The Honorable Denise Moreno Ducheny
Chair, Joint Legislative Budget Committee
State Capitol, Room 5035
Sacramento, California 95814

Dear Senator Ducheny:

Pursuant to Item 6440-001-0001 of the Supplemental Report of the 2008 Budget Act, enclosed is the University of California's report to the Legislature on the 2008-09 Funding of Enrollment Growth and Compensation Increases.

If you have any questions regarding this report, Associate Vice President Debora Obley would be pleased to speak with you. She can be reached by telephone at (510) 987-9112, or by e-mail at Debora.Obley@ucop.edu.

Sincerely,

Mark G. Yudof
President

Enclosure

cc: Senate Budget and Fiscal Review Subcommittee #1
(Attn: Ms. Amy Supinger)
(Attn: Ms. Cheryl Black)
The Honorable Julia Brownley, Chair
Assembly Budget Subcommittee #2
(Attn: Ms. Sara Bachez)
(Attn: Ms. Amy Rutschow)
Mr. Mac Taylor, Legislative Analyst
Mr. Mike Genest, Director of Finance
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Mr. Gregory Schmidt, Secretary of the Senate
Ms. Diane Boyer-Vine, Legislative Counsel
Ms. Sara Swan, Department of Finance
Mr. Steve Boilard, Legislative Analyst's Office
Joint Legislative Budget Committee (18)
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Associate Vice President Debora Obley
UNIVERSITY OF CALIFORNIA

Report on 2008-09 Funding of Enrollment Growth and Compensation Increases

2008-09 Legislative Session

University Budget Office
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UNIVERSITY OF CALIFORNIA

Report on 2008-09 Funding of Enrollment Growth and Compensation Increases

Item 6440-001-0001 of the Supplemental Report of 2008 Budget Act requires that the University of California provide a report on funding of enrollment growth and compensation increases:

Funding of Enrollment Growth and Compensation Increases. On or before January 10, 2009, the university shall provide a report to the Legislature that describes any enrollment growth and compensation increases in 2008–09, and accounts for how they were funded.

This report responds to this legislative request.

The 2008-09 Budget

In developing the 2008-09 Governor’s Budget, the Department of Finance first “funded” a normal workload budget consistent with the Compact with the Governor, including funding for 5,000 FTE enrollment growth, and then proposed a 10% reduction to that workload budget to address the State’s fiscal situation. Funding was partly restored in the Governor’s May revision, but the final budget act left the University with a $48 million reduction year-over-year (including $33.1 million in mandatory savings) and no net new funding to support program growth and mandatory cost increases in 2008-09. The University increased student fees to help address cost increases, but when the State cuts and mandatory cost increases are taken into account, the University is contending with a $148 million shortfall. These figures do not include the proposed mid-year reduction of $65.5 million.

Enrollment Growth and Funding

The timelines of the undergraduate application cycle and the State budget process conflict, making enrollment management difficult. High school seniors and community college transfer students apply for fall admission to UC nearly a year in advance, during the prior November, while the Governor releases his budget proposal, including recommendations for enrollment growth, in early January. Campuses admit new students in February and March, before legislative hearings are completed. Admitted freshmen must notify the University of their intention to enroll by May 1, well before the State budget is approved and signed. As a result, the University, students, and their families must make decisions before complete information about the State’s support for enrollment at UC is known. Final decisions on the 2008-09 budget were not made until September, after some campuses had already begun the fall semester.

Complicating matters during the Fall 2008 application cycle was the fact that the California high school graduating class was at its highest level in history. Applications for undergraduate admission from California resident students increased by more than 7%, setting a new record for undergraduate application volume and reflecting strong increases among students traditionally underrepresented at the University.
Without new State funding to support enrollment growth, but in keeping with its commitment to the California Master Plan and undergraduate applicants who had worked hard to become eligible for admission, the University made a decision to ask campuses, to the best of their ability, to implement those enrollment growth increases that had been included in the Governor’s Budget before the 10% cut was taken, including growth planned in MD students in the PRIME programs. However, at the time of that decision, the University warned that UC cannot commit to expand its enrollments any further for the following 2009-10 year unless the state is able to provide funding at that time for the additional students enrolled in 2008-09.

In the prior year, 2007-08, the University enrolled 221,313 FTE students, more than 5,000 over the budgeted enrollment target. Over-enrollment was more than 5,400 among State-supported students while enrollment of nonresident students was below target by about 400 students. Due to growth in continuing students and increases in both the number of new undergraduate students admitted and the yield from those admitted students, enrollment at the University during 2008-09 is now estimated to be 227,253 FTE students, an increase of nearly 6,000 students. The University now enrolls more than 11,000 California resident students for which it receives no State support. Normally, the State would provide funding totaling approximately $122 million, in addition to revenue generated from student fees, to support this enrollment.

During 2008-09, this enrollment growth has largely been funded through internal campus redirections of resources and deterioration in services. Fewer classes are being offered, which necessitates larger class sizes, longer wait lists, and less opportunity for student-faculty interaction. Students also face reduced student services, such as shorter library hours, fewer activities, and longer lines. Campuses are obligated to hire more temporary faculty in order to decrease costs, which means fewer ladder-rank faculty are interacting with students, attracting research funding, and generating the discovery and innovation that has helped build new industries and fuel the State’s economy.

Notably, the nine established campuses provided resources on a one-time basis to support enrollment growth at the UC Merced campus, which does not at this time have a permanent base budget and operation large enough to accommodate expansion temporarily without new resources. The campuses also chose to contribute one-time funding to support the planned Program In Medical Education (PRIME) classes at several campuses. This represented an enrollment increase of 69 FTE medical students, at a cost of $1.7 million to campuses.

For 2009-10, the University has asked the State to return to the enrollment plan envisioned in the Compact and provide funding both for the enrollment growth occurring in 2008-09 as well as growth planned for 2009-10, for a total of 10,814 FTE students. This funding will help close the gap between enrollment demand and existing resources to support instruction – a gap that is not sustainable beyond the short-term. If the State is unable to provide resources to meet demand for the University, the Regents have advised that the University will need to curtail enrollment to ensure that the quality of the instructional program is maintained.

Compensation Increases
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. In 2006-07, UC faculty salaries lagged the
In 2007-08, the University initiated a plan to eliminate the faculty salary lag and return faculty salaries to market over a four-year period. While the first year of the salary plan reduced the lag to 7.1%, with no general increases in 2008-09, the gap is expected to widen again.

The funding gap with respect to staff salaries presents a similar problem for the University as faculty salaries. Compared to market data from over 800 employers of all sizes and industries, including the public sector, in the western United States, annual salary increase funding for UC staff employees lagged every year but one from 1999-00 to 2004-05. Market salaries over the period have been increasing at nearly 4% per year; funding for UC staff salary increases has not kept pace.

The University’s original budget plan for 2008-09 included a compensation package of 5% for faculty and staff funded from State and UC General funds and student fee income. However, as noted earlier, the total budget gap the University must close in 2008-09 through internal savings is $148 million, which is equivalent to a 5% reduction in State General Fund support. While competitive salaries remain a high priority for the UC Regents, in order to avoid making significantly higher cuts to existing programs, the University’s final budget plan for 2008-09 included no general salary increases for faculty and staff and postponed the second year of the four-year faculty salary improvement plan.

While general salary increases are not included in the spending plan for 2008-09, the University is obligated to fund compensation increases in several areas. These include:

- **Salary continuation costs** incurred in the budget year from salary increases implemented during the previous year, but not fully funded because the increases were implemented on October 1, 2007. These salary increases were approved in the 2007-08 budget year. In order to annualize the total cost, the unfunded portion (one-fourth of the total increase) must be recognized in the budgeted year. For 2008-09, it is estimated that the University will need to fund $32.4 million in continuation costs for compensation.

- **Faculty merit increases** provided to approximately one-third of ladder rank UC faculty each year, at a cost estimated to be 1.78% of base salaries. The three-year merit cycle is tied by policy to faculty performance and academic review for advancement. These increases reward achievement in teaching, research, scholarship, and public service, and enable the University to be competitive with other major research universities in offering long term career opportunities. Because only one-third of the faculty is eligible to advance and to receive a merit increase in any given year, the increase is required to maintain internal equity with all ladder rank faculty and academic salaries. For 2008-09, the cost of faculty merit increases is estimated at $27.5 million.

- **Labor agreements** with the University’s collective bargaining units, stipulating specific compensation increases for individual labor unions and their members in 2008-09. These increases range from 1.5% for Academic Student Employees up to 8% for Police Officers (depending on campus and local conditions). Roughly half of the collective bargaining units have not reached settlement for 2008-09 and negotiations are ongoing. Additionally, recently agreed upon increases due to range or step placements for some unions are ongoing and figures are not yet available. Compensation increases for agreements completed to date is estimated at $6 million.
The total compensation cost increase to date for 2008-09 is estimated at $65.9 million. In addition to these costs, the University must fund health benefit costs increases estimated at $29.6 million.

To help cover compensation and other mandatory cost increases, the University implemented student fee increases. The Educational Fee was raised 7%, the Registration Fee was raised 10%, and professional school fees were raised 5 to 20% depending on the program. These fee increases were expected to generate approximately $82 million, net of student financial aid. In addition, nonresident tuition for undergraduate students was increased 5%, providing $7.6 million. However, as mentioned earlier, the University is dealing with a funding shortfall of $148 million in the current year after accounting for the new revenue generated from student fee increases.

Additional funds are being generated through administrative efficiencies and internal redirection of savings. To address budget cuts already enacted, UC has reduced expenses at the Office of the President. Under a restructuring initiative begun in April 2007, cost efficiencies and staff downsizing at the UC Office of the President reduced its 2008-09 operating budget by $60.4 million, a 21% savings over the prior year, along with an FTE reduction of 500, or 27%. Half of the total savings are due to transfers of programs and functions to campuses; approximately $30 million of the reduction is through elimination of positions and activities. The Office of the President has a goal of reducing its work force by at least another 275 positions and $25 million by the end of the 2009-10 fiscal year. Campuses have been asked to consider curtailing hiring, travel, consulting services, use of leased facilities, energy costs and similar expenditures. However, specific areas of reduction are not known at this time.

In addition to the compensation increases discussed above, actions are taken on individual compensation packages on an ongoing basis. These actions include retention increases for faculty with offers from other institutions, increases for employees whose positions have been reclassified, and compensation adjustments to address internal equity issues. Funding for individual actions is identified through salary savings resulting from employee retirements and other separations as well as through other internal reductions.