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September 6, 2011

The Honorable Mark Leno
Chair, Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

Dear Senator Leno:

Pursuant to Item 6440-001-0001 of the Supplemental Report of the 2011 Budget Act, enclosed is the University of California's report to the Legislature on the *Use of Augmentations Provided in 2010-11*.

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 email at Debora.Obley@ucop.edu.

With best wishes, I am,

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mark G. Yudof", with a stylized flourish at the end.

Mark G. Yudof
President

Enclosure

cc: Ms. Jody Martin, Joint Legislative Budget Committee
Ms. Tina McGree, Legislative Analyst's Office
Ms. Amy Leach, Office of the Chief Clerk of the Assembly
Mr. Jim Lasky, Legislative Counsel Bureau
Mr. Gregory Schmidt, Secretary of the Senate
Mr. Dotson Wilson, Chief Clerk of the Assembly
Ms. Ana J. Matosantos, Director of Finance
Ms. Sara Swan, Department of Finance
Executive Vice President Nathan Brostrom
Vice President Patrick Lenz
Associate Vice President and Director Steven Juarez
Associate Vice President Debora Obley
Executive Director Jenny Kao

Report on Use of Augmentations Provided in 2010-11

September 2011

Legislative Report

**An investment in UC pays
dividends far beyond what
can be measured in dollars.
An educated, high-achieving
citizenry is priceless.**

UNIVERSITY OF CALIFORNIA

Report on Use of Augmentations Provided in 2010-11

Supplemental language associated with the 2010-11 budget act included the following language:

Item 6440-001-0001—University of California Use of Augmentations. On or before September 1, 2011, the University of California shall provide a report to the budget committees of both houses of the Legislature describing use of the General Fund augmentations in fiscal year 2010-11 that the university received. The report shall include, but is not limited to, (a) amount of the General Fund augmentation provided for classes, student services, libraries, and executive administration; and (b) number of additional students enrolled and number of additional courses offered with the General Fund augmentation relative to the 2009-10 level.

This report is submitted in response to that language.

Since 2007-08, the State has been embroiled in a major fiscal crisis that continues into the 2011-12 fiscal year. In addition to the world-wide recession, the State has been struggling through this decade to address an ongoing structural deficit that by January, when the Governor introduced his 2011-12 budget, was estimated to be approximately \$21.5 billion into the future, barring any remedial changes. Actions by the Legislature and the Governor to implement major cuts in spending have addressed a portion of this deficit, but the Governor's Office estimates the deficit is still estimated to be approximately \$3-5 billion in 2011-12.

Within the context of this continuing fiscal crisis, the 2010-11 budget sought to provide some relief to programs that were high priorities for the Governor and the Legislature, including the University of California. Prior to the enactment of the 2010-11 budget, UC had endured \$637 million in base budget reductions and was facing \$368 million in unfunded mandatory cost increases, for a total shortfall of more than \$1 billion. Student tuition and fee increases implemented between 2008-09 and 2010-11 only made up \$541 million of this shortfall.

For 2010-11, instead of another year of additional base budget cuts, the budget act provided \$370.4 million in new funding to UC, including restoration of \$305 million in base budget funding, \$51.3 million for support of 5,000 previously unfunded students, and \$14.1 million for annuitant health benefits. This funding was very welcome in the wake of so many major budget cuts; however, campuses were still facing major shortfalls. The continuing inability of the State to address its ongoing structural deficit, along with the continuing recession caused campuses to remain cautious.

For the most part, campuses used restored funds for one-time purposes or in ways that allowed funds to be held in reserve for the coming year, given the grim outlook for 2011-12. The budget act restoring these funds was not enacted until October 8, 2010, more than one-fourth of the way into the fiscal year. Enrollment decisions had been made seven months earlier, so the funding

arrived too late to influence the number of students enrolled, and by the time the budget was adopted it was clear the State's budget was further deteriorating and the University was potentially facing more significant cuts. The Governor's Budget released in January, just two and-a-half months later, called for a \$500 million reduction to UC's budget which, by the end of the budget process, grew by another \$150 million cut and another provision for an additional \$100 million reduction if certain revenues are not realized was also added.

Thus, under the circumstances, funding was by and large used to help campuses with bridging strategies toward implementation of significantly greater budget cuts in 2011-12. Campuses have been on a multi-year track to reduce duplication, eliminate undersubscribed programs, and restructure business practices to create more central services and less redundancy. The funds provided in 2010-11 allowed campuses to continue working toward permanent solutions to the sudden and significant downturn in State support over three of the last four years. However, given the longer term effort to reduce and restructure programs, it was not possible to track the additional course offerings made possible by the 2010-11 augmentation. Nor was it possible to track how the funds were distributed. The funds simply reduced the level of cuts all areas of the State-supported budget were asked to take, given the sizable budget shortfall that still existed. The University is very grateful to have received the additional funds and they enabled campuses to plan more adequately for the significant additional cuts that were to come.

As noted earlier, while the funds were provided too late to change enrollment decisions, UC had already committed to maintaining its tradition of finding a place for all eligible students who wish to attend. In response to the State's inability to provide the resources necessary to support enrollment demand, the University took steps to curtail enrollment growth. UC reduced the number of new California resident freshmen by more than 2,000 students in 2009-10 and by 2,850 during 2010-11 and 2011-12 as a means of slowing enrollment growth. During these years, fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation, primarily at Merced. As a result, students had fewer UC campus choices and, in some cases, chose to pursue their education at other institutions.

The freshman reductions were partially offset by a planned increase of more than 1,000 California Community College (CCC) transfer students. The University took this action in order to preserve the transfer option in difficult economic times.

In 2010-11, the State budget provided enrollment growth funding of \$51.3 million to support 5,121 FTE students at UC. Even after accounting for the \$51.3 million provided in 2010-11 for enrollment, the University enrolled more than 11,000 FTE students for whom the State has not provided funding. Estimates indicate that enrollment of California residents remained stable for 2011-12, and thus the University continues to enroll more than 11,000 students for whom the State has never provided funding. However, the extraordinary reduction in State support during 2011-12 effectively means that more than 24,600 California residents are enrolled for whom the State is not providing support.

Accommodating enrollment without sufficient resources (as student tuition and fees do not cover the cost of instruction) means that new and existing students alike are affected by the lack of resources needed to support a high quality academic experience. Though campuses are employing a variety of measures to deal with the budget shortfall – dramatically slowing the hiring of permanent faculty, narrowing course offerings, increasing class sizes, curtailing library hours, and reducing support services for students, these are negatively impacting what has historically been an educational program characterized by excellence and opportunity.

The volatility in State funding in recent years has made it difficult for campuses to plan and yet long-term planning is fundamental to an institution like UC. Decisions to hire and tenure faculty, enroll students, add or expand academic programs, build new residence halls, classrooms or new research facilities, invest in books or digital technology for libraries all involve long-term investments that must be based on some assurance of stable funding in the future. Without that assurance, the University is inhibited from making decisions that are essential to running a major research institution and allowing it to move forward. The University of California is a world-class institution constantly on the cutting edge of knowledge development. Maintaining this status requires that UC remain competitive for the best faculty and students, for attracting research grants from the federal government and other sources, and for securing private donations that are essential to its survival. Such an institution cannot remain static for any length of time. And yet, the swings in State support, now deeper and of longer durations, have made it impossible to react to changing events while maintaining a longer term vision. The unpredictability and uncertainty that characterizes the current environment has led to a growing lack of confidence among many faculty about UC's ability to maintain quality and an uneasiness among students and their families about whether the kind of education students have worked hard to gain access to will be available in future years.

Put another way, the University is not like many businesses, which can quickly increase or reduce production and inventories depending on market conditions. The excellence that has made the University of California one of the very best universities in the world is based on a long-term investment which has taken many decades to develop. And yet, that excellence is fragile and can rapidly disappear if the current disinvestment by the state isn't addressed. Many say that the high quality of UC's faculty is its most precious asset. Continued instability of UC's core funding will jeopardize the institution's ability to recruit and retain this high quality faculty. It is critical to UC's future that funding stability be restored and that UC, and higher education as a whole, be deemed a high priority in future State budgets.

Contact information:

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