gap, as discussed in the *Summary of the 2006-07 Budget* chapter of this document.

Second, recent national news coverage about skyrocketing costs of college tuition masks what has really happened at UC. University expenditures per student have not increased rapidly, but rather have fallen (in constant dollars). Instead, fees paid by students have risen as funding from the State has declined. Student fee increases have helped maintain quality during times of fiscal crisis, but have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low.

Third, despite rising fees for students, the University has striven to maintain student access and affordability. While fees have increased, the University has provided significant increases in financial aid to help ensure access for low-income students. UC has maintained affordability for lower-income students by sustaining a strong financial aid program.

Accommodating Enrollment Growth

The California Master Plan for Higher Education calls for UC to offer access to all eligible applicants in the top 12.5% of the statewide public high school graduating class who choose to attend. University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class and to guarantee admission to all applicants who meet the eligibility requirements and apply on time. In addition, the Master Plan calls for UC to guarantee a place for all California Community College transfer applicants who meet eligibility requirements. Framers of the Master Plan also envisioned maintaining or enhancing the proportion of

graduate student enrollment at UC. To enable the University to fulfill these access provisions, the Master Plan calls for the State to provide adequate resources to accommodate this enrollment.

The University remains committed to the Master Plan and believes it is the underpinning for one of the finest higher education systems in the world. There is continued interest in replicating the California model in developing economies throughout the world and the Master Plan is the envy of other states. Legislative reviews of the Master Plan in 1989 and 2002 have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students.

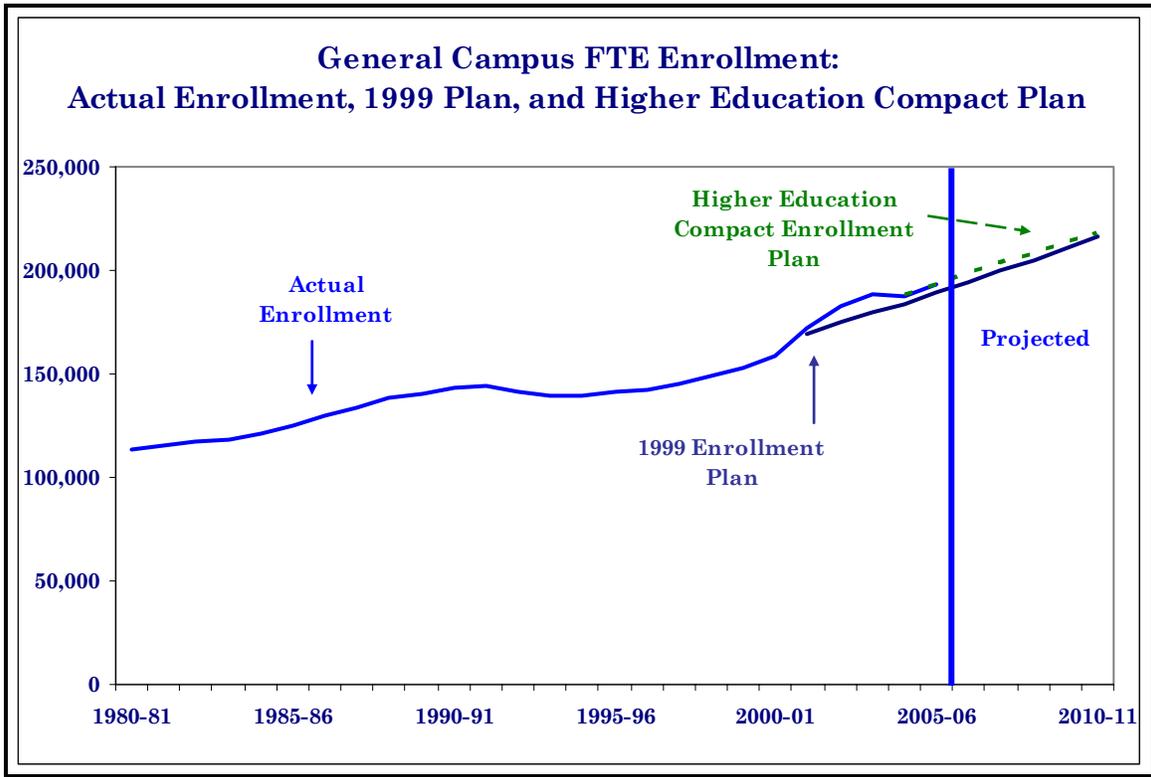
In addition, the University is embarking on a multi-year initiative to re-balance the proportion of graduate and undergraduate students enrolled to better meet State workforce needs. For several decades, a compelling State priority has been placed on providing undergraduate access for the rapidly growing high school graduate population. However, adherence to this priority has not been without some consequences for the overall academic balance of the University and its impact on the State's supply of highly-skilled workers needed in California's knowledge-based economy. Thus, while the University has expanded access for undergraduates, graduate and professional enrollments have not kept pace. The University is planning for substantial growth in graduate and professional enrollments after 2010-11, when demographic projections indicate there will be a significantly slower rate of growth in undergraduates.

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 (University policy has been to establish eligibility criteria designed to identify the top 12.5% of the public high school class, but generally about 7.8% actually enroll);
- assumptions about community college transfer rates, consistent with the University's commitment to continue to improve these rates; and
- increases in graduate and professional 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 216,500 FTE. As indicated in Display 2, between 2000-01 and 2003-04 the University experienced far more rapid enrollment growth than projected in the 1999 plan, averaging closer to 8,000 FTE per year rather than the 5,000 FTE enrollment growth projected earlier.

Display 2



During 2004-05, the State did not provide sufficient resources to fund all eligible students wishing to attend. Legislative intent language adopted as part of the 2003-04 budget package requested the Department of Finance to develop the 2004-05 budget assuming no funding for enrollment growth. In the 2004-05 budget, the Governor proposed reducing the number of entering freshmen by 10%, redirecting these students to the California Community Colleges (CCCs), and reducing UC enrollment. The final budget agreement included a smaller enrollment reduction that allowed UC to offer admission to all eligible freshman applicants who were originally redirected to the CCCs and maintain its commitment to the access provisions of the Master Plan.

Now, despite the budgeted enrollment decrease in 2004-05, total enrollment remains 6,000 FTE over the level envisioned in the 1999 plan for 2005-06. The Compact negotiated in 2004 with Governor Schwarzenegger called for UC to return to its earlier estimates of 2.5% enrollment growth per year, which will allow the University to return to enrollment levels near those envisioned in the 1999 plan. This growth was included in the 2005-06 budget and the University plans for additional growth of 5,000 FTE in 2006-07.

In addition to the tremendous enrollment growth experienced by the University over the last thirty years, the undergraduate student population has changed in dramatic ways.

- During the mid-1980s, women became the majority of UC undergraduate students.
- Since 1980, enrollment of Asian American and Chicano/Latino undergraduates has grown more than 250%, far exceeding the 63% growth in total undergraduate enrollment. Display 3 shows the headcount of undergraduate students enrolled at the University in Fall 1980 and, more than two decades later, in Fall 2004, the latest year available.
- More than half of entering undergraduates are immigrants to the United States or have at least one immigrant parent.
- More than one-third of entering freshmen are first-generation college students.
- Two-thirds of entering undergraduates begin the University as freshmen, and 94% are California residents; only 2% of UC undergraduates are international students.
- Today's entering undergraduates are also better prepared for a University education and, as discussed later in this chapter, are more likely to graduate and graduate at a faster pace.

Shifts have also occurred in the graduate student population.

- Men remain the majority of UC graduate students, but graduate enrollment of women rose from 38.9% in 1980 to 47.5% in 2004.
- While graduate enrollment grew only 36% between 1980 and 2004, graduate enrollment of Chicano/Latino students grew by nearly 120% while Asian American enrollment grew by 250%, as shown in Display 4 (next page).
- In recent years, about 18% of graduate students are international and another 9% are nonresidents from another U.S. state.
- Two-thirds of general campus graduate students are pursuing doctoral degrees, primarily in academic subjects. The other third are pursuing master's degrees, primarily in professional fields. While the number of doctoral degrees awarded by the University has risen 39% since 1980-81, the number of master's degrees awarded has grown 50%. The number of first professional degrees awarded, such as the Juris Doctor and Doctor of Medicine, has grown only 8.4% during that period.

Display 3

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

Display 4

Domestic Graduate Headcount				
Fall 1980 - 2004				
	1980	2004	Change	Percent Change
African American	996	1,268	272	27%
American Indian	132	300	168	127%
Chicano	900	1,838	938	104%
Latino	<u>579</u>	<u>1,402</u>	<u>823</u>	<u>142%</u>
Subtotal	2,607	4,808	2,201	84%
Asian American	2,145	7,174	5,029	234%
Filipino American	117	748	631	539%
White/Other	20,394	25,185	4,791	23%
Decline to State	<u>5,354</u>	<u>3,788</u>	<u>(1,566)</u>	<u>-29%</u>
Subtotal	28,010	36,895	8,885	32%
TOTAL	30,617	41,703	11,086	36%

The University of California, Merced

Development of UC Merced is part of the University's strategy to increase enrollment capacity that will serve the entire state, enhance access for students in the San Joaquin Valley, and provide the benefits of an additional research university to all Californians. Additionally, the campus is poised to make valuable contributions to the region as a powerful economic engine. The transformative experiences of communities such as Irvine and San Diego exemplify the multiplier effect of the development and growth of a UC campus on a regional economy. In addition to the influx of students, faculty and staff, the San Joaquin Valley can expect a surge in investment from knowledge industries attempting to tap into the intellectual resources brought by a UC campus.

Educational Access

UC Merced received strong student interest in applications for admission for its opening year. More than 9,000 students applied to be part of the inaugural class. UC Merced officially opened its doors in 2005-06 and plans to enroll 1,000 students in its inaugural year, enrolling a mixture of freshmen, community college transfer students, and graduate students (fall enrollment totals about 875 students, but the campus will continue to enroll more students in the Spring semester). UC Merced serves an important role in providing access to a University of California education in a previously underserved region, ensuring the University maintains its statewide commitment to access as specified in the Master Plan for Higher Education, and continuing the University's recent successes in expanding college participation in the Central Valley region. In its first year, the campus has taken a strong first step toward meeting this goal – about one-third of the entering freshman class came from the Central Valley. In addition, about 45% of the class is a first-generation college student, compared to 35% systemwide.

Enrollment is scheduled to increase by 800 students per year through 2010-11, a necessary growth rate to maintain educational access—the Central Valley is projected to be one of the fastest growing regions in California during the first half of the century.

Academic Innovation and Excellence

As the first new research university in the United States in the 21st century, UC Merced is in many ways an educational laboratory, providing its faculty and students with innovative programs in education and research. A learning environment is being established that fosters excellence in teaching, research and public service in the great tradition of the University of California system, but allows for new approaches in faculty recruitment, curriculum and library development, and other areas of the academic enterprise. The faculty has worked together in the last two years to develop new and innovative ways of delivering

instruction that also incorporate an unprecedented level of interdisciplinary collaboration.

The campus has 50 tenure-track faculty and 15 lecturers carrying out instruction in all of the subjects that comprise the nine major fields of study offered this first year. The courses taught are tailored to the entering class, which comprises freshman, junior and graduate students. Next year, courses for sophomores and seniors must be added, as well as new courses associated with expanded major offerings. Efforts continue throughout the year to recruit additional faculty and lecturers to carry out instruction in 2006-07.

The University's core academic programs will be offered through three schools: Engineering; Natural Sciences; and Social Sciences, Humanities and Arts. The initial nine undergraduate degree programs are: Bioengineering, Biological Sciences, Computer Science & Engineering, Earth Systems Science, Environmental Engineering, Human Biology, Management, Social & Cognitive Sciences, and World Cultures & History. At the graduate level, the initial programs include: Environmental Systems, Atomic & Molecular Science & Engineering, Quantitative & Systems Biology, Social & Cognitive Sciences, and World Cultures. New majors for fall 2006 are: Chemical Sciences, Mathematical Sciences, Materials Science & Engineering, Mechanical Engineering, and Physics.

The distinctive stamp on research at UC Merced has begun in its signature organizations, the Sierra Nevada Research Institute, the Energy Center, and the World Cultures Institute. Topics currently under study include hydrology, solar power technologies, and migrant peoples. A fourth institute for systems biology is under discussion. As with the academic programs, UC Merced's research institutes will foster collaboration across disciplinary lines—the relationship between environmental science and environmental policy is an obvious example, especially for the Central Valley. Partnerships with other UC campuses and with entities such as Lawrence Livermore National Laboratory, Sequoia and Kings Canyon National Parks, and Yosemite National Park enhance education and research at UC Merced.

UC Merced's goal is to be the premier student-centered research university of the 21st century. The integration of student life with the academic enterprise in a technologically advanced setting has the potential to transform the lives of generations of students, and to set a standard for preparing students for the requirements of a high-technology economy and society.

Economic Development

UC Merced already serves the San Joaquin Valley as an economic engine, and it will continue to gain importance in this role. As a major employer and user of services, the campus continues to be a significant and growing contributor to the

regional economy. Over the last five years, UC Merced has contracted for \$57 million in business services and products with Central Valley companies. The capital budget at UC Merced for all current projects as well as projects in design totals \$400 million, much of which is in construction; about 2,800 workers, 78% of whom are Central Valley residents, have participated in the construction of the campus site.

For its general operations, UC Merced directly employs more than 300 people. Federal research dollars awarded to UC Merced, which would otherwise not come to the Central Valley, total \$15 million and will continue to grow. Through its public service programs, such as its lead role in the region's Small Business Development Centers, UC Merced advances and supports employment growth and business expansion. Most important, as an academic institution, the campus will produce an educated workforce that will benefit the region and the State of California for years to come. In all of the other nine regions currently hosting a UC campus, the economic benefits are profound and it is clear that will also be the case in the Central Valley and Merced.

Facilities

UC Merced has integrated environmental stewardship into its ongoing planning for the design, construction, and operation of the Merced campus. UC Merced is already a model for responsible and sustainable development in the Central Valley. All of the campus's buildings will be energy efficient, and the campus will continue to provide leadership through workshops and seminars on sustainability and environmental stewardship, sharing and promoting its experiences throughout the University and the nation.

Phase I development of the campus includes several facilities to support the academic and residential life of its students. The campus currently has three academic buildings, a central plant facility, and a student housing and dining facility that houses 600 students. New projects that will begin construction during 2006 include a second student housing project to house 400 students (opening fall 2007), a recreation and wellness facility and a building to house safety and support operations. Currently in planning are a social sciences and management building and a second science and engineering building, which are targeted for completion within the next five years. Offices and laboratories at the Castle facility will continue to be used to house new faculty, and for specialized teaching and research labs.

Supplemental One-Time Funding

Supplemental funds are required in 2006-07 for faculty salaries and recruitment costs, as well as instructional technology, library materials, and expanded general support needed to fully operate the campus. As specified in the Higher Education

Compact with Governor Schwarzenegger, the State will continue to support one-time funds needed for initial development of the UC Merced campus, until the campus reaches a level of enrollment (5,000 FTE students) sufficient to generate an adequate level of workload funding, anticipated to be in 2010-11. The State is providing \$14 million in one-time funds during 2005-06. The amount of one-time funds provided for 2006-07 will be negotiated as part of the budget process.

State Support for Summer Instruction

Year-round State funding for instruction is a key strategy for accommodating the enrollment growth campuses will continue to experience through the end of the decade. The 1999 enrollment plan indicated that UC would need to accommodate an additional 63,000 FTE by 2010-11 to meet the needs of the State. The expansion of campus capacity during the regular academic year and the opening of UC Merced will accommodate about two-thirds of this growth. However, due to campus long-range development capacity constraints, the University will not be able to achieve its 2010-11 enrollment target without funding for expanded summer enrollments. Expansion of summer enrollments both makes more efficient use of facilities and accelerates time to degree for undergraduates, thereby making room for more students during the regular year.

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 entirely from student course and registration fees set by each UC campus and enrollment was limited because these constrained resources allowed only a narrow range of course offerings and support services and only minimal financial aid. The University began converting summer instruction from a self-supporting to a State-supported program in Summer 2001.

With full funding for summer programs on all UC general campuses, by 2010-11 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. This level of summer enrollment reflects the University's goal of achieving enrollment in summer and in off-campus programs that is 40% of the enrollment in a regular term.

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. As a result, student summer fees became equivalent (on a per-unit basis) to those charged during the regular academic year at all UC campuses. For 2001-02, the State provided summer workload funding of \$20.7 million for three UC campuses (Berkeley, Los Angeles, and Santa Barbara),

allowing them to expand course offerings and provide a level of academic support as well as State and University-funded financial aid during the summer that have helped improve graduation rates, shorten time to degree, and relieve impacted courses during the regular academic year. For 2002-03, the State provided summer workload funding of \$7.4 million, adding the Davis campus 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. During 2005-06, the University allocated enrollment growth funding to support half of the summer enrollment at the Irvine, Riverside, San Diego and Santa Cruz campuses, approximately representing the growth in summer enrollments at these campuses since the summer conversion began. The remaining half will be funded with enrollment workload funding provided in 2006-07.

In the four years from Summer 2000 to 2004, the University expanded its summer enrollments by 5,900 FTE students (an increase of about 27,000 summer headcount students) to 12,760 FTE, as shown in Display 5. Summer enrollments at the four campuses that were fully funded by the State grew about 97%, or more than 4,100 FTE students, achieving total enrollment of 8,435 FTE (40,000 headcount enrollment). Summer enrollments at the remaining four campuses (Irvine, Riverside, San Diego, and Santa Cruz) have also grown significantly since 2000. Between Summer 2000 and Summer 2005, enrollments grew 71%, achieving total enrollment of 4,300 FTE (25,000 headcount enrollment). This growth reflects the good faith efforts of the campuses to improve access to critical courses and speed graduation, despite the delay in funding for summer instruction.

Display 5

Full-time Equivalent Summer Enrollment (UC-Matriculated)							
	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>% Increase 2000 to 2005</i>
<i>Fully-funded</i>							
Berkeley	1,390	1,925	2,126	2,282	2,155	1,950	40%
Davis	824	933	1,533	1,885	1,842	1,935	135%
Los Angeles	1,222	2,099	2,515	2,608	2,525	2,500	105%
Santa Barbara	854	1,446	1,689	1,793	1,902	2,050	140%
<i>Subtotal</i>	4,290	6,403	7,863	8,568	8,424	8,435	97%
<i>Partially Funded</i>							
Irvine	971	1,240	1,482	1,803	1,552	1,475	52%
Riverside	430	636	829	963	913	923	115%
San Diego	775	906	1,085	1,159	1,219	1,245	61%
Santa Cruz	351	502	584	643	638	684	95%
<i>Subtotal</i>	2,527	3,284	3,980	4,568	4,322	4,327	71%
TOTAL	6,817	9,687	11,843	13,136	12,746	12,762	87%

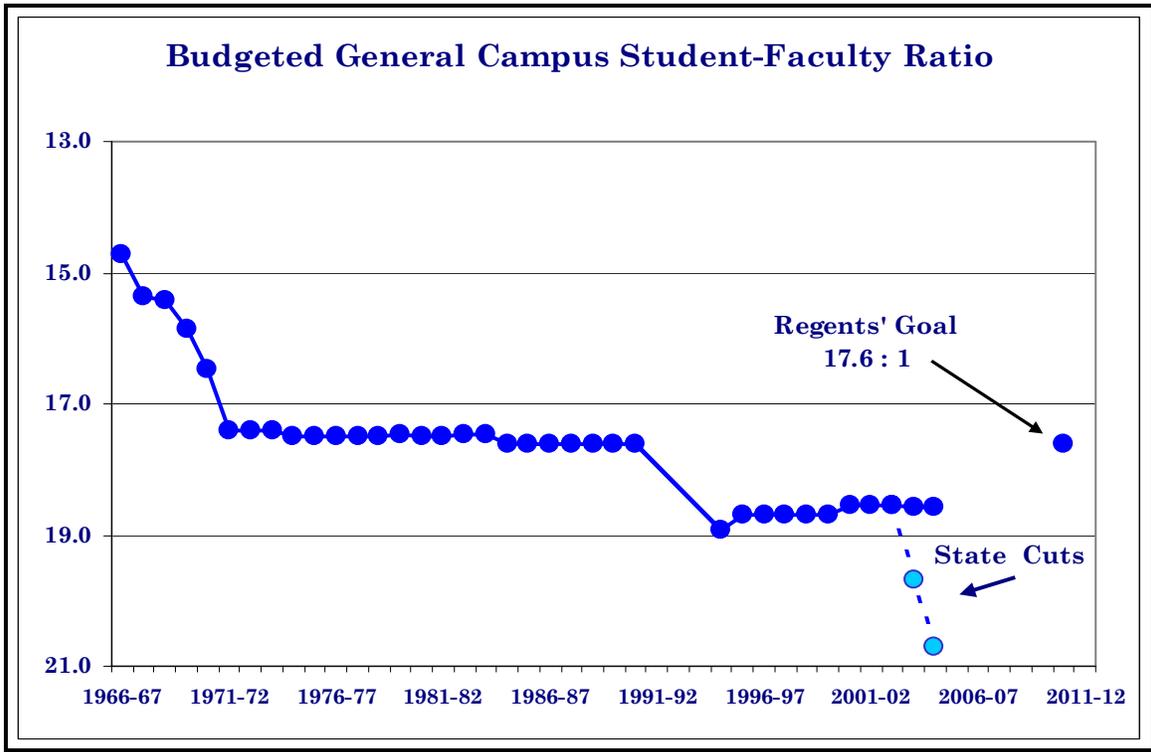
The key to achieving significant enrollment growth in the summer is to offer students summer instruction that is critical to student progress, along with essential student support services, access to libraries, and student financial aid. Compared to funded campuses, the four campuses that do not yet receive State funding for summer instruction provide minimal financial aid, have less funding available for student services, and hire fewer regular-rank faculty to teach in the summer. In addition, without State funding, these campuses cannot afford to offer the breadth of courses available during the summer to students at the funded campuses, preventing campuses from maximizing efficiency and student progress toward the degree. These funding discrepancies also create inequities for students across the system.

Improving Instruction

During the State's fiscal crisis over the last several years, the University has taken a series of budget cuts in academic programs. In 2002-03, funding for core needs (instructional equipment replacement, instructional technology, libraries, and operation and maintenance of plant) was reduced \$29 million. In 2003-04, the Governor's Budget included a \$34.8 million reduction in State funds targeted at increasing the University's student-faculty ratio; however, this cut was instead taken by the University as an unallocated reduction. In 2004-05, the Governor proposed a further 5% increase in the student-faculty ratio accompanied by a budget cut of \$35.3 million. Again, this cut was taken as an unallocated reduction, but by necessity, these cuts mean campuses do not have adequate funds to hire sufficient numbers of faculty or to address continuously more critical areas of instructional and other core support needs. Such budget reductions make it difficult for campuses to maintain levels of instructional support necessary to provide a high quality education.

As noted above, in the last several years, the University has rejected proposals to increase further (e.g., degrade) the student-faculty ratio. Preserving and ultimately improving the student-faculty ratio at the University is among the highest priorities of The Regents. Currently, the University's student-faculty ratio compares unfavorably to its eight comparison institutions, which average 17.0:1 at the public institutions and 10.4:1 at the private institutions. Before the cuts of the early 1990s, the University's student-faculty ratio was 17.6:1, as shown in Display 6 (next page). In 1994, the University and the Legislature agreed to phase in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University's budgeted enrollment; the Legislature adopted supplemental budget language to this effect. This represented a significant deterioration in the budgeted ratio, equivalent to 500 FTE faculty members, similar to the erosion that occurred in the late 1960's.

Display 6



Improvement in student-faculty ratios would permit the University to offer both smaller class sizes in some subjects, thereby improving the quality of the educational experience, and a wider range of courses, which will help students complete requirements and graduate more quickly. A sufficient student-faculty ratio also increases opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service.

With funding provided in 2005-06 as part of the Compact, the University committed \$10 million toward restoring instructional resources; during 2006-07, the University will commit another \$10 million. These funds will be used to strengthen the student-faculty ratio by restoring funds cut from the instructional budget in recent years. These funds are necessary to maintain the current budgeted ratio of 18.7:1. As discussed in the *Summary of the 2006-07 Budget Request* chapter, additional funding to strengthen the student-faculty ratio is one of the priorities for restoring UC academic quality. Of the \$500 million total funding needed, \$60 million would be designated toward strengthening the student-faculty ratio. Ultimately, it is the goal of the University to achieve a long-term student-faculty ratio of 17.6:1. Faculty instructional workload policies at UC are similar to those at comparison institutions. It is critical for the quality of UC programs to maintain current workload policies to help the University stay competitive in its efforts to recruit and retain the highest quality faculty. The future

of California is dependent on the ability of the University to remain competitive with the best universities in the nation. Over the last three years, the University has been reviewing its methodology for measuring faculty instructional effort. A forthcoming report of the Task Force for the Implementation of Faculty Instructional Workload Reporting Policy will recommend a new approach to describing and reporting faculty instructional workload that more fully captures the broad range of faculty instructional activity for which students receive course credit.

Science and Math Initiative: California Teach

The Compact with Governor Schwarzenegger identified a critical shortfall in the number and quality of K-12 teachers in science and math in California. As the State's premier science and technology research institution, with highly regarded graduate and undergraduate science and math programs, UC is uniquely positioned to work in partnership with the State, K-12, and the business community to help reverse this trend. The Compact called on the University to develop, in collaboration with the California State University, a major initiative to improve the supply and quality of science and math teachers in the State of California and thus help provide the skilled workforce that California will require if it is to remain an economic leader in an increasingly more competitive global economy.

In response to the needs of California, UC and CSU are launching a new program, "California Teach," to improve the quality of K-12 science and mathematics teachers in California. Not only will this program help California remain competitive in an increasingly knowledge-based global economy, it also may serve as a national model to help the U.S. meet its workforce needs in science, technology, engineering, and mathematics (STEM).

The University's program, *One Thousand Teachers, One Million Minds*, will quadruple the number of UC graduates who go on to teach K-12 science and mathematics by 2010, annually providing California with more than 1,000 additional highly qualified math and science teachers. To achieve this goal, UC's program will:

- provide every UC student with the opportunity to complete a UC STEM major and the required courses to become an "intern credentialed" K-12 teacher in California within four years;
- introduce undergraduates to the K-12 classroom as freshmen and sophomores through mentored classroom assistantships and seminars taught by UC faculty and K-12 Master Teachers;
- provide new intensive summer institutes that will help students develop the skills required to be the most effective teachers in a specific STEM subject area;

- prepare teachers throughout pre-service, service, induction, and professional development experiences to become National Board Certified Teachers.

The new UC program will help address California's severe shortage of highly qualified mathematics and science teachers. Recent data illustrate the seriousness of the problem.

- National testing data (Trends in International Mathematics and Science Study) reveal that California's children are among the worst in the U.S. in their knowledge and abilities in both mathematics and sciences. U.S. children are falling further behind children of other countries in their knowledge of and abilities in mathematics and sciences. This is a national prosperity and competitiveness issue that requires urgent action and a plan to correct these deficiencies.
- Statewide, 25-35% of California's science and mathematics teachers either have no credentials or are not qualified, i.e., they have neither a major nor minor in the subject area they are teaching. The situation is much worse in lower performing schools where as many as 80% of science and mathematics teachers are not qualified.
- Currently nearly 25,000 teachers in California are teaching with emergency credentials. These teachers will not be employable after 2006 due to requirements in federal No Child Left Behind legislation.
- Projections indicate that more than 30% of California's teacher workforce will be eligible to retire in the next decade.
- For the first time in many years, California experienced a decrease in the number of credentialed teachers entering its workforce in 2005-06.
- This year, California has a shortage of more than 2,000 mathematics, 1,000 life sciences, and 1,000 physical science teachers.
- Little or no science is being taught in California's K-5 classrooms.

The University of California is uniquely positioned to help California meet its shortage of science and mathematics teachers. UC is known internationally for its outstanding STEM education and research programs, and it awards nearly 50% of all California STEM baccalaureate degrees annually (more than 10,000). In addition to producing highly qualified science and math teachers, the new California Teach program may also help increase retention of UC students in sciences, mathematics, and engineering and increase the participation and retention of students from diverse social, ethnic, and racial backgrounds in the sciences, mathematics, and engineering programs. The new UC program is the largest program of its kind in the U.S. and may well serve as a model for other research universities. The California Teach program is being launched on 8 of the 9

UC general campuses in 2005-06; the 9th campus will launch the program in 2006-07. During 2005-06, campuses will recruit and provide opportunities for freshmen to serve in elementary classrooms. In addition, individual campuses, their academic senates, and the systemwide UC Academic Council will work in concert to define curricula. In 2006-07, participating campuses will provide the early freshman field experience for students as well as a similar program for the sophomore students in middle school classrooms. During subsequent years (beginning in the summer of 2007), the University will launch the UC-wide summer institutes; development of curricula for these summer programs will begin during the 2005-06 academic year.

In 2005-06, the State provided \$750,000, which was matched by \$750,000 in University funds, to support the initial infrastructure needed to implement the new initiative. These funds are being used to develop resource centers on UC campuses to operate the program.

In addition, UC has obtained funding from California business and industry to support freshman student field experiences and support of both mentor supervising teachers and Master teachers. Fundraising for the initiative has already topped \$4 million. In the initial year of this program, the University has budgeted funds to support 600 classroom assistants, 300 mentor teachers, and 20 master teachers. Corporations that have provided funds to support this portion of the program have done so to support “named” classrooms. For example, Intel has provided enough funding for nearly 100 Intel classrooms—providing support for a pair of UC classroom assistants and a mentor teacher for each classroom. In addition, two campuses have been successful at obtaining funds for endowed chairs for faculty directing or participating in the new California Teach program. Additional fundraising for more classrooms and to support the summer institutes is ongoing.

The State also authorized an additional 300 APLE warrants (Assumption Program for Loans for Education) during 2005-06, which provide loan forgiveness funds for teachers. While the existing APLE program gives priority to teachers in math and science, the University is seeking language in the statute designating that the increased warrants are specifically for participants in UC’s and CSU’s science and math initiatives. The Governor has indicated his intention to support such legislation in the coming year.

The University is requesting \$375,000 from the State in 2006-07, which is the remaining increment of funding needed for the initial infrastructure for the program. The University will again match these funds, for a total State investment of \$1.2 million, and a total for the infrastructure, including University funds, of \$2.4 million. The University will also seek authorization of additional APLE warrants for 2006-07 to match the growth in the number of program participants.

Maintaining Freshman Student Access

The University is maintaining its commitment to the Master Plan for Higher Education to provide a place on one of the UC campuses for all eligible California applicants who wish to attend. Campuses received applications for Fall 2005 admission from more than 65,000 California high school seniors, and the University expects approximately 31,000 new California freshmen to enroll during 2005-06.

Eligibility Policies

Consistent with the Master Plan for Higher Education, UC's policy is to provide access to students in the top one-eighth (12.5%) of the state's public high school 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. Currently, the University offers three paths to eligibility as a freshman:

- Eligibility in the statewide context 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 for "a-g" courses), and a combination of scores on the ACT Assessment Plus Writing or the SAT Reasoning Test, and two SAT Subject Tests (formerly SAT II: Subject Tests), effective Fall 2006.
- Eligibility in the Local Context (ELC, or the 4% path), was implemented for the first time for students entering in Fall 2001. Students who complete the required "a-g" courses and standardized tests and who rank within the top 4% of their class (based on GPA earned in "a-g" courses) are UC-eligible under this path.
- Alternatively, students may achieve eligibility based on test scores alone, although less than 1% of UC students become eligible solely through this path. Effective for students applying for admission for Fall 2006, to be eligible by examination alone, a student must achieve a total score of at least 3450 on the SAT Reasoning Test and two SAT Subject Tests, with a minimum score of 580 on each individual exam. Students taking the ACT test must earn a minimum of 25 on each for the four ACT subparts as well as a minimum of 580 on each of the two SAT Subject Tests.

The requirements listed above reflect changes in the University's standardized testing policy that take effect for students applying for Fall 2006. Beginning in 2002, both the ACT and SAT national admissions examinations were reviewed and revised in response to questions raised by the University. The revised tests were offered for the first time in the spring of 2005 and, effective with the upcoming admission cycle, UC will accept scores from the revised examinations only. Additionally, because material previously covered in the former SAT II: Subject

Tests is now incorporated in the new tests, UC has reduced from three to two the number of required subject examinations and will allow students to submit scores in their choice of two different discipline areas. UC intends to review the results of the new examinations over the course of the next several years to determine whether the new examinations are consistent with the recommendations for appropriate admissions tests made by UC's Board of Admissions and Relations with Schools (BOARS).

On an annual basis, the University monitors key demographic and financial indicators, as well as policy changes that affect enrollment. In May 2004, the California Postsecondary Education Commission (CPEC) completed a new high school eligibility study, based on 2003 high school seniors, which indicated that 14.4% of California public high school graduates were eligible for the University. In spring 2005, CPEC also completed an eligibility study for the graduating class of 2001, which showed that 14.2% of 2001 graduates were UC-eligible, essentially confirming the 2003 results. In order to keep the pool of UC-eligible students consistent with the target set in the Master Plan, effective for applicants for Fall 2005, the University tightened two of its rules for determining whether students are eligible for freshman admission. UC now calculates students' grade point averages (GPA) on all UC-required "a-g" courses taken in the 10th and 11th grades and requires ELC students to complete all course and testing requirements in order to be considered eligible. In addition, effective for students entering in Fall 2007, students will need to achieve a GPA of at least 3.0 to qualify for eligibility in the statewide or local (ELC) context. The President and the Board of Regents have agreed that, once data on the new standardized tests become available in 2006, BOARS will conduct additional analysis and return with further recommendations, if needed, to align the size of UC's eligibility pool to a figure consistent with the Master Plan.

The University remains committed to the Master Plan, which, following recent extensive reviews by the Legislature, continues to state the principle that UC should admit students from the top 12.5% of California's public high school graduating class.

Admission Policies

The University remains committed to offering a place to all eligible California high school graduates and eligible California 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. The comprehensive review process took effect for the class applying for freshman admission for Fall 2002.

Applicants admitted under comprehensive review continue to be high-achieving students. 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.

Transfer from California Community Colleges to UC

The Master Plan for Higher Education designates the missions for all three public higher education segments and affirms the principle that educational opportunities should be available to all students to help them meet their full potential. For those students not eligible or unable to attend a four-year university, the ability to transfer from a California Community College (CCC) to a four-year institution for their upper division coursework maintains that commitment to educational opportunity for all, whatever their individual circumstances may be. Therefore, the Master Plan calls for UC to accommodate all eligible CCC transfer students, and specifies that the University maintain a ratio of 60% upper division to 40% lower division within its undergraduate class. The University has exceeded the upper division enrollment goal in recent years because of its strong commitment to improve and enhance the transfer function, and maintaining its commitment to the Master Plan. Since 1998-99, full-year transfer enrollment growth has grown 23%. In 2004-05, UC enrolled 13,080 new CCC transfer students, and the upper division-lower division ratio stands at 64:36.

Key elements for a successful transfer function include clearly-defined eligibility and selection criteria; availability of academic and financial aid counseling and advice from both CCC counselors and UC transfer advisors; and complete, accurate, timely, and available course articulation information identifying which California

Community College courses are transferable to UC and how individual courses will advance students to a baccalaureate degree. The University continues to make efforts in all three of these areas to help promote transfer student access to UC.

Transfer Eligibility

Applicants seeking admission to UC as transfers may meet eligibility requirements in one of three ways:

- Students who were eligible for admission to the University when they graduated from high school—meaning that they satisfied the Subject, Scholarship, and Examination requirements, or were identified by the University during their senior year in high school as eligible under the Eligibility in the Local Context (ELC) Program and completed the remaining eligibility requirements (including the Subject and Examination requirements)—are eligible to transfer if they have earned a 2.0 GPA in transferable CCC coursework.
- Students who met the freshman GPA and examination requirements, but who lacked one or more of the "a-g" courses required for freshman admission must successfully complete transferable college courses in the required subjects, earning a grade of C or better, and have an overall GPA of 2.0 in all transferable CCC coursework.
- Students who were not eligible to enter the University when they graduated from high school because they did not meet the Scholarship requirement must complete 60 semester (90 quarter) units of transferable coursework with a GPA of 2.4, and complete seven specific transferable courses with a grade of C or better in each course, including two courses in English composition, one course in mathematical concepts and quantitative reasoning, and four courses chosen from at least two of the following subject areas: the arts and humanities, the social and behavioral sciences, and the physical and biological sciences.

Admission as a Transfer

All UC campuses are open to new transfer students for each fall term. Campus capacity for transfer students entering in the winter and spring terms varies from year to year. While some campuses may be open to all transfer applicants, others may be limited to a select number of majors or to only those applicants with transfer admission agreements, or may have no capacity at all in later terms. CCC transfer applicants who are California residents and who have met UC's eligibility requirements and lower division major requirements are given top priority in admission at all campuses. As with freshman applicants, campuses use comprehensive review criteria for transfer applicants to select students for admission to majors and campuses (as discussed earlier in this chapter). When the number of eligible transfer applicants exceeds the space available for new transfer students, campuses consider a set of eight criteria, including both academic factors and additional evidence of such qualities as motivation, leadership, intellectual

curiosity and initiative, to select from among the applicants. Academic criteria, including preparation in the student's intended major, are weighted most heavily in the process, but selective campuses draw upon the eight criteria in their review.

Transfer Advising

In order to promote the transfer process, the University provides admission advisors who regularly travel to community colleges to meet with students and staff regarding transfer admission and lower division preparation requirements. Additionally, admission advisors are located on UC campuses and meet with prospective transfer students in group and individual appointments. UC campuses have transfer centers and advisors available to assist new transfer students who enroll at UC. Other faculty, staff, and student peer advisors are available to all students, including new transfers, to help with academic, financial aid, administrative, personal, and other issues.

Articulation

Transfer students must know how the courses they take at a community college will apply toward a degree at a particular UC campus. "Course articulation" refers to agreements between educational institutions that specify how a course a student completes at one institution (e.g., a community college) can be used to satisfy a requirement at a second institution (e.g., a UC campus). Curriculum articulation between CCC and UC campuses is the road map showing how the coursework students complete at a community college satisfies UC's general education, major preparation, and graduation requirements. Course articulation at UC falls into two categories:

- **Universitywide Articulation.** The curriculum of each California Community College is reviewed by the UC Office of the President annually to determine those courses transferable for unit credit to all campuses of the University. The resulting Transfer Course Agreements designate which courses can be transferred for credit to meet University admissions, general education, and graduation requirements. While transferable for unit credit, these courses may or may not satisfy lower division major degree requirements at a particular campus. That determination is made at the campus level.
- **Major Preparation Articulation.** Each UC campus then develops articulation agreements with each CCC campus that designate which courses at the community college are equivalent to courses taught at the UC campus and, hence, will be accepted as transfer credit toward the requirements to graduate in a particular major. Articulation of courses needed for the major is critically important for students planning to transfer to UC.

Course articulation agreements are made available to students via ASSIST, a computerized student-transfer information system that can be accessed over the

World Wide Web at www.assist.org. The ASSIST acronym stands for **Articulation System Stimulating Interinstitutional Student Transfer**. ASSIST is the official repository of articulation for California's colleges and universities and therefore provides the single most authoritative, accurate and up-to-date information available about student transfer in California. ASSIST includes all official course articulation established among California Community College, California State University, and University of California campuses. During 2004-05, more than 700,000 individuals used ASSIST to view 6.7 million course articulation reports.

In recent years, UC has increased the breadth of articulation agreements with California Community Colleges. The Higher Education Compact with Governor Schwarzenegger called for each UC campus to articulate all high demand majors with all 109 California Community Colleges by 2005, and the University has essentially met that goal. All UC campuses are regularly updating articulation agreements with every CCC campus in the state, and all campuses (except Merced) have more than 50 majors articulated on average with the community colleges. Display 7 shows the number of community colleges with which UC campuses have established major articulation agreements (column 3) and the average number of majors articulated (column 4).

Display 7

Major Articulation Agreements			
<i>Campus</i>	<i>Coverage in Campus Service Area</i>	<i>Number of CCCs with Agreements</i>	<i>Number of Majors per Agreement (average)</i>
Berkeley	Complete	109	99
Davis	Complete	109	130
Irvine	Complete	109	65
Los Angeles	Complete	109	52
Merced	Complete	94	8
Riverside	Complete	109	78
San Diego	Complete	109	129
Santa Barbara	Complete	109	90
Santa Cruz	Complete	109	69

In accordance with recent legislation (Senate Bill 1415, Brulte, 2004), the University is studying the issue of common course numbering. During 2005-06, UC faculty and administrators will assess and build upon existing articulation programs in order to achieve the goals of SB 1415. Faculty will develop a plan to present information to students that better informs prospective transfer students preparing for admission to multiple UC campuses. Four primary activities include: (1) identifying similar majors across UC campuses; (2) identifying common requirements within similar majors across UC campuses; (3) identifying gaps in existing articulation for those common requirements; and (4) identifying potential

articulation to fill those gaps based on articulation established by other UC campuses.

Graduate Student Enrollment

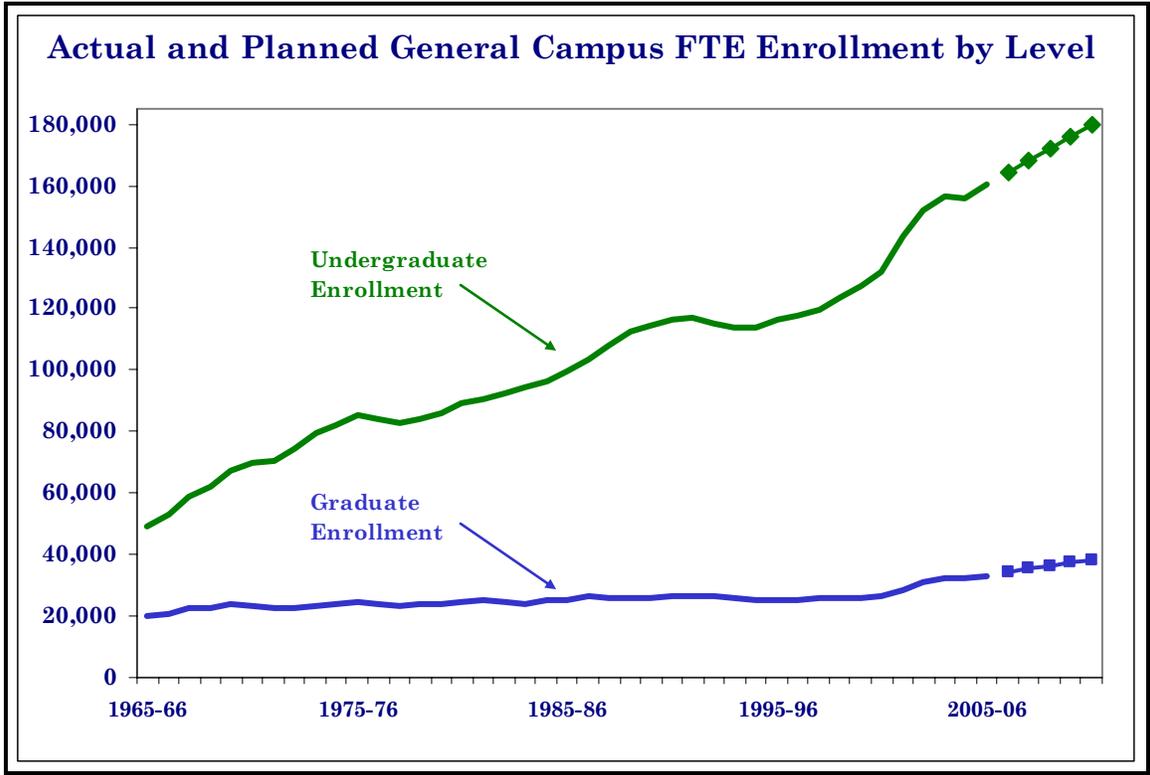
Graduate education and research at the University of California have long fueled California's innovation and development, helping establish California as one of the ten largest economies in the world. Indeed, UC is charged by the California Master Plan for Higher Education with the responsibility to prepare professional and doctoral students to help meet California's and the nation's workforce needs. However, over the last forty years, while well-justified attention has been paid to the accommodation of undergraduate enrollment growth as a result of Tidal Waves I and II, inadequate attention has been paid to graduate growth. For many years, graduate enrollment planning has been largely derivative of plans for undergraduate enrollment.

Despite high-quality programs and many applicants, growth in graduate programs has been limited, creating an imbalance in University programs and failing to meet the State's need. As a result, the University has reached a critical point in graduate and professional education. Unless immediate action is taken to build and expand graduate and professional programs, California's educational, economic, technological, and public welfare needs will not be met.

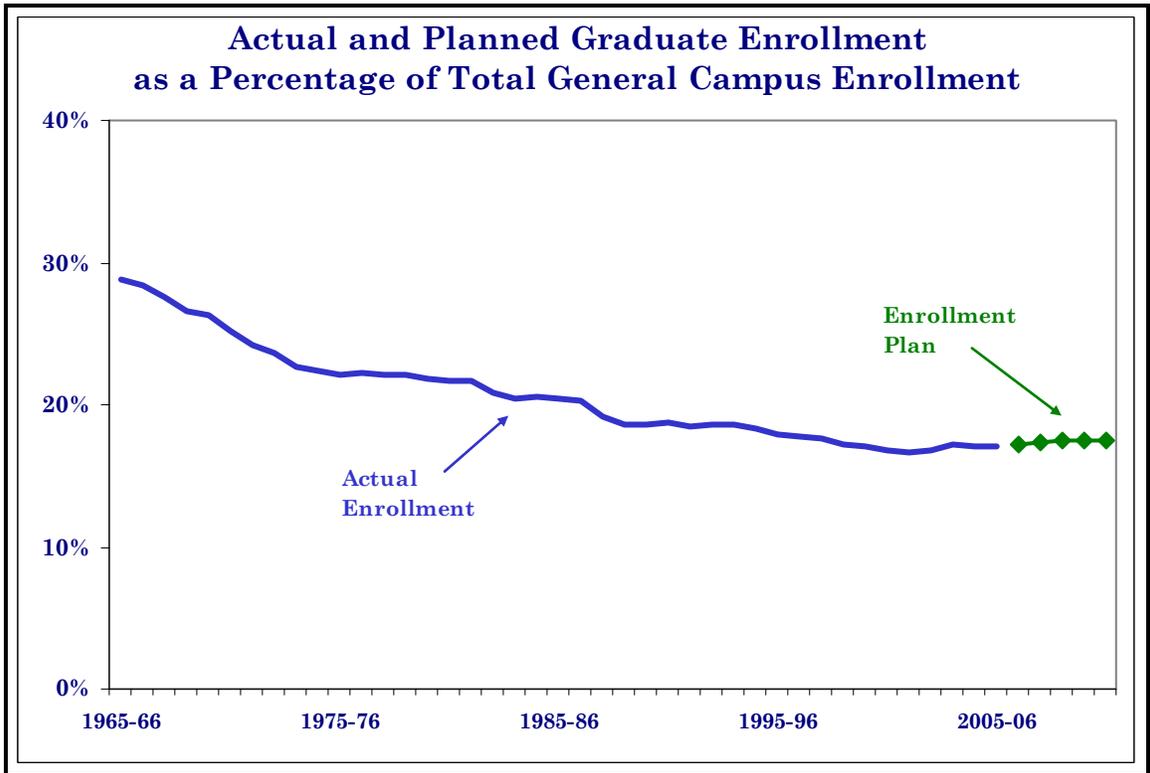
Since 1965-66, UC undergraduate enrollments have grown fairly steadily, from 49,000 FTE to 160,000 FTE, a total of 225% over forty years, to ensure undergraduate access for UC-eligible students, as shown in Display 8. General campus graduate enrollment has grown at a much slower rate, from 20,000 to 33,000 FTE, only 65%, during the same period. In fact, during the 1980s and early 1990s, graduate enrollment did not increase at all; much of this growth occurred during the last five years.

As a consequence of this imbalance, the proportion of graduate students decreased from 28.8% of general campus enrollment in 1965-66 to 16.6% in 2001-02. Display 9 shows graduate students as a percentage of total general campus enrollments (excluding health sciences and self-supporting program enrollments). Although UC's graduate enrollments began to grow again in 1999-2000, by approximately 1,000 FTE students per year, they have largely kept pace with undergraduate growth, resulting in only a slight improvement in the graduate proportion. In 2005-06, the proportion of general campus graduate students is 17.1% and the University's current enrollment plan calls for graduate enrollments to continue to grow along with undergraduate enrollments over the next five years, by 4,700 FTE, raising the proportion of graduate students to 17.5%, still well below the proportion in the 1980s.

Display 8

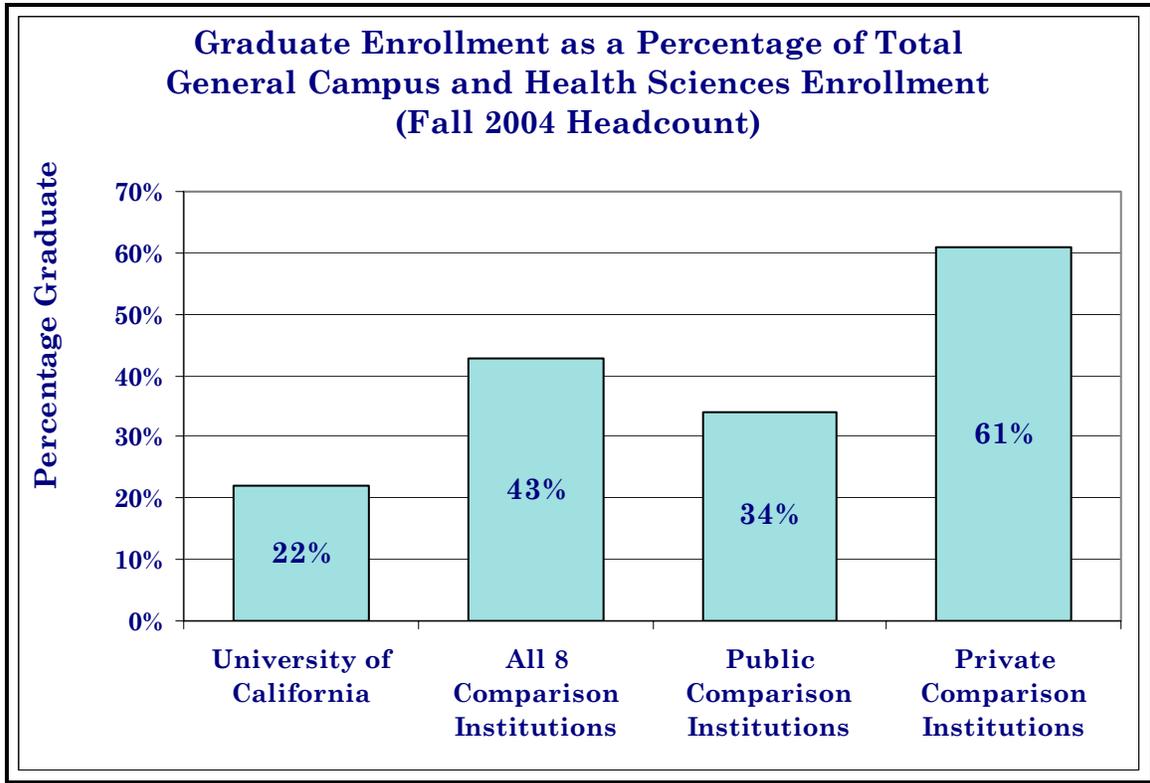


Display 9



UC's graduate enrollment as a percentage of total campus enrollment is much lower than the average percentages at UC's four public comparison universities and UC's four private comparison universities, as shown in Display 10. In fact, UC's graduate percentage is lower than all of the eight comparison institutions. In Fall 2004, 22% of total UC enrollment was graduate students (including health sciences and self-supporting enrollments), compared to 34% at public comparison universities and 61% at private comparison universities.

Display 10



California's under-investment in graduate education can also be seen in degree production by state. California ranked 36th in the United States during 2003-04 in the number of graduate degrees awarded per population age 25-44, below the national average. In addition, California ranked 20th in the U.S. in the number of doctoral degrees awarded per population age 25-44, and compared to other high-technology and science-oriented states, California was 6th out of 10 in the number of doctoral degrees awarded.

UC has fallen behind in graduate enrollments for several reasons. Because of State budget constraints in the 1980s and 1990s, graduate growth was held down to ensure access to all eligible undergraduates who choose to attend UC. But graduate enrollment growth has also been slowed, in many cases, by the inability of graduate students or departments to secure adequate and competitive student financial support. More recently, the University has not been able to respond to

recommendations of the Commission on the Growth and Support of Graduate Education in 2001 due to the State's financial crisis. In fact, dramatic increases in graduate student fees in recent years have exacerbated the problems.

While the University intends to continue to meet its commitment to accommodate all eligible California undergraduates who choose to attend, increasing graduate enrollments is also among the University's highest priorities. Graduate enrollments in high quality programs are critical to the state's continuing economic vitality, as well as its social and cultural development. In addition, UC graduate students play a vital role as future faculty in higher education in California, as well as serving a key function in enhancing the quality of the instructional and research enterprise while enrolled at UC.

Graduate Education and the California Economy

UC graduate education and research have a long history of fueling economic development in California. Starting with UC's founding in the 1800s, research in agriculture and related areas was a primary way the University transferred its knowledge to the public and industry. For example, in 1920, the modern canning industry was born as a result of UC research leading to the discovery of the process for killing the organism that causes botulism. More recently, UC graduate education and research spawned the biotechnology industry and UC graduates have been major movers in the development of the electronics industry, particularly in semiconductors and communications technologies.

California's change from agriculture to a knowledge-based global economy makes investment in intellectual development even more critical. In the coming years, California's economy will need many more highly-educated workers—engineers, scientists, business entrepreneurs, and others whose innovations will drive California's prosperity. In keeping with its charge under the Master Plan, the University will play a key role in helping to meet this need for these technically and analytically sophisticated workers.

Currently, UC plays a major role in California's growing biotechnology and communications industries.

- UC graduate programs directly contribute to California's R&D-intensive industry sectors: 85% of California biotechnology firms employ UC alumni with advanced degrees, and 57% of California communications firms employ UC alumni in executive positions.
- UC's high quality graduate programs attract industry to California. Companies in knowledge-based industries tend to form clusters around major universities to take advantage of access to a pool of specialized workers and to benefit from knowledge transfers from the concentration of research, innovation, and

specialization. UC attracts business: one in four U.S. biotechnology firms is within 35 miles of a UC campus.

UC's contribution toward fulfilling the state's need for intellectual resources is not limited to science and engineering. In addition to the needs of a technologically-based economy, California and the U.S. face many social challenges that require highly-educated individuals to analyze and solve problems as they shape California's future. UC graduate programs in the arts, humanities, social sciences, and professional fields continue to serve these needs.

- Professional and managerial jobs are California's fastest growth occupations, creating thousands of jobs for financial managers, marketing executives, computer scientists, engineers, consultants, nurses, and many other professionals. These professional and managerial jobs typically require at least a bachelor's degree and often a master's or doctorate.
- UC prepares highly-skilled and creative architects, doctors, lawyers, school administrators, public health and public policy analysts, social workers, urban planners, and other professionals who contribute to the state's economic and social well-being.
- Recent reports show that the arts contribute \$5.4 billion to California's economy. Alumni of UC's graduate programs are represented in every sector of the arts world, leading and building programs and creating new ideas. California's entertainment and digital media industries are thriving precisely because of the many writers, musicians, visual artists, and actors the University trains.

Graduate Student Role in California Higher Education

No less important is the crucial role UC graduate students play in higher education in California, both as future faculty at UC, CSU, and other California colleges and universities and as teaching and research assistants while in graduate school.

- Both UC and CSU depend heavily on the graduates of UC's Ph.D. programs: more than 1 in 5 UC and CSU faculty members have a doctoral degree from UC. California colleges and universities will need to hire thousands of new faculty in the coming years, including 6,000 for UC, to teach the growing numbers of undergraduates and to replace retiring faculty. Because many doctoral institutions in other states are not planning graduate enrollment increases, even more of these new college faculty than in the past must come from UC's graduate programs—perhaps as many as one-third of faculty who will teach in California's public and private four-year institutions.
- Growth in graduate enrollments is necessary to maintain excellence in instruction and research, distinctly part of UC's mission. New faculty members are attracted to UC in part because of the high caliber of graduate students with whom they can work. While teaching assistants help meet UC's overall

instructional needs, their primary importance lies in the ways they complement faculty roles: leading small discussion groups and laboratory sections, offering a wider range of perspectives and delivery modes, and serving as mentors for undergraduates.

- Graduate students are also vital to UC's discovery and innovation enterprise. Especially in the sciences and engineering, the research process entails research *teams*, and graduate student researchers, as key members of these teams, have been central to the creative breakthroughs that have made UC one of the world's greatest universities. Graduate students further amplify UC's research contributions by enabling greater involvement of undergraduates in primary research; graduate students supervise and mentor undergraduates engaged in research projects.

In addition to meeting the needs of the state's economy and higher education and maintaining the quality of the University, graduate enrollments must increase in order to extend the access provisions of the Master Plan to education at the graduate level. In the 21st century, access to an undergraduate education is no longer sufficient. While recent increases in undergraduate enrollments have served to provide access for Tidal Wave II, members of this second wave will seek to further their educations beyond the baccalaureate level in the coming years. Following the extraordinary growth in high school graduates during the current decade, the population age 25-34 in California will grow 17% between 2010 and 2020. As a result, demand for graduate education will increase substantially, particularly from the University's own baccalaureate graduates: 83% of UC undergraduates state a desire to earn a graduate or professional degree. The University has an obligation to provide Californians with the opportunity to achieve at the highest levels.

Recognizing the need to increase graduate enrollments, the University is developing a strategy on multiple fronts, including the creation of a Universitywide working group to identify emerging fields for which graduates trained at the doctoral or professional level will be needed and to assess unmet student financial support needs. In early 2005, President Dynes established the systemwide Task Force on Planning for Doctoral and Professional Education. The Task Force is charged with identifying existing fields in which workforce studies are needed to assess authentic State needs for graduates with doctoral or professional training as well as identifying emerging fields in which UC will be expected to play a leading role in preparing a workforce with doctoral training in order to sustain the State of California's lead as an international economic force. In addition, through conversations with campus communities as well as business and other leaders, the Task Force will examine the broad question of what graduate education at the University should be, including how to maintain quality and better prepare graduate students for the changing work environment.

Graduate Student Support

As mentioned earlier, a key problem inhibiting growth in graduate enrollments is the availability of financial support for graduate students. In order to attract the best graduate students, the University must provide competitive financial support to students. Securing adequate support for graduate students was identified by The Regents as one of their highest priorities, following the release of the report of the Commission on the Growth and Support of Graduate Education in 2001. The Commission noted that UC's support of graduate students was not competitive with the support offered by other institutions and that by 2010 a \$65 million annual gap between funding and student support need would exist unless new initiatives to increase federal, State, private, and University support were formed.

This conclusion was supported by surveys during 2001 and 2004 in which students admitted to University academic doctoral programs were asked about the financial support offered by UC and by their top-choice non-UC institution. Both surveys found that UC financial support offers made to these students were not competitive with offers from other institutions.

The Commission's report was released during a time of relative prosperity for California and for the University. The State's budget crisis over the last several years has exacerbated the problem of inadequate graduate support. The State imposed reductions to the University's budget and required graduate fee increases totaling 45% between 2001-02 and 2003-04. Other costs, including campus fees and graduate health insurance premiums, increased as well. In addition, the current outlook for graduate student support from State, federal, and private funding sources is less positive than it was a few years ago. Consequently, the University faces a growing imbalance between the demand and supply for graduate student support that, if left unchecked, will further compromise the University's ability to compete successfully for talented students and, in turn, will seriously compromise UC's ability to attract and retain high quality faculty.

The University has initiated several steps toward improving support for graduate academic students, including increasing the return-to-aid from new graduate academic student fee revenue from 20% in 2004-05 to 50% in 2005-06. The University proposes to maintain this 50% return-to-aid level in 2006-07, although because of the need to restore \$1.5 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04, the net return-to-aid from graduate academic fee increases will be 45%.

In addition, the University proposes to require campuses to use anticipated savings in State General Fund and student fee revenue expenditures produced by UC's Strategic Sourcing Initiative for graduate student support. Launched during 2003-04, the Strategic Sourcing Initiative is a disciplined process intended to leverage the University's enormous buying power in the marketplace, increase

purchasing efficiency in the organization, and lower the cost of goods and services in a large array of categories. Strategic sourcing will benefit the entire University of California system and will yield substantial cost savings during these fiscally challenging times. The initiative offers UC the potential to save as much as \$150 million over the next five years from all areas of the University, including the campuses, medical centers, and national laboratories. It is anticipated that such savings in State General Funds and student fees could generate \$10 million for graduate student support in 2006-07, growing to \$40 million over time. Savings achieved in other fund sources will be needed to fund increases in salaries, retirement contributions, health benefits, and non-salary expenses for programs funded from those sources. The Strategic Sourcing Initiative is discussed further in the *Institutional Support* chapter of this document.

A second working group, the UC Systemwide Competitive Graduate Student Financial Support Advisory Committee, has been formed to focus on graduate student support issues. The issue of graduate student support is discussed further in the *Student Financial Aid* chapter of this document.

Engineering and Computer and Information Sciences Initiative

The University is well-recognized for its role in California's economic growth and competitiveness. A significant component of this role is helping to meet the State's need for a highly-trained workforce. Although the high-tech sector suffered a temporary economic slowdown, the demand for engineers and computer scientists has not declined and is projected to grow in the long term. This situation is of special concern in California because high-tech industries will remain a driving force in the growth of the State's economy. California's technology-oriented companies 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 8-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 plan. In 2005-06, the University estimates enrollment in these fields will reach nearly 27,000 FTE. Between 2000-01 and 2003-04, the number of bachelor's degrees awarded by the University in engineering and computer and information sciences grew by 31%, while the number of master's degrees awarded in these fields grew by 49%.

Despite this growth, California's educational system is not producing the science and engineering graduates needed to meet industry's growing requirement for skilled workers. California has over 16% of the nation's high-tech jobs, yet it grants less than 9% of the nation's science and engineering (S&E) baccalaureate degrees, the degree required by more than 50% of California S&E jobs, according to a 2004 Milken Institute Report. Collectively California universities produce about 20,000 S&E baccalaureate degrees annually, resulting in a shortfall of more than 14,000 workers with S&E degrees, according to a 2002 report by the California Council on Science and Technology. Because of increasing demand from industry and the University's responsibility to fulfill the State's need for highly-qualified scientists and engineers, UC intends to continue growing in engineering and computer and information sciences. The University is also developing additional programs in the areas of biotechnology, information technology, and nanotechnology, which are expected to lead to the next wave of discovery and innovation.

Initiative to Expand Education Credential and Leadership Programs

The University is committed to increasing its role in the training and preparation of K-12 teachers. In response to the State's need for more teachers, UC more than doubled its education credential enrollment, from 1,000 FTE students in 1998-99, enrolling 2,200 FTE students in education credential programs during 2004-05. This growth comprises graduate students who are concurrently pursuing their master's degrees in education and their teaching credentials.

In addition to increasing the number of qualified teachers graduating from UC, the University of California recognizes the state's need for more and better-qualified individuals to assume leadership positions in K-12 and the community colleges and is committed to taking a prominent and active role in meeting those needs. UC is expanding existing programs and creating new doctoral degree programs in education at UC and in collaboration with CSU through joint degree programs. To ensure that the Ed.D. degree is available throughout the state and that the programs are offered in a manner that makes them accessible to working professionals, in 2001 UC and CSU established a Joint Ed.D. Board to oversee the development of joint CSU/UC Ed.D. programs. In 2004-05, programs operating involved the Berkeley, Davis, Irvine, San Diego and Santa Barbara campuses and 11 CSU campuses. In 2005-06, additional programs are opening at Davis and Santa Cruz involving four more CSU campuses. A program at the Riverside campus, in partnership with four CSU campuses is undergoing review, and a program at the Merced campus is in the early planning stages.

CSU has recently been given authority (Senate Bill 724, Scott, 2005) to grant a specifically-defined doctorate in educational leadership independent of UC. This exception to the Master Plan may result in changes to the joint programs. Nevertheless, the University remains committed to preparing educational leaders to serve the K-12 segment and higher education and the University will move forward with current and developing joint programs as well as explore other options for new programs in the future.

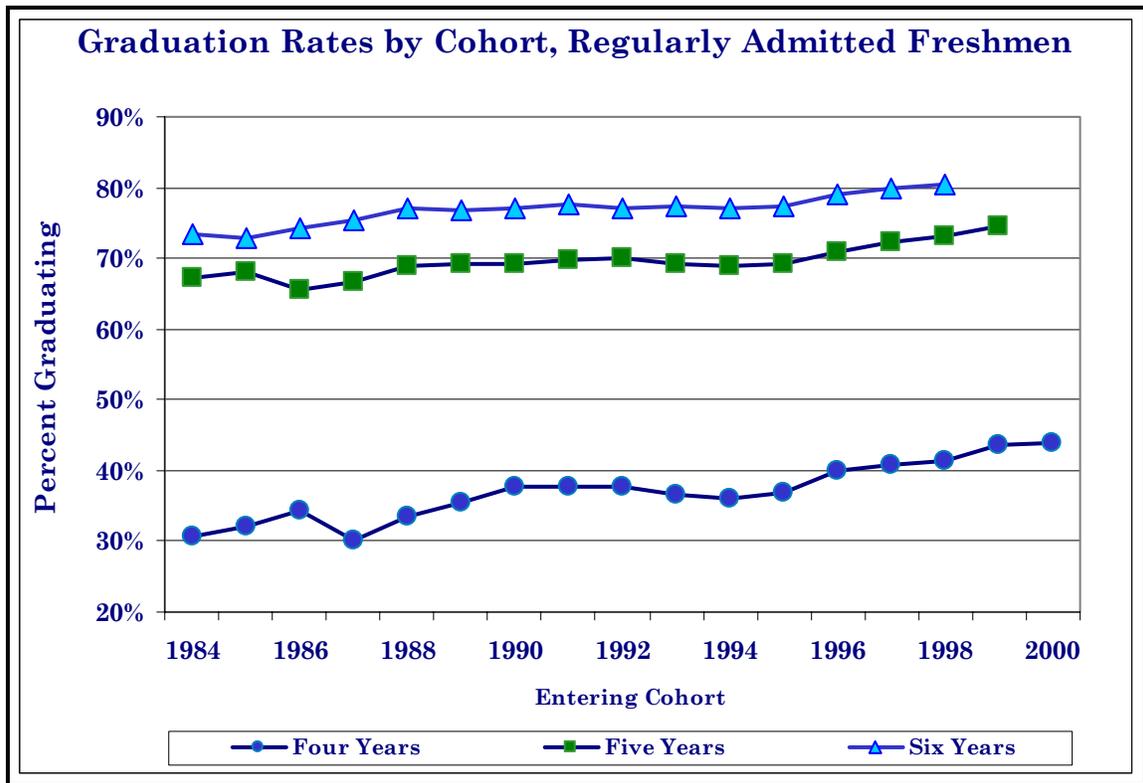
Timely Graduation

The University remains committed to maintaining its excellent record of improving graduation rates and reducing time to degree among all students. For UC undergraduates, 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 12.9 for the 1997 cohort (the most recent data available).

About half of the regularly-admitted, UC freshmen graduate in 12 or fewer registered quarters; they are able to do this by taking full academic loads each year and by not exceeding the 180 units required for graduation. 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. In addition, some students take more time by taking lighter loads in some terms, often because they are working part-time. In recent years, campuses have worked to increase the average number of units taken during a term and reduce excess units taken over a student's career, enabling more students to graduate in four years and making room for other students.

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 four years, 67% in five years, and 73% in six years. Graduation rates continue to rise among more recent cohorts, as shown in Display 11 (next page). Among freshmen who were regularly admitted in 1998, 42% graduated in four years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 73% of the 1998 entering freshmen earned a baccalaureate degree within five years and 80% within six years. UC graduation rates far exceed the national average: among first-time students entering four-year institutions nationwide, only 58.4% earn bachelor's degrees within six years.

Display 11

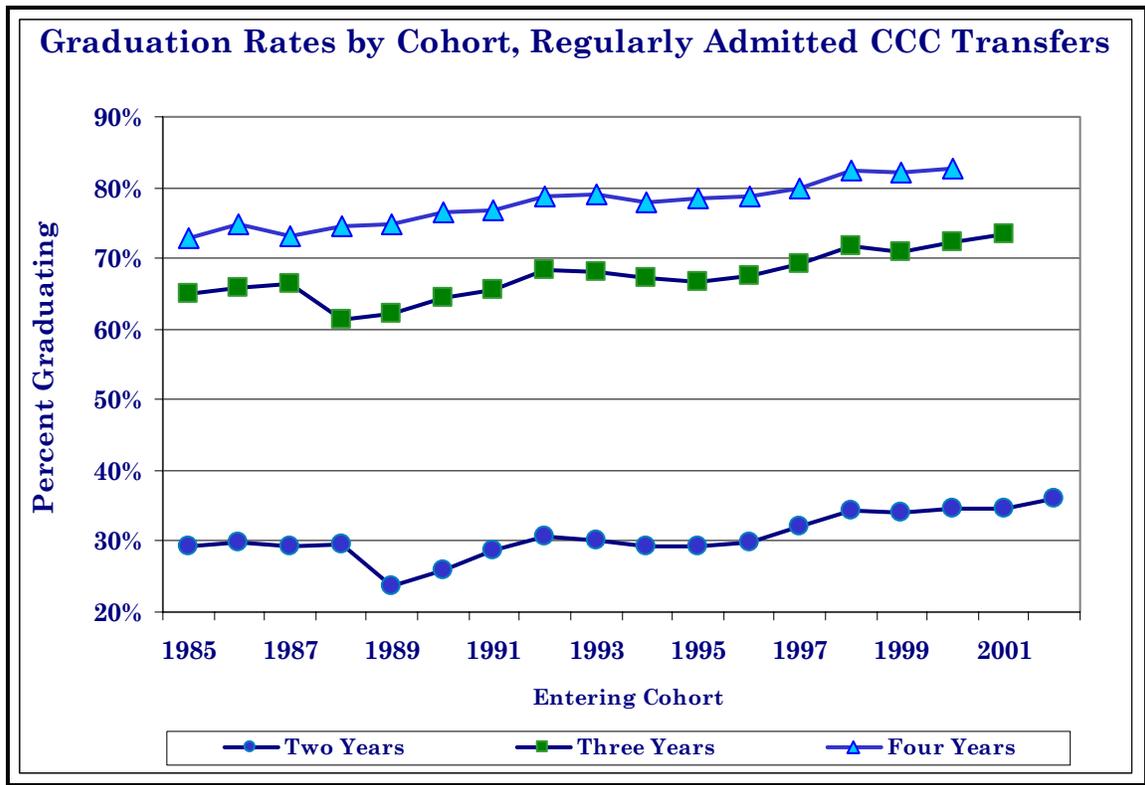


Persistence rates—the proportion of an entering class of students who return to enroll in their second and subsequent years—also have shown gains over the past decade. The proportion of freshmen who returned to enroll in their second year increased from about 88% of the 1984 cohort to 92% of the 2002 cohort. Two-year persistence increased from 76% of those entering in Fall 1984 to 84% of those entering in Fall 2002 (the most recent data available).

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 (such as through expanded summer offerings and enrollment), recalling retired faculty, and making better use of instructional technology.

Students beginning their higher education at a community college have historically done very well after transferring to UC: more than a third of CCC transfer students graduate within two years, and 83% earn a UC degree within four years (equivalent to six years for a freshman entrant), as shown in Display 12. More than 90% of CCC transfer students persist to a second year and on average take 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.

Display 12



Silicon Valley Center

The UCSC Silicon Valley Center Initiative (SVC), led by the Santa Cruz campus on behalf of the University of California system, is an important element in the University's long range planning efforts to increase collaborative research with industry and with various agencies, including NASA; expand both undergraduate and graduate educational opportunities; develop collaborative relationships with the California State University (CSU) and the California Community Colleges (CCC); and expand student academic preparation programs with K-12 schools and students. The Silicon Valley Center Initiative will be a highly visible, focused research and education facility, capitalizing on its location in the heart of the state's innovative technology development industry.

Current and anticipated Silicon Valley Center Initiative programs will address several 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) growth in enrollment; (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 continuing

demand for a UC institution in Silicon Valley during a period when new directions in technological innovation are needed to spur renewed economic growth.

Since 2002-03, the Santa Cruz campus has concentrated much of its efforts on defining its role in carrying out a research agenda for the Silicon Valley. The campus successfully competed for and is now managing the University Affiliated Research Center (UARC). This is a 10-year, \$330 million contract with NASA Ames to conduct research in nanotechnology, biotechnology, information sciences, aerospace operations, and fundamental space biology. It involves collaborative research at NASA Ames, UCSC, and other UC campuses. The UARC is the largest competitively awarded 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 is spurring both research and economic activity through the exploration and development of new technologies. Under the UARC, the Systems Teaching Institute (STI) is ensuring that education programs are successfully integrated with research programs.

The UARC is the starting point to significantly expand UC research in Silicon Valley. The University is currently working with private industry and government to develop the Bio-Info-Nano Research and Development Institute (BIN-RDI), an exciting proposal that is expected to generate significant private and public investment in research. BIN-RDI is expected to play a key role in making possible the technological innovations that will drive future economic growth in the Silicon Valley, in the State of California, and across the nation. The BIN-RDI was recently designated one of the highest recommendations for state action in a report produced on behalf of the Governor by the California Center for Regional Leadership entitled "Innovation, Investment, Collaboration: A Statewide Action Agenda for Economic Vitality from California's Regional Leaders."

UCSC's Baskin School of Engineering is seeking Academic Senate approval to deliver selected courses at the SVC. The courses will build on the UARC and a \$2 million National Science Foundation grant (Developing Effective Engineering Pathways, or DEEP) awarded to the Baskin School to strengthen science, technology, engineering and mathematics education to help students become better prepared for both a community college and university education. Approval to provide Silicon Valley-based access to UC Santa Cruz engineering courses and faculty is expected to enrich and strengthen the educational partnerships developed as part of the DEEP program. The DEEP grant, in partnership with Foothill and DeAnza Community Colleges, will provide funding for collaborative coursework, specialized counseling, summer bridge activities, online tutoring, mentoring, and distance learning opportunities.

The Collaborative for Higher Education (CHE), an intersegmental collaboration involving the Santa Cruz campus, San Jose State University, and Foothill-De Anza

Community College district, is opening new opportunities for science, engineering, and math students by eliminating barriers that hinder their transition from high school to community colleges and on to four-year institutions. The Collaborative for Higher Education is working with NASA on projects designed to improve the teaching of science and math as well as to promote student achievement in these areas.

The Baskin School has recruited faculty and is developing undergraduate and graduate courses in Information Science and Technology Management (ISTM) that can be delivered at the NASA Ames site as well as in collaboration with Mission Hills Community College District. The School of Engineering began a series of research seminars for graduate students in 2004-05. The proposal for the ISTM graduate program is expected to be submitted to the UCSC graduate council during 2005-06. Planning is underway at the Santa Cruz campus to assess the feasibility of other academic programs, including possibly a professional school that would have a significant presence in the Silicon Valley.

Physical planning for the NASA Research Park (NRP) location of the Silicon Valley Center will also continue in 2005-06, focusing on development that can be supported by existing physical infrastructure as well as the research and teaching space that will be needed to support academic programs. Foothill-De Anza Community College District is considering a bond-funded facility at the NRP. In support of this effort, the Santa Cruz campus is playing a major role in assisting in development planning and otherwise collaborating with Foothill-De Anza and San Jose State University to make this facility an intersegmental educational facility.

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 2005-06.

This funding gap inhibits the University from making available the broad range of current technologies to enhance the teaching and learning environment on the 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; integrated digital audio and video technologies with expanded network connectivity and help desk support to enhance the classroom experience, and a variety of other activities. 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 and efficiently.

The State's fiscal situation prohibits reducing this gap at this time. However, the Higher Education Compact with Governor Schwarzenegger includes provisions for 1% budget increases in 2008-09, 2009-10, and 2010-11 to address budgetary shortfalls in State funding for core areas of the budget critical to maintaining the quality of academic programs, including instructional technology. As discussed in the *Summary of the 2006-07 Budget Request* chapter, additional funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) is one of the priorities for restoring UC academic quality. Of the \$500 million total funding needed, \$100 million would be designated toward restoring funding for core academic support.

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 partially funding the instructional equipment replacement (IER) program in 1976-77, and provided full funding beginning in 1984-85 through 1989-90. Since 1990-91, funding for IER has been inconsistent, with annual permanent funding often falling short of each year's IER need, but some one-time funding has been provided to help address the growing shortfall. As of 2005-06, the cumulative shortfall since 1990-91 is \$221.8 million and the annual shortfall is \$43.7 million.

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 and for classroom use as an aid in teaching presentations. New equipment is also needed in science laboratories to help students learn how to operate the equipment itself and for use by students who are working independently or with faculty on research as part of their academic training. The need for adequate funding for equipment in engineering, the sciences, and digital media 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. Employers expect graduates of the University to be expert in the equipment in their fields, and these expectations have never been greater. Graduates must be able to manage themselves in the information environment or run the risk of being obsolete themselves. With technology changing every 16 months to 3 years, it is imperative that the University replace obsolete equipment and offer students the most technologically-advanced education available. 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.

The State's fiscal situation prohibits reducing this shortfall at this time. However, the new Higher Education Compact with Governor Schwarzenegger includes provisions for 1% budget increases in 2008-09, 2009-10, and 2010-11 to address budgetary shortfalls in State funding for core areas of the budget critical to maintaining the quality of academic programs, including instructional equipment replacement. As discussed in the *Summary of the 2006-07 Budget Request* chapter, additional funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) is one of the priorities for restoring UC academic quality. Of the \$500 million total funding needed, \$100 million would be designated toward restoring funding for core academic support.

HEALTH SCIENCE INSTRUCTION

2005-06 BUDGET	
Total Funds	\$ 824,609,000
General Funds	347,512,000
Restricted Funds	477,097,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	3,201,000

The University of California plays a critical role in the state by providing exemplary health sciences education as well as delivering essential healthcare services. UC operates the largest health sciences education and training program in the nation, providing more than 137,000 inpatient admissions and 3.7 million outpatient visits annually and touching all Californians in numerous ways. The health sciences research enterprise—in UC’s schools of Dentistry, Medicine, Nursing, Pharmacy, Public Health, Optometry and Veterinary Medicine—is vitally productive. UC medical and nursing schools attract more research funding from the National Institutes of Health than any other medical or nursing education systems in the country, a testament to their high levels of quality and productivity.

UC health sciences research discoveries help prevent and cure diseases, and create new technologies for diagnosing and treating illness, and new strategies for staying healthy. Beyond the millions of federal and philanthropic dollars invested in the state through UC’s research grants, UC’s advances in the prevention and treatment of chronic medical conditions such as cardiovascular disease, asthma, and diabetes also help improve health outcomes and achieve enormous savings in treatment and lost productivity costs. In addition, UC touches the health of Californians through many community outreach programs, providing education, prevention, and early intervention services.

UC provides an unparalleled integration of research and education with patient care, preparing leaders in the fields of health care provision as well as leaders in the academic and research fields that are the foundation of the University’s health sciences programs. The ultimate goal of all UC health sciences programs is to train knowledgeable, skilled, and compassionate health care professionals who deliver outstanding services to California.

The University's long range academic planning for the health sciences is influenced by a variety of factors, including the state's need for health professionals, federal

and State policies for funding health science education, access to and reimbursement for health services, and the overall state and federal economy. There is an increasing interest within the University in the broader aspects of health care, including public policy issues, allied health, and other emerging areas. The University is working to maintain California's leadership role in the health sciences across a wide range of disciplines and activities.

Health care is rapidly evolving, and our state is rapidly growing. For over two decades, the University has added virtually no new capacity in its health science programs. These and other factors have provided broad parameters for the internal, centralized planning process through which campuses are initiating proposals to address programmatic priorities.

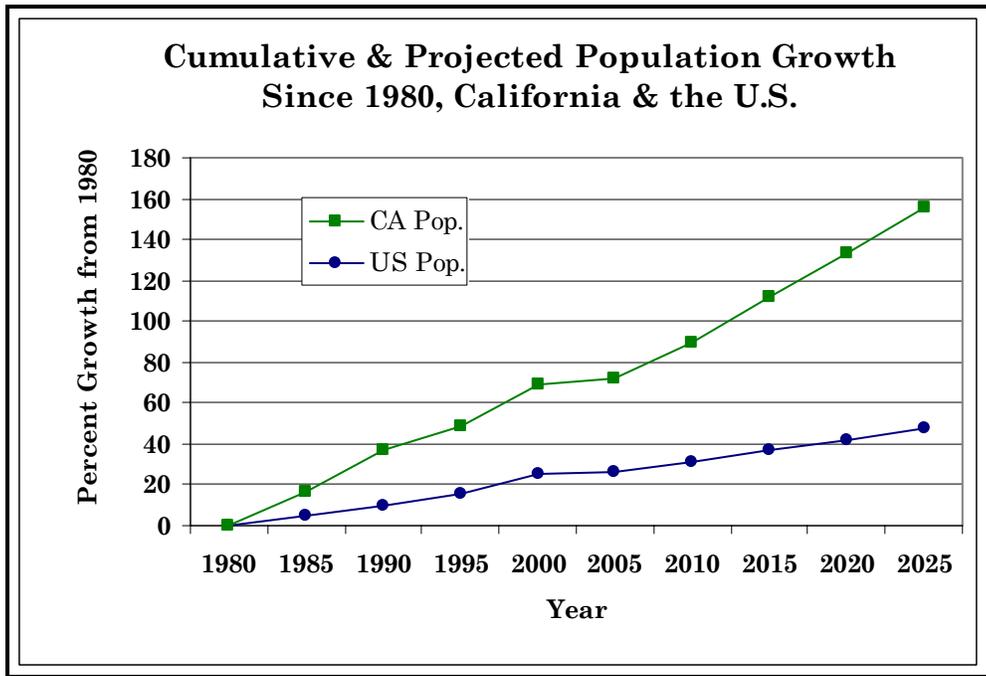
In April 2005, the University's universitywide Health Sciences Committee (HSC) issued a report, "Workforce Needs and Enrollment Planning," to guide future health sciences decision making and help plan health sciences enrollment growth over the coming decade. For each profession, a set of findings and recommendations regarding the steps UC might take in meeting state needs has been developed. In addition to the Health Sciences Committee report, final reports have been issued for nursing, pharmacy, public health, dentistry, optometry, medicine and veterinary medicine.

The report documented trends in the growth, aging and diversity of California's population; current and predicted shortages of key health professionals; issues surrounding preparation of new faculty, recruitment and retention, and issues related to UC's role in health sciences education. The report notes that California's population is growing, aging, and increasing in diversity. Already the most populous state in the nation, California is expected to grow at nearly twice the national average by 2025 (Display 1, next page); California's elderly population will grow at more than twice the rate of the state's total population within the same period (Display 2, also next page).

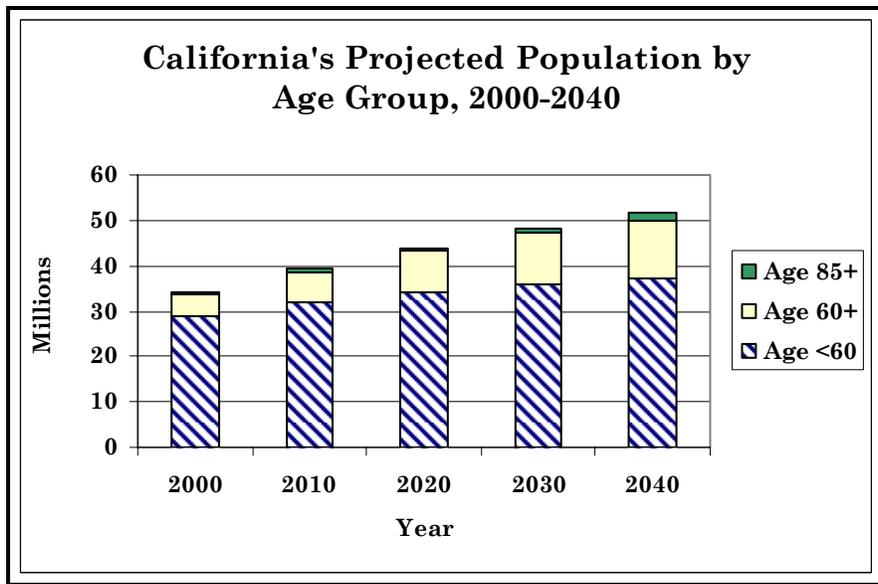
An overall concern for all health sciences professions is that California's health workforce does not reflect the ethnic diversity of its citizens. Already the most diverse state in the nation, by 2015, over half of the state's population will be of Hispanic or Asian descent. Demand for culturally and linguistically competent health providers is growing as the State seeks to improve access to care, reduce disparities in health status, and improve health outcomes. Latinos, African Americans, and Native Americans are significantly underrepresented among UC health sciences students and faculty and among clinically active health providers statewide.

To meet the growing needs of the state, California's health workforce must change in size, distribution, and preparation. As the largest health sciences instructional

Display 1



Display 2



program in the nation, UC must revitalize and expand its health sciences training programs to train health professionals to better meet societal needs.

Statewide shortages of health providers currently exist in several major health professions and looming shortages are projected in others. Regional shortages that exist are expected to become more serious without effective intervention.

In addition, changing accreditation requirements for certain health sciences professions are creating the need for changes in the scope and structure of existing educational programs.

California's nursing workforce crisis is serious and growing. The state currently ranks 49th in the nation in the number of nurses per capita, and predictions forecast a shortfall of 60,000 registered nurses by 2020. Significant shortages of nursing faculty are a major barrier for increasing nursing school enrollments in California's baccalaureate degree programs (currently offered by 23 California State University campuses and nine private institutions and UC will re-institute its baccalaureate nursing program at the Los Angeles Campus and other UC campuses are also considering establishing baccalaureate programs in nursing in the near future).

The state will face a 15.9% shortfall of physicians (i.e., almost 17,000) by 2015. This shortage is expected as a result of rapid population growth, aging of the current physician workforce, and lack of growth in medical education programs in California – including virtually no growth within UC for more than two decades. Regional shortages of health providers that exist currently will become more serious without effective intervention. In addition, changing accreditation requirements for certain health sciences professions are creating the need for changes in existing educational programs.

Another emerging area of concern across the health professions is the critical need to nurture a faculty that is qualified and well-suited for the future needs of the state. In some fields, such as nursing, dentistry, pharmacy, and public health, the number of faculty is currently insufficient to meet the needs of California educational institutions. These shortages will increase as a generation of senior faculty retires. Faculty salaries lag national averages for comparison institutions, and UC health sciences programs are finding it increasingly difficult to compete with the private sector. Graduate enrollments must be expanded and new efforts made to recruit and retain faculty educators and researchers in all health sciences disciplines, but most particularly in those cited above.

As an example of how professional accreditation requirements can affect health sciences planning, the Council on Academic Accreditation in Audiology and Speech-Language Pathology (CAA), an independent affiliate of the American Speech-Language-Hearing Association, has announced to institutions with accredited master's programs in audiology that it will no longer accredit master's programs after December 31, 2006, and will only accredit doctoral programs. CSU offers six CAA-accredited master's programs, and UC and CSU together offer one joint Doctor of Audiology (Au.D.). UC and CSU have agreed to develop an expedited plan for expanding and developing new joint doctoral degree programs in audiology that

satisfy the changes in the national audiology accrediting requirements and draw upon the strengths of both institutions. The changes in audiology programs are discussed in more detail later in this chapter.

To respond to State needs, the University is reviewing the findings and recommendations contained in its recent study and considering new initiatives to increase enrollment at existing UC schools of medicine, nursing, pharmacy, public health and veterinary medicine.

In the 2005-06 budget, the State provided funding for the first phase of the PRogram In Medical Education - for the Latino Community (PRIME- LC) program at UC Irvine, the first of the University's new medical student education program specifically developed to address the health needs and disparities of one of California's largest medically underserved groups. Other PRIME initiatives focusing on the unique needs of urban and underserved rural areas are planned for other medical school campuses, with two new PRIME initiatives planned for implementation as early as the 2007-08 budget year. More details on this program are included in a separate section later in this chapter.

Also in 2005-06, in recognition of the urgent need to expand the State's nursing workforce, the University received \$1,720,000 of State General Funds (SB73, Committee on Budget and Fiscal Review, 2005), to expand its involvement in nursing education. The first year of funding will be used for one-time expenditures for instructional equipment, classroom and laboratory renovations, curriculum development, and faculty recruitment. In subsequent years, the funding will support at least 130 additional students in the University's nursing education programs. The University is not only increasing and adding enrollments to existing nursing schools, but is also actively planning a new undergraduate and graduate nursing program at the Irvine campus. In view of the state's needs, this effort may be expanded to include other UC campuses. These plans are discussed in detail in the *Nursing Student Enrollment: Responding to a Statewide Shortage* section below.

Health Science Enrollments in the University

After peaking in 1981-82, budgeted enrollments decreased over the next 10 years and did not increase again until the late 1990s, due primarily to budget cuts sustained by the University. Display 3 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, 1990-91, 2000-01 and 2004-05.

Economic 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 fund a

Display 3

Health Science Year-Average Headcount Enrollments: Total					
Enrollment And First-Year Class Size for Selected Programs					
	1970-71	1981-82	1990-91	2000-01	2005-06
	Budget	Budget	Budget	Budget	Budget
Total Enrollment	7,015	12,750	12,022	12,186 (a)	12,312
First Year Class Size:					
Medicine	429	652	622	622	622
Dentistry	175	216	176	168	170
Veterinary Medicine	83	129	122	131 (a)	131
Pharmacy	93	120	117	117	177
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.

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; 3) the establishment of a School of Pharmacy at the San Diego campus, which at steady state will have an entering class of 60 and a total of 240 students in the Doctor of Pharmacy program, 60 graduate academic students, and 80 residents; and 4) the new PRIME LC program at Irvine, which at steady state will have 60 students.

To operate the instructional program, the health science schools require faculty, administrative and staff personnel, supplies, and equipment. Faculty requirements are determined in accord with student-faculty ratios that have been established for each profession and for each of the categories of students enrolled. As examples, the historical budgeted student-faculty ratio for medical students is 3.5:1; for dentistry students, 4:1; for veterinary medicine students, 5.4:1; and for pharmacy students, 11:1.

The 2005-06 instructional budget for the Health Sciences is \$825 million, of which \$348 million is UC and State General Funds. Faculty salary and benefit costs constitute over half of the total expenditures for the health science instructional program. Instructional support costs represent approximately 42% of the budget.

These costs include salary and benefits for non-faculty personnel, partial support of stipends paid to interns and residents, and supplies and equipment. The remaining 7% of the program's expenditures are for other expenses such as a portion of malpractice insurance premiums. Health sciences instructional programs are high cost programs and while the State subsidy for these programs is significant, revenues from professional school fees also are increasingly important. Professional school fees were charged to first-time students in Fall 1994 and became a permanent charge for all subsequent classes in medicine, dentistry and veterinary medicine. Since fall 1996, a similar fee has been charged to students in nursing, optometry, and pharmacy. For 2005-06, the Regents approved a new professional school fee for students enrolled in degrees in public health. In charging the fee, the University reaffirmed its commitment to maintaining academic quality and enrollment in these programs. The revenue is used for financial aid and to sustain and enhance the quality of academic programs and student services.

As a result of four years of fiscal crisis in the State, the University sustained about \$520 million in base budget reductions, another \$420 million in cuts will have been offset with student fee increases, and about \$550 million reflects the absence of funding for cost-of-living adjustments, non-salary price increases, energy costs, employee health benefit costs, and maintenance. Health sciences students, along with all other students in the University, share in the student fee increases necessary to offset reductions in State support for all instructional programs.

Also as a result of the State's fiscal crisis, State support for UC's professional schools has declined significantly in recent years and professional school fees have increased dramatically to offset lost State revenue. Thus, UC resident fees for health sciences students have moved from well below the average of the fees charged to students in the same programs at UC's public comparison universities to above the average for all programs except medicine. The University is concerned about the impact of the fee increases on efforts to ensure that professional school enrollments, including those in the health sciences, are more representative of the diversity of the State's population as well as the impact high fees may have on graduates' ability to work in medically underserved areas of the State. This will be evaluated as data becomes available. The professional school fees are discussed in more detail in the *Student Fees* chapter of this document.

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. It is important to recognize, however, that financial support for medical education and clinical training has declined substantially as a result of both significant decreases in hospital revenues caused by growth of managed care and declining federal reimbursements from Medicare and Medicaid due to efforts to balance the federal budget.

For 2006-07, the University is requesting support for the second year cohort of the PRIME- LC Program, described below.

**Medical Student Enrollment: Focus on California's
Medically Underserved Communities and
Regions, Phase 2 (\$294,000 Increase)**

In anticipation of the HSC report and, as part of the 2005-06, budget the University requested and the State provided funding for an important new medical student educational initiative at the UC Irvine School of Medicine. The new PRogram In Medical Education - for the Latino Community (PRIME- LC) at the UC Irvine School of Medicine, focuses specifically on Latino health needs, including those of migrant agricultural workers. This growth marks the first increase in UC medical student enrollment in more than 25 years.

A specialized curriculum developed by the Irvine School of Medicine, in coordination with the Office of Health Affairs in the University of California's Office of the President, PRIME-LC trains physicians to become experts and leaders in providing health services to the underserved Spanish-speaking community. Operating in tandem with the traditional curriculum, the PRIME-LC curriculum provides a group of highly qualified students with a comprehensive educational program, including an immersion experience in Latino culture and health issues through class content, language development, clinical experiences, and special electives in Spanish-speaking countries. A research project culminating in a thesis addressing Latino health issues is required. Students completing the program will earn an MD and an MS, MPH, or equivalent degree, depending on the nature of the graduate coursework and research project chosen by the student.

All students are selected through a competitive admissions process and must show a prior record of service and commitment to underserved communities in general, and to the Latino community in particular. The PRIME-LC curriculum will not only prepare students for leadership roles in health care for the Latino community, but will also benefit other students enrolled in the "core" (or regular) medical student program through shared coursework and increased emphasis on cultural competency for all students.

Support is provided at the MD marginal cost of instruction for four years of medical school training and at the general campus graduate academic marginal cost of instruction for a fifth masters year. The State funded \$451,000 in 2005-06 for both continuing support of the eight students enrolled in July 2004 (they had been initially supported by grant funding) as well as for 12 additional students enrolled for 2005-06. The University's budget request for 2006-07 includes \$294,000 to for the next cohort of 12 students. (The \$294,000 is based upon the University's

marginal cost per student for medicine.) At steady state, the program will include 60 students.

The PRIME-LC program is the first of several new medical student education programs specifically developed to address the health needs and disparities of California's underserved groups and communities. The University is planning additional programs focusing on the special needs of urban and rural communities to be included in University budget proposals in 2007-08 and beyond.

Nursing Student Enrollment: Responding to a Statewide Shortage

Virtually all Americans will require nursing care at some time in their lives. Whether this care involves maintenance of health, episodic care of a highly technical or less complex nature, care for a chronic condition or illness, or long-term supportive care, it is important to ensure that appropriate nursing care will be available. Therefore, continuing reports of a deepening nursing shortage raise serious concerns that must be addressed in California and nationwide.

As previously noted, California ranks 49th in the nation in the number of nurses per capita (542 vs. the U.S. average of 780 nurses per 100,000). Causes of the nursing shortage include rapid population growth (especially of those over age 65); an aging nursing workforce (California nurses are 5 years older than the national average and half are over age 50); and increasing mean age of nursing faculty nearing retirement. New nurse staffing ratios proposed for California hospitals and new national accreditation standards limiting the number of hours medical residents can work have created further demand. Recent studies have shown that without intervention, California's nursing shortage will worsen significantly through 2030.

Nursing Preparation

Registered nurses (RNs) must be licensed to practice in California. The license requirements are completion of a board-approved nursing program and a passing grade on the State Board of Registered Nursing examination. Educational programs are offered by the California Community Colleges (CCC) system, the California State University (CSU) system, private colleges, and the University of California. California's publicly-funded institutions (UC, CSU, and CCC) educate roughly 86% of the state's nursing graduates. The existence of multiple pathways to satisfy the education requirement leading to eligibility for RN licensure makes nursing unique among the health professions. The options are: the associate (ADN); bachelor's (BS/BSN); master's (MSN); and Doctor of Philosophy (Ph.D.).

Despite the option of multiple pathways, California's 101 public and private nursing education programs educate only half of the nurses needed to meet state needs and the state has, therefore, been heavily reliant on other states and countries to supply half of its RNs. With the projected increase in nursing workforce needs, the State needs to increase its ability to train more of its own nurses.

The State's capacity to increase enrollments in its own nursing programs, however, is dependant on an adequate supply of qualified faculty, which in turn means a sufficient supply of nurses trained at the graduate level. Nurses with Ph.D.s are needed for nursing school faculty for BSN, MSN, and Ph.D. programs, while masters-prepared nurse educators are in great demand as faculty for ADN Programs. All the state's educational sectors report nursing faculty shortages, which in recent years have ranged from 90 to 354 vacant positions statewide and are a major barrier to increasing enrollments.

UC's two Schools of Nursing (UCLA and UCSF) are ranked among the nation's top nursing schools in education, research and clinical practice, and play a central role in preparing future faculty for California nursing programs, and in educating advanced practice nurses. UC's plans for expanding its graduate enrollments are discussed below.

While the CSU and the CCC systems will continue to have substantial continuing responsibilities for undergraduate public nursing education, the UC is proposing to re-establish the UCLA undergraduate bachelor's degree program, and a new undergraduate program at UC Irvine is also under active consideration. Since the suspension of undergraduate enrollments at the UCLA School of Nursing in the early 1990s, UC has not offered an undergraduate nursing program (except for the small ADN/BS/MSN program at UCLA – available only to students who already have an ADN). The suspension meant that college-bound high school graduates have not had an available UC option for pursuing an undergraduate degree in nursing. Students interested in nursing, but strongly committed to a UC undergraduate education, are therefore required to forgo nursing and select other majors. Because the former UCLA undergraduate nursing program had been a strong pool for recruiting graduate nursing students, suspension of this program had the further adverse effect of reducing the number of students who might otherwise pursue advanced degrees and future nursing faculty careers.

UC Plan to Expand Nursing Education Programs

In recognition of the urgent need to expand nursing education, the Legislature added \$4 million to the 2005 Budget to expand master's degree enrollments in nursing at the California State University (CSU). While sympathetic to the need, the governor vetoed all but \$560,000 of the funding for CSU because of doubts that the full amount could be absorbed effectively in expanded enrollments during the

current budget year. The Governor did, however, set aside the vetoed amount (\$3,440,000), pending legislation proposing more effective approaches to address the nursing shortage and opening the possibility of involving UC as well as CSU. SB 73 (Committee on Budget and Fiscal Review, 2005), appropriates the funds to UC (\$1,720,000) and CSU (\$1,720,000) to be used for one-time costs related to expanding nursing programs in 2005-06, and for support of the actual expansion of nursing enrollments in 2006-07. The legislation states UC and CSU will increase nursing enrollments by at least 130 students each over the 2005-06 level in 2006-07. The segments will provide a report to the Governor and the Legislature on or before February 1, 2006 on the use of the funds in 2005-06. As noted previously, the first year of funding will be used for one-time expenditures for instructional equipment, classroom and laboratory renovations, curriculum development, and faculty recruitment.

The University has developed a plan to expand its traditional role in nursing education, including preparation of new faculty for nursing programs and the education and training of advanced practice nurses. It also is looking at re-establishing and adding new undergraduate nursing programs. All are important to help meet the State's future nursing needs.

Detail of the planned enrollment increases in programs on the two campuses with nursing schools is presented in Display 4, which also notes that other UC campuses are planning undergraduate and graduate initiatives in nursing.

In total, the University's plan would result in a 50%-70% increase in UC nursing school enrollments – from 913 currently enrolled students to a total of roughly 1,550 students. The plan would increase the annual number of UC graduates proportionally, from approximately 300 to slightly more than 550 graduates. This growth would include: (1) re-establishment of one and the addition of a second undergraduate bachelor's degree program at UCLA and UCI, which will provide educational opportunities for students and will help build the graduate pool; (2) development of a new master's program at UCSF focusing on preparation of faculty; and (3) growth and expansion of master's entry programs at UCLA and UCSF. Descriptions of changes planned for each program follow.

UCSF Masters Entry Program in Nursing (MEPN)

UCSF offers an entry-level masters degree – the “Masters Entry Program in Nursing” (MEPN) - where students who have already earned a bachelor's degree in another (non-nursing or health) field, are prepared in one year to take the RN exam. These students then work as RNs while completing a 2-year masters program. The RN portion of the program is self-supporting through fees. The 2-year master's portion of the program is State-supported. The campus will add 80 students over the two years, doubling the size of this program.

Display 4

University of California Schools of Nursing- Proposed Increases				
CAMPUS/ PROGRAM	2006-07	2007-08	2008-09	2009-10
UCSF				
<i>Masters Entry Program in Nursing (MEPN)</i>				
Year 1 MS	15	40	40	40
Year 2 MS		15	40	40
UCLA				
<i>AB/BS/MSN</i>				
Community College Transfer Yr 1 (BS)	8	8	8	8
Community College Transfer Yr 2 (BS)		8	8	8
Community College Transfer Yr 3 (MS)			8	8
<i>BSN</i>				
Year 1 Freshman Year	50	50	50	50
Year 2 Sophomore Year		50	50	50
Year 3 Junior Year			50	50
Year 4 Senior Year				50
<i>Masters Entry Clinical Nurse (MECN) Program</i>				
Year 1 MS	50	50	50	50
Year 2 MS		50	50	50
Other UC Campuses	UC Irvine is planning to add undergraduate and graduate nursing programs, with the possibility of admitting students by 2007-08. Other UC campuses also are considering initiatives in nursing education.			

UCLA Masters Entry Clinical Nurse Program (MECN)

UCLA is introducing a 2-year program to prepare students with a baccalaureate degree in other disciplines (biology, psychology, sociology, etc.) for professional bedside nursing. The proposed enrollment is 50 students for each of two years with the first entering class in 2006-07.

UCLA Associate Degree/Bachelor of Science/Master of Science in Nursing (AD/BS/MSN) Program

UCLA is proposing to expand access for its Associate Degree/Bachelor of Science/Master of Science in Nursing (AD/BSN/MSN) program which offers students earning an AD in the California Community College system the opportunity to continue their nursing education at UC and earn a BSN in two years and, after an additional year at the graduate level, a MSN. The program currently graduates about 5 students a year, but will add 8 additional students beginning in 2006-07, and after three years, will increase the total number of graduates of the AD/BSN/MSN program to 15 per year.

UCLA Undergraduate Program- Bachelor of Science in Nursing (BSN)

UCLA is re-establishing its 4-year program for entering freshmen to prepare students for professional bedside nursing. The proposed enrollment is 50 students for each of four years with the first entering class in 2006-07.

Other UC Campuses

UC Irvine is actively planning a new undergraduate and graduate nursing program, which pending customary campus approvals, could result in the admission of new undergraduates as early as 2006-07. Other UC campuses also are considering initiatives in nursing education.

Audiology: UC-CSU Joint Effort to Respond to Changing Professional Requirements

Audiologists diagnose, treat and manage individuals with hearing loss of balance problems. CSU educates most of the audiologists trained in California through six master's programs and one joint doctoral program and San Diego State University and UC San Diego. Each year approximately 40% of California's newly licensed audiologists are graduates of California programs.

Shortages of audiologists exist both in California and nationally and are predicted to worsen due in part to the rapid growth in population over age 55 and new federal and state requirements for screening the hearing of newborns. Approximately 10% of audiology positions are vacant at any time and the State's major health care employers anticipate substantial increases in the hiring of audiologists to meet existing service needs and planned expansions.

The Council on Academic Accreditation in Audiology and Speech-Language Pathology (CAA), an independent affiliate of the American Speech-Language-Hearing Association, has announced to institutions with accredited master's programs in audiology that it will no longer accredit master's programs after December 31, 2006, due to the fact that the American Speech-Language Hearing Association agreed to no longer certify audiologists who do not have doctoral degrees. The Speech-Language Pathology and Audiology Board is concerned that with the anticipated loss of accreditation of California's existing master's programs, the State will be even more dependent on importing audiologists trained out of state.

CSU's master' programs are currently located at CSU Long Beach, Los Angeles, Northridge, and Sacramento; San Diego; and San Francisco. There are no

accredited master's or doctoral program in audiology offered by California's independent universities.

The 1960 *Master Plan for Higher Education in California* defines the functions of the various segments of higher education and states that: "The University [of California] shall have the sole authority in public higher education to award the doctor's degree in all fields of learning except that it may agree with the state [university] to award joint doctoral degrees in selected fields." Joint doctoral programs are partnerships between UC and CSU that benefit both educational systems, students, and the state. Like the CSUSD/UCSD joint Au.D. program, joint doctoral programs build on the strengths of the participating campuses to generate programs that might not otherwise be realized, combining the strengths of the faculty and facilities of both segments.

There is also a strong need to train the academicians who will teach in the newly created Au.D. programs. With the exception of the new joint doctoral program in San Diego, California is not currently training doctoral degree students.

In order to ensure that new doctoral educational programs are developed that can train audiologists to meet new licensing requirements, UC is working with CSU to develop joint doctoral programs. Multiple instructional models will be considered, including the integrated joint program offered by SDSU and UCSD. While discussions are well underway, a specific proposal for 2006-07 has not yet been finalized. The University will work with CSU and the Department of Finance over the fall to determine if additional support is needed in the 2006-07 budget or is more appropriately planned for future years.

SUMMER SESSIONS

2005-06 BUDGET	
Total Funds	\$ 13,687,000
General Funds	--
Restricted Funds	13,687,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	--

In addition to the University's course offerings during the regular academic year, both UC and non-UC students may enroll in courses during summer session on all nine general campuses. Historically the State has provided funding for UC 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. The University began converting summer instruction for UC students from a self-supporting to a State-supported program in Summer 2001. For UC-matriculated enrollments, funding for summer has been shifted to the general campus instructional budget. Further discussion of State-supported summer instruction may be found in the *General Campus Instruction* chapter of this document.

Funding for non-UC students remains in the Summer Sessions budget. In 2005-06, the base budget for Summer Sessions is \$13.7 million, all of which is non-State Funds. In Summer 2005, 8,700 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

2005-06 BUDGET	
Total Funds	\$ 200,105,000
General Funds	--
Restricted Funds	200,105,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	8,004,000

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. UC Extension is a self-supporting operation and its offerings are dependent upon user demand. In 2005-06, the base budget for University Extension is \$200.1 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 nine general campuses offer more than 18,000 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 400 certificate programs are offered in such areas as computing and information technology, environmental management, graphics and digital arts, and health and behavioral sciences. UC Extension offers a wide variety of online courses to students in California, the nation, and around the world ranging from undergraduate courses carrying UC academic credit to professional-level courses in subjects such as project management, computer programming, and technical writing. These courses extend the instructional resources of the University to the world community.

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.

RESEARCH

2005-06 BUDGET	
Total Funds	\$ 529,832,000
General Funds	261,661,000
Restricted Funds	268,171,000
2006-07 INCREASE	
General Funds	2,900,000
Restricted Funds	14,138,000

The California Master Plan for Higher Education designates the University as the primary State-supported academic agency for research. As one of the nation's preeminent research institutions, the University provides a unique environment in which leading scholars and promising students seek to expand fundamental knowledge of the physical world, human nature, and society. The University's research forms the basis for new knowledge and innovation that creates new products, new companies, new jobs, and entire new industries. University researchers are on the forefront of discoveries that lead to cures for diseases, improve the food we eat, help buildings withstand earthquakes, improve transportation systems, develop techniques for addressing global climate change, identify best practices for K-12 educational improvement, and strengthen ties to Mexico, along with a wide variety of other benefits to the state.

The University is one of the primary engines that power the state's economy and is critical to keeping California competitive in the global market. The quality of the University's research and the skilled, entrepreneurial workforce produced by its educational programs, along with an ability to transfer new knowledge from the laboratory to the marketplace, helped lead to California's dominance in knowledge-intensive industries. It is no coincidence that the excellence of UC's research and academic programs occurs in the same places where private-sector growth and innovation appear strongest. Through its education, research and public service programs, the University of California has always played a key role as a center of innovation and technology development. By attracting research funds, enhancing employment and productivity, and producing business spin-offs, UC has been instrumental in the success of some of the most dynamic regional economies in the world, from Silicon Valley and Bay Area biotechnology to telecommunications in Southern California.

A series of State and University research initiatives have enhanced the potential for the University to have a beneficial impact upon the State's economy. Two recent examples of State and University research partnerships are discussed below:

- ***Industry University Cooperative Research Program.*** Since 1996-97, the Industry University Cooperative Research Program (IUCRP) has worked with 501 California R&D firms to collaboratively develop 1,764 new research projects, involving UC researchers and students as well as employees from partner companies. These projects have resulted in an investment of \$327 million (including private sector contributions of \$193 million). The IUCRP awards UC Discovery Grants that are matched at least \$1:\$1 by companies and support research in five fields vital to California's global economic competitiveness: biotechnology, communications and networking, digital media, electronics manufacturing and new materials, and information technology for life sciences.

The IUCRP is modeled, in part, on the University's successful MICRO Program, a competitive matching grant program which pioneered using research partnerships to enhance economic development. In 1998, the MICRO Program was merged into the IUCRP, where it continues to play an important role in nurturing the development of California's world class microelectronics and computer industries.

IUCRP participating companies have created thousands of net new high wage jobs in California and 54 participating young start-up companies have raised \$1.7 billion in venture capital. IUCRP research partnerships are producing, for example: new DNA-based diagnostics for cardiac disease and breast cancer that enable individualized treatment and improved outcomes; highly cost-effective "microbial factories" for producing anti-malaria drugs for developing countries; all-optical routing technology that reduces delays caused by optical-to-electronic conversion and increases both speed and capacity for transmitting information in computer systems; and "smart cars" that monitor drivers and keep them alert and informed. More than 1,000 students, to date, have been educated in innovative research programs that prepare them to take the new science and technology forward.

- ***California Institutes for Science and Innovation.*** The California Institutes for Science and Innovation (Cal ISI) is another partnership among the State, California industry, and the University of California initiated in December 2000. The four Institutes engage UC's world-class research faculty directly with California companies in attacking large-scale issues critical to California's economy and its citizens' quality of life—health care, traffic congestion, environmental management, homeland security, and novel energy systems are among the areas of focus for new research within these Institutes.

The Cal ISI's innovative partnership system is creating a persistent collaborative framework for spawning interdisciplinary teams, cutting

across the classic university structure of departments, schools and campuses. These multi-disciplinary teams excel at working directly in the vortex of intersecting trends in information technology, telecommunications, nanotechnology, and biology—where the new jobs of the future will be created.

The Institutes are taking ideas beyond theory into practice, accelerating innovation and shortening the time to product development and job creation. The \$100 million in capital invested by the State for each institute has not only returned the required two-to-one match from federal and private sources, but in some cases achieved nearly a four-fold return on the State's investment. For four years in a row, Institute-led proposals won some of the National Science Foundation's largest awards in computer science research. This has been replicated in biomedical sciences, nanotechnology, neurosciences, and many other fields—nearly half a billion federal dollars have been brought to California by Institute teams in just five years. Companies are discovering the benefits of carrying out collaborative research with the University, particularly with Institute cross-disciplinary teams and students. The 275 partner companies that have invested over \$200 million in these Institutes come from all parts of the economy—entertainment, transportation, high tech, biotech, nanotech, aerospace, and more.

Unfortunately, State and federal support for the University and its research programs is declining at a time when global competition is increasing, raising concerns about the nation's ability to maintain its competitive edge. The cost of doing cutting edge research in science and engineering is increasing, and more and more research connected to economic competitiveness requires large multi- and interdisciplinary research teams. Research is increasingly more infrastructure dependent and the costs of compliance with extramural contract and grant requirements have risen rapidly, yet core support for the University's administrative research staff and infrastructure have not kept pace with the amount of funded research. The key to the University's research success is its faculty and students, but reduced resources and increasing costs to recruit and establish new faculty in all disciplines, as well as increases in graduate student fees and out of state tuition without increases in student aid, may undermine the University's success in attracting the best faculty and graduate students.

In its report, "The Knowledge Economy: Is the United States Losing its Competitive Edge?," the Task Force on the Future of American Innovation notes that:

"For more than half a century, the United States has led the world in scientific discovery and innovation. It has been a beacon drawing the best scientists to its educational institutions, industries and laboratories from around the globe. However, in today's rapidly evolving competitive world, the United States can no longer take its supremacy for granted. Nations from Europe to Eastern Asia are on a fast track to pass the United States in scientific excellence and technological

innovation. Research, education; the technical workforces, scientific discovery, innovation and economic growth are intertwined. To remain competitive on the global stage, we must ensure that each remains vigorous and healthy. That requires sustained investments and informed policy.”

Yet, U.S. funding for universities and research has not kept pace and is projected to decrease in the future at a time when other countries are increasing their investment. While the federal government made a concerted effort to double research and development funding for the biological sciences, the Task Force report notes that federal funding of basic research in engineering and physical sciences has experienced little to no growth over the last thirty years and, as a percentage of Gross Domestic Product, funding for physical science research has been in a thirty-year decline. In the evolving research environment, health science fields are inextricably linked to engineering and physical sciences, and the imbalance in funding undermines the effectiveness health sciences research too. As a further cause for concern, beginning in FY2005, federal support for biological sciences research leveled off and may not keep pace with inflation, let alone increase. Conversely nations such as China, while starting from a smaller base, are doubling the percentage of its GDP invested in research and development and intend to increase the proportion of science spending devoted to basic research by more than 200 percent, to about 20 percent of its science budget, in the next 10 years.

One of the key sources of support for the University’s core research is funding provided by the State of California. The State provides a substantial portion of the funds for building and maintaining facilities, laboratories, and equipment that supports teaching, workforce development and tech transfer. State funding also provides seed money for research projects vital to California, whether the subject is earthquake engineering or improved crop varieties. Once a research program is up and running, UC leverages the initial investment of State funds by attracting grants from federal and private sources. The quality of UC’s research attracts billions of dollars annually in funding from the National Institutes of Health, the National Science Foundation, the Department of Energy and other federal and private sources. For every State dollar specifically invested in research, UC leverages nearly \$6 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

The impact of the state’s funding crisis on the University has been severe, as it has been for all State-funded entities, and this is especially true for the University’s research mission. While federal and private funding have helped to sustain the research program over the recent period of reduced State support, State funds leverage federal and private funds and the reductions in State support threaten UC’s ability to carry out its research mission. This research mission is a central component to the foundation of the University’s educational programs

because new research programs lead to new knowledge, which in turn infuses educational programs with state-of-the-art information and technology at both the graduate and undergraduate levels.

State Funding for Research

State funding for organized research over the last fifteen years has reflected the ups and downs of the State's economy. In the early 1990s, when the State struggled through several recessionary years, State funds for research were cut by nearly 20%, which was deeper than other University programs were cut. Once the State's economy began to recover, the State made research a priority by providing augmentations for specific research projects. UC received permanent budget augmentations of \$91 million dollars as well as one-time augmentations of \$79 million to the research budget over the period 1996-97 to 2000-01. To put the magnitude of the dollar amount of these augmentations into perspective, in 1995-96 before the augmentations occurred, the total General Fund research base was \$183 million dollars. Thus, the permanent augmentations represented a 43% increase to the 1995-96 base. Moreover, the new State funding was tied to the creation of new units or to specific research areas and, therefore, the improved state economy did not lead to restoration of the funding for core research programs that had been severely cut during the early 1990s.

By 2002-03, the economy had deteriorated markedly and the State was once again headed into recession. UC's State funded research budget again absorbed major cuts and shouldered its share of the painful budget reductions suffered by all State-supported entities during the 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 totaling \$18 million. In 2003-04, University research programs were reduced by another 10%, or \$28 million, and absorbed \$3.5 million of a \$30 million one-time, mid-year cut to the University's budget.

For 2004-05, University research programs were reduced by another 5%, or \$11.6 million, and shared in an undesignated cut to the University's budget of \$35.3 million. After two years of across-the-board budget cuts to research, the University determined that the new reductions could not be accommodated in the same manner. Core research programs that received disproportionate cuts in the early 1990s and never recovered those funds during the period of State budget augmentations in the late 1990s could not sustain further cuts and continue to maintain the quality of their programs. Furthermore, most of these core research programs already were contending with large cuts in 2004-05 related to the need to cover the significant fee increases proposed for graduate student researchers.

In the current year, the University has begun a phased plan to redistribute research funding among current programs over a 2- or 3-year period in order to continue to meet high priorities even as budget cuts have occurred to research programs overall. Programs that received large augmentations in the late 1990s are being cut more in order to restore across-the-board cuts to core programs that have been hard hit by the fiscal crises in both the 1990s and 2000s.

Fortunately, the Compact with the Governor and the support of the Legislature for the Compact's funding principles have helped to stem the tide of erosion in the University's budget. However, halting the deterioration in the budget is not enough, if the University is to meet the State's expectations for academic quality and productivity. The University has high priority needs that, if it is to return to being competitive, must be met when the State's fiscal situation improves.

Given the State's current fiscal circumstances, the University is not requesting additional funding above the Compact for research initiatives in 2006-07. However, the Compact with the Governor includes a provision that, when the State's fiscal situation permits, the University may seek initiatives that may be mutually agreed upon by the segments, the Governor, and the Legislature to be funded in addition to the basic budget funds provided as part of the Compact to meet high priority needs of the University and the State. Because of the important role University research can play in California's future, particularly in terms of fueling economic recovery after years of fiscal crisis, the University is developing a major initiative for future years that will help address the State's need to strengthen California's economic competitiveness by infusing industry with new knowledge and discoveries that lead to the creation of new ideas, products, and more jobs. The University's research initiative, projected to be approximately \$50 million funded over a multi-year period, will be aimed at restoring some of the research cuts that have occurred to core programs or research institutes critical to the State. Funding will also build on the foundation already laid by the IUCRP and Cal ISI programs and thus be used to begin new initiatives in research that hold promise for significant returns to the State's economic prosperity.

Labor Research (\$2,900,000 Increase)

The University is requesting restoration of \$2.9 million in State General Funds to fund a program of Labor and Employment (L&E) Research, including a universitywide competitive grants program and campus programs at Berkeley and UCLA.

Funding for a new Institute for Labor and Employment (ILE) was first provided in the 2000-01 budget, when the Legislature proposed and the Governor sustained an additional \$6 million in the University's budget to establish a multi-campus research program focused on research issues related to labor and employment. The State's fiscal crisis necessitated cuts to the University's research budget, including

the funding provided for ILE. By 2004-05, funding for the Institute had been reduced to \$3.8 million and concerns about the research and activities of the ILE had also led to a restructuring of the program. The multi-campus research program was disbanded and instead, while still targeted at research on labor and employment issues, funding was divided as follows: one-third each to the Berkeley and Los Angeles Departments of Industrial Relations and the remaining one-third committed to a universitywide competitive grants program for which faculty from any campus could compete under a normal peer review process.

Unfortunately, concerns about the use of the funds continued in the Governor's Administration and among various legislators. As a result, the total \$3.8 million committed for labor and employment research was eliminated in the final 2005-06 Budget Act.

Given the importance of continued research in this area and the high priority placed on it by several in the Legislature, the University is continuing support in 2005-06 on a short-term basis for the most critical functions of the program. Funds have been redirected from research programs that were also initiated as legislative priorities and have received large amounts of State funds in the past. These funds will be combined with other funds available within the Berkeley and Los Angeles programs to ensure that the most essential research aspects of the program continue operating for 2005-06. The award cycle for the universitywide faculty grants program does not occur until late in the academic year. A decision about funding for universitywide research grants to be awarded in the current year will be made once more is known through the budget process about the outlook for restoration of funds for labor research.

For the longer term, the University is requesting restoration of \$2.9 million in funding for a narrowly defined research program. Funding would be divided as follows: \$850,000 to the Berkeley and \$800,000 to the Los Angeles campus for continuation of their research work on labor and employment issues and \$1.25 million to continue the universitywide competitive grants program on these issues. Funds for this program will be strictly limited to research only; these funds may not be used for public service or training activities, as had been the case in the past. For those activities not appropriate for State funding, campuses are being asked to seek outside funds.

With this restructuring of the program, the University hopes the State will continue its support for this important research. Contemporary conditions of work present new challenges and opportunities for California and the nation. Growing international economic integration, policy changes, transformations in business organization, new technology, and other changes have brought many positive developments, but have also resulted in emerging issues and concerns for communities, researchers, and policy makers. The L&E funding is committed to supporting research that advances knowledge and understanding of these new

challenges and opportunities from a variety of perspectives and disciplines, including historical, comparative, and institutional approaches. Below is a further description of how the funds will be used in the budget year and beyond.

Universitywide Labor And Employment (L&E) Research. The \$1.25 million allocated for a Universitywide research program would be used to continue the existing peer-reviewed, competitive grant program. Currently, it is open to researchers throughout the UC system, focusing on issues of labor and employment and their relationship to the California economy. A faculty steering committee creates the final Request for Proposals (RFP) and develops policies that outline the scope of the program, including award categories, criteria for awards, eligibility and submission requirements, review procedures, reporting requirements and other policies. The steering committee includes representatives from each of the UC campuses, nominated by the executive vice chancellors on each campus. A committee chair is selected from among the representatives. The directors of the IIRs at Berkeley and UCLA are ex-officio, non-voting members of the committee in order to assure coordination between the Universitywide and campus based programs.

Programs at the Berkeley and Los Angeles Campuses. Funding totaling \$850,000 for the Berkeley campus and \$800,000 for the Los Angeles campus will be restored to the Institutes of Industrial Relations (IIR) on those campuses solely for labor and employment research. The IIRs are organized research units (ORUs) founded in 1945. Each IIR brings together faculty from several academic departments on the campuses and supports multidisciplinary research. Restored funds would be used to conduct research related to the labor and employment concerns of California's changing workforce. Recent examples include research on the causes and consequences of low-wage jobs, and trends in employer sponsored health care. If restored, the proposed funding for labor and employment research at Berkeley and UCLA will support research on issues of importance to employers, working people, and the California economy. The funds will not only support faculty research, but will provide much-needed support for graduate students.

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 number of inventions created by UC researchers with university resources. During the 12-month period ending June 30, 2004, faculty and researchers at the nine UC campuses disclosed a total of 1,196 inventions. This represents a 16% increase when compared with the 1,027 new inventions reported the prior year. An analysis of disclosures per \$10 million of research expenditures by UC Office of Technology Transfer indicates that UC is on par with the average for the University's comparison eight universities. (The University's comparison eight universities include Illinois, Michigan, Virginia, the State University of New York, Harvard, MIT, Stanford and Yale.) At the end of 2003-04, there were 3,024 U.S. and 2,837 foreign patents in the university-wide portfolio. The University of California has received more patents than any other university in the world. As the foundation for start-up firms, many technologies developed in the UC system also serve as an important engine for economic growth. More than 160 companies have been founded on the basis of UC technology licensing agreements. An estimated 65% of these firms are in fields directly related to biotechnology, genomics, pharmaceuticals, and drug development.

The University is working to increase the effectiveness of its technology transfer operations by streamlining and making more effective the transfer of new knowledge through licensing, with the goal of increasing the public benefits of research through engagement with companies that can commercialize new products and technologies and create jobs. The University is giving local campus licensing offices more autonomy for managing industry relations and intellectual property portfolios while sustaining core University policy.

An example of streamlining is the negotiation process for creating clinical trials master agreements between the five University medical centers and private industry. Over the past 5 years, a concerted effort has been made to negotiate master agreements aligned with University of California policy and tailored to the requirements of individual pharmaceutical companies. Because the company's master agreement is developed cooperatively with all five medical centers rather than individually, the administration and negotiation processes are significantly streamlined, reducing the preparation of new clinical trial agreements to a matter of hours instead of the typical three to six months.

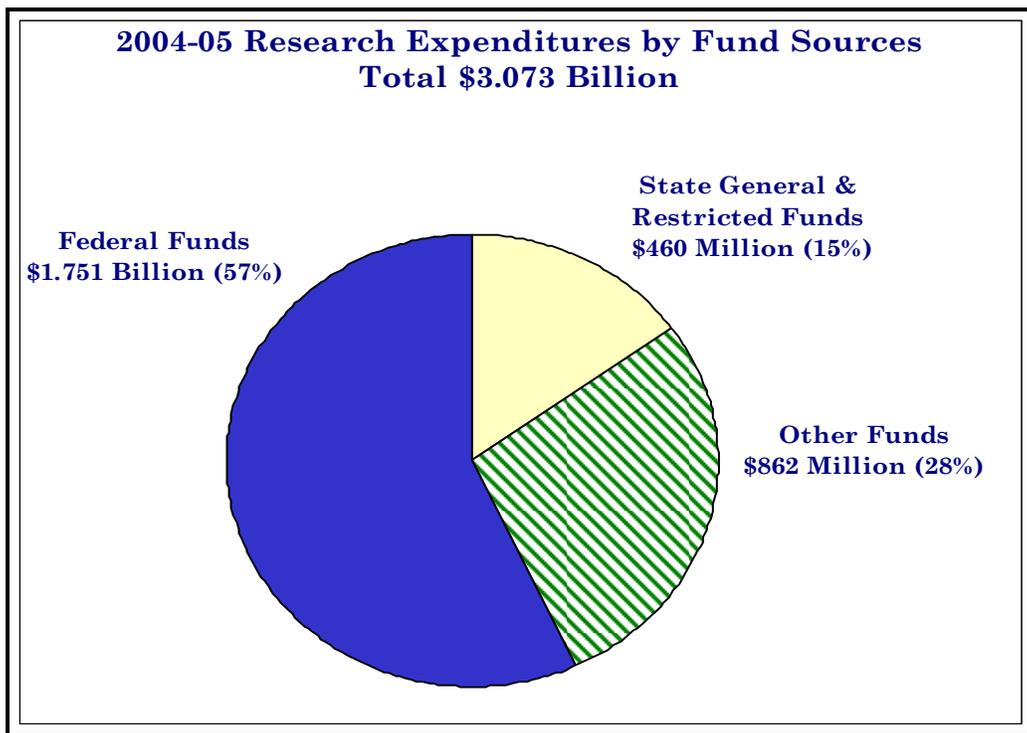
Multicampus and Organized Research at UC

For many University research programs, State funds are the core that attracts extramural funds necessary to support major research projects. The University's research expenditures in 2004-05 included about \$2.6 billion in non-State funds and \$460 million in State General and restricted funds. Thus, for every State dollar specifically invested in research, UC leverages nearly \$6 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

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

University research is supported from a variety of fund sources. Display 1 shows actual research expenditures by fund source for 2004-05. That year, research

Display 1



expenditures totaled \$3.073 billion, an increase of \$120 million, or 4.1%, over the prior year. Overall expenditures increased despite a continuing reduction in State support (-2%) because of increases in federal and private support. In 2005-06, State funds for research have stabilized and with projected increases in other

sources, resources will increase to \$3.156 billion. This includes \$2.478 billion from extramural sources (i.e., federal government, private individuals, foundations, industry), \$148 million from Regents' funds, \$262 million from State and UC General Funds, and \$268 million from restricted funds (State and non-State funds). The \$268 million in restricted funds includes special State funds to support a coordinated statewide program of tobacco-related disease research administered by the University (\$14.253 million for 2005-06). Another tobacco tax provides support for the Breast Cancer Research Program (\$12.776 million). The Breast Cancer Research Program also receives special State funds from the California Breast Cancer Research Fund (\$473,000), which derives from the State personal income tax check-off.

Of the \$262 million in State and UC General Funds, approximately 30% is allocated to Agriculture; 17% to ORUs; and 31% to a combination of MRUs and systemwide programs to support research on AIDS, microelectronics, the Industry-University Cooperative Research Program, biotechnology, and toxic substances research. The remaining 22% is related to permanent and one-time funding for other research activities not formally constituted as MRUs, including, among others, Internet2, universitywide programs in substance and alcohol abuse prevention, neuro-developmental disorders, spinal injury research, and individual faculty research.

While they have relatively modest budgets, typically in the range of \$30,000 to \$1.5 million, the University's MRUs dynamically link the work of the ten campuses and three national labs into a network of shared information, resources, dissemination, and public engagement. MRUs provide seed-funding on a peer-reviewed basis for innovative new research, provide support graduate student traineeships, and work directly with state agencies to disseminate the expertise of the UC faculty and their research. The Institute for Transportation Studies, the UC Marine Council, the UC Energy Institute, and the Toxic Substances Research and Teaching Program work respectively with CalTrans, the California Resources Agency, the California Energy Commission, and the California Environmental Protection Agency to bring research to bear on the needs of California and to train students to move into leadership roles in public policy and resource management.

State funds for research provide the core funding that enable UC to develop in new areas and position itself to continue to compete successfully for new federal research initiatives. These funds will be especially important as the increases in federal research funds slow and competition for those funds increases. State funds also help support State-private sector partnerships which offer potential direct economic benefits for California. Restoration of State support for research eliminated during the recent fiscal crisis and for new initiatives that hold promise for significant returns to the State's economic prosperity will be a very high priority for the University, when the economy improves.

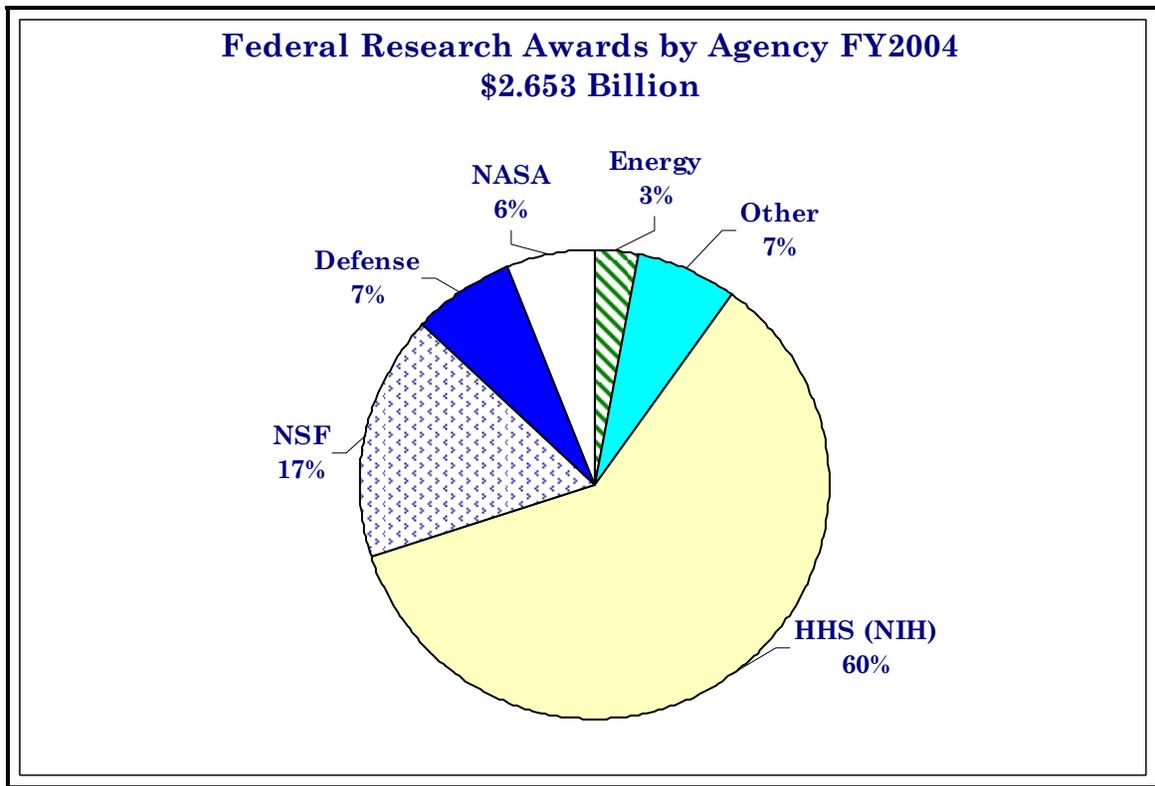
Federal Funding for Research

Federal funds are the University's single largest source of support for research, accounting for approximately 57% of all University research expenditures in 2004-05.

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). The LANL contract expires on May 31, 2006; and the University is part of a team that has made a competitive proposal to manage LANL. If the team that includes the University is awarded the contract, that contract would become effective on June 1, 2006. With combined expenditures of \$4.1 billion in 2004-05, the Labs conduct research important to the State and the nation, including research on bioterrorism, nuclear nonproliferation, and energy efficiency and new energy resources. While the Laboratories are separate entities, research at the Labs has direct and indirect benefits for University faculty and students.

As shown in Display 2, about 77% of the University's federal research awards in FY2004 (the most recent year for which data are available) came from just

Display 2



two federal agencies, Health and Human Services (HHS), primarily through the National Institutes of Health (NIH), and the National Science Foundation (NSF). Other agencies that figure prominently in the University's awards are 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 outcomes of the annual federal budget process and the changes in the federal research budget have important ramifications for the University's research budget.

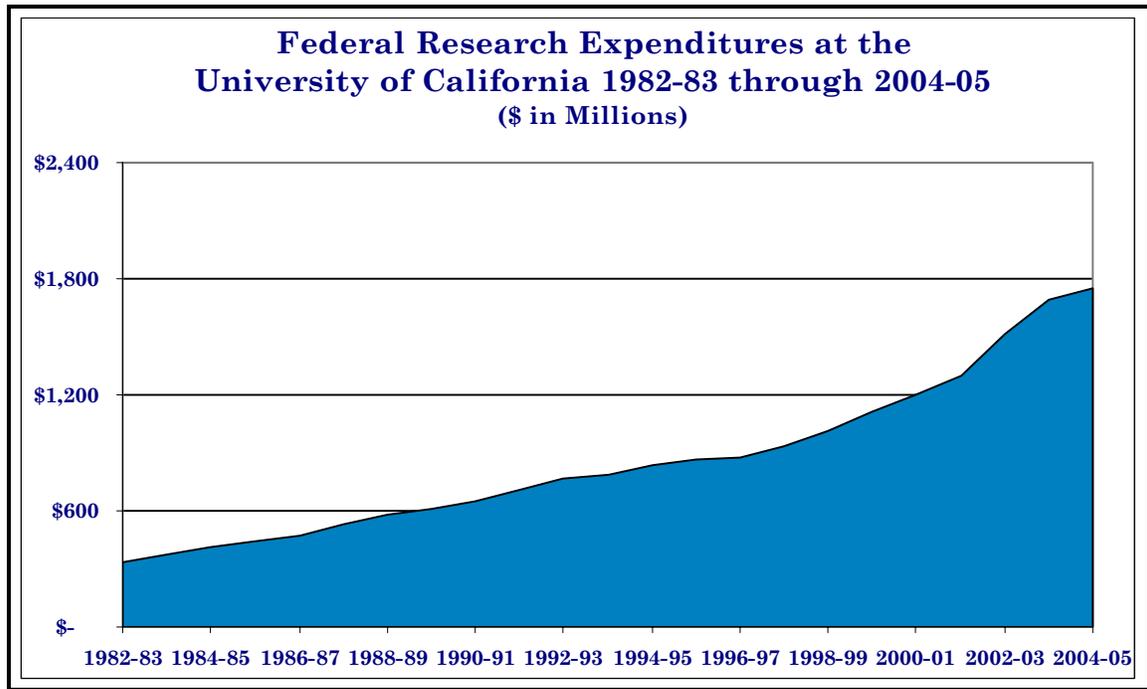
Historical Trends in University Federal Research Funding

Display 3 illustrates trends in federal research funding for the University over the 18-year period between 1982-83 and 2004-05. In the decade between 1982-83 and 1992-93 and again from 1997-98 through 2003-04, federal support for research at UC 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, in a pattern that may be repeating itself beginning in 2004-05, the focus of the federal government was deficit reduction. As a result, while total University federal 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.

But progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in new growth for funding. 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 dramatically reduced funding for University research.

After the 1997 agreement, however, there was a dramatic turn-around due in large part to the sustained strength of the national economy. Revenues increased more rapidly than had been projected, and the budget was balanced three years ahead of schedule. By 1998, the government recorded a surplus for the first time in three decades. As the federal budget went into its first surplus in more than 30 years, federal research and development (R&D) funding experienced rapid increases. A push to double the NIH budget began in 1999 and resulted in five years of increases

Display 3



averaging 15%. As a result of the terrorist attacks of September 11, 2001, and the subsequent wars in Afghanistan and Iraq, the FY2002, FY2003, and FY2004 appropriations for federal R&D resulted in record increases, with an emphasis on counter terrorism R&D and other defense-related research.

After 1997-98, the University's federal research expenditures increased as follows: 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, 8% in 2000-01, 8.5% in 2001-02, 16.3% in 2002-03, and 11.8% in 2003-04.

Beginning in 2004-05, however, the renewed concern at the federal level over the size of the national deficit and the resulting return to a period of more limited increases for federal research funding have also had an effect on the University's federal research expenditures, which increased by only 3.5% during the past year. Over the next few years, it is likely that federal research funding increases will be more limited because of administrative and congressional concern over record breaking federal budget deficits. Factors contributing to the deficit are: the costs of responding to Hurricanes Katrina and Rita, a continuing and costly war in Iraq, continuation of tax cuts, and an expansion of Medicare to pay for prescription drugs. These put enormous pressure on overall domestic discretionary spending, the source of most of UC's federal research funding. This will change only if government receipts are significantly higher, or entitlement spending is significantly lower, than now expected.

Outlook for FY2005 and Beyond

Display 4 shows the percent change in federal appropriations for total research and development and for selected federal research agencies that are major sources of the University's federal contracts and grants awards, NIH, NSF, and DOD. It documents the extraordinary increases over the last few years resulting from the enormous increases for defense weapons development and homeland security and the now completed campaign to double the NIH budget.

Display 4

Federal Appropriations for Research and Development (R&D) Total and Selected Agencies Percent Change over Prior Year			
Federal Budget Year	Total Research and Development (R&D)	National Institutes of Health (NIH)	National Science Foundation (NSF)
2006 (Proposed)	% of Change	% of Change	% of Change
<i>President's Budget</i>	0.6	0.5	2.7
<i>House Version</i>	1.9	0.5	2.6
<i>Senate Version</i>	2.3	3.7	1.6
2005	4.6	2.0	-1.6
2004	7.0	3.2	5.0
2003	14.6	16.2	11.4
2002	12.6	14.7	6.2
2001	9.3	14.9	13.3
2000	4.5	14.9	9.8
1999	5.6	14.4	6.8
1998	2.7	7.3	3.2

Source: Based on AAAS tables from OMB and agency budget data.

The FY2005 budget again included record-breaking totals for federal R&D, but the rate of increase slowed dramatically (4.6%) and 80% of the increase went to defense R&D programs. Most R&D funding agencies saw modest increases (e.g., NIH increased by 2%), but the NSF saw recent gains reversed with a reduction in its funding (-1.6%).

In its analysis of President Bush's FY2006 Budget Proposal, the American Association for the Advancement of Science (AAAS) notes that total Federal investment in R&D continued to increase in FY2005 "...because of defense and homeland security increases, but in completing FY2005 appropriations last December Congress went along with the President's proposals to freeze most domestic discretionary spending at FY2004 levels. As a result, the non-defense, non-homeland security R&D portfolio stagnates this year, with modest increases

in some areas offset by cuts in others. The FY2006 budget for next year would continue this austerity and extend it to defense R&D. As a result, growth in the federal R&D portfolio would fail to keep pace with inflation for the first time in a decade, and most R&D programs would suffer cuts in real terms.”

For the fiscal year that began on October 1, only two of the projected ten appropriations bills that will constitute the FY2006 federal budget have been acted upon by both houses of the Congress and signed into law by the President. These relate to the Departments of Interior and the Legislative Branch. A continuing resolution provides temporary funding through November 18 for programs in unsigned appropriations bills at the lowest of the FY2005 House-proposed or Senate-proposed funding levels.

As the House Appropriations Committee versions of the remaining bills currently stand, total R&D federal funding would increase by 1.9% next year, more generous than the Administration’s proposed 0.6%. The House version, however, includes only a 0.5% increase for NIH. If passed into law, this will mark the first time in 24 years that the NIH R&D budget fails to keep pace with inflation. The Senate is proposing an overall 2.3% increase for total R&D, a more generous 3.7% increase for NIH, but only a 1.6% increase for NSF. (The House version proposes a 2.6% increase for NSF.) Most R&D funding agencies are likely to receive flat funding or modest increases that fall short of inflation.

Benefits of Research

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

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

and improvements in the quality of life. The following discussion presents examples of UC's contributions to the economic and social well-being of the state and nation.

Economic Impact

In terms of a direct impact on the California economy, University research programs attract large amounts of extramural funds for expenditure within the state. In 2004-05, for every State dollar UC spent nearly \$6 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

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

Recently, UC San Diego identified 119 such companies nurtured by research from that campus, which together employ more than 15,000 people and generate annual revenues in excess of \$1.8 billion. UC scientists founded one in five biotechnology companies in California, including three of the world's top companies, Genentech Inc. of South San Francisco, Chiron Corporation of Emeryville, and Amgen, Inc. of Thousand Oaks. California biotechnology companies collectively account for nearly half of the biotech industry's annual sales in the U.S. and employ more than 40,000 people in California. Two key programs fostering University cooperative efforts with the private sector, the Industry-University Cooperative Research Program and the California Institutes for Science and Innovation, are discussed at the beginning of this chapter.

UC's museums, performing arts venues, and nationally ranked arts and humanities programs are key components in making California a leader in the arts and culture industries. A 2004 report by the California Arts Council concluded that the total annual impact of the California arts and culture sector totaled \$5.4 billion, up 152% from \$2.15 billion in 1994. The study demonstrated that arts and culture generate billions annually, support a workforce of more than 160,000, and produce nearly \$300 million in state and local taxes. Education, cultural tourism, and California's creative industries contribute significantly to State's economic well-being and status as one of the world's largest economies, and the University is an important contributor to these efforts.

Agriculture

California farmers and ranchers produced more than half of the nation's fruits, nuts and vegetables, and generated over \$30 billion in gross cash receipts in 2003. A major employer and revenue generator in the state, agriculture accounts for over one million jobs and more than \$60 billion in personal income. California is the nation's leader in agricultural exports, shipping nearly \$7 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.

In the early 1900s, UC scientists discovered how to remove alkali salts from Central Valley soils, thereby transforming California into one of the world's most productive farming regions. Similar contributions have continued unabated in the past century. In a recent study on the payback of the State's investment in agricultural research, it was shown that farm production increased nearly 300% from 1949 to 1985, with almost half of this growth directly related to research.

The UC Division of Agriculture and Natural Resources (ANR), through the Agricultural Experiment Station (AES) and its Public Service arm, Cooperative Extension (CE), continues to help the State's growers maintain a competitive edge in domestic and export markets through the development, delivery and adoption of new technologies and innovative farming practices. A few examples include:

- new varieties of strawberries, walnuts, citrus, and many other fruits, nuts, field and vegetable crops have been developed at UC enabling California to be the leading producer of agricultural produce in the nation;
- basic principles of biological control and integrated pest management have been discovered leading to the control of a myriad of insect pests found in agricultural, urban and natural systems, reduced pesticide use and improved environmental quality;
- improved land reclamation, irrigation (including drip systems), and drainage techniques have made California agriculture more productive while conserving natural resources.
- in the natural resources area, AES and CE academics are addressing challenges and opportunities associated with land, air, and water resources. Some recent examples of successes include:
 - effective ways to reduce the impacts of wastes on land, water, and air resources;
 - strategies for the protection of rangelands, watersheds, and water quality by helping ranchers reduce the impacts of livestock production;

- innovative agricultural and forestry practices leading to improved wildlife habitat – e.g. modification of rice production techniques to support migratory waterfowl populations.

With its mission orientation and direct linkages to clientele, the Division of Agriculture and Natural Resources is uniquely positioned within UC to be responsive to the needs of Californians. Recent examples are the mobilization of AES and CE to address Pierce's Disease in grapes and Sudden Oak Death. ANR scientists and advisors are working to develop methods to control Pierce's Disease, a devastating disease of grapes, ornamentals, and other crops, and its insect vector, the glassy-winged sharpshooter. ANR scientists have also responded with critical field research to identify hosts for the pathogen that causes Sudden Oak Death, and measures to slow its destructive spread to coastal oaks, redwoods, and other trees and shrubs. The tremendous successes achieved by UC researchers and other experts have had in addressing these problems were possible, in large part, because an existing workforce could be rapidly mobilized. However, with cuts of 25% in agricultural research, and comparable reductions in UC Cooperative Extension, ANR's ability to respond to a new pest or disease outbreak has been impaired.

Medicine

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

In the late 1990s, the State funded several new initiatives in medical research, including funds for research on substance and alcohol abuse, and operating and annual debt service support for a facility to house basic science research on various neurodevelopmental disorders, and geriatric research among other augmentations.

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

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

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

Other programs funded in the late 1990s and early 2000s by the State support research on the diagnosis, treatment, and prevention of lupus, a disease of the auto-immune system; and brain and spinal cord injury treatment and cure.

Other Research Areas

In other areas, University researchers are exploring methods for predicting the time and location of earthquakes and ways to design new buildings and modify existing buildings so they better withstand earthquake effects. Research on global climate and earth systems is benefiting California fisheries and agriculture by leading to better predictions of hazards such as drought, flooding, and other natural disasters, and to more effective means of mitigating their effects. New materials are being developed that could lead to better synthetic products, such as prosthetic devices more acceptable to the body and longer-lasting, easy-care contact lenses. UC

researchers forging ahead in new areas such as roadway technologies, alternative fuels, and truck safety are addressing California's changing transportation needs.

Social science research is furthering our understanding of issues critical to California's social and political well-being. Examples include collaborative research between California and Mexico focusing on issues of critical interest such as trade and economic development, immigration, language acquisition and development, educational access, international relations, public policy issues around homeland security, population growth, the Pacific Rim, and a wide range of other policy-relevant research areas.

In the humanities, research at the University of California has flourished across the system, placing many programs at the top of the National Research Council rankings. The systemwide Humanities Research Institute is spearheading a transformative effort to bring technology to bear on cultural issues and has worked closely with scientists and engineers to develop new approaches to interdisciplinary scholarship and collaborative research. The UC Humanities Technology Council brings together the top thinkers within UC from the California Digital Library, UCTV, the California Institutes for Science and Innovation, the San Diego Supercomputer Lab, the UC Digital Arts Research Network, the Museum Online Archive of California, and other major projects to promote collaboration and develop new ways of linking humanities resources around the state, across the country, and internationally.

PUBLIC SERVICE

2005-06 BUDGET	
Total Funds	\$ 186,729,000
General Funds	84,382,000
Restricted Funds	102,347,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	4,975,000

Public service includes a broad range of activities organized by the University to serve state and local communities, students, teachers and staff in K-12 schools and community colleges, and the public in general. Consistent with its mission as a land grant institution, the University's public service programs help improve the quality of life in California by focusing on major challenges, whether in business, education, health care, community development, or civic engagement, that impact the economic and social well-being of its citizens. State funds support a variety of public service programs. This chapter describes four major State-supported public service efforts: Student Academic Preparation and Educational Partnerships, California Subject Matter Projects, Cooperative Extension, and the Charles R. Drew University of Medicine and Science. Campuses conduct other public service programs supported by State funds, student fees, user fees, and other non-State fund sources, such as arts and lecture programs and student- or faculty-initiated community service projects.

Student Academic Preparation and Educational Partnerships (SAPEP) work collaboratively with schools, industry, and other partners to help talented but educationally disadvantaged students meet rigorous standards of academic preparation needed to be successful in higher education and the workforce. The California Subject Matter Projects provide standards-aligned professional development for K-12 teachers based on student, teacher, and school-identified needs. Cooperative Extension, the largest State-funded public service program, provides applied research and educational programs in agriculture and natural resources, family and consumer sciences, community resource development, and 4-H youth development for Californians. The Charles R. Drew University of Medicine and Science, jointly operated with the Los Angeles campus, is a program of clinical health science education, research, and public service. Each of these major program areas is discussed in more detail below.

Student Academic Preparation and Educational Partnerships

The economic and social future of California will be shaped by the extent to which children from all sectors of society are educated to compete in a global, knowledge-based economy. This is especially important in California since in many ways it competes as a nation economically, rather than as a state. The University of California is committed to working in collaboration with other higher education segments, K-12 colleagues, business and government leaders, and community-based organizations to help maintain California's competitive edge through education of its citizenry.

As early as 1872, President Daniel Coit Gilman called on the University to collaborate with schools in enhancing student preparation for a college education so that the "work of the university shall clearly forward the welfare of the state, of the whole body politic." Today that vision takes concrete form in the University's Student Academic Preparation and Educational Partnerships.

These programs are important not only to the future of the students they serve, but to the preparation of the workforce California needs to sustain its position of leadership in the global economy. California's economic success relies on the availability of a workforce in which Californians from all backgrounds and all regions of the state are prepared to contribute to a knowledge-based society. Immigration reforms, coupled with other nations' efforts to bolster their science and technology infrastructure, mean that California must focus intensively on educating its youth for the global economy while it contends with changing demographics and an existing educational achievement gap that encompasses a large proportion of students who have been part of the minority population of the state and will soon be the majority population of the state.

Raising K-12 achievement levels and closing achievement gaps between groups of students is critical to keeping the state's economy competitive in the long run. In national comparisons of 8th graders, California scored last in the country in science and 7th from the bottom in mathematics (National Science and Engineering Indicators, 2004). In high schools with the lowest Academic Performance Index (API) scores, 56% of physical science teachers do not have a credential in their subject area, compared with just 4% in high-API schools. Only one-third of California high school students are successfully completing a rigorous college preparatory curriculum, and the rates are lower for students in many regions of the state and for students in educationally disadvantaged environments. At UC today, 57% of public high school students enrolled at UC come from just 20% of the state's high schools. In recognition of these needs, The Regents have adopted a resolution affirming this work as a fundamental part of the University of California's mission.

Higher education plays a critical role in helping students from all sectors of our diverse society prepare for the opportunity to earn a college degree and to obtain the skills needed to become leaders in the state and nation. For many schools in low-income communities, university representatives and electronic links to UC resources are the only source of current and accurate information on and assistance with college admissions and financial aid. Likewise, in many rural communities, geographic distance from any four-year college or university discourages many students from pursuing higher education, whereas contact with university representatives makes a college-going dream a realistic possibility.

Beyond providing direct services to these students, university links with school personnel are essential. University faculty possess unique capabilities to work in tandem with teachers and principals to analyze complex factors that can make higher student achievement possible and assist in building new models for teaching and learning. Moreover, changing the conditions in schools serving poor, disadvantaged communities is a complex, long-term challenge that cannot be addressed without applying the expertise of scientists, mathematicians, economists, and educators from all disciplines in California's universities. The University's Student Academic Preparation and Educational Partnerships engage university expertise with that of K-12, so that throughout the educational pipeline students, teachers, and parents have a clear sense of academic expectations and goals. Research has shown that the basic resources needed for learning for students in all communities (rich and poor, urban and rural) are:

- competent, well-trained teachers and school leaders;
- rigorous, standards-based curricula;
- safe and adequate facilities;
- a college-going culture of excellence;
- academic support systems; and
- access to textbooks and other learning resources.

The overriding purpose of the University's Student Academic Preparation and Educational Partnerships is to decrease the impacts of disparity in educational opportunity in California schools. This is addressed in four ways by:

- providing academic support, mentoring, information, and other services to individual disadvantaged students so that they may complete a rigorous college preparatory curriculum in high school and enroll in college;
- contributing to improvement in the school conditions that shape students' opportunity to learn, such as directing teachers and administrators to programs that provide effective high quality professional development; helping to build college-going cultures in middle and high schools; providing

access to technology-based learning resources; and training parents to be more effective participants in their children's education;

- identifying through research what works—and doesn't work—in individual schools and throughout the state's educational system; and
- enhancing the academic preparation of undergraduates from educationally disadvantaged communities in order to promote their readiness for graduate and professional level training.

The following summarizes the history of University efforts to date, outlines a new strategic direction for helping to enhance student academic preparation through educational partnerships, and describes a revised accountability framework for assessing program effectiveness in the future.

History

The current generation of student academic preparation programs took shape in the 1960's, when the Civil Rights Movement drew attention to issues of access to the University. During this period when there were no fiscal constraints on enrollments, The Regents addressed access issues primarily through aggressive and innovative admissions policies.

In the 1970's, the University began providing underrepresented students academic assistance and information to help them meet university admission standards. Campuses launched new programs to raise levels of student academic achievement. For example, the Mathematics, Engineering, Science Achievement (MESA) program, which originated on the Berkeley campus in 1970, was one of the first of its kind in the nation specifically designed to increase student academic preparation in science and mathematics.

During this same era, the University appointed five student affirmative action task groups to study ways to increase access and academic success for students underrepresented in the University. The Legislature passed the Meade Bill in 1975, marking the first time that State resources were devoted to increasing the number and persistence of eligible minority students. With it was born the concept of developing a pipeline of academic preparation programs beginning with students in the 7th grade and continuing through their college careers.

In the 1980's, soon-to-be UC President David Gardner chaired the commission that produced the report, *A Nation at Risk*. This ground-breaking report on the state of elementary and secondary education in the United States identified the major problems facing the nation's schools and made sweeping recommendations for addressing them. The University responded to *A Nation at Risk* with the expansion of teacher-centered initiatives, including the Bay Area Writing Project and the Mathematics and Science Subject Matter Projects, which were soon followed by the

Literature Project (now the California Reading and Literature Project), the Foreign Language, the Arts, and History/Social Science Projects. In 1998, the Legislature authorized funding for nine California Subject Matter Projects, described later in this chapter. UC campuses also launched a still successful summer research internship program that encouraged and prepared juniors and seniors to enter graduate and professional school programs.

Enrollment demand increased substantially in the latter part of the 1990's, resulting in thousands of applicants being denied admission to the most over-subscribed UC campuses. In July 1995, Resolution SP-1 was adopted by the Board of Regents, eliminating consideration of race, ethnicity, and gender in UC admissions and called on the President to appoint the Outreach Task Force (OTF) to identify ways in which outreach programs could help to ensure that the University remain accessible to students from educationally disadvantaged backgrounds. Coupled with the passage by California voters of Proposition 209 in fall 1996, these events elevated outreach to become the University's most critical tool for promoting access to the University for educationally disadvantaged students in California.

The primary numerical goals established by the Outreach Task Force were to double the number of educationally disadvantaged students participating in outreach programs who meet UC freshman eligibility requirements and to increase by 50% the number who are competitively eligible for admission to the most selective campuses. These targets were to be achieved in five years.

The Outreach Task Force began its deliberations in February 1996 and proposed goals and strategies for UC outreach that were adopted by The Regents in July 1997. In 1998-99, in accordance with the recommendations and goals established by the OTF, the State provided \$33.5 million and the University \$5 million for a total increase of \$38.5 million in additional funds for Student Academic Preparation and Educational Partnerships (most of which was to be matched on a dollar per dollar basis by K-12 partners). Funds were invested to: a) increase program participation of students from disadvantaged backgrounds, b) provide special academic enrichment opportunities designed to increase significantly their preparation for the University, and c) establish partnerships with schools serving large numbers of educationally disadvantaged students. Over the next year, these programs took shape throughout the state.

By the end of the decade, the University's outreach programs were the strongest in their history. Nearly 100,000 students were being served and the University had developed robust partnerships with more than 250 low-performing schools. Through these partnerships, University faculty provided subject matter and content expertise to teachers and leadership development programs for principals in strengthening curricular offerings and building college-going cultures in their

schools. In addition, with a new infusion of resources from then-Governor Davis, the University provided administrative oversight to a vastly expanded set of teacher professional development programs, the California Professional Development Institutes (CPDIs), largely focused on enhancing reading and mathematics competency of elementary school teachers. The impact of this expansion was particularly evident in the increases over a four-year period in reading and mathematics test scores of students in large urban districts where teachers received the additional training. Unfortunately, funding for the CPDI's was completely eliminated from the University's budget in 2002-03 as a result of the State's fiscal crisis. Several schools from throughout California now contract with the University for these professional development services; others use county office of education or for-profit providers. Some larger districts use "in-house" staff to provide the same or similar services.

Despite tremendous fluctuations in funding, the University was making steady progress toward achieving the five-year goals set forth by the OTF in 1997 to increase by 100% and 50%, respectively, the eligibility and competitive eligibility of its program participants. By the end of the fifth year, UC eligibility of program participants had climbed from 4,200 in 1998-99 to over 6,800 in 2003-04.

Student academic preparation programs concentrate on educationally disadvantaged students as well as low-performing schools throughout the state. Underrepresented minority students—African American, Latino, and American Indian—comprise the majority of students in these schools and the ethnic make-up of the University's program participants is generally reflective of the diversity pattern in schools UC serves and supports.

The impact of the University's student academic preparation programs on educationally disadvantaged and underrepresented minority students is significant. In fall 2004, nearly one-quarter of African Americans and over one-third of Chicano and Latino students in the incoming freshman class at UC campuses had been participants in UC's student academic preparation programs. The recent eligibility study (based on 2003 high school seniors) by the California Postsecondary Education Commission (CPEC) shows that 6.2% of African American students were eligible for UC, compared to just 2.8% in 1996. For Chicano and Latino students, eligibility gains were equally strong, with 6.5% eligible in 2003 compared with only 3.8% in 1996. Unfortunately, budget cuts have reduced opportunities for more than 50,000 students to participate in the University's student academic preparation programs and fewer schools and teachers are served. While a few programs have been able to maintain previous service levels, most now serve significantly fewer participants. Reduced funding has required new modes of engagement and utilization of resources with K-12 schools, businesses, and community-based organizations.

Although \$15 million in State funding for the University's school partnerships—now called K-20 (Kindergarten to University) Regional Intersegmental Alliances—was significantly reduced in 2001-02 and completely eliminated in 2002-03, the University continued these efforts with its own resources, testament to the value of the State's original investment and to the strong collaborative relationships that have been established between the University and K-12 schools.

Academic Preparation in a New Millennium

The five-year Outreach Task Force timeframe has concluded and the University is transitioning to a new paradigm for effectively supporting educationally disadvantaged students and low-performing schools, one that emphasizes partnership and collaboration as the key ingredients to addressing the crisis of persistent disparities in students' opportunities to learn in California's schools.

In fall 2002, then-President Atkinson convened a Strategic Review Panel (SRP) of experts from the business, community, and education sectors to study UC outreach programs and to recommend new directions for the future. The Panel lauded the success of the University's existing outreach programs in helping educationally disadvantaged students become UC eligible and recommended that the University establish closer alliances with other educational segments—especially K-12—and with business, industry, and philanthropic partners in order to leverage the capacity of all stakeholders in addressing educational disparities in California's schools.

The University adopted the SRP recommendation to change the name of these efforts to Student Academic Preparation and Educational Partnerships. The SRP as well as other stakeholders noted that “the term outreach . . . has unintended negative connotations that may inhibit the formation of partnerships with K-12 and the community colleges.” Others have suggested its many possible meanings may give the false impression that “outreach” is “recruitment.” The University's State-funded programs are not recruitment efforts. Rather, they focus on academic preparation and achievement of students in underserved K-12 schools and among UC undergraduates interested in advanced degrees.

In January 2005, The Regents of the University of California voted to affirm the University's engagement in the preschool through postsecondary education system as fundamental to UC's mission as a land grant institution. The policy states in part:

“The University affirms that a fundamental part of its mission is to engage in efforts to promote the academic achievement and success of all students, including students who, because they are educationally disadvantaged and underrepresented, therefore need additional assistance. Toward these ends, the University seeks to work

collaboratively with other key constituencies to enhance the educational capacity of California schools, to help close opportunity gaps that separate groups of students, and enhance access to those who have been underserved by the University.”

The SRP recommended that the University continue support for its successful student-centered programs, but that it also form a series of regional and local partnerships with groups and agencies that share the UC goals for higher student achievement. The key to successful partnerships is trusting relationships developed and sustained over time so that stakeholders are positioned to seize programmatic opportunities as they emerge. UC is uniquely positioned to provide the stability and status for furthering such relationships.

The University continues to build new regional intersegmental alliances, which incorporate and coordinate the work of existing UC student academic preparation programs. Through funding from the K-20 Regional Intersegmental Alliances, the University has formed partnerships with senior leaders from K-12 school districts, including teacher and administrative representatives, county offices of education, colleges and universities, social service agencies, community-based organizations, labor groups, philanthropic groups, and businesses to develop improved curriculum, increase academic rigor, and enhance academic advising to help create a college-going environment in low-performing schools. Through these regional intersegmental alliances, plans are developed for each region that enable school leaders to make considered decisions about how to: a) build student and school capacity; b) work collaboratively with all stakeholders; and c) share and leverage scarce resources to support the delivery of services to students, parents, and educators. In order to facilitate this important work, it is critical that core funds are provided to create a stable infrastructure. The University will then be in a position to leverage additional funding from a variety of K-12 and private sources to expand this effort.

The University of California has the finest scholars in the country in the area of education research. Student academic preparation programs draw on their expertise—serving as an important laboratory for their research. With adequate core funding for this effort, UC faculty, researchers, and program staff will continue to develop innovative programs and provide best practices to address the problems facing the state in education. Stable core funding will help build effective programs, retain talented program staff, involve expert faculty, and attract K-12, foundation, and other funding—just as UC is able to leverage additional funding for its research efforts.

Research and experience suggest that programs developed in collaboration with K-12 schools and other partners should continue to focus on the following activities:

- developing students’ mathematics and science competencies;
- developing students’ academic language and literacy skills (academic reading and writing) in core content areas at the middle and high school level with special attention given to English learners and others in K-12 and at community colleges whose academic language development compromises their achievement;
- developing teachers’ academic knowledge and pedagogical skills in the core subject areas with special emphasis on English learners and teachers who are under-prepared and/or under-qualified for their assignment;
- developing information systems that motivate and successfully guide students towards, through, and beyond college;
- developing systems that assist teachers, schools, and districts in the analysis of student achievement data and the diagnosis of particular academic needs; and
- engaging in ongoing research that informs “a-g” course completion rates, provides opportunities for stakeholders to monitor their progress toward high quality education and college access for all students, and systematically assesses the effectiveness of various interventions.

In the Imperial Valley, UC launched a program with local schools, the County Office of Education, CSU, and other partners to improve algebra completion through a summer algebra academy. After the first semester, 88% of the academy participants passed algebra with a grade of C or better compared to 56% of non-academy participants, and 64% earned a B or better compared to just 29% of non-academy participants. The program has spread to every high school in Imperial County. The program has now been replicated in Lake, Mendocino, San Bernardino, Santa Barbara, and Ventura Counties.

Another example of a successful regional alliance is College Options, a K-16 education partnership in Shasta and Siskiyou Counties. Partners working on an equal basis—and all contributing funding to the alliance—include two county offices of education, eight colleges and universities, the California Education Round Table Intersegmental Coordinating Committee, and the McConnell Foundation of Redding, California. Leadership of College Options is the responsibility of a governing board, a collaborative group consisting of presidents of higher education institutions, higher education and school senior managers, and county superintendents. The group is in the process now of adding

members of the local business community to the board. Working in tandem, representatives of the cooperating partners assure that students in every high school and middle school in these two counties receive college-going support and counseling on a weekly basis. The group also jointly sponsors public information campaigns, funds two store-front offices for college and financial aid advising, and organizes a variety of community events. The dimensions of the effort far exceed the potential of the partner agencies working separately and independently. College-going rates are rising rapidly in these two counties.

Accountability

The University's student academic preparation and educational partnership programs are committed to rigorous standards of assessment and to an accountability system that reports progress on a regular basis. The programs have entered a new five-year cycle (2004-05 to 2008-09), with required changes in program objectives and a revised accountability structure and the evaluation designs that support them. Budget bill language authorizing UC's Student Academic Preparation and Educational Partnerships for 2005-06 includes a specific requirement for reporting to the Legislature on details for individual programs, including goals and accountability data demonstrating program scope and effectiveness in accordance with the accountability framework developed in April 2005.

The University will submit two progress reports to the Legislature and Governor's office in 2005-06. The first, to be submitted in November 2005, will contain an interim assessment of program effectiveness. Parameters for this assessment will focus on several Student Academic Preparation and Educational Partnership programs for which sufficient data are available. In April 2006, the University will report for the first time its progress toward achieving the goals outlined in the accountability framework. This report will include benchmarks and outcomes for all programs, including direct service programs and infrastructure programs for which the University serves as steward.

The new accountability framework was developed with the participation of representatives from the Legislature and the Schwarzenegger administration to help forge a common approach to understanding and assessing the performance and accountability of the University's Student Academic Preparation and Educational Partnerships. The new framework defines the way that SAPEP assesses, evaluates, and reports the effectiveness and efficiency of its programs. It identifies SAPEP goals and aligns them with accountability mechanisms. Over time, use of the framework will ensure that programs are managed efficiently and effectively and in accordance with a common set of principles, policies, and stakeholder expectations. By placing emphasis on specific program goals, the framework also ensures that program planning across SAPEP is data-driven and results-oriented. Seven assumptions underpin the new framework:

- There is a sustained commitment to accomplishing the goals outlined in the framework.
- Each program in the SAPEP portfolio will identify in advance the program goals for which it will report progress; in identifying the specific goals, consideration will be given to program capacity and resources necessary to achieve specified outcome measures for at least three of SAPEP's goals.
- A comprehensive system of outcome measures will provide the necessary information for policy decisions at the campuses, systemwide, and State levels.
- Outcome measures for SAPEP programs are flexible and responsive to review, and can change to meet identified needs and future developments.
- Resources for enhancing student achievement vary across the state. Thus, program operations will differ in how services are delivered but will be organized in such a way as to leverage regional intersegmental partnerships and alliances.
- Individual programs working within regional alliances are assessed for their unique contributions to the accomplishment of the overall mission.
- The data required to report SAPEP outcomes are available and can be collected efficiently and in a cost-effective manner.

The framework contains four components: mission, target audiences, strategies, and program goals.

SAPEP Mission. The goal of the University of California's Student Academic Preparation and Educational Partnership programs is to work in partnership with K-12, the business sector, community organizations and other institutions of higher education to raise student achievement levels generally and to close achievement gaps between groups of students throughout the K-20 pipeline so that a higher proportion of California's young people, including those who are first generation, socio-economically disadvantaged, and English language learners, are prepared for postsecondary education, pursue graduate and professional school opportunities, and/or achieve success in the workplace.

Target Audiences. The target population of those served, and/or the characteristics of the schools they attend, meet two or more of the following criteria:

Students:

- Low family income;
- First generation college;
- Attendance at low-performing schools.

K-12 Schools and Community Colleges:

- Low family income is a defining characteristic of the students who attend the school and/or of the neighborhood/community the school serves;
- Among the students who go on to a four-year college from high school or community college, a substantial proportion is first generation college students;
- Designation of the school as low-performing as indicated by the school's API score or by marked achievement differences among groups as identified by API and other federal and state assessments.

Strategies. To achieve its mission of raising student achievement and closing achievement gaps, SAPEP programs deploy their student academic preparation interventions within K-20 intersegmental regional alliances. A key role of the University in these alliances is to leverage the investments of K-12 in ways that more effectively meet shared goals to increase student achievement.

Program interventions may include: building a college-going culture; academic advising; subject matter and study skills instruction; career, college, graduate and professional school exploration; research and mentorship opportunities; transfer assistance; and preparation for college, graduate, and professional school admission examinations.

SAPEP conducts evaluation activities and is responsible at the campus and systemwide levels for formative and summative evaluation to judge the overall effectiveness and efficiency of programs.

Program Goals. Going forward, SAPEP proposes to report progress toward achieving the following goals:

Tier one program goals:

- Increase the number of active program participants in K-12 who complete an “a-g” course pattern.
- Increase the number of K-12 program participants who are college prepared, defined as “a-g” course pattern and SAT Reasoning or ACT exam completion.
- Increase the number of active program participants who go to college and/or who transfer to a baccalaureate degree-granting institution within 3 years of their community college start date.
- Reach the University's goal for achieving complete major preparation articulation agreements with all 108 community colleges by 2005 and maintain these agreements.

- Increase the number of program participants who matriculate into graduate and professional schools.

Tier two program goals require the development of new systems and the creation of cross-institutional cooperative agreements:

- Increase the number of active program participants in K-12 programs and at schools served who graduate from high school.
- Increase the number of active program participants in K-12 programs and at high schools served who complete the CAHSEE exam by 10th grade.
- Increase the number of students from California Community Colleges who are transfer-ready.

In support of this new Accountability Framework, the University has developed the Transcript Evaluation Service (TES), an expansion of its existing technology and supporting programmatic development that allows for better assessment of students' progress toward meeting college entrance requirements beginning with high school freshmen. When data generated by TES are made available, the information will be useful to students for course selection, college planning, and financial aid development and to K-12 schools for the assessment of "a-g" access patterns and strategic planning. TES has the technical capacity to be used as a longitudinal data base for accountability, research, and program evaluation purposes. It can be used to assess leading indicators of progress as well as the scholarship requirements for UC and CSU eligibility. Twenty high schools have been selected to support the use of TES in a pilot phase. TES is an example of the University's efforts to use technology as an efficient tool to help students and schools.

In addition to broadening the indicators used to capture the impact of programs on students and schools, and developing technology that allows for more precise calibration of students' progress toward completion of standard college preparatory course requirements, the University will continue to support a research agenda focused on issues of educational disparity. In addition, the University will continue to document the evolving policy environment around student academic achievement to provide to the state detailed information about how shifts in policies impact local implementation of student academic preparation programs, regional collaborations, and local partnerships.

Funding

The University faces many challenges in carrying out this work, not the least of which is the effect of the State's fiscal crisis on funding for these efforts and the resulting instability in these programs. In 1997-98, after the adoption of SP-1 and Proposition 209, the University's budget for student academic preparation programs

was \$18.1 million from State and University funds. The total grew to a high of \$85 million in 2000-01, but was reduced by \$55.7 million over the next several years, bringing the total budget to \$29.3 million in 2005-06, of which \$17.3 million is State General Funds provided on a one-time basis.

Display 1 shows the budget for each program in 1997-98 prior to the significant augmentations, funding in 2000-01, and the 2005-06 budget for each program.

Display 1

University of California			
Student Academic Preparation and Educational Partnerships			
1997-98, 2000-01, and 2005-06 Budgets			
(\$000s)			
	1997-98	2000-01	2005-06
	State &	State &	State &
	UC Funds	UC Funds	UC Funds
Direct Instructional Programs			
Preuss Charter School	\$ -	\$ 1,000	\$ 1,000
UC College Preparation (online courses)	-	8,400	3,106
Statewide Infrastructure Programs			
ASSIST	360	360	429
Community College Articulation	-	-	600
Direct Student Services Programs			
Community College Transfer Programs	1,718	5,295	1,279
EAOP	4,794	16,094	8,914
Graduate and Professional School Programs	1,893	8,575	2,661
MESA K-12 Programs	4,169	9,355	4,861
MESA Community College Programs	22	1,309	327
Puente High School	-	1,800	1,051
Puente Community College Programs	162	757	450
Student-Initiated Programs	-	-	440
UC Links	-	1,656	694
Longer-Term Strategies Originally Funded by the University			
K-20 Regional Intersegmental Alliances (formerly School-University Partnerships)	-	15,591	1,395
Other Programs			
Evaluation *	-	1,386	1,180
UC ACCORD *	-	809	-
Other Programs (currently includes Community Partnerships, ArtsBridge, Other)	203	3,887	936
Programs that have been eliminated or consolidated into others, including Test Preparation, Dual Admissions, Gateways, Informational Outreach and Recruitment, Central Valley Programs	<u>4,750</u>	<u>8,908</u>	<u>-</u>
Total	\$ 18,071	\$ 85,182	\$ 29,323
General Funds	[\$ 16,996]	[\$ 82,243]	[\$ 17,323]
University Funds	[\$ 1,075]	[\$ 2,939]	[\$ 12,000]
*For 2005-06, funding previously budgeted for UC ACCORD will be used for evaluation.			

The Governor's January 2004 budget had proposed elimination of all State and University funds for Student Academic Preparation and Educational Partnerships for 2004-05. However, as part of the final agreement on the budget, \$29.3 million in State General Funds was restored on a one-time basis for these programs. This total represented a decrease of \$4 million from the level of funding provided in the previous year.

As part of the negotiations on the Compact with Governor Schwarzenegger, the University and the Administration agreed that \$12 million of existing University resources would be redirected to support high priority, effective student academic preparation and educational partnership programs. The 2005-06 budget proposed by the Governor again recommended withdrawal of \$17.3 million in State General Funds for the University's student academic preparation programs, leaving only the University's \$12 million to fund these efforts. The University believed strongly that the State funding should be restored and worked throughout the budget process to arrive at an agreement with the Governor and the Legislature that ultimately restored the \$17.3 million in the final budget act for 2005-06 on a one-time basis with the understanding that the University will work with the Administration to evaluate the effectiveness of each program and redirect funding from those that cannot demonstrate an adequate return on investment to those programs that can demonstrate effectiveness. The final budget act also specifies that the University will report on the outcomes and effectiveness of these programs consistent with the accountability framework developed in April 2005. The 2005-06 budget includes \$17.3 million in State funds and \$12 million in University funds for a total budget of \$29.3 million.

Program descriptions for each of the University's Student Academic preparation and Educational Partnership programs can be found in the most recent legislative report at: <http://www.ucop.edu/sas/research/researchandplanning/welcome.html>

Other K-12 Public Service Programs

California Subject Matter Projects

In 1998, the California Legislature authorized funding for nine Subject Matter Projects based on the Bay Area Writing Project, which began at UC Berkeley in 1974. The California Subject Matter Projects (CSMPs) provide standards-aligned professional development for K-12 teachers based on student, teacher, and school-identified needs. CSMPs engage K-12 leaders and faculty in the various disciplines from the University of California, California State University, and private higher education institutions to develop and deliver intensive institutes for education professionals. The institutes and workshops advance teachers' understanding of content knowledge and support their implementation of research-based instructional strategies to improve student achievement. In the 2004-05 school

year, 98 CSMP projects provided extensive support to K-12 schools by serving over 47 teacher and school leader participants with more than 6,000 activities for a total of 1.1 million participant hours. Evaluation research conducted by SRI International reports a positive correlation between student achievement and the number of years students had teachers who participated in CSMPs in science, reading, writing, and mathematics.

The CSMPs were reauthorized in 2002 (AB 2950, Strom Martin, Chapter 463). In 2003, legislation (SB 611, Ducheny, Chapter 857) recognized that seven of the nine projects currently operate with content and skill standards approved by the State Board of Education (SBE) and authorized the continuation of State funding support for those projects, including: reading and literature, writing, mathematics, science, history/social science, world history/international studies, and the arts. SB 611 recognized that the foreign languages and physical education/health projects were awaiting content and skill standards approval from the SBE and authorized maintenance level funding for those programs. K-12 Physical Education standards were adopted by the SBE in spring 2005. SB 611 also authorized the CSMP to integrate instructional strategies for working with English learners into their professional development training.

Currently, the CSMPs are restructuring their work to support 11 regional service areas and to incorporate the regionalization plan envisioned by UC's K-20 Regional Intersegmental Alliances, which is part of the University's Student Academic Preparation and Educational Partnerships.

State funding for the CSMPs was reduced from a high of \$35.5 million in 2000-01, to \$20 million in 2002-03, and then to \$5 million in 2003-04 where it remains in 2005-06; an additional \$4.4 million from the federal No Child Left Behind, Title II, Part A program (NCLB) brings the total CSMP funding to \$9.4 million. NCLB funding requires the CSMPs to serve K-12 teachers who are not "highly qualified" and to provide technical assistance to low-performing schools. In 2004-05, CSMP projects leveraged an additional \$5.8 million in cash and almost \$1.6 million in in-kind contributions for a total of \$7.3 million to support their work. This \$7.3 million is in addition to the \$9.4 million in State and federal funding.

Research shows that intensive and ongoing professional development for teachers is critical to improving student achievement. CSMPs remain a vital part of the state's capacity to develop California's teacher workforce. The University will continue to seek additional funding to provide quality 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.

California farmers and ranchers have achieved a steady record of economic growth over the past half century, while implementing new management and production practices that make their operations the most environmentally compatible and natural resource conscious in the nation. Much of this economic success can be traced to the impact and influence of the University of California’s research and extension programs.

About 240 county-based UC Cooperative Extension advisors team with campus-based specialists and scientists in the Agricultural Experiment Station to deliver the latest research-based information, management practices, and technological advances to users across the state. UC Cooperative Extension advisors also conduct applied research in the field and adapt new technologies from campus labs to meet local and regional needs. UC 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.

The Division also operates nine research and extension centers. The centers, representing different climates, landscapes, and cropping systems, are located from the Oregon to the Mexican borders and serve as outdoor laboratories for UC scientists conducting applied research and field tests. They also provide regional venues for UC 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.

California farmers and ranchers generated over \$30 billion in gross cash receipts in 2004, and much of this success is the result of new technologies, better crop varieties, and environmentally-friendly farming practices developed and delivered by UC. A major employer and revenue generator in the state, agriculture accounts for over one million jobs and more than \$60 billion in personal income. California is the nation’s leader in agricultural exports, shipping nearly \$7 billion in food and agricultural products around the world. Among the more than 350 commodities produced in California, milk and cream, grapes, nursery products, cattle and calves, lettuce and almonds each grossed more than \$1 billion a year. In addition to bringing solutions from the University to bear on “real world” problems, Cooperative Extension involves over 30,000 trained 4-H Youth Development and Master Gardener volunteers across California. With their assistance, nearly

150,000 youth (ages 5-19) participate in UC Cooperative Extension-sponsored 4-H Club and after school activities in cities and rural areas alike, and thousands of homeowners have access to reliable, science-based information on gardening, water conservation, and ways to reduce pesticide use.

For 2005-06, budgeted funding for UC Cooperative Extension totals \$56.7 million, of which \$40.8 million is State and UC General Funds. In 2002-03 and 2003-04, State funding for UC Cooperative Extension was reduced by an unprecedented 25% (\$12 million). These cuts to UC Cooperative Extension are in addition to a 20% reduction to the program's State funding during the fiscal crisis of the early 1990s. In addition, there were reductions to the ANR research budget and the Agricultural Experiment Stations between 2002-03 and 2004-05, and these reductions, together with the UC Extension reductions, resulted in a loss of 347 positions statewide.

The top priority for UC Cooperative Extension, under the new fiscal realities, is to maintain programs that directly serve local communities and local needs. Unfortunately, given the magnitude of the budget cuts, every program and unit has been affected. California is the nation's leading dairy-producing state, but UC Cooperative Extension lost one-third of the advisors in dairy following the recent budget cuts. California also produces more than 50% of the nation's fresh fruits, nuts, and vegetables; UC Cooperative Extension has already lost 8 advisors in this critical area. Over the past several decades, UC research and Extension have been instrumental in the prominence achieved by the California wine industry. The loss of several campus-based UC Cooperative Extension specialist positions puts into jeopardy UC's ability to meet the emerging viticulture and enology needs of that industry.

The reductions in State funding have had an immediate as well as long-term impact. A new pest or disease appears in California every 60 days, with Sudden Oak Death, Exotic Newcastle Disease, West Nile Virus, and Avian Influenza appearing in the news recently. Another recent introduction is the glassy-winged sharpshooter, which threatens to spread Pierce's Disease to the state's \$3 billion wine, raisin, and table grape industries. The Division has taken a leadership role with the U.S. Department of Agriculture, California Department of Food and Agriculture, the National Academy of Sciences, and the wine and grape industries to garner federal, state, and industry funds, leverage additional resources, and assemble research and extension teams to address both immediate responses and long-term solutions. The tremendous successes that University researchers and other experts have had in the past in addressing these formidable pest and disease problems were possible because an existing workforce could be rapidly mobilized. With the cuts already taken, such a timely response today would be difficult – further cuts would place in serious jeopardy the University's ability to respond. The state of California cannot afford to let eroding budgets halt this type of work, which helps to secure both the economic and environmental welfare of the state.

Charles R. Drew University of Medicine and Science

The Charles R. Drew University of Medicine and Science is a private, nonprofit corporation with its own Board of Trustees. Drew University conducts educational and research programs in south central Los Angeles in collaboration with Martin Luther King, Jr. County Hospital, also known as King-Drew Medical Center. 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. State General Funds are provided to Drew under two separate contracts, both 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. 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.

Over the last decade, Drew University has experienced financial problems, and more recently, serious difficulties involving the accreditation of its graduate medical education (or residency) programs. There have been equally serious, and at times related, problems with accreditation standards, policies, and procedures at Los Angeles County's Martin Luther King Jr. General Hospital, which is the principle teaching site for medical students enrolled in the Drew program.

In response to these matters, the California Legislature passed Assembly Concurrent Resolution 139 (Dymally, 2003), which requested that the University join with leadership at Drew and Los Angeles County to address several accreditation concerns concerning Drew residency training programs. In response to this resolution, the University has been actively involved in a variety of efforts in this regard and much has been accomplished as a result.

A Graduate Medical Education (GME) Advisory Group, including the senior leadership of Drew, Los Angeles County, the UCLA campus and the UC Office of the President, has met on multiple occasions to address specific issues identified by the Accreditation Council for Graduate Medical Education (ACGME). Faculty experts from throughout the University have been called upon to consult with Drew officials and to assist in reviewing program-specific problems and developing focused corrective action plans. At the urging of the GME Advisory Group, the

national Association of Academic Health Centers (AHC) and the ACGME sponsored a two-day national conference in July 2004 focusing on “safety net” hospitals and the challenges they face in developing, financing, and sustaining high quality medical education and training programs. This collaboration resulted in a national network that will share best practices regarding residency training and strategies for achieving cost-effective compliance with accreditation standards.

Notwithstanding these efforts, significant challenges involving residency education and accreditation remain. Although fifteen Drew residency programs are fully accredited (including Emergency Medicine, OB/GYN, Pediatrics, Psychiatry, and others), three others are on probation or have some type of ACGME warning in effect. Two programs (General Surgery and Radiology) were closed effective July 1, 2004. The GME Advisory Committee, with active participation and support from UC, continues to work with the Drew administration and faculty to identify appropriate actions and timetables for addressing these matters.

With respect to Drew’s finances, State budget augmentations and administrative assistance from the UCLA administration have enabled Drew’s financial situation to improve. The University has provided strong support to Drew despite the significant reductions to the University’s State funded budget during the State’s budget crisis.

While other UC programs have been cut 10-50% (and in some instances, whole programs have been eliminated), the total cuts to Drew throughout this fiscal crisis have been minimal—about \$200,000. For 2005-06, the total support for Drew will be maintained at the \$10.8 million level. Drew medical students, however, along with every other student in the University, will share in the student fee increases necessary to offset reductions in the State support for all instructional programs.

The State support provided to Drew in the 2005 Budget Act for both the instructional and public service programs is \$8.7 million. Of this amount, \$500,000 is contingent upon the University continuing to provide \$500,000 in matching funds from funds previously available to UC through the State’s Medi-Cal Medical Education program, which provided funding from the federal government to help support the cost of providing a medical education. The University also provides cost-of-living adjustments from the General Fund, support from University funds, and medical student professional fee revenue to support the program. As noted above, the total from all University sources available to Drew for 2005-06 is \$10.8 million.

ACADEMIC SUPPORT—LIBRARIES

2005-06 BUDGET	
Total Funds	\$ 267,057,000
General Funds	189,031,000
Restricted Funds	78,026,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	4,000,000

Great universities have great libraries, for four reasons. First, information resources are at the foundation of academic excellence; leading-edge research, distinguished graduate programs, and effective undergraduate instruction all require effective and convenient access to the information resources that libraries provide. Second, the collections are invaluable resources for the wider community, serving as repositories of knowledge, art, and expression, and functioning as key components of our society's cultural memory. Third, because the library provides essential services across the entire breadth and depth of the academic program and the academic community, the quality of the library is often seen as a tangible symbol of an institution's commitment to support academic excellence in all its forms. Finally, the core expertise of libraries, facilitating ready and persistent access to recorded knowledge in all its many forms, is becoming progressively more important in an increasingly knowledge-based society.

For over a century, the quality of the University of California's teaching and research programs has been supported by libraries at each UC campus that build and manage distinctive collections and provide leading edge information services tailored to the needs of the campus academic program and its faculty and students. The State's investment in the UC libraries has helped to create an information resource unmatched by any other in the country. This resource is essential to support the University's teaching and research, and benefits students and faculty of other California colleges, universities, and public schools, business and industry, and the general public, both directly and through cooperative programs with other California libraries.

Over the last decade, rapid advances in the development and use of new technologies to create, publish, store, search for, and deliver information have begun to transform libraries, making it increasingly possible for each campus to provide reliable and effective access to information without having to physically possess and store it. New digital capabilities permit UC to continue to pursue

opportunities for increased efficiencies in management of its print collections, extend systemwide leverage to the development and operation of digital collections and services, and enable the University to provide leadership in the development and diffusion of new methods of electronic scholarly communication. As one indicator of these capabilities, on opening day UC Merced students and faculty had access to one of the largest digital libraries in the world, as well as ready and rapid access to the information resources of the entire UC system through systemwide interlibrary lending services. At the same time, these developments promise even greater benefits for the people of California. UC's growing digital information repositories are becoming more readily accessible to students and teachers in the public schools, other institutions of higher education, government, business and industry, and all California residents at the click of a mouse.

Just as library services pervade academic life, the technologies that are transforming libraries are also becoming pervasive in the academy. Adequate, and often advanced, information technology support is now essential for research in most disciplines, for effective teaching, for delivery of student services, and to prepare students for their roles in a knowledge-based economy. As an indicator of the increasing importance of technology, the numerous published assessments that are commonly used to rank colleges and universities have recently been joined by Forbes Magazine/Princeton Review ranking, "America's Most Connected Campuses," which rates institutions on their technological sophistication. The Libraries depend increasingly on a robust information technology environment to deliver services, and are an important part (but only a part) of that environment. The University's experience with the library program, however, points to strategies that can be used to cost-effectively develop and deploy the technologically-based information support systems and services that will be increasingly essential in maintaining UC's competitive edge. These include coordinated and collaborative planning and operations, adherence to agreed-upon standards and practices, sharing of critical resources, and development of systemwide services that cost-effectively meet campus needs and leverage campus investments for the benefit of the system. Moreover, many of the new digital tools and services being developed by the libraries to support information search and discovery, information management, and digital preservation, can themselves be leveraged to meet other University needs.

The Library Budget

The University's library budget is divided into four categories that are described below.

- Acquisitions-processing, which represents 57% of the library budget, includes campus-based expenditures for library materials in all formats, and all

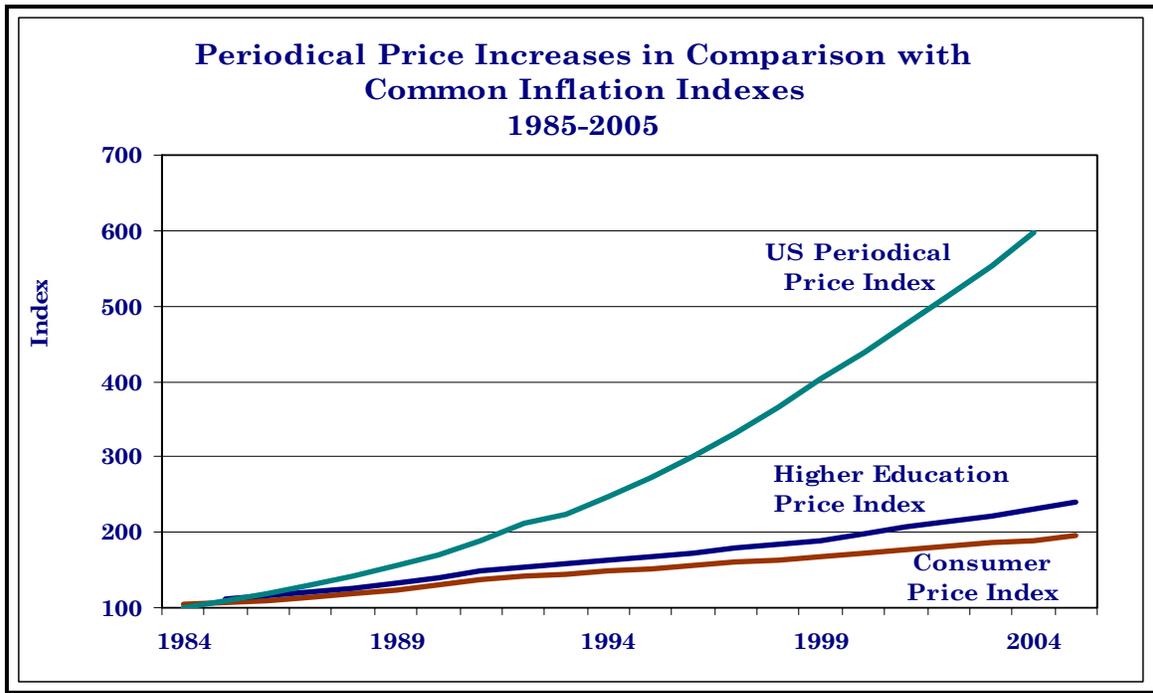
operational activities related to acquiring library materials and preparing them for use, such as ordering, receiving, and cataloging.

- Reference-circulation, which represents 37% of the library budget, includes providing users with information and materials, managing circulation of materials, shelving and re-shelving books, maintaining collections, providing reference services, instructing students and faculty in the use of the library and its printed and electronic information resources, and creating and operating digital services that provide library users with effective access to information in all formats.
- The California Digital Library (CDL), representing 3.5% of the library budget, supports the development of systemwide digital collections (among the largest in the world); provides digital library technologies that enable campuses cost effectively to build the distinctive online information services that their faculty, staff, and students need; supports innovations in and provides access to UC scholarly publishing; and maintains *Calisphere*, a compendium of freely accessible online collections for California K-20 education.
- The systemwide Library Automation unit (now operationally incorporated within the CDL), which provides universitywide bibliographic access to the resources of the University's libraries through the MELVYL online union catalog, represents 2.5% of the total library budget.

Over the last 25 years, the State has provided substantial support for the University's strategy to leverage library development on a systemwide basis. The University's 1977 library plan recommended that the State provide additional resources both to build campus collections and also to support strategic use of emerging technology (the Melvyl online union catalog, support for automation of campus circulation and cataloging operations) and shared physical facilities (two Regional Library Facilities). The latter greatly expanded systemwide capabilities to share collections in the most cost effective manner. Between 1977 and the late 1980s, the State provided most of the operating and capital resources called for in the library plan. Over the last decade, however, the State has been unable to provide full funding to meet the impact of persistent price increases for library materials. The growth in library materials costs consistently outpaces the rate of inflation, as shown in Display 1 (next page). The result is a permanent budget shortfall that was estimated at \$33 million in 1999-2000.

The Partnership agreement with former Governor Davis included a commitment to support a 1% annual 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 \$33 million library budget shortfall over a four-year period, with the remainder to be funded through a redirection of resources at the campus level.

Display 1



Between 1998-99 and 2000-01, consistent with provisions of the Partnership, the State provided \$8.7 million for library materials and expanded sharing of library collections that began to address the permanent budget shortfall, supplemented by \$14 million in one-time funds. In addition, the State provided \$7 million to support the development and expansion of the California Digital Library.

However, as a result of the State's current fiscal crisis, the provision for a 1% increase to address core needs, including libraries, was funded only twice, in 1999-2000 and 2000-01. 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, and the 2004-05 budget included an additional \$45.4 million permanent cut for general administration, academic administration, and libraries.

As a result of these targeted reductions in State operating support, the budgetary gains made between 1998-99 and 2000-01 have been largely erased. In spite of the significant efficiencies UC has introduced into its library system, there is accumulating evidence that the strength of the University's library collections and services is declining in comparison with peer institutions, with a potential negative impact on the University's ability to recruit and retain faculty and support cutting-edge research programs.

Under the provisions of the new Compact, funds to address the permanent shortfall in the library collections budget and other core needs will once again become available beginning in 2008-09. A return to provision of funds dedicated specifically to addressing core needs, including library materials, is a high priority for the University. These funds will be used to restore the strength and vitality of library collections, continue development of collaborative services that enable the libraries to make the most cost-effective use of its collections, and support innovative new technologies and services that enable faculty and students both to make effective use of and to contribute to the burgeoning universe of wholly digital information resources. When the State's fiscal situation improves, additional investment of State funds to support development of new digital collections, tools and services will be needed to ensure adequate information service support for the University's high-priority initiatives to restore academic quality as well as to leverage library technologies in ways that help foster the development of an academic information technology infrastructure that can guarantee UC's continued competitiveness in a high-technology society. Given the continuing fiscal constraints on the State's budget, no new State funds to support library programs are being requested in 2006-07.

As discussed in the *Summary of the 2006-07 Budget Request* chapter, additional funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) is one of the priorities identified by The Regents for restoring UC academic quality. Of the \$500 million total funding needed, \$100 million would be designated toward restoring funding for core academic support, including libraries.

The Library Program

Cooperation for Leverage and Cost-Effectiveness

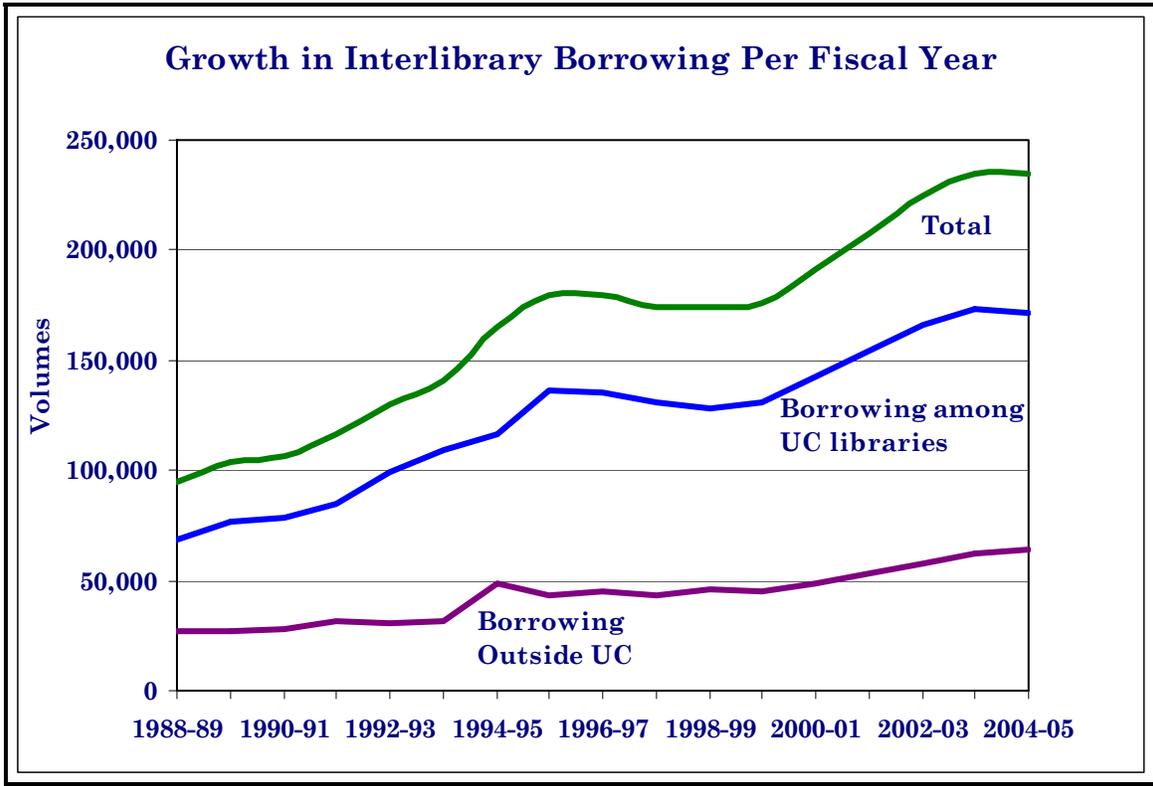
To meet the ongoing challenges of inflation in the cost of library materials, enrollment growth, and growth and change in academic programs, and to maintain quality in the face of the budget cuts described above, the University has employed a systemwide strategy that emphasizes multi-campus collaboration and application of new technology to support and expand sharing of the materials in UC library collections. Over the last two decades, the University has created a multicampus library system with capabilities for coordination, collaboration, and sharing of resources that are unequalled by the research libraries of any similar university system, and UC faculty and students have enjoyed increasingly faster and more convenient access through their campus libraries to a broader universe of information in a wider variety of formats, even in the face of rising costs and constrained budgets. The principal components of this strategy are described below.

- The systemwide Melvyl online library catalog allows library users at any campus to easily locate and request items held anywhere in the UC system. This catalog of book and journal titles is complemented by an extensive range of journal abstracting and indexing services, covering all subjects, that allow library users to locate the specific articles they need in journal publications and determine where they are located in the campus collections.
- Resource sharing services expedite the lending and borrowing of materials across the system. These include courier services that deliver requested materials overnight between all campuses; facilities for immediate scanning and electronic delivery of journal articles and other short items; and online services that permit library users to immediately display online any item they locate in a Melvyl catalog or database search if the item is available in digital form for UC users, or request a copy of the item on interlibrary loan.
- Two Regional Library Facilities provide low-cost, high-quality off-campus space to house infrequently-used materials of enduring research value, allowing the University to maintain a rich and distinguished research collection at a fraction of the cost that would be required to build equivalent on-campus library facilities.
- A shared systemwide digital collection, provided through the California Digital Library, enables systemwide access to essential scholarly materials and leverages the formidable buying power of the UC system to help ensure this growing collection remains affordable. In many cases, the campus libraries could not afford to purchase these materials independently.
- A newly-established shared print collection program, modeled on the success of the shared digital collection, allows campuses to purchase single copies of printed material for systemwide use, avoiding unnecessary and unplanned duplication of collections and expenditures.

This strategy has been remarkably successful. As shown in Display 2, interlibrary borrowing among UC's libraries (which accounts for about 73% of all items borrowed from other libraries) has increased by 151% since 1988-89, while borrowing from libraries outside UC increased by 140%.

In addition to sharing collections, the University has avoided costs through effective use of shared physical facilities. The two Regional Library Facilities (RLFs) at Richmond (for northern campuses) and Los Angeles (for southern campuses) began operation in the early 1980s, and currently provide low-cost space for about 11 million volumes deposited by campus libraries. In 2003-04, about 200,000 items were borrowed or photocopied from the RLF collections, about three times more than the number of items borrowed by the UC libraries from all other libraries nationwide on interlibrary loan during the same period.

Display 2



The costs avoided by these strategies are substantial. For example, by depositing materials in the regional library facilities, the campuses avoid capital costs of about \$14 million per year, on an annualized basis, that would have been incurred to build on-campus library facilities to house these collections. If the 11 million volumes in the RLFs had been discarded, the University would incur operating costs of nearly \$1.2 million per year to borrow them from other libraries, assuming that they could in fact be found elsewhere. In addition, if the campus libraries had been compelled to purchase and add to their own collections the items they were able to borrow from each other via interlibrary loan in 2004-05, the total purchase cost would have been \$35 million. If campus libraries were independently to negotiate for, license, and catalog the 12,000 journal titles and 300 databases in the systemwide digital collection, they would have to spend an additional \$38 million per year. Through the development of a single shared print journal collection for those titles to which the University subscribes in both formats, the libraries may avoid subscription costs for print journals of up to \$3.2 million per year, plus additional savings in on-campus shelf space to house those journals, while being assured that at least one print copy of each title will continue to be available if needed.

These benefits are most evident in the case of UC Merced (UCM). Although the new UCM library, like the other campuses, requires funding to build the local

collections and services needed to support campus academic programs and to contribute a fair share to the cost of shared collections and services, the cost of this enterprise has been reduced by the leverage available to UCM as part of the UC library system. Of more importance, on opening day UCM students and faculty had access to one of the largest digital libraries in the world, as well as ready and rapid access to the information resources of the entire UC system through systemwide interlibrary lending services.

As the University seeks to rebuild its competitive position in undergraduate and graduate instruction and research over the coming years, additional resources will be needed to strengthen library collections and services to support a strengthened academic program. It will be critical to rebuild the library collections in all formats, to continue to create and acquire important digital collections, and to carry on the strategic investment in advanced services that further enhance cost-effectiveness and improve the ability of faculty and students to make effective use of available information resources.

Digital Collections and Services

Books and other print material remain central to the services of the 21st century library, and growth in the output of published books worldwide remains unabated, having increased from 560 million titles in 1990 to about a billion titles in 2000, notwithstanding the growth of digital publishing. However, the information resources needed and used by campus communities for teaching, learning, and research have grown to include licensed digital versions of traditional scholarly journals and books; digital content created internally by UC or converted into digital form from existing UC collections, such as manuscripts, maps, visual images, and sound files; other UC digital assets, such as datasets, other primary research materials, and teaching materials created in digital form by the UC community; and the information resources (of highly varying quality and persistence) available on the World Wide Web.

While UC has made strategic use of information technology to enhance library service and control costs for over 25 years, the incorporation of digital collections and services in the UC library program was dramatically accelerated by the launch of the University's groundbreaking California Digital Library (CDL) in 1997. The CDL has served as the engine for a number of systemwide initiatives that have continuously improved the University's capability to share campus print collections, but its primary innovation was a shared Universitywide collection of high-quality digital content that complemented and extended campus-based materials.

The CDL now makes it possible for UC's libraries to make available to faculty, students and staff from all UC campuses about 12,000 journal titles, 300 reference databases, and over 8,000 finding aids that provide access to unique special collections resources. In 2004, over 15 million digital journal articles were used,

a 27% increase from the previous year and fifteen times the 1998-99 level. These shared digital collections not only provide the UC community with access to a wealth of material that individual campuses might not have been able to afford independently, but also make information equally accessible to all UC students and faculty at any time of the day or night, regardless of location. In addition, the libraries are creating collections of high-quality material that are newly and solely available in digital form. Examples include the Online Archive of California, the Counting California service, and the eScholarship Repository, all of which bring valuable, but previously hard to find, information resources into the digital realm and make them accessible not only to UC faculty and students, but to the general public.

The University's experience has shown that digital library resources are both popular and cost-effective. As the amount of high-quality information in digital formats continues to grow, and the tools and services available to access and use these resources continue to improve, it will be essential to secure additional funds to continue to create and acquire digital library resources, both to improve services to students and faculty and to keep pace with UC's peer institutions.

Service to the Public

These collaborative accomplishments of the UC Libraries not only support the University's library strategy through more cost-effective provision of library service, but also benefit all Californians. Through systemwide library services available to the public, California citizens can, for example, search the libraries' collections using the Melvyl catalog, gain access to more than 8,000 separate inventories of material in California's archives, libraries, and museums through the Online Archive of California (OAC), view the 120,000 digital images and 50,000 pages of documents, letters and oral histories in the OAC collections, search for and display information, facts, and data about the Golden State through Counting California, explore the latest research findings of UC scholars and scientists through the eScholarship Repository, view online many of the premier publications of the University of California Press, delve into a large virtual collection – gathered from some of the world's leading libraries – about the social and ecological diversity of the American West, and make use of tools developed especially to support integration of this material with online teaching environments.

These and many other services available to the general public have recently been brought together in an experimental website specially designed to serve as the public's portal to hundreds of collections and exhibits created or maintained by the California Digital Library and by the libraries, museums, academic departments, and research units of the University of California (see: <http://californiadigitallibrary.org/>). The site is being enriched and greatly extended for re-launch in spring 2006 as *Calisphere*, a rich online resource, designed for K-20 teachers and students but available freely to all, drawing on materials from UC

and other leading educational and cultural organizations in California and the United States.

Counting California, the eScholarship Repository, and *Calisphere* demonstrate that the libraries' investments in digital technologies to improve service for students and staff also have enormous potential to make the University's information resources accessible to the general public.

The Library and the Digital Information Environment

The information technologies that have enabled systemwide efficiencies and supported improved services in the library program are not limited to libraries, but pervade the academic enterprise. As the importance of information technology for all facets of teaching and learning have grown, the libraries have begun to emerge as trusted centers of expertise and support for faculty and students. The current generation of library users has grown up with computers, multimedia, wireless communication, the Internet, Amazon, and Google. For them, the expectation is that information will be easy to discover and immediately available online from any convenient computer at any time of day or night. In response, the expertise of library staff has changed to meet the needs of capturing and curating digital collections and creating digital tools to access them. As a result, libraries are becoming centers of know-how for the production, discovery, and use of digital information of all kinds. By most reports, more people come to the libraries than ever before, and it is increasingly evident that libraries are serving a critically important new function in a world of remote access to digital information.

Not only are libraries successfully adapting to the new digital information landscape, but their achievements are pointing the way toward the kinds of efforts that will be needed to create a networked information environment for UC that cost-effectively and comprehensively uses information technology to support all aspects of research, teaching and learning, and student life. For example:

- The University will realize benefits from identifying the technologies that can be shared in common among library, instructional, research, and administrative applications and adopting strategies that can leverage technology investments by spreading the costs of shared infrastructure across all these domains. The libraries have shown how availability of shared systemwide utilities such as the Melvyl online catalog and shared resources such as the systemwide digital collections can help avoid unnecessary duplicative investments while improving the libraries' capacity to support teaching and research at all campuses.
- The new works created by our faculty and students are increasingly only in digital form, and in diverse formats – publications of all kinds, dissertations, research data, images, videos, reference databases, instructional materials – and organizational strategies, technologies and financial investments will be

needed to help the University and the creators of these digital assets to manage, preserve, and protect them and make them reliably accessible to the rest of the world. In creating a Digital Archival Repository, the libraries have taken an essential first step to manage the University's digital information assets.

- New approaches will be needed to support faculty and students as they increasingly find it necessary to access and use information from multiple locations in order to conduct their daily academic activities. In their development of new software tools to help library users locate, retrieve, and integrate digital information from diverse sources, the libraries have modeled the kinds of systems that will be required.
- New technologies will call for, and are already beginning to elicit, new and more cost effective methods of scholarly publishing and communication. The advanced publication and information management services deployed by the libraries, such as the eScholarship Repository, have laid the foundations for broader strategies to help the University manage its digital assets, have demonstrated and begun to gain acceptance for some innovative methods of presenting and communicating the University's research, and have begun to influence the scholarly publishing marketplace.
- The University must continue to strive for an appropriate balance between sustaining the benefits of being a large multi-campus system while developing greater flexibility and a higher level of service to students and faculty through local management. The practices developed by the libraries to use systemwide investments to leverage and complement campus funds for support of shared collections and services suggests some methods by which this balance may be achieved.

The University believes that some of the technologies, system designs, and collaborative organizational strategies that have enabled the libraries to continue to improve services while effectively managing costs may also be applicable to the support of teaching, research and administration. It can therefore be expected that additional investments in library technologies and services can be further leveraged to strengthen other functions of the enterprise-wide information environment upon which academic excellence increasingly depends.

Looking to the Future

In anticipating the budgetary demands associated with providing library support for a strengthened and expanded UC academic program, the following issues will require close attention:

- Additional funding will be needed to rebuild the strength of library collections in all formats, and to continue development of online tools and services that

support cost-effective library service and improve the ability of faculty and students effectively to find and use the information they need.

- Digital library collections, whether created by the University or acquired externally, have proven popular, cost-effective, and increasingly essential for effective support of research and teaching. Additional financial resources will be needed to continue to expand these collections.
- Digital technology, developed to improve library service for UC students and staff, is also an effective way to provide the people of California with increased access to the vast information resources of the University. Support for expanded digital collections and online user services can further leverage the State's investment in the UC libraries by making yet more of these resources available to the public.
- Investments in library technologies and services can be further leveraged to apply to the research, teaching and administrative domains, creating opportunities to cost-effectively improve the enterprise-wide academic information environment that is increasingly necessary to maintain competitive excellence.

ACADEMIC SUPPORT—OTHER

2005-06 BUDGET	
Total Funds	\$ 490,482,000
General Funds	176,442,000
Restricted Funds	314,040,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	16,500,000

Included in the category Academic Support—Other are various clinical or other support activities that are operated and administered in conjunction with schools and departments. Among the clinical facilities that support health sciences programs are: outpatient clinics operated by 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 with a satellite site in San Diego; an optometry clinic at Berkeley; and two neuropsychiatric institutes (Los Angeles and San Francisco). In addition, a demonstration school, 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.

The State's ongoing fiscal crisis has resulted in significant budget reductions throughout the University's budget. Academic and Institutional Support budgets were cut by \$36.5 million in 2003-04 and another \$45.4 million in 2004-05.

Description of Programs

The on-campus and community dental clinics at Los Angeles and San Francisco serve primarily as teaching laboratories in which dental students and graduate professional students enrolled in the schools of dentistry pursue organized clinical curricula under the supervision of dental school faculty. The community dental clinics provide a spectrum of teaching cases that are generally not available in the on-campus clinics. The dental clinics give students actual clinical experience and a broader perspective in determining treatment plans, thereby enhancing the required training in general and pediatric dentistry. While providing valuable clinical experience for students, the clinics also serve to meet the dental health needs of thousands of low-income patients, many of whom would not otherwise receive dental care.

The occupational health centers were created as a joint project of the California Department of Industrial Relations and the University of California to help serve the occupational health needs of California. The major functions of the centers are teaching (the training of occupational physicians and nurses, toxicologists, epidemiologists, and industrial hygienists); public service (providing a referral service for occupational illnesses, promoting health in the workplace, and providing clinical care); and research (stimulating research on the causes, diagnosis, and prevention of occupational illnesses). Each center serves as the focal point for occupational health-related activities on the campuses in its geographical area, thereby strengthening the University's programs of teaching and research in these fields.

The two veterinary medicine clinical teaching facilities, one at Davis and the other in the San Joaquin Valley, are specialized teaching hospitals and clinics that support the School of Veterinary Medicine. Students enrolled in veterinary medicine are trained at these facilities by faculty of the School of Veterinary Medicine in the clinical aspects of diagnosis, treatment, prevention, and control of diseases in animals.

The optometry clinic at Berkeley serves primarily as a clinical teaching laboratory for the School of Optometry, while providing a complete array of visual health care services for patients. At the clinic, optometry faculty supervise students in the clinical aspects of the prevention, diagnosis, and remediation of visual problems. In addition, students receive clinical experience at various Bay Area community health centers, which exposes them to a broad range of cases and provides a much-needed public service to the community.

The two neuropsychiatric institutes are among the State's principal resources for the education and training of psychiatric residents and other mental health professionals, and for the provision of mental health services. The primary missions

of the institutes are to treat patients with diseases of the nervous system and to strive for excellence in the development of approaches to problems associated with mental retardation, psychological disorders, and neurological disorders.

The demonstration school at UCLA serves as a teaching laboratory for experimentation, research, and teacher training in the field of education. The schools educate children and contribute to the advancement of education through research efforts and application of results. Vivaria are centralized facilities for the ordering, receiving, and care of all animals essential to instruction and research.

Other activities under Academic Support—Other include support for the arts and specialized physical sciences and engineering projects.

TEACHING HOSPITALS

2005-06 BUDGET	
Total Funds	\$ 3,830,872,000
General Funds	50,759,000
Restricted Funds	3,780,113,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	189,006,000

The Role of the University Teaching Hospitals

The University of California owns and operates five academic medical centers—Davis, Irvine, Los Angeles, San Diego, and San Francisco—that are comprised of eight licensed acute care hospitals and two licensed psychiatric hospitals. 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 care 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 core clinical experiences for health science students occur at the five academic medical centers and at a variety of affiliated teaching sites. The medical centers support a broad range of educational programs for medical students, postgraduate physicians (interns and residents), practicing physicians in the community, nurses, and allied healthcare professionals, preparing them for current and future healthcare needs.

The medical centers sponsor more than 250 residency training programs in all recognized specialties and subspecialties of medicine and surgery. In response to changes in the financing and delivery of health care, and as the result of the University’s efforts to expand training opportunities in primary care, the medical centers have developed more outpatient clinical training sites and primary care networks.

The UC medical centers conduct basic biomedical and clinical research, which are essential to continued advancement in the understanding and treatment of diseases and the improvement in the health status of the population. Research projects include clinical trials of investigational drugs, devices, and medical procedures, as well as epidemiological studies that contribute substantially to the general public's well-being and to the education and patient care missions.

The University's academic medical centers comprise one of the largest health care systems in California and are among the largest Medi-Cal providers in the State. Three of the UC Medical Centers (Davis, Irvine and San Diego) were former county hospitals and continue to function as safety net providers in their respective counties. The UC medical centers operate Level I trauma centers in four of their five regions and provide the physician staff to San Francisco County's General Hospital, including its Level I trauma center.

In 2005-06, the University medical centers will have a combined licensed capacity of 3,353 beds and are expected to generate more than 830,000 patient days on roughly 137,000 admissions, and more than 3.7 million outpatient visits.

Prior to the 1960s, the University had two medical schools, one at San Francisco and one at Los Angeles. The University owned and operated teaching hospitals on both campuses in fulfillment of its mission to educate medical students and residents in a clinical setting. Both medical schools also had affiliation arrangements with county, Veterans Affairs, and other hospitals to provide educational experiences for the campus' medical students and residents.

In the 1960s, the decision was made to develop three new medical schools at the Davis, Irvine, and San Diego campuses. The University's plan was to repeat the San Francisco and Los Angeles models with on-campus teaching hospitals and affiliations with county, Veterans Affairs, and other hospitals.

However, while supporting the University's education and research efforts, the Legislature wanted the University to give a higher priority to providing medical care for the poor. Therefore, the State provided resources to purchase three existing county hospitals and initiated capital projects to renovate the facilities to make them more suitable for the University's education, research, and patient care missions.

Financial Issues Facing the Teaching Hospitals

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 have no teaching or research responsibilities. While academic medical centers receive some compensation for teaching costs from government payors, including Medicare and Medi-Cal, it does not cover actual costs. Also, the level of compensation does not include teaching costs incurred in outpatient settings. No other payors (i.e., commercial, contract, county, etc.) recognize the added costs of teaching in their payment to academic medical centers. Therefore, one of the University's highest priorities is to ensure that the medical centers have a dedicated and sustained source of funding to support graduate medical education.

The financial viability of UC medical centers directly affects the quality of the instructional programs at the University's Schools of Medicine. Schools of Medicine are heavily dependent upon revenues generated from patient care by the medical centers and faculty practice plans. Financial support from the academic medical centers enables the Schools of Medicine to recruit and retain excellent faculty, expand existing and create new academic programs, and support primary care initiatives. The medical centers must therefore generate sufficient funds for their operational and capital needs, as well as for their respective Schools of Medicine and primary care networks. In 2004-05, the medical centers provided millions of dollars in support of their respective Schools of Medicine.

Since managed care has become the primary system for delivering and financing health services, the University has experienced a shift in the delivery of care, with the major growth occurring in outpatient settings. Market forces have required that UC medical centers accept negotiated rates from private and some public payors that do not recognize educational costs. Like all hospitals, the University's academic medical centers were affected by both federal and state legislation that either reduced reimbursement (e.g., the Balanced Budget Act of 1997) or required unfunded mandates (e.g., the Health Insurance Portability Act of 1996 and Assembly Bill 394, which established a nurse-to-patient ratio).

Over time, UC medical centers have pursued with the State both short-term and long-range solutions to address fiscal challenges and avert significant losses. State-funded capital and operating subsidies were provided to the three former county hospitals in the mid-1980s to assist them in reaching a broader patient base. Special supplemental funding is being provided by the State to selected California hospitals, including UC's academic medical centers. In addition to the federal Medicare program, which recognizes the costs of medical education, the University developed a program with the State of California to obtain federal Medicaid matching dollars to support educational costs incurred in providing services to Medi-Cal patients. Initiated in 1997, the University was successful in seeking the Governor's and the Legislature's approval to extend the Medi-Cal Medical Education Program to June 30, 2004 SB 1103, a trailer bill to the 2003-04 budget,

extended the Medi-Cal Medical Education program indefinitely. The program was reconstructed for the 2005-06 year, but the concept of supporting medical education costs remains intact. In the 2000-01 budget, the State provided one-time funds for equipment (\$25 million) and infrastructure (\$50 million), and authorized lease revenue bonds for seismic needs (\$600 million). In the 2001-02 budget, the State provided a one-time augmentation for Clinical Teaching Support (CTS) of \$5 million that was shared among medical centers, the neuropsychiatric institutes and the dental clinics. This augmentation was provided in recognition of CTS budget cuts in the early 1990s. Throughout the history of UC's teaching hospitals, State assistance has been vital to their financial stability and has had a beneficial impact on the hospitals' ability to conduct their teaching mission and provide patient care. Unfortunately, most of this assistance has been one-time funding and not a sustainable source of funds. In 2005, the University sought and secured a correction to the Medi-Cal inpatient payments retroactive to July 2002. This action resulted in additional payments in 2004-05 and set a higher payment benchmark for reforms enacted for 2005-06 and thereafter.

The medical centers have taken steps to remain competitive in their respective markets by holding down costs and by expanding their presence in the market through affiliation with physician groups or the addition of hospital sites. As part of their strategy to capture greater market share and to improve their patient mix, three UC medical centers expanded their patient care by adding hospitals at different locations. In 1990, Mount Zion Health Systems integrated with UCSF Medical Center; in 1993, UCSD built the Thornton Hospital on the La Jolla campus; and the UCLA Medical Center acquired the Santa Monica Hospital in 1995.

Most hospitals are currently facing a variety of issues, such as: 1) increasing demand for services, 2) a shortage of nurses, resulting in a sharp increase in labor costs, 3) rising costs of pharmaceuticals and medical supplies, and 4) compliance with government regulations, e.g., AB 394 which established licensed nurse to patient ratio requirements, effective January 1, 2004. In spite of these economic issues, the UC medical centers must generate sufficient funds to meet their teaching mission and be able to provide funds to their Schools of Medicine. Therefore, financial viability of 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. Another major concern about fiscal viability is compliance with SB 1953, the Hospital Seismic Safety Act, which requires acute care hospitals to ensure that their facilities can maintain uninterrupted operations following a major earthquake. The medical centers will have to expend hundreds of millions of dollars to comply with SB 1953. State lease revenue bond funds will provide \$600 million, with the balance of the funding coming from medical center reserves, gifts, debt and FEMA funds at UCLA Medical Center.

A recent issue facing the UC medical centers and other hospitals in California is the states' proposal for restructuring the financing for disproportionate share hospitals by replacing the current inter-governmental transfers with certified public expenditure, effective July 1, 2005. Current supplemental Medi-Cal funds, i.e., SB 855, SB 1255 and Medical Education, would be incorporated into the certified public expenditure proposal. The University is working with the State Department of Health Services to ensure that funding under the new proposal not be less than what could be received in the future under the current arrangement. On June 22, 2005, the Governor reached an agreement with the federal government on a new Medi-Cal hospital financing waiver for the next five years. On October 6, 2005, the Governor signed SB1100 (Perata and Ducheny, 2005), which implements the new waiver.

The remainder of this chapter reviews the major sources of funding for patient care, teaching and indigent care, as well as considers changes in the financing and delivery of health care that have occurred over the past decade, and examines the challenges that lie ahead.

Funding for Patient Care

The University's medical centers are paid for services provided to patients. The major source of patient revenue is government-sponsored health care programs, i.e., Medicare and Medi-Cal. Non-government sources of funds are commercial insurance companies (i.e., managed care contracts and private insurance) and self-pay patients. Several government-sponsored programs provide supplemental payments to the UC medical centers in recognition of their teaching mission and because they provide a disproportionate share of care to the state's indigent population. Non-government insurance programs do not recognize the costs associated with teaching and treating the indigent.

Government Sponsored Programs

Medicare. The federal Medicare program (Title XVIII of the Social Security Act) is a third-party payor managed by the Social Security Administration that underwrites the medical costs of persons 65 years of age and older, and persons under 65 who are disabled or have end-stage renal disease. Medicare reimburses hospitals for inpatient care on a prospectively determined rate per discharge. These rates vary according to a patient classification system (Diagnosis Related Groups – DRGs) that is based on clinical resource intensity. Outpatient services are reimbursed under a prospective payment system (Ambulatory Payment Classification – APC). Medicare reimbursement includes payments for direct and indirect cost for graduate medical education, disproportionate share of indigent

patients, certain capital costs, and outlier payments for cases with unusually high costs of care.

In 2004-05, the number of Medicare days were 220,862, representing 27% of total patient days. The Medicare program generated \$856.5 million of net operating revenue, accounting for 23.5% of the total net patient revenue of the UC medical centers. The Medicare population is an important segment of the patient mix seen at UC medical centers. Aging of the population is probably the most important of the demographic factors that will increase health care demand in coming years. The “baby boom” is just entering the 55-65 age group with concomitant sharp increases in utilization of health services, in particular diagnostics and procedures, (for example, coronary artery bypass surgery and hip replacements).

Because of increasing demands and higher costs, the federal government has been taking steps to slow the growth of Medicare reimbursement. Support of graduate medical education through the Medicare program has come under fire in recent years, thus diminishing financial support for teaching programs.

Medi-Cal. Medicaid, known as Medi-Cal in California, is a State-administered federal entitlement program to provide health insurance to qualified low-income Californians. The program is designed to benefit families receiving cash aid, poor working families, the aged, and persons with disabilities.

Hospital payments under Medi-Cal are paid by Medicaid managed care plans or directly from the state for patients not enrolled in managed care. Managed care payments to hospitals are negotiated between hospitals and plans. For 2005-06 and thereafter, payments made directly by the state for patients not in managed care have been significantly restructured.

A newly negotiated waiver between the federal government and the State of California governs fee-for-service payments, or payments for those patients not enrolled in managed care. The waiver replaces negotiated per diem payments, SB 855, SB 1255, and medical education payments. Payments under the new waiver are both for Medi-Cal patients and the uninsured – discrete payments for hospital care to the uninsured is a key component of the new waiver.

The non-federal shares used to generate payments to hospitals under the new waiver have two components – limited intergovernmental transfers (IGTs) and certified public expenditures (CPEs). IGTs are the transfer of funds by public entities that own and operate public hospitals (i.e., counties and the UC) in order to draw federal funding. CPEs are funds certified as those spent on the provision of healthcare services to Medicaid beneficiaries. Given that CPEs are a new tool to draw federal funds, UC is working aggressively to define how CPEs are computed.

Over the five-year life of the waiver, payments are capped. While UC anticipates growth in the first and second years of the waiver, absent corrective action, the remaining payments may not grow in step with the increasing expenses of hospitals.

In 2004-05, the number of Medi-Cal days was 192,419, representing 23.7% of total patient days. The Medi-Cal program generated \$663.6 million of net patient revenue, accounting for approximately 18.2% of the total net patient revenue of the UC medical centers.

The total number of individuals eligible for Medi-Cal has significantly increased over the last five years. However, there has been no analogous increase in Medi-Cal payment rates. Increases in the number of Medi-Cal recipients, coupled with increased hospital utilization, makes the UC academic medical centers more vulnerable to state and federal rate reductions. The new Medi-Cal waiver presents an opportunity in current year, as well as future budget years, to maximize payments in keeping with hospital utilization.

Funding from Counties. Counties in the State of California reimburse hospitals for certain indigent patients covered under the county contract. The Davis, Irvine and San Diego Medical Centers, former county hospitals, currently have contracts with their respective counties to provide care to the uninsured.

Counties use local tax dollars from their general fund to subsidize health care for the indigent. Some spending is required in order to receive the state matching funds, but many counties appropriate additional discretionary funds to cover the costs of serving the uninsured. However, a decade of property tax shifts has severely constrained the ability of local governments to adequately fund health care services to the uninsured. Although there have been measures enacted to mitigate the impacts, i.e., Tobacco Tax (Proposition 99), these efforts have not provided full relief.

Tobacco Tax Funds. In November 1988, voters approved Proposition 99, the Tobacco Tax and Health Protection Act, which imposed an additional tax on cigarettes and other tobacco products. The proceeds are allocated to six separate accounts for activities designed to meet the stated goals of the proposition, including indigent care, the prevention and cessation of tobacco use, and the prevention and treatment of tobacco-related diseases. In 1989, the Sate approved a plan (AB 75) specifying how Proposition 99 funds were to be distributed. Funds from the "Hospital Services and Unallocated Accounts", which are distributed to the counties, are available for payment to public and private hospitals for treatment of patients who cannot afford to pay and for whom payment will not be made through private coverage or by any program funded in whole or in part by the federal government.

In 2004-05, the University medical centers received a total of \$1.0 million in Proposition 99 funds as compared to \$14.6 million in 1989-90. The amount of Proposition 99 funds in 2005-06 is projected to decrease to below \$1 million in anticipation of a decline in the use of tobacco products due to health education and higher taxes on these products.

Non-Government Sponsors

Commercial or private insurance companies reimburse hospitals for reasonable and customary charges. These commercial plans are often referred to as fee-for-service or cost-based reimbursement. Although this type of insurance provides the best coverage for its beneficiaries with the greatest flexibility in choosing a doctor, it is falling out of favor because of exorbitant premiums.

Managed care contracts such as those with Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) reimburse hospitals at contracted or per-diem rates, which are usually less than full charges.

Capitated contracts with health plans reimburse hospitals on a per-member-per-month basis, whether or not services are actually rendered. Hospitals take on a certain amount of financial risk as the contract requires hospitals to treat a patient for all covered services.

As noted earlier, non-government sponsors do not provide funding specifically for medical education.

Changes in Health Care Financing

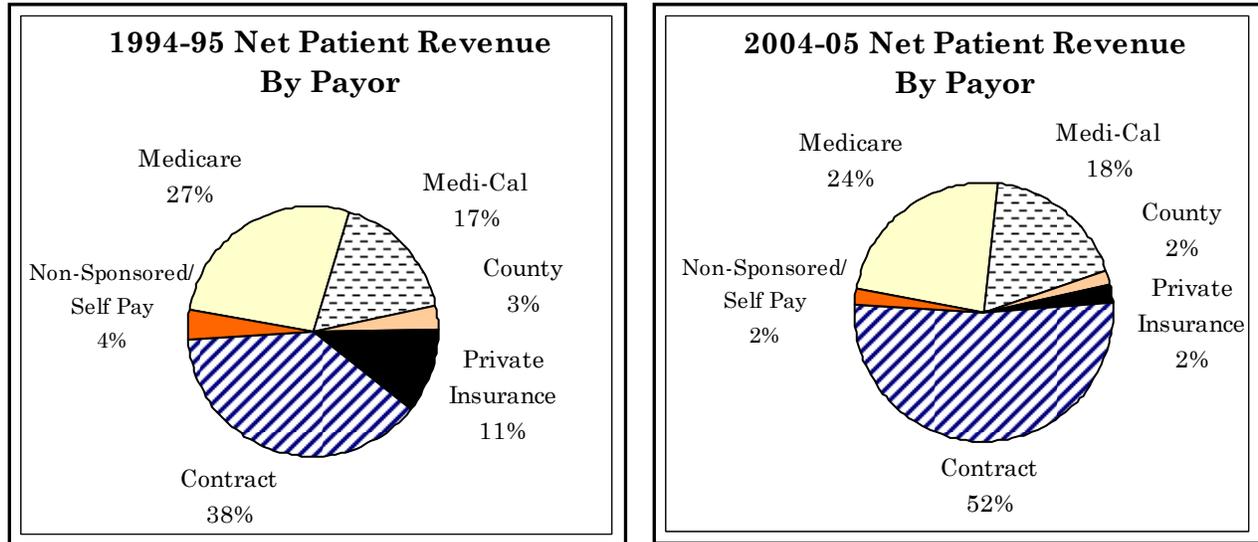
Rising health care costs in the 1980s, demographic changes, and changing economic conditions caused the State, the Congress, and the private sector to initiate fundamental changes in the financing of health care services.

The traditional fee-for-service reimbursement system has been almost completely replaced by competitively established fixed-price payments (i.e., capitated, per-diem, or global rates by diagnosis). As a result, costs unique to academic settings (e.g., treating sicker patients, providing services to a disproportionate number of uninsured or under-insured patients, and providing medical education in a clinical setting) are not fully reimbursed.

In addition, the loss of fee-for-service or cost-based reimbursement in the private sector has eliminated the opportunity to cover some of these costs through cross-subsidization.

Over a ten-year period, 1994-95 through 2004-05, the percentage of net patient revenue from patients covered by fee-for-service (i.e., private payors) decreased from 11% to 2%, while net patient revenue from patients covered by contractual or capitated arrangements increased from 38% to 52%, as shown in Display 1.

Display 1



Changes in health care financing that have negatively affected the medical centers began in 1982. Reforms of the State Medi-Cal program instituted selective hospital contracting for inpatient services at flat per-diem pricing, stricter eligibility requirements, and the transfer of responsibility for the medically indigent adults (MIAs) from the State to the counties (funding for the MIAs was provided at less than the 70% of projected State expenditures for the base year 1982-83). The transfer of the MIA patients directly affected the three former county hospitals—Davis, Irvine, and San Diego—because the local tax dollars used to subsidize hospitals operated by local government were not available to University-operated medical centers. Also in 1982, legislation provided private health care insurers with the same ability as the State to contract selectively with health care providers on behalf of their enrollee.

During the same period, changes in federal Medicare payment policies for hospitals included a prospective payment system for inpatient care based on payments-per-case according to Diagnosis Related Groups (DRGs), rather than on actual hospital costs. These changes also limited payments for teaching costs and phased out cost-based payments for capital improvements. In 2000, outpatient care provided to Medicare patients was changed from cost-based reimbursement to a prospective payment system, which uses the ambulatory payment classification system.

In the early 1990s, DHS was given authority to hasten the transition of Medi-Cal from a fee-for-service to a managed care system for approximately 2.5 million Aid

to Families with Dependent Children beneficiaries. Under these managed care programs, the provider agrees to treat Medi-Cal enrollees for a fixed rate-per-member-per-month. The provider is therefore at risk and is liable for any expenses incurred beyond the monthly capitation payments. The University's medical centers are at increased financial risk for managing the care of patients covered under these programs. The type and the size of the Medi-Cal managed care programs vary among counties.

Special Subsidies for the Three Former County Hospitals

The 1985 Budget Act authorized the Legislative Analyst to contract for a study of the effectiveness of the management of the three former county hospitals operated by the Davis, Irvine, and San Diego Medical Centers. In April 1986, the consultant reported that management of the three hospitals was effective and that their operating losses were fundamentally attributable to the environment in which they operate. The consultant also emphasized that the fiscal survival of these hospitals would depend upon a State-funded operating subsidy to help cover their significant volume of uncompensated and under-compensated patient care. As a result, in 1985-86, the State provided \$86 million to fund cost-saving and revenue-enhancing capital outlay projects and equipment purchases, and \$28.6 million to mitigate operating losses. The UC Irvine Medical Center received all of the \$28.6 million operating subsidy because it was the only UC medical center that incurred losses prior to receiving the subsidy.

Meeting the State and University Budget Shortfalls

In the early 1990s, in recognition of the fact that the State provided more than \$80 million of assistance by funding needed capital improvements at the three former county hospitals during the 1980s, the University and the State turned to the medical centers to help alleviate some of the University's budgetary problems. At that time, the University was experiencing unprecedented cuts in its operating budget and the academic medical centers were experiencing modest gains.

In 1992-93, the medical centers funded a \$43 million shortfall in the University's operating budget. In 1993-94 and 1994-95, the State redirected \$237 million in SB 855 transfer funds from all transferring entities when they would otherwise have been used to capture matching federal Medicaid dollars. This redirection of dollars by the State reduced the total amount of SB 855 funds available for distribution. In addition, the University's share of SB 855 funds was reduced by \$15 million on a one-time basis by the Legislature.

The University's plan for accommodating cuts in its 1993-94 State-funded budget included a reduction in health sciences clinical activities, which resulted in both permanent and one-time cuts in CTS for the medical centers.

In 1994-95, the University and the State reached agreement to shift \$18 million of State support from the medical centers on a one-time basis to help meet needs in critically underfunded areas in the general operating budget, (i.e., libraries, instructional equipment, and deferred maintenance). The shift recognized actual and estimated operating gains at the medical centers during 1992-93 and 1993-94, which were above the 5% recommended by the Legislative Analyst and supported by the Legislature.

In response to this action, the University undertook a study to look at the medical centers' needs for working capital, capital outlay, and equipment, as well as maintaining a prudent reserve. The study concluded that future actions by the Legislature to limit the medical centers' ability to accumulate adequate reserves would make it even more difficult to compete in price-sensitive markets. Notwithstanding this finding, the 1995 State Budget Act redirected \$5.5 million, a portion of the medical centers' net gain above 5%, from CTS funds to help fund the University's deferred maintenance budget on a one-time basis. The medical centers only achieved a 2.8% operation margin in 1995-96, and the \$5.5 million of CTS funds were restored to the medical centers in 1996-97.

Beginning in 2001-02, the state entered into a financial crisis that led to dramatic cuts in State funding for the University over a four-year period. Despite the continuing financial struggles they faced, the UC medical centers were not totally exempt from a share of these cuts—a \$5.5 million reduction in CTS funds was included in the mid-year budget cuts in 2003-04.

Funding For Teaching

Traditionally, funds supporting medical education in a clinical setting have been generated from patient care revenues. A number of significant changes in both the delivery of and payments for patient care have occurred that place these sources at risk. As noted earlier, as price has become a major factor in the medical centers' ability to compete, the medical centers have accepted negotiated rates that do not recognize medical education costs. This has occurred at the same time that patient care revenues have declined and through the Balanced Budget Act, the federal Medicare program has reduced reimbursement for indirect costs associated with medical education provided for graduate medical education. In addition, more care is being provided in ambulatory care centers for which the reimbursement rates do not recognize teaching costs. The following is a brief summary of the major sources of revenue that currently do support teaching.

Graduate Medical Education Funds

Medicare provides teaching hospitals with Graduate Medical Education (GME) payments to help pay for the direct medical costs (DME) of providing

a medical education and for the direct programmatic costs allowable under Medicare, such as salary and benefits for full-time-equivalent residents.

Medicare Indirect Medical Education (IME) payments are provided to teaching hospitals for some of the indirect costs associated with medical education, such as the extra demands placed on the medical center staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents.

The combined DME and IME payments in 2004-05 were \$127.0 million, approximately 14.8% of Medicare reimbursement to the five medical centers.

Clinical Teaching Support

State General Funds, called Clinical Teaching Support (CTS), are appropriated to the University in recognition of the need to maintain a sufficiently large and diverse patient population at the medical centers for teaching purposes. These funds are generally used to provide financial support for patients who are essential for the teaching program, but who are unable to pay the full cost of their care.

The 2004-05 budget included nearly \$50 million in CTS funds for the five UC medical centers. While CTS funds represent about 1.4% 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. CTS funds allow the medical centers to serve a diverse pool of patients in order to achieve their teaching mission. The State budget for 2001-02 provided a \$5 million one-time CTS augmentation, of which \$2 million was distributed among the five medical centers with the balance going to the neuropsychiatric hospitals and dental clinics. However, as noted earlier, in 2003-04, the State implemented a mid-year budget cut which reduced CTS funds to the medical centers by \$5.5 million.

Medi-Cal Medical Education Funds

In 1996-97, the Legislature adopted supplemental language asking the University to develop options for dealing with the costs of providing medical education in a clinical setting.

The University reviewed many alternatives, and successfully pursued an option to help fund graduate medical education costs through the Medi-Cal program by securing federal matching funds. In 1996-97, the University, working with the California Medical Assistance Commission (CMAC), the Department of Finance (DOF), and the Department of Health Services (DHS), developed a program specifically for the University's five medical centers that allowed the University to obtain an additional \$50 million in matching federal Medicaid funds to support educational costs incurred in the treatment of Medi-Cal inpatients.

The State approved legislation (SB 391) to continue the program through 1998-99 and to expand it by creating two supplemental payment funds that are financed through voluntary intergovernmental transfers and then matched with federal Medicaid funds. The supplemental payment funds are the Medi-Cal Medical Education Supplemental Payment Fund, and the Medi-Cal Large Teaching Emphasis Hospital and Children's Hospital Medical Education Supplemental Payment Fund. Medi-Cal contracting hospitals that meet the definition of the university teaching hospitals (e.g., UC medical centers) or major (non-university) teaching hospitals are eligible to negotiate for funding from CMAC to cover the medical education costs associated with Medi-Cal inpatient care.

In 1997, the State approved legislation (SB 1130) which expressed legislative intent that the University take the lead in pursuing a more comprehensive approach to health professionals education funding and report to the Governor and Legislature regarding progress toward a long-term solution. The University submitted two progress reports, one in December 1998 and the other in March 2000. In January 2002, the University provided a report that proposed options for long-term funding of GME. In addition to the reports, the University has worked with CMAC, DHS, DOF, and other stakeholders to develop a proposal for long-term funding of graduate medical and health professions education.

In 1996-97, the University's five medical centers received \$50 million in new federal dollars through this program to help support medical education in a clinical setting. From the inception of this program in 1996-97 to 2004-05, the UC medical centers received \$471.2 million of new federal funds, an average of \$59 million per year. While these funds are critical for the teaching mission of the medical centers, the amount provided is insufficient to fund the total costs of medical education in an inpatient setting; and no funding is provided to cover costs in an outpatient setting. This program was scheduled to sunset on June 30, 2000. Working with the Legislature and the Administration, the University secured adoption of a trailer bill to the 2000 State Budget that extended authorization for the program to June 30, 2002. In the State Budget Act of 2002, the Medi-Cal Medical Education program was extended for another two years to June 30, 2004. SB 1103, a trailer bill to the 2004-05 budget extended the Medi-Cal Medical Education program indefinitely. In 2004-05, the University's five academic medical centers received \$72 million in federal money through this program to help support medical education. For 2005-06, payments under this program will be paid as a component of the new federal waiver earlier described.

Capital Funds for Medi-Cal Disproportionate Share Hospitals (SB 1732)

The SB 1732 program, the Construction and Renovation Reimbursement Program, provides supplemental Medi-Cal reimbursement to disproportionate share hospitals

for debt service costs (i.e., principal and interest) of approved capital construction. Both the Davis and San Diego Medical Centers received approval (Davis in 1998-99 and San Diego in 1999-00) from DHS for annual supplemental funding over the life of the debt service. In 2004-05, the Davis and San Diego Medical Centers received \$5.5 million and \$2 million, respectively. These funds are for the following projects: the Tower II, the Ambulatory Care Center, Inpatient Radiology Renovations, and the Central Plant at the Davis Medical Center, and Thornton Hospital at the San Diego Medical Center. UC Irvine, also a disproportionate share hospital, had no projects that qualified.

Current Issues

Medicare and Medicaid Budgets

The 1997 BBA contained some of the most sweeping and significant changes to Medicare and Medicaid since the inception of these programs. These changes were expected to reduce Medicare spending by \$116 billion by 2002. Over the same time, federal Medicaid spending would have been reduced by \$10.4 billion.

The BBA proposed to reduce the IME factors from 7.7% in 1997 to 5.5% in 2002. This reduction was predicted to achieve \$4.2 billion in savings over five years. Another \$3.4 billion in savings over the same period would have been achieved through changes in DME payments. On average, the impact to the UC Medical Centers was estimated to range from \$6 million in 1997 to over \$20 million in 2002, for a total of \$70 million over five years.

The BBA was also expected to cut Medicaid spending by \$10.4 billion, primarily from reductions in payments for disproportionate share hospitals. These reductions would have greatly affected the UC medical centers because 17% of net patient revenue comes from Medi-Cal and about 25% of Medi-Cal payments UC medical centers receive comes from disproportionate share funds, (i.e., SB 855 and SB 1255 funds).

As a result of major efforts of the UC medical centers and other similarly affected health care providers, legislation passed in 1999 and 2000 delayed the implementation of the BBA cuts. On September 30, 2002 that legislation sunsetted and most of the reductions in Medicare reimbursement proposed by BBA were enacted. One such reduction proposed by the BBA reduced Medicaid DSH funding to states by 20%. This reduction to the Medicaid Disproportionate Share Hospital (DSH) program was restored in subsequent federal legislation.

There are two additional federal actions which had significant impacts on the UC medical centers were: the Health Insurance Portability and Accountability Act (HIPAA) - Privacy Standards, and the Medicaid Upper Payment Limits.

The HIPAA privacy standards empower the patient to request, amend, and obtain certain information. This is of concern to the University because academic medical centers, given the many arenas in which they interact with protected health information, are more likely than their community hospital counterparts to be the subject of an extensive number of patient requests. The cost to comply with a potentially extraordinary number of requests is an unfunded mandate with significant financial consequences. Health care providers, including the UC medical centers, were required to comply with the “Privacy Rule” under HIPAA by April 2003.

In January 2002, the Health Care Financing Administration (HCFA), now called the Center for Medicare and Medicaid Services (CMS), finalized the regulation that revised Medicaid’s “Upper Payment Limit” rules. The regulation was designed to limit the amount of supplemental payments to hospitals, including the UC academic medical centers. However, because California paid hospitals under a federal waiver, the impact of the new rule was minimal. The state recently enacted changes designed to maintain the flow of supplemental payments under the federal limits.

Impacts of Managed Care

Academic medical centers are profoundly affected by changes in the delivery and financing of health services. These changes are the direct or indirect result of an increase in the percentage of the population enrolling in “managed care plans” for health care coverage. When reimbursement was provided on a fee-for-service basis, the medical centers were able to generate the patient volume and dollars needed to support teaching and research. Patients were attracted to the cutting-edge quality of the specialized treatments for complicated health problems offered by academic medical centers.

Managed care seeks to reduce costs in two primary ways. First, managed care emphasizes prevention and primary care intervention in order to reduce the need for more costly hospitalization and specialist services later on. Primary care physicians serve as “gatekeepers,” coordinating care and controlling referrals to more costly specialized services, including inpatient care. Some services that have traditionally been provided on an inpatient basis are now provided in outpatient facilities as efforts are made to reduce costs. Improvements in procedures and new technologies will continue to allow more services to be performed in outpatient settings.

As a result of these trends, the UC medical centers have experienced a shift from inpatient to outpatient settings, a shift that threatens volume of patients seen in an inpatient setting and reduces revenues.

While there is pressure from accrediting bodies and other policy makers to shift the locus of medical training from inpatient to outpatient care sites, the costs of medical training in outpatient settings are generally higher than in inpatient settings. Further financial challenges have been created by this change, given that medical education costs for outpatient services are not directly reimbursed by Medicare or Medi-Cal. The University is working with the State to identify the costs of medical education in outpatient settings, with the hope that this leads to adjustments in reimbursement by the State and federal governments. In 2002, the State approved legislation AB 915, the Public Hospital Outpatient Services Supplemental Reimbursement Program, which provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment, which was approved for implementation on September 12, 2003, covers only Medi-Cal fee-for-service outpatient services, beginning July 1, 2002. The supplemental payment is based on each eligible hospital's certified public expenditures (CPE), which are matched with federal Medicaid funds. The UC medical centers are anticipating \$30.5 million for the two years of covered services, i.e., July 1, 2002 through June 30, 2004.

The second way in which managed care seeks to control costs is by contracting with a network of preferred providers to deliver services at negotiated (discounted) rates and to assume risk for a defined population. To compete successfully for these contracts, physicians are joining with hospitals and other providers to form integrated delivery systems that provide the full range of care, from outpatient and lab services to inpatient and skilled nursing care. Integrated delivery systems offer a continuum of care and derive competitive advantages from economies of scale that can result in lower prices; data collection capabilities that can monitor outcomes over time, which can be an advantage in attracting patients; and convenience for insurers, who can negotiate with many doctors and multiple services as a group rather than on a one-on-one basis. Providers who remain outside these networks face a reduced market for their services, as more of the population uses managed health care on either a voluntary or mandatory basis.

As major purchasers of services on behalf of Medi-Cal and Medicare beneficiaries, the State and federal governments are encouraging the development of contractual arrangements with selected providers for these populations. Unless the negotiated rates recognize the legitimate costs incurred by academic medical centers and provide the necessary funding, the University's medical centers will not be able to recover full costs for providing the services.

Seismic Safety and Other Capital Outlay Issues

SB 1953, the Hospital Seismic Safety Act was enacted in late 1994. This legislation requires general acute-care inpatient hospitals to meet standards designed to prevent collapse in a major earthquake by 2008, even though the hospital may not

remain operational after the earthquake. By 2030, hospitals would be required to meet higher building standards that would increase the probability of remaining operational following a major earthquake. No provisions for funding were included in the legislation.

Compliance with SB 1953 will affect the state's hospital industry and the delivery of health care, as well as the teaching and research activities conducted at the UC medical centers. The University estimates that costs to the teaching hospitals for compliance with SB 1953 through the year 2008 will be significant, at least \$600 million.

A trailer bill to the 2000 State Budget Act authorized the State Public Works Board (SPWB) to issue up to \$600 million in State lease revenue bonds for seismic correction of the University's acute care hospital facilities required by SB 1953. As with previous SPWB funding for other University projects since the mid-1980s, the asset for the financing will be either the new hospital facility or—if the project involves renovation of an existing facility where prior hospital debt poses a constraint—another acceptable existing facility will be designated as the asset for financing. If a new hospital building is involved and will serve as the asset for the bond, the site is leased to the SPWB by the University, the University signs agreements to act as agent for the SPWB in construction of the new facility, and then leases the completed facility from the SPWB for operation. If an existing facility serves as the asset (termed “asset transfer”), the existing facility will be leased to the SPWB, the University will act as SPWB agent for the alterations, and then will lease the resulting upgraded facility from the SPWB for operation. The SPWB retains ownership of the leased facility until full repayment of the State lease revenue bonds used for the project, after which ownership is returned to the University. Negotiations between the University and the Department of Finance will determine the repayment arrangements on the debt service.

In anticipation of the sale of the \$600 million of state lease revenue bonds, The Regents approved the following allocations at their meeting in November 2000: Davis - \$120 million, Irvine - \$235 million, Los Angeles - \$180 million, San Diego - \$40 million, and San Francisco - \$25 million.

In addition, the medical centers have other significant capital needs, such as upgrades necessary for programmatic changes, which cannot be addressed with the State's lease revenue bonds. Therefore, the UC medical centers will be required to use hospital reserves and conduct significant funding campaigns to supplement available funds. The Los Angeles Medical Center has significant funding provided from insurance and from the Federal Emergency Management Agency (FEMA) as a result of damage done by the Northridge earthquake in January 1994.

The 2000 Budget Act also provided \$25 million in one-time funds for medical center equipment in recognition of financial projections which indicated that the medical

centers would not have a sufficient operating margin at the end of 1999-2000 to allow for normal capital and equipment costs. The State funds were used for equipment in 2000-01. As a condition for receiving these funds, the Legislature required the University to prepare a report that explained how the funds would be used and demonstrated that the funds did not supplant other funds that would have otherwise been used for equipment in 2000-01. Each medical center was allocated \$5 million. The required report was submitted in February 2001.

The 2000 Budget Act also provided \$50 million in State General Funds for infrastructure projects that were non-seismic capital improvements at the medical centers. This funding was appropriated in recognition of the millions of dollars required for improvement apart from the seismic problems to address deficiencies and remain competitive in today's managed care market. Needs include a broad range of high-priority projects, such as the upgrade of operating rooms, correction of deficiencies in clinical laboratories, modernization of patient facilities, upgrade of deteriorated utility services, and replacement of aged and inadequate building systems. This allocation was made in parallel to the State lease revenue bonds allocation so that the infrastructure work could be done in conjunction with the seismic work. The \$50 million for infrastructure needs were allocated among the medical centers as follows: \$25 million to San Diego, \$10 million to Los Angeles, and \$5 million each to the Davis, Irvine and San Francisco Medical Centers.

Responding to the Challenges

UC medical centers face legitimate concerns regarding the need for adequate funding to support their tripartite mission. In recent years, temporary fixes have provided short-term relief. Significant among these have been the following (all of which have been described in earlier sections of this chapter):

- Benefits Improvement and Protection Act of 2000;
- The Medi-Cal Medical Education Program;
- SB 1732 funds for the Davis and San Diego Medical Centers;
- One-time appropriations in the 2000-01 State Budget for hospital equipment (\$25 million) and for infrastructure (\$50 million);
- Authorization for the SPWB to issue up to \$600 million of lease-revenue bonds for medical centers to comply with SB 1953; and
- A one-time CTS augmentation of \$5 million in the 2001-02 State Budget.

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 recent years will be available in the near or distant future.

The medical centers have adapted to the managed care environment by expanding their outpatient and primary care services to complement their existing inpatient services. This has enabled the centers to compete more successfully for commercial contracts, and to provide students with more exposure and training in primary care. The expanded primary care patient base has also resulted in more referrals to the University's own inpatient and specialty services.

The University's academic medical centers are also responding by reducing costs through restructuring and improved efficiencies. The centers are developing stronger links with other providers, especially community hospitals and physicians in larger networks.

Future Issues

As UC medical schools and medical centers look to the future, the University remains committed to excellence in health sciences education and responsiveness to societal health needs. Meeting these challenges successfully will require increasing collaboration among educators, teaching hospitals, managed care organizations, and others to ensure that the quality of patient care and medical education continues to meet the high standards of American medicine and modern society.

With their tripartite mission of teaching, research, and public service, UC's academic medical centers constitute a major resource for California and the nation by providing excellent training for tomorrow's health professionals, educational opportunities for community health professionals who participate in the University's clinical teaching and continuing education programs, and health care services to thousands of patients each day.

Below is a partial list of issues and concerns facing the UC medical centers. These issues and concerns come during difficult fiscal times at all levels of government:

- compliance with SB 1953;
- increasing salary costs, including employer costs of retirement benefits;
- the costs of compliance with HIPAA;
- impact of recent revisions to the Medicaid program;
- cost of compliance with AB 394 (nurse staffing ratio);
- sustainable support for the schools of medicine;
- the high cost of medical supplies, especially pharmaceuticals; and
- terrorism preparedness.

STUDENT FEES

Overview

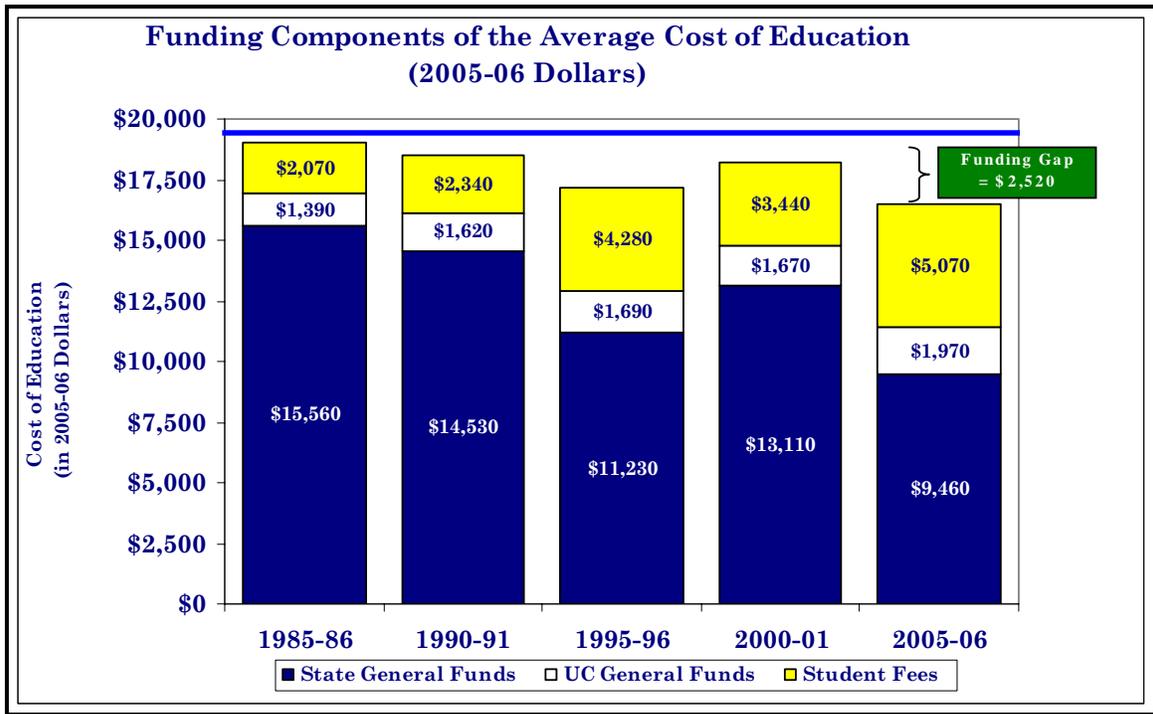
There are two mandatory systemwide fees currently assessed to all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support a share of the University's operating costs, including instruction-related costs, student financial aid, and student services programs. All students also must pay mandatory campus fees, also called miscellaneous campus fees, which 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, public health, public policy, the UCLA theater/film/television program and the UCSD international relations and Pacific studies program are required to pay a professional school fee.
- Nonresident students must pay nonresident tuition as well as mandatory fees and any applicable professional school fees.

Historically, the State has heavily subsidized the cost of education. However, as with all public universities, student fees have tended to increase as the State's subsidy has declined. Display 1 (next page) shows the funding components of the average cost of a UC education from 1985-86 through 2005-06 (in 2005-06 dollars) and the funding gap that has developed between the cost of a UC education in 1985-86 and the resources available in 2005-06. Display 1 yields several findings.

- The average expenditure per student for a UC education has declined. In 1985-86, the cost to educate a UC student was approximately \$19,020 in 2005-06 dollars. Over 20 years, funding per student in inflation adjusted dollars declined by 13.5%, from \$19,020 in 1985-86 to \$16,500 in 2005-06, resulting in a funding gap of \$2,520 per student.
- The State subsidy per student for the cost of a UC education has declined significantly—by 40% over a 20-year period. In 1985-86, the State contributed \$15,560 per student—82% of the total cost. By 2005-06, the State share declined to \$9,460, just 57%.

Display 1



- As the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1985-86 students contributed 11% toward their education, they currently pay 31% of the cost of their education.

These findings raise several additional points. First, the funding gap that has developed since 1985-86 represents lost support totaling \$500 million. Although the University has struggled to meet the challenge presented by this substantial decline in state funding, it must be recognized that certain elements of the educational research and public service functions have been steadily sacrificed in order to preserve the core missions of the University.

It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. When the State's financial situation permits, the University will seek support to reduce this funding gap, as discussed in the *Summary of the 2006-07 Budget* chapter of this document.

Second, recent national news coverage about skyrocketing costs of college tuition masks what has really happened at UC. University expenditures per student have not increased rapidly, but rather have fallen (in constant dollars). Instead, fees paid by students have risen as funding from the State has declined. Student fee increases have helped maintain quality during times of fiscal crisis, but

have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low.

Third, despite rising fees for students, the University has striven to maintain student access and affordability. While fees have increased, the University has provided significant increases in financial aid to help ensure access for low-income students. UC has maintained affordability for lower-income students by sustaining a strong financial aid program.

Even with the increases in mandatory systemwide fees approved by The Regents, the University's average fees for 2005-06 for undergraduate resident students (excluding health insurance fees) are \$1,019 less than the average fees charged at the University's four public salary comparison institutions, as shown in Display 2.

Display 2

University of California and Public Salary Comparison Institutions Total Student Fees *				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
Public Salary Comparison Institutions 2005-06 Fees				
University of Illinois	\$ 8,634	\$ 22,720	\$ 8,878	\$ 21,718
University at Buffalo (SUNY)	\$ 6,068	\$ 12,328	\$ 9,427	\$ 13,447
University of Virginia	\$ 7,370	\$ 24,290	\$ 9,800	\$ 20,400
University of Michigan	\$ 9,213	\$ 28,689	\$ 14,271	\$ 28,689
2005-06 Average Fees of Comparison Institutions	\$ 7,821	\$ 22,007	\$ 10,594	\$ 21,064
<i>2005-06 Average UC Fees</i>	<i>\$ 6,802</i>	<i>\$ 24,622</i>	<i>\$ 8,708</i>	<i>\$ 23,669</i>
<i>2006-07 Estimated Average Fees for Public Salary Comparison Institutions</i>	<i>8,212</i>	<i>23,107</i>	<i>11,124</i>	<i>22,117</i>
<i>2006-07 Estimated Average UC Fees assuming increases in systemwide fees consistent with the Compact**</i>	<i>\$ 7,294</i>	<i>\$ 26,020</i>	<i>\$ 9,398</i>	<i>\$ 24,383</i>
* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident students				
** Increases of 8% for undergraduate students and 10% for graduate students in systemwide fees; and 5% in nonresident tuition for undergraduates.				

In addition, University fees for resident graduate students continue to be well below (\$1,886) the average fees charged at the University's four public salary comparison institutions. Currently, only one of the four public comparison institutions charges lower fees to resident undergraduate; for graduate academic students UC charges the lowest fees of any of the public comparison institutions.

However, the comparisons for nonresident students are a different matter. In the past, the University's fees were among the lowest charges, for both nonresident undergraduate and graduate students, of any of the University's public comparison institutions. With the increases in mandatory systemwide fees and nonresident tuition approved by The Regents for 2005-06, the University's fees for nonresident undergraduate and graduate students are now higher than the average fees for the comparison institutions by \$2,615 and \$2,605 respectively. As a result, the University's tuition and fees for nonresident students currently rank second highest among these institutions behind the University of Michigan.

2006-07 Budget Plan—Student Fees

Consistent with the Compact Agreement with the Governor, it is proposed that mandatory systemwide fees be increased by 8% for undergraduate students and 10% for graduate academic students. Increases in the Educational Fee and professional school fees are proposed for professional degree programs for 2006-07. In addition, the University is engaged in a longer-term planning effort regarding fee increases for professional degree programs, including consideration of increases in the Educational Fee and professional school fees for 2007-08 and 2008-09.

Consistent with those planning efforts, for 2006-07 it is proposed, for most professional degree programs, that the *Educational Fee* be increased by 5% to cover salary costs and non-salary price increases for that portion of the professional schools' budgets that are funded from Educational Fee revenue, and that *professional school fees* for most schools be increased by 5% to provide additional funds for financial aid and to cover salary costs and non-salary price increases for that portion of the professional schools' budgets that are funded from professional school fee revenue.

It is further proposed that professional school fees for programs in law and business at Berkeley and UCLA and the law school at the Davis campus be increased by 10% for 2006-07 to help address the disproportionate cuts these programs sustained in 2004-05 and to help restore competitiveness with their peer institutions.

For nonresident undergraduate students only, it is proposed that the Nonresident Tuition Fee be increased by 5% in 2006-07, raising the nonresident tuition level for these students from \$17,304 to \$18,168. Nonresident tuition would remain at \$14,694 for graduate academic students and \$12,245 for professional students. Taken together with mandatory systemwide fees and campus fees, total nonresident student charges in 2006-07 are estimated to be \$26,020 for undergraduate students and \$24,383 for graduate academic students.

Finally, it is proposed that nonresident doctoral graduate students who have reached the advanced to candidacy stage of their degree be exempt from paying the Nonresident Tuition Fee for three years to help address the need for additional graduate student support for these students. A doctoral student has advanced to candidacy when he or she has completed all required coursework, but must still complete the dissertation for award of the degree. The three-year limit on the exemption will encourage these students to complete their dissertation work promptly.

The fee increases associated with the budget plan for 2006-07 are summarized below.

Proposed increases in mandatory systemwide fees for undergraduate and graduate academic students:

- increases in the Educational Fee as follows:
 - \$462 for resident undergraduate students, increasing the fee from \$5,406 to \$5,868;
 - \$504 for nonresident undergraduate students, increasing the fee from \$5,922 to \$6,426;
 - \$660 for resident graduate academic students, increasing the fee from \$6,162 to \$6,822;
 - \$684 for nonresident graduate academic students, raising the fee from \$6,429 to \$7,113.

- \$30 in the University Registration Fee, increasing the fee from \$735 to \$765. (When combined with the increases in the Educational Fee, the total increase in mandatory systemwide fees is 8% for undergraduate students, 10% for graduate academic students.)

Proposed increases in mandatory student fees for professional school students:

- increases in the Educational Fee as follows:
 - \$328 for most professional school students, raising the fee from the annualized amount of \$6,407 to \$6,735;
 - \$315 for resident professional school students enrolled in public health, public policy, and the UCSD program in international relations and pacific studies, raising the fee from \$6,162 to \$6,477;
 - \$339 for nonresident professional school students enrolled in public health, public policy, and the UCSD program in international relations and pacific studies, raising the fee from \$6,429 to \$6,768.

- \$30 in the University Registration Fee, increasing the fee from \$735 to \$765.
- increases of 5% in professional school fees for most programs, ranging from \$161 in nursing to \$790 in dentistry, consistent with the campuses' planning efforts.
- increases of 10% in professional school fees for programs in law and business at Berkeley and UCLA and the law school at Davis, consistent with the campuses' planning efforts.

Nonresident Tuition Fee:

- \$864 (5%) in the Nonresident Tuition Fee for undergraduate students only, raising the fee from \$17,304 to \$18,168.

The Compact with the Governor provides that an amount equivalent to no less than 20% and no more than 33% of the revenue generated from student fee increases is to be used to provide aid to needy undergraduate students who qualify for financial aid, based on the federal methodology for determining need. Consistent with the University's past practice of setting aside a portion of the revenue generated by the fee increase to mitigate the impact of the fee increase on financially needy students for 2006-07, it is proposed that an amount equivalent to an average of 33% of all new fee revenue generated from student fee increases be used for financial aid purposes. The initiatives proposed for undergraduate student aid will result in a return-to-aid from additional fee revenue of approximately 30%, and will improve the return-to-aid proportion over the 25% that was implemented for 2005-06. In addition, UC students are expected to receive support through the Cal Grant program generally equivalent to another 25% of all fee revenue. Return-to-aid for graduate students will total 50%, less fee revenue temporarily budgeted for graduate academic student support in 2003-04 that must be restored to undergraduate financial aid. The net return-to-aid, then, will be 45% for graduate academic students.

In addition to showing comparisons for 2005-06, Display 2, previously shown on page 233, compares proposed UC fee levels with the projected average of the comparison institutions for 2006-07. UC fees are estimated to be below the tuition and fees charged at the University's four public comparison institutions by about \$918 for resident undergraduates and about \$1,726 for resident graduate students in 2006-07.

When the proposed increases in tuition and fees for nonresident students are taken into account, it is anticipated that tuition and fees for nonresident undergraduates would be about \$2,913 more than the projected average of tuition and fees at the comparison institutions while tuition and fees for nonresident graduate students would be about \$2,266 higher than the average charges at the comparison

institutions. While UC focuses on enrolling California residents at the undergraduate level, graduate programs recruit students from across the U.S. and around the world. Therefore, the higher differential in tuition and fees is particularly troublesome at the graduate level because it negatively impacts the University's historic ability to recruit the highest quality students and to provide them with adequate support.

History of Student Fees

Display 3 shows fee levels for resident undergraduate and graduate academic students from 1978-79 through 2006-07, as proposed in the budget plan.

Display 3

UNIVERSITY OF CALIFORNIA STUDENT FEE LEVELS 1978-79 to 2006-07													
Average Annual Fees per Resident Undergraduate Student							Average Annual Fees per Resident Graduate Academic Student						
	Ed/Reg Fees Combined			% Change	Misc. Fees	(a)	Total Fees *	Ed/Reg Fees Combined			Misc. Fees	(a)	Total Fees *
	Reg. Fee	Ed. Fee	Total					Reg. Fee	Ed. Fee	Total			
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 (g)	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)
2004-05	713	4,971	5,684	(14.0%)	628 (d), (f)		6,312	713	5,556	6,269	(20.0%)	1,606 (d)	7,875 (b, c)
2005-06	735	5,406	6,141	(8.0%)	661 (d), (f)		6,802	735	6,162	6,897	(10.0%)	1,811 (d)	8,708 (b, c)
2006-07 (estimated)	765	5,868	6,633	(8.0%)	661 (d), (f)		7,294	765	6,822	7,587	(10.0%)	1,811 (d)	9,398 (b, c)

Notes:
(a) Represents the average of fees charged by the campuses for undergraduates and graduate academic students. Fees for professional students are not included here.
(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.
(g) Includes the full fee increase of \$405 approved in 2002-03. However, only 1/3 (\$135) of the increase was implemented in Spring 2003, with the full amount implemented in 2003-04.
* Total fees are the sum of the Ed/Reg Fees combined and estimated campus miscellaneous fees, which are higher for graduate students.

In the early 1980s, fees were increased to offset losses in State funds. Throughout the rest of the decade, fees were held constant or increased moderately until the onset of the State's fiscal crisis in the early 1990s when the State's severe fiscal difficulties resulted in a dramatic decline in State

support for the University. The impact of the State's fiscal crisis in the 1990s is described in detail in the *Overview*.

There was considerable volatility in fee increases during the early 1990s. 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 University's ongoing commitment to financial aid, which is addressed in the the Student Financial Aid chapter of this document, has helped maintain the affordability of a UC education.

Student Fees 1995-96 through 2005-06

There were no increases in mandatory systemwide fees for seven consecutive years from 1995-96 through 2001-02 until the mid-year student fee increases instituted for the Spring 2003 term. In fact, as a result of the State's actions in the late 1990s, fees were reduced by 10% for California resident undergraduates and by 5% for California resident graduate academic students.

Even though the State's fiscal situation began to deteriorate in 2001-02, student fees did not increase until mid-year cuts were instituted in 2002-03. As part of the University's effort to offset cuts 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% for 2003-04 (\$1,150 for resident undergraduates). Professional school, graduate, and nonresident student fees also rose significantly. Again in 2004-05, student fees were raised to offset cuts that otherwise would have been directed at instruction: undergraduate fees rose by \$700 (14%), graduate fees rose by \$1,050 (20%), and professional school fees rose by an average of 30%, with increases varying by school. Nonresident students also paid an additional 20% in nonresident tuition (a \$2,746 increase for undergraduates).

As described in the *Overview*, in May 2004, the University negotiated a Compact with Governor Schwarzenegger which includes an agreement about student fee increases over its six-year term. For 2006-07, undergraduate fees are expected to increase by 8% per year and graduate student fees by 10% per year.

As fees have increased over time, the percentage of additional fee income dedicated to financial aid, referred to as return-to-aid, also has increased. In 1987-88, the return-to-aid was 16%; by 1994-95 that proportion had risen to 33%, where it remained through 2003-04. Due to the State's fiscal crisis, the Governor proposed

and the Legislature agreed to a lower return-to-aid of 20% for 2004-05. For 2005-06, approximately 25% of all new fee revenue generated from undergraduate fees is being used for undergraduate student financial aid, which is consistent with the historical average, and 50% of all new fee revenue raised from graduate academic students fees is used for graduate student financial aid. In addition to fee revenue, other sources help cover fee increases and meet other costs, including funds provided from Cal Grants, the Federal government, and private sources. Because the State's Cal Grant program does not cover fees for graduate students, other sources of funds including student fee revenue, are particularly critical for the University to provide financial aid and remain competitive in recruiting graduate academic students. Funding for financial aid from grants and scholarships is expected to exceed \$1.1 billion in 2005-06. 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 had 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 assumes 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 high-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. 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, at a minimum, 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. The University recognizes it is helpful when information on projected fee levels can be provided in a timely way so families can plan their finances for the coming year. However, given the instability in the University's state-funded budget, including mid-year budget cuts, it has been difficult to provide notice well in advance of the academic year. As State funding stabilizes, the University will strive to provide notice of fee increases in a more timely way.

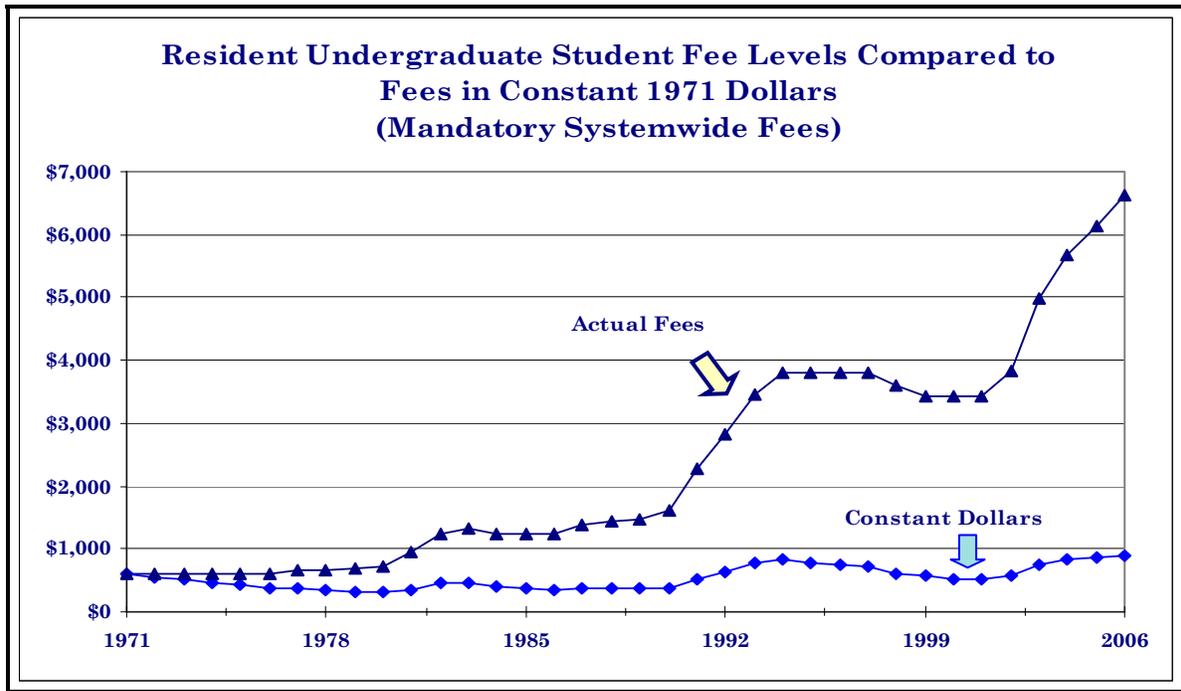
The agreement among UC, CSU, and the Governor regarding the student fee policy as expressed in the Compact (described earlier in the *Overview*) preserves the concept of predictable, moderate, and gradual student fee increases, as envisioned in Regental policy and proposed in past years by CPEC. Importantly, it also recognizes the need to provide adequate funding for cost increases for student fee-funded programs and preserving the quality of the University.

As with both private institutions and a growing number of public institutions, fee revenue is needed to support the academic mission of the University, and has only partially offset the impact of a significant decline in State support for the University over the past 20 years. Without adequate resources, the University cannot recruit and retain talented faculty and maintain its academic programs. While regrettable, student fee increases have helped preserve the high quality educational experience that the State's citizens have come to expect from the University.

The history of student fees is shown in the top line of Display 4. The wide fluctuation in student fees tracks fairly closely with changes in the State's economy. In good years, fees were held steady or were reduced. In years of fiscal crisis, student fees increased dramatically. The display also shows that 2006-07 fee levels, when adjusted to reflect 1971-72 constant dollars, will be about the same as they were in 1994-95; overall, they have increased from approximately \$500 to \$1,000 (in constant dollars) over the 35-year period.

As noted previously, from 1995-96 to 2001-02, the State provided additional funding to the University to avoid increases in mandatory student fees during those years. In addition, the State provided funding to reduce mandatory systemwide fees by

Display 4



10% for resident undergraduate students and 5% for resident graduate students. Instead, if the University had adjusted mandatory systemwide fees by 4% annually beginning in 1995-96, total undergraduate fees would be \$6,743—about \$551 less than the estimated actual of \$7,294 for 2006-07—and about \$1,429 less than the estimated average of total tuition and fees (\$8,212) at the comparison institutions.

Mandatory Systemwide Student Fees – Undergraduate and Graduate Academic Students

Educational Fee

The University's 2006-07 budget plan includes an increase in mandatory systemwide fees of 8% for undergraduates and an increase of 10% for graduate academic students. An amount equivalent to an average of 33% of new revenue from mandatory systemwide fee increases (30% for undergraduates and 45% for graduate academic students) would be used for financial aid purposes. The increases from undergraduate and graduate academic students would generate about \$62.9 million in new Educational Fee revenue, net of financial aid, and an additional \$17.1 million in revenue, net of financial aid, will be generated from new enrollments.

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

It is proposed that the University Registration Fee be raised by 4% to cover salary and non-salary cost increases in programs funded from Registration Fee revenue. The cost adjustment would result in an increase of \$30, raising the Registration Fee from \$735 to \$765 for 2006-07. When combined with the proposed increases in the Educational Fee, the total increases in mandatory systemwide fees would be 8% for undergraduate students and 10% for graduate academic students. The increase would generate approximately \$5.9 million in new Registration Fee revenue, and an additional \$3.6 million in new revenue would be generated from new enrollments.

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.

Mandatory Student Fees – Professional School Students

Historically, many of UC's professional schools have held a place of prominence in the nation, promising a top-quality education for a reasonable price. The cuts that have occurred, both in the early 1990s and during the more recent budget crisis, have devastated the resources available to the professional schools to such a degree that the schools are extremely concerned about their ability to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students – all of which are important components of excellence in these schools. Once started

on a downward spiral, it is very difficult to recover to previous levels of excellence. The professional schools see this as a crisis of quality and believe significant steps, including raising student fees, must be taken to regain the excellence recent budget cuts have threatened.

Since the initial implementation of professional school fees, professional schools have been largely supported by a combination of sources, including State general funds, Educational Fee revenue, and professional school fee revenue, among others. Because fee increases have been used to offset budget cuts and have generated little or no additional revenue for the schools, professional schools have fallen further behind in their ability to offer competitive salaries to their faculty and staff. The financial circumstances of the schools are severely strained and will require a sustained program of fee increases over time.

It is within this context that the University has engaged in longer-term planning, including consideration of fee increases in the Educational Fee and the professional school fees for professional school students, as described more fully later in this chapter. Because professional school fees have had to increase significantly over the past few years to offset budget cuts, The Regents have requested a longer-term plan for future increases in fees for professional school students. This is consistent with the Compact, which calls for the University to develop long-term plans for increasing fees for selected professional school students. The Office of the President and the campuses have engaged in a series of discussions and analytical activities as part of the planning for increases in fees for professional schools over the next several years. The planning assumes that fees for professional school students will be adjusted annually and that campuses will retain the revenue from professional school fees to cover salary costs, employer retirement contributions, and other cost increases, provide additional financial aid, and begin to make modest improvements to their academic programs.

The Compact with the Governor provides that the University will develop plans to achieve student fee levels in professional schools taking into consideration a number of factors. Planning activities have been undertaken with these in mind:

- average fees at other public comparison institutions;
- average cost of instruction;
- total cost of attendance;
- market factors;
- the need to preserve and enhance the quality of the professional programs;
- the State's need for more graduates in a particular discipline; and
- the financial aid requirements of professional school students.

The University's continuing commitment to provide financial aid for professional school students is reaffirmed by the Compact, and the University will continue to

provide an amount equivalent to a specified proportion of new fee revenue annually for financial aid for professional students.

A multi-year plan for fee increases for professional school students is not being presented at this time. Instead, fee increases for professional school students proposed for 2006-07 are included as part of the 2006-07 budget plan to be brought to the Board for approval at the November meeting. Longer-term planning issues related to professional school fee increases for 2007-08 and 2008-09 will be presented separately to The Regents for discussion at the November meeting.

2006-07 Budget Plan

For the *Educational Fee* charged to professional school students, the University is proposing increases of 5% as part of the 2006-07 budget plan. For the portion of the professional schools' budgets that are funded from the Educational Fee, the revenue generated from the Educational Fee increases would be used to cover salary increases and non-salary price increases, provide additional financial aid, and make modest program improvements.

In addition, for 2006-07 professional school students will pay a \$1,050 temporary increase in the Educational Fee previously approved by The Regents to cover lost revenue associated with a lawsuit currently before the courts brought by professional school students who are seeking relief from recent fee increases. The court has issued a preliminary injunction preventing the University from charging professional school fee increases in 2004-05 and 2005-06 to the specified class of students. This lawsuit is discussed in more detail later in this chapter.

The 2006-07 increases in the Educational Fee would generate nearly \$2.4 million in new fee revenue, and an amount equivalent to at least 33% of the new fee revenue from the increases in mandatory systemwide fees would be used for financial aid for professional students.

For *professional school fees*, increases of 5% for most professional degree programs are proposed in the 2006-07 budget plan. These increases will stop further erosion to the programs. For that portion of the schools' budgets that are funded from professional school fees, the revenue generated from professional school fee increases would be used to cover salary increases and non-salary price increases, provide additional financial aid including funding to develop new loan assistance programs or expand existing ones, and make modest program improvements.

Because of disproportionate cuts in State General Funds to law and business programs in the last few years, the schools of law and business at Berkeley and UCLA and the law school on the Davis campus are finding it particularly difficult to remain competitive with their peer institutions without additional resources. The 2004-05 Governor's Budget presented in January 2004 assumed the University

would develop a plan for achieving \$42.2 million in new revenue from increases in professional school fees to be used to offset base budget cuts that otherwise would have been targeted at instructional programs. However, the University was asked to exempt nursing from these increases and to implement a smaller than average increase for students in the schools of medicine. As a result, State-funded budgets for law and business were disproportionately cut in 2004-05.

As noted previously, the University's professional schools are in danger of losing prominence among their peers. The disproportionate cuts taken in law and business have resulted in a number of deficiencies that must be addressed. For example, Berkeley's goal is to return the law school to its former ranking among the top 5 schools in the nation. To reach that goal, the school needs to address the following: the rising student/faculty ratio that has led to increased class sizes; faculty salaries that are well below the average of peer public and private institutions; student services programs that have not kept pace with student needs; and financial aid programs that can ensure public interest career options are available to students upon graduation. If the law school is to reach its goal, additional funding beyond the minimum increases in professional school fees is needed. A similar situation exists at the UCLA and Davis law schools, and at the business schools at Berkeley and UCLA.

While the level of fee increase proposed for other professional school programs in 2006-07 would provide funding for cost increases and some additional financial aid, they would not be sufficient to address the effects of the budget cuts applied disproportionately to these programs. Therefore, The Regents will be asked to approve professional school fee increases of 10% for 2006-07 for the law and business schools at Berkeley and UCLA and for the law program at the Davis campus. It will be important to closely evaluate the impact of these higher increases on enrollments and the schools' ability to be competitive with their peer institutions. If successful, this model could be replicated in future years in other schools.

For 2006-07, professional school fee increases would generate approximately \$9.4 million in new fee revenue, and an amount equivalent to at least 33% of the new fee revenue generated from the increases would be used for financial aid for professional students. Some portion of the new fee revenue is expected to be used to establish new and/or expand existing loan repayment programs to help borrowers with public service employment meet their student loan repayment obligations. Display 5 (next page) shows the fee levels previously approved by The Regents, as well as fee levels proposed for 2006-07.

Longer-Term Planning Issues

While the campuses have engaged in planning for the 2006-07 budget year, they also have focused on the need for additional resources for the longer-term. As noted previously, the last four years of sustained budget cuts have resulted in a dramatic

Display 5

Fees for Selected Professional School Students Annual Fee Levels by Year of First Enrollment (resident students)											
	Fees Previously Approved by The Regents								Proposed Professional Fee Ranges for 2006-07		
	1994-95	1995-96	1996-97	1997-98	2002-03	2003-04	2004-05	2005-06 Actual	2005-06 Annualized	Proposed Increases	Proposed New Fee Levels
Medicine	\$ 2,376	\$ 3,376	\$ 4,376	\$ 5,376	\$ 5,776	\$ 8,549	\$ 13,049	\$ 13,440	\$ 13,440	\$ 672	14,112
Dentistry	2,000	3,000	4,000	5,000	5,400	8,060	12,560 *	15,445	15,798	790	16,588
Veterinary Medicine	2,000	3,000	4,000	4,000	4,350	6,565	10,565	10,882	10,882	544	11,426
Law	2,376	4,376	6,376	6,376	6,776	9,849	13,649 *	14,695 - 15,976	15,013 - 16,334	1,501 - 1,633	16,514 - 17,967
Business	2,000	4,000	6,000	6,000	6,400	9,360	13,860 *	14,276 - 16,984	14,276 - 17,371	714 - 1,737	14,990 - 19,108
Riverside	2,000	3,000	4,000	5,000	5,400	9,360	13,860	14,276	14,276	714	14,990
Optometry			2,000	3,000	3,250	4,875	8,675	9,340	9,542	477	10,019
Pharmacy			2,000	3,000	3,250	4,875	8,675 *	10,849	11,098	555	11,653
Nursing			1,500	1,800	1,950	2,925	2,925	3,149	3,218	161	3,379
Theater, Film, & TV			2,000	2,000	2,150	3,185	5,785	5,959	5,959	298	6,257
Public Health								4,000	4,000	200	4,200
Public Policy								4,000	4,000	200	4,200
Int'l Rels & Pacific St.								4,000	4,000	200	4,200

In addition, professional school students pay mandatory Universitywide fees and miscellaneous campus-based fees.
 * Consistent with Regents delegation, the President approved additional fee increases of up to 10% for these professional degree programs at selected campuses. Those added amounts are not included in these figures.
 **For 2005-06, The Regents approved fee increases of 3% for all programs. In addition, supplemental increases up to an additional 7% were approved for selected degree programs. However, because the supplemental increases were implemented beginning in winter/spring terms, only 2/3 of the increases were assessed. These figures reflect the annualized amounts approved by The Regents.

reduction in State support for the University's professional schools. The financial circumstances of the professional schools are severely strained, and the ability to maintain the quality of their academic programs and to be competitive with other professional schools of comparable quality has been significantly affected. As a result, longer-term planning for fee increases for professional school students has been undertaken to address three objectives: (1) to address ongoing needs for salary increases, employer retirement costs, other price increases, and provide funding for additional financial aid; (2) to stabilize funding for the schools so they can begin repairing the damage that has been sustained as a result of the cuts; and (3) to begin re-building high quality programs that are competitive with those offered at comparable public and private institutions.

Such longer-term planning will need to address the recruitment and retention of excellent faculty, including meeting salary and employer retirement contribution costs; ensure the development or maintenance of a high-quality curriculum; and improve the school's ability to recruit high-caliber students. At the same time, campuses also are committed to providing additional financial aid to students, including funding to develop new loan assistance programs or expand existing ones. Rebuilding the quality of the professional programs and providing more financial aid will require a multi-year effort, including a sustained program of fee increases in the Educational Fee and professional school fee.

For 2007-08 and 2008-09, increases in the range of 7% - 8% in the Educational Fee and professional school fees are likely to be needed for most professional school programs to cover salary increases, employer retirement contributions, and other price increases. Additional revenue will be needed to fund increases in financial aid and to fund higher salary increases to begin addressing the chronic gap in salaries for professional school faculty. A sustained program of fee increases over and above

the levels proposed for other professional schools is recommended for the law and business schools at Berkeley and UCLA to begin to restore excellence and ensure broad accessibility. Accordingly, just as the proposed fee increases for the law and business schools at Berkeley and UCLA for 2006-07 are higher than those proposed for other programs, increases for these programs in future years also are likely to be higher—at least 10% per year and perhaps more if additional funds are needed to restore quality to those programs, including hiring additional faculty, paying competitive salaries, and providing increased financial aid.

Some uncertainties exist, however. It is unclear how employer retirement contribution costs will be funded or when employer retirement contributions are likely to begin, perhaps as early as 2007-08. Under the Compact, the Administration is committed to covering the portion of employer retirement contributions that is funded from State funds. Because student fees have increased dramatically in recent years to offset significant State budget cuts, it would be unreasonable to also raise fees to cover employer contributions to the retirement system for programs funded from student fees. Therefore, the University intends to seek funding from the State to also cover the portion of employer retirement contributions that is funded from student fees. However, it is not clear whether that will be achievable. In the context of these uncertainties, the University is not proposing specific increases in professional school fees for 2007-08 and 2008-09 at this time and will, instead, make specific proposals after more is known about funding for and timing of the reinstatement of retirement contributions.

History of Professional School Fees

Policy. 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, authorizing fees for students in selected professional degree programs that are required in addition to mandatory systemwide fees and miscellaneous campus-based fees and, when appropriate, nonresident tuition. In approving the fee policy, the University reaffirmed its commitment to maintain academic quality and enrollment in the professional school programs, and recognized that earning a degree in these programs benefits the individual financially as well as the state.

The Regents Policy is now outdated and inoperative, given the enormous cuts that have occurred to the professional school budgets and the University as a whole, which have resulted in changes in the proportion of fee revenue dedicated to financial aid and an expansion in the number of affected degree programs. In addition, while the policy provides that the fee for each professional degree 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, in some cases, total student charges at UC now are higher than the average at comparison institutions. An update to current policy is needed to address The Regents' continuing goals to provide access and a high quality professional education for UC students in the current economic environment. Guidelines for setting fee levels, based on the understandings reached with the State on the Compact, will be discussed by The Regents at the November meeting in conjunction with the discussion of the longer-term planning issues facing professional school students.

Budget Cuts and Fee Increases. 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. Not only were professional school program fees frozen at 1997-98 levels 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. These fees did not increase again until the 2002-03 budget year, when mid-year cuts resulted in fee increases in mandatory systemwide fees and professional school fees. In 2003-04, professional school fees were increased by about 30% and the revenue was used to offset base budget cuts for the University that otherwise would have been targeted at Instruction.

The 2004-05 Governor's Budget presented in January 2004 assumed the University would develop a plan for achieving \$42.2 million in new revenue from increases in professional school fees to be used to offset base budget cuts that otherwise would have again been targeted at Instruction. To achieve that revenue target, fees would need to have increased by about \$5,000 per student. The University was asked to exempt nursing from these increases and to implement a smaller than average increase for students in the schools of medicine. However, a few of the schools—such as optometry, pharmacy, and theater, film, & TV—could not sustain increases of \$5,000 and continue to attract sufficient numbers of highly qualified students.

After review of the options available, and considering the short notice to students, The Regents approved increases in these fees averaging approximately 30% for 2004-05. These increases generated approximately \$37 million in income, falling \$5 million short of the revenue proposed by the Governor. The campuses absorbed the \$5 million shortfall on a temporary basis through cuts to other programs. As noted previously, to cover this shortfall permanently, mandatory systemwide fees charged to professional school students were increased for 2005-06 by \$628, the same dollar amount of increase proposed for graduate academic students.

One issue of major concern was that the Governor's 2004-05 proposal did not assume any return-to-aid from the increase in professional school fees. Moreover, the professional schools affected have been very concerned about their ability to maintain the quality of their programs and to be competitive with other professional schools, particularly if students will be paying significantly more to attend these schools. To address the academic quality and financial aid issues associated with this proposal, The Regents delegated authority to the President to raise the fee at any of the professional schools in 2004-05 by an additional amount not to exceed 10% of total systemwide fees paid by professional school students (i.e. Educational Fee, Registration Fee, and Professional School Fee), if it was determined that a higher fee was needed to provide sufficient financial aid, and/or maintain quality of the academic program. The following schools exercised this option in amounts ranging from \$1,000 to \$1,932, while the remaining schools made no further changes in their fee levels:

Law and Business at Berkeley and Los Angeles
Dentistry at Los Angeles and San Francisco
Pharmacy at San Diego and San Francisco

For 2005-06, The Regents approved a 3% across-the-board increase in professional school fees to cover salary costs and non-salary price increases. In addition, The Regents approved new professional school fees for students enrolled in degrees in public health, public policy, and the San Diego campus program in international relations and Pacific studies. At the same time, recognizing that the professional schools have been unable to make the financial investments necessary to maintain the academic quality of their programs and to provide additional financial aid to their students, the Board stated its intention to review any proposals for supplemental increases in professional school fees that might be proposed by the individual schools.

At the May 2005 meeting, increases of up to an additional 7% were proposed for specified professional degree programs; when combined with the 3% increase approved for all professional degree programs, the total increase proposed for these programs was a maximum of 10%. The proposed increases varied by school, campus, and residency status, and ranged from \$205 in nursing to \$1,163 for MBA students at UCLA.

The full 10% increases in professional school fees were approved for implementation in 2006-07. However, for 2005-06, 2/3 of the proposed professional fee increases were approved for implementation beginning in Winter quarter/Spring semester to ensure that students received adequate notice. This action resulted in an increase for 2005-06 of about 7.7% in professional school fees over 2004-05 for the identified degree programs.

For 2005-06, the following schools will implement supplemental increases in professional school fees, ranging from \$136 to \$776 beginning in Winter quarter/Spring 2006.

Law at Berkeley, Davis, and Los Angeles
Business at Berkeley, Irvine, and Los Angeles
Dentistry at Los Angeles and San Francisco
Pharmacy at San Diego and San Francisco
Nursing at Los Angeles and San Francisco
Optometry at Berkeley

UC and Comparison Institution Professional School Fees

Display 6 (next page) shows 2005-06 professional school fees at the University of California in relation to the University's four public salary comparison institutions. Additional public institutions are used for fee comparison purposes where the University's four public salary comparison institutions do not offer comparable degree programs or where the University's programs use other peer institutions for fee comparison purposes. While they are not used for fee comparison purposes, the table also shows the 2005-06 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.

Fees for resident students enrolled in law, business, public health, public policy, and the IRPS program at UCSD are now approximately the same as the average of the tuition and fees charged by comparable public institutions for 2005-06. Fees remain well below the average of tuition and fees at comparison institutions for resident students enrolled in medicine (\$2,469) and nursing (\$1,049). However, UC fees are now higher than tuition and fees charged at comparable public institutions in all the remaining fields, including veterinary medicine (\$3,838), dentistry (\$3,901), pharmacy (\$4,413), optometry (\$1,749), and the theater, film, and TV program at UCLA (\$3,217).

Temporary Educational Fee Increase for Professional School Students

In 2003, students who had been enrolled in UC's professional degree programs prior to December 16, 2002 filed a class action suit against the University alleging that the increases in the Fee for Selected Professional School Students that were approved by The Regents for spring 2003 and for all subsequent years violated a contract between the University and students that the professional school fee would not be increased while they were enrolled. Subsequently, the trial court entered an

Display 6

UNIVERSITY OF CALIFORNIA FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS												
	Medicine	Dentistry	Veterinary Medicine	Law	Business Admin.	Optometry	Pharmacy	Nursing	Theater, Film & TV	Public Health	Public Policy	Int'l Rel. & Pac Studies
University of California												
2005-06 Resident Fees Average of mandatory systemwide, campus-based, & professional fees (incl. supplemental prof. fee increases)	\$ 22,211	\$ 24,515	\$ 21,701	\$24,149*	\$23,668*	\$ 17,675	\$ 19,519	\$ 11,556	\$ 13,964	\$ 12,503	\$ 12,275	\$ 12,612
Comparison Institution Fees												
2005-06 Resident Fees												
<i>Public Salary Comparison Institutions</i>												
University of Michigan	\$ 22,433	\$ 23,227		\$ 32,919	\$ 33,989		\$ 15,737	\$ 14,553	\$ 14,387	\$ 16,069	\$ 15,991	\$ 15,991
University of Virginia	\$ 28,700		\$ 15,958	\$ 28,300	\$ 32,300			\$ 9,815	\$ 9,810		\$ 9,810	\$ 9,810
University of Illinois (Urbana/Champ)	\$ 26,230	\$ 21,184		\$ 17,488	\$ 18,118				\$ 9,364	\$ 10,134	\$ 8,878	
University of Illinois (Chicago)	\$ 21,356	\$ 17,431					\$ 14,570	\$ 13,448				
University of Buffalo (SUNY)				\$ 14,741	\$ 9,581		\$ 15,011		\$ 9,427			
<i>Additional Fee Comparison Institutions for Selected Programs</i>												
University of Alabama			\$ 22,062			\$ 14,516						\$ 15,677
Cornell University (statutory college)											\$ 12,586	\$ 12,586
University of Maryland												
Michigan State University			\$ 16,030									
University of Minnesota			\$ 19,328									
University of Missouri						\$ 17,302						
Ohio State University						\$ 15,960				\$ 8,507		\$ 8,257
University of Wisconsin			\$ 15,936									
University of Washington												
Public Comparison Institution												
Average Resident Fees for 2005-06	\$ 24,680	\$ 20,614	\$ 17,863	\$ 23,362	\$ 23,497	\$ 15,926	\$ 15,106	\$ 12,605	\$ 10,747	\$ 11,570	\$ 11,816	\$ 12,464
<i>Private Salary Comparison Institutions, 2005-06</i>												
Harvard University	\$ 38,391			\$ 37,906	\$ 40,028							
Massachusetts Institute of Technology				\$ 37,192	\$ 41,484							
Stanford University	\$ 40,186			\$ 38,800	\$ 43,167							
Yale University	\$ 39,150				\$ 38,315							

* For law, total charges range from \$23,525 at Davis to \$24,581 at LA. For business, total charges range from \$22,783 at San Diego to \$26,039 at LA. These ranges reflect differences among campuses in professional school fee levels as well as differences in campus-based fees.

order granting a preliminary injunction against the University, prohibiting the University from collecting the professional school fee increases approved by The Regents for 2004-05 and 2005-06 from students affected by the lawsuit. If the University should ultimately prevail in the litigation, at the end of 2005-06, the University will have lost more than \$20 million in professional school fee revenue.

To address this revenue loss, The Regents approved a \$1,050 increase in the Educational Fee for implementation in 2006-07, with 2/3 of this increase also approved for implementation in 2005-06 beginning in Winter quarter/Spring semester to ensure that students received adequate notice. This action resulted in an increase in the Educational Fee for 2005-06 of \$700 over 2004-05. At the end of 2006-07, the temporary Educational Fee increase for professional school students will cease. For 2007-08, The Regents approved a temporary increase of \$60 that will be assessed to all students.

Financial Aid for Professional School Students

The majority of UC financial aid funds for professional school students is used for grant and fellowship awards with some funds set aside for loan repayment assistance programs. The majority of financial aid funds from other sources, however, provides aid in the form of loans. As a result, about two-thirds of all aid awarded to graduate professional students is in the form of loans, rather than fellowships or grants. Student loans are considered appropriate for students pursuing professional degrees because these programs are relatively shorter than doctoral degree programs and students' incomes have the potential to be substantially higher. Students who choose careers in the public interest, however, often forego these higher incomes. 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. For 2006-07, the University will expect campuses to expand the size and scope of their loan repayment assistance programs (LRAPs) to help borrowers with public service employment meet their student loan repayment obligations. Initially, the law schools will take the lead in expanding LRAP programs for students pursuing careers in the public interest. If successful, their efforts could be replicated in future years in other schools, where feasible. The University will continue to monitor the debt levels of students enrolled in professional degree programs.

Nonresident Tuition

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 or a member of a domestic partnership; a ward of the court; both parents are deceased; have legal dependents other than a spouse; a graduate student and who has 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.

The 2006-07 budget plan includes a 5% increase in the Nonresident Tuition Fee for undergraduate students only, raising the fee by \$864 from \$17,304 to \$18,168 in 2006-07. This increase is expected to generate about \$7.5 million in new revenue. The budget plan assumes that the Nonresident Tuition Fee will remain at \$14,694 for graduate academic students and \$12,245 for professional degree students. Finally, the 2006-07 budget plan proposes that graduate academic students who have advanced to candidacy not be charged the Nonresident Tuition Fee. It is anticipated that the reduction in revenue associated with the proposed policy change would be approximately \$8.8 million in 2006-07; however, it will also reduce the burden on research grants and other fund sources that are often used to fund this cost as part of a student's financial support package.

Nonresident students also pay mandatory systemwide fees and miscellaneous fees, bringing the average total charges paid by nonresident students to \$24,622 for undergraduate students and \$23,669 for graduate students in 2005-06. The average total charges for nonresident professional students will vary by discipline; for example, the average of total tuition and fees is estimated to be \$35,967 for nonresident law students and \$29,920 for nonresident optometry students for 2005-06.

As noted previously, and in greater detail in the *Student Financial Aid* chapter of this document, the inadequacy of graduate student support is a serious issue for the University. Therefore, nonresident tuition for graduate students will not be increased in order to keep the programs competitive in terms of total student charges and avoid exacerbating an already difficult problem. Thus, the Nonresident Tuition Fee will remain at the current level of \$14,694 for graduate academic students and \$12,245 for professional students.

The University is concerned about future increases in nonresident tuition. A dramatic decline has occurred in the number of undergraduate nonresidents applying to the University—nearly 15% over the last three years. Thus, the 5% increase proposed for undergraduate students in 2006-07 is a modest increase compared to the increases that occurred during the worst years of the State's budget crisis.

A doctoral student has advanced to candidacy when he or she has completed all required coursework, but must still complete the dissertation for award of the degree. In 1997, The Regents adopted the following policy regarding the reduction in nonresident tuition for graduate students advanced to candidacy for the doctorate:

Effective with the Fall term 1997, for graduate doctoral students who have advanced to candidacy, the annual nonresident tuition fee is reduced by 75 percent, subject to the understanding that:

- (a) a graduate doctoral student may receive the reduced nonresident tuition rate for a maximum of three years; and
- (b) any such student who continues to be enrolled or who re-enrolls after receiving the reduced fee for three years will be charged the full nonresident tuition rate that is in effect at the time.

Consistent with the Policy, the Nonresident Tuition for these students is set at \$3,674, 25% of the graduate academic rate for 2005-06. To help address the need for additional graduate student support and to help students complete their degrees as quickly as possible, the 2006-07 budget plan proposes that graduate doctoral students who have reached the advanced to candidacy stage be exempt from paying the Nonresident Tuition Fee for a maximum of three years. Any student who continues to be enrolled or who re-enrolls after three years, would be charged the full nonresident tuition rate that is in effect at the time. The three-year limit on the exemption will encourage them to complete their dissertation work promptly. It is anticipated that the reduction in revenue as a result of the proposed policy change would be approximately \$8.8 million in 2006-07; however, it will also reduce the burden on research grants and other fund sources that are often used to fund this cost as part a student's financial support package.

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 1987-88

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.

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

Display 7

UNIVERSITY OF CALIFORNIA
 TOTAL TUITION AND FEE CHARGES
 FOR NONRESIDENT UNDERGRADUATE STUDENTS
 1978-79 through 2006-07

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%
2004-05 (1)	6,164	628	16,476	23,268	17.9%
2005-06 (1)	6,657	661	17,304	24,622	5.8%
2006-07 (estimated) (1)	7,191	661	18,168	26,020	5.7%

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

charged to nonresident undergraduate students were modest during that period, averaging about 3.4% annually. However, the increase in total nonresident tuition and fees for undergraduates has averaged about 12% since 2002-03, reflecting the impact of the cuts to the University's state-funded budget over that time.

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 campus to campus and between graduate and undergraduate students. Generally, students must vote to establish or increase campus miscellaneous fees. Display 3 (on page 237 of this chapter) shows miscellaneous campus fees over time.

Miscellaneous campus fees also include student health insurance fees. Between 1989-1990 and 1990-1991, graduate students at all UC campuses voted to establish a mandatory student health insurance fee. Beginning with Fall 2001, The Regents require all undergraduate students to have health insurance. Students can purchase a health insurance plan from their campus or they can demonstrate they have such insurance from other sources and opt out of the campus health insurance plan. The coverage provided in the health insurance plans and the fees to cover the cost of the premium are determined by each individual campus and, as a result, these fees are considered miscellaneous campus fees.

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 full costs of offering those courses and programs.

STUDENT FINANCIAL AID

2005-06 BUDGET	
Total Funds	\$ 509,925,000
General Funds	60,339,000
Restricted Funds	449,586,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	45,707,000

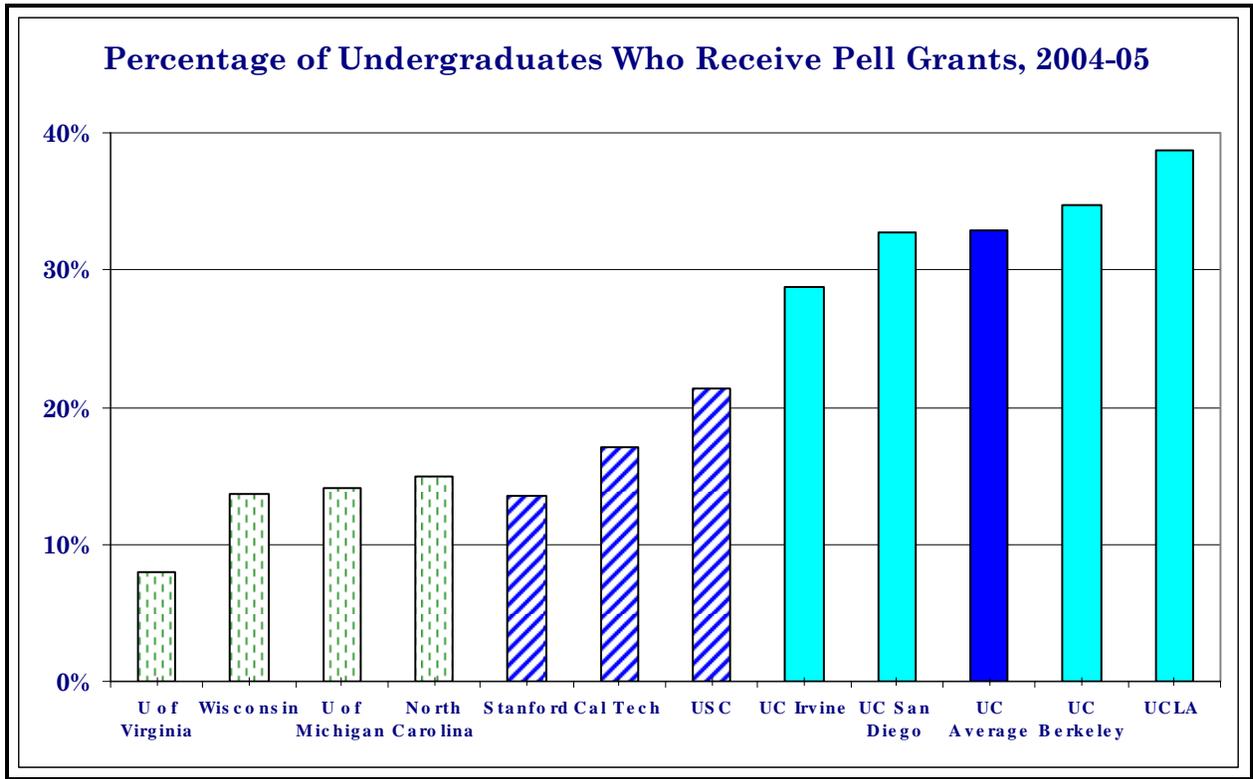
Current Perspective

In 1994, the Regents adopted a financial aid policy that established the guiding principles of the University's financial aid programs. At the undergraduate level, the University's policy is guided by the goal of maintaining the affordability of the University for all students so that financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree. At the graduate level, the policy calls upon the University to attract a diverse pool of highly qualified students by providing an appropriate level of support relative to the cost of attending the University, informed by a periodic assessment of the competitiveness of University support levels with those at comparable universities.

The University's financial aid policy supports the University's mission, under the California Master Plan for Higher Education, both to provide instruction to eligible students and to serve as the principal resource for research and innovation for the State of California. In doing so, the University contributes to the competitiveness of California industry and to the resilience of the California economy.

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 undergraduate students at the nation's top 40 public and private universities (as designated by U.S. News & World Report College Guide). It showed that UCLA, UC Berkeley, and UC San Diego ranked first, second, and third among top universities in terms of enrolling low-income undergraduate students. Display 1 (next page) shows more recent data, indicating that UCLA still ranked first with 39% of its student body identified as low-income; UC Berkeley again ranked second with 35% low-income students; and UC San Diego, with 33% low-income students, ranked third. In addition, UC Irvine – newly ranked among the nation's top 40

Display 1



national universities – ranked fourth, with 29%. The four UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (8%), the University of Wisconsin (14%), the University of Michigan (14%), and the University of North Carolina (15%). As a system, the University enrolled a higher percentage of low-income students (33%) than any other institution on the list, public or private.

At the graduate level, the University’s financial aid program plays an important role in the University’s ability to compete with public and private universities for the most talented students. Attracting and enrolling these students directly affects the University’s ability to fulfill its fundamental mission of research, instruction, and public service. As research assistants, graduate students contribute to the University’s research agenda and to the University’s ability to attract and retain faculty members. As teaching assistants, they enhance the undergraduate experience. Upon graduation, these students make a vital collective contribution to California’s economic and intellectual capital.

The current challenge is to maintain UC’s affordability and, at the graduate level, UC’s ability to compete successfully for a diverse pool of highly qualified students in the face of significant cost increases. The State’s recent fiscal crisis has resulted in a significant reduction in the State’s subsidy for educational costs and a shift of some of these costs to students and their parents. As a result, mandatory

systemwide fees for resident undergraduates have increased \$2,712 since 2001-02, including a \$457 increase in 2005-06. During this same period, nonresident tuition for undergraduate students increased by \$6,600 or 62%.

Fees for graduate students increased even more. In-state fees for academic graduate students increased by \$628 in 2005-06, contributing to a total increase of \$3,288 since 2001-02. Professional school fees and, to a lesser extent, nonresident tuition also have increased significantly in recent years.

To mitigate the impact of these recent fee increases as well as increases in other educational expenses, the University used the equivalent of one-third of the fee revenue generated from the 2002-03 and 2003-04 fee increases and enrollment growth for financial aid. In 2004-05, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with the Governor's financial aid proposal.

For 2005-06, the University increased the proportion of new fee revenue returned to aid to 25% at the undergraduate level. These funds, together with funding provided through the Cal Grant program, are sufficient to cover the 2005-06 fee increase as well as provide some assistance for other costs of attendance. The University returned 50% of new fee revenue from graduate academic students to graduate student support. This funding allows the University to cover the fee increase for graduate academic students with University fellowships, teaching assistantships, and University-funded research assistantships. The University also dedicated an amount equivalent to 25% of new fee revenue from increases in professional school fees and mandatory systemwide fees to support for professional school students.

As shown in Display 2 (next page), these funds, in combination with an estimated \$123.9 million increase in Cal Grant funds awarded to UC undergraduates and an estimated \$191.3 million increase in other scholarship, fellowship, and grant funds, raised the total estimated amount of grants, scholarships, and fellowships for UC students over the three-year period by \$315.2 million, from \$789.7 million in 2002-03 to an estimated \$1.1 billion in 2005-06.

For 2006-07, the University is proposing a plan for student support that addresses the University's most pressing student support needs within the context of the full range of UC budgetary priorities. While recognizing that UC's student support needs extend beyond coverage of UC tuition and fees, the primary focus of the plan is on mitigating the impact of the proposed 2006-07 systemwide fee increases. In addition, the plan addresses special concerns about the burden of fee increases on middle-income undergraduate families, the ability of the University to enroll top international and out-of-state students in graduate academic degree programs, and the impact of growing debt levels on professional degree students interested in pursuing public service careers.

Display 2

University of California Scholarships, Grants, and Fellowships by Fund Source, 2002-03 to 2005-06 (\$ in Millions)				
	2002-03	2003-04	2004-05	2005-06
<u>UC Funds</u>				
Student Fees and State				
General Funds	\$ 262.7	\$ 330.8	\$ 356.8	\$ 400.1
Other University Funds	<u>125.4</u>	<u>159.1</u>	<u>163.5</u>	<u>167.3</u>
Subtotal	\$ 388.1	\$ 489.9	\$ 520.3	\$ 567.4
<u>Other Funds</u>				
Student Aid Commission	\$ 148.7	\$ 219.3	\$ 257.3	\$ 272.6
Federal	203.2	214.5	211.3	216.3
Private Agency Funds	<u>49.6</u>	<u>52.4</u>	<u>47.5</u>	<u>48.6</u>
Total	\$ 789.7	\$ 976.0	\$ 1,036.4	\$ 1,104.9
<small>Note: Numbers for 2004-05 and 2005-06 are estimates; Student Fees and State General Funds are based on budgeted amounts.</small>				

Under the plan, the University proposes to dedicate an amount equivalent to an average of 33% of all new systemwide fee revenue to student financial aid in 2006-07 (30% return-to-aid for undergraduates, 45% return-to-aid for graduate academic students). The University also plans to require campuses to provide additional graduate student support funding using savings in General Fund and fee revenue expenditures produced by UC's Strategic Sourcing Initiative. These proposals, in conjunction with other measures described below, will allow the University to significantly augment student financial aid for undergraduate students, graduate academic students, and graduate professional degree students over 2005-06 levels, consistent with goals articulated in the University's financial aid policy.

At the undergraduate level, the proposal will augment the University's current need-based grant program by an estimated \$27.6 million of new fee revenue returned to aid. In addition, the University proposes to continue its five-year plan to restore the \$5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04, resulting in a further augmentation of undergraduate aid of \$1.5 million. Together with Cal Grant award increases, these measures will provide enough additional funding to cover fully the systemwide fee increases of UC's grant eligible undergraduates (generally those with parent income below about \$60,000) along with some coverage of other cost increases.

The University also proposes to use an additional \$2 million of new undergraduate fee revenue to mitigate the impact of proposed 2006-07 systemwide fee increases on

financially needy middle-income undergraduates who would not otherwise be eligible for grant assistance. This one-year program would cover half of the proposed 2006-07 fee increase (providing a grant of about \$250) to undergraduates with financial need from families with income below \$100,000. The University will also develop a longer-term strategy for ensuring that access for middle-income students is preserved in subsequent years.

Together, the University's initiatives represent an increase of \$31.1 million in funding for the University's undergraduate student aid programs, equivalent to 30% of new undergraduate student fee revenue.

At the graduate level, the University proposes to mitigate the impact of the proposed 2006-07 systemwide fee increases on graduate academic degree students by dedicating 50% of the new fee revenue generated by these students to augment graduate student financial support programs, less the proposed restoration of \$1.5 million to undergraduate student support. The proposal would augment student support for graduate academic students by a net amount of \$13.2 million, which is equivalent to 45% of the new fee revenue generated by these students. The revenue would provide additional support for UC graduate academic degree students who receive fee remissions associated with their teaching or UC-funded research assistantships, or who rely on UC fellowships to cover their fees.

The University also proposes to require campuses to allocate additional funds to graduate student support derived from savings in General Fund and fee revenue expenditures produced by UC's Strategic Sourcing Initiative. This proposal will begin to address the competitive disadvantage in UC's student support offers to graduate academic doctoral students, which was exacerbated by fee increases prior to 2005-06. It is anticipated that such savings could generate \$10 million for graduate student support in 2006-07, growing to \$40 million over time.

For graduate professional degree students, the University proposes to use 33% of new systemwide fee revenue generated by these students and an amount equivalent to at least 33% of new revenue generated by professional degree fee increases for financial aid. This additional funding will allow the University to mitigate the impact of proposed 2006-07 systemwide fee increases on professional degree students and to help moderate the debt levels for professional degree students.

Other components of the University's 2006-07 plan related to student financial aid include the following:

- To encourage international students in doctoral programs to make timely progress towards their degree, the University proposes to eliminate the nonresident tuition charged to graduate academic doctoral students who have advanced to candidacy. These students currently are charged 25%

of the graduate nonresident tuition level for a maximum of three years. Eliminating nonresident tuition will provide a further incentive for these students to reach the advanced to candidacy stage. A three-year limit on the exemption will encourage them to complete their dissertation work promptly. The proposal will reduce nonresident tuition revenue by an estimated \$8.8 million in 2006-07; however, it will also reduce the burden on research grants and other fund sources that are often used to fund this cost as part a student's financial support package.

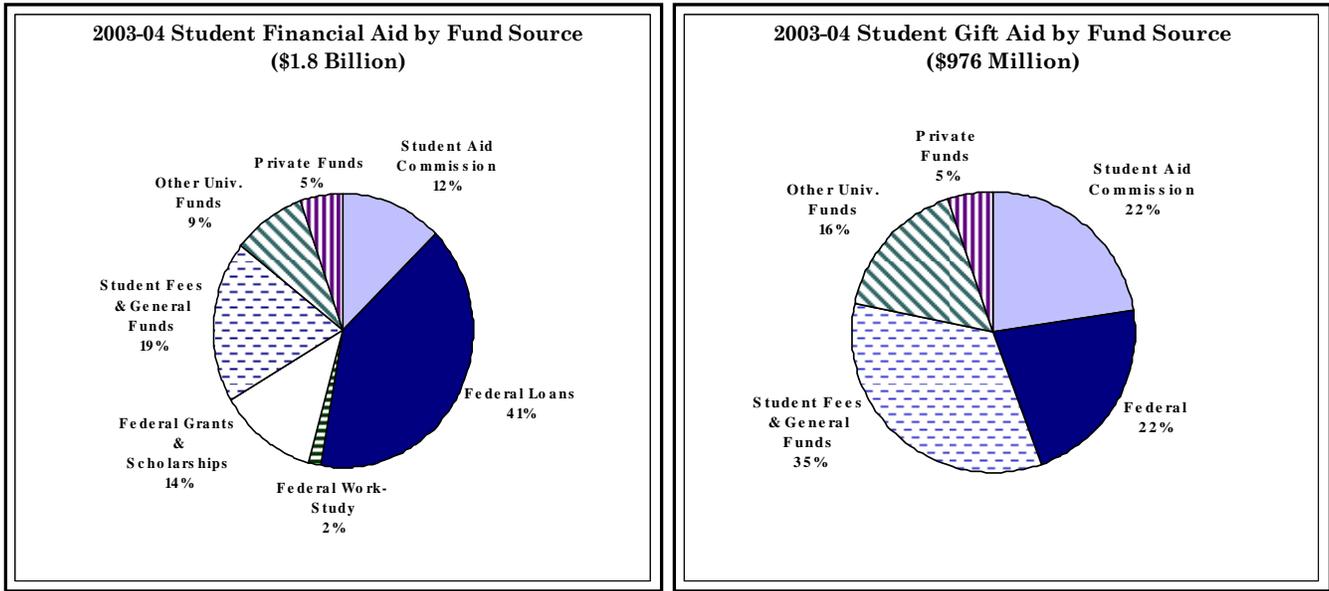
- To enhance the quality of the University's graduate academic and professional degree programs by improving the University's ability to compete for and enroll top international and out-of-state students, the University proposes to maintain nonresident tuition at 2004-05 levels for all graduate and professional degree students.
- To prevent professional degree student loan debt from deterring the pursuit of public service career opportunities that have comparatively low remuneration levels, the University intends to expand its loan repayment assistance programs (LRAPs) to help borrowers pursuing public service employment meet their student loan repayment obligations.
- To ensure that all students, including international students and high risk borrowers, have access to loans needed to meet their contributions to their educational expenses, the University intends to leverage UC's size to negotiate systemwide access to private loans for students who would not otherwise qualify for existing federal or private loan programs.

The University will continue to monitor the effectiveness of its financial support both at the undergraduate and graduate level to evaluate its success in adhering to the principles, articulated by the Regents, of affordability at the undergraduate level and competitiveness at the graduate level.

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 other non-State funds; the State's Cal Grant programs; and private agencies. In 2003-04 (the most recent year for which final data are available), University students received almost \$1.8 billion in student aid, including \$976 million (55%) in assistance from grants, scholarships, and fellowships. Display 3 shows in 2003-04 the proportion each fund

Display 3



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.

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. In 1987-88, the percentage of new fee revenue dedicated to financial aid was 16%. This proportion increased over time to 33% and from 1994-95 through 2003-04, the University continued to set aside an amount equivalent to at least one-third of all new student fee revenue for financial aid. This practice was consistent with agreements in the four-year Compact with the Wilson administration and continued in the Partnership Agreement with the Davis administration. In 2004-05, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with Governor Schwarzenegger's budget proposal for financial aid. The University entered into a new multi-year Compact with Governor Schwarzenegger that provides the University with flexibility in establishing, within a specified range, an appropriate return-to-aid for financial support.

Between 1994-95 and 2001-02, resident fees paid by UC students did not increase. In addition, resident student fees were reduced twice. 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.

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. Further increases in undergraduate fees, graduate academic fees, and professional school fees occurred in subsequent years. (These are discussed more fully in the *Student Fees* chapter of this document.) An amount equivalent to one-third of the fee revenue generated from the 2003-04 fee increase and an amount equivalent to 20% of the fee revenue generated from the 2004-05 fee increase was used to augment grant aid for financially needy students.

In addition to setting aside at least a portion of new fee revenue for financial aid purposes, the University has provided 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 over 110% over the past ten years (from 1994-95 to 2003-04).

Display 4 shows total financial aid expenditures for 2003-04 by type of financial award and source of funds for each. The amount of financial aid provided in 2003-04 represented an increase of about \$276 million, or 18.6%, over the amount received in 2002-03. Included in that increase was \$186 million in the form of additional grants, scholarships, and fellowships. Display 5 shows the proportion of total financial aid used for loans, work-study, and scholarships, grants, and fellowships.

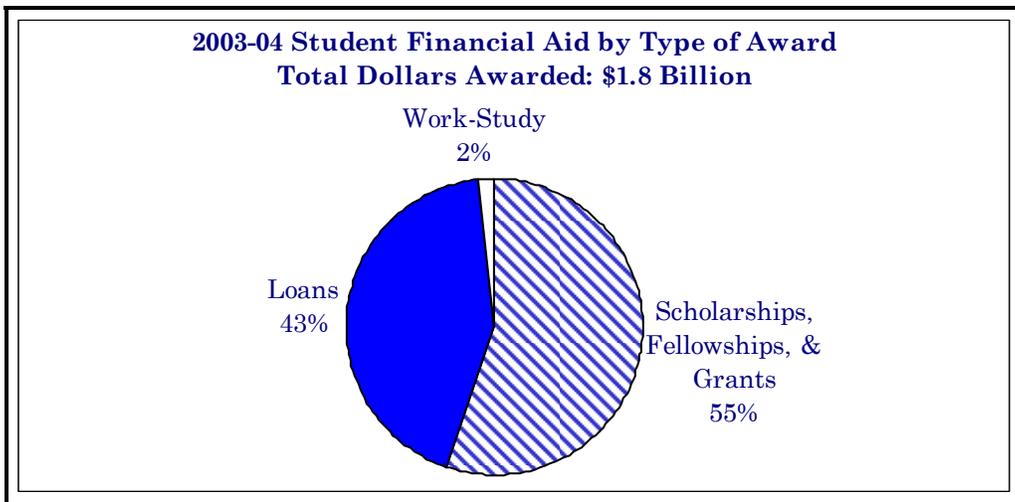
In 2003-04, for the fourth year in a row, financial aid totals included aid administered for a State-supported summer term at UC. At the four campuses receiving State support for summer instruction (Berkeley, Davis, Los Angeles, and Santa Barbara), new University financial aid funding, generally comparable to University financial support levels for the regular academic year, has been provided to support students enrolled in summer. UC will extend this practice to the remaining campuses as they phase in to full State support for their summer programs under the new Compact agreement.

Currently, federal policy restricts the University from offering federal grant assistance at an equivalent level for year-round students. UC continues to advocate for changes to the federal Higher Education Act that will provide for higher annual award maximums for Pell Grants and federal loans for students enrolled year round.

Display 4

University of California 2003-04 Student Financial Aid by Type of Award and Fund Source (\$ in Millions)						
Program	Student Aid Commission	Federal	University Funds			Total
			Student Fees and State General Funds	Other University Funds	Private Agency Funds	
Fellowships						
Pell Grants	\$ -	\$ 149.4	\$ -	\$ -	\$ -	\$ 149.4
Cal Grant A	74.9	-	-	-	-	74.9
Cal Grant B	121.1	-	-	-	-	121.1
Other	23.3	65.1	330.8	159.1	52.4	630.6
Subtotal	219.3	214.5	330.8	159.1	52.4	976.0
Loans						
Perkins Loans	-	41.5	-	-	-	41.5
FFELP/FDSLPL	-	665.0	-	-	-	665.0
Other	-	7.1	2.4	1.2	41.3	52.0
Subtotal	-	713.6	2.4	1.2	41.3	758.5
Work-Study						
Federal	-	27.2	-	-	-	27.2
State	0.5	-	-	-	-	0.5
University	-	-	1.6	0.8	-	2.4
Subtotal	0.5	27.2	1.6	0.8	-	30.0
Total	\$ 219.8	\$ 955.3	\$ 334.9	\$ 161.0	\$ 93.6	\$ 1,764.6

Display 5



Undergraduate Student Aid

The percentage of undergraduate students receiving some type of financial aid in 2003-04 was 63%. About 72% of all undergraduate aid was awarded on the basis of financial need in 2003-04, 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.

Over half (57%) of all undergraduates received grants, scholarships, and fellowships averaging approximately \$7,100 per recipient. In 2003-04, 86% of all grants, scholarships, and fellowships received by UC undergraduates was awarded on the basis of need.

Grants, scholarships, and fellowships represented 57% of all undergraduate aid, with self-help aid (loans and work-study) comprising the remainder.

Consistent with the financial aid policy adopted by the Regents in January 1994, the University developed the Education Financing Model, which is used to determine undergraduate student aid funding needs, to allocate undergraduate aid funds among the campuses, and to 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 among campuses, 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 6.

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

Display 6

Education Financing Model	
<u>Start with Student Expense Budget:</u>	
<i>Less</i>	Reasonable Contribution from Parents
<i>Less</i>	Manageable Student Contribution from Working
<i>Less</i>	Manageable Student Contribution from Borrowing
<i>Less</i>	Federal and State Grant Aid
<i>Equals</i>	University Grant Aid Needed

modest allowance for living, transportation, and miscellaneous expenses. The method recognizes regional variations in costs and in student spending patterns.

Contribution from Parents

Parents are expected to help pay for the costs of attending the University if their children are considered financially dependent. 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.

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, adjusted annually for inflation and periodically for market changes in student wages and expected post-graduation earnings.

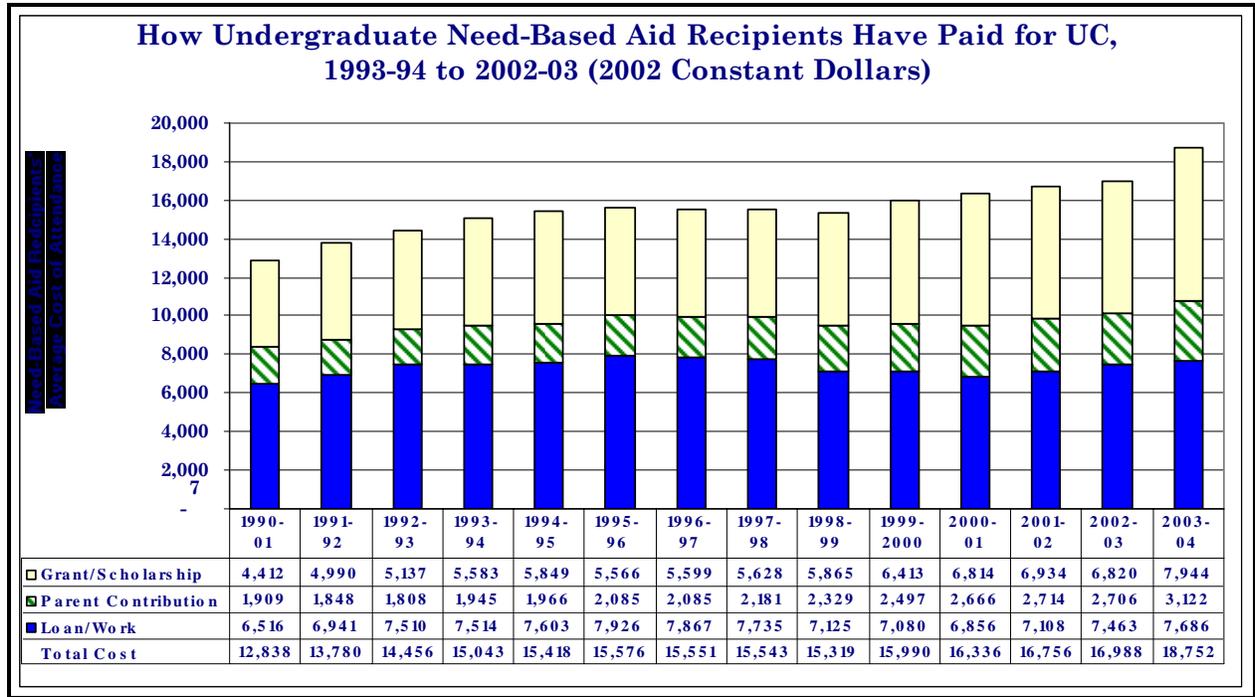
Contribution from Federal, State, and University Grant Aid

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.

Display 7 illustrates how undergraduate need-based aid recipients at UC have financed their cost of attendance from 1993-94 through 2003-04, based upon the

Display 7



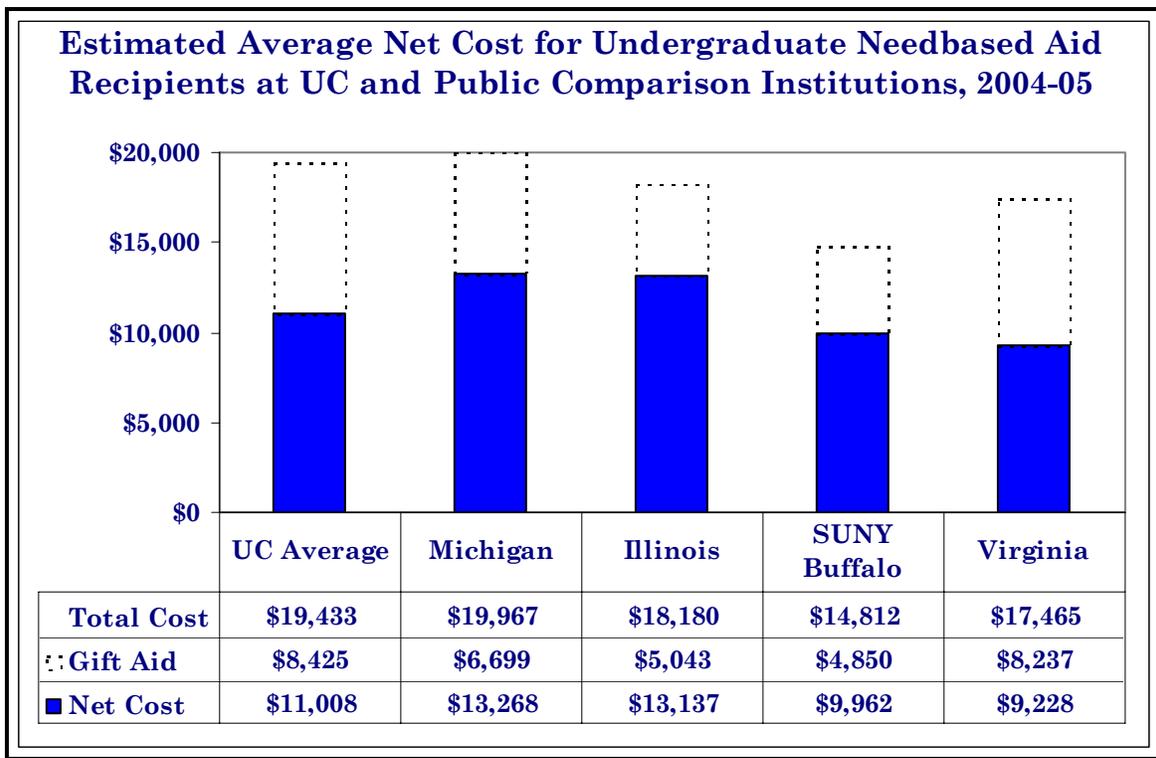
categories described above: the students' parent contribution, the student's expected contribution from loan and work, and grants, scholarships, and fellowships.

Display 7 also illustrates several noteworthy trends. Need-based aid recipients' total cost of attendance has increased in recent years, due to increases in both fee and non-fee expenses. Since 1990-91, the average parental contribution of need-based aid recipients has increased by over 50%, due largely to higher income families becoming eligible for need-based aid. During that same period, the average amount of grant, scholarship, and fellowship assistance received by need-based aid recipients increased by 80% in inflation-adjusted dollars. Nevertheless, the amount to be covered by student work and borrowing has increased and will likely continue to increase in the future. Keeping students' expected contribution from work and borrowing at a manageable level is a core principle of the University's financial aid programs. Not shown in Display 7 is the increased availability of federal tax credits and deductions for higher educational expenses (see "Other Sources of Financial Assistance," below).

Outcomes of the University's Undergraduate Aid Program

As noted earlier, the University has received national attention for its remarkable success at enrolling a high percentage of low-income undergraduate students. Another measure of the University's affordability is its average net cost of attendance for need-based aid recipients. The net cost represents the actual cost for these students after taking into account their grants, scholarships, and fellowships. In 2004-05, as in previous years, the University's average net cost of attendance for resident need-based aid recipients was slightly lower than the average of the University's four public comparison institutions (see Display 8). This pattern is not expected to change in 2005-06.

Display 8



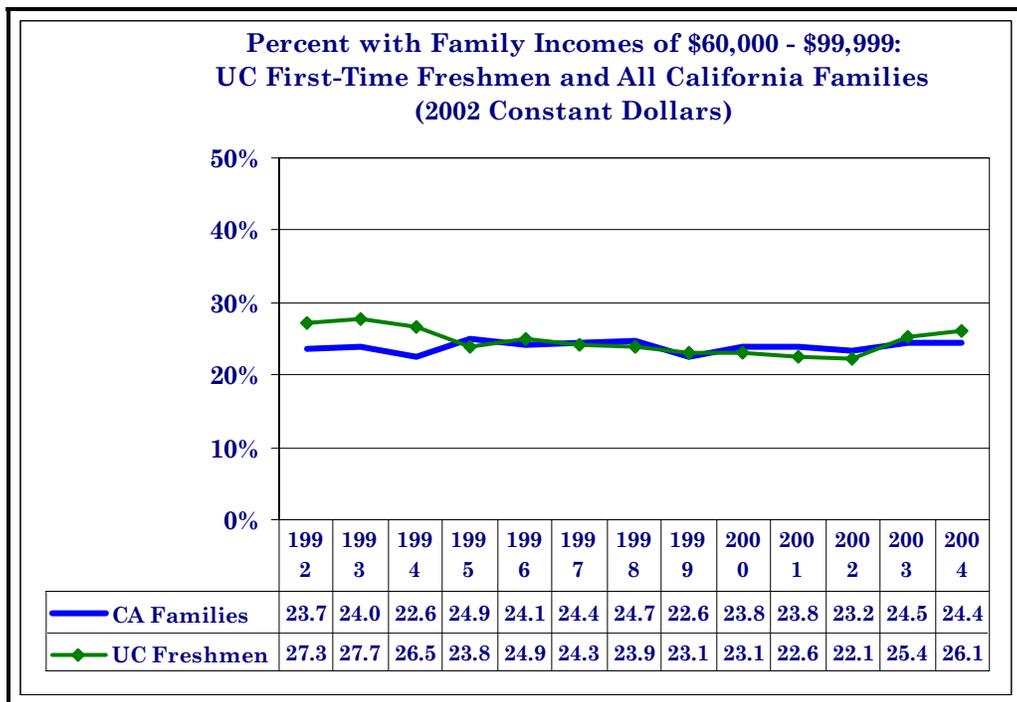
To date, there is no evidence that the University's success in enrolling low-income students was affected by recent fee increases or by increases in non-fee costs that also have occurred in recent years.

For 2005-06, it is estimated that UC grant recipients will be expected to work or borrow, on average, approximately \$9,500 to finance their education, an increase of about \$300 over 2004-05 levels. Note, however, that students can compete for UC scholarships and outside awards that effectively reduce their expected contribution. In 2003-04, one in five undergraduate students received scholarships worth, on average, \$3,400 each.

For 2006-07, the University proposes to augment its current need-based grant program for undergraduate students by an estimated \$27.6 million of new fee revenue returned to aid. In addition, the University proposes to restore \$1.5 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. It is expected that these funds, in conjunction with an estimated \$15.3 million increase in Cal Grant funding over 2005-06 levels, will be sufficient to offset the 2006-07 fee increase anticipated in the Compact and to offset a portion of the increase in non-fee expenses for the University's neediest students. Nevertheless, UC grant recipients will be expected to contribute an estimated \$9,800 in 2006-07 (excluding scholarships), or \$300 more than they will in 2005-06. This increase will require students to work more hours per week, to dedicate more of their postgraduate earnings to loan repayment, or both. (To illustrate, a student could finance an increase of \$300 by working an additional one hour per week during the academic year, or by increasing the student's monthly debt payment by about \$11 upon graduation.)

The University also proposes using \$2 million of additional undergraduate systemwide fee revenue for a one-year program to provide grants to undergraduates from middle-income families with financial need who are not receiving a Cal Grant, fee grant, and who would not otherwise be eligible for a grant under the University's traditional need-based grant program. This program is similar to the program adopted by the University for the 2003-04 academic year. As shown in Display 9, the percentage of new UC freshmen with a parental income between \$60,000 and \$99,999 has remained relatively stable in recent years, and generally

Display 9



reflects the percentage of such families in California as a whole. While there is no evidence at this point to suggest that middle-income students are finding recent fee increases a barrier to attendance (i.e., enrollment of these students has not declined), the deep concerns expressed by middle-income students and their parents that the burden of recent fee increases has been significant have led to a growing concern for the debt burdens these students are incurring and the *potential* loss of these students. The University is sensitive to these concerns and will develop a longer-term strategy for ensuring that access for middle-income students is preserved in years to come.

Together, the University's initiatives represent an increase of \$31.1 million in funding for the University's undergraduate student aid programs, equivalent to 30% of new undergraduate student fee revenue. In total, for the current year (2005-06), approximately 25% of all fee revenue raised from undergraduate student fees is being used for undergraduate student financial aid, which is consistent with the historical average. For 2006-07, the initiatives proposed for undergraduate student aid (which will result in a return-to-aid from additional fee revenue of approximately 30%) will improve this proportion. In addition, UC students are expected to receive support through the Cal Grant program, generally equivalent to another 25% of all fee revenue.

The University regularly monitors various indicators of the manageability of the work and borrowing that it expects from students, including the impact of student employment on academic progress and estimates of the percentage of students' postgraduate earnings that will be required to repay their debt upon graduation. These indicators suggest that UC grant recipients' expected contribution from work and borrowing will remain within a manageable range in 2006-07 – although it will be higher, within that range, than it was in 2005-06.

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.

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University. In January 2001, the Chairman of the Board of Regents and the President of the University appointed a Commission on the Growth and Support of Graduate Education ("Graduate Commission") to explore

in depth the issues related to providing adequate graduate student support in a competitive market.

At the undergraduate level, the Cal Grant program insulates many needy low- and middle-income families from the effects of systemwide fee increases and plays an important role in maintaining the affordability of the University. No comparable State programs exist at the graduate level. For graduate students, the burden of covering increases in both the University's fees and nonresident tuition falls upon other parties, including the University, research grants funded by Federal and State agencies, and students. Although the State does not currently provide significant amounts of grant or fellowship support to graduate students, the University believes that it is in the State's interest to do so, in consideration of the contribution that graduate education makes to the vitality of the California economy. The University will continue to explore ways to increase support of graduate education from *all* potential sources, consistent with recommendations made by the Graduate Commission.

In 2003-04, 73% of UC's graduate students received some form of financial aid. That year, 60% of all graduate students received gift assistance averaging \$11,098.

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. These differences are discussed below.

Graduate Academic Student Aid

In September 2001, the Graduate Commission noted that UC's support of graduate students was not competitive with the support offered by other institutions. This conclusion is supported by surveys conducted in Fall 2001 and 2004 in which students admitted to University academic doctoral programs were asked about the financial support offered by UC and by their top-choice non-UC institution. Both surveys found that, overall, UC financial support offers made to these students were not fully comparable to offers from UC's competitors. The Commission also identified the need for additional graduate student support associated with graduate enrollment growth.

The Graduate Commission's report was released during a time of relative prosperity for the State of California and for the University. Between 1998-99 and 2002-03, graduate research assistantships increased 42%, reflecting UC faculty's success at securing research grants. Funding for teaching assistantships during this period increased 25%, due to increases in undergraduate enrollment (which outpaced the increase in graduate enrollment during this period). In addition, funding from extramural fellowships or research grants increased 27%, due both to the strength of UC's students and departments, and to increased federal support for science and

engineering graduate student funding. During this same period, student fees did not increase and nonresident tuition increased only modestly.

As a result of increases in RA, TA, and extramural support, limited fee and tuition increases, and little enrollment growth, academic graduate students' per capita net stipend – their financial support from fellowships and assistantships in excess of fees and tuition – increased by over \$900 in constant dollars between 1998-99 and 2002-03. It should be noted that these awards, while very helpful, still did not keep up with the awards provided by UC's competitor institutions.

The relatively favorable circumstances that led to improved graduate student support ended with the onset of the State's budget crisis. The University was forced to increase graduate fees each year since 2001-02. Other costs, including campus fees and graduate health insurance premiums, increased as well. In addition, the current outlook for graduate student support from State, federal, and private funding sources is less positive than it was a few years ago.

Consequently, the University faces a growing imbalance between the demand and supply for graduate student support that, if left unchecked, will further compromise the University's ability to compete successfully for talented students. Demands driven by the University's need to offer competitive graduate support, by contractual obligations, and by policy commitments are increasing faster than the funds available to cover them. For example:

- As fees and tuition increase, so does the University's need to cover fee and tuition increases for a large fraction of enrolled students. These students include students receiving UC fellowships that cover all or some of their fees, teaching assistants for whom UC is contractually obligated to cover fee increases, and research assistants covered by UC-funded research grants who may receive fee coverage and nonresident tuition coverage. Over half of all UC graduate academic students fall into one of these three categories.
- The University is also obligated to cover increases in other costs for many students, including students' health insurance premiums and campus-based fees. In cases where the University does not cover these cost increases, the net value of a student's financial support – and, hence, the competitiveness of the University's financial support relative to other institutions – will erode.

For 2003-04, steps were taken at systemwide, campus, and program levels to ameliorate the problem. At the systemwide level, the one-third return-to-aid from graduate fee revenue was supplemented on a temporary basis with other funds and campuses were given additional flexibility in the use of the funding (particularly to cover mandated fee remissions for TAs). At the campus and program levels, graduate programs drew upon emergency reserves, carry-forward funds, and limited discretionary funds to support graduate students.

In 2004-05, further large fee and nonresident tuition increases coupled with a reduced return-to-aid from fee revenue exacerbated this problem. In addition, external funding sources remained soft.

In response to these pressures on graduate student support, the University increased the return-to-aid from graduate student fees from 20% in 2004-05 to 50% in 2005-06. Such an increase, coupled with the University's proposal to forego an increase in graduate nonresident tuition and an expectation that other sources of graduate student support would increase, was instituted to prevent further erosion in the University's competitiveness.

The University proposes to mitigate the impact of the proposed 2006-07 systemwide fee increases on graduate academic degree students by dedicating 50% of the new fee revenue generated by these students to augment graduate student financial support programs, less the proposed restoration of \$1.5 million to undergraduate student support. The proposal would augment student support for graduate academic students by a net amount of \$13.2 million, which is equivalent to 45% of the new fee revenue generated by these students.

The availability of graduate student support funding – and the educational charges that such support must cover – influences both the competitiveness of the University's awards and the number of California resident, domestic nonresident, and international students that are admitted. In 2004-05, the University experienced a sharp decline in the number of international students who were admitted to graduate academic programs and in the number who subsequently enrolled. A survey of graduate departments strongly suggested that the cost of supporting these students contributed to the decline in both admissions and enrollment.

To address this problem, the University proposes to maintain graduate nonresident tuition at 2005-06 levels, thereby easing the burden on campuses and faculty research grants for maintaining domestic nonresident and international student support levels.

In addition, the University proposes that nonresident doctoral students who have advanced to candidacy be exempt from paying nonresident tuition for a maximum of three years. These students currently are charged 25% of the graduate nonresident tuition level for a maximum of three years. Eliminating nonresident tuition for these students will provide a further incentive for students to reach the advanced to candidacy stage. A three-year limit on the exemption will encourage them to complete their dissertation work promptly. The proposal will reduce nonresident tuition revenue by an estimated \$8.8 million in 2006-07; however, it will also reduce the burden on research grants and other fund sources that are often used to fund this cost as part of a student's financial support package.

The proposed return-to-aid level for 2006-07 will not be enough to cover other fee increases (e.g., campus-based fees or Graduate Student Health Insurance Program) or to narrow the gap between UC support offers and offers from competitor institutions. However, anticipated savings in General Fund and fee revenue expenditures produced by UC's Strategic Sourcing Initiative (described in the *Institutional Support* chapter of this document) will enable campuses to begin to address the competitive disadvantage in the University's student support offers to graduate academic doctoral students. It is anticipated that such savings could generate \$10 million for graduate student support in 2006-07, growing to \$40 million over time.

Additional measures will be required to improve the University's ability to compete for graduate students. Possible components of a comprehensive strategy might include new fundraising campaigns for graduate student fellowships, efforts to increase federal and State support of graduate student fellowships and research grants, a new statewide research initiative that would include funding for research assistantships, and other activities recommended by the Commission on the Growth and Support of Graduate Education in its 2001 report to the Regents.

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. Among other provisions, the policy provided that an amount of funding equivalent to at least one-third of the total revenue from the fee be used for financial aid. Since that time, budget cuts affecting professional schools and the University as a whole have increased the need for professional school fee revenue to cover these schools' operating expenses and to maintain the quality of their programs. The role played by professional school fee revenue in meeting these budget needs is greater than was anticipated in 1994, when the Regental policy was approved. An update to current policy is needed to address The Regents continuing goals to provide access and a high quality professional education for UC students in the current economic environment. Principles on the setting of fee levels, based on the understandings reached with the State on the Compact, will be discussed by The Regents at the November meeting in conjunction with the discussion of the longer-term planning issues facing the professional school students.

The majority of UC financial aid funds for professional school students is used for grant and fellowship awards with some funds set aside for loan repayment assistance programs. The majority of financial aid funds from other sources, however, is provided in the form of loans. As a result, about two-thirds of all 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.

Students who choose careers in the public interest, however, often forego these higher incomes. The professional degree fees charged by the University should not deter highly skilled graduates who wish to apply their skills to a public service career. For 2006-07, the University will expect campuses to expand the size and scope of their loan repayment assistance programs (LRAPs) to help borrowers with public service employment meet their student loan repayment obligations. Initially, the law schools will take the lead in expanding LRAP programs for students pursuing careers in the public interest. If successful, their efforts could be replicated in future years in other schools, where feasible.

The University is concerned about the long-term effect of cost increases on the competitiveness of the University's professional school programs and on the types of students that the University is able to enroll. Each year, these programs graduate a cadre of trained professionals in medicine, business, law, and other disciplines, many of whom remain in California and make valuable contributions to their professions and to the state. The University recognizes the importance of enrolling talented students from diverse socioeconomic backgrounds into these programs, for the betterment of the communities, institutions, and individuals that these professionals will ultimately serve.

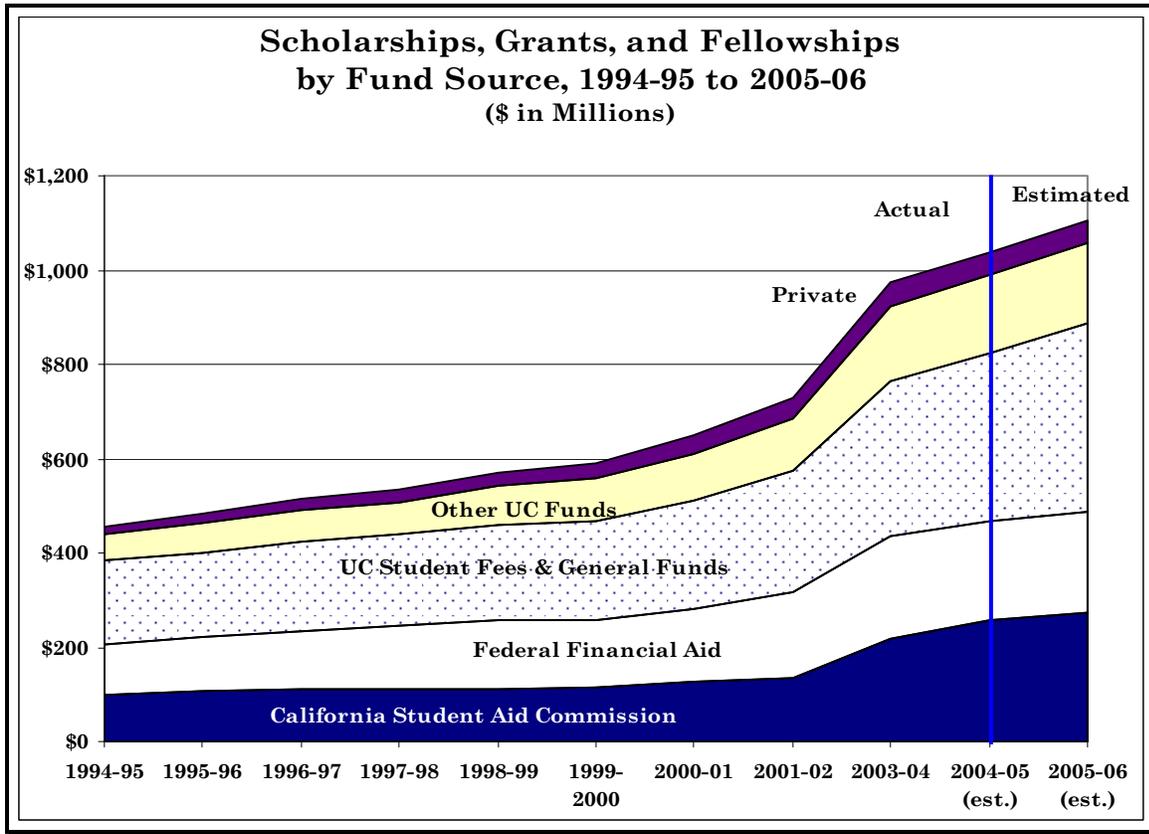
Fund Sources for Financial Aid

Display 10 shows the dramatic increase in fellowship, scholarship, and grant expenditures from all fund sources over a ten-year period.

University Student Fees and State General Funds

Approximately 43% of enrolled undergraduates and 55% of enrolled graduate students received some form of financial assistance funded from institutional aid programs in 2003-04. 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.

Display 10



Federal Aid

In 2003-04, UC students received \$214.5 million in federal grants and scholarships, an increase of about 6% over 2002-03 levels. Federal grants and scholarships comprised 22% of all grants and scholarships received by UC students in 2003-04, a decline from 26% in 2002-03.

The vast majority of federal aid received in 2003-04 was in the form of loans; UC students and their families received \$713.6 million in federal loans that year.

These figures exclude value of Federal tax credits and income tax deductions that benefit many UC families. Nationally, the value of these Federal benefits has grown steadily since their introduction in 1997. They are described in greater detail below (see *Other Sources of Financial Assistance* below).

The maximum Federal Pell Grant amount, which increased steadily during the 1990s, has increased by less than 1.3% since 2002-03. Prospects for significant increases in the immediate future are dim. As of this writing, federal support for student aid programs remains uncertain for 2006-07. However, 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.

State Aid 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, and C programs. These programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. In 2003-04, University of California students were awarded \$219.3 million in financial aid from all programs administered by the Student Aid Commission. This is an increase of about 47% over 2002-03 levels, which in large part reflects the State's commitment to fully cover mandatory systemwide fees for the University's Cal Grant recipients.

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 has increased in recent years as UC's fees have increased. Further increases in 2005-06 and 2006-07 are anticipated, provided that the State continues its longstanding commitment to covering systemwide fees for Cal Grant recipients.

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 2003-04, \$161 million in University aid from these sources was awarded to students. Nearly all of this support (\$159.1 million) was awarded in the form of fellowships, scholarships, and grants. Of this amount, \$83.3 million was derived from current gifts and University endowments.

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 included in this category along with 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 2003-04, nearly \$94 million was awarded to UC students from private agency programs, which represented 5% of the financial support students received during that year.

Other Sources of Financial Assistance

In addition to the types of assistance described above, the federal government and the State provide a number of vehicles to help students and their families finance their education. A selection of these are described below.

- **Cal Vet Fee Waivers.** Under the California Education Code, dependents of veterans whose death or disability was service-connected are generally eligible for exemption from mandatory systemwide fees. In 2003-04, over 3,100 UC students took advantage of such exemptions, worth a total of \$13.6 million. The value of these exemptions grows as fees increase and is expected to grow over time.
- **Tuition Exemption Under AB 540.** Certain nonresident students who attended a California high school for at least three years and who graduated from a California high school may be eligible for exemption from nonresident tuition at UC. Potentially eligible students include undocumented students and domestic students who fail to meet the University's requirements for residency. (Students who do not have a lawful immigration status must certify that they are taking steps to legalize their status or will do so as soon as they are eligible.) Students who are non-immigrants, including foreign students, are not eligible for this exemption. In 2003-04, over 970 UC students qualified for such exemptions, worth a total of \$10.6 million. The value of these exemptions also is increasing dramatically and is expected to exceed \$20 million for 2004-05.
- **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. The actual number of UC students and families taking advantage of these credits and the total value of the credits they received are unknown. However, based upon the results of a 1999 UC student survey and adjusted for enrollment growth, the estimated value of these tax credits for UC students and their families exceeded \$70 million in 2003-04.
- **Scholarshare Trust College Savings Program.** In 1999, the State established the "Scholarshare Trust College Savings Program," a tax-exempt college savings fund administered by the California State Treasurer, to encourage families to save for their children's college expenses. The Scholarshare Trust manages individual accounts, which are pooled and invested in a number of different financial instruments by the State or its

agent. Earnings from the investments are not taxed at either the federal or State level, provided that they are used to cover qualified education expenses.

- **Penalty-Free IRA Withdrawals.** Taxpayers may withdraw funds penalty-free from either a traditional Individual Retirement Account (IRA) or a Roth IRA for postsecondary education expenses. 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. 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. 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). 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 this deduction.
- **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. 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.

INSTITUTIONAL SUPPORT

2005-06 BUDGET	
Total Funds	\$ 499,404,000
General Funds	321,120,000
Restricted Funds	178,284,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	12,000,000

Institutional Support includes numerous campus and systemwide activities under five sub-programs. 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, audit, 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.

State funding for administration has failed to keep pace with enrollment growth, the costs of new State and federal mandates, and 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. More recently, the University has experienced an increased administrative burden as a result of the USA PATRIOT Act and the Homeland Security Act, both designed to enhance domestic security against terrorism.

Despite this increased administrative burden, Institutional Support expenditures have actually decreased over the years as a percent of the University's total expenditures. Institutional Support budgets are often one of the first areas of the budget to be reduced in difficult economic times. As a result, including all fund

sources, Institutional Support expenditures declined from 12% of total expenditures in 1971-72 to about 8.5% of total expenditures in 2004-05.

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. Budget reductions totaling \$40 million occurred between 1995-96 and 1998-99, in anticipation of productivity improvements mandated under a four-year Compact between then-Governor Wilson and higher education.

The most recent fiscal crisis has resulted in significant further reductions to Institutional Support: a mid-year cut of \$20 million to academic and general administration budgets (Academic Support and Institutional Support) grew to \$36.5 million in 2003-04. In 2004-05, these budgets were reduced by an additional \$45.4 million.

Aside from these base budget cuts, the University incurred over \$100 million in unavoidable costs related to faculty merits, employee health benefits, energy cost increases, and maintenance of new space in 2003-04 and 2004-05, most of which were funded by redirecting resources from Institutional Support and other parts of the budget.

Investments in technology have enabled the University to make significant progress in increasing the efficiency of its operations. Examples of cost savings include: systematically replacing high-volume and labor-intensive transactions such as payroll, personnel, purchasing, and reimbursements with online systems; allowing administrative units to reduce costs by sharing resources; and using electronic tools to increase dissemination of information, ranging from news releases to job postings.

Nevertheless, in recognition of the continuing fiscal crisis in the State, the University is continuing to review administrative activities to identify additional efficiencies. This review includes examination of purchasing and procurement practices, new information and technology systems, as well as regulatory relief the University should seek to help reduce administrative costs.

Strategic Sourcing

In 2003-04, following upon successful campus efforts, the University of California launched the Strategic Sourcing Initiative is a disciplined process intended to leverage the University's enormous buying power in the marketplace, increase

purchasing efficiency in the organization, and lower the cost of goods and services in a large array of categories.

Strategic sourcing focuses on reducing waste or non-value-added costs in the purchasing process. Different from traditional purchasing, strategic sourcing:

- analyzes total cost, not just the purchase price;
- consolidates the purchasing power of the entire organization;
- builds solid supplier relationships;
- realigns business processes, work and information flows;
- improves teamwork and purchasing skills.

Total cost looks beyond the purchase price, quantifying the other costs involved in procuring goods, such as the costs associated with the purchase, delivery, storage, service, repair, and disposal of goods.

The University spends an estimated \$2 billion on commonly used goods and services. Strategic sourcing offers UC the opportunity to achieve significant savings over the next five years. Commodity teams consisting of representatives from the campuses, medical centers, and National labs have been working toward identifying and implementing a procurement strategy that will provide the University the best value for the goods and services it purchases.

Strong supplier relationships are an important component of strategic sourcing. By narrowing the number of vendors UC depends upon, remaining vendors can expect more business from the University and an alliance can be created that benefits the University in terms of customer service, business development, and cost savings.

The analytical rigor used in strategic sourcing will demonstrate results throughout the entire organization and ensure that purchasing professionals are focused on longer-term, more sustainable procurement efforts, as opposed to routine transactional tasks.

The examination of business processes and workflows is important to the success of strategic sourcing. As the processes at each campus, medical center, and National lab are analyzed, redundant activities can be reduced and the best practices that exist within the organization and other entities can be shared.

The development of the cross-functional teams that work on the strategic sourcing efforts is important to the success of the University's initiative. These teams, which consist of individuals with purchasing expertise as well as those with subject matter expertise for a particular commodity, work on the initial sourcing and bidding processes for the commodity and then continue to be a link to the implementation of the new systemwide contracts. Their work includes introducing the new contract to their campus, medical center, or National lab, and marketing the new product or

service, so that all departments take full advantage of the benefits provided by the new contracts.

Strategic sourcing will benefit the entire University of California system and will yield substantial cost savings during these fiscally challenging times. These savings are estimated to grow to as much as \$150 million a year from all fund sources by 2009-10. This expectation of significant savings has led to the development of a major initiative to increase support for graduate students. For 2006-07, it is anticipated that savings in State General Funds and student fees combined could generate \$10 million that can be used to enhance financial support packages for graduate students. It is estimated the amount of savings that can be redirected for this purpose will grow to \$40 million a year by 2009-10. Campuses will retain their savings to benefit their graduate students. The graduate student support initiative is discussed in more detail in the *Student Financial Aid* chapter of this document. Savings achieved in other fund sources will be needed to fund increases in salaries, retirement contributions, health benefits, and non-salary expenses for programs funded from those sources.

By combining the key steps of strategic sourcing and capitalizing on the University's strong presence in the marketplace, the University can be assured it is obtaining the best value for all goods and services.

OPERATION AND MAINTENANCE OF PLANT

2005-06 BUDGET	
Total Funds	\$ 490,522,000
General Funds	401,014,000
Restricted Funds	89,508,000
2006-07 INCREASE	
General Funds	8,300,000
Restricted Funds	--

Overview

The University maintains more than 104 million gross square feet of space in more than 5,300 buildings at the ten campuses and the agricultural field stations. Over 53.5 million square feet, or 51%, is eligible to be maintained with State funds. Three basic types of funding are required to operate, maintain, preserve and upgrade University buildings and infrastructure: 1) annual support for operations and maintenance of plant (OMP), including building maintenance and purchased utilities; 2) deferred maintenance; and 3) capital renewal.

Years of underfunding for maintenance and capital renewal have taken a heavy toll both on the University's budget and on its ability to maintain the effective operation of facilities. No new State funding was provided for the operation and maintenance of University facilities in 2003-04 and 2004-05, despite the fact that significant new facilities for core instruction and research came on line during this period, requiring redirection of funds to maintain new buildings. Funding provided for building maintenance has been at a level less than 70% of standard.

As have all energy users in the State, the University has experienced steep increases in its purchased utility costs since the statewide energy crisis of 2000-01. In 2001-02, the State provided \$50 million in one-time funding to offset ongoing shortfalls for that year, but has not provided additional relief since that time. The University continues to face shortfalls in its purchased utilities budget even though it has negotiated competitive energy service contracts and has continued to implement an aggressive energy conservation program. These shortfalls have been absorbed by cutting costs in other areas of facilities operations, with an annual funding shortfall in the tens of millions of dollars for the current year and additional funding shortfalls for purchased utilities expected in 2006-07.

The University continues to be challenged by the long-term underfunding of OMP, as it has been forced to make difficult funding tradeoffs that give the highest priority to maintaining student access and protecting core academic programs and a lesser priority to maintaining facilities on a long-term basis. This long-term underfunding of basic maintenance services shortens the useful life of buildings and infrastructure systems and thus contributes to the University's growing deferred maintenance backlog.

The situation grows more serious each year as facilities age and adequate funding for the operation and maintenance of facilities is not provided.

The University's deferred maintenance backlog, now estimated at \$600 million for top priority projects, results not only from underfunding of annual maintenance, but also, more particularly, from the lack of regular capital renewal funding that supports the systematic and cyclical replacement of building systems and infrastructure. The University estimates that, on average, at least \$200 million is required annually over the next 50 years to meet the University's capital renewal needs for buildings and infrastructure. Without adequate capital renewal funding, the University's deferred maintenance backlog will continue to grow.

Beginning in 2008-09 and continuing through 2010-11, the Compact calls for an additional 1% adjustment to the base to be used to address annual budgetary shortfalls in State funding for faculty and other instruction and research support for core areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance. This funding will help once again to begin to address the critical shortfalls that exist in OMP. However, if limited to the funding provided within the Compact in future years, progress in improving the maintenance of buildings and infrastructure systems will be slow. Therefore, as the State's fiscal condition improves, the University plans to seek additional State support to reduce longstanding underfunding of OMP, particularly in the area of ongoing building maintenance, and to address neglected capital renewal needs and the University's substantial deferred maintenance backlog.

OMP Support for New Space (\$8,300,000 Increase)

Additional funding for new space coming on line during the budget year is an annual budget need. Unfortunately, for two years of the recent fiscal crisis in the State, 2003-04 and 2004-05, no new State funding was provided to support increased purchased utilities and maintenance costs associated with new space. To help address the most critical maintenance needs for core instruction and research space in new facilities that were opened during this period of no additional funding, the University redirected \$7 million from existing University resources.

In 2005-06, \$16 million of funding was provided within the approved budget plan for maintenance of core instruction and research space coming on line that year.

For 2006-07, the University's proposed budget plan includes \$8.3 million in funding provided within the Compact to support basic maintenance services and purchased utilities for approximately 890,000 gross square feet new space to be placed in service during 2006-07. These facilities encompass the highest priority State-eligible space coming on line, including core instruction and research facilities, and innovative research facilities for the California Institutes for Science and Innovation that support both students and faculty. A revision to the marginal cost of instruction formula currently under discussion with the Department of Finance and the Legislative Analyst's Office would include a component for maintenance of new space coming on line in the budget year, among other changes. While a final decision on changes to the marginal cost of instruction will not be made until later this fall, the University's 2005-06 budget plan was developed in anticipation of this change and therefore builds the \$8.3 million increase for maintenance of new space into the enrollment workload funding for 5,000 FTE students. This revision will recognize the fact that most new space coming on line is needed to accommodate enrollment growth.

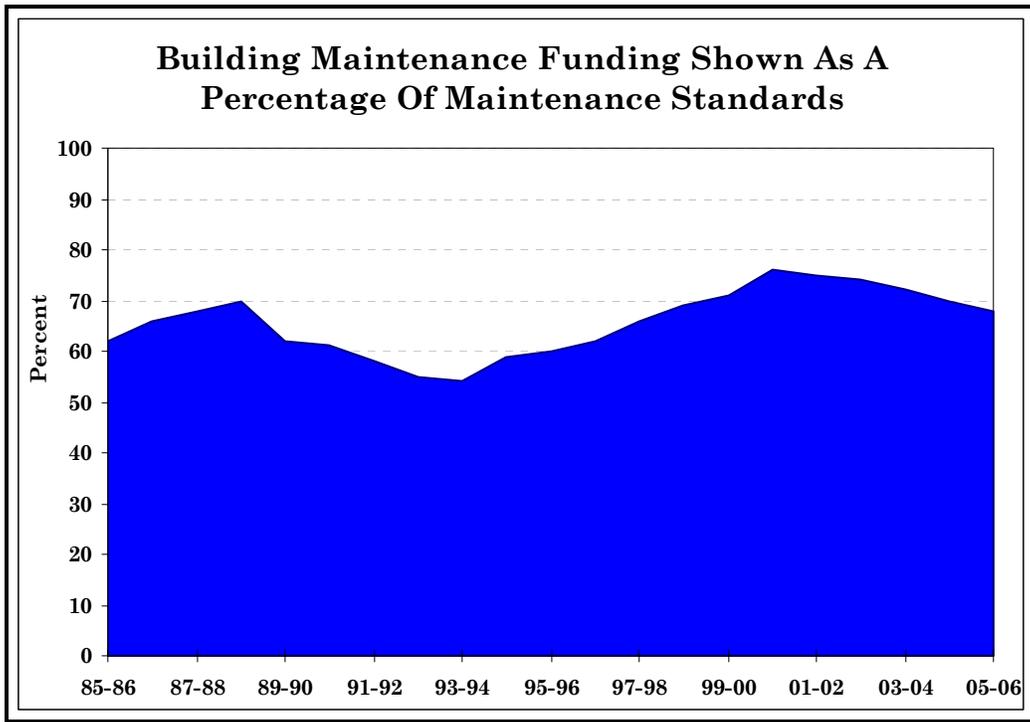
OMP Funding for Existing Facilities

OMP funding supports several facilities service functions, including regular building maintenance, janitorial services, utilities maintenance and operations, grounds maintenance, and purchased utilities. In the 1980s, the University worked with the California State University, the Department of Finance, and the Legislative Analyst's Office to develop workload standards to be used as the basis for determining the appropriate level of funding for each of the four maintenance components of OMP (excluding purchased utilities). The established standards indicate that current levels of State support for OMP do not adequately fund most of the OMP functional areas (see Display 1, next page). Support for janitorial services at the University is at about 65% of the recommended standard; support for utilities maintenance and operations is at about 70% of the standard; and support for grounds maintenance is at about 60% of the standard.

Maintenance Services

Annual OMP services for existing facilities have been chronically underfunded for more than two decades. The Legislature proposed a funding plan, to begin in 1996-97, to eliminate the estimated \$60 million funding shortfall for ongoing maintenance services over four years by providing \$7.5 million in State funds each year matched by an equal amount of University funds. However, only the University was able to provide funding during the first two years of the plan for

Display 1



a total of \$13.5 million. Beginning in 1999-2000, the Partnership Agreement with Governor Davis also called for annual improvements in OMP funding to be provided as part of the 1% increase to UC's General Fund base, with a goal of funding two-thirds of the OMP funding shortfall over a four-year period. Increases for OMP of \$4 million in 1999-2000 and \$4.5 million in 2000-01 were provided. However, due to the State's deteriorating fiscal situation, the improvements in OMP funding that UC requested were not provided in either 2001-02 or 2002-03, resulting in an ongoing OMP funding shortfall of more than \$51 million at the end of four years. An additional request of \$10 million to improve OMP funding in 2003-04 could not be accommodated given the State's fiscal situation, and the University did not request additional improvements in OMP funding for existing facilities in either 2004-05 or 2005-06 given the severe budget constraints facing the State.

This chronic funding shortfall for OMP for existing facilities must be addressed to ensure that buildings and infrastructure systems can be operated for their full useful lives and that growth of the University's already substantial deferred maintenance backlog is not accelerated. As noted earlier, beginning in 2008-09 and continuing through 2010-11, the Compact calls for an additional 1% adjustment to the base to be used to address annual budgetary shortfalls in State funding for core areas of the budget, including ongoing building maintenance, to begin to address the critical shortfalls that exist in OMP.

Purchased Utilities

The cost of purchased utilities is affected both by consumptions levels and utility rates. For the last two decades, the campuses have implemented increasingly stringent energy conservation measures, undertaken capital improvements to reduce energy consumption, and taken measures to purchase energy at the lowest rates possible. All campuses have undertaken significant efforts to reduce energy consumption, installed energy monitoring and metering systems, and retrofitted existing facilities to install energy efficient lighting fixtures, motors, and pumps. Other larger-scale projects have included the development of new energy efficient co-generation facilities at the San Francisco, Los Angeles, and San Diego campuses and thermal storage facilities at the Davis, Irvine, and Merced campuses. The University's Green Building Policy requires that new facilities be designed so that energy use is 20% less than existing Title 24 State standards. As funding permits, the University will continue to support additional energy conservation projects.

Despite significant conservation efforts, however, the University experienced steep increases in purchased utility costs in 2000-01 and 2001-02 as a result of the statewide energy crisis. While the UC/Enron "direct access" contract protected several UC campuses from the volatility of statewide electricity rates until March 2002, the University paid increasingly higher rates for natural gas throughout 2000-01 and 2001-02. Recognizing these increased costs, the State provided the University with \$75 million in 2000-01 and 2001-02 to help offset the increases in purchased utility costs, with \$20 million intended to be a permanent allocation. However, the mid-year budget cuts in 2001-02 eliminated \$25 million of the total, including all of the permanent allocation, leaving only \$50 million of one-time funds to address the ongoing shortfall in the University's purchased utility budget. No additional new State funding directed at increasing utility costs has been appropriated since 2001-02. The ongoing annual shortfall in funding for purchased utilities—electricity and natural gas—continues to grow.

In addition to pursuing decreasing opportunities for energy conservation, the University has continued its efforts to obtain favorable contracts for electricity and natural gas. To replace the Enron contract for electricity, which expired in March 2002, the University negotiated another "direct-access" contract with Arizona Public Service Energy Services (APSES), which was extended through December 2005. Even though the APSES rates have been competitive, the funding shortfall for purchased utilities has continued. Bids will be solicited for new electricity contracts beginning in January 2006, and the University now anticipates that electricity services will be purchased in the future from local utilities such as Pacific Gas & Electric and Southern California Edison. Electricity costs have been projected by industry analysts to be significantly higher beginning in January 2006, perhaps in the range of 15% to 20%, and these increases are now expected to be exacerbated by the effects of Hurricanes Katrina and Rita. Increases in natural gas costs also

affect the costs of electricity because natural gas is also used to generate electricity. Most campuses have purchased longer-term natural gas contracts, many with the state pool through the Department of General Services. Some of these contracts will expire in the spring of 2006, at which time gas costs are also projected to increase significantly, with some analysts projecting cost increases of more than 30%. As a result of new contracts that will be negotiated in the last half of the 2005-06 fiscal year, it is difficult at this time to estimate the funding shortfall for purchased utilities in 2006-07.

The University has accommodated increased costs in this essential area by cutting other elements of the maintenance budget, a difficult tradeoff made during the time that State funding was declining. The University will need to continue to reallocate resources to cover purchased utilities funding shortfalls in 2006-07, further exacerbating the problems that arise in the rest of the OMP budget from inadequate funding.

Capital Renewal and Deferred Maintenance

The University estimates that at least \$600 million in one-time funding is needed to address the current backlog of high priority deferred maintenance projects. As long as regular and adequate funding is not provided for the systematic renewal and replacement of building systems and infrastructure to extend the useful life of facilities, the University's deferred maintenance backlog will continue to grow.

The University estimates that, on average, at least \$200 million is required annually over the next 50 years to meet the capital renewal needs of both building and infrastructure systems. This includes the normal replacement and renewal of building systems and components, such as replacing roofs and building chillers, which may occur several times during the life of a building. Funding for renewal of building systems and infrastructure components is not included in the allocations for ongoing building maintenance. Annual funding for capital renewal could be budgeted as either an operating expense or in the capital improvement budget.

The estimates of funding needs for capital renewal and deferred maintenance are based on a sophisticated budget model developed by the University in 1998. The model, which is updated annually, includes a detailed inventory of all State-maintained facilities at each campus and breaks down each building or infrastructure system into components that need to be renewed on a predictable basis and have life cycles between 20 and 50 years. This includes components such as roofs, fire alarm systems, heating and ventilation systems, central plant chillers and underground utility cabling. The model assumes standard life cycles and costs for renewing each system, and from these elements develops a profile for each building or system, projecting the renewal date and cost for a 50-year period. The

model also estimates the deferred maintenance backlog by tracking those systems that have deteriorated to the point that they currently need repair or renewal.

Capital renewal funding at a level of \$200 million per year would be required even if ongoing building maintenance is funded adequately so that building and infrastructure systems perform as designed for the expected duration of their useful life. Continued underfunding of ongoing building maintenance exacerbates the University's deferred maintenance problem by reducing the useful life of critical building and infrastructure systems.

Funding for deferred maintenance has not been predictable or stable over the last decade. Before 1994-95, the State provided the University with nearly \$20 million a year in permanent deferred maintenance funding. While not sufficient to meet the University's deferred maintenance needs, it was a reliable and predictable source of funding. From 1994-95 through 1997-98, annual funding for deferred maintenance ranged from \$8 million to \$25 million per year, provided through a variety of one-time, bond, and permanent funds.

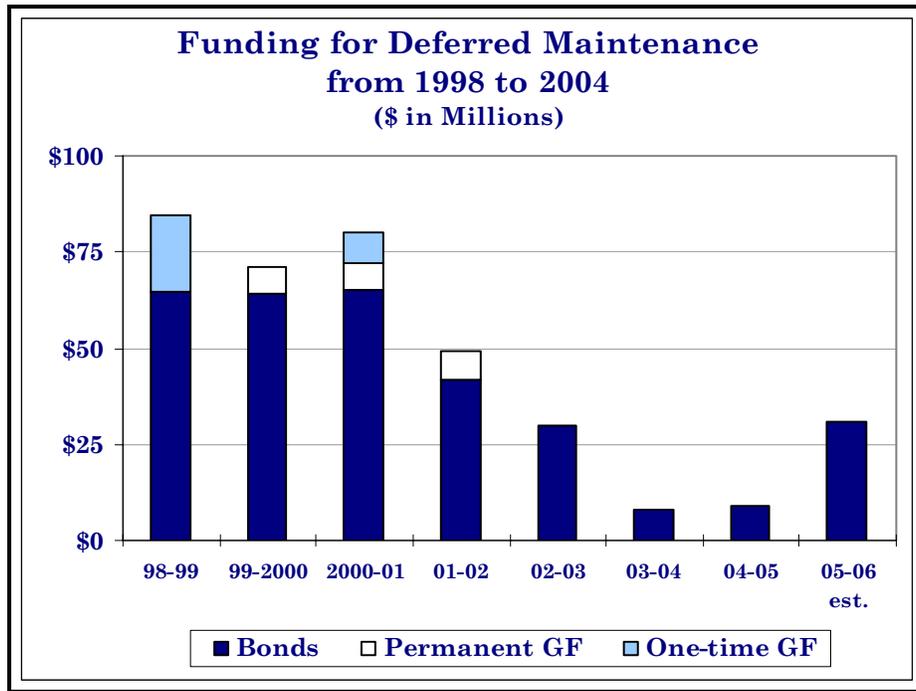
In 1998, The Regents approved a new funding approach for deferred maintenance that provided significant levels of funding for the next several years. It emphasized a "systems renewal" rather than a "repair" approach in addressing the deferred maintenance backlog. Funding was provided by issuing 15-year bonds, to be repaid by using a portion of the increase each year in UC General Funds. Bond funding was provided for four years, supplemented by permanent and one-time General Fund allocations.

As shown in Display 2 (next page), between 1998-99 and 2001-02, approximately \$289 million was provided on a systemwide basis to address the most urgent deferred maintenance problems and capital renewal problems.

The systemwide long-term debt financing program generated approximately \$65 million a year for three years; in 2001-02, bond funding was decreased to \$45.5 million due to underfunding of the Partnership. In 2002-03, the systemwide long-term debt financing program for deferred maintenance and capital renewal was suspended because University funds used to support debt financing had to be redirected to offset State funding cuts. In addition, the final Budget Act for 2002-03 included a one-time cut of \$29 million related to core needs, including a cut of \$7.1 million for deferred maintenance that had been available on a permanent basis since 1999-2000.

During the three-year period 2002-03 to 2004-05, four campuses pledged a portion of their UC General Fund income to finance long-term debt to fund urgent deferred maintenance work, generating \$47 million in bond funding for this purpose over the

Display 2



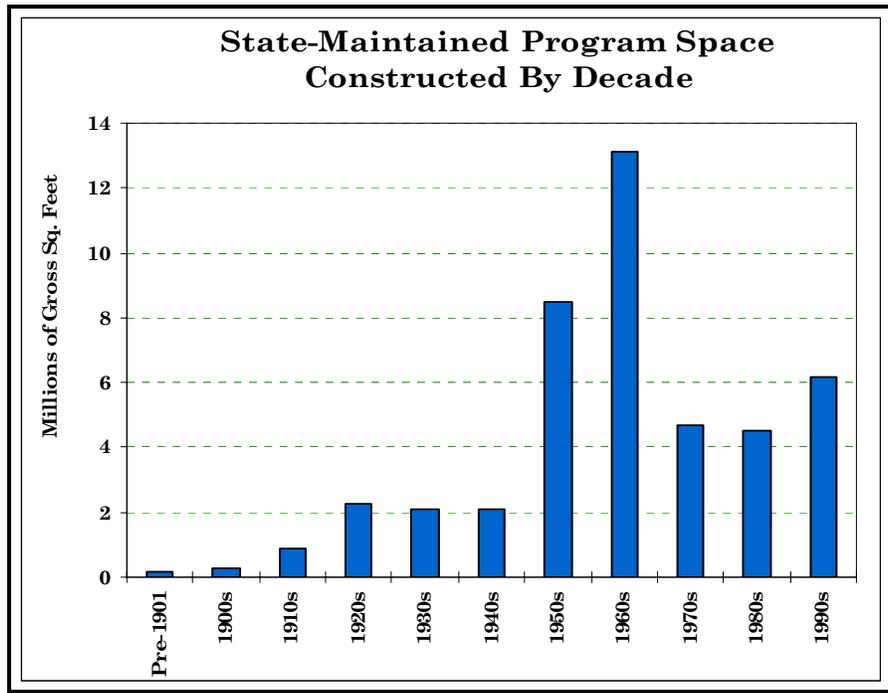
three-year period. This program is continuing in 2005-06, with additional campuses participating in the bond Program, which is expected to generate another \$31 million in bond funding for deferred maintenance and capital renewal projects.

Between 1998-99 and 2001-02, funding from the systemwide long-term debt financing program and other sources allowed the University to address over 1,200 high priority deferred maintenance projects. However, the cumulative impact of long-term underfunding of both OMP and capital renewal has left the University with an extensive inventory of buildings and infrastructure that have systems at or near the end of their useful life; therefore, the deferred maintenance problem keeps growing as funding for capital renewal is limited.

Another way of understanding the University's deferred maintenance problem is to look at the age of UC facilities. As Display 3 shows, nearly 50% of the University's core instructional and research space was built in the 1950s and 1960s. Another 15% of the University's space was built before 1950.

The major mechanical, electrical and other building systems in most University facilities have useful lives that range from 25 to 50 years. Many building and utility systems have already reached the end of their useful life; in the next decade, many more systems in buildings constructed in the 1970s and 1980s will require renewal or replacement. Without funding for systematic renewal or replacement of building and utility systems, the University's deferred maintenance backlog will

Display 3



continue to grow over the next decade at an accelerating rate. Moreover, costs to repair and maintain these systems even at reduced levels of performance will increase as they reach and pass the end of their useful life. As the performance of these systems decreases, the University's instructional and research programs will be negatively impacted.

The University continues to dedicate significant capital resources to new building projects, and it is critical that these investments are protected by providing adequate funding to maintain facilities in a condition that will ensure program needs are met. It is also important to invest in the renewal of existing building and infrastructure systems to maintain the functionality of these facilities.

The University's deferred maintenance problem cannot be eliminated until ongoing building maintenance is adequately supported and the University secures predictable ongoing funding to address the capital renewal needs of its buildings and infrastructure systems.

AUXILIARY ENTERPRISES

2005-06 BUDGET	
Total Funds	\$ 740,661,000
General Funds	--
Restricted Funds	740,661,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	37,033,000

Auxiliary enterprises are self-supporting services that are primarily provided to students, faculty, and staff. Student and faculty housing, parking, and bookstores are the largest auxiliaries. No State funds are provided for auxiliary enterprises; therefore, they must generate sufficient revenues to cover all of their direct and indirect operating costs. The annual budget is based upon income projections, and all budget increases are funded by corresponding increases in revenue.

During 2005-06, revenue from auxiliary enterprises will be expended as follows: 50% for residence and dining services; 10% for parking operations; 8% for intercollegiate athletics; 27% for bookstores; and 5% for other expenditures.

Student, Faculty, and Staff Housing

The largest program in Auxiliary Enterprises is student housing, comprising approximately 49,145 residence hall and single student apartment bed-spaces and 4,621 student family apartments, for a total of 53,766 spaces.

Affordable student housing is an important component of the University's ability to offer a high-quality education. Rapid enrollment growth has presented the University with many challenges; creating affordable, accessible student housing to accommodate this growth is high among those challenges.

In accommodating demand, campuses identified guaranteed housing for freshmen as one of their highest priorities. Planning and providing for additional housing opportunities for transfer and graduate students is also a top priority for all campuses.

While the University was better prepared in Fall 2005-06 to meet the housing demand of students than in previous years, most campus residence halls continued

to be occupied at over 100% design capacity (systemwide occupancy of residence halls was 105%). Campuses accommodate this by converting doubles to triples as well as modifying study areas into temporary quarters. All campuses housed freshmen that met enrollment and housing deadlines. However, none of the campuses was able to accommodate all of the continuing students and few were able to satisfy all transfer students who sought housing. By the fall 2012 term, if construction proceeds as planned, the University will add 9,107 new student bed-spaces.

The California housing market is a continuing deterrent to faculty recruitment efforts, particularly for junior faculty. Various programs to alleviate this problem have been implemented since 1978. One of these programs provides rental housing to faculty. The units are self-supporting without subsidy from student rental income, and are made available to newly appointed faculty on the basis of criteria established by each campus. There are currently 703 units available at seven campuses: Berkeley, Irvine, Los Angeles, San Diego, San Francisco, Santa Barbara, and Santa Cruz.

Home loan programs have provided mortgage loans with favorable interest rates and/or down payment requirements to 4,476 faculty members and other designated employees. In addition, the Salary Differential Housing Allowance Program has provided 2,647 faculty members with housing assistance during their first years of employment with the University, and the Mortgage Credit Certificate Program has furnished a federal tax credit for 51 faculty who were first-time homebuyers.

The University continues to explore other faculty housing alternatives. Six campuses, in coordination with the Office of the President, have developed for-sale housing on land owned by the University. The land is leased to the purchaser of a unit built by a private developer. Resale restrictions control prices and determine eligibility for new buyers.

The Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz campuses have projects underway and/or completed which will provide over 1,100 units, including townhouses, condominiums, and single-family structures. No State funds are provided for faculty housing programs.

Parking

Another major auxiliary enterprise is the parking program, with approximately 108,913 spaces for students, faculty, staff, and visitors. Recognizing the serious need for parking on each of the campuses, in 2004-05 and 2005-06 the University approved parking projects that will yield approximately 2,440 new spaces.

PROVISIONS FOR ALLOCATION

2005-06 BUDGET	
Total Funds	\$ 46,051,000
General Funds	26,732,000
Restricted Funds	19,319,000
2006-07 INCREASE	
General Funds	1,326,000
Restricted Funds	--

Provisions for allocation serve as a temporary repository for certain funds until final allocation decisions are made. For instance, funds allocated for fixed cost increases, such as salary adjustments (i.e., cost-of-living, equity, and merit increases), employee benefit increases, and price increases, are held in provision accounts pending final allocation. Fixed cost increases for 2006-07 are discussed in the *Program Maintenance: Fixed Costs and Economic Factors* chapter of this document. Provisions for allocation also include negative appropriations, specifically State General Fund unallocated budget reductions awaiting allocation decisions and budgetary savings targets.

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 2005-06, \$144.8 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 appropriated 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 2006-07 budget continues this level of funding.

**PROGRAM MAINTENANCE: FIXED COSTS AND
ECONOMIC FACTORS**

2006-07 INCREASE	
General Funds	\$ 87,377,000
Restricted Funds	61,676,000

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.

2006-07 Budget Plan

Consistent with the Compact, the University's plan for 2006-07 includes a base building adjustment of 3% to help fund increases in employee salaries, health benefit increases, and non-salary price increases. However, market-based cash compensation is increasing at a faster rate, estimated to be about 4% for 2006-07. The University's goal for 2006-07 is to at least stay even with the market and lose no further ground in terms of salaries. Therefore, the University must use a combination of State General Funds, UC General Funds, and income from student fees to provide a total compensation package of about 4% for 2006-07. An amount equal to 2.25% of the non-salary base will be provided for price increases. Cost increases for professional schools will be funded from increases in professional school fees.

The compensation package will be used to fund faculty and staff salary increases, increases in the cost of employee health benefits, equity salary increases for faculty and staff whose salaries significantly lag behind those who have been newly hired at market rates, and continuation costs for salary adjustments that occurred effective October 1, 2005, as described below.

Compensation Increases for Academic and Staff Employees

The Regents recently commissioned a study to review its total compensation program. The results of the study indicate that in general salaries are substantially below that of the market average. However, the total compensation package, including salary, health and welfare benefits for active employees and annuitants, and retirement system benefits, is close to the market average. It is anticipated

that the value of the benefit package will decrease in the next few years as employer and employee contributions to the retirement system are phased-in, as required to ensure the solvency of the retirement program. Employees have not had to contribute to the retirement system since 1990. In addition, funding over the next several years likely will not be adequate to match the inflationary increases of health benefit costs, requiring that employees pick up a larger share of their medical premium. The University's long-range plan is to rebalance the components of the total compensation package and bring salaries closer to market-competitive levels. In order to maintain the quality of its programs, the University is determined to remain competitive in the market.

One of the major challenges facing the University is the lag in University salaries compared to the market. Faculty salaries currently lag the average of comparison institutions by over 10%, and there is a similar problem with respect to staff salaries. As specified by The Regents, one of the University's highest priorities is to stop the erosion in the short run, and in coming years, to the extent possible, begin to close the gap. Therefore, the University's budget plan for 2006-07 calls for a total compensation package increase of about 4%, using a combination of State General Funds, UC General Funds, and student fee revenue, consistent with the Compact. Other fund sources will, as needed, pay for increases to programs they support. Beginning in 2007-08, the base budget adjustment under the Compact is proposed to increase to 4%. Depending upon funding availability, the University plans to close the salary gap at a rate of 1%-1.5% per year.

The University's 4% compensation package for 2006-07 includes the following elements:

- continuation costs for salaries and health and dental benefits provided in the previous year, but effective for only part of the year;
- funding for merit salary increases for eligible employees;
- a cost-of-living-adjustment (COLA) effective October 1;
- equity increases; and
- health and dental benefit cost increases.

Continuation Costs. Salary continuation costs occur because the 2005-06 budget included salary increase funding for only 9 months of the year (they were effective October 1, 2005). Therefore, the 2006-07 budget includes the remaining 3 months of funding needed to support the annualized salary increases for 2005-06. Similarly, the 2005-06 budget provided funding for health and dental insurance cost increases effective December 1. Thus, five-month of continuation costs for these benefits must be provided in 2006-07.

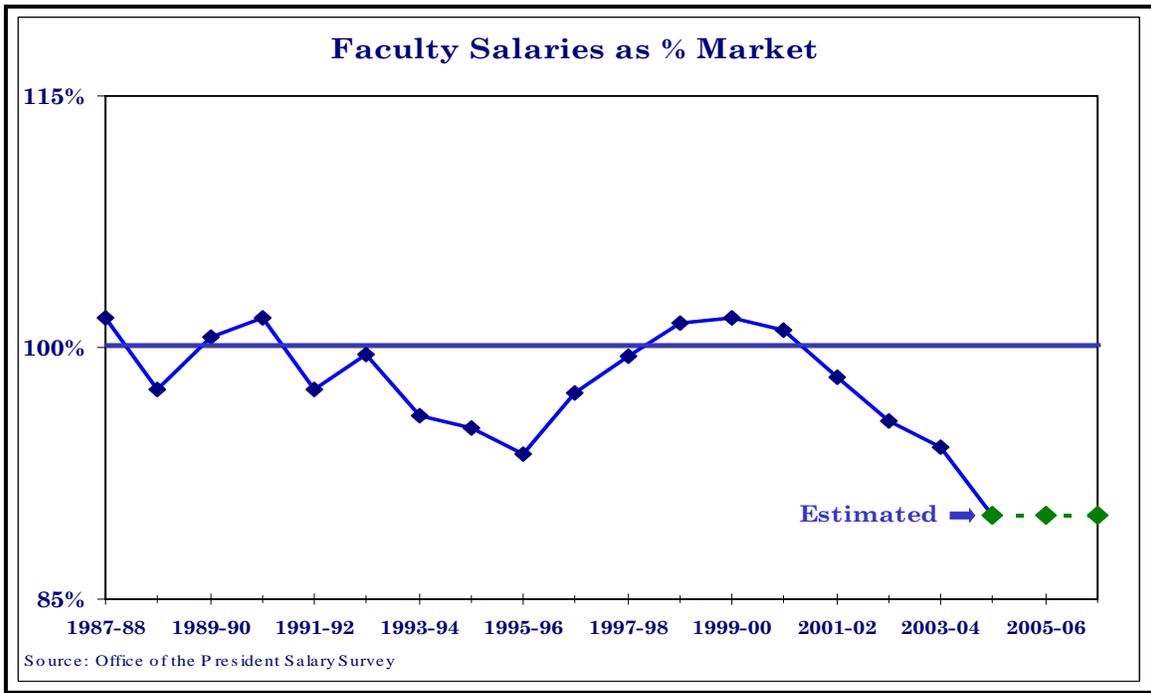
Merit Salary and COLA Increases. Funding for merit salary increases is again among the University's highest budget priorities. The merit salary programs recognize and reward excellence and are critical to the preservation of the quality of the University. In addition, the University's budget plan for 2006-07 includes funding for general (COLA) salary increases effective October 1, 2006 for eligible academic and staff employees. As indicated below, the University is also requesting funding in addition to these general salary program increases to address essential market and equity related compensation needs.

An area of continuing concern, as a result of years of underfunding of the University's budget, is the growing lag in faculty and staff salaries compared to market. As noted earlier, among the University's highest priorities is to achieve and maintain market-competitive total compensation for its employees. This means providing sufficient funds, through a combination of merits, general increases, and market and equity adjustments to keep UC faculty salaries at the average of the salaries provided at the eight comparison institutions, and to provide salary increases for other employees that, on average, remain competitive with the relevant labor markets.

As part of the State's actions to reduce the University's Partnership budgets in 2001-02 and 2002-03, the University lost funding that had been targeted for COLA and equity increases for faculty and staff. As a result, the University was only able to fund a combination of merit and COLA increases averaging 2% in 2001-02 and merit increases of 1.5% in 2002-03 for faculty and staff. No State funding was provided in 2003-04 or 2004-05 for either COLA or merit increases. The University instituted additional internal budget cuts in order to fund academic merit increases for 2003-04 and 2004-05, but no employees received a general increase or COLA and staff employees received no merit increases. In 2005-06, the Compact provided funding for academic and staff salary increases, however this was not enough to reverse the effects of years without adequate salary increases. As shown in Display 1, actual faculty salaries are projected to lag the average of UC's comparison institutions by over 10% in 2005-06 and in 2006-07. It is estimated that a similar problem exists with respect to staff salaries.

Funding provided in 2006-07 for merit and COLA adjustments proposed under the Compact will not be sufficient to close market lags, but will at least help keep salaries from falling further behind in the competitive marketplace. Beginning in 2007-08 the University plans to provide funding for additional salary increases to address the lag between the University's salaries and relevant labor markets. Depending upon the availability of funding, the University proposes to decrease the lag by 1%-1.5% per year with the goal of eventually bringing salaries closer to market-competitive levels.

Display 1

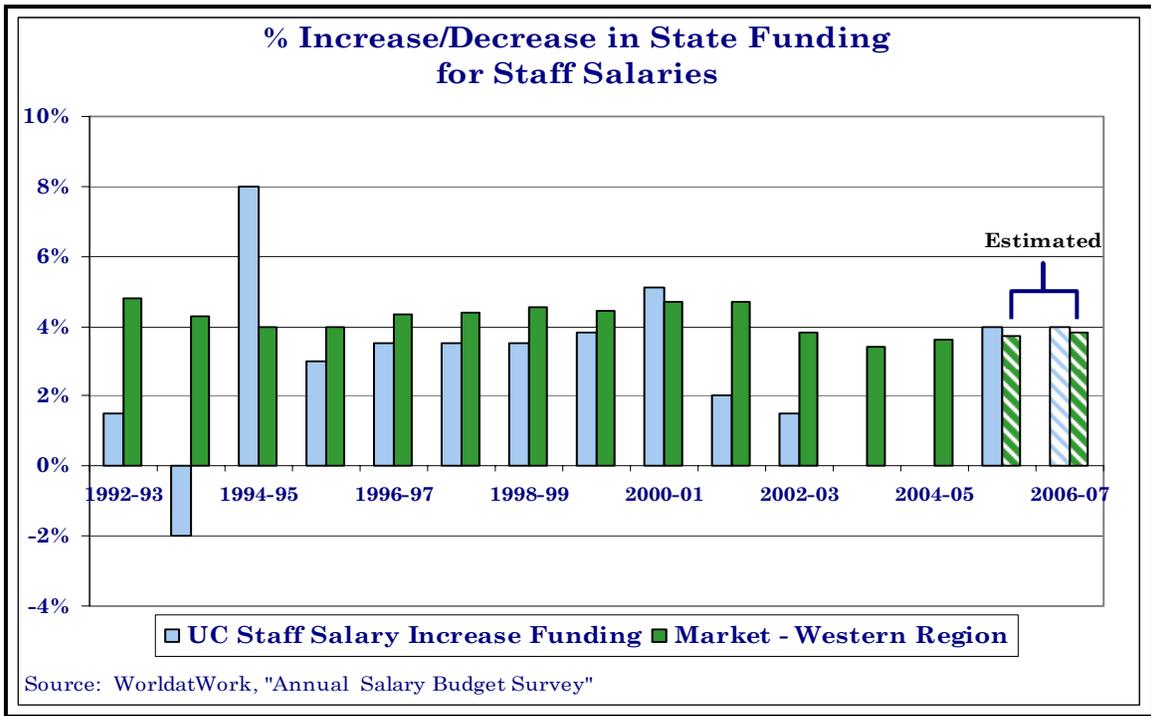


Academic merit salary increases provide an incentive to maintain and expand teaching and research skills, and enable the University to be competitive with other major research universities in offering long-term career opportunities. Academic merit increases are never automatic. They are awarded only once every 2-3 years on the basis of each individual's academic attainment, experience, and performance in teaching, research and creative work, professional competence and activity, and University and public service.

The University's budget plan is to provide funding for normal academic merit increases for eligible employees in 2006-07.

Staff compensation differs from faculty compensation. For employees represented by unions, the University has collective bargaining agreements that specify compensation increases for their members. The University's budget plan will provide the resources needed to honor those agreements. Non-represented employees are eligible for salary increases through performance-based merit salary programs. These are funded from a pool created by combining funds for COLAs with those provided for merit increases. The combined amount available to fund increases for these employees is about 4%, and thus comparable to that provided to represented staff and academic employees.

Display 2



Display 2, above, shows the funding levels available for UC staff salaries increases compared to the market for such increases.

Actual merit or other salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA).

Market and Equity Compensation Increases. The University is proposing to use a portion of the funding provided under the Compact for market and equity compensation adjustments in 2006-07. As stated earlier, faculty salaries are more than 10% behind the market and there is a comparable lag for staff salaries. To the extent that there are more serious market lags within specific employee categories, the University plans on funding market adjustments to decrease the disparity. In addition, there is a need to address issues of equity where newly hired faculty and staff are paid significantly more than long-term University employees with similar experience, skills, and knowledge who have been employed at the University during the extended period of low or no salary increases. Unfortunately, funding is not sufficient to address all inequities that may exist throughout the University, so emphasis will be placed on using equity funding for critical recruitment and retention purposes.

Employee Benefits. The University has been successful in reducing the cost of health benefits in the past and has a continuing commitment to controlling

costs; however, these efforts have been impacted by state and national trends of dramatically increasing health insurance costs. Health benefit costs are expected to increase significantly again in 2006-07. The University has historically had a very generous benefit package compared to those of other institutions. In fact, the study mentioned earlier showed that the University's below market salaries are being offset by its competitive benefit package. However, it is anticipated that within the next few years there will be an unavoidable decrease in the value of the overall benefit package due in part to a necessary phase-in of employer and employee contributions to the University's retirement system. In addition, it is likely that there will be insufficient funding within the Compact to cover the entire cost increase expected in employee health benefits for 2006-07, and for several years to come. However, the University will use available funding not used for salary increases to help defray the cost of increases in health benefits for employees; this means it is likely that some of the increases in costs will again be borne by employees themselves.

In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of the employee's share of the medical plan premiums on lower paid employees. While UC continues to pay a greater portion of monthly medical premiums for all employees, UC covers an even larger portion of the premium for those earning less.

For annuitant benefits, the University is requesting funding that is equivalent to the funding provided for the State's annuitants. The Department of Finance traditionally calculates these costs based on the most recent available data and, consistent with the principles of the Compact, provides the funding separately. Thus, estimates of the rise in costs related to annuitant benefits are not included in the Regents' Budget at this time.

Provision for Price Increases

The University's 2006-07 budget plan includes a 2.25% increase to offset the impact of inflation on non-salary budgets and maintain the University's purchasing power. Although the University purchases many commodities whose expected cost increases exceed current inflation estimates, the request for funding is limited to a 2.25% increase to stay within funding available under the Compact. Recent economic forecasts are projecting an overall inflation rate of about 3%-5%. The Higher Education Price Index (HEPI), an index which reports changes in cost for the goods and services employed for education, is a more accurate indicator for colleges and universities than the Consumer Price Index (CPI) and is expected to again exceed the CPI in 2006-07.

Increases significantly greater than 2.25% are anticipated for several major commodities. Based on reports from campus libraries and industry sources, the University anticipates increases of about 4.6% for subscriptions and 4.8% for serial

services in 2006-07. Subscriptions and serial services represent more than 65% of the library materials budget, and the purchase of library materials is one of the largest non-salary expenditure categories. The University also expects higher cost increases for other commodities, such as energy and fuel, petroleum based products, paper based products, laboratory and agricultural chemicals, equipment, and property insurance. The University incurs substantial cost for all of these items.

Productivity Improvements and Strategic Sourcing

The University remains committed to, and continues to work toward, achieving productivity improvements. Investments in technology have enabled the University to make significant progress in increasing the efficiency of its operations. Examples of cost savings include: systematically replacing high-volume and labor-intensive transactions such as payroll, personnel, purchasing, and reimbursements with online systems; allowing administrative units to reduce costs by sharing resources; and using electronic tools to increase dissemination of information, ranging from news releases to job postings.

Strategic sourcing is a disciplined process intended to leverage the University's enormous buying power in the marketplace, increase the efficiency of purchasing in the organization, and lower the cost of goods and services in a large array of categories. The chapter on *Institutional Support* contains a more detailed description of this purchasing process.

Strategic sourcing will benefit the entire University of California system and will yield substantial cost savings during these fiscally challenging times. When all funding sources, including campuses, medical centers, and National Laboratories are included, the University annually spends an estimated \$2 billion on commonly used goods and services. Strategic sourcing offers UC the opportunity to save as much as \$150 million over five years from all fund sources. This expectation of significant savings has led to the development of a major initiative to increase support for graduate students. For 2006-07, it is anticipated that savings in State General Funds and student fees could generate \$10 million that can be used to enhance support packages for graduate students. It is estimated the amount of savings that can be redirected for this purpose will grow to \$40 million over the next four years. Campuses will retain their savings to benefit their graduate students.

The graduate student support initiative is discussed in more detail in the *Student Financial Aid* chapter of this document. Savings achieved in other fund sources will be needed to fund increases in salaries, retirement contributions, health benefits, and non-salary expenses for programs funded from those sources.

UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS

2005-06 BUDGET	
Total Funds	\$ 209,754,000
General Funds	--
Restricted Funds	209,754,000
2006-07 INCREASE	
General Funds	--
Restricted Funds	5,728,000

The following section discusses three fund sources derived from contracts with the federal government that are used to help fund the University's operating budget: the University Opportunity Fund, the Off-the-Top Overhead Fund, and the Department of Energy (DOE) Laboratory Management Fee. The Management Fee is the annual compensation provided to the University for management and oversight of the DOE Laboratories at Berkeley, Livermore, and Los Alamos and is discussed at the end of this chapter.

Federal Reimbursement

All federal contract and grant activity generates costs which are divided into two basic categories—direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting a specific contract or grant. These costs are charged directly to individual contracts or grants. Indirect costs are those expenses which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The basis for this reimbursement is arrived at through a series of complex negotiations between the University and the federal government that result in indirect cost rates that are then applied against contract and grant activity.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity in areas such as campus contract and grant offices, academic departments, and Organized Research Units (ORUs). This is the

source of the University's Off-the-Top Overhead Fund. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University General Funds and is used, along with State General Funds, to help fund the University's basic budget, consistent with the budget plan described each year in this document. The remaining 45% is the source of the University Opportunity Fund. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated.

In 1990, the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities, and related infrastructure. Under the provisions of the legislation, the University is authorized to use 100% of the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintain the facility. Any reimbursement received in excess of what is needed to finance and maintain the facility is allocated as previously described. Of the 21 projects approved by the Legislature to be financed in this manner, 14 have been completed, one received gift funding and was removed from the program, and six are in the planning and construction stages. Included in the 21 projects are six of the seven California Institutes for Science and Innovation facilities, which received partial funding from the Garamendi funding mechanism. Of those six projects, five will be completed by the beginning of 2006-07 and one will be completed in 2007-08.

University Opportunity Fund

Allocations to campuses from the University Opportunity Fund are based on the amount of indirect cost reimbursement generated by the campus. This approach represents a reinvestment in research and an incentive to further develop the University's research capacity. Each campus has discretion as to the use of University Opportunity Funds. The following is a programmatic description of functional areas in which campuses expend these funds.

Research

Campuses often use their University Opportunity Fund allocations to enhance their faculty recruitment efforts by providing support for such research needs as laboratory alterations, equipment, research assistants, fieldwork, and debt service for new buildings. The adequacy of funding for these and other basic research needs has a substantial impact on the success of efforts to recruit and retain high-caliber faculty. The level of research support that can be offered is often a pivotal factor in the recruitment of promising junior faculty members. The

University must be in a position to offer a level of research support that is competitive with other institutions.

In the physical and natural sciences, it is not unusual for the University to provide several hundred thousand dollars in research support in the recruitment of a faculty member.

Research support is also critical to retention of distinguished faculty members who regularly receive attractive offers from other institutions. Department chairs report that it is difficult, and occasionally impossible, to replace key faculty members lost to other institutions with scholars of equal stature. Loss of a faculty member disrupts both the instructional and the research programs of the University, and recruitment of a replacement can be very costly. The quality of the University's academic programs is defined in large part by the excellence of its faculty. The use of the University Opportunity Fund for the recruitment and retention of distinguished faculty members helps to secure the University's excellence.

Since 1970, The Regents have used University Opportunity Funds to provide core support for high priority systemwide research programs not adequately funded from other sources. Such programs include the Keck Observatory, the Energy Institute, and the Institute for Mexico and the United States. Some campuses use a portion of the University Opportunity Fund allocation as seed money for a continued and selective expansion of their research programs. They also use University Opportunity Funds in combination with State and other University funds to address the special needs encountered by individual faculty members in the conduct of research, such as funding for equipment and supplies, text preparation, research assistants, fieldwork, and travel.

Instruction

Allocations for instruction are designed to provide continuing incentives to explore new instructional approaches and programs. Innovative instructional activities are essential for maintaining dynamic, high quality academic programs. The Education Abroad Program is typical of those funded.

This program furthers students' academic progress and enhances their communication skills, cultural enrichment, and understanding of the contemporary world through intensive involvement in a different culture. University Opportunity Funds help to support guest students on University campuses who are here as a result of reciprocal arrangements with foreign institutions that are hosting University of California students. This is an essential part of the operation of the Education Abroad Program, and is not supported by State funds.

Some campuses use University Opportunity Funds to provide support for programs designed to give special recognition to excellence of undergraduate

instruction or to support course evaluations to give faculty the feedback needed to improve teaching.

Institutional Support

A portion of the University Opportunity Fund is used to support administrative activities for which adequate State support has not been provided, such as administrative computing, and environmental health and safety.

Funds are also provided under Institutional Support to maintain and improve the University's capabilities to attract external funding, primarily from private sources. Such programs have been funded since the mid-1960s from a combination of various funds. Support is provided to meet alumni and development data processing requirements and for management information systems. Allocations from the University Opportunity Fund also provide support for the University's public safety, and staff and management development programs.

Department of Energy Laboratory Management Fee

Contracts for University management and oversight of the Department of Energy National Laboratories at Berkeley (LBNL), Livermore (LLNL), and Los Alamos (LANL) provide compensation to the University for its management of the Laboratories.

The University's 2005-06 budget year involves another period of transition for the University's relationship with the three DOE national laboratories. The University was awarded a new management and operating contract for LBNL on April 19, 2005; this contract runs for five years and may be extended through an "award term" provision for additional years not to exceed twenty in all. The LANL contract expires on May 31, 2006; the University is part of a team that has made a competitive proposal to manage LANL. If the team that includes the University is awarded the contract, that contract would commence operations on June 1, 2006 for a term of seven years with an "award term" provision that could extend that contract for a period not to exceed twenty years. The LLNL contract expires on September 30, 2007. Due to the uncertainty associated with this period of transition, the University is assuming funding levels for the contracts unchanged from the prior year's actual numbers.

Under the existing contracts, compensation for 2006-07 would 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;

2. reimbursement of indirect costs associated with management of the Laboratories that are incurred by the University. The amount for FY2005 is expected to be approximately \$11 million. Annual contract indirect payments are distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. These funds are budgeted as UC General Fund income and help to support the University's operating budget;
3. payment of performance management fees of up to \$17.4 million, dependent on the Department of Energy's evaluation of performance at the three Laboratories. Contract compensation will also be 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 scientific research collaborations between the University and the three UC-managed DOE laboratories. Scientific research collaborations previously supported by the Complementary and Beneficial Activities (CBA) Fund and UC Directed Research and Development (UCDRD) were merged into a single program co-managed by UCOP and the Laboratories beginning in 2005.

Funds received during the University's 2006-07 budget year will be a pro-
ration of the amounts described above for whatever portion of time any of those
contracts are in force during the budget year.

INCOME AND FUNDS AVAILABLE

General Fund Income and Funds Available

The programs described in this budget document will require General Fund resources in 2006-07 of \$3.5 billion, including \$2.98 billion in State General Funds, and \$562 million in UC General Funds. UC 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 \$244.5 million in University General Fund income. This income estimate is based on the 2006-07 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 \$22.6 million.

Overhead on State agency agreements totaling \$10.5 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 or grants. Indirect costs are those expenses which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The basis for this reimbursement is arrived at through a series of complex negotiations between the University and the federal government that result in indirect cost rates that are then applied against contract and grant activity.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. It is estimated that \$109.4 million will be provided from this source in 2006-07. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as UC General Funds and is used, along with State General

Funds, to help fund the University's basic budget. It is estimated that \$242.5 million will be provided from this source in 2006-07. The remaining 45% is the source of the University Opportunity Fund, estimated to be \$198 million in 2006-07. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated. Expenditures from the University Opportunity Fund are discussed more fully in the *University Opportunity Fund and Special Programs* chapter of this document.

In addition in 1990, the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities, and related infrastructure. Under the provisions of the legislation, the University is authorized to use 100% of the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintain the facility. Any reimbursement received in excess of what is needed to finance and maintain the facility is allocated as previously described.

Department of Energy Laboratory Management Fee

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3. payment of performance management fees of up to \$17.4 million, dependent on the Department of Energy's evaluation of performance at the three Laboratories. Contract compensation will also be 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 scientific research collaborations between the University and the three UC-managed DOE laboratories. Scientific research collaborations previously supported by the Complementary and Beneficial Activities (CBA) Fund and UC Directed Research and Development (UCDRD) were merged into a single program co-managed by UCOP and the Laboratories beginning in 2005.

Funds received during the University's 2006-07 budget year will be a pro-ration of the amounts described above for whatever portion of time any of those contracts are in force during the budget year.

Restricted Fund Income and Funds Available

Other State Funds

In addition to State General Fund support, the University's budget for current operations includes \$60.6 million in appropriations from State special funds including, for example, \$24.6 million from the California State Lottery Education Fund, \$14.3 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program, and \$12.8 million for the Breast Cancer Research Program, also funded from the Cigarette and Tobacco Products Surtax Fund. Also included in State special funds is \$473,000 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

Consistent with the Compact Agreement with the Governor, the 2006-07 budget plan assumes increases in mandatory systemwide fees of 8% for undergraduate students and 10% for graduate academic students to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue. Consistent with the University's past practice of setting aside a portion of the revenue generated by the fee increase to mitigate the impact of the fee increase on

financially needy students for 2006-07, it is proposed that an amount equivalent to 33% of all new fee revenue generated from student fees increases be used for financial aid purposes. The initiatives proposed for undergraduate student aid will result in a return-to-aid from additional fee revenue of approximately 30%, and will improve the return-to-aid proportion over the 25% that was implemented for 2005-06. Return-to-aid for graduate academic students will total 50%, less \$1.5 million in fee revenue temporarily budgeted for graduate student support in 2003-04 that must be restored to undergraduate financial aid. Based on the number of students expected to enroll, income from mandatory universitywide fees (Educational Fee and University Registration Fee) is currently projected to be \$1.418 billion in 2006-07.

Income from the Educational Fee is used to support student services, student financial aid, and a share of the University's operating costs, including instruction, libraries, operation and maintenance of plant, and institutional support. Income from the University Registration Fee is used to support counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students.

In addition, the University's 2006-07 budget plan includes increases in the Educational Fee for all professional school students and professional school fees of 5% for most professional school programs to cover cost increases in programs funded from Educational Fee and professional school fee revenue. To address the effects of the budget cuts applied disproportionately to programs in law and business in previous years, the 2006-07 budget plan includes professional school fee increases of 10% for the law and business schools at Berkeley and UCLA and for the law program at the Davis campus. The professional school fee increases will range from \$161 for nursing students to \$1,737 for business students.

The 2006-07 increases in the Educational Fee for professional school students will generate nearly \$2.4 million in new fee revenue, and the professional school fee increases will generate approximately \$9.4 million in new fee revenue. In 2006-07, total income from the professional school fees will be approximately \$133.6 million, based on the number of students expected to enroll and the fee increase included in the 2006-07 budget plan. An amount equivalent to at least 33% of the new fee revenue generated from the increases in mandatory systemwide fees and professional school fees would be used for financial aid for professional students. Some portion of the new professional school fee revenue is expected to be used to establish new and/or expand existing loan repayment programs to help borrowers with public service employment meet their student loan repayment obligations. 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. The revenue from these additional increases is to be used to

maintain the quality of the academic program, to provide financial aid, and to aid programs in attracting and enrolling students. 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.

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, parking fees, and the Tiverton House at UCLA, which is a 100-room guest hotel for patients and their families.
- 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 and workers' compensation insurance, interest expense, and bad debts. Remaining revenues are used to meet a medical center's working capital needs, fund capital improvements, and provide an adequate reserve for unanticipated downturns. The *Teaching Hospitals* chapter of this document discusses the history of the financial problems confronting the medical centers and how those problems have been, and will continue to be, addressed.

In 2006-07, expenditures of hospital income for current operations are projected to increase by \$189 million, about 5%. The main reasons for the increase are: 1) an increase in patient activity, 2) growth in labor costs, especially due to new labor

contracts, and 3) costs incurred related to compliance with new regulations, e.g., Health Insurance, Portability and Accountability Act (HIPAA) – Privacy Standards, and AB 394 which established a ratio of licensed nurses to patients.

Sales and Services

Income from sales and services of educational and support activities is projected to total \$864 million in 2006-07. This includes income from the health sciences faculty compensation plans and a number of other sources, such as neuropsychiatric hospitals, the veterinary medical teaching hospital, dental clinics, fine arts productions, publication sales, and athletic facilities users.

Endowment

The Treasurer of The Regents invests endowment and similar funds. The vast majority of these funds participate in the General Endowment Pool (GEP) or in the High-Income Pool (HIP). The GEP portfolio is designed to promote capital growth in line with or in excess of the rate of inflation, along with steady increases in income. The HIP portfolio is designed to produce a relatively high and stable level of current income.

In 1998-99, The Regents changed the methodology for calculating the amount available for expenditure from funds invested in the GEP. From 1958 through 1997-98, the procedure had been to generate payments to the endowed activities based only on income 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, which was then revised to 4.60% in 2004-05 and 4.65% in 2005-06.

The amounts shown in the Endowment category on the Income and Funds Available display 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 1994-95 and 2004-05, actual expenditures from endowments increased by approximately 140%. The University is projecting expenditures of \$168.6 million in 2006-07.

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 \$740.7 million in 2005-06 to an estimated \$777.7 million in 2006-07.

Extramural funds

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

Research

For 2006-07, extramural research funding is projected to be \$2.54 billion, including \$1.78 billion of federal funds. Federal funds are the University's single most important source of support for research, accounting for approximately 57% of all University research expenditures in 2004-05.

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 77% of the University's federal research contract and grant awards in 2004-05.

In the decade between 1982-83 and 1992-93, federal support for research at the University grew dramatically; increasing by an annual 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. Beginning in 1997-98, the University's federal research expenditures increased as follows: 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-2000, 8% in 2000-01, 8.5% in 2001-02, 16.3% in 2002-03, and 11.8% in 2003-04.

Beginning in 2004-05, however, the renewed concern at the federal level over the size of the national deficit and the resulting return to a period of more limited increases for federal research funding have also had an effect on the University's federal research expenditures, which increased by only 3.5% during the past year.

In addition to the funding of research contracts and grants, federal funds entirely support the Department of Energy Laboratories, for which the University has

management responsibility. In 2006-07, this support is projected to be approximately \$4.08 billion, unchanged from the prior year's actual numbers due to the uncertainty with regard to upcoming expiring contracts.

Student Financial Aid

In 2003-04, UC students received \$955.3 million in federal financial aid, including \$214.5 million in gift aid and the remainder in the form of loans and work-study. Overall, UC students received about 10% more in federally-funded aid in 2003-04 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 comprise three-quarters of all federally funded aid and 40% of the total financial support received by UC students in 2003-04. 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. Pell Grant dollars going to UC students increased slightly by about \$8 million and was fueled largely by a modest \$50 increase in the maximum Pell grant in 2003-04. 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.

Private Funds

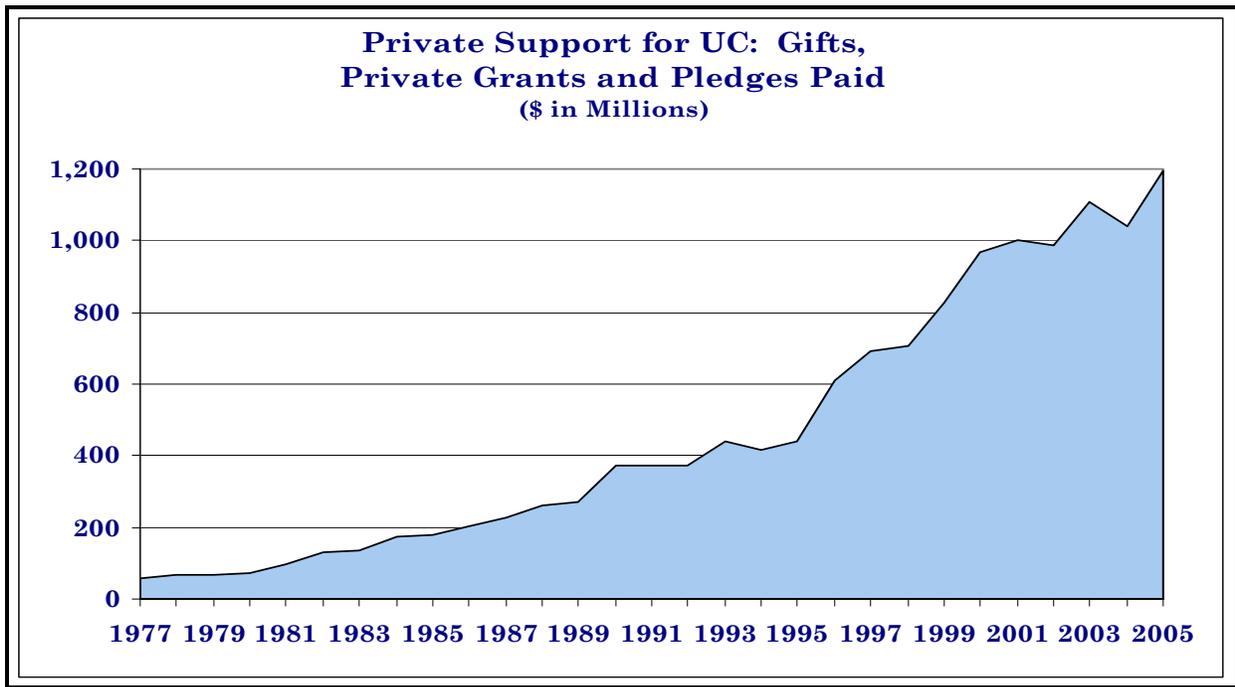
Private funds include gifts, private grants, and private contracts. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations, private foundations, and other nonprofit entities. Private contracts, which are *quid pro quo* transactions, are entered into with for-profit and other organizations. For 2006-07, expenditures from gifts and private contracts and grants to the University are estimated to be \$1,039 million, an increase of 4% over projected 2005-06 expenditures. Expenditures from private gifts and grants have increased by over 140% in the ten-year period between 1995-96 and 2005-06.

The University continues to aggressively seek and develop non-State revenue sources, particularly private funds. Over the last two decades, the University has experienced large, steady increases in private funds received. More recently, private support for the University has exceeded \$1 billion a year, even with the recent economic downturn.

As of the 2004-05 fiscal year, the method of reporting private support changed. The University now employs the same cash reporting system used across the country by other educational institutions, a system which is the basis for inter-institutional comparisons. Included in the private support figures are outright gifts and grants, and pledge and grant payments received during reporting period. Previously, the private support numbers included new pledges made during the reporting period, but not yet paid, along with outright gifts and grants actually received during the period. In business terms, the new system is a cash-based system; the former system was an accrual system.

Recent trend data show that pledges declined somewhat from 2000-01 to 2002-03, but increased again in 2003-04 and 2004-05. As shown in Display 1, in 2004-05, alumni and other supporters committed almost \$1.2 billion in gifts and grants to the University. New pledges totaled another \$387 million.

Display 1



Donors in 2004-05 directed \$734.1 million (61.4%) of support to University operations; \$243.2 million (20.3%) to campus improvement, \$194.2 million (16.2%) to endowments, and \$25.1 million (2.1%) as unrestricted general support. Of the total donations in 2004-05, \$569.6 million (47.6%) was specified for use in the health sciences. Just under 98% of the private support was restricted by the donors as to purpose.

Private support for the University is derived from a number of sources. In 2004-05, gifts and grants from non-alumni individuals totaled \$248.9 million; from private

foundations, \$462.5 million; corporations, \$247.6 million; alumni, \$132.5 million; and campus organizations and other sources, \$105.0 million.

The University's remarkable achievement in obtaining funding in recent years—even during state and national economic downturns—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 a slight improvement in the changes in the economy and financial markets.

INCOME AND FUNDS AVAILABLE
(\$000s)

	Estimated <u>2005-06</u>	Proposed <u>2006-07</u>	Proposed Changes
STATE APPROPRIATIONS			
General Fund	\$ 2,844,906	\$ 2,976,058	\$ 131,152
Special Funds	<u>59,688</u>	<u>60,586</u>	<u>898</u>
TOTAL, STATE APPROPRIATIONS	\$ <u>2,904,594</u>	\$ <u>3,036,644</u>	\$ <u>132,050</u>
UNIVERSITY SOURCES			
General Funds Income			
Student Fees			
Nonresident Tuition	\$ 245,800	\$ 244,500	\$ (1,300)
Application for Admission and Other Fees	22,600	22,600	--
Interest on General Fund Balances	22,500	23,800	1,300
Federal Contract & Grant Overhead	235,477	242,477	7,000
DOE Allowance for O/H & Management	11,000	11,000	--
Overhead on State Agency Agreements	10,500	10,500	--
Other	7,600	7,600	--
Subtotal	\$ <u>555,477</u>	\$ <u>562,477</u>	\$ <u>7,000</u>
Prior Year's Income Balance	(1,326)	--	1,326
Total UC General Fund Income	\$ <u>554,151</u>	\$ <u>562,477</u>	\$ <u>8,326</u>
Special Funds Income			
GEAR UP State Grant Program	\$ 3,500	\$ 3,500	\$ --
United States Appropriations	17,000	17,000	--
Local Government	58,916	58,916	--
Student Fees			
Educational Fee	1,130,180	1,258,818	128,638
Registration Fee	149,106	158,975	9,869
Special Law/Medical Fee	1,820	1,820	--
Professional School Fees	122,342	131,749	9,407
University Extension Fees	200,105	208,109	8,004
Summer Session Fees	13,687	13,687	--
Other Fees	190,217	196,875	6,658
Sales & Services - Teaching Hospitals	3,780,113	3,969,119	189,006
Sales & Services - Educational Activities	590,058	616,611	26,553
Sales & Services - Support Activities	240,023	247,224	7,201
Endowments	162,162	168,648	6,486
Auxiliary Enterprises	740,661	777,694	37,033
Contract and Grant Off-the-Top Overhead	106,197	109,358	3,161
DOE Management Fee	17,400	17,400	--
University Opportunity Fund	192,354	198,082	5,728
Other	213,340	219,996	6,656
Total Special Funds	\$ <u>7,929,181</u>	\$ <u>8,373,581</u>	\$ <u>444,400</u>
TOTAL, UNIVERSITY SOURCES	\$ <u>8,483,332</u>	\$ <u>8,936,058</u>	\$ <u>452,726</u>
TOTAL INCOME AND FUNDS AVAILABLE	\$ <u>11,387,926</u>	\$ <u>11,972,702</u>	\$ <u>584,776</u>

APPENDIX

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

	2005-06 Budget			2006-07 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	\$ 1,480,065	\$ 641,784	\$ 2,121,849	\$ 1,519,640	\$ 675,439	\$ 2,195,079	\$ 39,575	\$ 33,655	\$ 73,230
Health Sciences	347,512	477,097	824,609	347,512	480,298	827,810	--	3,201	3,201
Summer Session	--	13,687	13,687	0	13,687	13,687	--	--	0
University Extension	--	200,105	200,105	--	208,109	208,109	--	8,004	8,004
RESEARCH	261,661	268,171	529,832	264,561	282,309	546,870	2,900	14,138	17,038
PUBLIC SERVICE									
Campus Public Service	43,607	86,383	129,990	43,607	90,883	134,490	--	4,500	4,500
Cooperative Extension	40,775	15,964	56,739	40,775	16,439	57,214	--	475	475
ACADEMIC SUPPORT									
Libraries	189,031	78,026	267,057	189,031	82,026	271,057	--	4,000	4,000
Organized Activities	176,442	314,040	490,482	176,442	330,540	506,982	--	16,500	16,500
TEACHING HOSPITALS	50,759	3,780,113	3,830,872	50,759	3,969,119	4,019,878	--	189,006	189,006
STUDENT SERVICES	--	426,387	426,387	--	436,062	436,062	--	9,675	9,675
INSTITUTIONAL SUPPORT	321,120	178,284	499,404	321,120	190,284	511,404	--	12,000	12,000
OPERATION AND MAINTENANCE OF PLANT	401,014	89,508	490,522	409,314	89,508	498,822	8,300	--	8,300
STUDENT FINANCIAL AID	60,339	449,586	509,925	60,339	495,293	555,632	--	45,707	45,707
AUXILIARY ENTERPRISES	--	740,661	740,661	--	777,694	777,694	--	37,033	37,033
PROVISIONS FOR ALLOCATION	26,732	19,319	46,051	28,058	19,319	47,377	1,326	--	1,326
UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS	--	209,754	209,754	--	215,482	215,482	--	5,728	5,728
SUBTOTAL	\$ 3,399,057	\$ 7,988,869	\$ 11,387,926	\$ 3,451,158	\$ 8,372,491	\$ 11,823,649	\$ 52,101	\$ 383,622	\$ 435,723
PROGRAM MAINTENANCE									
Fixed Costs, Economic Factors	--	--	--	87,377	61,676	149,053	87,377	61,676	149,053
TOTAL UNIVERSITY	\$ 3,399,057	\$ 7,988,869	\$ 11,387,926	\$ 3,538,535	\$ 8,434,167	\$ 11,972,702	\$ 139,478	\$ 445,298	\$ 584,776

¹⁾ General Funds include both the State General Fund and UC General Funds. UC General Funds do not support Teaching Hospitals. For all other budgeted programs, UC General Funds represent about 19% of the General Fund Budget. The State General Fund represent the remaining 81%.

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