1997-98

BUDGET FOR CURRENT OPERATIONS

UNIVERSITY OF CALIFORNIA
Office of the President
October, 1996

THE PRESIDENT'S MESSAGE

I am proud of the efforts made by the entire University community these past few years as we struggled with unparalleled budgetary losses. The enormity of the losses is difficult to grasp. We cut budgets by more than $400 million. We went without cost-of-living salary increases for three years in a row. Student fees more than doubled. Our workforce declined by almost 5,000 full-time equivalent employees, leaving us with many fewer people to handle the same workload. Our success in maintaining academic quality, despite these unprecedented budgetary losses, is eloquent testimony to the excellence of the University's faculty, the talent of its staff, and the resourcefulness of both. We continue to attract and educate the best and brightest students.

As we pass the midpoint of the 1990s, the University of California's prospects are balanced between optimism and uncertainty. California's recovering economy and the State's renewed commitment to higher education offer us greater hope than at any time during this decade. The support of the Governor and the Legislature for the four-year compact with higher education--now in its second year--makes it possible for us to continue offering a place to all eligible Californians who wish to attend the University. We will be able to continue offering our students the classes they need to graduate.

We have special reason for gratitude to the Governor and the Legislature. By providing the University with even greater increases than envisioned in the compact, no University of California student had to pay a general fee increase in 1995-96, nor will any student have to pay an increase in 1996-97.

We are encouraged by the growing economy and are hopeful that if it continues to grow, sufficient revenues will be available to allow the State to fund some, or all, of the needs we have identified that warrant funding beyond the compact.

But we must accept the fact that political and economic realities have altered the historical funding patterns for the University. It is unlikely that we will recover the financial ground lost in the early 1990s. Right now, we can depend on the State only for enough funding to keep pace with inflation, to support modest enrollment growth, and to restore competitive faculty salaries. The restoration of competitive faculty salaries is a key element to maintaining the quality of our teaching and research programs. As we plan for the future, we must also recognize the fiscal implications resulting from the agreement reached between the President and Congress to balance the federal budget over seven years. Federal funding for research is expected to decline steadily between now and 2002. When inflation is taken into account, it is estimated that the loss in real purchasing power could be as high as 23 percent.

These are sobering realities as we seek to maintain quality in the face of limited resources from the State and increasing student enrollment demand. They remind us

that much work remains to be done and many obstacles must be overcome.

For the shorter term, with modest enrollment growth and a stable funding base, we have an opportunity to turn our attention to several important initiatives with long-term consequences for the University's future.

With the State as our partner, we are taking a bold step forward to expand our partnerships with industry to fund research that will be of economic benefit to the State and its citizens. The research conducted at the University of California is vital to the future economic growth of the State. I am especially appreciative of the State's recognition of the role of research at the University of California and will seek the continued support of our elected representatives to accelerate the transfer of ideas from our laboratories to the marketplace.

This year's budget request also recognizes the increasing importance of technology and includes a proposal to ensure that our students benefit fully from the use of these technologies. We have made great strides in providing our students access to technology; but we need to do more. And to do more is expensive. We are proposing, therefore, a multi-year partnership among our students, the State, industry and our campuses to ensure our students have the technological competence they need to succeed.

We are also initiating a major systemwide planning effort to develop a new library plan for the University. Reduced budgets and spiraling inflation have placed the University's libraries--one of our most critical resources--at risk. As one of the nation's pre-eminent public research universities we can not let the quality of our libraries diminish.

Turning to another major function of the University, I am deeply concerned about the financial viability of our teaching hospitals. This year, we will be working with our colleagues from around the State to identify the many factors contributing to the financial problems of our hospitals--managed care, federal and State funding for Medicare and Medi-Cal, costs associated with providing a medical education in a clinical setting, and providing care to a disproportionate share of the indigent population. We will work together to develop options to mitigate the problems. As a provider of care to millions of Californians, a trainer of health care professionals, and researchers on the cutting edge of medical research, it is critical that our teaching hospitals survive. We need government to recognize its shared responsibility for helping to pay for the costs of educating future health care professionals and for providing health care to the indigent.

While the compact with the State provides us with assurance that, in the short term, core support for the University's teaching and public service activities will remain stable, we must continue to devote increasing time and energy to seeking out new fund sources and expanding existing ones, particularly private funds. Last year the University received $721 million in private support, the second consecutive year of record-breaking fundraising.

Despite the problems and uncertainties, there are important reasons for optimism about the University's future. One is the tremendous intellectual energy and quality of UC, evident in the exceptionally high rankings given us by the National Research Council last fall. Another reason for optimism is the opportunity for us to do what we do best--preserve and extend learning.

I invite you to join with me in our efforts to ensure that the University of the future embodies the same demonstrable excellence in the discovery and sharing of knowledge that is characteristic of the University today.

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Richard C. Atkinson
October 1996

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 nine campuses: Berkeley, Davis, Irvine, Los Angeles, 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 the three Department of Energy Laboratories.

Organization of The Regents' Budget

The Introduction and Executive Summary provide an overall perspective on the major

policy issues, specific objectives, and priorities for 1997-98. The subsequent sections discuss programs in more detail and provide fuller justification of requests for funding increases. The budget is structured to accommodate the reader who does not go beyond the Executive Summary or who wants information on selected topics only. Therefore, important themes are repeated throughout the budget.

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1998-99 BUDGET FOR CURRENT OPERATIONS AND EXTRAMURALLY FUNDED OPERATIONS

EXPENDITURES

BUDGET FOR CURRENT OPERATIONS

	1997-98 Budget ($000s)	1998-99 Proposed ($000s)	Change Amount ($000s)	%
Instruction				
General Campus	$ 1,274,797	$ 1,303,314	$ 28,517	2.2%
Health Sciences	598,181	614,881	16,700	2.8%
Summer Session	30,700	32,200	1,500	4.9%
University Extension	195,600	205,600	10,000	5.1%
Research	312,993	314,993	2,000	0.6%
Public Service	137,771	137,771	--	0.0%
Academic Support	--	--	--	--
Libraries	191,257	194,257	3,000	1.6%
Other	384,186	394,336	10,150	2.6%
Teaching Hospitals	1,956,322	1,995,448	39,126	2.0%
Student Services	215,549	217,516	1,967	0.9%
Institutional Support	328,439	328,439	--	0.0%
Operation and Maintenance of Plant	357,591	359,943	2,352	0.7%
Student Financial Aid	232,987	236,178	3,191	1.4%
Auxiliary Enterprises	483,979	503,179	19,200	4.0%
Provisions for Allocation	34,243	44,504	10,261	30.0%
Special Regents' Programs	115,083	115,083	--	0.0%
Program Maintenance: Fixed Costs, Economic Factors	--	111,400	111,400	--
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 6,849,678	$ 7,109,042	$ 259,364	3.8%
EXTRAMURALLY FUNDED OPERATIONS				
Sponsored Research	$ 1,315,584	$ 1,361,715	$ 46,131	3.5%
Other Activities	773,599	806,368	32,769	4.2%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 2,089,183	$ 2,168,083	$ 78,900	3.8%
TOTAL OPERATIONS	$ 8,938,861	$ 9,277,125	$ 338,264	3.8%
MAJOR DEPARTMENT OF ENERGY LABORATORIES	$ 2,588,000	$ 2,640,000	$ 52,000	2.0%

INCOME

BUDGET FOR CURRENT OPERATIONS

	1997-98 Budget ($000s)	1998-99 Proposed ($000s)	Change Amount ($000s)	%
General Funds				
State of California	$ 2,181,616	$ 2,316,616	$ 135,000	6.2%
UC Sources	280,572	282,924	2,352	0.8%
Total General Funds	$ 2,462,188	$ 2,599,540	$ 137,352	5.6%
Restricted Funds				
State of California	$ 67,913	$ 67,913	$ --	0.0%
U. S. Government	--	--	--	
Appropriations	19,000	19,000	--	0.0%
Student Fees	890,246	912,821	22,575	2.5%
Teaching Hospitals	1,904,592	1,943,718	39,126	2.1%
Auxiliary Enterprises	481,415	500,615	19,200	4.0%
Endowments	81,000	87,000	6,000	7.4%
Other	943,324	978,435	35,111	3.7%
Total Restricted Funds	$ 4,387,490	$ 4,509,502	$ 122,012	2.8%
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 6,849,678	$ 7,109,042	$ 259,364	3.8%
EXTRAMURALLY FUNDED OPERATIONS		0		
State of California	$ 108,376	$ 111,676	$ 3,300	3.0%
U.S. Government	1,111,830	1,134,030	22,200	2.0%
Private Gifts, Contracts & Grants	497,432	532,232	34,800	7.0%
Other	371,545	390,145	18,600	5.0%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 2,089,183	$ 2,168,083	$ 78,900	3.8%
TOTAL OPERATIONS	$ 8,938,861	$ 9,277,125	$ 338,264	3.8%
MAJOR DEPARTMENT OF ENERGY LABORATORIES	$ 2,588,000	$ 2,640,000	$ 52,000	2.0%

INTRODUCTION TO THE 1997-98 BUDGET

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

University Missions

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

The Master Plan was comprehensively reviewed in March 1985, first by a blue-ribbon citizens' commission and later by the Joint Legislative Committee for Review of the Master Plan for Higher Education. Subsequently, the Legislature approved and the Governor signed legislation that reaffirms the University's missions.

University Programs

The University of California is internationally renowned for the quality of its academic programs and the distinction of its faculty. UC faculty are well represented in the membership of prestigious organizations such as the National Academy of Sciences and among winners of the Nobel Prize and Guggenheim Fellowships. In a 1995 study (*Research-Doctorate Programs in the United States: Continuity and Change*), the National Research Council (NRC) reported that more than half of the University of California's doctoral programs (of the 229 evaluated by the NRC) ranked in the top 20 in their fields in terms of faculty quality--a record of performance unmatched by any university system in the nation. Of special note, UC Berkeley is Number 1 in the number of programs ranked in the top 10 and UC San Diego ranks 10th--a remarkable achievement for a comprehensive campus that is only 30 years old. UCLA had the highest number of programs rated in the top 20. The study clearly documents UC's standing as the nation's best comprehensive public university with strong programs over a wide range of disciplines and campuses. 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. These benefits are discussed in the sections that follow.

Instruction

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

Research

As one of the nation's preeminent research institutions, the University provides a unique environment in which leading scholars and promising students strive together to expand fundamental knowledge of human nature, society, and the natural world. The University's basic research programs yield a multitude of benefits, ranging from increases in industrial and agricultural productivity to advances in health care and improvements in the quality of life. A stimulating research environment at the University attracts outstanding faculty, enhancing the quality of education available to students at all levels. The University, with the support of the State, is now expanding its research partnerships with industry.

Public Service

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

EXECUTIVE SUMMARY OF THE 1997-98 BUDGET REQUEST

The University's 1997-98 budget plan was developed on the basis of the four-year compact with higher education, which has been supported by the Governor and the Legislature for the past two years. The goal of the University's 1997-98 budget plan is to maintain fiscal stability, accommodate budgeted enrollment growth, keep pace with inflation, implement the second year of a three-year plan to restore competitive faculty salaries, provide for the operation and maintenance of new space, and to take the first step toward the provision of adequate funding for ongoing building maintenance. The budget plan assumes a $10 million budget reduction, representing the third of four $10 million reductions called for in the four-year compact with higher education that are to be addressed through productivity improvements. Additional funds are requested to cover the debt service related to capital outlay. The 1997-98 budget request includes a new proposal to create a partnership among UC students, the State, private industry and the campuses to ensure that UC students benefit fully from the applications and services made possible by ongoing advances in instructional technology.

The budget request is the minimum needed to maintain quality, to be able to offer a space to all eligible students wishing to attend and to provide the classes students need to graduate. The budget plan does not address all of the University's pressing financial problems; nor does it seek funding to recover losses incurred during the early 1990s. This would be unrealistic in light of the State's current fiscal condition.

This document describes the University's basic budget needs included in the 1997-98 plan, as well as high priority needs that warrant funding if additional State funds are available.

Historical Perspective

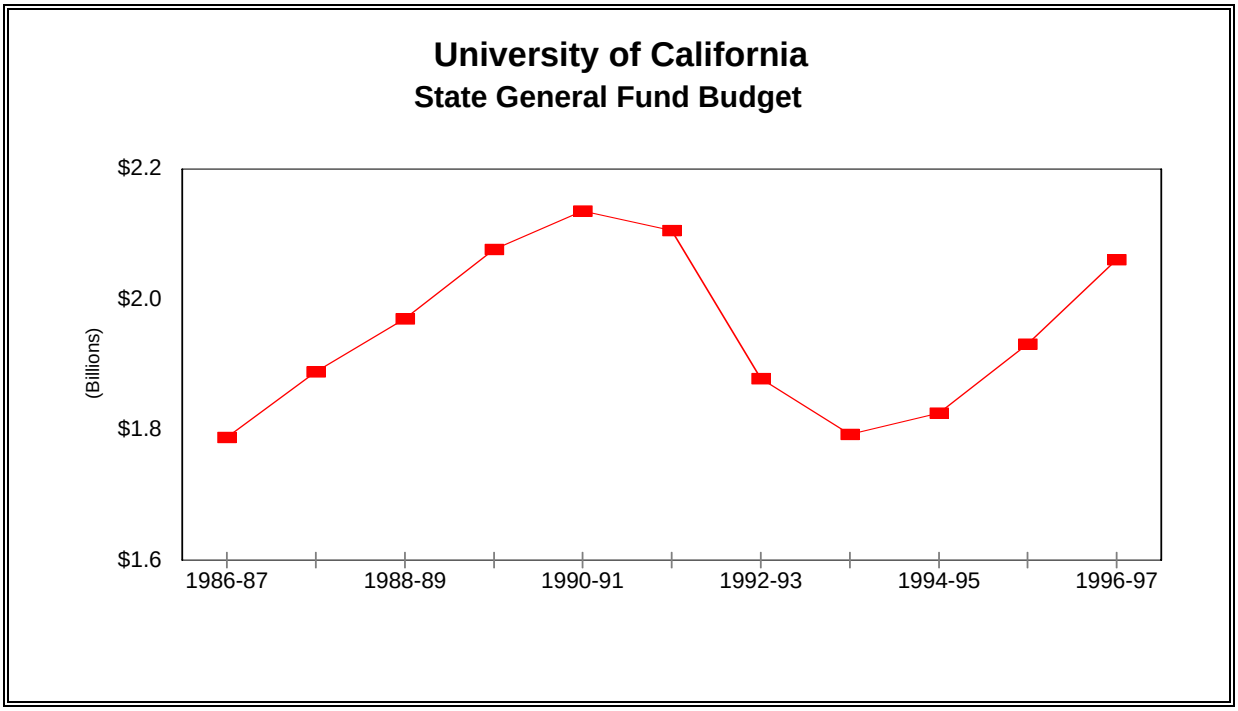
The University of California experienced budget reductions of about 20 percent in real dollars during the late 1960s and early 1970s. Faculty positions and research funding were cut, and the student-faculty ratio deteriorated by about 20 percent. In the late 1970s and early 1980s, the University again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

The situation improved significantly in the mid-1980s when a period of rebuilding was initiated. Faculty and staff salaries were returned to competitive levels; funds became available for basic needs such as instructional equipment replacement and building maintenance; and research efforts expanded. The capital budget also improved dramatically. There was significant growth in private giving and the University once again became highly competitive for federal research funds.
By the late 1980s, however, the situation began to change. A complicated mix of political and demographic forces and fiscal problems at the State level led to a growing

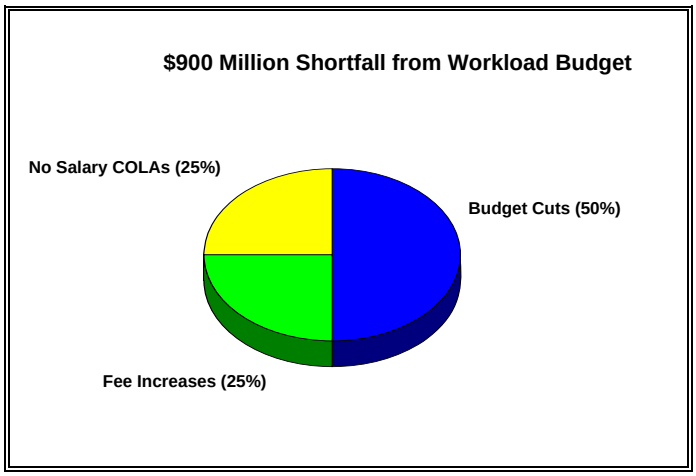
erosion of gains made during the mid-1980s. By 1989-90, the University was already struggling with the early stages of a fiscal problem that subsequently turned into a major crisis.

1990-91 Through 1993-94

The University experienced sudden and 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 and fund a normal workload budget. Over the



next three years, State funding for the University dropped by $341 million. At the same time, the University had to cope with inflation, fixed cost increases, and workload growth. Consequently, the University had to make budget cuts totaling $433 million, equivalent to roughly one out of every five dollars in its State General Fund budget in 1989-90. In addition, normal salary cost-of-living increases could not be provided for employees and salaries were cut on a temporary basis one year. Student fees were raised, though significant increases in financial aid helped to mitigate the impact.



The enormity of the budgetary losses during these years is difficult to grasp. However, one way to convey the magnitude of the problem is to consider that the University's 1993-94 State general fund budget was less than it was in 1987-88, even though there had been inflation of over 25 percent and enrollments had grown by about 6,500 students in the interim. Or consider that the University's budget would be 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, initially, in ways that reflected the limited nature of its options in the short term. As illustrated in the figure to the right, about half of the loss was taken through budget cuts, approximately another quarter by providing no salary cost-of-living increases for employees, and the remaining quarter was made up through student fee increases accompanied by increases in student financial aid. Tables 1, 2, and 3 on the following pages provide detail.

Table 1 on the next page shows that University budgets were cut by $433 million. (Of the total cut, $53 million represents a cut made in 1994-95 in order to restore base salary levels following a one-time salary reduction in 1993-94.) The University's February 1994 report, *Program Impact of Budget Reductions*, provides extensive detail on the impact of the budget cuts.

During this time, the University's general fund workforce declined by a net total of around 5,000 full-time equivalent (FTE) employees. While much of this decline occurred through early retirements, a more humane approach than layoffs, the result was that many fewer people were available to handle the same workload. The instructional program was protected to the extent possible by making deeper cuts in other areas such as administration, research, public service, student services, and maintenance. Administration, especially, was assigned deep cuts both on the campuses and in the Office of the President. Core administrative activities in the Office of the President received substantially greater cuts than campus budgets, including a 20 percent cut over the two-year period 1993-94 and 1994-95. In addition, purchase of scholarly journals for the libraries was severely curtailed; the backlog of deferred maintenance projects grew to over $380 million, with nearly $150 million considered critical; 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 California Master Plan for Higher Education by continuing to offer a place to all eligible California resident students seeking admission at the undergraduate level and to provide the classes they needed.

Table 2 shows that faculty and staff received no cost-of-living salary increase for three years in a row, and in the third year salaries were cut by 3.5 percent for one year. In addition, in 1991-92, staff received no merit increase and faculty merits were delayed for one year.

Table 3 shows that student fees increased by about 125 percent over the four years. However, student financial aid also increased. As Table 3 shows, financial aid grants from University funds increased by over $97 million on a permanent basis over the four-year period.

The measures described above represented near-term responses to sudden budgetary losses. The University has since been engaged in an effort to find long-term solutions. An Academic Planning Council chaired by the Provost was established to facilitate academic planning and program review, including development of systemwide priorities and guidelines. The Council has produced a compendium of procedures for streamlining academic program review and has also focused on long-range enrollment planning. Academic planning has emphasized the fact that UC is one university, not just nine separate campuses. The Council of Vice Chancellors, the Academic Planning Council and the Academic Senate are exploring ways to create synergies among campuses and to share the University s intellectual resources, especially for instructional purposes. Another area of strong interest is the use of learning technologies. Incentives are being provided to develop models that will help faculty enhance their knowledge about the power of technology and its potential for changing the ways they teach. A program of improvements is underway to upgrade the telecommunications infrastructure that links the campuses.

1994-95

In 1994-95, after four years of steady erosion, the Universitys finally stopped losing ground fiscally. The State provided the University with a budget increase instead of a decrease for the first time in four years--an increase of about three percent 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 (three percent) was provided for the first time since 1990-91. The student fee increase was held to ten percent through a compromise agreement to fund deferred maintenance from debt financing. Increases in financial aid accompanied the fee increase, helping to offset the impact on needy students. Over five years, through 1994-95, financial aid grants and other gift aid funded from University sources increased by approximately $118 million, or nearly 170 percent. A one-time shift of State-funded Clinical Teaching Support from the teaching hospitals, recognizing temporary net gains, helped to meet urgent one-time needs in several critically underfunded areas--deferred maintenance, instructional equipment replacement, and library books.

TABLE 1

UNIVERSITY OF CALIFORNIA

Permanent Cuts to Campus and Office of the President Budgets

1990-91 through 1993-94
(Including impact on 1994-95)

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

TABLE 2

UNIVERSITY OF CALIFORNIA

COLA (Range) and Merit Increases
1990-91 through 1993-94

		Faculty %	Staff %
1990-91	COLA	4.8	5.0
	Merit	2.0	2.0
1991-92	COLA	0	0
	Merit	0	0
1992-93	COLA	0	0
	Merit related to 1991-92	2.0	0
	Merit for 1992-93	2.0	2.0
1993-94	COLA	0	0
	Merit	2.0 (full year)	2.0 (half year)
	Pay reduction*	-3.5	-3.5

*1993-94 only: base salary levels were restored in 1994-95.

TABLE 3

UNIVERSITY OF CALIFORNIA

Undergraduate Resident Student Fees
Registration, Educational, and Miscellaneous Campus Fees
1990-91 through 1993-94

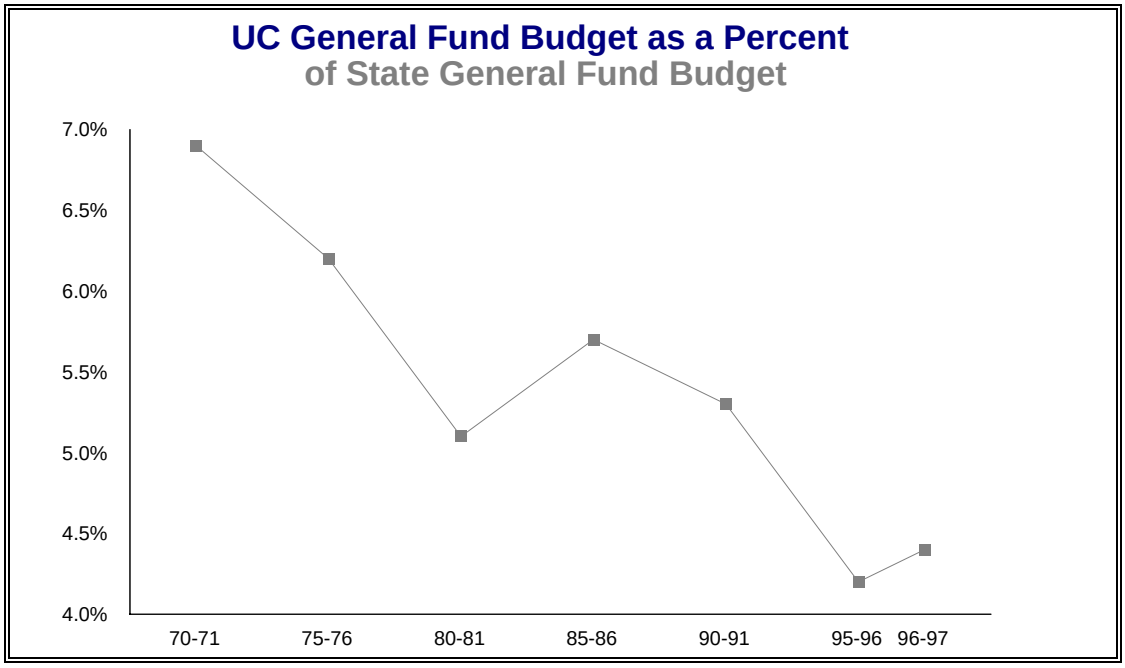
1989-90 Total Fees	$1,634
1990-91 increase	+186
1991-92 increase	+666
1992-93 increase	+558
1993-94 increase related to 1992-93 budget cut (Implementation deferred to 1993-94)	+455
1993-94 increase related to 1993-94 budget cut	+175
1993-94 average increase in campus-based fees	+53
1993-94 Total Fees	$3,727

Amount of new financial aid provided from UC sources

($ in millions)

	Amount
1990-91	$5.9
1991-92	26.0
1992-93	26.6
1993-94	39.1
Total	$97.6

While the 1994-95 budget represented a substantial improvement over the previous years, the University nonetheless remained in a precarious financial condition. Its share of the State general Fund budget was at the lowest point in 20 years (see figure below). It was almost as low in the late 1970s and early 1980s, but in those days it was possible to recover from a low point. Recovery seemed much less likely in 1994-95 given the stalled California economy and the increasing share of the State budget consumed by workload growth in prisons, health and welfare programs, the K-12 schools, and the community colleges. Adding to the problem were the constitutional or statutory protections most of those programs enjoy, compared to higher education's unprotected status.



Governor's Four-Year Compact with Higher Education: 1995-96 Through 1998-99

The 1995-96 Governor's Budget 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 included a compact with higher education covering the four years through 1998-99. Its goal is to provide fiscal stability and allow for growth through a combination of State general funds and student fee revenue. The compact calls for a general fund budget increase of two percent in the first year, 1995-96, along with a commitment to provide budget increases averaging four percent over the next four years. The compact includes general student fee increases averaging about ten percent a year as well as fee increases for students in selected professional schools. At least one third of new student fee revenue is to be earmarked for financial aid, with the remainder used to help fund the budget. Additional financial aid is to be provided through the State Cal Grant Program. The compact provides additional funds to cover debt service related to capital outlay projects and deferred maintenance. The funding agreement for 1995-96 was later modified during the State budget process, as discussed below.

Based on the premise that there is a continuing need for efficiencies in order to maintain student access and program quality within available resources, the compact also includes a $10 million budget reduction each year for four years, reflecting savings to be achieved through productivity improvements. This will reduce the University's base budget by $40 million by 1998-99. For the capital budget, the compact provides funding of about $150 million a year, with priority given to seismic and life-safety projects, infrastructure, and educational technology.

The compact with higher education will allow the University to continue taking all eligible students under the Master Plan and providing the classes they need. It supports growth in general campus budgeted enrollments averaging about one percent annually. In the health sciences, enrollment levels will remain stable while an increased emphasis is placed on training of primary care physicians. Faculty salaries are to be restored to competitive levels by 1998-99, recognizing that recruitment and retention of quality faculty are fundamental to the quality of instruction and research. Under the compact, the University will maintain and renew its commitment to teaching undergraduates and enabling them to graduate in timely fashion, which means that faculty must continue to teach more than in the past. The University also will continue working toward improved cooperation and coordination among the higher education segments, particularly with respect to transfer of students and course credits.

In January 1995, the University developed a 1995-96 budget plan based on the Governor's compact. The plan received widespread support in the Legislature and was generally approved. The only change concerned the proposed ten percent student fee increase. A compromise agreement was worked out among the Governor, the Legislature, and the University which provided that there would be no general student fee increase in 1995-96; instead, an additional $28.5 million in State funds was provided to help offset the loss of fee revenue. The added funds represented about three quarters of the revenue that would have been generated by a ten percent student fee increase net of financial aid, leaving the University with a budget shortfall of $9.5 million. This shortfall was dealt with through one-time actions, pending restoration of the funds in 1996-97.

The University's 1996-97 budget plan was developed on the basis of the compact; and, again, it received widespread support in the Legislature. In addition to providing the University with $82.9 million under the compact, the Legislature and the Governor provided an additional $27 million in State general funds so that UC students would not have a general fee increase in 1996-97. The 1996 State Budget Act also provides funding, above the compact, for several high priorities. These priorities include $5 million for the first phase of the Industry-University Cooperative Research Program, $1 million for the supercomputer program, and $1 million to expand the University's academic outreach programs. The 1996 State Budget also includes $147 million in general obligation bonds to support the University's capital outlay program and an additional $5 million in general obligation bonds for high priority deferred maintenance projects.

Given the Legislature's general approval of the 1995-96 and 1996-97 budget plans, and based on discussions with the Governor and the Department of Finance, the University developed its 1997-98 budget request on the basis of the four-year compact with higher education. The request is summarized below under the heading, "Overview of 1997-98 Budget Request." In addition, the University has identified several high priority needs for which additional funding will be requested if the State's revenue situation permits. Immediately following the overview of the 1997-98 budget request is a brief discussion of these high priority needs. The University is hopeful that the California economy will continue to grow, and that there will be sufficient revenue to fund some, if not all, of these needs.

Planning for the Longer Term Beginning in 1999-2000

Consistent with its commitment to access under the Master Plan, the University is engaged in a planning process that focuses on long-term general campus enrollments. In the immediate future, the University anticipates a period of stabilization under the higher education compact. By 1998-99, enrollments are expected to be about the same as in the early 1990s, or about 143,000 full-time equivalent (FTE) students. After that, the University anticipates a period of limited and gradual growth to the year 2005 and then, a very substantial increase in enrollment. Although the University is likely to experience less growth in the next nine years, to 2005, than previously anticipated, the predicted upsurge in demand will occur after 2005 and must be anticipated and planned for. There is substantial uncertainty about the State's ability to provide the resources necessary to accommodate this upsurge in demand. The University, in coordination with other segments of higher education and representatives of State government, must continue to search for solutions to the issue of access in the long-term.

Planning issues were raised with The Regents in a series of presentations that began in September 1994 with a discussion of undergraduate demand and continued in 1995 with discussion of transfer students and graduate academic and professional students. These discussions culminated in the May 1995 report to The Regents, *Anticipating Enrollment Growth: How Much? How Soon?; Enrollment Projections Within a Strategic Planning Framework for the University of California 1995-2005.*

The University currently projects general campus enrollment growth of 1.5 percent per year at both the undergraduate and graduate level in the period 1999-2000 through 2005-06. Full-time equivalent (FTE) undergraduate enrollment is projected to grow to 129,000 students and graduate enrollment to 29,700, for a total of 158,700 FTE students (general campus) in 2005-06. Compared to budgeted FTE enrollment of 138,000 in 1995-96, this represents growth of about 20,000 students over ten years.

Undergraduate projections are based largely on estimates of the number of California high school graduates and the proportion that will choose to enroll at UC, together with projections of transfer students. In keeping with the recommendations discussed with The Regents, the University has begun to look at the key demographic and financial indicators that affect enrollment. Although a review of these factors in 1996 did not modify short-term enrollment projections, it did highlight the uncertainties in longer-term projections. One factor affecting this uncertainty is the actual rate of UC eligibility of public high school graduates. A new high school eligibility study will be completed by the California Postsecondary Education Commission (CPEC) in fall 1997. Enrollment projections will be reviewed again when the University has had an opportunity to review the findings of the CPEC Eligibility Study.

At the graduate level, growth is planned by projecting the needs of the University, the State, and the nation, and balancing that assessment with the State's and the federal government's willingness to provide sufficient resources to support it. Current projections of graduate growth, which are about half of the growth previously projected, are based on maintaining the same Universitywide ratio of graduate to undergraduate students that now exists. These projections also reflect a reasonable balance between California's projected needs and available funding. Despite sustained demand, more modest growth is now assumed because of concern about the University's continued ability to provide sufficient support for graduate students, particularly with respect to proposed reductions in federal funding for research and financial aid.

Given sufficient funding, the University plans to accommodate the projected enrollment growth of about 1.5 percent annually between 1999-2000 and 2005-06 at existing campuses. Funding even this modest level of growth may be a challenge, however. On the plus side, there is improvement in California's economy and a continued priority afforded to funding higher education, evident in the Legislature's and the Governor's support over the last two years for the compact. On the other hand, higher education must continue to compete for State funds with programs such as K-14 education, health and welfare, and prisons, many of which are protected budgetarily and all of which have escalating needs.

At minimum, the University will need funding increases to support enrollment growth (i.e., faculty positions and related instructional support), maintain competitive faculty salaries, provide salary and merit increases for other employees that at least keep pace with inflation, and meet fixed cost increases and inflation in the nonsalary budget. The University is cautiously optimistic that funding to meet these basic needs will be achievable through a combination of State and student fee income, assuming that fee increases can be stabilized at about the rate of inflation and that UC can maintain its

current proportional share of State funds. This level of funding would not, however, solve some critical long-term funding problems such as the underfunding of ongoing building maintenance, deferred maintenance, libraries, and instructional equipment. Nor would this level of funding enable the University to accelerate its investments in technology.

With respect to the capital budget, campuses should have adequate space to accommodate planned enrollments until 1997, although UC must continue to make progress on seismic safety, infrastructure needs, and renovation, modernization, and renewal of facilities. Beginning around 1998, the University will need more than the $150 million per year agreed to under the higher education compact, probably closer to the $250 million per year that was provided during the 1980s when enrollments were growing rapidly.

For both the operating and capital budgets, it is plausible that the resources needed to maintain quality and handle enrollment growth to 2005 will be available. Increases in State funds and student fee revenue, alone, will not achieve the goal. Considerable belt-tightening will be required. As discussed in the University's July 1995 report titled, *1995-96 Budget Plan for Productivity Improvements*, efficiencies have been initiated that affect many aspects of the University--administrative processes, academic program support, student services, and business practices. A number of common strategies are being pursued and mechanisms are in place to share the best practices among campuses. When appropriate, new administrative systems and cost savings measures have been developed and implemented on a Universitywide basis. Two UC campuses were among seven universities that recently won management improvement awards from the National Association of College and Business Officers (NACUBO). These awards were given for improving administrative programs and reducing costs. UC must continue with productivity improvements and restructuring efforts, including reallocation of funds to meet high priorities.

The University must continue to be aggressive in searching out and developing non-State revenue sources, particularly private funds. In 1996, the University received more than $700 million in private support for a second consecutive year of record-breaking fund raising. Unfortunately, at the moment, it appears unlikely that federal funds can be increased; indeed, the University is likely to see a significant reduction in the purchasing power of its federal income in the next several years.

OVERVIEW OF THE 1997-98 BUDGET REQUEST

This budget document discusses how the base budget is spent as well as the need for funding increases. As indicated earlier, University budgets have already been cut by a total of $433 million and additional budget reductions totaling $40 million are anticipated by 1998-99 related to productivity improvements. The budget reductions forced a rigorous re-examination of virtually all of the University's activities. While many desirable economies and efficiencies have been achieved, vigilance is required to ensure that core strengths are not irreparably damaged. The goal of the 1997-98

budget request is to maintain fiscal stability and allow for modest enrollment growth, consistent with the four-year compact with higher education. Funding increases requested for 1997-98 reflect the University's minimum needs if it is to maintain quality and provide student access in the near term.

The University's 1997-98 budget plan was developed on the basis of the four-year compact with higher education, which has been supported by the Governor and the Legislature for the last two years. The 1997-98 budget plan includes a new initiative to create a partnership among UC students, the State, private industry and the campuses to ensure that UC students benefit fully from the applications and services made possible by instructional technology.

The budget request does not address all of the University's pressing financial problems. Critical funding shortages related to library books, instructional equipment, and deferred maintenance are discussed in the budget document but not included in the funding request. If the University were to seek a budget increase that simply funds normal needs based on formulas agreed to and funded by the State in the past, it would require a State-funded budget increase about three times as large as the current request. This would not include restoration of the $433 million that has been cut from University budgets, but it would provide fully competitive salaries, restore the previous student-faculty ratio, and meet needs related to instructional equipment replacement, libraries, and the operation and maintenance of the physical plant. Important as these needs are, a request for full funding clearly would be unrealistic in light of the State's present fiscal circumstances.

Instead, the 1997-98 budget request primarily seeks to support budgeted enrollment growth of one percent, recognize the impact of inflation and fixed cost increases, implement the second year of a three-year plan to restore competitive faculty salaries, provide for the operation and maintenance of new space, and to take the first step toward the providing adequate funding for ongoing building maintenance. Funds for debt service related to capital outlay are requested in addition. The budget also assumes a $10 million budget reduction, representing the third of four $10 million reductions called for in the higher education compact that are to be addressed through productivity improvements.

The table on the next page displays the components of the 1997-98 request for a budget increase totaling $136 million. Each component is discussed in more detail below. The table also identifies proposed fund sources to meet the budget request, including: (1) an increase in State funds of $80.5 million, comprised of a four percent increase in State General funds, consistent with the higher education compact, plus $2 million in State matching funds for the Supercomputer program as agreed to by the Governor and the Legislature; (2) increased UC General Fund income, including revenue from a $590 increase in nonresident tuition, net of financial aid; (3) revenue from a $330 general student fee increase, net of financial aid; (4) revenue from a $40 Instructional Technology Fee, net of financial aid; and (5) revenue from planned increases in professional school fees, net of financial aid.

In addition, an estimated increase of about $1.9 million will be requested to meet debt service on revenue bonds for capital outlay projects.

The higher education compact calls for annual student fee increases averaging ten percent. In keeping with the compact, the University is proposing a general fee increase of $330 and a $40 Instructional Technology Fee.

The budget assumes continued implementation of the plans approved by The Regents at their March 1995 and March 1996 meetings to bring professional schools fees to the average of fees charged by schools of comparable quality around the nation.

A $590 increase in nonresident tuition is also included in the budget. Nonresident tuition, which remained at $7,699 from 1991-92 through 1995-96, was increased to $8,394 in 1996-97. Statewide policy calls for consideration of the following in setting the level of nonresident tuition: (1) the total nonresident charges imposed by the public salary comparison institutions and (2) the full average cost of instruction. With a $590 increase, total fees and tuition charged to nonresident students at the University will be about the same as projected charges at the public salary comparison institutions.

The total requested budget increase from all fund sources is 4.8 percent 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). This is similar to the base used for preparation of the 1995-96 and 1996-97 budgets and review by the Department of Finance and the Legislature.

Fixed Costs and Economic Factors

Continuation Cost of 1996-97 Salary Increases

The 1996-97 budget included funding equivalent to an average two percent cost-of-living salary increase (COLA) for University employees and an additional three percent parity salary increase for faculty only, both effective October 1, 1996. Because 1996-97 funding is sufficient to pay the salary increases for only nine months, from October through June, full-year funding must be provided in 1997-98.

Cost-of-Living Salary Increase on 10/1/97

Within the framework of the compact with higher education, the University is requesting funding equivalent to an average two percent cost-of-living salary increase for University employees. In addition, as discussed below, funding equivalent to an additional three percent parity salary increase for faculty only is requested as the second step in a plan to restore competitive faculty salaries by 1998-99.

Historically, requests for faculty salary increases have been based on salaries at eight institutions used for salary comparison and requests for staff salary increases have been based on equivalent treatment with State employees. Until 1995-96, other academics have received, on average, the same salary increases as faculty. Under the compact with higher education, the University's goal is to restore faculty salaries to the average salary level at the comparison institutions by 1998-99 and, through a combination of merits and COLAs, to provide salary increases for other employees that, on average, at least keep pace with inflation. Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA).

Neither State of California nor UC employees received a cost-of-living salary increase in 1991-92 and 1992-93. In 1993-94 and 1994-95, State of California employees received cost-of-living salary increases totaling eight percent (five percent in January 1994 and three percent in January 1995), while UC employees received only three percent on average (in October 1994). The University received funding for cost-of-living salary increases of 1.5 percent in 1995-96 and two percent in 1996-97. No funding was provided for cost-of-living salary increases for State of California employees in these two years. A two percent cost-of-living salary increase in 1997-98 will allow University employees to catch up with increases previously provided to State employees, as well as to keep up with inflation.

Three Percent Faculty Parity Salary Increase on 10/1/97

Funding equivalent to an additional three percent parity salary increase for faculty only is requested as the second step in the University's plan to restore faculty salaries to the average salary level at the eight comparison institutions by 1998-99. Even with funding for normal merit increases, a cost-of-living salary increase averaging two percent, and a parity salary increase averaging three percent, preliminary estimates indicate that 1997-98 salaries of University faculty will lag about three percent behind faculty salaries at the comparison institutions. Updated projections will be available in November.

While the lag is lessening under the provisions of the compact, it continues to send a negative message about the University across the nation, making it more difficult to recruit and retain individuals who meet UC's traditional high standards. Nothing is more certain to undermine quality than a persistent inability to meet the competition. Restoration of the University's historic position in the marketplace is absolutely essential if its quality is to be maintained.

Merit Salary Increases for All Eligible Employees

Funding for merit salary increases, which are increases within existing salary scales, is again among the University's highest budget priorities. The merit salary program recognizes and rewards excellence and is critical to the preservation of quality. Merit salary increases are not automatic. Academic merit salary increases are awarded only after extensive review of individual achievements. Staff merit salary increases are

awarded to eligible individuals on the basis of performance.

Price Increases

In order to offset the impact of inflation on the nonsalary budget and maintain the University's purchasing power, funds are requested to cover price increases averaging 2.5 percent. Although the University purchases many commodities--library materials, technical supplies, specialized equipment--whose costs exceed current inflation estimates, the request for funding is limited to estimates of general inflationary increases.

Productivity Improvements and Restoration of Funds Cut Temporarily in 1995-96

Consistent with the terms of the four-year compact with higher education, the University's 1997-98 budget proposal includes a $10 million budget reduction to be addressed through productivity improvements. The compact calls for productivity improvements of $10 million each year, resulting in a total base budget reduction of $40 million by 1998-99. The basic premise is that there is a continuing need for productivity improvements in order to maintain student access and program quality within available resources. This is not a new concept. The University had to cope with budget cuts totaling $433 million dollars in the last few years and, thus, is very familiar with the need to do more with less. As mentioned earlier, two campuses recently won awards for improving administrative programs and reducing costs in the Higher Education Awards Program sponsored by the National Association of College and University Business Officers (NACUBO).

The University issued a July 1995 report titled *1995-96 Budget Plan for Productivity Improvements*. This report discusses ongoing efforts to streamline administrative processes and improve services to students. It also describes plans to achieve $10 million of productivity improvements in 1995-96. This is the first of several annual reports that will be presented to The Regents, each one describing plans for the coming year and discussing achievements of the previous year.

In addition to calling for productivity improvements, the four-year compact with higher education calls for average annual increases in State funds of four percent. In the first year of the compact, however, a lower level of funding was provided which resulted in a budget shortfall of $13.3 million in 1995-96. To accommodate the shortfall, the University made temporary budget cuts in that amount and addressed the problem through one-time actions. In 1996-97, a majority of the one-time actions were converted to permanent productivity improvements totaling $10 million, as required under the compact, leaving $3.3 million still to be addressed on a permanent basis. In 1997-98, the University is requesting that the remaining $3.3 million of temporary budget reductions be made permanent through productivity improvements. An additional $6.7 million in productivity improvements will be made in 1997-98.

Workload

Funding for One Percent Enrollment Growth: 1,500 FTE Students

The University of California is committed to access under the Master Plan. Throughout the years of budget cuts, the University managed to keep its historic promise to the citizens of California by continuing to offer admission to all eligible Californians applying at the undergraduate level and providing a quality education. A number of senior-level faculty have been lost, however, as a result of early retirement offers associated with the University's need to accommodate major budget reductions in a very short time frame. The retirements have not affected enrollment levels significantly. Even though faculty are teaching more than in the past, the breadth and depth of programs that can be offered has been affected and a number of classes are being taught on a short-term basis by faculty recalled from retirement for this purpose. Several hundred vacant faculty positions must be refilled if UC is to continue taking the students and providing a quality education.

The four-year compact with higher education supports growth in general campus budgeted enrollments averaging about one percent annually. Accordingly, the University seeks $10.5 million in State funds, or $7,000 per student, for an increase of 1,500 FTE students, bringing total budgeted general campus enrollment to 141,000 in 1997-98. The added funding will provide salary and benefits for 80 faculty positions; related instructional support such as clerical and technical personnel, supplies and equipment; support for teaching assistant positions; institutional support; and support for libraries and student services.

During the 1994-95 budget process, the University and the Legislature agreed on supplemental budget language that phased in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University's budgeted enrollment. This ratio represents a substantial deterioration from the budgeted ratio of 17.6 to one that was funded in the 1980s and early 1990s. An 18.7 to one ratio is less favorable than the average 17.8 to one ratio at the University's four public salary comparison institutions, and much less favorable than the average ratio of 10.4 to one at the four private institutions used for salary comparison.

By 1998-99, UC enrollments are expected to be about the same as in the early 1990s, or about 143,000 full-time equivalent students. Given annual growth in budgeted enrollments averaging one percent and an 18.7 to one student-faculty ratio, UC will be functioning with 500 fewer faculty by 1998-99 than under the historic ratio.

Professional School Expenditures Funded by Professional School Fees

For general campus programs, State funds will be supplemented with income from the Fee for Selected Professional School Students (net of financial aid), which will be used to help fill vacant positions and meet related instructional costs in the schools of business/management, law and the school of theater/film/television at Los Angeles.

Professional fee income will be used for these same purposes in the schools of medicine, dentistry, optometry, pharmacy, nursing and veterinary medicine, thereby treating the health sciences equivalent to the general campuses with respect to net budget cuts.

New Space To Be Maintained

Funds are requested to support basic maintenance of additional space to be occupied in 1997-98 by programs eligible for State funding.

Building Maintenance

Consistent with the plan supported by the Legislature, the University is requesting an increase of $7.5 million for ongoing building maintenance within the funding provided as part of the compact. The $7.5 million represents the first step in a multi-year plan to properly fund the University's building maintenance program, which is currently underfunded by more than $60 million.

Supercomputer Program

The 1996 State Budget Act includes an additional $1 million to support the State of California Supercomputer Center located at the San Diego campus. The University's 1997-98 budget request includes an additional $2 million to support the Center. This request is consistent with the plan approved by the Legislature and the Governor to provide the Supercomputer Center with an additional $3 million a year in each of the next five years. The San Diego campus, on behalf of a consortium that includes the other UC campuses, the three Department of Energy Laboratories, CalTech, Stanford University, the California State University and numerous businesses, has submitted a proposal to the National Science Foundation (NSF) to secure funding as one of possibly two advanced computation infrastructure centers. The State's ongoing support for the Supercomputer Center is an important element in the Center's proposal for continued NSF funding. The University will maintain its commitment by continuing to provide $1 million each year to support the Supercomputer Center and upgrading the intercampus telecommunications network.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the California economy continues to grow, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, if not all, of the priorities identified. The following description of additional needs is not intended as a priority list in the traditional sense. Decisions on which needs to fund--and at what level--would be made after it was known whether, and how much, additional resources would be made available to the University. These are all important priorities, and a plan to balance needs can only be made within the context of the total State funding that can be provided.

Summary of Needs for Funding In Addition to the Compact
($ millions)

Faculty Salaries--return to comparability in 1997-98	$16.9
Instructional Technology--State matching funds	4.0
Student fee "buy out"	33.0
Outreach	2.0
Industry-University Cooperative Research Program (second increment of funding)	5.0
Building Maintenance (per legislative plan)	7.5

Restoration of competitive faculty salaries

Under the compact, the University has a three-year plan to restore faculty salaries to the average of its comparison institutions. The University would like to move more quickly to close this gap.

In 1996-97, the University received funding for a three percent parity adjustment for faculty. The 1997-98 budget request includes a second parity adjustment of three percent for faculty. Combined with normal merit increases and a cost-of-living salary increase averaging two percent, faculty salaries will continue to lag about three percent behind faculty salaries at the University's comparison institutions. To fully close this gap in 1997-98 and restore competitive faculty salaries in two rather than three years, would require an additional $16.9 million in State funding. The ability to pay competitive salaries is a critical factor in the University's ability to recruit and retain faculty. Faculty are the most important factor in maintaining the overall excellence of the University.

Instructional Technology Initiative--State Matching Funds

Technology is a critical element of the University's continued commitment to maintain the quality of its teaching and research programs. Computers are nearly-universal tools in higher education. They are used to glean information from global networks, for communication and collaboration, and for every imaginable application from writing reports to laboratory simulation to architectural design. They have become the engines of new modes of inquiry in the sciences and new media for creative expression in the arts. Technological competence has become an essential skill for students to succeed in the era of electronic information.

The University has taken significant steps to increase the use of technology in education. Learning technologies permeate much of the curriculum, ranging from "low tech" uses that improve course administration to multi-media capabilities. Our

campuses are providing students with connections from libraries, laboratories and dorm rooms to the Internet and the World Wide Web. Students use electronic mail to communicate with faculty and each other, to access online course information and to register.

These are, however, just the first steps. There are ongoing and rapid advances in telecommunications and technology. To compete for the best students and to provide all students with the knowledge they need succeed, the University must continue to invest not only in the electronic infrastructure at our campuses, but also in support for faculty, staff and students so they can use these systems effectively. At a minimum, it is essential that campuses complete the development of the physical infrastructure, expand and upgrade the University's intercampus network, provide greater access to computer workstations, connect most of our classrooms to the Internet to enhance curriculum sharing and collaboration among campuses, and share an expanding body of digital library resources among the campuses. Emerging technologies will allow the University to integrate voice, video, and data networks across campuses in support of multi-media learning.

The University must make wise and timely investments to ensure that UC students benefit fully from the applications and services made possible by the appropriate use of these technologies. These investments will be costly and will require a variety of funding strategies, including effective use of existing resources. But, this will not be enough. New investments are required. Thus, the University is proposing an investment in an Instructional Technology Initiative as part of the 1997-98 budget plan.

The Instructional Technology Initiative will fund projects that will directly benefit UC students by providing them with access to state-of-the-art technology, improving the network infrastructure, and expanding the use of technology in libraries and classrooms. Funding of the Instructional Technology Initiative will be a partnership in which students will be asked to pay a modest fee; campuses will be expected to seek funding or in-kind contributions from industry and to maintain or increase their own resource commitments; and the State will be asked to provide funds to match the fee paid by students. Funding for the Technology Initiative will be phased in over the next three or four years.

The 1997-98 budget plan includes a recommendation to implement a mandatory $40 Instructional Technology Fee. When the State's revenue situation permits, the University will request an additional $4 million above the compact to match the $40 fee that UC students will be asked to pay in 1997-98. This initial funding represents the first phase of funding for the Technology Initiative; over three or four years the fee would increase to $200 for each student and would be accompanied by requests to the State to provide matching funds.

In March 1997 an All-University Conference will bring together faculty, students, administrators, and The Regents to increase understanding of how learning technologies can be most effectively used to help the University fulfill its mission. In

addition, the University has embarked on an 18-month effort to develop a new systemwide library plan that will, in addressing existing problems, seek to achieve the maximum benefit from new technologies.

Student fee "buy out"

The 1997-98 budget plan reflects the minimum funding needed to maintain the University's basic needs. The plan seeks primarily to support budgeted enrollment growth of one percent, recognize the impact of inflation and fixed cost increases, implement the second year of a three-year plan to restore competitive faculty salaries, provide for the operation and maintenance of new space, and to take the first step toward adequately funding building maintenance. Consistent with the four-year compact with education, the plan is proposed to be funded from a combination of State general funds, UC general funds (including an increase in non-resident tuition), planned increases in selected professional schools fees, a $330 increase in the general student fee, and a $40 Instructional Technology Fee.

In 1995-96, and again in 1996-97, there were no general student fee increases. The Regents have been able to maintain general student fees at 1994-95 levels because the Legislature and the Governor provided sufficient revenues to fund the University's budget plans. In 1995-96, the State provided the University with $28.5 million to partially "buy out" the proposed student fee increase, leaving the University with a budget shortfall of $9.5 million. One-time actions were used to deal with the $9.5 million, which was restored by the State in 1996-97. In 1996-97, the State provided the University with $27 million (as proposed in the Governor's budget) above the compact to "buy out" the proposed student fee increase. These actions were of great benefit to UC students and their families. To offset the full amount of general fee increase proposed in this budget--$330--would require the State to provide the University with $33 million beyond the funding provided in the compact.

Outreach

The University is committed to a quality education for all Californians and is seeking to expand its outreach programs to increase the number of schools served and the number of students who are academically eligible for admission to UC. The 1996 State Budget Act provided the University with an additional $1 million to develop and strengthen the academic skills of students in K-12 and in community colleges so that more young people are academically prepared to gain admission to the University. Of the $1 million increase in State general funds, $250,000 is earmarked for academic outreach programs in the Central Valley, a region of the State that has had for some time a lower overall college going rate and a lower than average rate of student eligibility for admission to UC. The University's outreach programs have been enormously successful in increasing the number of students who are eligible for admission to college.

In collaboration with a 32-member Outreach Task Force appointed by The Regents, the University is engaged in a broad assessment of its outreach programs. The task force,

whose members include corporate and business leaders, experts in education representative of all public education segments, and students is expected to develop recommendations to improve and expand existing programs and to create new programs.

When the State's revenue situation permits, the University will seek an additional $2 million to continue expanding its outreach efforts consistent with the recommendations of the Outreach Task Force.

Industry-University Cooperative Research Program

In 1996-97, the State provided the University with $5 million to support a new research effort, the Industry-University Cooperative Research Program, designed to help the State's economy by boosting productivity and creating jobs. The $5 million was in addition to $3 million committed by the University to launch this program, which will require matching funds from industry to fund research that has the best prospect of benefitting the State's economy. This represents the first phase of a proposed multi-year plan to build the program's annual budget to $40 million. Under this plan, increased funding would be phased in over time, reaching targets of $15 million annually in State support and $5 million annually in University support. Matching industry funds would eventually provide an additional $20 million annually.

The University is hopeful that the first increment of State funding will be continued. When the State's revenue situation permits, the University will seek the second phase of funding--$5 million--from the State. California's economic vitality has long been linked to cutting-edge research conducted at the University of California. UC research has resulted in new products and industries, creating millions of jobs for Californians, providing billions of dollars to the State and improvements in the quality of life. Collaborative public-private ventures have proved vital to ensuring the research necessary for the development of new technologies. With California's economic recovery underway, now is the time to invest more in the research that will yield economic dividends to the State.

The University will work with many industries--biotechnology, telecommunications, information technology, agriculture, entertainment--but will focus initial efforts in 1996-97 on biotechnology.

Building Maintenance

The University's ongoing building maintenance is currently underfunded by more than $60 million, contributing significantly to the more than $480 million backlog in deferred maintenance.

In 1996-97, the Legislature approved a four-year plan to provide adequate funding for the University's building maintenance. The plan proposed to provide the University with an augmentation of $7.5 million to its 1996-97 budget, which was to be matched by the University for a total increase of $15 million. In each of the following three years, the

University would use funds provided within the compact for annual increases of $7.5 million for building maintenance. In addition, the Legislature's plan called for the State to provide an additional $7.5 million over and above the compact in each of these years, resulting in annual increases of $15 million to address ongoing building maintenance. Over the four years, this would enable the University to address the current $60 million underfunding problem.

To help provide an adequate reserve for the State, the Governor vetoed the $7.5 million approved by the Legislature as part of the 1996 State Budget Act. Notwithstanding the Governor's veto, the University intends to move ahead with the multi-year plan proposed by the Legislature. Accordingly, the University's 1997-98 budget plan includes $7.5 million within the funds provided from the compact for ongoing building maintenance. In addition, the University will request an additional $7.5 million beyond the compact when the State's revenue situation permits.

Consistent with the proposal endorsed by the Legislature, the University is moving ahead to develop a long-term plan to reduce the backlog of more than $480 million in deferred maintenance projects. A long-term plan will require funding from a variety of sources, including the capital budget as renovation projects are undertaken as well as debt financing specifically earmarked for deferred maintenance. In the short-term, 1996-97, the University is allocating about $10 million in 1995-96 excess general fund income under the provisions of the Budget Act and an additional $5 million in University funds for deferred maintenance. This is in addition to the $5 million in general obligation bonds appropriated by the State. The University expects to provide recommendations to the State in February 1997.

Budget-Related Issues

Student Fees and Financial Aid

Historically, the combination of adequate State support and low student fees maintained the affordability of the University; financial aid programs also helped to maintain access for needy students. The commitment to low fees was eroded, however, by the State's severe fiscal difficulties during the 1990s and the resulting dramatic decline in State support for the University. At the same time, through its financial aid programs, the University has continued to help maintain the affordability of a UC education.

Since 1989-90, financial aid grants and other gift aid funded from University sources have grown by about $124 million, or nearly 178 percent. Looking at all fund sources and all types of aid, preliminary data show that UC students received about $865 million of financial aid in 1995-96, including about $242 million from UC and about $100 million from the State Cal Grant Program. Despite increasing fee levels, the percentage of new freshmen from low-income families (less than $30,000 parental income) increased from 24 to 29 percent over the period 1991-92 through 1994-95. The proportion of lower-middle-income students among new freshmen has increased just slightly since 1991. The proportion of upper-middle and higher-income students has declined, although their

actual numbers have increased slightly.

In January 1994, based on extensive discussions with the State and within the University community, The Regents approved a new Student Fee and Financial Aid Policy that applies to the two mandatory Universitywide fees paid by all students, the Educational Fee and the University Registration Fee. Under the policy, the Educational Fee continues to be used to support student financial aid and student services programs, but it is also used for general support of the University including costs related to instruction. A goal of the policy is to maintain access to a quality educational experience at the University for low- and middle-income students without unnecessarily subsidizing high-income students. All students will continue to receive a substantial State subsidy, but it will probably not be as large as in the past. The policy recognizes that, for California resident students, funding the cost of a University of California education is a shared responsibility among the State, the students, and their families.

Under the policy, factors to be considered in establishing the level of the Educational Fee include: (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.

For the period 1995-96 through 1998-99, the four-year compact with higher education includes general student fee increases averaging about ten percent a year as well as professional school fee increases. At least one third of new student fee revenue is to be earmarked for financial aid, with the remainder used to provide inflation adjustments for student-fee-funded programs and help fund the general operating budget. Additional financial aid is to be provided through the State Cal Grant Program.

General student fees were not increased in 1995-96 and in 1996-97, a marked difference from the substantial increases of the early 1990s. The University was able to maintain general fees at the 1994-95 level because the State provided the University with funding, beyond the compact, to "buy out" proposed student fee increases.

For 1996-97, mandatory Universitywide and miscellaneous campus fees across all nine campuses average $4,166 for undergraduate students and $4,667 for graduate students. In addition, all students seeking specified degrees in medicine, dentistry, veterinary medicine, law, business/management, pharmacy, optometry, nursing and theater/film/television (Los Angeles campus only) are required to pay the Fee for Selected Professional School Students.

For 1997-98, a $330 increase in mandatory Universitywide fees is recommended as one component of the University's budget proposal. The distribution of the increase between the Educational Fee and the University Registration Fee will be determined by the President at a later date. The recommended fee increase will generate approximately $49.5 million of new revenue, of which one-third or approximately $16.5 million will be set aside for financial aid. The remainder will be used to provide inflation

adjustments for student-fee-funded programs and help fund the general operating budget. It is anticipated that further increases in financial aid will be provided to UC students through the State Cal Grant Program, as specified in the higher education compact. Between the Cal Grant Program and financial aid provided from student fee revenue, funds should be available to cover the proposed fee increase for UC students who demonstrate financial need, slightly more than half of UC students. The 1997-98 budget request also includes an Instructional Technology Initiative, which would be funded in part by a $40 Instructional Technology Fee.

With the proposed general fee increase and the Instructional Technology Fee, total mandatory Universitywide fees will be $4,169 in 1997-98. Students also pay miscellaneous campus fees averaging $367 for undergraduates and $868 for graduate students. With the addition of miscellaneous campus fees, total mandatory fees for resident students will average $4,536 for undergraduates and $5,037 for graduate students in 1997-98.
Proposed fee levels for UC undergraduate resident students are $493 less than projected average fees at the four public salary comparison institutions for 1997-98. UC resident students will be paying about 30 percent of the average cost of instruction (significantly less than the 40 percent recommended by the California Postsecondary Education Commission), with the State subsidizing most of the remainder.

Further discussion of student fees and financial aid is included in the Student Fees and Student Financial Aid sections of this budget.

Teaching Hospitals

There is growing concern regarding the financial viability of the University's five academic medical centers and the ability of the University to continue to train health care professionals of the highest caliber in the rapidly emerging era of managed care. Managed care, a response to spiraling health care costs, attempts to reduce costs in two primary ways. First, managed care emphasizes prevention and primary care intervention to reduce the need for more costly hospitalization and specialist services. Some services that traditionally have been provided on an inpatient basis are now being provided in less costly outpatient facilities; improvements in procedures and technology will continue this trend. This change has resulted in decreases in hospital admissions, in the average length of stay and in patient days.

Second, managed care seeks to control costs by having health insurers contract with a network of preferred providers to deliver services at predetermined, negotiated rates. To stay competitive and maintain the diverse patient mix needed for teaching, the University's five academic medical centers have had to accept negotiated rates for services provided to individuals in private plans, as well as those covered by Medi-Cal and Medicare. The rates generally have not recognized the unique teaching and research costs incurred at an academic medical center. Traditionally, academic medical centers helped fund some of these costs through higher charges to all patients, and from the special payments built into reimbursement formulas such as Medicare's direct medical education and indirect medical education payments. These funds are

now at risk, and the ability to cover the costs of providing a medical education is in jeopardy.

In addition to the cost cutting pressures resulting from managed care, other actions are being discussed at the federal level that could reduce support for services provided to the indigent population. The Davis, Irvine and San Diego Medical Centers are at risk of losing supplemental payments they currently receive for providing a disproportionate share of care to the indigent population.

The University's five academic medical centers are pursuing a number of alternatives in order to survive in a cost sensitive managed care market. They are developing primary care networks; reducing costs by downsizing, being more efficient, seeking economies of scale; and making changes in their training programs. Despite these efforts, the

unique costs incurred by providing medical care in an academic setting will continue to put the academic medical centers at a competitive disadvantage. To ensure the ability of academic medical centers to provide quality training, the costs of medical education will need to be funded, not only by the State and by the federal government but by all payers, as beneficiaries of the system.

The University, in cooperation with the State, has convened a working group to identify the factors contributing to the financial problems facing the five academic medical centers and to develop options to mitigate the problems. The work group will identify alternatives that specifically address the higher costs of providing medical care and teaching associated with academic medical centers. The working group began meeting in September and expects to submit its recommendations to the State in February 1997.

Projected Reductions in Federal Funding

Federal funding is a major source of financial support for the University of California. The federal government provides nearly 60 percent of University research expenditures, over half of the financial aid its students receive, and about one-third of the net operating revenue of the teaching hospitals. The three Department of Energy Laboratories, for which the University has management responsibility, are entirely supported by federal funds.

The outlook for federal support of University programs in the immediate future is not encouraging. Last year saw a fundamental debate between Congress and the President on how to balance the federal budget. The outcome has been an agreement to balance the budget in seven years (from fiscal year 1996 through fiscal year 2002). The plan will include reductions in the growth of Medicare and Medicaid programs, welfare and domestic discretionary spending as well as some tax relief. There has been no agreement reached on the level of reductions or the trade-off between cuts in programs and tax relief. Furthermore, major differences remain over entitlement reforms, such as whether to provide block grants to states for Medicaid.

The University is very concerned about the unresolved issues surrounding reform in the Medicare and Medicaid programs. Substantial savings from these programs is an integral part of the plan to balance the federal budget in seven years. Therefore, if the eventual agreement on these reforms does not yield enough savings, there will be pressure to further reduce domestic discretionary program spending, the portion of the budget from which the University gets most of its federal funds.

Both the Congress and the President are committed to substantial reductions in domestic discretionary spending in order to balance the budget in seven years. As a result, federal funding for research, which has grown over the past four decades will now suffer reductions as the funding base shrinks. Based on the Congressional Budget Resolution passed in June 1996, the American Association for the Advancement of Science (AAAS) has estimated that federal spending for civilian research and development will decline steadily between now and 2002. When estimated inflation is taken into account, the AAAS estimates that the loss in real purchasing power could be as much as 23 percent over the seven year period.

While overall funding for research is expected to decline during this period, some individual major agencies will fare better than others. The Research section of this document discusses the outlook for specific agencies. If the new Congress remains committed to balancing the budget, the pressure to control costs in order to free up more funds for research and other federal programs will grow. It is possible that efforts will be made to cap indirect cost reimbursements and further reduce the cap on administrative indirect costs.

As a major purchaser of health benefits through the Medicare and Medicaid programs, the federal government is proposing a number of alternatives that will reduce payments to health care providers. In addition to slowing the rate of growth of hospital reimbursement, the proposals include reducing and eventually eliminating reimbursement of costs associated with teaching residents and treating a disproportionate share of Medicare patients. These latter changes affect all medical centers that have a teaching mission and may have a profound impact on the University's health sciences education and patient care programs.

Reductions in federal funding represent a sea change in this nation's assumptions about what the federal government should support, and will have enormous consequences for the future of the University.

Capital Improvements

The University's 1997-98 request for State funds for capital improvements is discussed in a companion volume to this operating budget document titled *1997-98 Budget for Capital Improvements*.

The University's capital budget request is consistent with the Governor's four-year compact with higher education, which provides funding of about $150 million a year with

priority given to seismic and life-safety projects, infrastructure, and educational technology. This budget request anticipates being funded by the general obligation bonds which were overwhelming approved by the voters in March of 1996.

The University has a serious backlog of capital improvement needs that result from a number of factors and reflect existing enrollments and conditions. Foremost among these factors is the urgent requirement to correct serious seismic hazards and other fire and life-safety deficiencies of UC buildings. In addition, the pervasive deterioration of University buildings and campus infrastructure that has resulted from age, intensive use, and constrained funding requires a major capital renewal effort. University facilities also have substantial deficiencies caused by a revolution in science and technology programs and instrumentation that has made many existing facilities obsolete. The capital program must address the effects of rapidly evolving codes and regulations, practical issues of disabled access, and the residual effects that remain even today from the 1970s and early 1980s when State funds were very limited.

The current short respite between the intense enrollment growth of the past ten years and the forecast demographic pressures beginning in the late 1990s provides a critical opportunity to address this backlog of serious needs and prepare for a period in which resources will be absorbed once again in trying to catch up with surging enrollments.

It is important to emphasize the strength of the University's continuing commitment to addressing seismic life-safety hazards. Within the limited State funding available, 13 of the 25 major capital project funding requests in the 1997-98 budget involve seismic corrections and an additional five are for other essential life-safety and code improvements. Seven projects are driven by campus and building infrastructure requirements and the need for improvements that will allow space released by earlier State projects to be made usable for other programs. The campuses have worked very hard to ensure that all of the remaining State supported seismically deficient buildings are included in the proposed five-year capital program. If the five-year capital program is funded as scheduled, work to correct all of the University's State-supported buildings rated seismically "Poor" or "Very Poor" will be started or already completed by the year 2000.

The budget request totals $150 million. Funds to equip six projects for which construction has already been approved by the State total $3.8 million. Funding for the remaining 25 major capital improvement projects totals $146.2 million. Seventeen of the 25 would be funded for construction, and only eight projects are limited to funding for design.

GENERAL CAMPUS INSTRUCTION

1996-97 Budget	
Total Funds	$1,213,822,000
General Funds	972,028,000
Restricted Funds	241,794,000
1997-98 Increase	
General Funds	$10,500,000
Restricted Funds	12,872,000

The general campus instruction and research (I&R) budget includes direct instructional resources associated with schools and colleges located on the eight general campuses. The major elements and their percentages of the I&R base budget are faculty and teaching assistant salaries, 51 percent; employee benefits, 10 percent; and instructional support, 34 percent, which includes salaries of academic administrators, laboratory assistants, field work supervisors, and other supervisory, clerical, and technical personnel, as well as the costs of office and instructional supplies and equipment. Additional components of the I&R budget in 1996-97 include $29.7 million to fund the replacement of instructional equipment and $24 million for instructional computing.

Instructional Programs

Under the 1960 California Master Plan for Higher Education, the University is to provide undergraduate education and graduate education through the doctorate level and serve as the primary State-supported academic agency for research. A fundamental mission of the University is to educate students at all levels, from undergraduate to the most advanced graduate level, and to assist every student in realizing his or her fullest potential. Ideally, this means that the University should be able to accommodate all qualified undergraduates, and also provide graduate academic and professional instruction in accordance with standards of excellence, societal need, and available resources. To do this, the University must maintain a core of well-balanced, quality programs and also provide support for rapidly developing and newly emerging fields of knowledge, and for the exchange of that knowledge.

The University offers instructional programs spanning more than 150 disciplines from agriculture to zoology on its eight general campuses; the San Francisco campus offers health sciences programs exclusively. Courses offered within instructional programs are authorized and supervised by the Academic Senate of the University, which also

determines the conditions for admission, degrees, and credentials. The University of California comprises more than 100 undergraduate, graduate, and professional schools and colleges which offer the bachelor's degree, master's degree, Ph.D., and professional degrees--nearly 600 degree programs in all. The University began awarding degrees in 1870, and since then has conferred more than one million degrees.

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

The purpose of graduate study is to inspire independence and originality of thought in the pursuit of knowledge. Doctoral students are expected to achieve mastery of a chosen field through advanced study and research. Master's degrees are awarded in recognition of several achievements, including satisfactory preparation for doctoral study and qualification for entry into professional fields such as business. Graduate degrees fall into two broad categories: professional, such as a master of business administration; and academic, in which degrees are awarded in recognition of a student's ability to advance knowledge in a given field of study.

The University is committed to maintaining the quality of its programs and, depending on the provision of adequate resources, to preserving student access as defined by the California Master Plan for Higher Education. Under the Master Plan, the top 12.5 percent of California public high school graduates, as well as those transfer students from the California Community Colleges who have successfully completed specified college work, are eligible for admission to the University.

Access remains meaningful, however, only if it provides the opportunity for a quality education and leads to a university degree that continues to enjoy broad recognition and respect. In a 1995 study (*Research-Doctorate Programs in the United States: Continuity and Change*), the National Research Council (NRC) reported that more than half of the University of California's doctoral programs (of the 229 evaluated by the NRC) ranked in the top 20 in their fields in terms of faculty quality--a record of performance unmatched by any university system in the nation. Of special note, UC Berkeley is Number 1 in the number of programs ranked in the top 10. UC San Diego ranks tenth--a remarkable achievement for a comprehensive campus that is only 30 years old. UCLA had the highest number of programs rated in the top 20. The study clearly documents the University's standing as the nation's best comprehensive public university with strong programs over a wide range of disciplines and campuses. The challenge faced by California and the nation is to ensure that this record of excellence is sustained and fostered.

Enrollment Planning and Workload Funding

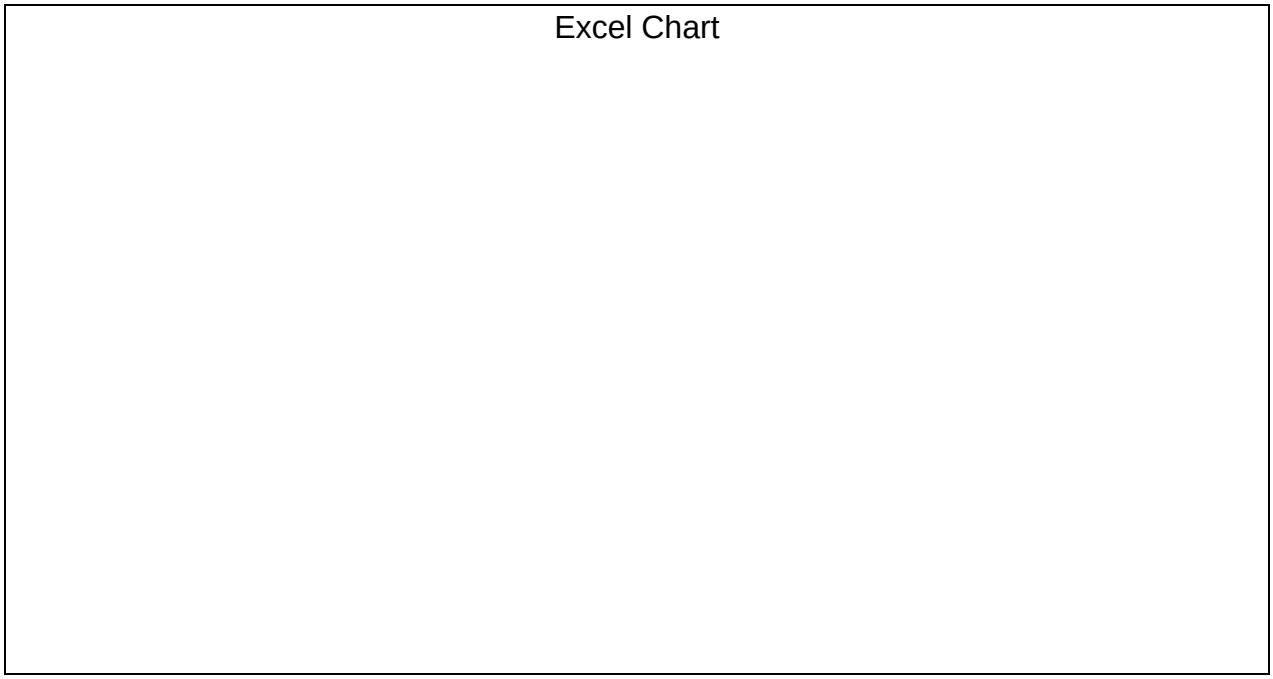
Four-Year Compact with Higher Education: Enrollment Planning through 1998-99

Enrollment planning at the University of California is based on a commitment to access under the Master Plan. As shown in the table below, 1998-99 enrollments are expected to be about the same as enrollments in the early 1990s--about 143,000 full-time equivalent (FTE) students--following a slight dip in the intervening years. Between 1991-92 and 1993-94, earlier agreements with the State on funding for instructional workload were essentially inoperative; thus, the table displays no specific budgeted enrollment levels for those years. Although it was a time of dramatic reductions in State funding, actual enrollments dropped by only three percent and clearly exceeded the level supported by the State.

Excel Table

During the 1994-95 budget process, the University and the Legislature agreed on supplemental budget language that phased in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University=s budgeted enrollment. This represents a substantial deterioration from the budgeted ratio of 17.6 to one in the 1980s and early 1990s. (In the table above, actual faculty levels are net figures that include faculty resignations and retirements, especially early retirements, as well as new hires; both permanent and temporary I&R faculty on UC=s payroll are included. Beginning in 1995-96, budgeted faculty are based on a student-faculty ratio of 18.7 to one.)

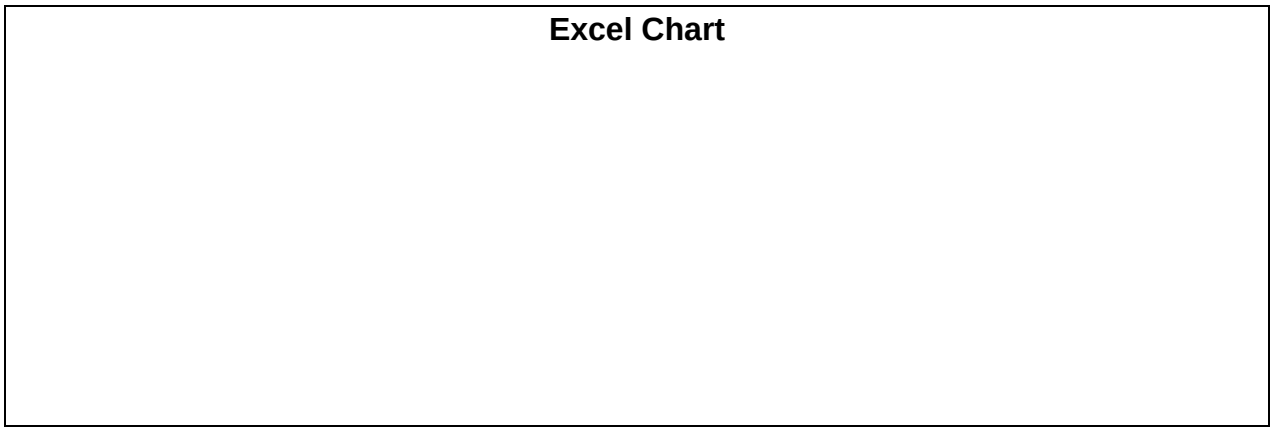
Actual enrollment in 1994-95 and 1995-96 exceeded budgeted levels by about 2,000 and 3,500 FTE students, respectively. Between 1996-97 and 1998-99, under the four-year compact with higher education, the University=s budgeted enrollment is expected to increase at an average annual rate of one percent, or about 1,500 FTE students per year. By 1998-99, both actual and budgeted enrollment levels are expected to be 143,000 FTE students, nearly twice as many students as were budgeted in the mid-1960s, as displayed in the figure below.[1] Tables in the Appendix display 1994-95 and 1995-96 actual enrollments and 1997-98 planned enrollments by campus.



During the late 1960s and early 1970s, State resources failed to keep pace with rapidly expanding enrollment, and as a result the University's budgeted student-faculty ratio

[1] The gap between 1991-92 and 1993-94 indicates years in which agreements with the State on funding for instructional workload were essentially inoperative.

deteriorated about 20 percent at that time, from 14.7 to one to 17.6 to one, as shown in the figure below.[2] The University never recouped the loss even though the State later enjoyed periods of economic prosperity and for twenty years UC received funding on the basis of a budgeted student-faculty ratio of 17.6 to one. Then, as part of the compact with higher education, the University agreed to a new budgeted student-faculty ratio of 18.7 to one. However, the *actual* ratio at the University in 1994-95 and 1995-96 was about 19.5:1 because UC continued to honor the Master Plan and admit all eligible undergraduates despite severe budgetary shortfalls.



New Faculty Positions and Related Support ($10,500,000 Increase)

Throughout the years of budget cuts, the University managed to keep its historic promise to the citizens of California by continuing to offer admission to all eligible Californians applying at the undergraduate level and by providing a quality education. A number of senior-level faculty were lost, however, as a result of early retirement offers associated with the University's need to accommodate major budget reductions in a very short time frame. The retirements did not affect actual enrollment levels significantly; enrollments are about the same now as they were several years ago. Even though faculty are teaching more than in the past, the breadth and depth of programs that can be offered has affected. And a number of classes are being taught on a short-term basis by faculty recalled from retirement for this purpose. Several hundred vacant faculty positions still must be refilled if the University is to continue taking the students and providing a quality education.

The four-year compact with higher education supports annual enrollment growth averaging about one percent for general campus programs. Planning calls for budgeted FTE enrollments in general campus programs to increase from 139,500 in 1996-97 to

[2] As in the previous figure, the gap indicates that instructional workload agreements with the State were essentially inoperative at that time.

141,000 in 1997-98. The University=s 1997-98 budget request includes $10.5 million, or $7,000 per student, to support the increase of 1,500 budgeted FTE students. This funding will provide salary and benefits for 80 faculty positions and related instructional support; instructional equipment; support for teaching assistant positions; institutional support; and support for libraries and student services.

For general campus programs, State funds will be supplemented with income from the Fee for Selected Professional School Students (net of financial aid), which will be used to help fill vacant positions and meet related instructional costs in the schools of business/management, law, and theater/film/television. Professional fee income will be used for these same purposes in the schools of optometry, nursing, pharmacy, medicine, dentistry, and veterinary medicine, thereby treating the health sciences equivalent to the general campuses with respect to net budget cuts that the University received in the early 1990s.

Instructional Technology Initiative ($4,000,000 Increase)

Technology is a critical element of the University=s continued commitment to maintain the quality of its teaching and research programs. Computers are nearly-universal tools in higher education. They are used to glean information from global networks, for communication and collaboration, and for every imaginable application from writing reports to laboratory simulation to architectural design. They have become the engines of new modes of inquiry in the sciences and new media for creative expression in the arts. Technological competence has become an essential skill for students to succeed in the era of electronic information.

The University has taken significant steps to improve education through the introduction of technological innovation. Learning technologies permeate much of the curriculum, ranging from Alow tech@ uses that improve course administration to multi-media capabilities. Our campuses are providing students with connections from libraries, laboratories and dorm rooms to the Internet and the World Wide Web. Students use electronic mail to communicate with faculty and each other, to access online course information and to register.

These are, however, just the first steps. There are ongoing and rapid advances in telecommunications and technology. To compete for the best students and to provide all students with the knowledge to be successful we must continue to invest not only in the electronic infrastructure at our campuses, but also in support for faculty, staff and students so they can use these systems effectively. At a minimum, it is essential that campuses complete the development of the physical infrastructure, expand and upgrade the University=s intercampus network, provide greater access to computer workstations, connect most of our classrooms to the Internet to enhance curriculum sharing and collaboration among campuses, and share an expanding body of digital library resources among the campuses. Emerging technologies will allow the University to integrate voice, video, and data networks across campuses in support of multi-media

learning.

The University must make wise and timely investments to ensure that UC students benefit fully from the applications and services made possible by the appropriate use of these technologies. These investments will be costly and will require a variety of funding strategies, including effective use of existing resources. But this will not be enough. New investments are required. Thus, the University is proposing to invest in an Instructional Technology Initiative as part of the 1997-98 budget plan. The Instructional Technology Initiative will fund projects which directly benefit UC students. Providing students with access to state-of-the-art technology, improving the network infrastructure, and expanding the use of technology in libraries and classrooms are key areas in which targeted investments can benefit students.

Student access covers a broad spectrum, including but not limited to:

- tutorials and workshops on the availability and use of computing and telecommunications services;
- basic e-mail services, connections to campus networks and the Internet;
- easy student access to or ownership of a computer; and,
- access to both general and specialized computing and multi-media labs both for specific classroom use as well as homework assignments and research projects.

Networks provide the foundation of instructional technology by linking desktop to desktop, dorm room to classroom, building to building, and the campus to the world. UC's networks provide students with the opportunity, for example, for remote computer-assisted instruction and access to digital databases. Efforts are underway to link up each building's offices, labs and classrooms; to link buildings to the central campus "backbone"; to link campus to campus and to other segments of education; and to link the University with resources, worldwide.

Libraries are central to any institution of higher education, but especially a research university. The University's libraries will be challenged as never before by the evolving technologies, as they strive to accommodate and use digital capabilities while continuing to serve their traditional print based functions. The University=s library system is at a critical juncture. The combined effects of budget constraints and escalating prices for library materials--coupled with the growth in demand for digital documents and only minimal relief in the demand for print--have placed the University=s libraries at risk. The University has initiated a major planning effort to develop a new systemwide library plan that will establish the framework for UC libraries over the next five to ten years. Clearly, technology will play an important and ever-increasing role in the University=s libraries.

In the context of planning for the future, the University will also look at ways that

instructional technology can be effectively used in the classroom by:

- Identifying successful models in which technology has been used to enhance teaching and learning;
- fostering information sharing and professional development for faculty;
- providing low cost, efficient technical assistance to faculty by employing students through work study programs;
- improving mechanisms for the dissemination of courses and curriculums which utilize advanced technologies.

The Instructional Technology Initiative will be a partnership: students will be asked to pay a modest fee and the State will be asked to provide funds to match the fee paid by students, while campuses will be expected to seek funding or in-kind contributions from industry and to maintain or increase their own resource commitments to instructional technology. Funding for the Instructional Technology Initiative will be phased in over three or four years. A new mandatory annual Instructional Technology Fee of $40 is recommended for implementation beginning in 1997-98 to fund the Initiative, raising an estimated $4 million in fee revenue, net of financial aid. When fully implemented, the Instructional Technology Fee will be approximately $200 annually. The Instructional Technology Fee is discussed in the Student Fee section of this document.

The Instructional Technology Initiative will be implemented primarily at the campus level. However, collaborative planning in certain areas such as libraries and networks may increase efficiency and effectiveness by implementation at the system level. The new resources generated by the Initiative can be used by campuses for any or all of the following purposes:

- Improved teaching and learning (e.g., incorporation of learning technologies into the curriculum and specialized digital laboratories).
- Improved support to students (e.g., electronic mail, Web resources, new or expanded on-line course enrollment, and help desks dedicated to students).
- Improved access to library resources (e.g., on-line electronic reserves and textbooks, and new or expanded digital library collections).
- Improvements to network infrastructure (e.g., improved or expanded student Internet access, support for distance learning, remote library access, other inter-campus network applications, and long-term capital projects).

Additional Priorities for Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the California economy continues to grow, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, or all, of the priorities identified. Additional funding for the Instructional Technology Initiative is among the identified priorities.

Full implementation of the Instructional Technology Initiative is dependent upon a shared funding strategy in which the State, industry, the campuses, and students will be asked to share the cost of enhancing the University=s delivery of instruction through new technologies. Assuming that the State=s revenue situation permits, the University will request an additional $4 million--above the compact--to match the $40 Instructional Technology Fee that UC students will be asked to pay.

Longer-Term Enrollment Planning: 1999-2000 Through 2005-06

Over the past two years, the University has been engaged in a planning process focused on long-term enrollments. Planning issues were discussed with The Regents in a series of presentations that began in September 1994 with undergraduate demand, and continued in 1995 with transfer students and graduate academic and professional students. These efforts were summarized in the May 1995 report to The Regents, *Anticipating Enrollment Growth: How Much? How Soon?; Enrollment Projections within a Strategic Planning Framework for the University of California, 1995-2005*.

This report describes three periods of enrollment growth. During a period of relatively stable demand through 1998-99, enrollment will be restored to early 1990s levels. Then, through 2005-06, UC anticipates a period of moderate growth as displayed in the figure below. Undergraduate enrollment is projected to grow to 129,000 FTE students and graduate enrollment to 29,700, for a total of 158,700 FTE students in 2005-06. Compared to budgeted FTE enrollment of 138,000 in 1995-96, this represents growth of about 20,000 students over 10 years, as shown in the figure on the next page. Finally, beginning in 2006-07, UC enrollment demand is expected to increase at higher annual rates, corresponding to the arrival of ATidal Wave II.@ [3] The report recommended annual monitoring of key demographic and financial indicators to modify and update enrollment forecasts, adding new information as it becomes available.

In 1996, consistent with the report=s recommendations, the University examined key demographic and financial indicators that affect enrollment growth. Although a review of these factors did not modify short-term enrollment estimates, it did highlight uncertainties in longer-term projections. Because of these uncertainties, the University will review the data on an annual basis to see if adjustments need to be made. One

[3]The State Department of Finance has developed a 20-year projection of high school graduates, permitting a good look at the magnitude of Tidal Wave II, the demographic bulge now in the K-12 educational pipeline. In 2006, students comprising Tidal Wave II are expected to reach college age, at which time the annual growth rate will jump to about four percent, compared to the one to two percent growth over the intervening period. This higher rate is expected to drop back to less than two percent within a few years.

reason for uncertainty is that the actual rate of UC eligibility among public high school graduates may have changed since the last eligibility report, which was based on data from 1990. A new high school eligibility study will be completed by the California Postsecondary Education Commission (CPEC) in fall 1997. The University=s projections of undergraduate enrollment growth may be affected by the findings of the CPEC Eligibility Study. The University is also reviewing its plans for graduate enrollment growth.

Excel Chart

Based on the State=s renewed commitment to higher education and provided the University maintains its current share of the State's general fund budget, UC will be able to continue meeting its obligations under the Master Plan. However, because of the State=s ceiling on debt capacity, the University is concerned that capital resources will not be sufficient to support the renewal and modernization of UC=s existing facilities and to accommodate growth.

The University plans to continue to monitor enrollment factors and planning assumptions annually in order to adjust, if necessary, projections of future enrollments at the undergraduate as well as the graduate academic and professional levels. Within this framework, currently the University is engaged in a consultative process to develop enrollment plans for each campus through 2005-06. In addition to awaiting the outcome of the CPEC Eligibility Study, there are several issues that UC is examining which will be important in establishing these plans:

- The nature and scope of undergraduate admissions in a competitive intercampus context. The University plans to learn more about the ways in which undergraduate admissions processes on the eight general campuses affect each other.

- The potential impact of constrained capital funding during an extended period of enrollment growth. There is concern that future capital funding will fall short of meeting the University=s facility and infrastructure needs related to enrollment growth. The University is trying to identify cost saving practices, incentive systems, and changes in program delivery that might minimize the amount of new space needed.

- The method of distributing growth in graduate student enrollments throughout the system. There is growing recognition that campuses will not soon reach the levels of graduate enrollment proposed in 1988. Campuses are considering carefully the State=s need for graduate education, their ability to provide adequate financial support for graduate students, and their need to build and maintain quality programs. The University is encouraging collaborative graduate programs among campuses as a method for sharing strengths and making best use of resources.

Assuming that sufficient operating and capital resources can be provided, the University intends to continue to honor the Master Plan. The University believes it will be possible to accommodate projected increases in undergraduate and graduate students expected between 1999-2000 and 2005-06, although it will not be easy. It will require increases in State funding and student fees that will support enrollment growth, maintain competitive faculty salaries, and keep pace with inflation and fixed cost increases. Budget increases will need to be accompanied by the University=s efforts to continue improving productivity, restructuring, and developing additional revenue sources, particularly private funds. This level of funding will not, however, solve some critical long-term funding problems such as libraries, instructional equipment, deferred maintenance, and ongoing building maintenance.

With respect to the capital budget, campuses should have adequate space to accommodate planned enrollments through 1997-98, although the University must continue to make progress on seismic safety, infrastructure needs, and renovation, modernization, and renewal of existing facilities. However, in order to accommodate the projected increase in student enrollment beginning around 1998, the University will need more than the $150 million per year agreed to under the four-year compact--probably closer to the $250 million per year that was provided during the 1980s when enrollments were growing rapidly.

Graduate Academic and Professional Enrollment

The enrollment plan presented to The Regents in 1988 provided for a three percent annual increase in general campus graduate students between 1988-89 and 2005-06, which would have taken every campus to a minimum of 20 percent graduate enrollment. Expectations at that time warranting this growth included:

- National projections for large numbers of retiring faculty, plus the need for

additional faculty to teach an upsurge in college enrollments after the mid-1990s.

- Projections of shortages in and new job markets for advanced degree holders in the biomedical sciences, natural sciences and engineering.

- Assumptions that a continually increasing California population would require proportionate increases in the number of graduates in professional programs.

Today the picture looks very different. Several of the trends that formed the basis for earlier expectations have changed. It is difficult to determine how much of the change in these trends is due to temporary adjustments to demanding times and how much is due to more enduring societal and economic restructuring. The following factors now need to be taken into account in defining the optimal level of graduate enrollment.

There are concerns about the ability of the University, the State and the federal government to provide sufficient support for graduate students. The majority of UC research assistantships and 28 percent of *all* graduate student support (excluding loans and personal income) are funded from federal research grants and contracts. Proposed reductions in federal funding for research is especially troubling for science and engineering which depend heavily on this source of funding. As discussed in the Research section of this budget, both the Congress and the President are committed to substantial reductions in domestic spending in order to balance the federal budget. This means that funding for many major agencies that support basic research could be decreased, resulting in less support for graduate student research assistantships. At the same time, it is expected that there will be fewer and smaller graduate fellowships and several of the smaller aid programs likely will be consolidated or eliminated. Because federal grant funding is expected to increase only slightly, students will be required increasingly to turn to loan funding for assistance in financing their education.

Although new faculty will be needed, it is not clear how faculty hiring patterns might have changed nationally because of changes in student-faculty ratios, the use of technology, and the use of part-time faculty. Additional faculty will be needed to teach the growing numbers of undergraduate students in the out-years of the planning period, and therefore additional doctoral students will be needed.

There is also uncertainty about marketplace conditions and employment opportunities in business, government, and industry. Cutbacks in defense spending and other reductions in government programs; restructuring in both the private and public sector; and the economic recession have clear effects on employment opportunities. At the same time, new demands are arising in connection with new fields and restructuring. The growth of the California economy, significantly dependent on high-technology fields, should create substantial increases in demand for holders of advanced degrees in science and engineering.

Given the long lead-time required to prepare advanced degree holders, it is important not to underestimate the number of graduate students the University should be

enrolling. Colleges and universities in California and the nation will need new faculty, and businesses and industries will expand their reliance on advanced degree holders. Many newly emerging businesses locate near university settings in order to capitalize not only on the creativity of faculty, but also on relations with graduate students as researchers-in-training or as future employees. In fact, graduate education is probably the University's most effective technology transfer mechanism. The University's faculty maintain productive and long-lasting collaborations with their former graduate students who take positions in universities, government, and the private sector. In addition, the University is uniquely positioned to contribute to the development of professional and high-technology fields in the 21st century by establishing research directions that advance the economy and by training individuals who will carry these advancements into the workforce.

It may well be that the rapid growth in workforce needs projected by earlier studies has not disappeared but has instead been delayed by the recession. Indeed, a recent national study of graduate education concluded that, while new doctorates in science and engineering are taking somewhat longer to obtain positions, virtually all find jobs and the overall demand for scientists and engineers appears to have remained strong, with increasing numbers employed in business and industry. This trend is expected to continue.[4] Finally, given an anticipated rapid increase in undergraduate enrollments after 2005, there probably will be renewed growth in demand for new faculty after 2005 as well; these individuals will need to begin Ph.D. preparation well before the year 2005.

In response to this uncertain environment, the University is planning for more modest growth in graduate student enrollment than was projected in 1988. *Some* growth is important, both to keep pace with California's needs and because graduate students are an integral part of the educational process in a research university. Consequently, the University believes that reducing UC's graduate enrollments below the existing Universitywide proportion would be a mistake for California. While the graduate enrollment proportion of 23 percent planned in 1988 is now less viable given the uncertainties in some job markets and in federal financial support for graduate education, the current proportion of about 19 percent should be sustained over the next decade.

Accomplishments Under the Compact with Higher Education

The 1995-96 and 1996-97 budgets for the University were based on the four-year compact with higher education which describes planned levels of State budgetary support through 1998-99. The outcomes below focus on agreements included in the four-year compact with higher education as well as the University=s own expectations for instruction.

The primary agreements with the State focus on providing students with the opportunity

[4]National Academy of Sciences, National Academy of Engineering and Institute of Medicine, *Reshaping the Graduate Education of Scientists and Engineers*, Washington, D.C.: National Academy Press, 1995

to graduate in a timely manner; maintaining the quality of teaching and undergraduate student access to the University; and working cooperatively with other segments of higher education.

Timely Graduation

Despite the unprecedented fiscal losses of State funding experienced in the early 1990s, the University has been successful in maintaining students= time to degree. The average undergraduate student takes approximately four years and one quarter to obtain the baccalaureate degree, a figure that has changed very little since 1975. Moreover, the University has an excellent record of student retention and over time has improved persistence. Graduation rates have never been higher. Based on the most recent data available, 34.7 percent of the 1989 freshman entering class graduated in four years or less; 69.3 percent in five years or less; and 77.2 percent of the 1988 freshman entering class graduated in six years or less.

The Supplemental Report to the 1994 State Budget Act states:

> It is the intent of the Legislature that the UC establish programs by 1995-96 to offer a four-year degree pledge on each campus so that students, who agree to follow the necessary course schedule and make appropriate academic progress in the time frame specified, get the courses and counseling they need to complete their degrees in four years.

In a March 1995 report, the University affirmed its support of the premise underlying the above supplemental language, namely, that UC should ensure there are no institutional barriers that would keep students from moving expeditiously through their curricula and graduating in four years if they so desire. The report pointed out that, based on an examination of student persistence, graduation, time-to-degree, and student survey data, for the most part *institutional* factors such as insufficient course availability are *not* impediments to graduation at the University. On the other hand, the University intends to do more to communicate institutional expectations about the appropriate time to degree, and where necessary, try to change student expectations about normative time to degree.

Students have the ultimate responsibility for taking advantage of the courses and academic advising that are available to them. Campuses believe that the goal of ensuring that students continue to be able to move expeditiously through their curricula can be reached by assertive provision of information and academic advising for all students who indicate an interest in completing a baccalaureate in four years or less.

All eight of the general campuses have implemented finish-in-four plans which have as their primary goal the provision of information to students that will enable them to make plans and decisions that will result in four-year degree completion. Students who wish

to graduate in four years are encouraged to clarify their academic goals as early as possible after matriculation, to confer with campus advisors to work out appropriate course schedules, and to consult regularly with their academic advisors so as to stay on track. In addition to the finish-in-four initiatives, UC campuses have adopted a number of other practices to ensure that students can make timely degree progress. These efforts revolve around increased faculty teaching, managing the curriculum, increased use of retired faculty, and administrative efficiencies.

In March 1997 the University will report its most recent information about undergraduate persistence, graduation, and time to degree. The report will also describe each of the general campus finish-in-four initiatives, the experiences to date, and any planned changes or enhancements to the initiatives. Other efforts to enable and encourage students to complete their degrees in four years will also be described.

During the 1992-93 budget process, the University and the Legislature agreed on supplemental language regarding faculty teaching workload. Pursuant to that language, in March 1996, the University submitted its fourth annual report to the Legislature titled *Undergraduate Instruction and Faculty Teaching Activities*. The report describes faculty efforts to maintain and improve the quality of undergraduate education even in a constrained budgetary context. UC faculty have worked hard to ensure that required courses are available and that efforts to increase interaction with undergraduate students have been sustained. The March 1996 report indicates that during the period 1990-91 through 1994-95 regular faculty teaching workload, as measured by primary classes per FTE faculty, showed an increase of about 6.9 percent, on average. This increase is equal to about one class per FTE faculty every three years. Moreover, despite severe budgetary constraints, the number of classes offered per student remained about the same during this period.

UC=s faculty time use studies have shown that UC faculty members devote on average over 60 hours per week to University-related activities, including about 26 hours of instructional activities, 23 hours of research and creative activity, and about 12 hours of University and public service and professional activity. Surveys reported by the National Center for Educational Statistics show similar faculty work-weeks and time spent on teaching at other public research universities.

Student Access and the Quality of Teaching

The University continues to maintain its commitment to the Master Plan to provide a place on one of the UC campuses to all eligible students who wish to attend. As a reflection of that, and of students= perceptions of the value of a UC education, California first-time freshman applicants increased 14.2 percent between fall 1991 and fall 1996 (from 40,228 to 45,939). The entering class of new freshmen grew by 14.0 percent between fall 1991 and fall 1995 (from 19,305 to 21,999). New transfer student enrollment increased 16.6 percent, from 8,424 to 9,820 students.

The University is examining ways to ensure that it can continue to provide access to all

eligible students and give them a high-quality education. One effort to maintain access makes use of the digital network for outreach to potential UC students. In collaboration with IBM, the University is expanding the use of a computer-assisted guidance and admissions program known as *Pathways*. This program allows prospective applicants to access information about the University, to receive timely and up-to-date guidance information, and to apply for admission electronically. Ultimately, students will be able to store a cumulative record of their achievements in a safe location online, and to compare courses they are taking with UC requirements. An interactive feature allows students to ask questions and receive answers from an admissions counselor online. A financial aid planning component is being added for fall and winter applications and, if approval is obtained from the State Department of Education, a financial aid application will be added. The program was piloted at three high schools and three community colleges last fall and has been expanded across the State to 56 institutions for the 1996-97 academic year. It is anticipated that all students will be able to apply electronically to the University through Pathways for the 1997-98 academic year.

The University is committed to instructional improvements in order to maintain instructional quality within available resources. The University will continue to seek to ensure that undergraduate students have an opportunity for frequent interaction with faculty, including the ability to participate in research and to enroll in small class settings taught by regular faculty. At the graduate level, the University will seek to ensure continued excellence of its academic and professional programs and to ensure that the programs are reasonably sized in relation to State and national need.

The use of instructional technology is widespread and a variety of digital techniques are used on all UC campuses to enhance instructional quality and promote access. A great deal of information about the University is now available on the World Wide Web, including courses in how to use the Internet. It is essential that students at all levels have access to state-of-the-art instructional technology. In March 1997 an All-University Conference will bring together faculty, students, administrators, and The Regents to increase understanding of how learning technologies can be most effectively deployed to help the University fulfill its mission.

The Committee on Intercampus Networking and Instructional Technology for Academic Purposes (CINITAP) is helping to plan the University=s future with respect to distance learning, academic networking, and the digital library initiative. The committee is charged with developing an overall vision and specific goals for the use of technology in instruction, research, and public service; identifying factors that encourage or inhibit the use of these technologies in teaching and learning; recommending changes in academic policy; and improving the coordination of academic programs within the University and with other segments of education in California.

In November 1994, the Office of the President established the Intercampus Academic Program Incentive Fund (IAPIF), a competitive grants program intended to support creative intercampus instructional initiatives. The program has strengthened traditional departments by enabling them to mount robust programs despite losses of key faculty

members and to foster intercampus instructional collaborations. After this initial two-year period, the program is being modified so that some funds are targeted to particular disciplines. For example, as a result of a universitywide retreat of history chairs and faculty, the University=s history departments have begun joint planning, including the development of proposals for graduate-level intercampus initiatives in various subspecialities such as the history of science, Latin American history, and the history of the American West. History departments are undertaking a universitywide workshop to train teaching assistants in the use of Internet Web technology in the teaching of American history. A universitywide conference on global history is being planned for spring 1997 which will serve as a training ground for faculty and graduate students in this emerging field. Other disciplines will develop similar joint efforts.

Intersegmental Cooperation

Increased cooperation and coordination among the segments of higher education has begun to demonstrate results, particularly with respect to transfer of students and course credits. In the last five years, community college transfer applications to the University have increased about 13 percent; and in fall 1995, UC enrolled 9,019 transfer students from the community colleges, which is the largest number in the University=s history. This improvement is reflected in an increase in the percentage of undergraduates enrolled at the upper division level, from about 54 percent in 1987-88 to more than 60 percent in 1992-93 through 1995-96. The University intends to continue its efforts to improve the transfer function from the community colleges. As requested in the 1996-97 Governor=s Budget, the University will submit a report in fall 1996 on its efforts to increase the Aportability,@ that is the transfer, of course credit among the three segments of higher education.

The University has developed several initiatives designed to stimulate increases in the number of community college students who transfer to UC. For example, Project ASSIST, which was developed by the University in concert with CSU and the community colleges, is a statewide computerized articulation and transfer planning system that provides students and counselors access to information about the transferability of community college course credits to specific UC and CSU campuses. ASSIST currently is available at 54 community colleges and another 20 institutions will be added in 1996-97. The database contains transfer agreements with local community colleges that provide the transfer student with a set of precise requirements necessary to satisfy admission to many of the specific UC majors or colleges on all UC campuses.

Moreover, all UC campuses have approved the use of the Intersegmental General Education Transfer Curriculum (IGETC) which allows students to complete all UC general education breadth requirements before transferring. The University has revamped its process of reviewing the curriculum of all California community colleges to ensure conformity to course articulation guidelines for acceptance of community college coursework for UC credit. The review is now completed each year, rather than over a two-year period, and employs streamlined regulations which result in a more efficient course approval process. Finally, in a review that has resulted in new transfer eligibility

requirements to take effect in fall 1998, UC faculty recommended a greater emphasis on community college coursework rather than high school eligibility and specified in more detail the elements of a community college curriculum that will help to ensure students= academic preparation for upper division work at the University.

The University=s programs that facilitate intersegmental cooperation are discussed more fully in the Public Service section of this budget.

Changes in Admissions Policy

In July 1995 the Board of Regents adopted a resolution, known as SP-1, which prohibits the University from using religion, sex, race, color, ethnicity, and national origin as criteria for admission to the University. The new admissions policy will apply to undergraduate students entering in spring 1998 and to graduate and professional students entering in fall 1997.

In order to implement The Regents= new undergraduate admissions policy as expressed in SP-1, the University developed new applicant selection guidelines which were issued by the President in July 1996. Within the framework of the guidelines, each UC campus will develop its own admissions criteria which will be reviewed by the Office of the President prior to implementation. The admissions guidelines:

- Revise the University=s admissions policy so that no less than 50 percent and no more than 75 percent of the regularly admitted class is selected solely on the basis of academic achievement.

- Expand academic criteria beyond grades and test scores to provide a more comprehensive view of an applicant=s academic achievements and potential.

- Provide other criteria to further assess a candidate=s potential to succeed and to contribute to the educational environment of the campus. These criteria range from special talents, to academic accomplishments in light of the candidate=s life experiences and special circumstances to the location of the applicant=s secondary school and residence.

- Enable campus admissions officers to make decisions based on a broad array of information with the objective of building a high achieving and diverse UC student body.

In addition, changes have been made to the Policy on Undergraduate Admissions by Exception. This policy continues to give campuses the flexibility to admit a small proportion of students who do not meet the University=s eligibility requirements but who demonstrate a reasonable potential for success at the University. It has been the University=s policy to allow up to six percent of newly enrolled students to be admitted by exception even though they do not meet the eligibility criteria. The revised policy

excludes consideration of religion, sex, race, color, ethnicity, and national origin. However, it states that within the six percent, up to four percent can be disadvantaged, that is, students from low socio-economic backgrounds or students who have experienced limited educational opportunities.

Campuses now are in the process of developing campus-specific criteria for implementing the new admission guidelines, while the systemwide application form and other publications are being revised. Once these are finalized, the revised admissions information will be given to counselors, students, and their families in time for the October 1997 deadline for admission to the spring 1998 quarter.

Proposition 209, which will appear on the November 1996 ballot, would prohibit the University from giving preferential treatment to any individual or group in employment, education, or contracting on the basis of religion, sex, race, color, ethnicity, and national origin. If the proposition is approved by the voters, the University could be required to accelerate the elimination of these criteria in its admission decisions.

Faculty Hiring

In July 1995 The Regents adopted a resolution, known as SP-2, related to employment and contracting practices. SP-2 prohibits the University from including the use of religion, sex, race, color, ethnicity, and national origin as criteria in its employment and contracting practices, effective January 1, 1996. The resolution also stated, however,

that nothing in this action Ashall prohibit any action which is strictly necessary to establish or maintain eligibility for any federal or state program, where ineligibility would result in a loss of federal or state funds to the University.@

To ensure compliance with regard to employment practices, including faculty hiring, the University ensured that policies and practices do not rely on race or gender as criteria in employment actions and that there is equal access to job opportunities; clarified that development programs for academic and staff personnel are available to all qualified individuals and that announcements need to reflect that condition; and assured that while meeting the goal of SP-2 the University also will meet its legal obligations as a federal contractor.

As a federal contractor, the University is required to prohibit discrimination, support equal employment opportunity, and maintain affirmative action plans in areas where there is underrepresentation. The University=s academic personnel policies continue to prohibit discrimination and require selection of the most qualified candidate. To ensure compliance with SP-2, University policies were reviewed and all language was removed which might be read to imply that race or gender could be among the factors considered when two candidates have qualifications that are substantially equal. The University has also clarified that development programs for staff and academic personnel are

available to all qualified individuals and that announcements will reflect this condition. Any faculty development program which formerly targeted underrepresented minorities or women is now open to any qualified applicant and all awards are made without regard to religion, sex, race, color, ethnicity, and national origin.

Tables on the next page display faculty ranks by ethnicity and gender for the period 1979 to 1995, and undergraduate and graduate enrollment by ethnicity for 1985 and 1995.

Instructional Equipment Replacement

The University's need for Instructional Equipment Replacement (IER) is defined as the estimated annual depreciation of instructional equipment, such as that used in foreign language or science laboratories, which still has a useful life. The State began funding this need in 1976-77, and provided full funding from 1984-85 to 1990-91. Since then, there have been substantial shortfalls in funding, with a current shortfall of about 40 percent. The University=s IER budget of $29.7 million would require an increase of $21.7 million to restore full funding for 1997-98. Absent a budget increase, 1997-98 will be the eighth consecutive year in which IER funding falls far short of need, thus contributing to a cumulative shortfall of more than $180 million since 1990-91. Over time, full funding for instructional equipment replacement must be provided in order to maintain the quality of instructional programs and prevent further increases in this shortfall.

UNIVERSITY OF CALIFORNIA

Number and Percent of Ladder and Equivalent Rank Faculty
by Ethnicity/Race and Gender (1)
1979 and 1995

	MEN						WOMEN							
FACULTY	African American	American Indian	Asian American	Chicano/ Latino	White	Subtotal	African American	American Indian	Asian American	Chicano/ Latino	White	Subtotal	Total Minority	Grand Total
All Ranks														
1979	100	17	292	150	5,331	5,890	21	4	37	21	614	697	642	6,587
	1.5%	0.3%	4.4%	2.3%	80.9%	89.4%	0.3%	0.1%	0.6%	0.3%	9.3%	10.6%	9.7%	100.0%
1995	113	12	534	222	4,410	5,291	57	8	154	80	1,221	1,520	1,180	6,811
	1.7%	0.2%	7.8%	3.3%	64.7%	77.7%	0.8%	0.1%	2.3%	1.2%	17.9%	22.3%	17.3%	100.0%
Tenured only														
1979	64	13	235	105	4,480	4,897	7	1	11	10	328	357	446	5,254
	1.2%	0.2%	4.5%	2.0%	85.3%	93.2%	0.1%	0.0%	0.2%	0.2%	6.2%	6.8%	8.5%	100.0%
1995	86	10	389	174	3,863	4,522	31	5	77	47	908	1,068	819	5,590
	1.5%	0.2%	7.0%	3.1%	69.1%	80.9%	0.6%	0.1%	1.4%	0.8%	16.2%	19.1%	14.7%	100.0%
Non-Tenured														
1979	36	4	57	45	851	993	14	3	26	11	286	340	196	1,333
	2.7%	0.3%	4.3%	3.4%	63.8%	74.5%	1.1%	0.2%	2.0%	0.8%	21.5%	25.5%	14.7%	100.0%
1995	27	2	145	48	547	769	26	3	77	33	313	452	361	1,221
	2.2%	0.2%	11.9%	3.9%	44.8%	63.0%	2.1%	0.2%	6.3%	2.7%	25.6%	37.0%	29.6%	100.0%

(1) Data includes only those faculty with FTE of .99 or greater. Data for 1995 includes those with Acting titles. All ranks include Assistant, Associate, and Full Professors. Tenured rank includes Associate and Full Professors. Non-tenured rank includes Assistant Professors only. Asian American includes East Indian/Pakistanis and Filipino Americans.

UNIVERSITY OF CALIFORNIA - DOMESTIC STUDENT ENROLLMENT

Undergraduate Enrollment 1985 - 1995
Number and Percent of Total Responses

	African American	American Indian	Chicano	Latino	Underrep. Minority	Asian	East Ind./ Pakistani	Filipino	White	Total Responses (1)	Total Enrollment (2)
1985											
Number	4,441	601	5,453	2,700	13,195	15,987	2,802	2,959	68,922	103,865	106,870
% of Total	4.3%	0.6%	5.3%	2.6%	12.7%	15.4%	2.7%	2.8%	66.4%	100.0%	
1995											
Number	5,016	1,240	12,036	4,988	23,280	33,779	4,680	4,988	50,135	116,862	121,738
% of Total	4.3%	1.1%	10.3%	4.3%	19.9%	28.9%	4.0%	4.3%	42.9%	100.0%	
# Change	575	639	6,583	2,288	10,085	17,792	1,878	2,029	(18,787)	12,997	14,868
% Change	12.9%	106.3%	120.7%	84.7%	76.4%	111.3%	67.0%	68.6%	-27.3%	12.5%	13.9%

Graduate Enrollment 1985 - 1995
Number and Percent of Total Responses

	African American	American Indian	Chicano	Latino	Asian	East Ind./ Pakistani	Filipino	Subtotal Minority	White	Total Responses (1)	Total Enrollment (2)
1985											
Number	937	182	1,048	684	2,545	471	161	6,028	20,972	27,000	29,819
% of Total	3.5%	0.7%	3.9%	2.5%	9.4%	1.7%	0.6%	22.3%	77.7%	100.0%	
1995											
Number	1,327	234	1,577	1,050	4,517	1,142	488	10,335	18,705	29,040	30,881
% of Total	4.6%	0.8%	5.4%	3.6%	15.6%	3.9%	1.7%	35.6%	64.4%	100.0%	
# Change	390	52	529	366	1,972	671	327	4,307	(2,267)	2,040	1,062
% Change	41.6%	28.6%	50.5%	53.5%	77.5%	142.5%	203.1%	71.4%	-10.8%	7.6%	3.6%

NOTES:

(1) Total number of students who provided ethnic/racial status.

(2) Includes students who declined to state their ethnic identity.

HEALTH SCIENCES INSTRUCTION

1996-97 Budget	
Total Funds	$556,766,000
General Funds	246,008,000
Restricted Funds	310,758,000
1997-98 Increase	
General Funds	--
Restricted Funds	$13,185,000

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

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

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

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

As the University prepares to enter the 21st century, there are dramatic changes taking place in the state and nation's health care delivery system that will have a profound effect on future health manpower needs and on health sciences education. After reviewing the recent history of health sciences enrollment growth within the University, the nature of these changes and the potential effect on programs, along with the University's response will be outlined in this section.

Health Sciences Enrollment and Budget History

In 1970, the University submitted a comprehensive ten-year plan for the health sciences to the State. In spring 1975, the University submitted a revised plan for the health sciences, based on an extensive reevaluation of programs and resource requirements and an attempt to provide a reasonable balance between the State's needs for health care professionals and the State's ability to finance the projected growth. This plan was accepted within the University and approved by the executive and legislative branches of the State government. Operating budget resources to accommodate health sciences enrollment growth in the 1970s were provided by the State. Facilities to accommodate the enrollment growth were funded by the 1972 Health Sciences Bond Issue. Enrollment levels envisioned in the 1975 plan were largely achieved by 1981-82.

By 1982-83, however, the State's fiscal problems and downward revisions of estimated future health manpower needs led to a number of decisions which significantly reduced the enrollment levels achieved as a result of the earlier plan. Beginning in 1982-83, the University made significant reductions in budgeted health sciences enrollments as a result of the factors discussed below:

The 2.5 Percent Budget Reduction, 1982-83

Among the actions taken in response to the 2.5 percent reduction of the University's base budget in the 1982 State Budget Act was a cut of $3.6 million from health sciences instructional programs. This cut required enrollment reductions totaling 388 students in medicine, dentistry, nursing, and veterinary medicine. These cuts were phased over a period of four years in order to allow enrolled students time to complete their degrees.

Loss of Federal Capitation Funds

Beginning in 1972-73, the federal government instituted a capitation grant program to encourage the expansion of enrollments in the health sciences. The University budgeted these funds as an offset to State support. Although the University considered the basic educational costs of these programs to be primarily a State responsibility, federal income contributed significantly to their support, peaking at $6.4 million in 1974-75. Beginning in 1979-80, federal capitation funds were reduced significantly and by 1981-82, were eliminated for all health sciences schools except public health. In 1981-82, capitation funds for public health were reduced significantly. The funding level for public health remained fairly constant until 1990-91, when the enabling federal legislation expired and capitation funds were phased out.

Although the State recognized the elimination of the capitation funds by providing partial replacement funding totaling $3.3 million, the University's health sciences schools were left, nonetheless, with a $2 million deficiency. Because of this deficiency, and in order to maintain the quality of the instructional programs in the health sciences schools, the University reduced all entering class sizes in 1982-83 by two-to-five students each, for a total of 35 professional students. The progression of these reduced class sizes over a four-year period resulted in a total reduction of 140 professional students in the health sciences schools by 1985-86. This reduction was in addition to the enrollment reduction resulting from the 2.5 percent budget cut discussed above.

Legislative Reduction of Non-Primary Care Residency Positions, 1982-83

A legislative reduction of $2 million for medical residency positions in non-primary care specialties in 1982-83 required elimination of 267 such positions in 1983-84. No residency positions could be eliminated in 1982-83 because applicants had already been accepted at the time of the legislative action.

Budget Reduction, 1983-84

In addition to the enrollment reductions discussed above, further reductions were required due to elimination of certain fixed-cost funds from the University's 1983-84 budget. The 1984 State Budget Act restored only a portion of these funds; the remainder represented a permanent reduction of the University's budget. The University decided to take $5 million of this cut by reducing enrollment in health sciences programs by 398 students and by reducing the budgets of the neuropsychiatric institutes by approximately 2.8 percent, phased over a four-year period beginning in 1985-86. The net reduction of 398 students included students in medicine (210 residents and 42 family nurse practitioners), dentistry (84 D.D.S. students and 21 residents), nursing (37 graduate professional students), and public health (50 B.S. students and

6 graduate professional students), partially offset by an increase of 24 graduate academic students in nursing and 28 graduate academic students in public health.

As a result of the factors discussed above, health sciences budgets were reduced by

$12.6 million during the period 1982-83 through 1988-89, resulting in enrollment reductions totaling 1,193 students in existing programs. During the same period, workload increases totaled 384 students for selected or new programs, including 218 students in the Drew/UCLA Medical Education Program.

The State began to experience further fiscal problems in the late 1980s. These problems escalated in the early 1990s, eventually developing into a major fiscal crisis for the State. As part of an overall plan to accommodate a shortfall of over $300 million in State funding in 1991-92, the University reduced total budgeted enrollments by 5,500 FTEs, which included 412 health sciences students. Although the 1992-93 Governor's Budget provided funding for new enrollment growth of 100 health sciences graduate academic students, the funding increase associated with this enrollment growth was more than offset by an undesignated cut of $224 million in the 1992 State Budget Act.

During the early 1990s, University budgets were cut by a total of $433 million. The University offered three early retirement programs as one means of coping with cuts of this magnitude in such a short time frame. As a result, health sciences programs lost a number of senior faculty, and student-faculty ratios deteriorated. In order to maintain the quality of the health sciences instructional program, a substantial portion of the vacant faculty positions must be refilled. Income from the newly established Fee for Selected Professional School Students (net of financial aid) will be used in part for this purpose.

The table on the next page compares total enrollment and the enrollment for certain entering professional students for the years 1970-71 (prior to the passage of the Health Science Bond issue), 1981-82, 1982-83, 1989-90 and 1998-99 (planned). The table shows that after increases in the 1981-82 period, enrollments decreased due to budget cuts. Under the four-year compact with higher education, health sciences total enrollments are expected to remain essentially steady through 1998-99, with increased emphasis on training primary care physicians.

Fee for Selected Professional Schools

The Fee for Selected Professional Schools was charged to fall 1994 first-time students. The Fee has become a permanent feature for that class and all subsequent classes in medicine, dentistry and veterinary medicine. Beginning in fall 1996, a similar fee is being charged to students in nursing, optometry and pharmacy. In charging the fee, the University reconfirmed its commitment to maintain academic quality and enrollment in the designated professional school programs. An amount equivalent to at least one-third of the total fee revenue is used to provide supplemental financial aid to help maintain the affordability of a professional school education. The remaining revenue is used to sustain and enhance the quality of the professional schools academic

Health Sciences Year-Average Headcount Enrollments:

Total Enrollments and First-Year Class Size for Selected Programs

	1970-71 Budgeted	1981-82 Budgeted	1982-83 Budgeted	1989-90 Budgeted	1998-99 Budget Plan	
Total Health Sciences	7,015	12,750	12,217	12,022	12,000	
First-Year Class Size:						
Medicine	429	652	622	622	622	
Dentistry	175	216	197	176	168	
Veterinary Medicine		83	129	122	122	122
Pharmacy	93	120	117	117	117	
Optometry	54	68	65	65	65	

programs and student services, and to fund costs related to instruction. Professional fee income will be used to help fill a portion of faculty positions vacated through early retirements, thereby treating the health sciences and the general campus programs similarly with respect to net budget cuts. The Fee for Selected Professional Schools is discussed in more detail in the Student Fees section of this document.

Issues for Medical Education

Managed Care

The University's health sciences instructional programs are operating in a dynamic, increasingly complex environment. While the historical influences, both external and internal, on the University's long-range academic planning for the health sciences persist, powerful new factors have emerged. To quote from the November 1995 Third Report of the Pew Health Professions Commission, titled *Critical Challenges: Revitalizing the Health Professions for the Twenty-First Century:*

American health care is experiencing fundamental change. What was recently conceived as a set of policy changes for reform is now being lent the form and weight of institutional reality by the enormous power of the trillion dollar health care market. In five brief years the organizational, financial and legal framework of much of health care in the U.S. have been transformed to emerging systems of integrated care that combine primary, specialty and hospital service... Within another decade 80-90 percent of the insured population of the U.S. will receive its care through one of these systems.

California is at the forefront of the rapid emergence of managed care as a dominant vehicle for health care delivery. Managed care is a term broadly applied to a range of

structural reorganizations and innovations aimed at improving patient health or reducing health care costs. Managed care delivery systems use primary care physicians, physician assistants and nurse practitioners to provide preventive and primary care intervention in outpatient clinical settings to reduce the subsequent need for more costly hospitalization and specialist services later on. This is affecting the University's health education program in two ways.

First, there is pressure on academic programs to conform to projected future health manpower needs. The University is encouraged to produce more primary care physicians and allied health professionals, and fewer specialists; to incorporate more training in outpatient rather than inpatient settings; and, to reexamine other aspects of traditional health sciences curricula.

Second, managed care is undermining the financial stability of the University's medical centers, which support the clinical teaching programs of the University's five schools of medicine as well as programs in the other health sciences schools. Hospital revenues that exceed annual expenses, the "operating margins" of the medical centers, are used to modernize facilities, meet working capital needs, expand primary care networks, maintain up-to-date medical equipment, and support the patient volume needed for the instructional and research programs. With managed care's emphasis on providing care in an outpatient setting, inpatient days at the medical centers are declining, and consequently, so are hospital inpatient revenues. As managed care delivery systems evolve, cost-based and charge-based (fee-for-service) reimbursement are being phased out in favor of competitively established, fixed-price payments. Generally, these negotiated rates do not recognize the higher costs of academic medical centers related to their concomitant teaching and research-related activities.

Paying for the Costs of Medical Education

In September 1995, the Council on Graduate Medical Education (COGME)--established by Congress to provide guidance on graduate medical education and issues related to the physician workforce--issued updated workforce projections in its sixth report titled *Managed Care: Implications for the Physician Workforce and Medical Education*. In addition to concerns that there is an oversupply of physicians in general, and specialists in particular, the report points out what the University medical centers already are experiencing, that the growth of managed care is likely to result in decreased financial support for medical education at both the undergraduate and graduate levels with a potentially adverse impact on quality if alternative sources of funding are not identified.

The COGME report strongly urges collaboration among medical schools, teaching hospitals, managed care organizations, accrediting bodies, governmental agencies, and others as necessary to produce physicians in the requisite overall numbers, specialty mix, and clinical competencies to meet the nation's health needs. Specific recommendations are made which recognize the unique mission and higher operating costs incurred by teaching hospitals as a result of their medical education and research responsibilities, predominance of specialist faculty and relative lack of primary care

infrastructure, more complex patient mix, and historic commitment to caring for the uninsured and underinsured.

Medicare reimbursements currently recognize teaching costs but that may change as a result of budget cuts at the federal level. Despite substantial success in containing costs, the cost of services provided by academic medical centers are higher than non-teaching institutions. For example, there are the direct and indirect costs associated with training medical residents, and research and development costs associated with keeping the academic program current. Increasingly, the negotiated rates the teaching hospitals are forced to accept do not recognize these instructional costs, and there are reduced opportunities for offsetting the resulting reimbursement shortfall to charge-paying private patients. Unless alternative sources of funding are found to support education-related costs, enabling the medical centers to compete on equal terms with non-teaching institutions for market share, the operating margins of the University's medical centers will likely continue to decline, with negative consequences for the academic program.

Consistent with the concerns about future funding for graduate medical education in a clinical setting, the University commissioned The Lewin Group to determine the reasons for and magnitude of the differences in the cost of services provided by teaching hospitals and by non-teaching institutions. Preliminary findings are that the difference in costs-per-case between teaching and non-teaching large urban community hospitals is not as significant in California as in other states as a result of the California teaching hospitals efforts to cut costs. Nonetheless, the preliminary findings confirms that, even in California, teaching hospital costs are higher than community hospital costs.

In response to language in the Supplemental Report of the 1996 State Budget Act, the University has formed a work group to further identify the nature of the financial problems of the University s teaching hospitals and develop alternative solutions. This is discussed in the Teaching Hospitals section of this document.

Increasing the Training of Generalists

While the changing workforce requirements of a reformed health care system will affect all of the health sciences professions, initial projections have tended to focus attention on the nation s supply of generalist and specialist physicians, and the extent to which the number and distribution of such physicians are consistent with foreseeable workforce needs. The COGME s 1994 report projected a nationwide shortage of 35,000 generalist physicians and a surplus of 115,000 specialists by the year 2000. A subsequent analysis commissioned by the Health Resources and Services Administration (HRSA) for COGME estimated that the projected supply of generalists in the year 2000 might be closer to demand, while the specialist surplus could be as high as 150,000 physicians nationwide.

The projected national shortage of generalist physicians is an example of the interaction between external factors and the University's academic planning. This national issue

has focused attention on the role of medical schools in shaping the career choices of medical students and the need for these schools to increase the national supply of primary care physicians. In response to the increasing emphasis on primary care at the national level and to a specific legislative initiative in California, the University undertook a study of issues related to the State's need for primary care physicians and the University's role in filling this need.

A first report in June 1993, titled *Changing Directions in Medical Education: A Systemwide Plan for Increasing the Training of Generalists*, outlined the University's plans to increase emphasis on primary care training for medical students and residents. These planned changes included, but were not limited to, changes in medical student admission processes and curriculum, increases in the number and proportion of primary care residency positions at each campus, and significant concurrent reductions in the total systemwide number of non-primary care positions.

At the request of the Governor, the University assessed its ability to accelerate the timetable for achieving the planned increases in primary care residency training and planned decreases in non-primary care specialty training. In June 1994, the University submitted a second report titled, *Changing Directions in Medical Education: 1994 Update on Systemwide Efforts to Increase the Training of Generalists*, to the Governor and the Legislature. This report identifies revised goals for 2001-02, exceeding those identified in the first report, for increasing the number of medical residents training in primary care specialties.

Also in response to a request from the Governor, the University developed a memorandum of understanding with the Office of Statewide Health Planning and Development regarding issues related to the University's primary care training goals. Consistent with this document and the provisions of supplemental language adopted in conjunction with the 1994 State Budget Act, the University agreed to provide annual reports to the Governor and the Legislature through the year 2003 on progress toward meeting its primary care expansion goals. As a result, a third report, the *1995 Update*, was issued in February 1996, and the most recent fourth report, the *1996 Update*, was issued in March 1996.
At the time the fourth report, *Changing Directions in Medical Education: 1996 Update on Systemwide Efforts to Increase the Training of Generalists,* was issued approximately three and a half years had passed since the University initiated efforts to increase the number and proportion of generalist physicians trained. During this period, major changes within UC medical schools and teaching hospitals occurred in response to the expansion of managed care health delivery systems. Among those evident at the undergraduate medical school level are visibly increased student interest in generalist specialities; ongoing curricular changes to strengthen and sustain primary care interest throughout medical school; and continuing growth in the number and proportion of UC graduates planning to pursue residency training and future careers in generalist specialities.

At the graduate level, data in the fourth report confirm that the UC medical schools

continue to meet previously identified targets for achieving longer-term goals for expanding family practice and other primary care training and reducing non-primary care programs. The enrollment data in the current report indicate that the UC medical schools have met or exceeded the University's 1995-96 projected targets for: (1) increases in the number of family practice residency positions; (2) increases in the total number of primary care positions; and (3) decreases in the total number of non-primary care positions. This should enable the University to meet the targets for the year 2001-02. The targeted and actual 1995-96 distribution of UC medical residents, and the corresponding net changes from 1994-95, are shown in the table on the next page. A comparison of the targets by specialty for 2001-02 as compared with the 1992-93 base year and 1995-96 enrollments actual also are shown.

Planning Efforts

Health Sciences Colloquium 1996

The projected changes in academic programs required as a result of managed care extend beyond medicine to all the health sciences disciplines. In April, 1996, a colloquium was convened to bring together administrators and faculty responsible for health sciences within the University of California to discuss issues of relevance to the missions of the seven health sciences disciplines represented within the University.

As with two earlier forums, the colloquium was organized to provide for examination and discussion of the special internal and external environmental pressures affecting the University's fourteen health sciences programs. The conference enabled discussion between the schools of dentistry, medicine, nursing, optometry, pharmacy, public health, and veterinary medicine, on such issues as managing health professions

PLANNED CHANGES IN NUMBER OF MEDICAL RESIDENTS (1)
Progress Toward Increasing the Number of Primary Care Residents

Medical Residents by Specialty: Number and Percent

1995-96 Actual Compared with 1994-95 Target and Actual Distribution

SPECIALTY	Actual 1994-95		1995-96				Change From 1994-95	
			Target		Actual			
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Family Practice	644	14%	680	15%	688	15%	44	7%
Other Primary Care	1,466	33%	1,467	33%	1,494	33%	28	2%
Non-Primary Care	2,353	53%	2,342	52%	2,320	52%	(33)	-1%
GRAND TOTAL	4,463	100%	4,489	100%	4,502	100%	39	1%
Primary Care Subtotal	2,110	47%	2,147	48%	2,182	48%	72	3%

1992-93 Base Year Compared with 1995-96 Actual and 2001-02 Projected

SPECIALTY	Base Year 1992-93		Actual 1995-96		Actual Change From 1992-93 Base		Projected 2001-02		Projected Change From 1992-93 Base	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Family Practice	521	12%	688	15%	167	32%	885	20%	364	70%
Other Primary Care	1,413	33%	1,494	33%	81	6%	1,494	34%	81	6%
Non-Primary Care	2,405	55%	2,320	52%	(85)	-4%	1,953	45%	(452)	-19%
GRAND TOTAL	4,339	100%	4,502	100%	163	100%	4,332	100%	(7)	-0%
Primary Care Subtotal	1,934	45%	2,182	48%	248	13%	2,379	55%	445	23%

(1) As reported in the University's March 1996 report titled, "Changing Direction in Medical Education: 1996 Update on Systemwide Efforts

curricular challenges in a changing environment, and the future organization and financing of health sciences education.

Presidents Retreat

Sensitive to the need for collaborative action between educational institutions, the University is proposing that the University and the presidents of the four private California universities with schools of medicine plan a retreat to review key issues facing medical education in California. The four private universities are the Charles R. Drew University of Medicine and Science, Loma Linda University, Stanford University and the University of Southern California.

Commission on the Future of Medical Education

Recognizing that it is essential to tailor health sciences education programs to meet Californias future requirements for health care professionals, the University has established a Commission on the Future of Medical Education. The Commission will examine a wide range of issues related to the education and training of the medical workforce and the delivery of health care. It will focus on developing recommendations for transforming medical education programs to ensure that the States physician workforce needs of the next century are met. The Commission expects to finalize a report during the spring of 1997.

As UC medical schools and medical centers look to the future, the University remains committed to meeting previously established primary care expansion goals, while striving to maintain a long tradition of excellence in health sciences education and responsiveness to societal health needs. Meeting these challenges successfully will require increasing collaboration among educators, teaching hospitals, managed care organizations, and others to ensure that the quality of patient care and medical education continue to meet the high standards of American medicine and modern society.

SUMMER SESSIONS

1996-97 Budget	
Total Funds	$29,274,000
General Funds	--
Restricted Funds	29,274,000
1997-98 Increase	
General Funds	--
Restricted Funds	$1,740,000

University of California Summer Sessions are self-supporting programs offering courses both for degree credit and for selected specialized programs. The summer degree programs offer a broad spectrum of instruction, with each campus determining its own course offerings.

In 1996, approximately 52,500 persons enrolled in Summer Sessions offerings. Specialized Summer Sessions programs provide refresher courses for new and continuing students and enable students to accelerate progress toward degrees by enrolling in, for example, intensive language courses. In addition, most campuses have special programs for new or potential students who have academic deficiencies.

UNIVERSITY EXTENSION

1996-97 Budget

1996-97 Budget:	
Total Funds	$180,800,000
General Funds	--
Restricted Funds	180,800,000
1997-98 Increase:	
General Funds	--
Restricted Funds	$10,800,000

University Extension is a self-supporting operation and its offerings are dependent upon user demand and ability to pay fees. Extension programs are offered by every campus except San Francisco. There are several statewide programs, including Continuing Education of the Bar and the Center for Media and Independent Learning.

In 1995-96, there were over 425,000 registrations in Extension offerings, making it one of the largest extension operations in the United States. About 18,400 different courses, programs, seminars, conferences, and field studies were held throughout California and in a number of foreign countries. Two-thirds of Extension's offerings are designed to serve the continuing educational needs of professionals. Major program areas are: environment and hazardous materials management, business and management, alcohol and drug use studies, English as a second language, engineering, the sciences, education, and the arts and humanities. In addition, a number of community affairs programs and public service activities are also conducted, often supported by grants or contracts.

RESEARCH

1996-97 Budget:	
Total Funds	$321,827,000
General Funds	196,559,000
Restricted Funds	125,268,000
1997-98 Increase:	
General Funds	$2,000,000
Restricted Funds	-40,000,000

The 1960 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 strive to expand fundamental knowledge of human nature, society, and the natural world. Knowledge discovered in the University's basic research programs has yielded a multitude of benefits, ranging from technological applications which increase industrial and agricultural productivity to insights into social and personal behavior which help improve the quality of human life. Through its public service activities, the University strives to improve the dissemination of research results and to translate scientific discoveries into practical knowledge and technological innovations which benefit the State and nation.

As it furthers fundamental knowledge, faculty research also enhances instruction, especially undergraduate education, in several significant ways. By engaging in research, an instructor keeps up with developments in the field and is able to communicate to students firsthand the sense of excitement and adventure that accompanies the pursuit and discovery of new knowledge. Faculty research also often stimulates change in the curriculum, improvement of teaching material, and development of new courses and even new disciplines, particularly in rapidly advancing fields like genetics, microelectronics, and information and computer sciences. Finally, it affords students the opportunity to develop research skills and work in a creative research environment, often alongside top scholars engaged at the cutting edge of knowledge in their fields. For example, undergraduate students on all campuses are able to participate in research projects under the direct guidance of a faculty member. Programs such as the Student Research Program at Los Angeles and the Faculty Mentor Program at San Diego provide undergraduates with exposure to a university research setting, one-to-one contact with senior faculty, development of skills of inquiry and problem solving, and acquisition of knowledge in a discipline of interest.

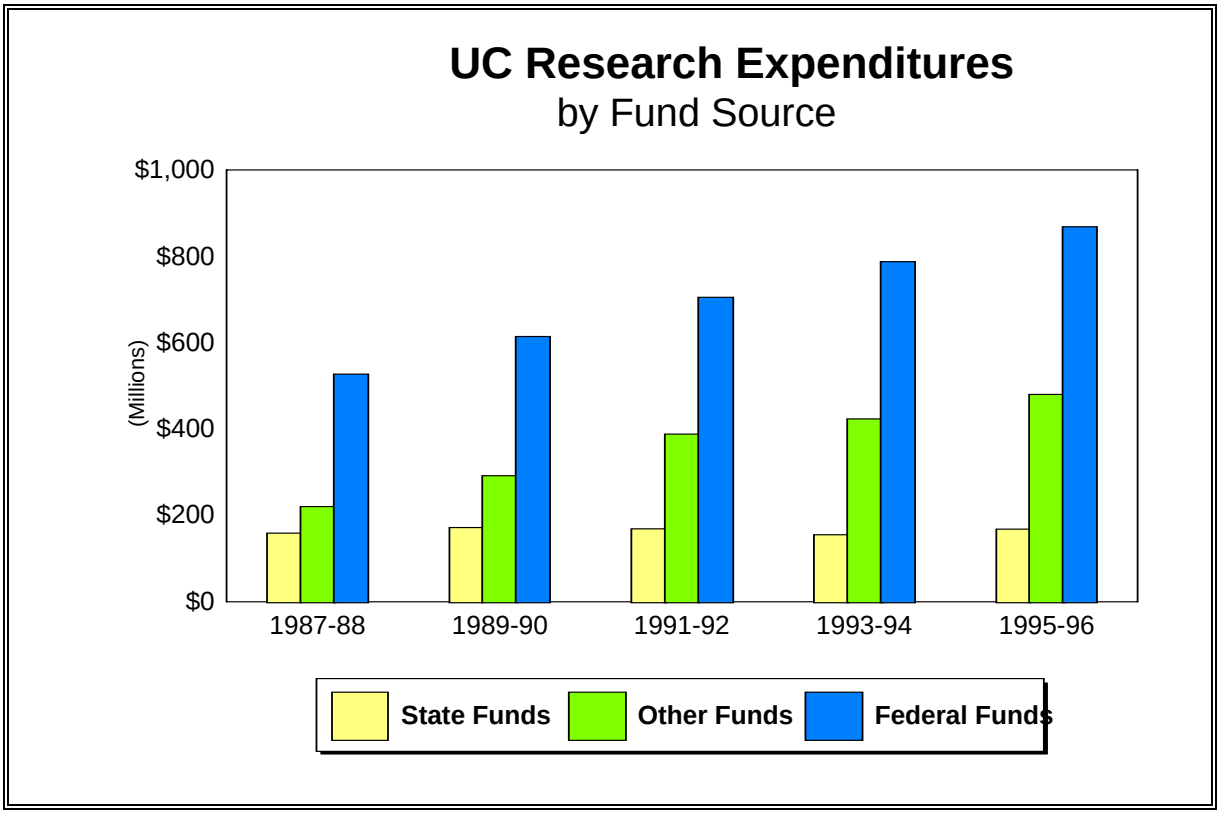
Research Support

Due to the State of California's fiscal problems, the University experienced severe budgetary shortfalls during the 1990s. As a result, University budgets were cut by $433 million or about 20 percent of the 1989-90 State-funded budget. Additional base budget reductions totalling $40 million by 1998-99 are anticipated due to required productivity improvements under the four-year compact with higher education. These problems may be greatly compounded by cuts in federal funding in order to balance the federal budget by 2002.

In order to accommodate the budgetary shortfalls of the early 1990s, the University made deep reductions to Organized Research, including a State-mandated cut specific to the Organized Research budget in 1990-91. The cumulative effects have impaired the University's overall research capability, leading to setbacks in many program areas. Reductions in State funding may have further long-term consequences. For many University research programs, State funds are the core that attracts extramural funds so necessary for the conduct of major research projects. For research programs in fields for which there is little or no extramural funding, most notably in the arts and humanities, State funds represent the major or only support available.

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 establishment, disestablishment, or merger of ORUs 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."

The State's support of University research represents an investment in the future. The University's continued capacity to conduct research and generate fundamental new knowledge is vital both to further the educational process and to serve the long-term economic and social needs of California and the nation.



University research is supported from a variety of fund sources. The following graph shows research expenditures by fund source over the past decade. For 1996-97, of approximately $1.7 billion in projected expenditures for research, about $1.3 billion is expected to come from extramural sources, $197 million from State general funds, $125 million from restricted funds, and $70 million from Regents' funds. The substantial extramural funds are received primarily from the federal government (approximately $878 million) and from private individuals and foundations (approximately $297 million) in the form of contracts, grants, and gifts. The restricted funds include approximately $1 million of special State funds for transportation research, approximately $15 million of special State funds to support a program on breast cancer research, and approximately $60 million of special State funds to support a coordinated statewide program of tobacco-related disease research to be administered by the University. Approximately $40 of the $60 million for the Tobacco-Related Disease Research Program is one-time funding that had been set aside in the past few years pending resolution of litigation. Of the $197 million received from the State in general fund support, approximately 49 percent is allocated to Agriculture; 20 percent to single-campus Organized Research Units (ORUs); 6 percent to Multicampus Research Units, which are ORUs involving several campuses; 22 percent to other research activities not formally constituted as ORUs or MRUs, such as the University-wide programs in AIDS, microelectronics, biotechnology, and toxic substances research; and 3 percent to individual faculty research.

1997-98 Funding Request

State of California Supercomputer Center ($2,000,000 Increase)

The State of California Supercomputer Center, located at UC San Diego, was established in 1985 as one of four national supercomputer centers sponsored by the National Science Foundation (NSF). It has been a successful endeavor with participation from the State of California, other universities, and industry. This facility serves as a national laboratory for advancing basic science and engineering research and industrial competitiveness by providing access for business, industry, and academic institutions to high-performance computational technologies. Some 5,000 academic and industry researchers, teachers and students from more than 240 institutions, working on hundreds of projects in a wide variety of disciplines, have access to the Supercomputer Center.

The Center has proven to be a wise investment for the State. Since 1985, the Center has received an annual appropriation of $1 million from the State. This, combined with another $1 million annually in University resources, has leveraged more than $200 million in total research funding, including more than $150 million from NSF, over the past ten years.

California is now at risk of losing its Supercomputer Center. NSF has decided to discontinue the current supercomputer program as of September 30, 1997 and institute in its place a new program called Partnership for Advanced Computation Infrastructure (PACI). Since this new program will probably consist of only two nationwide centers instead of four, the competition for PACI funding will be intense. Ten pre-proposals were submitted to NSF in April. One of these was submitted by UC San Diego on behalf of a national consortium, the UC-PACI Partnership, that includes the other UC campuses, the three Department of Energy national laboratories managed by UC, CalTech, Stanford University, the California State University system, other universities and numerous businesses such as IBM, Sun Micosystems and TRW. In this proposal, the UC-PACI Partnership has requested an annual budget of $35 million from NSF, with the expectation that this funding will be matched by an equal amount from state, local, and private sources. NSF has stated that state financial support will be one of the principal criteria used in determining which proposals to fund. Final proposals to NSF are due September 3, 1996 and final decisions are likely to be made in December 1996.

Success of the UC-PACI Partnership proposal will be important for the State of California because a new NSF national Supercomputer Center will provide many major benefits:

- The existing Center already contributes significantly to California□s technology-based economy by attracting a wide variety of business and industry participants and allowing them to design new and competitive products quickly and

effectively. The new Center will build on this, acting as a magnet to attract more business and industry in high technology fields.

- Access to the Center's high-performance computing infrastructure will create an incentive for highly trained workers to locate and remain in California and will attract the best faculty and graduate students to California universities.

- The Center will enable many businesses, large and small, in such important areas as communications, entertainment, and the health care industry, to take advantage of state-of-the-art information technologies. It will position California as a world leader in the development and implementation of these technologies, which are increasingly critical to economic competitiveness.

- Most of the Center's total proposed budget of $70 million ($35 million in NSF funds and $35 million in matching funds) is expected to remain in California each year, multiplying as it is respent through the economy.

To bolster California's chance of success in the NSF PACI competition, the 1996 State Budget Act included a $1 million augmentation to fund the purchase of state-of-the-art equipment upgrades for the State of California Supercomputer Center. These upgrades will help distinguish the UC-PACI Partnership proposal from other competing proposals. The 1996 State Budget Act also included supplemental language stating the Legislature's intent to provide $3 million each year from 1997-98 through 2001-02. This funding, which is in addition to the $1 million annual appropriation the Center has received from the State since 1985, will be used to help support the Center, representing an important cost sharing element in the proposal to NSF. In accordance with this language, the University is requesting an augmentation of $2 million in State funds for 1997-98 in order to bring total new State funding for the Center up to a level of $3 million.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the California economy continues to grow, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, or all, of the priorities identified. A second increment of funding for the Industry-University Cooperative Research Program is one of the identified priorities.

Economists attribute fifty percent of this nation's economic growth since World War II to investment in research and development, with university-based research playing a key role. California's economic vitality has long been linked to cutting edge research conducted at the University of California. UC research has resulted in new products and industries, creating millions of jobs for Californians, providing billions of dollars to the State and countless improvements in the quality of life. However, what has been learned is that superb research and expertise, though essential, are not enough. The

bridge to industry is key. Collaborative public-private ventures are vital to ensuring the research necessary for the development of new technologies and products that create economic growth.

The dramatic success of programs like UC MICRO, which helps California electronics companies improve their competitiveness and develop the technologies for new products, or UC CONNECT, which links high-technology entrpreneurs with financial, technical and managerial resources, has demonstrated how much public-private partnerships can accomplish. For example, since it was established in 1981, the MICRO Program has attracted more than $103 million in new private sector funding for UC research and education. For 1996-97, it has received sponsorship from approximately 110 companies, with contributions amounting to $8.7 million to fund 190 projects.

With California's long-awaited economic recovery underway, now is the time to invest more in building the bridges that link UC research with business. The University has taken the lead by initiating a new research effort called the Industry-University Cooperative Research Program. Building on the kind of successful model established by the MICRO Program, this competitive grants research program is designed to help the State's economy by boosting productivity and creating jobs. Under the program, a UC researcher joins with a scientist or engineer from a company to develop a research proposal. A panel of experts reviews and then selects proposals for funding. The University and industry shares in the funding of each project. The program focuses on applications of basic research that show the most promise for the development of new products and processes. Through this initiative, the University will accelerate its activities to facilitate and speed the transfer of ideas from the laboratory to the marketplace.

During the program's first year (1996-97), efforts focus in two areas: (1) the start-up of the biotechnology STAR Project, a new Industry-University matching grant initiative in the field of biotechnology, and (2) the identification and development of other specific fields of research for funding in future years. California is home to one-third of all biotechnology firms in the U.S., all located within 35 miles of a UC campus. This industry generates over $5 billion in annual revenues for California. Six of the ten best-selling biotech drugs stem from UC research and 40 percent of California biotech companies were started by UC scientists. The STAR Project aims to keep this young industry competitive and on the cutting edge by forging critical linkages between UC and California businesses through collaborative biotechnology research.

An Advisory Group, comprised of representatives from industry, State government, and the UC faculty, has the responsibility of identifying fields for future Industry-University research in which, similar to biotechnology, there are emerging opportunities and needs. It also oversees a process of developing a comprehensive funding proposal for each targeted field that describes the specific opportunities for economic development and documents the broad interest and support by both California business and the UC campuses, including private sector letters indicating intent to commit funding. Among the fields that will be considered initially are multi-media/informational technology,

transportation, and environmental technology.

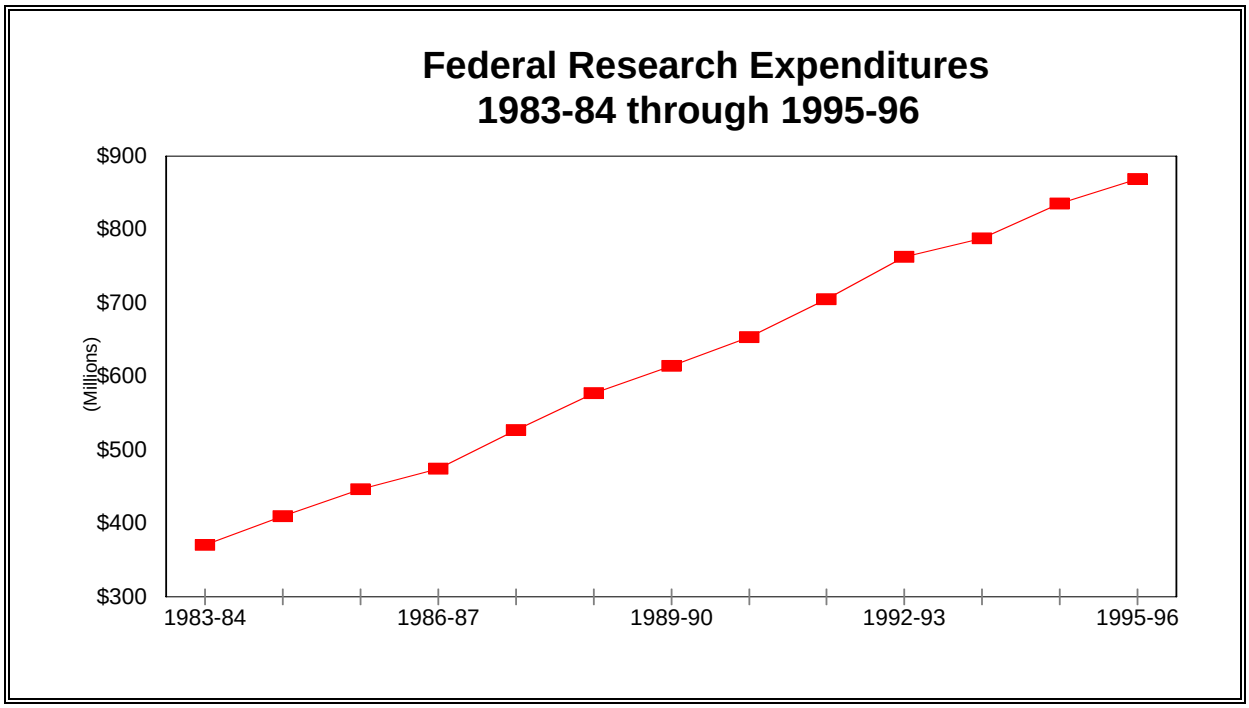
For 1996-97, the University committed $3 million of it own funds and the State has provided an augmentation of $5 million to launch the Industry-University Cooperative Research Program. This represents the first phase of a proposed multi-year plan to build the program's annual budget to a level of $40 million. Under this plan, increased funding would be phased in over time, reaching targets of $15 million annually in State support and $5 million annually in University support. Matching industry funds would eventually provide an additional $20 million annually. This combined funding total of $40 million is in addition to the $13.3 million in State and industry support received by the MICRO Program. The University is hopeful that the first increment of $5 million in State funding will be continued and that, when the State's fiscal situation permits, a second increment of funding will be provided for the Industry-University Cooperative Research Program.

This is a strategic time to expand Industry-University research partnerships not only because of California's recovering economy, but also because of the expected significant decline in federal spending for research over the next few years. With these reductions in federal funding looming on the horizon, it is even more important to increase efforts to seek out new fund sources and expand existing ones, particularly private funds, to support those research activities that will be of economic benefit to the state.

Federal Funding

Federal funds are the University's single most important source of support for research, accounting for approximately 57 percent of all University research expenditures in 1995-96. As shown on the following graph, in the last dozen years federal support for research at the University has grown dramatically. Between 1983-84 and 1988-89, with a commitment to research as a national priority by both the President and the Congress, annual federal research expenditures increased by an average of approximately nine percent. Since 1988-89, the focus of the federal government has been on deficit reduction. As a result, while expenditures have continued to increase significantly, the rate of growth has slowed down, dropping to four percent in 1995-96.

The outlook for federal support of research in the immediate future is not encouraging. Last year saw a fundamental debate between Congress and President Clinton on how to balance the federal budget. The outcome of this debate has been an agreement to balance the budget in seven years (from fiscal year 1996 through fiscal year 2002). There has also been agreement to use the Congressional Budget Office estimates as a basis for planning. The plan will include reductions in the growth of the Medicare and Medicaid programs, welfare, and in domestic discretionary spending as well as some tax relief. There has been no agreement reached on the level of reductions or the trade-off between cuts in programs and tax relief. Furthermore, major differences remain over entitlement reforms, such as whether to provide block grants to states for Medicaid.



The University continues to be very concerned about the unresolved issues surrounding reforms in the Medicare and Medicaid programs. Substantial savings from these programs is an integral part of the plan to balance the budget in seven years. Therefore, if an eventual agreement on these reforms is reached that does not yield enough savings, there will be pressure to further reduce domestic discretionary program spending, the portion of the budget from which the University gets most of its federal funds.

As a result of the debate over how to balance the budget, the 1996 budget process was unusually long and tortuous. It wasn't until April, seven months into the fiscal year and after two unprecedented federal government shutdowns, that Congress and the President agreed upon the funding levels for many federal programs. For research, the final funding picture for 1996 showed little growth in overall federal support. The National Institutes of Health (NIH) was the only major agency to receive an above inflation increase, at nearly six percent over last year's funding level. The National Science Foundation (NSF), Department of Defense, and Department of Energy each received below-inflation increases for research, as well as suffering substantial cuts to some specific programs. Funding for the National Endowment for the Arts and the National Endowment for the Humanities was reduced by almost 40 percent. These cuts are significant since the two programs are the single largest source of support for arts and humanities activities nationwide.

Both the Congress and the President are committed to substantial reductions in domestic discretionary spending in order to balance the budget in seven years. As a result, federal funding for research, which has grown over the past four decades in the context of an expanding funding base for discretionary programs, will now suffer reductions in the context of a shrinking funding base. Based on the Congressional Budget Resolution passed last June, the American Association for the Advancement of Science (AAAS) has estimated that federal spending for civilian (that is, nondefense) research and development will decline steadily between 1995 and 2002. As shown on the chart, when estimated inflation is taken into account, this will mean a loss in real purchasing power of about 23 percent over the seven year period. This figure is more favorable than last year's 33 percent estimate by AAAS because this year's Congressional Budget Resolution has given a higher priority to research. However, it still represents a substantial reduction in purchasing power over these seven years.

While funding for research overall is expected to decline significantly during this period, some individual agencies will fare better than others. These programmatic funding differences, as discussed below, reflect current Congressional research priorities, based on the recent Congression Budget Resolution and the 1997 appropriations bills that are now under consideration.

- **National Institutes of Health**. It appears that NIH biomedical research has the strongest support of any research program. Despite the overall reduction in domestic discretionary spending, NIH has been flagged by Congress for priority funding. As a result, for fiscal year 1997, NIH funding is proposed to increase between four and seven percent and there is optimism that it will continue to increase at or above inflation-adjusted levels over the next few years. NIH funding is critical to the University. In 1994-95, the latest year for which data are available, NIH contract and grant awards to UC investigators amounted to approximately $670 million and constituted a little more than half of all federal research support for the University. (Note: figures for research awards are usually significantly higher than figures for research expenditures, which are discussed above, because awards include both direct and indirect costs while expenditures include only direct costs; also, award figures are often multi-year in character while expenditure figures reflect only one year's activity.).

- **National Science Foundation**. NSF research is also relatively well treated, with a five percent increase in funding proposed for fiscal year 1997. For the succeeding five years the Congressional Budget Resolution assumes a three percent increase per year which will allow NSF funding to keep pace with inflation. NSF is the second largest source of federal contract and grant awards to the University. In 1994-95, UC researchers received $204 million in NSF research awards, which represented approximately 16 percent of all federal research funds for the University in that year.

- **Defense**. For fiscal year 1997, Department of Defense (DOD) funding for university research is proposed to receive a relatively generous increase of about six percent over current levels. However, there is much disagreement within Congress and the White House over defense spending and research funding

Civilian R&D under budget knife

Proposed cuts in civilian research and development over seven years as required by the congressional budget resolution.

Total funding reduction
In 1995 dollars

1995	$34 billion	
2002	$26 billion	-23%

Categories, amount cut (billions):

Space (-$2.2)	-23%
Health (-$1.4)	-12%
Energy (-$1.7)	-44%
Commerce (-$0.6)	-46%
Agriculture (-$0.3)	-17%
NSF* (-$0.2)	-7%
Transportation (-$0.4)	-54%
Interior** (-$0.2)	-29%
Environment (-$0.2)	-32%
Other (-$0.6)	-45%

*National Science Foundation supports basic science research
**Interior includes U.S. Geological Survey, Bureau of Mines, National Biological Survey

Source: American Association for the Advancement of Science

continues to be vulnerable to disproportionate cuts whenever the department's overall budget is reduced. Research funding in the out-years is also uncertain but is currently on a path to keep pace with inflation. DOD is the third largest source of federal contract and grant awards to the University, accounting for approximately $128 million in UC research awards or almost 10 percent of total federal research support for UC in 1994-95.

- **Energy, Agriculture and NASA**. Faring less well is research funded through the Departments of Energy (DOE), Agriculture, and NASA, which in combination accounted for approximately $150 million in UC research awards or a little over 11 percent of total UC research funding in 1994-95. At the Department of Energy, which has been targeted for elimination by the Republican leadership, funding for basic research is likely to remain flat overall in fiscal year 1997 with select research areas seeing more dramatic increases and decreases. In the out-years, DOE research is expected to follow a similar pattern of shifting priorities for different areas within an overall budget that is held slightly below current levels. Funding for the Department of Agriculture also remains flat for 1997 and then is expected to decline slightly. At NASA, which continues to be off the Congressional priority list, funding for science,aeronautics and technology research is cut by three percent for 1997 and then declines another five percent in the succeeding years.

- **National Endowments for the Arts and the Humanities**. After the significant cuts of last year, funding for the National Endowment for the Arts and the National Endowment for the Humanities is expected to be held flat in 1997. At present, Congress still intends to phase out all funding for these two programs over the next two years.

Reimbursement for the indirect costs associated with federal research is likely to continue to be a major policy issue. If the new Congress remains committed to balancing the budget, the pressure to control costs in order to free up more funds for research and other programs throughout the federal budget will grow. It is possible that efforts will be made to cap indirect cost reimbursements and further reduce the cap on administrative indirect costs.

Benefits of Research

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 1995-96, the University spent approximately $1.2 billion dollars received from the federal government and private sources for research--almost seven times the amount provided from the State for research.

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

- Many commercial enterprises in California are either based on UC-developed technology or were founded by faculty or students trained at UC. In 1993, UC San Diego identified 50 such companies, which together employ more than 7,000 people and have an annual payroll in excess of $300 million. UC scientists founded one in five biotechnology companies in California, including three of the world's top companies, Genentech Inc. of South San Francisco, Chiron Corp. Of Emeryville, and Amgen Inc. of Thousand Oaks. California biotechnology companies collectively account for nearly half of the biotech

industry's annual sales in the U.S. and employ more than 40,000 people in California.

Agriculture

- Agriculture, which in 1995 was a $22 billion industry and accounted for $65 billion (or 9.5 percent) of the State's personal income and 1.4 million (or nearly one in ten) jobs in California, is highly dependent on UC research. In a recent study on the payback of the State's investment in agricultural research between 1949 and 1985, it was shown that farm production increased nearly 300 percent during this period, with almost half of this growth directly related to research. Moreover, in 1985 alone, more than $5 billion in actual cash farm receipts--over 40 percent of total sales that year--were directly linked to productivity increases realized by farmers as a result of UC research. This correlation continues today, with UC researchers and Cooperative Extension county advisors helping the State's growers maintain a competitive edge in domestic and export markets through the development and adoption of new technologies and innovative farming practices.

- A prime example of UC's research contribution to California agriculture is the success of the state's strawberry industry. California produces more than 80 percent of the nation's strawberries, with a 1995 crop value of $552 million. Average California yields per acre are the highest in the world -- more than 2.2 times the yields per acre in Florida and 4.9 times those in Oregon, the world's next two largest producers. Nearly 90 percent of California's strawberry acreage is planted in UC-developed varieties.

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

Medicine and Other Areas

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

- In areas other than medicine, University researchers are exploring methods for predicting the time and location of earthquakes and ways to design new buildings and modify existing buildings so they better withstand the 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. California's changing transportation needs are being addressed by UC researchers forging ahead in new research areas such as roadway technologies, alternative fuels, and truck safety. Social science research is furthering our understanding of issues critical to

California's social and political well-being. Examples include research on the local impact of the global economy, the changing distribution of ethnic and racial groups in the State, implications of the aging of the population, and public responses to technological advances.

PUBLIC SERVICE

1996-97 Budget:	
Total Funds	$74,729,000
General Funds	28,122,000
Restricted Funds	46,607,000
1997-98 Increase:	
General Funds	--
Restricted Funds	--

Public service includes a broad range of activities organized by the University to serve local communities, students and teachers in the schools and community colleges, and the public in general. Cooperative Extension is the University's largest public service program. Intersegmental programs are another large component of the public service budget. Campus public service, which is almost completely supported by user fees and other non-State fund sources, includes such activities as arts and lecture programs and community service projects. In addition, the University's public service programs include two health sciences programs jointly operated with other schools--the Charles R. Drew University of Medicine and Science and the California College of Podiatric Medicine.

Cooperative Extension

Cooperative Extension has its roots in legislation which established the original land grant university concept. Since its inception in 1914, Cooperative Extension has provided to the citizens of California applied research and educational programs in agriculture and natural resources, family and consumer sciences, community resource development, and 4-H youth development. Its programs are designed to develop applications of research knowledge and bring about their uses by people located in communities beyond the campuses of the University and to bring problems and issues from these communities back to campuses for exploration and research.

Cooperative Extension operates on the basis of cooperative agreements between the University as a land grant institution, the United States Department of Agriculture, and local county governments in California. Off-campus Extension Advisors are based in county offices throughout the State to provide noncredit educational opportunities for adults and youth. They are supported by campus-based faculty and Extension Specialists.

Intersegmental Programs

The focus of intersegmental programs is on motivating and preparing K-12 students to attend college, assisting community college students to transfer to four-year universities, and improving the quality of teaching and curricula in K-12 schools.

Intersegmental efforts are coordinated by two principal organizations, one voluntary and one statutory, which work together on issues of common concern. The California Education Round Table is a voluntary association composed of heads of the education segments. Its goals and objectives for more effective intersegmental relations are carried out by its action arm, the Intersegmental Coordinating Committee (ICC). The ICC is composed of senior policy representatives of the four public education segments. The Intersegmental Budget Task Force (IBTF), previously a separate voluntary association organized at the request of the Department of Finance, is now a subcommittee of the ICC. Composed of senior budget and program representatives from the four public education segments, the IBTF oversees intersegmental resource issues. The IBTF reviews priorities for intersegmental activities, develops an annual intersegmental budget proposal, and ensures that intersegmental projects complement rather than duplicate each other and are consistent with policy directions endorsed by the segments. The second major intersegmental organization is the California Postsecondary Education Commission (CPEC), established by the Legislature to provide advice on postsecondary education issues. CPEC representatives are members of the Round Table and participate on the ICC and the IBTF.

Outreach Services--Commitment to Diversity

The University of California remains committed to diversity as both a powerful tool in educating students for the world in which they will live, and as an essential way of meeting the University's responsibility to prepare future leaders for California's diverse society. Many of the University's intersegmental programs have historically served underrepresented minority students; that is, those students who come from ethnic and racial groups that have disproportionately low levels of UC eligibility. As discussed in the General Campus Instruction section of this document, in July 1995 The Regents approved resolutions that prohibit the University from using race, religion, sex, color, ethnicity, or national origin as criteria for admission to the University or in its employment and contracting practices. Concurrently, The Regents confirmed their commitment to diversity with the following resolution:

> Believing California's diversity to be an asset, we adopt this statement: Because individual members of all of California's diverse races have the intelligence and capacity to succeed at the University of California, this policy will achieve a UC population that reflects this state's diversity through the preparation and empowerment of all students in this state to succeed rather than through a system of artificial preferences.

The commitment to outreach as a tool to assist the University in promoting student achievement, especially among groups with low UC eligibility rates, was reinforced in a November 1995 Regents' resolution identifying the expansion of outreach as one of the University's highest priorities for additional funding when the State's fiscal situation

permits.

The Regents appointed an Outreach Task Force to review current UC outreach programs and recommend ways to improve and expand existing programs and create new programs. This task force, whose members include corporate and business leaders, experts in education representative of all of California's public education segments (K-12, the California State University, the California Community Colleges and the University of California), and students, will meet throughout this fall and is expected to develop recommendations by early 1997. The 32-member panel will also identify new funding sources for outreach programs since outreach is vital for expanding the pool of UC-eligible students.

In collaboration with the Outreach Task Force, the University is engaged in a broad assessment of its outreach programs--their mission, goals, and direction--taking into consideration the increasing importance of high levels of achievement for UC admission, the need to align programs even more closely with schools and with school reform efforts, and demographic changes in the K-12 pipeline that could result in increasing educational stratification along social and economic lines. Outreach resources, especially new resources, will be used to enhance and expand programs by increasing the number of students served, aligning programs with schools through curricular coordination, cooperative work with teachers and counselors, and joint work with school officials. Programs will also seek to promote ties with business and corporate partners in outreach efforts and create stronger ties with parents through outreach programs. And finally, the University will seek to coordinate programs through strategic use of resources and rigorous evaluation procedures.

The 1996 State Budget Act includes an additional $1 million to expand student outreach efforts at the University. Of the $1 million increase, $250,000 is earmarked for academic outreach programs in the Central Valley, a region of the State that has for some time had a lower overall college going rate and a lower than average rate of student eligibility for University admission. The $1 million will be used to expand and enhance student academic development (outreach) programs. The overall goal of these programs is to develop and strengthen the academic skills and interests of students in K-12 and in community colleges so that more young people are academically prepared to gain admission to the University. These programs are described more fully later in this section.

Proposition 209, which will appear on the November 1996 ballot, would prohibit the University from giving preferential treatment to any individual or group in employment, education, or contracting on the basis of race, sex, color, ethnicity or national origin. If

Proposition 209 is approved by the voters, University outreach programs will be reviewed and reconfigured as needed to ensure compliance.

Early Academic Outreach Program (EAOP)

The University's Early Academic Outreach Program (EAOP) guides young people

toward participation and success in postsecondary education and makes available academic resources that substantially improve their chances of achieving these goals. The participants are students whose economic and social circumstances make such achievement, without the benefit of the program, unlikely. Currently, the primary goal of the Early Academic Outreach Program is to increase significantly the number of underrepresented students who are eligible for admission to the University of California. The program accomplishes its goal by identifying potential applicants at the junior high school level and assisting in their preparation for postsecondary education. This program along with others described in this section are currently being reviewed by the Outreach Task Force.

Mathematics, Engineering, Science Achievement (MESA)

The Mathematics, Engineering, Science Achievement Program (MESA) is designed to strengthen the mathematics and science skills of disadvantaged and underrepresented students, with an emphasis on African Americans, American Indians, Mexican Americans, and other Latino Americans, and to increase the number of such students who ultimately make their careers in mathematics-based fields such as engineering and computer science and the physical sciences. The MESA Schools Program (MSP) assists elementary through high school students with academic enrichment, financial aid and academic counseling, parent involvement, study groups, and career exploration. MESA's Success Through Collaboration (STC) works with mostly rural American Indian pre-college students and offers a program similar to the MSP plus culturally relevant activities. MESA pre-college teachers receive special training in science and mathematics that is used to benefit all students, not just MESA participants. At the four-year colleges and universities, the MESA Engineering Program (MEP) provides freshman orientation, academic and career counseling, group study methods, and tutoring to engineering students. The MESA California Community College Program (MESA CCCP) provides academic assistance similar to the MEP so students can successfully transfer to four-year institutions and attain a math-based degree. Because of MESA's success in producing highly qualified technological professionals urgently needed by California industry, over 80 corporations are actively involved in supporting the program. MESA serves as a model for similar programs that have been established in 14 other states.

MESA receives funds through budget appropriations to the University of California, California State University, and the California Community Colleges. MESA also receives support from the independent colleges, federal funds, as well as contributions from industry, private foundations and local school districts. Funding for MESA has been included in the University's budget since the program began in 1970 with the exception of two years (1983-84 and 1984-95) when funding was temporarily shifted to the State Department of Education. In 1994 the Legislature augmented MESA's budget by $1.75 million in Proposition 98 funds in the State Department of Education's budget to increase the number of pre-college students served through MESA's pre-college program and its American Indian Program. However, the 1996 State Budget Act transfers the $1.75 million from the State Department of Education's budget to the University of California's budget. The Governor recommended and the Legislature

agreed that funding be transferred to the University as a result of a settlement agreement related to the California Teacher's Association (CTA) versus Gould lawsuit. This program along with others described in this section are currently being reviewed by the Outreach Task Force.

Puente

The Puente Project was established in 1981 to address the problem of low college persistence and transfer rates of Mexican American/Latino students to four-year colleges and universities. While originally established to focus on Mexican American/Latino students, Puente is open to all students. Puente is jointly sponsored by the University and the California Community Colleges.

Now in 38 of the California Community Colleges, Puente combines innovative teaching and counseling methods with community involvement to provide students with an accelerated writing class, sustained academic counseling, and role models and mentors from the professional community who inspire students to achieve academic and career goals. Since its inception, Puente has trained over 200 teachers and counselors in Puente's proven methods of teaching writing skills and counseling underrepresented students. Over 7,000 students have enrolled in Puente and an estimated 200,000 non-Puente students have benefited from its exemplary staff, student, parent, and community involvement program. Over 2,000 mentors donate over 25,000 hours annually to Puente students. Community colleges with Puente programs transfer 44 percent more Latino students to the University of California than colleges without Puente.

Puente also is in its final year of a four year (1993-1997), privately funded pilot replication project in 18 California high schools.

This program along with others described in this section are currently being reviewed by the Outreach Task Force.

Coordination with the California Community Colleges

Efforts to work with other higher education segments to assist community college students to transfer to four-year universities have been very successful. In the last five years, community college transfer applications to the University have increased about 13 percent; and in fall 1995, UC enrolled 9,019 transfer students from the community colleges, which is the largest number in the University's history.

As requested in the 1996-97 Governor's Budget, the University will submit a report in fall 1996 on its efforts to increase the portability and transferability of courses among the

three higher education segments.

The University has developed several initiatives designed to stimulate increases in the number of community college students who transfer to UC.

- The *Intersegmental General Education Transfer Curriculum (IGETC)* allows students to complete all UC general education breadth requirements before transferring. The University has revamped its process of reviewing the curriculum of all California community colleges to ensure conformity to course articulation guidelines for acceptance of community college coursework for UC credit. The review is now completed each year, rather than over a two-year period, and employs streamlined regulations which result in a more efficient course approval process.

- *Pathways* makes use of the digital network for outreach to potential UC students. In collaboration with IBM, the University is expanding the use of this computer-assisted guidance and admissions program. Prospective applicants can access information about the University, receive timely and up-to-date guidance information, and apply for admissions electronically. Ultimately, students will be able to store a cumulative record of their achievements in a safe location online, and to compare courses they are taking with UC requirements. An interactive feature allows students to ask questions and receive answers from an admissions counselor online. A financial aid planning component is being added for fall and winter applications and, if approval is obtained from the State Department of Education, a financial aid application will be added. The program was piloted at three high schools and three community colleges last fall and has been expanded across the State to 56 institutions for the 1996-97 academic year. It is anticipated that all students will be able to apply electronically to the University through Pathways for the 1997-98 year.

- In a review that has resulted in new transfer eligibility requirements to take effect in fall 1998, UC faculty recommended a greater emphasis on community college coursework rather than high school eligibility and specified in more detail the elements of a community college curriculum that will help to ensure students academic preparation for upper division work at the University.
- Additional transfer agreement programs involving more colleges and majors have been created to provide community college transfer students with a set of precise requirements to satisfy admission to a specific major or college at a University campus.

- There are statewide counselor conferences to help ensure that counselors are familiar with UC requirements.

- Students from other segments are permitted to enroll, on a space-available basis, in one course per term at the University.

Following is a discussion of the *Community College Transfer Center Program* and

ASSIST, two of the University's ongoing major efforts to increase the number of students transferring to the University. Other major transfer efforts described earlier in this section include *Puente* and the community college component of the *Mathematics, Engineering Science Achievement* Program (MESA).

Community College Transfer Center Program

The Transfer Center Program was initiated in 1985-86 as an intersegmental program involving the University of California, the California State University, and the California Community Colleges. Its purpose is to invigorate the transfer function, which was in decline for some years, to increase transfer rates. This program has been one of the University's primary efforts to improve the transfer function.

Through the program, the three segments have worked together to address many of the known obstacles to transfer: the wide dispersion and low visibility of transfer-related student support services on community college campuses; the difficulty faced by many students in obtaining timely, accurate information about opportunities to transfer; weak efforts to identify, motivate, and assist underrepresented students most in need of such help; incomplete, non-existent, or outdated course articulation agreements between community colleges and four-year institutions; and inconsistency in intersegmental communication about transfer issues.

The Transfer Center concept is that of a physical center, located on a community college campus, which serves as the focus of transfer activities. Center staff provide direct services to identify, encourage, and assist potential transfer students. The Center helps students prepare for upper division work by providing academic planning services and employing articulation agreements to ensure that community college course work will be accepted for transfer.

University representatives visit participating community colleges on a regular basis, providing pre-admission evaluation, admission counseling, and workshops on a variety of topics. Staff also keep transfer applicants informed of the status of their applications and assist them during all phases of the application process.

Articulation System Stimulating Interinstitutional Student Transfer (ASSIST)

Project ASSIST is a computer-based articulation and transfer planning system. It is designed to store and make accessible the complete range of academic planning information required by students wishing to transfer from a community college to a four-year institution. The database includes course articulation between community colleges and universities, academic course lists, degree requirements at participating institutions throughout the State, and descriptions of academic and student services programs on individual campuses. ASSIST allows community college students and counselors to plan a full academic program leading to a baccalaureate degree in the major of choice at any participating UC or CSU campus. Access to ASSIST can help students select courses which are consistent with their academic goals. ASSIST currently operates on eight UC campuses, ten CSU campuses, and fifty-four community college campuses. All community colleges currently have access to the ASSIST

database through the Internet.

Programs to Help Improve K-12 Education

The University has long been engaged in extensive efforts to improve and enhance pre-collegiate education. There is a broad-based, systemwide commitment of UC faculty, staff, and students involved in research, teaching, and service activities related to K-12 education. Following is a description of some of the University's programs to help improve K-12 education.

California Subject Matter Projects

The University has statutory responsibility to establish, administer and maintain, with the concurrence of the California Department of Education and the California State University, a network of programs designed to enhance the professional development of teachers, principally from the K-12 segment. Collectively these programs are referred to as the California Subject Matter Projects. The California Writing and Mathematics Projects, two highly successful programs which were developed by the University prior to the creation of the network, served as models for the design of all the other projects. The network currently consists of nine projects, each addressing broad subject areas taught in K-12 schools. These nine subject areas are: writing, mathematics, science, history/social sciences, foreign languages, reading and literature, international studies, the arts, and physical education-health. The programs are provided through project sites which are geographically located to maximize statewide access.

Funding for the California Writing Project, California Mathematics Project, and California Science Project has been included in the University's budget since these programs began in the 1970s and 1980s. The other projects were established and supported from Proposition 98 funds in the State Department of Education's budget. However, the 1996 State Budget Act transfers $12.155 million to the University of California's budget for the Subject Matter Projects so that now all funds for these programs are directly appropriated to the University. The Governor recommended and the Legislature agreed that funding be transferred to the University as a result of a settlement agreement related to the California Teacher's Association (CTA) versus Gould lawsuit.

The 1996 State Budget Act also contains budget bill language replacing the existing California Literature Project (CLP) with a newly established California Reading and Literature Project (CRLP). The budget bill language supports the University's plan to conform reading programs offered by California Reading and Literature Project with the Program Advisory on Reading issued by the State Board of Education in May 1996.

Typically, K-12 teachers are invited to participate in the projects' intensive training institutes with faculty and administrators from the University and other institutions of higher education. A variety of follow-up activities are provided for participants during the academic year. Participants share what they learn with colleagues in their districts

by leading workshops and through other interactions during the academic year. Through this "teachers-teaching-teachers" approach, the projects provide an avenue for the participants to:

- enhance their content knowledge of the specific discipline through intensive, long-term interaction with postsecondary faculty and other public school teachers, and exposure to key texts and relevant research;

- acquire, critique, and share exemplary instructional practices, particularly those practices that are likely to improve instruction for students from linguistically and culturally diverse backgrounds;

- become skilled in sharing knowledge with their colleagues on better ways of teaching and improving curriculum; and

- gain knowledge and skills which will enable them to serve as leaders in schools, districts, professional organizations, and statewide educational committees and activities promoting educational quality.

Participants are encouraged to remain involved with the projects as consultants and workshop leaders. Their continued involvement contributes to each project's development of a group of highly accomplished teacher leaders, and professionals across the State who are able to inform, reinforce, and advance ongoing educational reform efforts.

EQUALS

EQUALS is an in-service training program that assists elementary and secondary classroom teachers, counselors, and administrators to increase the participation of all students in mathematics courses. During workshops, educators acquire methods and materials to increase students' awareness of the importance of mathematics to future career options, to provide mathematics skill-building that stresses logical thinking and problem-solving, and to encourage students to persist in mathematics once the subject matter becomes difficult.

Lawrence Hall of Science

The Lawrence Hall of Science (LHS) is a public science and technology center and a major resource in precollege mathematics and science education. The LHS offers a diverse spectrum of programs encompassing teacher education, instructional programs for children and adults, workshops for schools and the community, curriculum research and development, participatory exhibits, and science programs for the public.

Center for Cooperative Research and Extension Services for Schools (CRESS)

The Center for Cooperative Research and Extension Services for Schools (CRESS), established at the Davis campus in 1990 and administered through the Division of Education, is patterned after the model of cooperative research and extension in agriculture. In keeping with that model, the Center employs professional staff to serve as intermediaries between university researchers and school practitioners. Faculty and staff from the Davis campus and colleagues from participating schools cooperatively engage in educational research, curriculum development, and professional development for teachers and administrators.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the California economy continues to grow, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, or all, of the priorities identified. Additional funding for academic outreach programs is among the identified priorities.

The University is committed to a quality education for all Californians and, as discussed earlier in this section, is seeking to expand its outreach programs. The University's outreach programs have been enormously successful in increasing the number of students who are eligible for admission to college. When the State's revenue situation permits, the University will seek an additional $2 million to continue expanding its outreach efforts consistent with the recommendations of the Outreach Task Force.

Charles R. Drew University of Medicine and Science

Since 1973-74, the State has appropriated funds to the University to support a program of clinical health sciences education, research, and public service operated by the University of California at Los Angeles in conjunction with the Charles R. Drew University of Medicine and Science. The State has continued to support the program at its 1974-75 level of $1,706,000, with adjustments for inflation bringing the 1996-97 appropriation to $3,335,000.

During the 1980s, State funding for this program did not include regular adjustments for inflation. In addition, the methodology for calculating the inflation adjustments did not take into account the distribution of the program's budget between salary and nonsalary expenses and the difference in the rate at which these expenses increase. As a result, the budgets for this program and the undergraduate medical education program operated in conjunction with Drew and budgeted in health sciences instruction developed a serious funding deficiency. In the annual Regents' Budgets for 1990-91, 1991-92 and 1992-93, the University requested a $500,000 compensatory adjustment in Drew's budget to begin to address the underfunding situation; however, none of these requests were funded by the State.

In the first four years of the 1990s, the University's budget was severely cut at the same time the University had to cope with inflation, fixed cost increases and workload growth. During the years of significant State funding cuts, the Drew budget was one of the few programs within the University that was not cut. In fact, in recognition of Drew's budget problems, the University augmented the Drew budget by $340,000 from UC discretionary funds beginning in 1990-91.

In January 1994, The Regents approved a Fee Policy for Selected Professional School Students, including medical school students. The Professional School Fee was charged to fall 1994 first-time medical students, and affects Drew students in the third and fourth year of the Drew-UCLA joint instructional program beginning with third year students in the fall of 1996. The fee is being phased in to approximately the average of fees charged for comparable, high quality medical programs across the nation. The level of the fee will remain the same for each student for the duration of his or her enrollment in medical school. An amount equivalent to at least one-third of the total fee revenue is used to provide supplemental financial aid to help maintain the affordability of a professional school education. The remaining revenue is used to sustain and enhance the quality of the professional schools' academic programs and student services, and to fund costs related to instruction. Fee revenue from students in the third and fourth year of the Drew program, net of financial aid, will go to support the instructional program at Drew. In 1997-98 it is estimated that the Fee will generate approximately $80,000 (net of financial aid).

Under the four-year compact with higher education, Drew will receive the same inflationary increases as other University programs. The underfunding problem will not continue to worsen.

California College of Podiatric Medicine

The 1974 State Budget Act provided $541,000 for the support of a program of basic and clinical health sciences education and primary health care delivery in the field of podiatry, to be developed and conducted cooperatively by the University of California at San Francisco and the California College of Podiatric Medicine. State funding has been provided to assure that the instruction provided by the only college of podiatric medicine in California will maintain a high level of quality and to assure support for essential programs in the areas of basic medical science, general medical and surgical science, clinical medicine and surgery, and educational support. The State has continued to support this program each year at its 1974-75 level of $541,000, with adjustments for inflation bringing the 1994-95 appropriation to $926,000. However, budget cuts allocated during the 1990s, due to reductions in State support for the University, eroded the actual amount of funding available. The 1996-97 appropriation for this program is $857,000. As with Drew, under the four-year compact, Podiatry will receive the same inflationary increases as other University programs for 1997-98.

ACADEMIC SUPPORT--LIBRARIES

1996-97 Budget:	
Total Funds	$181,687,000
General Funds	143,484,000
Restricted Funds	38,203,000
1997-98 Increase:	
General Funds	--
Restricted Funds	--

The University of California libraries are a vital academic resource, providing books, documentary materials, and information required by students and faculty for effective study and research. In addition, the libraries provide services to students and faculty of other California colleges and universities, to business and industry, and to the general public, both directly and through cooperative programs with other California libraries.

Over the last decade, the combined effects of reduced budgets and inflation, particularly the significant increases in the costs of acquiring library materials, have seriously eroded the ability of the University's libraries to adequately support the University's academic programs. At the same time, rapid advances in information technology promise enormous improvements in the capability of academic libraries to acquire, store, manage and deliver the published information needed for teaching and research. The size of the nine-campus UC library system presents unique opportunities to utilize networked information systems and to share the benefits of new library technology on an intersegmental and statewide basis through coordinated development of library technologies.

These technologies raise challenging new issues for library planning, budgeting and operation. Comprehensive digital collections, facilities and services will not be available immediately, nor will electronic publications develop and mature at the same rate in all disciplines and subjects. Electronic information resources will, to a great extent, complement rather than totally supplant traditional collections for the foreseeable future. As a result, the University must maintain and enhance existing collections and services in parallel with the development of digital library services. Also, establishing the digital library will require major new investments for equipment, network facilities, software and training. These investments will bring returns quickly in terms of educational and research quality, but more slowly in terms of relief for traditional library materials budgets.

Recognizing these problems and opportunities, the University has initiated a major effort to develop a new systemwide library plan that will establish the framework for the UC libraries over the next five to ten years and seek to implement specific projects that will provide the necessary foundations for further development.

The Library Budget

The University's library budget is divided into three categories representing the major activities of the libraries: acquisitions-processing, reference-circulation, and library automation.

Acquisitions-processing, which represents 59 percent of the budget, includes expenditures for library materials and binding and all staffing activities related to acquiring library materials and preparing them for use, such as ordering, receiving, and cataloging. Library acquisitions also include materials in electronic and other non-print formats, whether by purchase or license.

Reference-circulation, which represents 38 percent of the library budget, includes providing users with information and materials, managing circulation of materials, shelving and reshelving books, maintaining periodical and document collections, providing reference services, and instructing students and faculty in the use of the library and its printed and electronic information resources.

The systemwide Library Automation unit of Information Resources and Communications, which provides Universitywide bibliographic access to the resources of the University's libraries through the MELVYL online system, represents three percent of the total library budget.

In 1977, the University adopted a comprehensive library plan with the goals of improving library service and reducing the rapid rise in library costs. To achieve these goals, the plan recommended increased cooperation among the libraries of the University and creation of a library system that would serve all University users, regardless of campus or location.

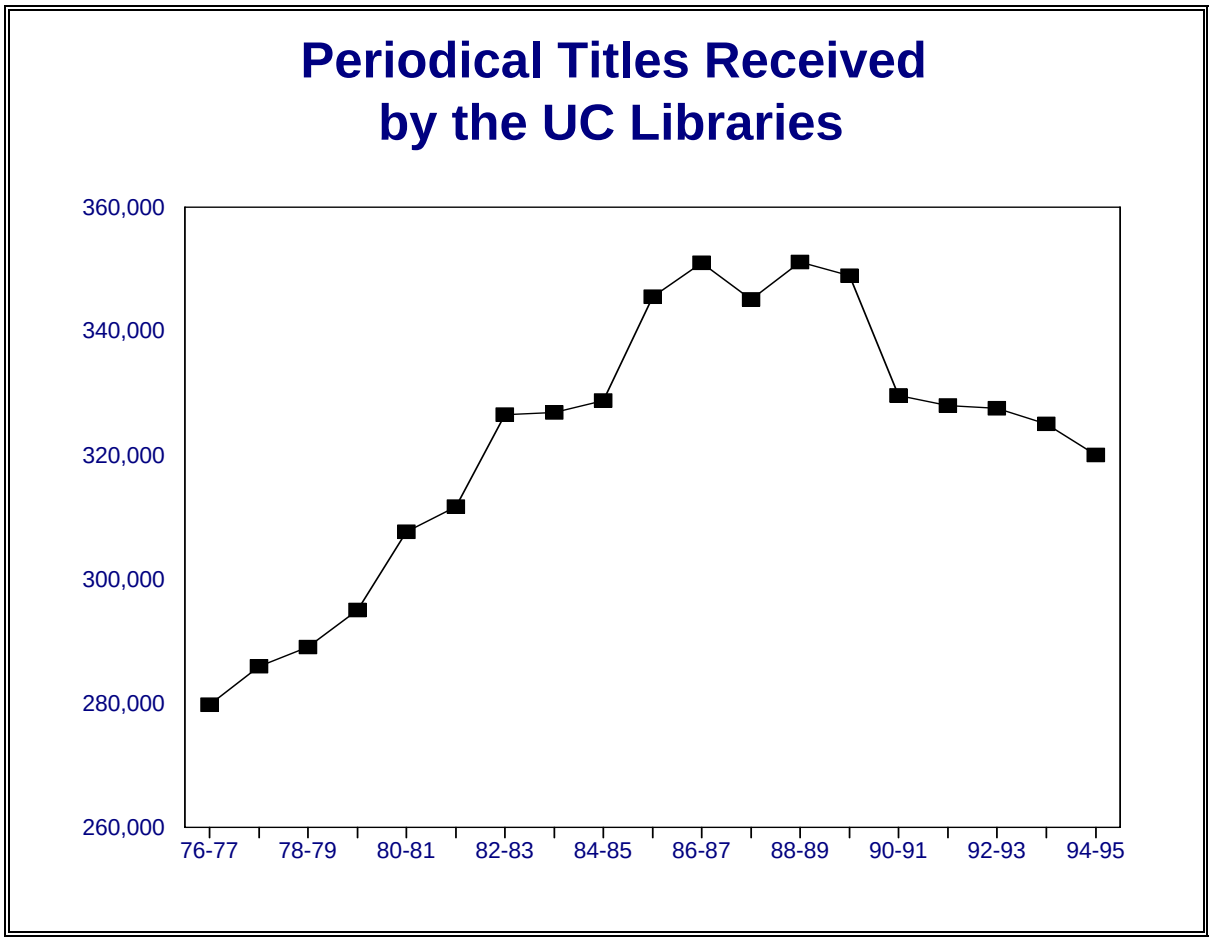
Between 1977 and the late 1980s, the State provided most of the operating and capital resources called for in the library plan. Over the last decade, however, the ability of the existing library program and budget to support the University□s academic program has been hampered by three principal factors: the State□s fiscal difficulties which have resulted in reduced funding for the University; high inflation in the costs of published library materials in all forms; and growth in both enrollments and the number of approved academic programs requiring library support.

The Fiscal Difficulties of the State

During the early 1990s, library budgets were eroded as a result of cuts to University budgets totaling $433 million. To cope with budget reductions while protecting the funds available to purchase materials, the libraries resorted to measures such as closing branch libraries; deferring equipment purchases and maintenance; and reducing operating hours, the number of reference librarians, and the public services available.

Inflation in Library Materials Costs

Over the last decade there have been extraordinary increases in the costs of many library materials, especially periodicals in the sciences, technology, engineering, and the health sciences. According to published industry statistics, U.S. periodical prices rose at an average annual compound rate of 9.8 percent per year between 1986 and 1996, and at a rate of over 11 percent per year since 1990. Industry sources estimate that serials price increases for typical academic libraries in 1997 will exceed 11.5 percent. The State has been unable to provide full funding to meet the impact of inflation on the library materials budget. Consequently, the libraries have lost over 40 percent of their purchasing power since 1989. The severity of this problem is manifested by serial

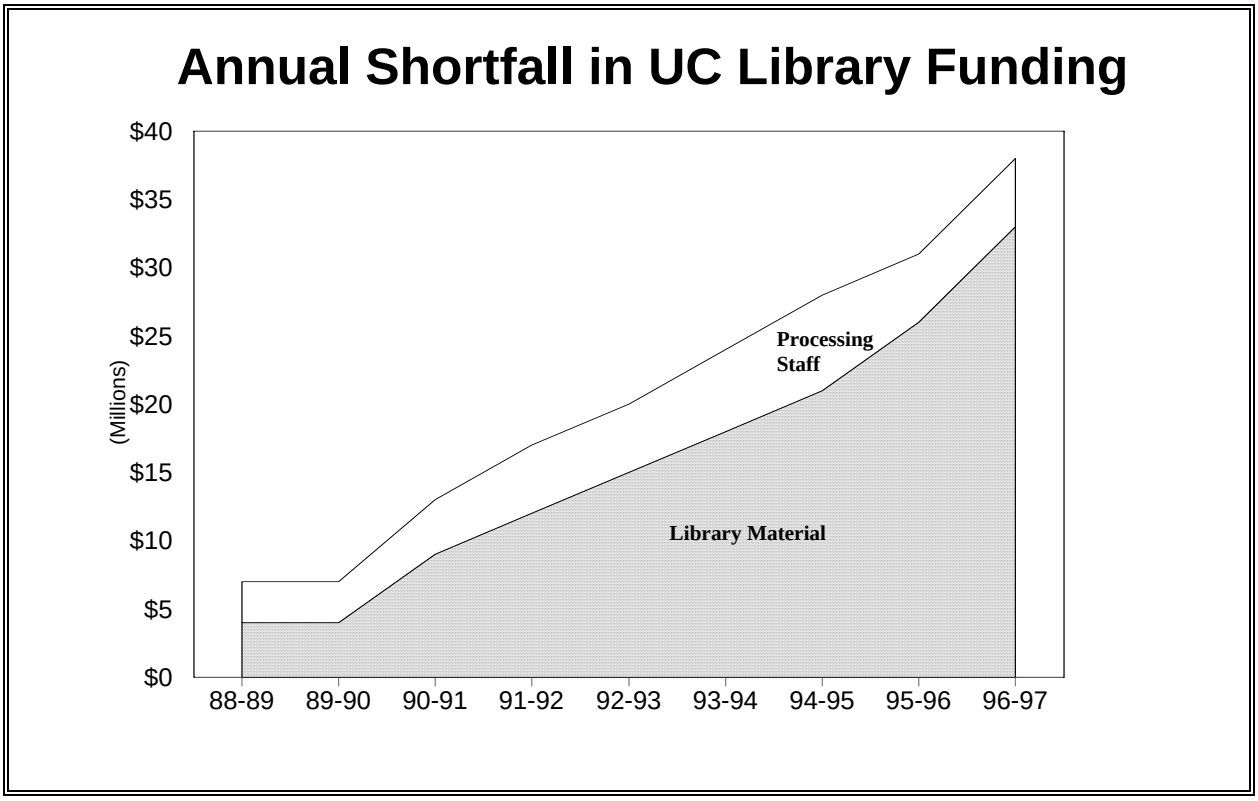


cancellations estimated at over 25,000 titles since 1988.

Enrollment and Program Growth

Another factor affecting the quality of library service is the substantial increase in both the level of enrollment and the number of graduate programs offered by the University since the current budgeted library acquisition rate was established in the late 1970s.

The budgeted acquisition rate of 614,000 volumes has not been adjusted despite increases of 36,000 FTE students and the addition of 19 new graduate and professional degree programs. Even if inflation costs had been fully funded during this period, the libraries would still find themselves unable to fully support the approved academic program of the University.



The combined effect of all these factors--budgetary reductions, inflation, enrollment growth, and new academic programs--is a significant shortfall in library funding. This shortfall stood at about $7 million per year in 1988-89. By 1995-96, it had increased to more than $37 million. As a result, the collections are losing their research depth, becoming less rich and diverse each year. The University is increasingly concerned about the ability of the libraries to sustain their key role in supporting the University's teaching, research and service programs.

Planning for the Future

Recognizing that these factors have placed libraries--a critical University resource--at risk, the University has initiated a major planning effort to develop a new systemwide library plan that will establish the framework for the UC libraries over the next five to ten years. This 18-month planning and action initiative will examine all dimensions of library resources and services and their relationship to the University's general academic

plans and programs in order to produce specific organizational, functional and budgetary recommendations that will establish the operating framework for the UC libraries over the next five to ten years. In addition, the initiative will identify and seek to implement specific projects that will provide the necessary foundations for sustaining and developing the library system in a coordinated, cost-effective way.

The University's library planning initiative seeks to address existing problems and to achieve the maximum benefit from new digital technologies, recognizing that there may be unique opportunities for a nine-campus system to utilize networked information systems. The University also recognizes that significant intersegmental and statewide benefits may be achieved by coordinated development of library technologies, and the planning process will explore thoroughly these possibilities.

Implementation of the University's 1977 library plan established a solid foundation for the new planning initiative. Major accomplishments of the earlier plan include:

- The budgeted acquisitions rate increased to 614,000 volumes, although the State has been unable to maintain full funding for this acquisitions rate since 1985-86.

- A Universitywide Shared Collections and Access Program was implemented to acquire materials to be shared among the campuses, including abstracting and indexing databases for mounting on the MELVYL system.

- A consolidated Universitywide online union catalog, which is part of the MELVYL system, was developed to provide users with convenient bibliographic access to the library materials of all University campuses.

- A consolidated union list of periodicals and other serial publications received by the University of California, the California State University, the California State Library, and other institutions of higher education in California, is now available online through the MELVYL system.

- An Intercampus Exchange Program was established which includes funds for photocopying of materials for intercampus use as well as daily intercampus jitney bus service between Los Angeles and other University campuses in the south, and between Berkeley and other University campuses in the north.

- Computerized systems have been implemented on all University campuses to support the acquisition, processing, and cataloging of books and periodicals.

- Automated circulation systems have been installed at all University campuses, allowing more efficient handling and recordkeeping.

- The University initiated a program of preservation and conservation of library materials, supported in part by a $200,000 allocation from the State in 1986-87, which includes such elements as microfilming, monitoring developments in deacidification techniques, maintaining and repairing collections, investigating

computer-based digital imaging technologies for conservation, and installing environmental monitoring controls in the libraries.

Over the last ten years, advances in the development and use of new computer and telecommunications technologies to create, publish, store, search for, and deliver published information have accelerated at an exponential rate. Building on the foundation established by the 1977 library plan, the UC libraries have pursued every opportunity to take advantage of changing technology. For example, as computer hardware and software became more capable and less expensive, the libraries were able to replace their first-generation circulation, acquisition and cataloging systems with modern fully-integrated library information systems. The MELVYL system, originally designed as a catalog of UC library holdings, was expanded to include journal indexing databases, and fulltext databases comprising the published contents of over 1,000 journal titles. Access to this system, originally limited to terminals located in UC library facilities, was extended to include any computer with a connection to a UC campus network or the Internet. The MELVYL system now supports over 32 million catalog, index, and full-text searches per year. Library collections now include computer tapes, floppy disks, and CD-ROM discs, categories of library material that in many cases did not even exist in 1977.

The focus of information technology development has expanded from design of new systems and networks into the creation of information content in electronic form. In some disciplinary areas, chiefly in engineering and the health and physical sciences, electronic information resources have already achieved significance as a method for publishing and communication, and are indispensable for support of teaching and research. Among the potential benefits of the new electronic forms of library materials are:

- Electronic documents can be stored and delivered to authorized library users throughout the University, on demand and at low marginal cost, thereby enhancing resource-sharing capabilities, decreasing duplication of resources and effort, and reducing processing and handling activities. Of most importance, the electronic information resources of the University are equally accessible to all its students and faculty, regardless of their campus location.

- Electronic publications offer new opportunities to leverage both the purchasing power of the UC system and the University s investment in its information and telecommunications technology infrastructure.

- Information technology makes possible new services that can greatly enhance library support for the University s teaching and research programs, and creates opportunities for new partnerships and avenues for revenue enhancement.

- New forms of communication among scholars and scientists, using digital technologies, will in some instances replace traditional publications.

It must be recognized, however, that electronic publications also raise challenging new

issues for library planning, budgeting and operation, for example:

- The electronic publishing industry is still immature, and significant issues of format, distribution, technical standards, pricing, and use restrictions based on copyright law and licensing practice must be resolved throughout the industry before electronic publications can be routinely incorporated into the service program of the UC libraries.

- Although pricing practices for electronic publications remain a matter of speculation, the prices charged by publishers for electronic publications are unlikely to be significantly lower than for print.

- Electronic publications are beginning to replace print in the sciences, a trend that is likely to escalate as the technological means to store, retrieve and deliver electronic information become more robust. However, it remains unclear to what extent electronic publications may ultimately replace most printed publications, or supplement them as television supplemented radio and film; so far, it appears that the surge in electronic publishing and use of the Internet to access and distribute information has had no effect on the continued growth in the amount of information published in paper form or the ongoing inflation in the cost of conventional publications.

The University must also address the organizational and operational changes that will be needed to provide effective library service in the electronic environment. Among the needs are:

- Effective administrative, budgetary, and organizational structures to provide efficient and reliable service in the electronic environment.

- A technology infrastructure capable of reliable delivery of electronic publications and other library information to all faculty, staff and students.

- The ongoing human, financial and facilities resources required to maintain the infrastructure and deliver the services of the digital library.

At present, three issues seem clear. First, comprehensive digital collections and associated facilities and services will not be available immediately, nor will electronic publications develop and mature at the same rate in all disciplines and subjects. As a result, the University must maintain and enhance existing collections and services in parallel with the development of digital library services. Second, establishing the digital library will require major new investments for equipment, network facilities, software, and training. These investments will bring returns quickly in terms of educational quality but more slowly in terms of savings in traditional library materials budgets.

Finally, it is evident that the characteristics of electronic publishing will require all parties in the scholarly communication process--authors, publishers, libraries, faculty and

students--to create and adopt new budgeting strategies, operating methods, and business practices and relationships. It will take time and effort to develop sustainable business models for the electronic environment. The University intends to take a leadership role in this endeavor.

ACADEMIC SUPPORT--OTHER

1996-97 Budget:	
Total Funds	$352,909,000
General Funds	110,648,000
Restricted Funds	242,261,000
1997-98 Increase:	
General Funds	--
Restricted Funds	$12,990,000

Included in the category Academic Support--Other are various support activities that are operated and administered in conjunction with schools and departments. These partially self-supporting activities provide basic clinical and other support essential to instructional programs, and contribute significantly to the quality and effectiveness of health sciences and general campus curricula. State support is an essential part of the income of these clinical activities.

Among the clinical facilities that support health sciences programs are 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, an optometry clinic at Berkeley, and two neuropsychiatric institutes (Los Angeles and San Francisco). In addition, a number of demonstration schools, vivaria, and other activities provide academic support to health sciences and general campus programs. Most of these facilities provide experience for students as well as valuable community services. Their financial support is derived from a combination of State funds, patient income, and other revenue. Due to the State of California's fiscal problems, the University experienced severe budgetary shortfalls during the 1990s. As a result, University budgets were cut by $433 million, or about 20 percent of the 1989-90 State-funded budget. The budget for Academic Support--Other eroded as the University accommodated cuts of this magnitude.

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 at San Francisco and Los Angeles 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. In July 1981, the centers became an integral part of the University. 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 this field.

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 to many patients. At the clinic, optometry faculty supervise students in the clinical aspects of the prevention, diagnosis, and remediation of problems of the visual system. In addition, students receive clinical experience at various Bay Area community health centers which exposes them to a broad range of cases and provides a much needed public service to the community.

The two neuropsychiatric institutes are among the State's principal resources for the education and training of psychiatric residents and other mental health professionals and for the provision of mental health services. The primary missions of the institutes are to treat patients with diseases of the nervous system and to strive for excellence in the development of approaches to problems associated with mental retardation, psychological disorders, and neurological disorders.

Demonstration schools serve as interdepartmental teaching laboratories for experimentation, research, and teacher training. The schools educate hundreds of children and contribute to the advancement of education through research efforts and application of results. Vivaria are centralized facilities for the ordering, receiving, and care of all animals essential to instruction and research. Other activities in this category include support for the arts and specialized physical sciences and engineering projects.

TEACHING HOSPITALS

1996-97 Budget:	
Total Funds	$1,831,937,000
General Funds	51,150,000
Restricted Funds	1,780,787,000
1997-98 Increase:	
General Funds	--
Restricted Funds	$36,639,000

The Role of The University Teaching Hospitals

The University operates five academic medical centers. Their primary mission is to support the clinical teaching programs of the five schools of medicine located on the Davis, Irvine, Los Angeles, San Diego, and San Francisco campuses, as well as programs in the University's other health sciences schools. To a large extent, the core clinical learning experiences in the health sciences take place in the UC medical centers, although changing needs in medical education require the development of more out-of-hospital educational sites and primary care networks. In conjunction with their teaching mission, the medical centers provide a full range of health care services and are sites for testing the application of new information and the development of new diagnostic and therapeutic techniques. With their tripartite mission of teaching, public service, and research, the five University of California academic medical centers are a major resource for California and the nation. They provide 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. The patients served generally have more severe illnesses and more limited financial resources than patients at many other institutions. The University's academic medical centers operate in urban areas, and three of the five centers are located in counties that have no county hospital.

In 1996-97, the University medical centers will have a combined licensed capacity of 3,406 acute care beds and are expected to generate more than 659,000 patient days and more than 2.6 million outpatient visits. This makes the University's academic medical centers one of the largest health care systems in California. It is also one of the two largest Medi-Cal providers in the State.

At the request of the State, the University assumed operation of three former county hospitals for the Davis, Irvine and San Diego campuses rather than constructing teaching hospitals of its own. These three hospitals have historically served a disproportionately high percentage of Medi-Cal patients, as well as other indigents,

whose care may be covered only partially by county indigent care programs. These three academic medical centers are, therefore, extraordinarily vulnerable to changing public policies related to financing the care of the indigent population.

The five University of California medical centers have different origins, varying roles in their communities, and operate in highly competitive markets. All are currently being financially challenged by rapid changes in the health care delivery system that are the direct or indirect result of managed care. To remain economically viable and attractive to insurers, while continuing to support the academic program, the University's medical centers are developing innovative strategies that are specifically tailored to the market environment in which they operate.

The following section reviews the changes in governmental and other financial support for academic medical centers that have occurred over the last decade, describes the impacts on the medical centers and academic programs, and outlines the University's responses to these challenges.

Health Care Financing

Sharply rising health care costs, demographic changes, and changing economic conditions have caused the State Legislature, the Congress, and the private sector to initiate fundamental changes in the financing of health care services. These changes affect academic medical centers more profoundly than other hospitals.

The traditional cost-based and charge-based (fee-for-service) reimbursement systems are being replaced by competitively established fixed-price payments. The result is inadequate compensation for hospital costs uniquely incurred in an academic setting (e.g., treating sicker patients, providing services to a disproportionate number of uninsured or under-insured patients, and providing a medical education in a clinical setting). In addition, there are reduced opportunities to transfer these costs through higher charges to private patients, in part because their numbers have dwindled as health care plans negotiate discounted rates. By moving to negotiated rate structures, the insurers transfer more of the financial risk to providers.

Medical center faculty and staff have made substantial contributions to containing the cost of health care, while protecting and advancing the primary educational and research missions of the University. However, reimbursement rates for Medicare, Medi-Cal and the Medically Indigent Adult (MIA) program have not kept pace with inflation.

Changes in Health Care Policy

The following is a summary of key trends affecting the medical centers which began in 1982-83 with the inception of Medi-Cal selective contracting for inpatient services.

AB 799, approved in 1982, reformed the Medi-Cal program by instituting: (1) selective hospital contracting for inpatient services at flat per-diem pricing; (2) stricter beneficiary eligibility requirements; (3) a redefinition of "medical necessity"; and (4) a transfer of responsibility for the Medically Indigent Adults (MIAs) from the State to the counties, with funding at far less than the 70 percent of projected expenditures for the base year 1982-83, and with increasingly strict eligibility requirements for the new county programs.

When the Medi-Cal selective hospital contracting program was launched in 1982, State enabling legislation required that the following two factors be taken into consideration when negotiating hospital contracts: (1) "the situation of hospitals which serve a disproportionate number of low-income patients with special needs" and (2) "the variations in severity of illness and complexity of care." Notwithstanding these requirements, the Medi-Cal contracting process seems to focus primarily on competitive prices. To maintain the diversified patient mix needed to meet the educational needs of students, the University medical centers have found it necessary to accept reimbursement rates that are less than the costs of providing services to Medi-Cal patients.

The transfer of responsibility for Medically Indigent Adult (MIA) patients from the State to the counties contributed even more to the problem of underfunding. The transfer of the MIA program was not accompanied by State requirements that the counties adequately reimburse the University for care of medically indigent Californians. Consequently, the Davis, Irvine and San Diego Medical Centers are incurring increasingly larger losses for care to the indigent population. Although hospitals operated by counties are routinely subsidized directly by local tax dollars, this type of financing is not available to the University medical centers, despite their contractual county indigent care responsibilities.

AB 3480, approved in 1982, provided private health care insurers with the same ability as the State to contract selectively with health care providers on behalf of their enrollees.

In 1991 and 1992, AB 336 and SB 485 granted the Department of Health Services authority to hasten the transition of Medi-Cal services from a fee-for-service to a managed care program for about 2.5 million Aid to Families with Dependent Children (AFDC) beneficiaries and to expand the Medi-Cal managed care program. By the end of 1996, Medi-Cal managed care programs will be fully implemented in 18 of the State's largest counties, thus putting each of the University's medical centers at various degrees of financial risk for managing the care of these patients.
Changes in Medicare payment policies for hospitals during the 1980s included: (1) a nationally established prospective payment system for inpatient care that is based on payments per case according to Diagnosis Related Groups (DRGs) rather than on actual hospital costs; (2) a limit on payments for teaching costs; and (3) the phasing out of cost-based payment for capital improvements.

Special Subsidies For The Three Former County Hospitals

As mentioned earlier, the University assumed operation of three former county hospitals for the Davis, Irvine, and San Diego campuses. These three hospitals have historically provided a disproportionately high percentage of indigent care. In 1986, Arthur Young & Company in collaboration with the firm of Arthur D. Little studied the operations of these hospitals. They reported that management of the three hospitals was effective and that the operating losses were fundamentally attributable to the environment in which they continued to operate. The consultant emphasized that the fiscal survival of these hospitals would depend on a State-funded operating subsidy to help cover the significant volume of uncompensated and undercompensated patient care.

As a result of the consultant's study and the growing financial crisis that faced the medical centers in the 1980s, the University worked with the Governor and the Legislature on a multi-year plan to deal with the financial problems that especially concerned the three former county hospitals. The plan included: (1) continued efforts by all five University medical centers to increase revenue and control costs while maintaining high-quality patient care, adequate volume, and the balanced mix of patients necessary for a quality clinical teaching program; (2) the provision of State funds, starting in 1985-86, for special capital outlay projects and equipment purchases to improve the fiscal viability of those facilities through reduced operating costs or increased revenues; and (3) the provision of an annual operating subsidy from the State to be phased-out over the period required to complete the cost-saving/revenue-enhancing capital outlay projects.

Beginning with the 1985 State Budget Act and continuing through the 1988 State Budget Act, the State provided $86 million to fund cost-saving and revenue-enhancing capital outlay projects and equipment purchases for the Davis, Irvine and San Diego Medical Centers. In addition to the $86 million in capital funds, the State provided the University with a $28.6 million operating subsidy to mitigate operating losses at the three former county hospitals. During this time, the Irvine Medical Center was the only center to incur losses and therefore, received the entire subsidy. The operating subsidy was provided in the budget acts of 1985 through 1991.

SB 1255 Funds

In 1989, the State established the Disproportionate Share and Emergency Services Fund, also known as the SB 1255 program. Through the SB 1255 program public agencies, including the University, voluntarily transfer funds to the State. These funds are used to secure federal Medicaid matching funds. The pool of funds is then distributed by the State to hospitals that treat a disproportionate share of Medi-Cal and low-income patients. The Davis, Irvine and San Diego Medical Centers qualify as disproportionate share providers. The distributions are based on negotiations with the California Medical Assistance Commission (CMAC).

From May 1990 to March 1996, the University received, or has commitments to receive, $79.7 million more than it has transferred to the program. One more round of

distributions is expected in 1997-98, after which the program is expected to end if significant reforms are made to the federal Medicaid program. The SB 1255 program has been a significant source of funding for the Davis, Irvine and San Diego Medical Centers. The elimination of the SB 1255 program would mean the loss of up to $7 million a year, on average, for each eligible UC medical center. In addition, SB 1255 funds were provided in lieu of annual Medi-Cal rate increases.

SB 855 Funds

In 1991-92, the State passed legislation--SB 855--creating a second plan to provide supplementary payments to hospitals that provide a disproportionate share of their inpatient services to Medi-Cal and other low-income patients. The federal government approved the plan, now referred to as the SB 855 Program.

The plan requires that governmental entities with hospitals, such as counties, hospital districts and the University of California, transfer funds to the State Controller for deposit into the Medi-Cal Inpatient Payment Adjustment Fund created by SB 855. Unlike the SB 1255 Program, these are mandatory transfers, the levels of which are determined by formula. These funds are used to secure matching federal Medicaid funds. The pool of funds is then distributed by the State to hospitals defined as disproportionate share providers. The distribution of SB 855 funds is derived by a formula based on previous year's data regarding the number of Medi-Cal days and the percentage of other low-income beneficiaries served, as reported to the Office of Statewide Health Planning and Development.

The Davis, Irvine, and San Diego Medical Centers qualify as disproportionate share providers. During the period from 1991-92 through 1995-96, they received more than $212 million over and above the dollars transferred by University of California to the SB 855 Fund. The following table shows, by year, the net amount of SB 855 Funds received by each of the three medical centers.

NET AMOUNT OF SB 855 FUNDS RECEIVED
($ in thousands)

Year	Davis	Irvine	San Diego	Total
1991-92	$12.6	$15.1	$11.2	$38.9
1992-93	9.9	22.1	12.7	44.7
1993-94	5.5	30.3	13.5	49.3
1994-95	7.4	34.2	16.6	58.2
1995-96	5.2	11.6	4.8	21.6
Total	**$40.6**	**$113.3**	**$58.8**	**$212.7**

Beginning in 1993-94, distributions from the SB 855 program were subject to the provisions of the Omnibus Budget Reconciliation Act of 1993 (OBRA 93) which set a ceiling on the distributions that could be made to individual hospitals and, cumulatively, to each State. OBRA 93 also changed the distribution schedule to coincide with the federal fiscal year. In 1993-94 and 1994-95, the ceiling was set at 200 percent of allowable costs for uncompensated care. In 1995-96, the limit was reduced to 100 percent of allowable costs. At the same time, more private hospitals became eligible to receive SB 855 funds. As a result of these two factors, the University s three eligible medical centers received net payments of $21.6 million in 1995-96, a significant reduction from the $58.2 million received in 1994-95. Distributions from the SB1255 program are also subject to the limits set in OBRA 93.

The University, in cooperation with the other hospital members of the California Healthcare Association, spearheaded legislation (AB 2804, Chapter 74, Statutes of 1996) which provides a mechanism to allow the State to capture matching federal Medicaid funds still available for federal 1995-96 fiscal year. The distributions resulting from passage of AB 2804 will be considered *as secondary* supplemental payments for the federal 1995 fiscal year and, because this represents a change to the original Medicaid State Plan, will require federal approval of a State Plan Amendment. Pending federal approval of the State Plan Amendment, the University is likely to receive an additional one-time (net) supplemental payment of $29 million in SB 855 Funds.

The scope of the SB 855 program for 1996-97 is uncertain pending further amendments and approvals to the State Plan. The net benefit to eligible disproportionate share hospitals is likely to decrease in 1996-97 because the number of inpatient Medi-Cal days is decreasing as more Medi-Cal managed care programs come on line. The number of inpatient Medi-Cal days will decrease even further if many legal and illegal immigrants are taken off the Medi-Cal rolls as a result of federal welfare and

immigration reform.

Funds from the SB 855 program are a significant source of revenue for the Davis, Irvine and San Diego medical centers. The elimination of this program will have a detrimental effect.

Clinical Teaching Support

State General funds, called Clinical Teaching Support (CTS), are appropriated to the University for all five medical centers in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes. The funds are used chiefly to provide financial support for patients who are essential for the clinical teaching program, but are unable to pay the full cost of their hospital care.

The 1996-97 budget includes $47.3 million in CTS for the University. While this represents less than 2.5 percent of total operating revenue for the five medical centers, it continues to be important to the quality of the clinical teaching programs and to the financial stability of the medical centers, especially in light of generally lower reimbursement for patient care.

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, effective January 1, 1989. Proposition 99 created six separate accounts from which funds are to be appropriated for specific purposes, including indigent care, the prevention and cessation of tobacco use, and the prevention and treatment of tobacco-related diseases. Funds from the Hospital Services and Unallocated Accounts are available for payment to public and private hospitals for the treatment of patients who cannot afford to pay and for whom payment will not be made through private coverage or by any program funded in whole or in part by the federal government.

In 1989, the State approved a plan (AB 75) specifying how the Tobacco Tax Funds (Proposition 99 funds) were to be distributed. Major elements of the AB 75 distribution plan important to the University medical centers included: (1) a one-time distribution of $37 million in 1989-90 to hospitals for uncompensated care based on the proportion of each hospital's share of 1988 statewide total uncompensated care costs (of this, UC medical centers received $1.6 million); and (2) a provision that annual appropriations would be made through the newly established California Healthcare for Indigents Program (CHIP) to counties operating a Medically Indigent Adult Program (MIA), for allocation to county and non-county hospitals for uncompensated care costs.

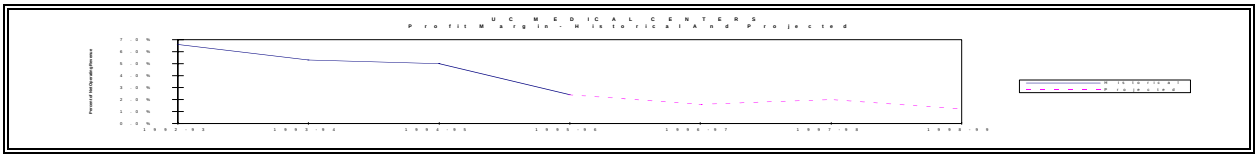
Since 1989, as a result of the overall success of prevention and cessation programs, there has been a decline in smoking and the use of other tobacco products. This has reduced the total amount of Tobacco Tax Funds. In 1995-96, the University medical centers received a total of $5.6 million as compared to $14.6 million (including the one-

time payment of $1.6 million) in 1989-90. The amount of Tobacco Tax Funds in 1996-97 is projected to remain the same as it was in 1995-96, but is anticipated to decrease by five percent in 1997-98. Although there has been a significant decline over the last several years, the Tobacco Tax Funds are an important source of revenue for the University.

Need for an Operating Reserve

The UC medical centers need to maintain a net operating margin of five to seven percent to maintain their fiscal viability. These funds are required for: payments of principal on long-term debt; working capital; development of primary care networks and integrated delivery systems; acquisition of state-of-the-art facilities and technology; and access to private financial markets to provide bond and loan funding for critical capital projects. The University's estimate of need is based on a 1988 study, undertaken by KPMG Peat Marwick on behalf of the University, which looked at ten comparison academic medical centers and found that an average net operating gain of five to seven percent was required for the above purposes.

Since 1991-92, when the total operating margin for the five medical centers was 7.1 percent, the total operating margin has steadily decreased. In 1992-93, the operating margin was 6.6 percent. It declined to 5.3 percent in 1993-94, to 5 percent in 1994-95 and to 2.4 percent in 1995-96. A significant portion of these margins has been the result of the disproportionate share funds from both the SB 1255 and SB 855 programs which, as discussed above, are based on receipt of federal Medicaid matching funds. In 1996-97, the medical centers expect to realize results from a number of cost-cutting



measures taken over the last few years, including reductions in staffing in order to compete more effectively in the price-sensitive managed care market. The net operating margin is, as a result, projected to increase slightly to 2.8 percent . The figure above displays the net operating margins achieved each year since 1992-93. The gains are projected through 1998-99.

Meeting Budget Shortfalls

During the 1993-94 budget process, the University and the State turned to the medical centers to help alleviate some of the University's budgetary problems in the following ways:

- The University funded a $43 million shortfall in its 1992-93 budget by advancing funds from the University's Short-Term Investment Pool. This advance (principal and interest) is being repaid over 15 years by the medical centers under an

agreement with the State which recognizes that, in the 1980s, when the medical centers were experiencing financial troubles, the State provided more than $80 million of assistance by funding needed capital improvements. The debt service on the revenue bonds for these capital improvement projects are currently being paid off with State funds. Supplemental language accompanying the 1993 State Budget Act addressed this issue.

- The 1993 State Budget Act redirected $153 million in SB 855 funds and another $84 million in 1994-95, for a total of $237 million that would otherwise have been used to capture federal Medicaid dollars. The loss of federal matching funds reduced the total amount of SB 855 funds available for distribution to all eligible hospitals. In addition, the University's share of SB 855 funds was reduced by $15 million on a one-time basis.

- The University's plan for accommodating cuts in its 1993-94 State-funded budget included a cut to health sciences clinical activities, which resulted in both permanent and one-time cuts in Clinical Teaching Support (CTS) for the medical centers.

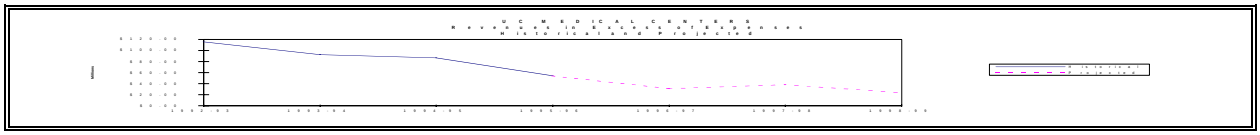
During the 1994-95 budget process, the University and the State reached agreement to shift $18 million of State support from the medical centers on a one-time basis to help meet needs in critically underfunded areas in the general operating budget, e.g., libraries, instructional equipment replacement, 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 five percent recommended by the Legislative Analyst, and supported by the Legislature. At the same, it was questionable whether the University could afford to continue to redirect funds in the future. As a result, the University agreed to undertake another study to look at the medical centers needs for working capital, capital outlay and equipment, as well as for a prudent reserve. KPMG Peat Marwick was engaged to conduct the study.

The KPMG Peat Marwick Report concluded that the medical centers would face significant financial challenges in the next several years and that redirection of any funds would put them in further jeopardy. Notwithstanding this conclusion, the Legislature adopted supplemental budget language in 1995-96 stating its intent that operating margins above five percent, the minimum recommended by the KPMG Peat Marwick study, be used to fund other parts of the University s operating budget. The Supplemental Report of the 1995 State Budget Act recommended that the University redirect $5.5 million in CTS funds to fund deferred maintenance on a one-time basis. The redirection was intended to reflect a portion of the medical centers net gains above five percent.

KPMG Peat Marwick Report: The Outlook for the Medical Centers

The March 1995 KPMG Peat Marwick report titled, *Assessment of Capital Programs and Operating Needs of the UC Medical Centers,* arrived at the following conclusions:

- The near-term future (next three to seven years) will be difficult for hospitals in general, and especially for the UC medical centers in their very competitive, payer-controlled markets.



- The medical centers' operations will not be as profitable as in the past. It is likely that net gains may decrease from a high of $118.4 million in 1991-92 to a projected $20 million by 1998-99, as illustrated above.

- There will be significant capital needed to protect the medical centers' viability and to implement their strategic plans, which include the development of primary care networks and integrated delivery systems.

- The UC medical centers are dependent on federal and State funds which reimburse the medical centers for teaching costs and for serving a disproportionate share of Medicare, Medi-Cal and low-income patients. These funds are certain to be reduced, or eliminated, in the ongoing search for federal and State fiscal relief.

KPMG Peat Marwick concluded that State-imposed redirection of any funds, particularly CTS funds, from the medical centers would not be advisable.

The KPMG report raised three questions which the University and its medical centers continue to confront:

- *How should capital be rationed*? As capital generated by the medical centers decreases over the next few years, management must decide what capital projects to defer in order to pursue the development of primary care networks and integrated delivery systems.

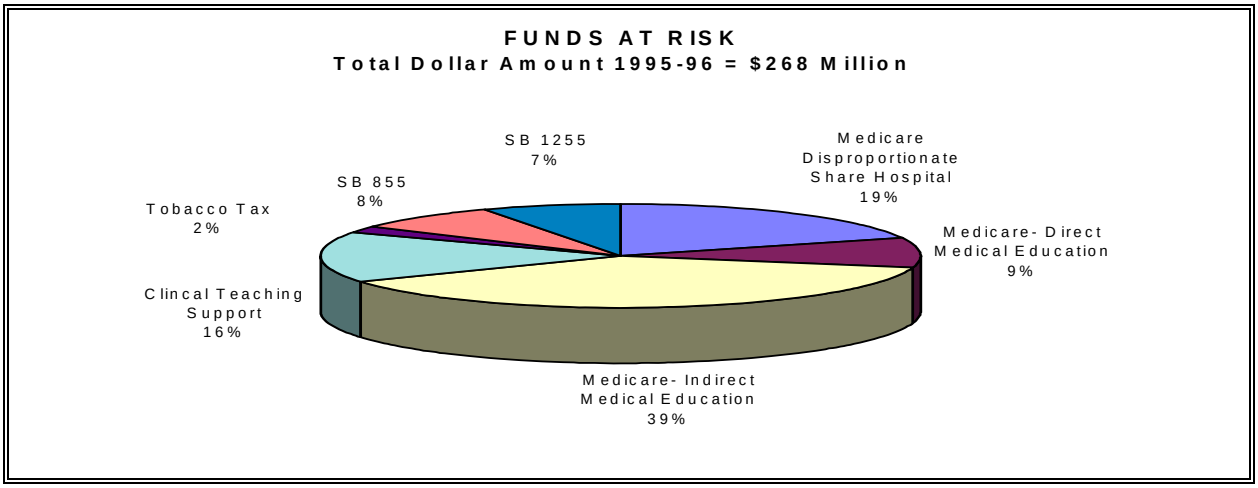
- *Who will bear the burden of indigent care*? State and federal reductions in the already inadequate funding levels for indigent care will threaten the medical centers' ability to serve these populations.

- *Who should (or will) pay for the training of physicians*? Insurers, health plans and other payers have been increasingly unwilling to pay for academic medical centers' teaching programs. Even the Medicare program, which does reimburse medical centers for direct and indirect medical education costs, is likely to be substantially reduced as a result of the ongoing debates on balancing the federal budget.

Current Issues

Funds at Risk

The ability of the University's five academic medical centers to generate the net operating revenue needed to stay competitive and meet financial obligations will be severely constrained in the next few years. As discussed throughout this section, each UC medical center receives revenues from sources other than direct payment for medical care. These revenues, which are essential to the financial viability of the medical centers, are at risk. These revenues include funds for medical education and supplemental payments for providing services to a disproportionate share of Medi-Cal, Medicare and other indigent patients. Together, these revenues account for slightly more than 13 percent of the combined medical centers' total net revenues, but as much as 15.5 percent of the total net revenues at one center. In 1995-96, revenues from these sources totaled $268 million, an increase of $10 million over the previous year. The figure below displays the relative share of each fund source that is at risk.



Reductions in Federal Funding

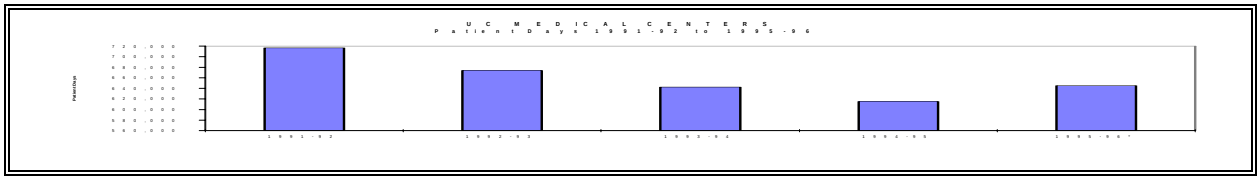
The agreement between the President and Congress to balance the federal budget over a seven-year period (from federal fiscal year 1996 through 2002) will result in cuts to the University's teaching hospitals. While there is not yet agreement, the plan to balance the federal budget includes reductions in the growth of the Medicare and Medicaid programs, and possibly major restructuring of existing funding programs, such as moving to block grants for Medicaid. The University is very concerned about the unresolved issues surrounding reform in the Medicare and Medicaid programs because substantial savings from these programs is an integral part of the plan to balance the federal budget by the year 2002. Medicare is the major provider of funding for the costs, direct and indirect, related to medical education. The federal government currently provides nearly one-third of the net operating revenue of the teaching hospitals.

While it is difficult to determine the level of cuts or how soon the cuts will be made, it is certain that federal funding of medical education through the Medicare Program and funding for Medicaid disproportionate share programs (i.e., SB 1255 and SB 855) will be reduced.

Impacts of Managed Care

Academic medical centers are profoundly affected by the rapid changes in the provision of health care services. These changes are the direct or indirect result of an increase in the percentage of the general population enrolling in managed care for health care services. In a fee-for-service health payer environment, the medical centers were able to generate the patient volume and dollars needed to support teaching and research programs. Patients were attracted to the cutting-edge quality of the specialized treatments for complicated health problems offered by the medical centers, and employer-paid insurance and government programs covered the higher costs. The entire community benefits from the physicians trained and the treatment techniques developed at the medical centers.

Managed care, in response to spiraling health care costs, seeks to reduce costs in two 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 the first-line of treatment and act as gatekeepers, coordinating care and controlling referrals to more costly services. Some services that have traditionally been provided on an inpatient basis are now being provided in less costly outpatient facilities as efforts are made to hold down costs. And, improvements in procedures and technology will continue to allow for more services to be performed in an outpatient setting.



As a result of these trends, the University's teaching hospitals have experienced decreases in admissions, in the average length of stay, and in patient days. The decrease in patient days threatens the ability to generate revenue to cover costs and reduces the opportunities for teaching. The figure on the previous page illustrates the decrease in patient days between 1991-92 and 1994-95. The increase in patient days in 1995-96 is mainly due to the volume of patients at the Santa Monica Hospital, which was purchased by the UCLA Medical Center in August 1995.

The downturn of inpatient activity that has occurred over the past few years is expected to continue as the UC Medical Centers face increased competition. As the medical

centers require a diverse patient population in sufficient volume to support their teaching and research programs, the decrease in the inpatient population is alarming.

Second, managed care seeks to control costs by having health insurers contract with a network of preferred providers to deliver services at predetermined, negotiated (discounted) rates. To compete successfully for insurance 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 derive competitive advantages from: (1) economies of scale that can result in lower prices; (2) data collection capabilities that can provide proof of performance over time, which can be an advantage in attracting patients; and (3) convenience for insurers, who can negotiate with hundreds of doctors and multiple services as a group rather than one at a time. Providers who remain outside these networks face a reduced market for their services, as more and more of the population select the managed care option for health care.

The State and federal governments also recognize the cost-containment advantages of managed care. As major consumers of medical services through the Medi-Cal and Medicare programs, they are encouraging the development of contractual arrangements with selected providers to render services to these populations. These contractual arrangements specify negotiated rates for the services to be provided. Unless the rates recognize the special needs of the medical centers, the centers will not be able to recover full costs for providing services.

The University's teaching hospitals--in order to stay competitive and maintain the diverse patient mix needed for teaching--have had to accept negotiated rates that do not cover the unique costs incurred by providing clinical services in an academic medical center.

Paying for the Costs of Medical Education

Over the next few years, one of the major issues facing the UC medical centers will be how to continue providing quality training of doctors and other health care professionals in a price-sensitive, competitive, managed care environment. The cost of providing patient care services through academic medical centers is higher than in other settings because medical faculty have teaching and research responsibilities in addition to their patient care responsibilities. Despite attempts to reduce costs and become more efficient, the medical centers continue to be at a competitive disadvantage. Residents in training take more time with patients, slow down surgeries, and order more tests, all of which are costs associated with training. And, the patients served in academic medical centers generally have more severe illnesses and more limited financial resources than do patients at most other institutions.

As mentioned earlier, the University's medical centers have been pressured to accept negotiated rates for services provided to individuals in private plans, as well as those covered by Medi-Cal and Medicare. The resulting rates have not, generally, recognized the special teaching and research costs incurred at a teaching hospital, and have,

therefore, not covered the full costs incurred by the medical centers.

Traditionally, teaching hospitals helped fund some of these costs through higher charges to all patients for patient care services, and from the special payments built into public payers reimbursement formulae, most notably Medicare s direct medical education and indirect medical education payments and, in some states from Medicaid program payments. As noted earlier, these federal funds are now at risk. Twenty-nine states have supplemented patient care-related payments with support on a per-resident or per-program basis to teaching hospitals, most recently as a way of encouraging expansion of primary care training. The states that reimburse graduate medical education costs do it through an all-payer funding mechanism.

The trend for health payers to adopt rates that do not reflect the true costs of medical centers will continue to be a problem. As the competition intensifies, especially as providers consolidate under managed care, teaching hospitals will find it more difficult to support their graduate medical education and related social missions.

Responding to the Challenges

The medical centers are adapting to the managed care environment by expanding their outpatient and primary care services to complement their existing inpatient services and creating integrated delivery systems. This will enable the centers to compete more successfully for commercial contracts and in turn, provide students with more exposure and training in the delivery of primary care services, and ensure a diverse patient population for clinical teaching and research purposes. An expanded primary care patient base is also expected to result in more referrals to the University s own inpatient and specialist services. The University s academic medical centers are also responding by becoming leaner and more efficient. The centers are developing stronger links with other providers, especially community hospitals and physicians in larger networks. And, they are renegotiating their relationships with the medical schools and government.

In response to the changes in the health care industry, the following steps have been taken within this past fiscal year:

- The Davis Medical Center has formed a nonprofit mutual benefit corporation (Western Health Advantage) with Mercy Healthcare Sacramento, Woodland Healthcare, and North Bay Healthcare system.

- The Irvine Medical Center has received approval from The Regents to pursue a strategic partnership.

- The Los Angeles Medical Center acquired Santa Monica Hospital Medical Center.

- The San Diego Medical Center has received approval from The Regents to

pursue a strategic partnership.

- The San Francisco Medical Center has merged its physician practice, the UCSF Medical Group, with the California Pacific Medical Group and is negotiating a merger of clinical services with Stanford Health Services.

The University medical centers, as well as the Legislature, are greatly concerned about the impact of changes in Federal reimbursement policies and of managed care on academic medical centers and how the cost of medical education will be funded in the future. As one step to address the problem, the Legislature adopted the following supplemental budget report language in 1995-96:

> It is the intent of the Legislature that the UC, in consultation with other educational institutions which operate teaching hospitals and other teaching hospitals with a significant medical education component, develop options to be presented to the Legislature during the 1996-97 budget hearings which address the implications of changes in managed care, federal reimbursement policies, the impact these changes are having on the education of physicians, and the ability of hospitals to function as teaching hospitals in a managed care competitive environment.

In response to the 1995-96 supplemental language, the University created a workgroup with representatives from the Charles R. Drew University of Medicine and Science, Loma Linda University Medical Center and Children's Hospitals, Stanford University, University of Southern California Health Sciences Center, California Association of Public Hospitals and Health Systems, and California Children's Hospital Association, to look at graduate medical education costs in California teaching hospitals.

As noted earlier in the Health Sciences Instruction section, the work group has engaged consultants from the Lewin Group to develop credible estimates of teaching costs to enable the work group to develop options for covering the costs.

Continuing concerns, shared by the Legislature and highlighted by net losses sustained in 1995-96 at the Irvine and San Diego Medical Centers as well as increasing financial problems at San Francisco Medical Center, resulted in the following language being included in the Supplemental Report of the 1996 State Budget Act:

> It is the intent of the Legislature that the University of California form a work group to address the financial problems facing the University's teaching hospitals. The work group will identify factors contributing to the teaching hospitals' financial problems and will develop options for presentation to the Governor and the Legislature to mitigate the problems. The work group will, at a minimum, look at the impacts of changes in managed care, federal and state funding for Medicare and Medi-Cal, costs associated with providing a medical education in a clinical setting, and serving a disproportionate share of the indigent population.

> It is further the intent of the Legislature that the work group identify alternatives that specifically address the higher costs of providing medical care and teaching associated with academic medical centers. The work group will look at options that range from providing the UC with increased support to options in which all payers contribute toward the costs of providing a medical education in a clinical setting (for all teaching hospitals in California).
>
> The work group will be composed of representatives from the UC, the Department of Finance (DOF), the Department of Health Services, the Legislative Analysts Office (LAO), fiscal committees of the Assembly and Senate, and the California Postsecondary Education Commission. The work group should complete its work and submit its finding to the Governor and fiscal committees of the Legislature by February 1, 1997.

The workgroup began meeting in September and expects to present its findings to the State by February 1, 1997.

As discussed throughout this section, the University s medical centers are pursuing a number of alternatives in order to survive in a cost-sensitive managed care market. They are developing primary care networks; reducing costs by downsizing, by being more efficient, and through economies of scale; and by making changes to the training programs for tomorrow s doctors and other health care professionals.

Despite the best efforts of the UC medical centers to become more competitive, the cost of medical education will continue to put the medical centers at a great disadvantage. In order to provide a level playing field for the UC medical centers, the cost of medical education will have to be funded, not only by the State with CTS funds and by the federal government through Medicare, but by all payers (e.g., Medi-Cal, counties, HMOs, etc.) which benefit from the physicians and health care professionals trained by the UC medical centers.

STUDENT FEES

Overview

There are two mandatory Universitywide fees currently assessed all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support student financial aid, student services programs, and a share of the University's operating costs, including instruction-related costs. Specific uses of each fee are discussed later in this chapter. There have been no increases in mandatory Universitywide fees since 1994-95. Students also pay miscellaneous fees on each campus to support student associations or student-approved expenses that are not supported by Universitywide fees. For 1996-97, mandatory Universitywide and miscellaneous campus fees across all nine campuses average $4,166 for undergraduate students and $4,667 for graduate students.

In addition, all students seeking specified degrees in medicine, dentistry, veterinary medicine, law, business/management, pharmacy, optometry, nursing, and theater/ film/ television (at the Los Angeles campus only) are required to pay a professional school fee, as provided in the Fee Policy for Selected Professional School Students approved by The Regents in January 1994.

Finally, in addition to all mandatory Universitywide and campus-based fees, nonresident students must pay the nonresident tuition. For 1996-97, the nonresident tuition is $8,394.

Historically, the combination of adequate State support and low student fees maintained the affordability of the University; financial aid programs also helped to maintain access for needy students. The commitment to low fees was eroded, however, by the State's severe fiscal difficulties during the 1990s and the resulting dramatic decline in State support for the University. The shortfalls in State funding were accommodated in three ways: about half through budget cuts resulting, for the most part, in reductions in the number of employees; roughly a quarter through paying the remaining employees less than they otherwise would have received; and another quarter through student fee increases. Significant increases in financial aid helped to offset the impact of student fee increases for needy students. The commitment to financial aid, which is addressed in the Student Financial Aid section, has helped maintain the affordability of a UC education.

Student Fee Increases During the 1980s

In 1981-82 and 1982-83, reductions to the University's State-funded budget resulted in significant increases (30.5 percent and 31.7 percent respectively) in fee levels and student fees were used to fund programs previously supported from other sources, primarily State funds. In 1984-85, the State reversed the pattern of annual fee increases by approving a $70 per student reduction in student fees. In 1985-86 and again in 1986-87, mandatory Universitywide student fees were held at their 1984-85

levels. In each of those three years, the State provided an increase in General Funds for student financial aid which, in turn, released an equivalent amount of student fee income to offset the 1984-85 fee reduction and to compensate for the impact of inflation on student services programs for those three years. In 1987-88, 1988-89, and 1989-90, student fees were increased by about 10 percent, 4 percent, and 3 percent respectively.

Student Fee Increases During the 1990s

The University experienced sudden and dramatic shortfalls in State funding during the early 1990s. As a result, the University was forced to implement budget cuts equivalent to roughly 20 percent of what the University's State-funded budget was in 1989-90, just prior to the period of severe budget shortfalls. In addition, UC employees received no cost-of-living salary adjustments for three years in a row, and in the third year, salaries were cut temporarily by 3.5 percent for one year. Student fees increased significantly during this period, with significant increases in financial aid helping to offset the impact of the fee increases on needy students. The discussion below describes increases in general Universitywide student fees.

1990-91 Fees were increased by $148 (10 percent). In addition, a provision was included in the 1990 State Budget Act requiring that law and medical school students pay a new special fee of $376 per year.

1991-92 In response to dramatic shortfalls in State funding for the University, the Statewide Long-Term Student Fee Policy was suspended by The Regents and the State and general student fees were increased by $650 (40 percent).

1992-93 The Statewide Long-Term Student Fee Policy was suspended again and general student fees were increased by $550 (24.2 percent) to partially offset reductions to the University's budget.

1993-94 In actions taken in November 1992 and March 1993, The Regents approved a $995 (35.2 percent) increase in the Educational Fee to deal with an additional 1992-93 budget cut and an expected shortfall in the 1993-94 budget. However, as a result of a budget augmentation provided by the Governor and Legislature, the fee increase was reduced to $630 (22.3 percent) in July 1993. These actions continued the suspension of the Statewide Long-Term Student Fee Policy.

1994-95 In January 1994, The Regents approved a new Student Fee and Financial Aid Policy, discussed below, and consistent with the policy, approved a $620 (18 percent) increase in general Universitywide fees. Subsequently, The Regents approved a reduction in the fee increase from $620 to $345 (10 percent) student fee increase. As part of the agreement to limit the fee increase to ten percent, the State authorized the use of $25 million in

debt financing for deferred maintenance. Implementation of the reduction in the fee increase was deferred until after November 15 when it was clear that there would be no mid-year budget cut.

1995-96 The University's 1995-96 budget plan requested a budget increase of 7.9 percent, noting that if the State could provide this level of funding, no student fee increase would be needed. The January Governor's Budget, however, included only a two percent increase in State funds and proposed a four-year compact with higher education which included provisions for student fee increases of up to ten percent annually. The University subsequently developed a revised budget plan, based on the compact, which included a ten percent fee increase. The Regents deferred action on a fee increase for 1995-96 until after the Governor and Legislature made final decisions on the budget. Final decisions for 1995-96 included a compromise agreement among the University, the Legislature, and the Governor that there would be no general student fee increase and, instead, an additional $28.5 million of State funds would be provided to help offset the loss of revenue. The additional funds represented about three quarters of the revenue that would have been generated by a ten percent student fee increase net of financial aid, leaving the University with a budget shortfall of $9.5 million. One-time funds were used to deal with the shortfall in 1995-96, and restoration of the funds was provided in 1996-97.

1996-97 Consistent with the four-year higher education compact, a $270 (7.1 percent) increase in general student fees was included in the University's 1996-97 budget proposal. The Regents again deferred action on the proposed increase, pending final action by the Governor and Legislature on the University's budget. The Regents also adopted a resolution stating that, if additional State funds were available, holding student fees at the 1995-96 level was among their highest priorities. The 1996 State Budget Act included $27 million as proposed in the Governor's Budget, beyond the compact, to "buy out" the proposed student fee increase and, as a result, general student fees were held at the 1995-96 level. This was the second straight year in which general fees were not increased.

The table on the next page displays annual fee levels from 1978-79 to the present.

As fees have increased over time, the percentage of additional fee income that is dedicated to financial aid has increased commensurately, from 16 percent ten years ago to 33 percent at present. Financial aid provided to UC students through the Cal Grant program also has increased. Between the Cal Grant program and financial aid

UNIVERSITY OF CALIFORNIA
STUDENT FEE LEVELS
1978-1997

	Average Annual Fees per Resident Undergraduate Student					Average Annual Fees per Resident Graduate Student				
	Reg. Fee	Educ. Fee	Ed/Reg Fees Combined		Miscellaneous Fees (a)	Total Fees (a)*	Reg. Fee	Educ. Fee	Ed/Reg Fees Combined		Miscellaneous Fees (a)	Total Fees (a) *
1978-79	$ 371	$ 300	$ 671		$ 49	$ 720	$ 371	$ 360	$ 731		$ 38	$ 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 (b)	463	475	938	(30.5%)	60	998	463	535	998	(30.5%)	45	1,043
1982-83 (c)	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 (d)	673	951	1,624	(10.0%)	196	1,820	673	951	1,624	(10.0%)	482	2,106
1991-92	693	1,581	2,274	(40.0%)	212	2,486	693	1,581	2,274	(40.0%)	557	2,831
1992-93	693	2,131	2,824	(24.2%)	220	3,044	693	2,131	2,824	(24.2%)	608	3,432
1993-94	693	2,761	3,454	(22.3%)	273	3,727	693	2,761	3,454	(22.3%)	703	4,157
1994-95	713	3,086	3,799	(10.0%)	312	4,111	713	3,086	3,799	(10.0%)	786	4,585 (e)
1995-96	713	3,086	3,799	(0.0%)	340	4,139	713	3,086	3,799	(0.0%)	836	4,635 (e)
1996-97	713	3,086	3,799	(0.0%)	367	4,166	713	3,086	3,799	(0.0%)	868	4,667 (e)
1997-98 (Proposed)	--	--	4,169	(9.7%) **	367	4,536	--	--	4,169	(9.7%) **	868	5,037 (e)

Notes:

(a) Represents the average of fees charged by the nine campuses.

(b) Includes a one-time $25 Spring Quarter Educational Fee surcharge.

(c) Includes a one-time $100 Spring Quarter Educational Fee surcharge.

(d) The Governor and Legislature included a provision in the 1990-91 budget, subsequently approved by The Regents, which established a new special fee of $376 per year for law and medical school students. This fee is not included in figures shown.

(e) The Fee For Selected Professional School Students is not included in figures shown.

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

** Total includes the $40 Instructional Technology Fee; distribution of the $330 fee increase between the Educational Fee and Registration Fee will be determined by the President at a later date.

provided from student fee revenue, funds have helped cover fee increases for UC students who demonstrate financial need.

Over the six years through 1995-96, financial aid grants and other gift aid funded from University sources have grown by about $124 million, or nearly 178 percent. Looking at all fund sources and all types of aid, preliminary data show that UC students received about $865 million of financial aid in 1995-96, including $242 million from UC and the State and about $100 million from the State Cal Grant Program. Despite increasing fee levels, the percentage of new freshmen from low-income families (less than $30,000 parental income) increased from 24 to 29 percent over the period 1991-92 through 1995-96. The proportion of lower-middle-income students among new freshmen has increased just slightly since 1991. The proportion of upper-middle and higher-income students has declined, although their actual numbers have increased slightly. The Student Financial Aid section of this budget provides a full discussion of financial aid from all sources, including State, federal, private, and University sources.

1997-98 Student Fee Increase

Consistent with the four-year compact with higher education, a $330 increase in the current mandatory Universitywide fees is recommended as one component of the University's 1997-98 budget proposal. The recommended fee increase will generate approximately $49.5 million of new revenue, of which one-third or approximately $16.5 million will be set aside for financial aid and the remainder (approximately $33 million) will be used to provide inflation adjustments for student-fee-funded programs and help fund the University's general operating budget. The distribution of the fee increase between the Educational Fee and the University Registration Fee will be determined by the President at a later date.

In addition, a new mandatory Instructional Technology Fee of $40 is recommended for implementation beginning in 1997-98 to fund the Instructional Technology Initiative. The proposed Instructional Technology Fee would be phased in over three to four years to reach approximately $200 when fully implemented. In keeping with agreements in the four-year compact, at least one-third of the revenue from the Instructional Technology Fee will be set aside for financial aid. The Fee will be part of a shared funding strategy in which the State, industry, the campuses, and students will be asked to help pay for the costs of enhancing the University's delivery of instruction through new technologies. The University has identified student access to technology, improvements to the network infrastructure, and the use of technology in the classroom and libraries as key areas in which targeted investments can directly benefit UC students. A fuller discussion of the proposed Instructional Technology Initiative is provided in the General Campus Instruction section.

The $330 general fee increase and the $40 Instructional Technology Fee fall within the parameters of the compact with higher education, with at least one third of the new fee revenue earmarked for financial aid. It is anticipated that further increases in financial aid will be provided to UC students through the State Cal Grant Program, as specified in

the higher education compact. Between the Cal Grant Program and financial aid provided from student fee revenue, funds should be available to cover the proposed fee increase for UC students who demonstrate financial need.

With the general fee increase and the new technology fee, total mandatory Universitywide fees will be $4,169 in 1997-98. Students also pay miscellaneous campus fees averaging $367 for undergraduates and $868 for graduate students. With the addition of miscellaneous campus fees, total mandatory fees for resident students will average $4,536 for undergraduates and $5,037 for graduate students in 1997-98.

As shown in the table below, with the proposed fee increases, University fee levels for undergraduate resident students will be $493 less than the projected average of 1997-98 fees for the University's four public salary comparison institutions. The University's fees for nonresident undergraduate and graduate students are estimated be about the same as the projected average 1997-98 fees for the comparison institutions. A table at the end of this chapter displays 1996-97 average fee levels at UC and at 23 public institutions.

University of California and Public Salary Comparison Institutions

1996-97 and 1997-98 Estimated Student Fees

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
Public Salary Comparison Institutions 1996-97 Fees				
University of Illinois	$4,153	$9,583	$4,593	$10,947
University of Michigan	$6,074	$18,547	$9,500	$19,118
State University of New York	$4,656	$9,556	$6,208	$9,524
University of Virginia	$4,648	$14,434	$4,648	$14,434
1996-97 Average Fees	$4,883	$13,030	$6,237	$13,506
1996-97 UC Fees	$4,166	$12,560	$4,667	$13,061
1997-98 Estimated Average Fees for Public Salary Comparison Institutions*	$5,029	$13,551	$6,424	$14,046
1997-98 Proposed UC Fees	$4,536	$13,520	$5,037	$14,021

* Estimates for 1997-98 are based on increases in comparison institution fees for the past year.

In 1997-98, with the proposed fee increase, UC resident students will be paying about 30 percent of the actual cost of their education, with the State subsidizing most of the

remainder. This proportion is significantly less than the 40 percent level recommended by the California Postsecondary Education Commission (CPEC), which has proposed that student charges be based on a percentage of the average cost of instruction.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the California economy continues to grow, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, or all, of the priorities identified. Funding to "buy out" the proposed increased in general student fees is one of the identified priorities.

The University's 1997-98 budget request reflects the minimum funding needed to maintain the University's basic needs. The plan primarily seeks to support budgeted enrollment growth of one percent, recognize the impact of inflation and fixed cost increases, implement the second year of a three-year plan to restore competitive faculty salaries, provide for the operation and maintenance of new space, and to take the first step toward adequately funding building maintenance.

The plan is proposed to be funded from a combination of State general funds, UC general funds (including an increase in nonresident tuition), planned increases in selected professional schools fees, a $40 Instructional Technology Fee, and a $330 increase in the general student fees. In 1995-96, and again in 1996-97, there were no general student fee increases. The Regents were able to maintain general fees at the 1994-95 level because the Legislature and the Governor provided sufficient revenues to fund the University's budget plans. These actions were of great benefit to UC students, and their families. To offset the full amount of the general fee increase proposed in this budget--$330--would require the State to provide the University with $33 million beyond the funding provided in the compact.

The 1997-98 budget plan also includes a recommendation to implement a mandatory $40 Instructional Technology Fee. If the State's revenue situation permits, the University will request an additional $4 million above the compact to match the $40 fee that UC students will be asked to pay in 1997-98. This is discussed in more detail in the General Campus Instruction section of this document.

Policy on Adjustment of Student Fee Levels

In 1985, the State adopted a Statewide Long-Term 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 ten percent when State revenues and expenditures are substantially imbalanced. Although The Regents also adopted the policy in 1985, it was routinely suspended beginning with the 1991-92 budget. The policy is no longer in effect (as of August 31, 1996) because it was not reauthorized by the Legislature.

Discussions occurred at Regents' meetings in October and November 1993 regarding the need to establish a new student fee policy coupled with a formal financial aid policy. These discussions occurred within the context of the reduced State financial support for the University and an anticipated dramatic increase in student demand over the next 15 years. During these discussions the necessity to generate additional revenue in order to maintain the academic quality of the University as well as student access was acknowledged. It was also recognized that for California resident students, funding the cost of a UC education is a shared responsibility among the State, the students, and their families. Further, because student fees cover only a portion of the cost to educate students, it was understood that all students receive a substantial State subsidy, including those from high-income families who actually have the resources to contribute more. Data from a 1994-95 survey of students expenses and resources indicate that a third of undergraduates had parents with income which exceeds $72,000, while about 19 percent had incomes of $96,000 and above.

In January 1994, based on extensive discussions with the State and within the University community, The Regents approved a new Student Fee and Financial Aid Policy that applies to the Educational Fee and University Registration Fee. The Policy recognizes that the commitment to low fees has been eroded by dramatic declines in State support, and specifically authorizes the use of Educational Fee revenue for general support of the University, including costs related to instruction. A goal of the Policy is to maintain access to a quality educational experience at the University for low- and middle-income students without unnecessarily subsidizing high-income students. All students will continue to receive a substantial State subsidy, but it will probably not be as large as in the past.

Under the new Policy, the Educational Fee continues to be a uniform, mandatory charge assessed to all resident and nonresident students. The Educational Fee will 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 President is to solicit faculty and student views annually on the level of the Educational Fee. In addition to funding programs and services supported by the Educational Fee in past years (such as student financial aid and related programs, admissions, registration, administration, libraries, and operation and maintenance of plant), income generated by the Educational Fee is now used for general support of the University's operating budget.

The Policy also established a new methodology for setting annual University Registration Fee levels that vary among the campuses within a range established annually by The Regents. However, allowing differential Registration Fees by campus, and using the same funding need assumptions, would mean increasing total fees more than proposed under the compact. As discussed below, the University will need to re-examine whether this provision of the Policy can be implemented this year.

Finally, to assist students and their parents in planning for future educational expenses, the Policy provides for recommendations annually to the Board concerning the proposed levels for the Educational Fee and the University Registration Fee for the next academic year, and the anticipated fee levels for the following three years.

Educational Fee

The Educational Fee was established in 1970. Though the Educational Fee initially was designated to be used primarily for capital outlay purposes, in subsequent years, an increasing proportion of the Fee was allocated for student financial aid. In 1976, The Regents adopted a policy that Educational Fee income was to be used exclusively for support of student financial aid and related programs. The Regents modified that policy in 1981 following a reduction in State General Fund support. As a result, the Educational Fee, which continued to fund student financial aid and related programs, also began to support social and cultural activities, counseling and career guidance, supplemental education (e.g., academic tutoring), and overhead (i.e., operation and maintenance of plant and general administration) associated with student services activities funded by student fee income.

In 1994, The Regents adopted a policy permitting the use of Educational Fee revenue for general support of the University's operating budget, including costs related to instruction. As discussed earlier, the policy also established a new methodology for setting annual Educational Fee levels.

University Registration Fee

The University Registration Fee is a charge made to each registered student for services which are necessary to students but not part of the University's programs of instruction, research, or public service. Included in these services are activities such as counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements which provide extracurricular benefits for students. Chancellors are authorized to determine specific allocations of University Registration Fee income on their campuses, within appropriate University policies and guidelines. Each campus has a Registration Fee Committee, which includes a majority of voting student members, to advise the Chancellor on pertinent issues.

Between 1977 and 1988-89, the Registration Fee level differed by campus in order to allow each campus to meet specific program needs. This approach included the expectation that the Fee could be increased differentially, within a Universitywide ceiling, to meet future campus needs. However, the Registration Fee was frozen from

1984-85 through 1986-87. In 1987-88, the University began moving toward a uniform Registration Fee level among the campuses; the goal was achieved in 1989-90.

The Student Fee and Financial Aid Policy approved by The Regents in January 1994 provided that the University Registration Fee was no longer required to be uniform across the campuses beginning in 1995-96. However, under the four-year higher education compact, total mandatory Universitywide fees are anticipated to increase an average of ten percent each year, with at least one-third of the new fee revenue set aside for financial aid and the remainder used to provide inflation adjustments for student-fee-funded programs and to help fund the University's general operating budget. Within this tightly constrained fiscal framework, allowing differential Registration Fees by campus could mean increasing total fees more than proposed under the compact. The University will need to re-examine whether this provision of the Policy can be implemented this year. In the interim, programs supported from the University Registration Fee will continue to receive inflationary adjustments equivalent to what is provided to General Fund and Educational Fee-funded programs (e.g., cost-of-living and merit salary increases, price increases, undesignated budget reductions).

Fee for Selected Professional School Students

The 1990 State Budget Act required that a new Special Fee for Law School and Medical School Students of $376 per year be charged to law and medical school students.

In January 1994, The Regents approved a Fee Policy for Selected Professional School Students. In approving the new fee policy, the University reconfirmed its commitment to maintain academic quality and enrollment in the designated professional school programs and recognized that earning a degree in these programs benefits the individual as well as the State. The policy provides that the fee for each selected professional program will be phased in to approximately the average of fees charged for that program by comparable high quality institutions across the nation. Until the fee is fully phased in, the level of the fee remains the same for each student for the duration of his or her enrollment in the professional degree program, with increases in the fee applicable to new students only. In addition, professional school students pay mandatory Universitywide fees and miscellaneous campus-based fees, and nonresident tuition, when appropriate. The Special Fee for Law and Medical School Students is now incorporated in the Fee for Selected Professional School Students.

UNIVERSITY OF CALIFORNIA

Fees for Selected Professional School Students:
Proposed Annual Fee Levels by Year of First Enrollment*

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Medicine	$2,376	$3,376	$4,376	$5,376	$6,376	
Dentistry	$2,000	$3,000	$4,000	$5,000	$5,000	
Veterinary Medicine	$2,000	$3,000	$4,000	$4,000	$4,000	
Law	$2,376	$4,376	$6,376	**	**	
Business						
Berkeley, Davis, LA, Irvine	$2,000	$4,000	$6,000	**	**	
Riverside	$2,000	$3,000	$4,000	$5,000	$6,000	
Optometry			$2,000	$3,000	$4,000	$5,000
Pharmacy			$2,000	$3,000	$4,000	$5,000
Nursing			$1,500	$1,800	$2,100	$2,500
Theater, Film, and TV			$2,000	$2,000	$2,000	$2,000

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

** To be reviewed.

The table above shows the fee levels previously approved by The Regents as well as proposed fee increases for 1997-98. The proposed increases are consistent with a multi-year plan for phasing in the Fee for Selected Professional School Students that was approved by The Regents in 1995 and 1996. It is recommended that effective fall 1997, the Fee for Selected Professional School Students be set at $5,000 per student per year for new students enrolled in the first graduate professional degree programs in medicine (M.D.), dentistry (D.D.S.), and business/management (M.B.A.) at the Riverside campus only; at $3,000 per student per year for new students enrolled in the first graduate professional degree programs in optometry (O.D.) and pharmacy (Pharm.D.); and at $1,800 per student per year for new students enrolled in the first graduate professional degree programs in nursing (M.S.N. or M.N.).

There are no increases in the professional school fee proposed for 1997-98 for students enrolled in law, business/management, veterinary medicine, or theater/film/television. However, new students enrolled in the first graduate professional degree programs in law (J.D.) and business/management (M.B.A.) will continue to pay $6,000 per student per year and new students in veterinary medicine (D.V.M.) will continue to pay $4,000 per student per year. New students enrolled in the M.F.A. program in Theater, Film, and Television at the Los Angeles campus only will continue to pay $2,000 per student per year. In law and medicine only, new students will pay an additional $376 per student per year reflecting the Special Fee for Law and Medicine (discussed above) which is now incorporated in the Fee for Selected Professional School Students, resulting in a fee of $5,376 per student per year for new medical school students and $6,376 for new law school students. A table at the end of this chapter shows the total of proposed fees at the University of California for 1997-98 for each of the selected professional school programs.

Total revenue from increases in the Fee for Selected Professional School Students (excluding the $376 for the Special Fee for Law and Medical School Students) will be approximately $9.8 million in 1997-98. Of that total, about $3.3 million will be used for financial aid to maintain the affordability of professional school programs, and the remaining $6.5 million will be used by professional schools to maintain academic quality and enrollment levels, in accordance with the Policy approved in January 1994. Fee income may be used to hire faculty and teaching assistants so that enrollment levels can be sustained in the face of budget cuts and related loss of faculty through early retirement. Fee income may also be used for instructional and computing equipment, libraries, other instructional support, and student services. The amount of fee revenue associated with the proposed fee increase for 1997-98, including the amount to be set aside for financial aid, is shown in the table on the next page.

Because of a concern about the ability of students with high debt to pursue public interest occupations, some professional schools are developing programs to assist students in meeting their loan repayment obligations after graduation. The University will continue to monitor the impact of the fee on enrollments and the effectiveness of financial aid programs in meeting students needs.

Overall, the University's fees for selected professional school students are lower than or about the same as the tuition and fees charged by comparable institutions. A table at the end of this chapter shows 1996-97 professional school fees at the University of California and the University's four public salary comparison institutions. The table also shows the average 1996-97 fees at the University's four private salary comparison institutions, which are higher than fees at the public institutions and double current UC fees for professional schools. For 1997-98, even allowing for increases in the Fee for Selected Professional School Students, the Educational Fee and University Registration Fee and implementation of the new Instructional Technology Fee, with one exception, the University's fees should remain less than average fees at the comparison institutions. For Nursing programs, the University s fees will be about the same as the average fees at comparison institutions. For information purposes only, a

1997-98 Professional School Fee Income *

	Gross Fee Income	Return-to-Aid	Net Fee Income
1996-97 Budgeted Fee Income	$24,691,000	$ 8,231,000	$16,460,000
Increased Fee Income in 1997-98:	$ 9,835,000	$ 3,278,000	$ 6,557,000
New students paying previously approved fees	(8,713,500)	(2,904,500)	(5,809,000)
New students paying 1997-98 proposed fee increases	(1,122,000)	(374,000)	(748,000)
Total Fee Income	$34,526,000	$11,509,000	$23,017,000

* Excludes the $376 Special Fee for Law and Medical School Students

table at the end of this chapter displays 1996-97 professional school fees at a broad range of public institutions across the nation.

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. The yearly charge is the same for each nonresident student regardless of level.

In May 1992, The Regents amended Section 110.2(a), adopting stricter requirements for establishing residency for tuition purposes. The action allowed the University to be consistent with the federal definition of "financial independence" and gave 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 satisfy one of the following criteria: is at least 24 years old; is a veteran of the U.S. Armed Services; is married; is a ward of the court; both parents are deceased; has legal dependents other than a spouse; is a graduate student and not claimed on another's income tax as a dependent for the immediately preceding tax year; or is a single undergraduate student who is financially self-sufficient and who was not claimed on another's income tax return as a dependent for the preceding two years.

State Policy on Adjustment of Nonresident Tuition

At the close of its 1988 session, 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 it's report in June 1989, which concluded with the following recommendation:

> As California's public postsecondary education segments annually adjust the level of nonresident tuition they charge out-of-state students, the nonresident tuition methodologies they develop and use should take into consideration, at a minimum, the following two factors: (1) the total nonresident charges imposed by each of their public comparison institutions and (2) the full average cost of instruction in their segment. Under no circumstances should a segment's level of nonresident tuition plus required fees fall below the marginal cost of instruction for that segment.
>
> In addition, each segment should endeavor to maintain that increases in the level of nonresident tuition are gradual, moderate, and predictable, by providing nonresident students with a minimum of a ten-month notice of tuition increases. Each governing board is directed to develop its own methodology for adjusting the level of nonresident tuition, but those methodologies should be consistent with this recommendation.

The Advisory Committee's recommendations for adjusting the level of nonresident tuition subsequently were signed into law (Chapter 792, 1990). In addition, the legislation includes the proviso that "in the event that State revenues and expenditures are substantially imbalanced due to factors unforeseen by the Governor and the Legislature," nonresident tuition will not be subject to the bill's provisions.

Nonresident Tuition Levels in the 1990s

The nonresident tuition level is an important element in the University's ability to recruit outstanding graduate students. In addition to paying nonresident tuition, out-of-state students must also pay the Educational Fee, the University Registration Fee, miscellaneous campus fees and, if applicable, the Fee for Students in Selected Professional Schools.

Between 1987-88 and 1991-92, nonresident tuition increased by nearly 80 percent reflecting the State's fiscal problems (see table on the next page). However, these increases created a significant differential between the University's level of tuition and fees and those charged at other public institutions and, in recognition of that differential, nonresident tuition remained at $7,699 until 1996-97. Consistent with the Statewide

policy on adjustment of nonresident tuition, The Regents approved a $695 (9 percent) increase in nonresident tuition for 1996-97. The total fees and tuition charged to nonresident students remain about $500 below those charged at other public institutions.

NONRESIDENT TUITION
1978-1997

Year	Tuition Level	Percent Change Over Previous Year
1978-79	$ 1,905	--
1979-80	2,400	26.0 %
1980-81	2,400	0.0
1981-82	2,880	20.0
1982-83	3,150	9.4
1983-84	3,360	6.7
1984-85	3,564	6.1
1985-86	3,816	7.1
1986-87	4,086	7.1
1987-88	4,290	5.0
1988-89	4,956 (a)	15.5
1989-90	5,799	17.0
1990-91	6,416	10.6
1991-92	7,699	20.0
1992-93	7,699	0.0
1993-94	7,699	0.0
1994-95	7,699	0.0
1995-96	7,699	0.0
1996-97	8,394	9.0
1997-98 (Proposed)	8,984	7.0

(a) For the 1988-89 academic year only, this increase was effective beginning winter quarter/spring semester. Thus, nonresident students were charged a total of $4,806 in 1988-89, a 12.0% increase over the previous year. However, the base for future increases was an annual tuition of $4,956.

1997-98 Nonresident Tuition Increase

Consistent with the Statewide policy on adjustment of nonresident tuition, described above, a $590 (7 percent) increase in nonresident tuition is recommended as one

component of the 1997-98 budget proposal. This will generate slightly less than $7 million in new revenue. The proposed nonresident tuition rate incorporates a reduction, for a maximum of three years, in the nonresident tuition charged to graduate doctoral students who have advanced to candidacy. The proposed policy would bring the University's practices in line with those of the University's four public comparison institutions, which currently charge nonresident tuition at reduced rates for doctoral students in the latter years of their academic program.

With the proposed increase, the total fees and tuition charged to nonresident students will remain below the University's full average cost of instruction in 1997-98. With the proposed increase, UC's 1997-98 charges for nonresident graduate students will be $14,021, which is about the same as the projected average charged at other public institutions. The table on the next page displays the 1997-98 projected average nonresident tuition and fees for graduate students at the four public salary comparison institutions. Consistent with State policy, future increases in UC nonresident tuition are anticipated to keep the University's charges at the level of the average charged at comparison institutions.

Miscellaneous Campus Fees

Other campus mandatory fees, also called miscellaneous fees, cover a variety of student-approved expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund student government, sports and recreational facilities, and graduate student health insurance. The level of miscellaneous fees varies from campus to campus and, in some cases, between graduate and undergraduate students. Generally, students must vote to establish or increase campus mandatory fees.

UNIVERSITY OF CALIFORNIA

CURRENT 1996-97 FEES AND PROPOSED 1997-98 FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS

University of California	Under-graduate	Graduate	Medicine	Dentistry	Veterinary Medicine	Law	Business Admin.	Optometry	Pharmacy	Nursing	Theater, Film & TV
Current 1996-97 Fees											
Educational Fee, University Registration Fee, and Average Miscellaneous Fees	$ 4,166	$ 4,667	$ 4,697	$ 4,453	$ 4,485	$ 4,471	$ 4,631	$ 4,355	$ 4,337	$ 4,375	$ 4,445
Fee for Selected Professional School Students	--	--	$ 4,376	$ 4,000	$ 4,000	$ 6,376	$ 6,000 *	$ 2,000	$ 2,000	$ 1,500	$ 2,000
Total Fees for 1996-97	$ 4,166	$ 4,667	$ 9,073	$ 8,453	$ 8,485	$ 10,847	$ 10,631	$ 6,355	$ 6,337	$ 5,875	$ 6,445
Proposed 1997-98 Fees											
Educational Fee, University Registration Fee, Instructional Technology Fee, and Average Miscellaneous Fees	$ 4,536	$ 5,037	$ 5,067	$ 4,823	$ 4,855	$ 4,841	$ 4,943	$ 4,725	$ 4,707	$ 4,745	$ 4,815
Fee for Selected Professional School Students	--	--	$ 5,376	$ 5,000	$ 4,000	$ 6,376	$ 6,000	$ 3,000	$ 3,000	$ 1,800	$ 2,000
Total Proposed UC Fees for 1997-98	**$ 4,536**	**$ 5,037**	**$ 10,443**	**$ 9,823**	**$ 8,855**	**$ 11,217**	**$ 10,943**	**$ 7,725**	**$ 7,707**	**$ 6,545**	**$ 6,815**
Comparison Institution Fees											
Current 1996-97 Fees											
Public Salary Comparison Institutions											
University of Illinois	$ 4,153	$ 4,593	$ 12,568	$ 8,393	$ 8,363	$ 6,753	$ 10,093		$ 5,108	$ 4,593	$ 4,593
University of Michigan	$ 6,074	$ 9,500	$ 16,964	$ 13,836		$ 16,676	$ 17,028		$ 11,270	$ 9,500	$ 9,500
State University of New York	$ 4,656	$ 6,208	$ 11,971	$ 11,981		$ 7,241	$ 6,178	$ 11,445	$ 6,941		$ 6,041
University of Virginia	$ 4,648	$ 4,648	$ 9,676			$ 12,030	$ 11,819			$ 4,658	
Additional Fee Comparison Institutions											
University of Alabama								$ 5,832			
Indiana University								$ 6,866			
Michigan State University					$ 10,150						
University of Minnesota					$ 9,125						
University of Missouri								$ 13,048			
Ohio State University								$ 7,887			
University of Wisconsin					$ 10,060						
Average 1996-97 Fees	$ 4,883	$ 6,237	$ 12,795	$ 11,403	$ 9,425	$ 10,675	$ 11,280	$ 9,016	$ 7,773	$ 6,250	$ 6,711
Estimated 1997-98 Average Fees of Public Comparison Institutions	**$ 5,029**	**$ 6,424**	**$ 13,434**	**$ 11,745**	**$ 9,896**	**$ 11,316**	**$ 11,843**	**$ 9,466**	**$ 8,084**	**$ 6,500**	**$ 7,047**
Private Salary Comparison Institutions											
Harvard University	$ 21,901	$ 21,901	$ 26,281	$ 26,281		$ 23,831					
Massachusetts Institute of Technology	$ 22,000	$ 22,000					$ 23,900				
Stanford University	$ 20,490	$ 20,490	$ 25,350			$ 23,250	$ 23,100				
Yale University	$ 20,300	$ 20,300	$ 24,700			$ 22,600	$ 23,130		$ 24,700		$ 20,300

* Except the Riverside campus which charged $4,000 per MBA student per year for 1996-97. For 1997-98, the proposed fee for the Riverside campus is $5,000 per MBA student per year.

1996-97 TUITION AND FEES AT THE UNIVERSITY OF CALIFORNIA AND 23 PUBLIC INSTITUTIONS

INSTITUTION	UNDERGRADUATE		GRADUATE **		MEDICINE		DENTISTRY		VETERINARY MEDICINE	
	Resident	Non-resident	Resident	Non-resident	Resident	Non-resident	Resident	Non-resident	Resident	Non-resident
UNIVERSITY OF CALIFORNIA	**$ 4,166**	**$ 12,560**	**$ 4,667**	**$ 13,061**	**$ 9,073**	**$ 17,467**	**$ 8,453**	**$ 16,847**	**$ 8,485**	**$ 16,879**
UNIVERSITY OF COLORADO	2,841	14,433	3,603	14,217	11,053	50,281	7,528	24,223		
CORNELL UNIVERSITY	9,124	17,744	10,696	10,696					13,836	18,636
* UNIVERSITY OF ILLINOIS	4,153	9,583	4,593	10,947	12,568	34,098	8,393	21,118	8,363	20,873
INDIANA UNIVERSITY	3,783	11,403	3,722	10,212	11,276	25,511	9,946	21,206		
UNIVERSITY OF IOWA	2,646	9,244	3,110	9,628	8,898	23,536	5,808	17,672		
IOWA STATE UNIVERSITY	2,666	8,480	3,130	8,832					5,830	15,556
UNIVERSITY OF KANSAS	2,310	8,370	2,676	7,836	9,140	21,688				
UNIVERSITY OF MARYLAND	4,169	10,228	6,453	9,453	11,585	22,190	9,925	21,009		
* UNIVERSITY OF MICHIGAN	6,074	18,547	9,500	19,118	16,964	26,062	13,836	25,048		
MICHIGAN STATE UNIVERSITY	4,887	11,918	5,586	10,734	14,940	31,830			10,150	20,942
UNIVERSITY OF MINNESOTA	4,363	11,601	5,150	9,860	12,224	22,304	9,936	14,438	9,125	13,373
UNIVERSITY OF MISSOURI	4,121	11,342	4,132	11,510	13,743	27,106	12,663	24,964	9,291	18,113
UNIVERSITY OF NEBRASKA	2,638	6,508	2,770	6,274	12,010	22,104	7,690	17,300		
* STATE UNIVERSITY OF NEW YORK	4,656	9,556	6,208	9,524	11,971	23,071	11,981	23,081		
UNIVERSITY OF NORTH CAROLINA	2,161	10,693	2,151	10,683	3,199	22,659	3,449	20,391		
OHIO STATE UNIVERSITY	3,468	10,335	4,941	12,831	10,155	28,305	8,646	24,855	8,277	25,029
UNIVERSITY OF OREGON	3,540	11,664	5,889	10,062						
PENNSYLVANIA STATE UNIVERSITY	5,624	11,964	6,268	12,706	16,000	23,210				
PURDUE UNIVERSITY	3,208	10,636	3,208	10,636					8,048	19,348
UNIVERSITY OF TEXAS	2,612	9,032	2,940	8,076						
* UNIVERSITY OF VIRGINIA	4,648	14,434	4,648	14,434	9,676	22,006				
UNIVERSITY OF WASHINGTON	3,250	9,866	5,044	12,475	8,172	20,584	8,172	20,584		
UNIVERSITY OF WISCONSIN	3,032	10,150	4,375	13,296	13,727	19,966			10,060	14,586

* UC public salary comparison institutions for all programs except Veterinary Medicine, Optometry, and Nursing.
** Includes Theater, Film, and Television programs.

1996-97 TUITION AND FEES AT THE UNIVERSITY OF CALIFORNIA AND 23 PUBLIC INSTITUTIONS (continued)

INSTITUTION	LAW		BUSINESS (MBA)		OPTOMETRY		PHARMACY		NURSING	
	Resident	Non-resident	Resident	Non-resident	Resident	Non-resident	Resident	Non-resident	Resident	Non-resident
UNIVERSITY OF CALIFORNIA	**$ 10,847**	**$ 19,241**	**$ 10,631**	**$ 19,025**	**$ 6,355**	**$ 14,749**	**$ 6,337**	**$ 14,731**	**$ 5,875**	**$ 14,269**
UNIVERSITY OF COLORADO	4,503	15,261	4,175	14,685			4,864	15,044		
CORNELL UNIVERSITY										
* UNIVERSITY OF ILLINOIS	6,753	16,345	10,093	16,447			5,108	10,604	4,593	10,947
INDIANA UNIVERSITY	5,709	15,129	7,869	15,413	6,866	19,040				
UNIVERSITY OF IOWA	5,400	14,254	4,002	10,594			4,588	13,820		
IOWA STATE UNIVERSITY			3,130	8,832						
UNIVERSITY OF KANSAS	3,636	8,796	2,676	7,836			4,860	10,920		
UNIVERSITY OF MARYLAND	8,815	15,881	6,778	9,778			6,154	12,447		
* UNIVERSITY OF MICHIGAN	16,676	22,676	17,028	23,178			11,270	19,760	9,500	19,118
MICHIGAN STATE UNIVERSITY			7,876	13,681						
UNIVERSITY OF MINNESOTA	8,918	14,814	9,341	13,562			8,313	15,008		
UNIVERSITY OF MISSOURI	8,272	16,062	4,132	11,510	13,048	25,711	7,202	15,443		
UNIVERSITY OF NEBRASKA	3,913	8,496	2,770	6,274			2,354	5,670		
* STATE UNIVERSITY OF NEW YORK	7,241	11,891	6,178	9,494	11,445	22,545	6,941	11,391		
UNIVERSITY OF NORTH CAROLINA	2,717	13,989	3,201	12,518			3,190	15,516		
OHIO STATE UNIVERSITY	6,412	14,932	4,941	12,831	7,887	24,096	5,715	14,112		
UNIVERSITY OF OREGON	9,090	13,572	6,189	10,812						
PENNSYLVANIA STATE UNIVERSITY			6,268	12,706						
PURDUE UNIVERSITY			4,260	11,688			6,548	13,976		
UNIVERSITY OF TEXAS	5,340	11,360	2,940	8,508			3,558	14,568		
* UNIVERSITY OF VIRGINIA	12,030	19,178	11,819	19,627						
UNIVERSITY OF WASHINGTON	5,044	12,475	5,044	12,475			5,044	12,475	5,044	12,475
UNIVERSITY OF WISCONSIN	5,504	14,261	5,278	14,204			4,375	13,296		

* UC public salary comparison institutions for all programs except Veterinary Medicine, Optometry, and Nursing.

STUDENT SERVICES

1996-97 Budget:	
Total Funds	$222,526,000
General Funds	--
Restricted Funds	222,526,000
1997-98 Increase:	
General Funds	--
Restricted Funds	--

Student services programs and activities contribute to students' intellectual, cultural, and social development outside of the formal instructional process. Student services programs and activities include counseling and career guidance, tutoring, student health services, social and cultural activities, admission and registrar operations, financial aid and loan collection administration, and services to students with disabilities. Student services are primarily supported from student fee income. Each of these categories is briefly described below.

Counseling and Career Guidance

Students may visit a counselor concerning such issues as scholastic performance, choice of a major, personal concerns, assessing interests and aptitudes or exploring long-range career opportunities. Group counseling is provided on many campuses. In addition, campuses provide career planning and placement services which provide students and alumni with assistance in defining their career objectives, teach job search skills, and provide on-campus interviewing opportunities for summer or career employment.

Learning Skills Assistance

Campuses provide academic support services that offer tutoring and learning skills assistance to students at learning centers. Learning skills staff provide individual and group tutorial services in writing, mathematics, study skills, and preparation for graduate and professional school exams.

Social and Cultural Activities

Campuses offer a wide range of cultural and social activities to enhance the quality of life for students and the campus community. Such activities include music, dance and drama events; speakers; and sports activities.

Student Health Services

Student Health Services provide students with primary care and other services to keep students healthy. Services include general outpatient medical care, specialty medical care, and health education. On-campus services are supported primarily through student fees and fees-for-service. Graduate students on all campuses and undergraduate students on the Berkeley campus have approved campus ballot initiatives requiring all students to have health insurance as a condition of attending the University.

Admissions and Registrar Operations

Campus admissions and registrar operations include the processing of applications for admission, enrollment and registration of students, scheduling of courses, maintaining and updating student academic records, preparing diplomas, and reporting statistics.

Financial Aid Administration

Campus financial aid officers counsel students about their financing options, determine and monitor the eligibility of students for financial assistance, and develop financial aid packages for students which include scholarships, fellowships, grants, loans, and work-study jobs from federal, State, University, and private fund sources. Financial aid officers are required to comply with numerous federal and State regulations in administering these funds.

Services to Students With Disabilities

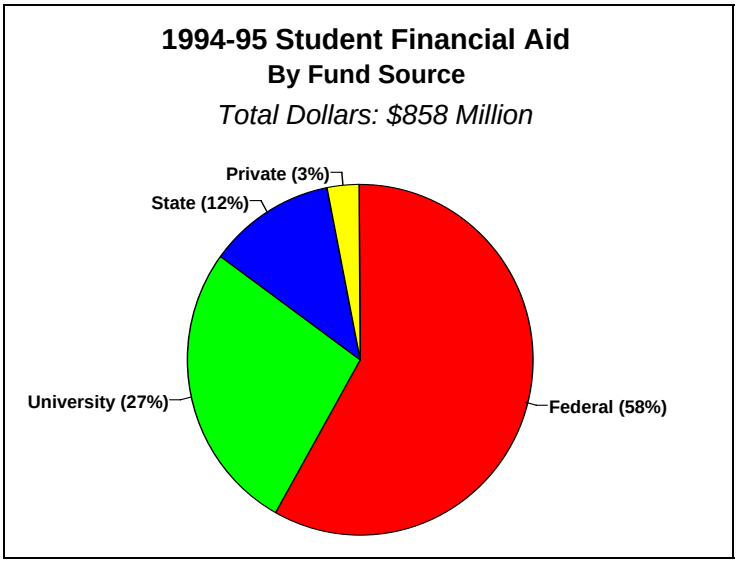
Currently, the University serves over 4,700 students with disabilities. Services to these students are required by State and federal law and include mobility assistance, readers, interpreters, notetakers, tutors, provision of adaptive educational equipment, and counseling. These services represent unavoidable costs that must be covered. Currently, this program is funded from student fees and other income available to the campuses. In November 1995 the California State Auditor reviewed the University's policies, guidelines, and practices for compliance with the Americans with Disabilities Act (ADA) which was enacted in 1990. ADA provides people with disabilities civil rights protection and places emphasis on providing access to benefits, services and programs. As part of the review, the State Auditor looked specifically at the adequacy of computer access for UC students with disabilities. They found that the University has developed adequate policies requiring campuses to comply with the provisions of the ADA and adequate access to computers for students with disabilities.

STUDENT FINANCIAL AID

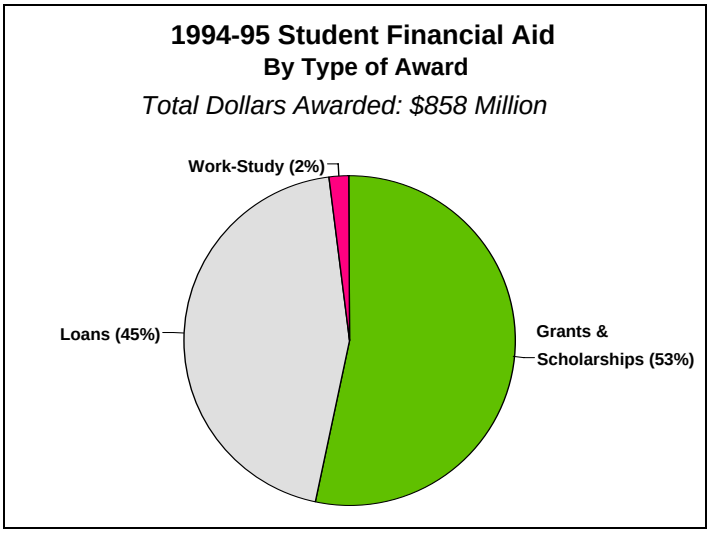
1996-97 Budget	
Total Funds	$213,249,000
General Funds	54,165,000
Restricted Funds	159,084,000
1997-98 Increase	
General Funds	--
Restricted Funds	$22,431,000

Student Financial Aid

Students at the University of California receive scholarships, fellowships, grants, loans, and work-study jobs to assist them in meeting educational costs such as fees, living expenses, book and supplies, and transportation. In 1995-96, these costs averaged $12,715 for undergraduates and $15,415 for graduate students. Financial assistance comes from four sources: the federal government, the University, the State, and private outside agencies. The figure to the left shows the proportion each fund source contributed to the total amount of financial support provided to UC students in 1994-95.



University students received $858 million in student aid in 1994-95, the last year for which final data are available. This represents an increase of nearly $138 million, or 19 percent, over the amount received in 1993-94. Most of this increase occurred in federal loan programs and the University's grant programs which grew by $78 million, and $29 million, respectively. The $213 million for 1996-97 shown in the chapter heading above includes State general funds and University student fee and endowment funds; excluded from this amount are federal funds, private bank loans, Cal Grants and other aid provided directly to students. The figure on the next page displays the overall proportion of financial aid provided to UC students by the type of award. Financial aid plays an important role in assisting students to obtain a postsecondary education by helping to ensure that cost considerations do not become a barrier to enrollment. "Portable" financial aid programs such as the State Cal Grant programs, in which awards are made directly to students who carry the awards to the institutions they attend, serve the additional goal of fostering student choice among California institutions of higher education. The University continues to support full funding of the Cal Grant programs, as recommended by the Joint Legislative Committee for Review of the Master Plan for Higher Education, to ensure both student access and student choice.



Proposition 209, which will appear on the November 1996 ballot, would prohibit the University from giving preferential treatment to any individual or group in employment, education, or contracting on the basis of race, sex, color, ethnicity, or national origin. If Proposition 209 is approved by the voters, financial aid programs will be reviewed and reconfigured as needed to ensure compliance.

As discussed in the Student Fees section of this budget, UC fees increased significantly during the 1990s, largely due to major shortfalls in State funding for the University's

budget. In January 1994, The Regents adopted a new University policy for setting fees. Accompanying this policy was a new financial aid policy that calls for maintaining the affordability of the University and focuses on providing enough University financial aid to maintain accessibility for all students. Under the policy, the need for University support takes into account all the costs of attending the University, not just fees. The undergraduate costs of attending the University are to be met by a combination of resources from the State, the federal government, the student's parents, the student, and the University. The following principles serve as a foundation for the policy for undergraduates:

- The University should be accessible to qualified students regardless of their or their parents' ability to pay.
- All students should contribute from borrowing and/or work toward the cost of their education.
- There are limits on the amount that a student is expected to contribute from borrowing and work.
- Campuses have flexibility in the packaging of financial aid funds.
- Campuses are encouraged to supplement centrally distributed financial aid funds with their own resources.

As fees have continued to increase over time, the percentage of revenue from fee increases that is dedicated to financial aid has increased commensurately, from 16 percent ten years ago to 33 percent at present. In addition, as fees have increased, financial aid provided to UC students through the Cal Grant Program also has increased. Between the Cal Grant Program and financial aid provided from student fee revenue, funds have helped cover fee increases for UC students who demonstrate financial need--just over half of UC students in 1995-96.

Between 1989-90 and 1995-96, the University increased its funding for financial aid by nearly $124 million, or nearly 178 percent. While there is no general Universitywide fee increase for 1996-97, the Fee for Selected Professional School Students and the nonresident tuition fee did increase and, as a result, there will be a modest increase in University-funded financial aid. Other educational costs also increased and it is anticipated that most students will have to borrow and/or work more in 1996-97 to meet these costs.

As indicated in the Student Fees section of this budget, a $330 increase in mandatory Universitywide fees is recommended as one component of the University's 1997-98 budget proposal. The proposed fee increase will generate approximately $49.5 million of new revenue, of which one-third or approximately $16.5 million will be set aside for financial aid; the remainder (approximately $33 million) will be used to provide inflation adjustments for student-fee-funded programs and to help fund the general operating

budget. It is anticipated that financial aid provided to UC students through the State Cal Grant Program will increase to cover the fee increases for Cal Grant recipients.

Undergraduate Student Aid

Virtually all undergraduate student aid requires a financial needs analysis. While the University recognizes academic achievement and promise in its scholarship programs, the amount of an award usually depends upon financial need. Merit scholarship recipients without financial need generally receive an award that covers mandatory fees. The proportion of undergraduate students receiving financial aid has grown steadily over the past few years; this percentage increased from 54 percent in 1993-94 to 59 percent in 1994-95. Fifty-four percent of undergraduate aid was awarded in the form of "gift" aid (scholarships and grants) rather than "self-help" aid (loans and work-study). Financial aid awards for undergraduate recipients averaged about $7,833 in 1994-95.

Graduate Student Aid

Graduate Academic Student Aid

Compared to undergraduate students, a greater proportion of graduate students receive financial support (75 percent), and their average annual financial aid award ($10,931) is significantly higher. Several characteristics of graduate students contribute to their greater need for support. Graduate students generally incur higher educational expenses and have higher student loan limits. Also, graduate students generally do not rely on parental support to meet educational costs and are more likely to have dependent family members. Similar to undergraduate students, the largest proportion of aid awarded to graduate students is in the form of fellowships and grants (52 percent in 1994-95) rather than loans and work-study. In addition, many graduate students receive financial support as teaching and research assistants.

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. The policy provides that an amount of funding equivalent to at least one-third of the total revenue from the Fee be used for supplemental financial aid to help maintain the affordability of professional school programs. Some campuses have set aside more than one-third of the fee revenue. In 1994-95, approximately $1.5 million of revenue from the professional school fee was used for financial aid purposes. The majority of the funds was used for grant and fellowship awards; funds also were set aside for loan repayment assistance programs. In 1996-97, an estimated $8.2 million, one-third of the fee revenue, will be set aside for financial aid. As anticipated, implementation of the professional school fee resulted in increased borrowing, both in the amounts borrowed and in the percent who borrowed, among first year students in 1994-95. The professional schools are continuing to monitor students' debt levels in relation to their

earning potential.

Federal Aid

In 1994-95, University students received $501 million in federal financial aid, which represented more than half (58 percent) of all support awarded during that year. Overall, UC students received 22 percent more federally funded aid in 1994-95 than they received in the previous year. This was principally due to large increases (totaling approximately $78 million) in borrowing under federal loan programs. Borrowing for University undergraduate and graduate students totaled more than $379 million in 1994-95. The significance of the federal student loan programs for University students is demonstrated by the fact that the subsidized loan programs comprised over one-half (54 percent) of all federally funded aid and nearly one-third (32 percent) of total financial support received by University students in 1994-95. However, the unsubsidized loan program continues to be the fastest growing source of federal support for students.

The agreement between the President and Congress to balance the federal budget by 2002 did not have a major impact on the aid provided to University students for 1996-97. However, all federal spending is undergoing unprecedented review by the Administration and Congress, and long-standing assumptions about which programs the federal government should support are being re-examined, including assumptions about the appropriate federal role in supporting college students. The prevailing thinking at this time is that because the economic benefit from earning a degree accrues to the student, the cost of obtaining a college education is most properly borne by the student and his or her family. As a result, large increases in borrowing under federal loan programs are expected to continue. The University remains concerned that federal budget cuts will reduce the funds available to the campuses to support the administration of the direct loan program.

In 1995, based on the 1996 appropriations bills then under consideration, the University anticipated a number of changes in federal aid programs that would have reduced available grant funds, increased costs for student loans, and decreased support for graduate fellowships. Through the efforts of the University and others, most of the proposed changes to federal financial aid programs did not materialize and funding for most federal aid programs in 1996-97 remained relatively stable. While there were some changes in federal funding that will affect some University students, these changes have not had a significant impact on UC students overall. The changes are summarized below:

- The maximum levels in Pell Grant awards were increased slightly.
- The State Student Incentive Grant (SSIG) program was reduced to half of its 1995-96 level. The 1996 State Budget Act provided the California Student Aid Commission with an increase of $5 million for the Cal Grant program to offset the loss of funds for California students.

- The federal capital contribution to the revolving fund that finances the Perkins

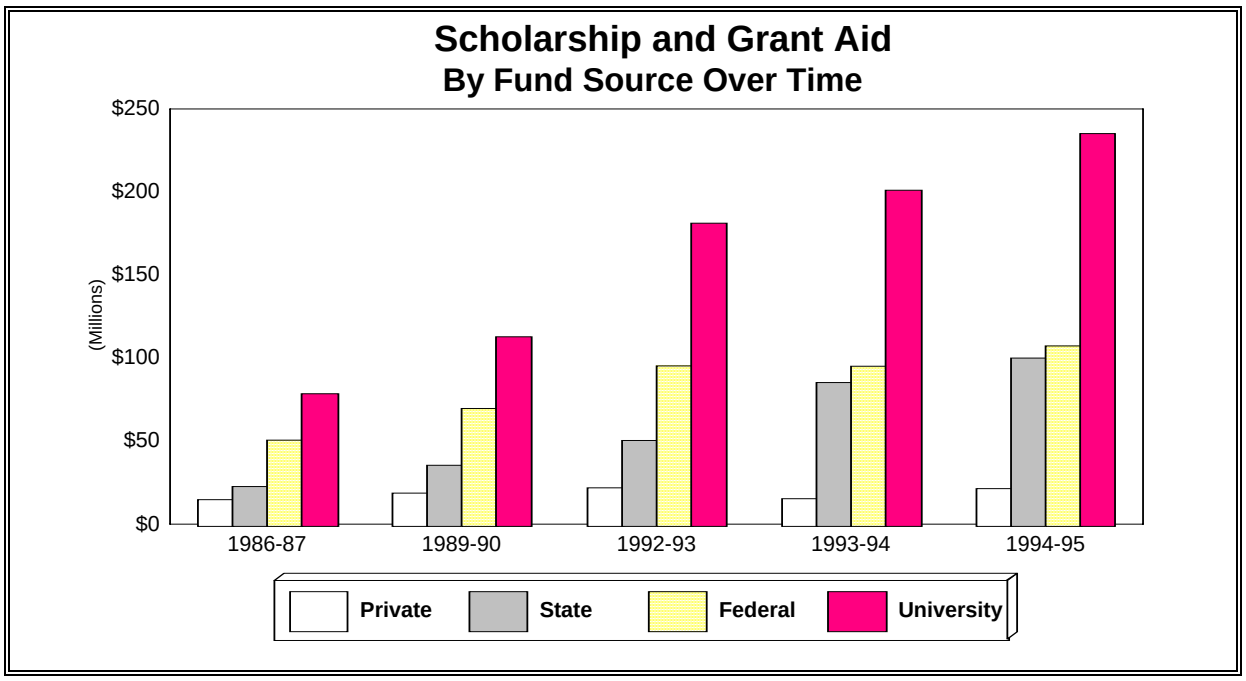
Loan Program was reduced by about one-third. However, because the new revenue from the annual appropriations represent a small fraction of the revolving loan fund, the reduction had a minimal effect on UC students. The University is concerned that this action may signal Congressional intent to stop supporting this fund as a federal loan fund in the future. While the Perkins Loan Program represents a relatively small portion of loan capital available to UC students, loans from other fund sources cost students more.

In addition, the Congress continues to consider elimination of the in-school interest subsidy. Currently, the interest that accrues on loans is paid by the taxpayers while the students are enrolled. If Congress eliminates the in-school interest subsidy, the additional costs for the loans likely would be capitalized, leaving students with a heavier burden of debt when they graduate.

University Aid

University student aid programs again grew significantly in 1994-95. The total amount of aid to students (approximately $235 million) increased by more than $28 million (or about 14 percent), and the average award per recipient increased by 14 percent. Thirty-seven percent of enrolled undergraduate and 59 percent of enrolled graduate students received some form of financial assistance from the University aid programs.

The University maintains eighteen separate student financial aid programs at the Universitywide level. These programs are supported principally through the Educational Fee and the State General Fund. Educational Fee income is used to support both need-based and merit-based programs, while the general fund income is statutorily restricted to the support of need-based financial aid. In addition to the Universitywide programs, financial aid is also provided through campus-based programs funded by endowment income, current gifts, repayments from University loans, and campus discretionary funds. The University commits 95 percent of its financial aid resources to fellowships, scholarships, and grants, while also maintaining loan and work-study programs. The figure below displays increases in University scholarship and grant aid provided to UC students since 1986-87.



State Aid

California university and college students receive financial support from a number of programs administered on behalf of the State by the California Student Aid Commission, including the Cal Grant A and B programs, the State Graduate Fellowship Program, and the State Work-Study Program. As the State's vehicle for ensuring that financially needy students are given both access to postsecondary education and the choice of public or private institutions to attend, these programs are important to all postsecondary segments in the State. In 1994-95, University of California students were awarded $100 million in financial aid from these programs. The Cal Grant Programs, which together account for virtually all of that amount, are "portable" financial aid programs, meaning that awards are made directly to students, who carry the awards to the institutions of their choice.

In 1993-94 and again in 1994-95, the California Student Aid Commission's budget fully funded Universitywide fees for eligible UC recipients. Cal Grant funding for UC students grew 15 percent from $85 million in 1993-94 to about $100 million in 1994-95. Because there were no increases in mandatory Universitywide fees in 1995-96, Cal Grant funding for UC students remained relatively stable. The 1996 State Budget Act provided an increase of $25 million for the Cal Grant program. Of the total increase, $5 million will be used to offset reductions in federal funds; $10 million will be used to increase the size of the awards for students attending private universities; and $10 million will be used to provide more awards for students attending all universities. UC students can expect to receive about $3 million of this increase. The bar graph presented earlier in this chapter shows the increase in State grant and scholarship aid

provided to UC students since 1986-87.

Private Outside Agency Aid

Student financial aid programs of many types and sizes fall into this category. Small scholarships from a student's local PTA or Rotary Club are reported here alongside traineeships and fellowships from private companies (for example, Hewlett-Packard and IBM) and associations and foundations (for example, the National Merit Scholarship Foundation and the American Cancer Society). Virtually all funds in this category are awarded to students in the form of grant support. In 1994-95, approximately $21.5 million was awarded to UC students from private, outside agency programs, which represented 2.5 percent of the financial support students received during that year. For 1994-95, total award dollars in this category increased by $3.7 million (24 percent) from the 1993-94 level, but still remain about $4 million below the amount received in 1992-93.

UNIVERSITY OF CALIFORNIA
1994-95 STUDENT FINANCIAL AID

By Type and Fund Source
($000s)

Program	Student Aid Commission	Federal	State General Fund & University Funds	Private	Total
SCHOLARSHIPS					
(Undergraduate)	$ 515	$ --	$ 20,844	$ 4,601	$ 25,960
FELLOWSHIPS/GRANTS					
(Graduate)					
State Graduate Fellowships	343	--	--	--	343
Other	72	35,054	107,327	9,358	151,811
Subtotal	415	35,054	107,327	9,358	152,154
GRANTS					
(Undergraduate)					
Pell Grant	--	63,620	--	--	63,620
Cal Grant A	72,039	--	--	--	72,039
Cal Grant B	26,931	--	--	--	26,931
Other	--	8,753	102,140	4,990	115,883
Subtotal	98,970	72,373	102,140	4,990	278,473
LOANS					
(all students)					
Perkins Loans	--	23,806	--	--	23,806
Stafford Loans	--	315,926	--	--	315,926
Other	--	39,301	3,512	2,509	45,322
Subtotal	--	379,033	3,512	2,509	385,054
WORK-STUDY					
(all students)					
Federal	--	14,897	--	--	14,897
State	218	--	--	--	218
University	--	--	1,398	--	1,398
Subtotal	218	14,897	1,398	--	16,513
TOTAL	$ 100,118	$ 501,357	$ 235,221	$ 21,458	$ 858,154

INSTITUTIONAL SUPPORT

1996-97 Budget:	
Total Funds	$328,694,000
General Funds	205,672,000
Restricted Funds	123,022,000
1997-98 Increase:	
General Funds	--
Restricted Funds	--

Institutional Support includes numerous campus and systemwide activities under five sub-programs. The sub-programs and examples of typical activities included in each are listed below.

- ***Executive Management***: Offices of the President, Vice Presidents, Chancellors, and Vice Chancellors; planning and budget offices.
- ***Fiscal Operations***: accounting, audits, and contract and grant administration.
- ***General Administrative Services***: computer centers, information systems, and personnel.
- ***Logistical Services***: purchasing, mail distribution, and police.
- ***Community Relations***: development and publications.

The University is concerned about the steady erosion of its Institutional Support budget. Funding for administration has failed to keep pace with enrollment growth, general inflation, and the costs of new State and Federal mandates.

Historically, State budgeting formulas did not provide additional administrative support to accompany enrollment growth, even though more students mean, for example, more recordkeeping related to students and employees, more purchasing, increased police and security requirements, and more faculty whose payroll records must be maintained and whose laboratories must meet environmental health and safety regulations. As a result, campus administrative capacities are only minimally adequate.

This historical lack of funding was compounded by the fact that State funds to cover general price increases fell far short of inflation during the mid to late eighties. During that time, new expenditures in Institutional Support were mandated as a result of a growing body of State and federal laws and regulations covering areas such as

environmental health and safety, collective bargaining, accommodation of disabled employees, fair employment practices, and increased accountability requirements. Failure to comply with these mandates can often result in fines and penalties or more severe sanctions.

Erosion of Institutional Support budgets during the 1980s was further compounded by the University's severe fiscal problems during the early 1990s. Due to the State of California's fiscal problems, the University experienced severe budgetary shortfalls during the early 1990s. As a result, University budgets were cut by $433 million, or about 20 percent of the 1989-90 State-funded budget. Further base budget reductions totaling $40 million by 1998-99 are anticipated due to required productivity improvements under the State's four-year compact with higher education. The budget cuts sustained in the early 1990s were deep and affected every aspect of University activity. In order to protect the instructional program as much as possible, campuses made deeper cuts in other areas. Institutional Support, especially, was assigned heavy cuts on the campuses. On the systemwide level, core administrative activities in the Office of the President were reduced substantially, including a 20 percent cut over the two-year period 1993-94 and 1994-95. The Office of the President will take additional cuts related to the $40 million in productivity improvements expected to be achieved by 1998-99.

Looking at all fund sources, Institutional Support expenditures declined from 12 percent of total expenditures in 1971-72 to 11.5 percent in 1983-84. From 1983-84 to 1991-92, the percent fluctuated between 11 and 12 percent. By 1995-96, Institutional Support expenditures as a percentage of total expenditures had declined to about 10 percent. Considering the magnitude of the University's overall expenditures that is a significant decline in a short period of time.

Notwithstanding the substantial budget reductions in Institutional Support, investments in technology have enabled the University to make significant progress in increasing the efficiency of University operations while maintaining or improving services. Examples of cost saving procedures and activities include: increased use of electronic fund transfers; implementation of the new systemwide payroll/personnel system; dissemination of campus program updates and profiles on the campus network and the World Wide Web; development of a user friendly, PC-based on-line requisition system; installation of a new financial system to eliminate redundant systems and provide users with up-to-date financial information; and implementation of low-value purchase programs which have decreased processing times and increased savings on purchases. Two campuses were among seven universities nationwide that won awards for improving administrative programs and reducing costs in the Higher Education Awards Program sponsored by the National Association of College and University Business Officers (NACUBO) and Barnes & Nobel Bookstores, Inc. More than 80 higher education institutions competed for awards this year.

As noted above, the four-year compact with higher education requires productivity improvements totaling $40 million by 1998-99. A July 1995 report titled *1995-96 Budget Plan for Productivity Improvements* discussed ongoing efforts to streamline

administrative processes and business practices as well as plans to achieve $10 million of productivity improvements within all functions of the University in 1995-96. This was the first of several annual reports that will be presented to The Regents describing planned efficiency improvements for the coming year and discussing achievements of the previous year. Productivity improvements apply to both academic and nonacademic activities.

The University will continue working to achieve efficiencies wherever practical. At the same time, The Regents' fiduciary responsibilities must be met and the University must continue to maintain appropriate management capability and accountability both at the campuses and centrally. This includes proper management of programs, expenditures, and investments.

Changes in Employment and Business Contracting

In July 1995 The Regents adopted a resolution, known as SP-2, relating to employment and contracting practices. Specifically, SP-2 prohibits the University from including the use of race, religion, sex, color, ethnicity, or national origin as criteria in its employment and contracting practices, effective January 1, 1996. The resolution also stated, however, that nothing in this action "shall prohibit any action which is strictly necessary to establish or maintain eligibility for any federal or state program, where ineligibility would result in a loss of federal or state funds to the University."

Employment

To ensure compliance with SP-2 with regard to employment practices, including faculty hiring, the University ensured that policies and practices do not rely on race or gender as criteria in employment actions and that there is equal access to job opportunities; clarified that development programs for academic and staff personnel are available to all qualified individuals and that announcements need to reflect that condition; and assured that while meeting the goal of SP-2 the University also will meet its legal obligations as a federal contractor.

As a federal contractor, the University is required to prohibit discrimination, support equal employment opportunity, and to maintain affirmative action plans for faculty and staff. The University's academic and staff personnel policies continue to prohibit discrimination and require selection of the most qualified candidate. To ensure compliance with SP-2, University policies were reviewed and all language which might be read to imply that race or gender could be among the factors considered when two candidates have qualifications that are substantially equal was removed. The University has also clarified that development programs for academic and staff personnel are available to all qualified individuals and that announcements will reflect this condition. Any employment program which formerly targeted underrepresented minorities or women no longer does.

Business Contracting

In response to both federal and State legislation, the University adopted policies and procedures in 1984 (amended in 1991) to (1) optimize opportunities for businesses classified as small, disadvantaged, women-owned, and disabled veteran-owned to participate in University contracts in the areas of purchasing, construction, design and other professional services; (2) establish annual targets; (3) prepare annual statistical reports tracking performance against targets; (4) give preference to targeted businesses in the award of construction contracts where all conditions, including the bid price are substantially equal; (5) establish outreach programs; and (6) maintain directories of targeted firms.

In 1996 the University made changes in its business practices in order to comply with SP-2 and still meet its obligations as a federal contractor. New policy and administrative guidelines have been issued which implement the intent of SP-2 by (1) discontinuing the 5 percent preference and good faith subcontracting efforts on construction contracts; (2) discontinuing the use of targets for disadvantaged and women-owned businesses; (3) returning to self-certification of suppliers and contractors from the formal certification previously required; (4) retaining annual reporting with a reduced level of detail; and (5) allowing for federal compliance with respect to goals and reports on as-needed basis to maintain funding. The policy and guidelines also include a requirement to maintain and improve outreach programs for small businesses to ensure equal access for all interested suppliers and contractors.

OPERATION AND MAINTENANCE OF PLANT

1996-97 Budget:	
Total Funds	$323,475,000
General Funds	269,807,000
Restricted Funds	53,668,000
1997-98 Increase:	
General Funds	$11,000,000
Restricted Funds	--

This program provides for the operation and maintenance of 45.5 million gross square feet of buildings and more than 2,350 acres of improved grounds at the nine campuses and the agricultural field stations supported by State and Educational Fee funds. Resources are dedicated to the maintenance of reasonable standards of repair, safety, utilities operations, cleanliness, and appearance for University facilities with a current replacement value of approximately $7.5 billion.

In 1996-97, State General funds and Educational Fee income totaling $269.8 million are budgeted for the operation and maintenance of the University's physical plant. These funds include $109.5 million (41 percent) for purchased utilities, $59.6 million (22 percent) for building maintenance, $49.9 million (19 percent) for janitorial services, and the balance of $50.8 million (18 percent) for grounds maintenance, utilities maintenance and operations, refuse disposal, fire departments, and plant administration. Currently no funds are permanently budgeted for deferred maintenance. However, the 1996 State Budget Act appropriated $5 million in general obligation bonds to fund high priority deferred maintenance. In addition, the University is allocating funds available on a one-time basis for deferred maintenance, including about $10 million in 1995-96 excess general fund income (pursuant to the authority in the Budget Act), and an additional $5 million in University Funds.

1997-98 Funding Request ($11,000,000 Increase)

New Workload ($3,500,000 Increase)

For 1997-98, $3.5 million is requested to provide basic workload funds for 495,200 square feet of additional space that will be occupied by programs that are eligible for state support. Of the nine campuses and the agricultural field stations, three have large

facilities coming on-line in 1997-98: the Life Sciences addition to Briggs Hall at Davis, the Humanities and Fine Arts Building at Irvine, and the Law School addition at Los Angeles.

Building Maintenance ($7,500,000 increase)

The ability of the State to provide adequate funding for building maintenance has been a concern since the 1980s, when workload studies showed that the University's budget for ongoing building maintenance was far less than the amount called for by building standards. The 1996-97 budget provides approximately 50 percent of the recommended amount, leaving an annual shortfall of approximately $60 million.

The cumulative effect of underfunding has led to critically inadequate levels of preventive and regular maintenance of buildings, grounds, utilities, and infrastructure; inadequate planning and cost controls; unacceptably low levels of cleanliness; and a massive, growing backlog of deferred maintenance projects.

Growing recognition of the magnitude of the problem led to extensive discussions with the Legislature during hearings on the 1996-97 budget. These discussions resulted in the Legislature approving a four-year plan to provide adequate funding for building maintenance at the University. The plan proposed to provide the University with an augmentation of $7.5 million to its 1996-97 budget, which was to be matched by the University for a total increase of $15 million. In each of the following three years, the University would use funds provided within the compact for annual increases of $7.5 million for building maintenance. In addition, the Legislature's plan called for the State to provide an additional $7.5 million over and above the compact in each of these years, resulting in annual increases of $15 million to address ongoing building maintenance. Over the four years, this would have enabled the University to address the current $60 million underfunding problem. The Legislature's plan is described in the following supplemental language:

> The 1996 Budget Act includes an augmentation of $7.5 million in General Funds for building maintenance. The UC has agreed to at least match any augmentation included in the Budget Act for building maintenance for a total increase of at least $15 million in 1996-97. It is the intent of the Legislature that the State augment the University's building maintenance budget by an additional $7.5 million, above the higher education compact, in 1997-98 and again in 1998-99 and 1999-00, to be equally matched by the UC, so that by 1999-00, the University will have increased its permanent budget for building maintenance by at least $60 million.

To help provide an adequate reserve for the State, the Governor vetoed the $7.5 million the Legislature approved as an augmentation to the University's 1996-97 Budget. Notwithstanding the Governor's veto, the University intends to move ahead with the multi-year plan proposed by the Legislature. Accordingly, the University's 1997-98 budget plan includes $7.5 million within the funds provided in the compact for ongoing building maintenance. This represents the first year of a multi-year strategy to adequately fund building maintenance.

The chronic shortfall in funding for building maintenance has had a direct and lasting impact on the University's backlog of deferred maintenance projects. In 1995-96, the

University submitted a report to the Legislature that identified a deferred maintenance backlog totaling more than $480 million, of which approximately $251 million (more than 50 percent) are considered to be critical projects that must be addressed immediately.

The Legislature recognized the magnitude of the deferred maintenance problem and adopted the following supplemental language (1996 State Budget Act):

> It is also the intent of the Legislature that the UC, working with staff from the DOF and the LAO, develop a plan to fully address its backlog of deferred maintenance through a combination of funding sources, including through capital outlay renovation projects.

Consistent with the Legislature's plan, the University is moving ahead to develop a long-term plan to reduce the more than $480 million backlog in deferred maintenance projects. A long-term plan will require funding from a variety of sources, including the capital budget as renovation projects are undertaken as well as debt financing specifically earmarked for deferred maintenance. The University expects to provide recommendations to the State in February 1997.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the California economy continues to grow, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, if not all, of the priorities identified. Additional funding for ongoing building maintenance is among the identified priorities.

As discussed above, the University is deeply concerned about the underfunding of ongoing building maintenance and the effect this has on the growing backlog of deferred maintenance projects. The University is moving forward with a multi-year plan to provide adequate funding for building maintenance and is including a request for $7.5 million as part of the compact. Consistent with the plan endorsed by the Legislature, the University will request an additional $7.5 million when the State's revenue situation permits.

Historical Perspective of the Budget for Operation and Maintenance of Plant

In the 1980s, the State provided several increases to the University's budget for the operation and maintenance of plant. These increases were based on the severe budget shortfalls identified in the State's study of University of California and California State University maintenance funding. These augmentations included: $4.0 million in each of the three years 1984-85 through 1986-87 and again in 1988-89 for building maintenance; $6.5 million in 1984-85, $2.4 million in 1985-86, and $4.5 million in 1986-87 for deferred maintenance and special repairs; and, $1.0 million in 1985-86 for janitorial services.

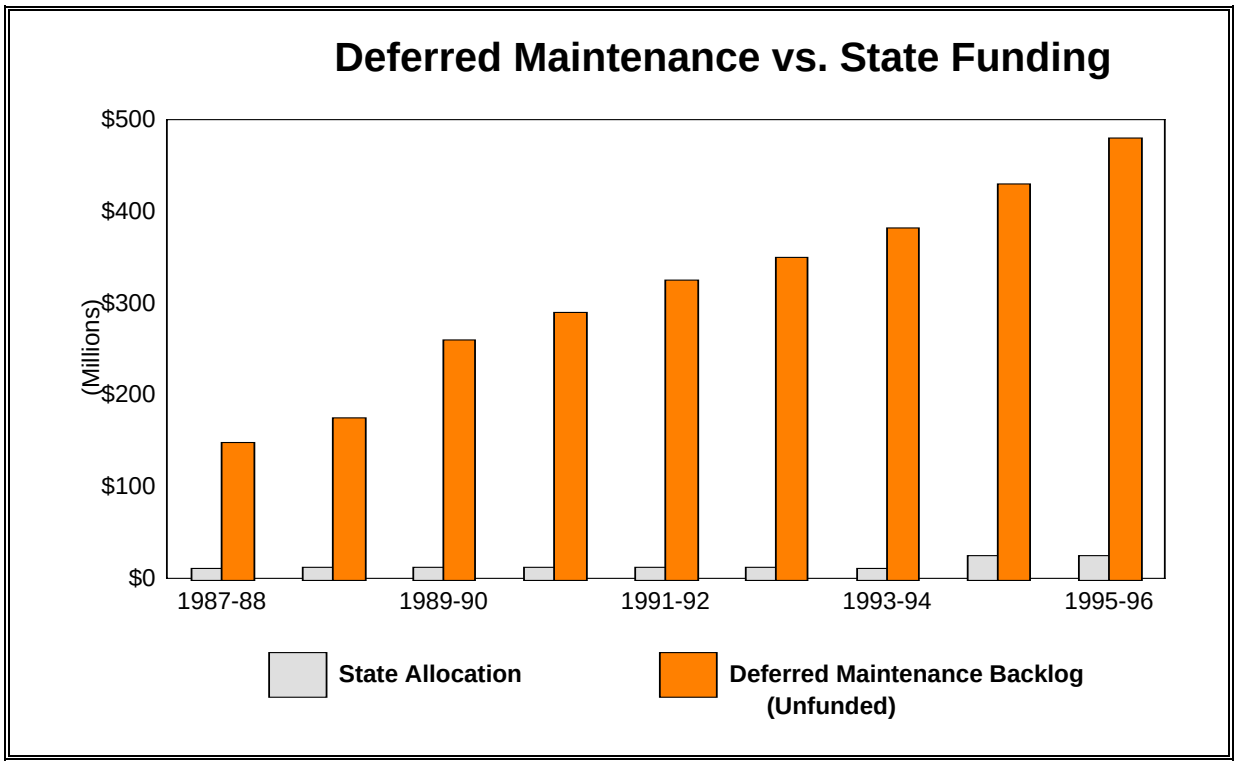
In 1990-91, however, State funding began to fall short of meeting the University's basic needs. As a result of continuing and severe financial problems during the 1990s, the University's budget was cut by $433 million, or about 20 per cent of the 1989-90 State-funded budget. Further base budget reductions totaling $40 million by 1998-99 are anticipated due to required productivity improvements under the four-year compact with higher education. The budget for operation and maintenance of plant eroded as campuses struggled to accommodate these budget reductions. Notwithstanding the priority given to students and providing the classes they needed to graduate, maintenance budgets were not disproportionately cut.

Underfunding Relative to Maintenance Standards

In supplemental language to the 1984 State Budget Act, the State authorized the University to work with the California State University, the Department of Finance, and the Legislative Analyst's Office to develop common workload, budgeting, and staffing standards for maintenance of similarly used equipment and space. These standards were to be used as the basis for developing future operation and maintenance budgets for UC and CSU. The request to do the study came about as a result of the State's recognition that increased support was needed for the operation and maintenance of plant, and from a desire to establish definitive and authoritative bases for budgeting support for this program. The study, which used 1985-86 as the baseline year, was completed during the three-year period 1984-1987, by the consulting firm of Clyde Gordon and Associates, and was updated in 1989-90.

The study documented that the actual level of underfunding in the five areas studied (building maintenance, grounds maintenance, janitorial services, utilities maintenance and operation, and plant administration) was significantly greater than had been indicated by the University's existing system of measurement. In the 1985-86 baseline year, the study revealed that State funding equaled about 62 percent of the level recommended for the five areas. Substantial additional funding of approximately $44.8 million for replacement of structural components and fixed equipment is called for in the updated standards study. State support in the 1980s allowed the University to increase

its funding level to about 72 percent of standard for the five areas, according to the 1989-90 update.



Building Maintenance

The University's building maintenance budget is currently underfunded by about $60 million. The University is continually responding to emergencies and, to a large extent, is able to provide only short-term solutions to maintenance problems. Preventive maintenance and timely replacement of the University's aging equipment, physical plant, and infrastructure are not properly funded, so structural failures and equipment breakdowns consume an inordinate amount of available funds.

Deferred Maintenance Backlog

Deferred maintenance is not a problem unique to the University. The problem was aggravated during the early 1990s when building maintenance and deferred maintenance budgets were reduced because of California's financial situation. The University estimates the current backlog of deferred maintenance to be $480 million. The graph compares the backlog of deferred maintenance to the levels of State support.

In 1994-95 and again in 1995-96, the State authorized $25 million in long-term financing to pay for high priority deferred maintenance projects involving the renewal or replacement of capital assets. The 1996 State Budget Act appropriates $5 million in

general obligation bonds for deferred maintenance. In addition, as discussed earlier, the University is allocating another $15 million in one-time funds for deferred maintenance in 1996-97. Although this infusion of $20 million in one-time funds will help address some of the most critical deferred maintenance projects, the University is still left with a significant backlog of unfunded projects.

Janitorial Services

In the area of janitorial services, the 1996-97 budget provides funding at 66 percent of recommended standard, leaving a shortfall of at least $25 million. Daily workload per currently budgeted University janitorial staff is 29,750 square feet compared to the recommended area of 15,099. Under these circumstances, reasonable levels of cleanliness for both health and quality of life purposes are difficult to maintain.

Utilities Maintenance and Operations

In the area of utilities maintenance and operation, the 1996-97 budget of $15.6 million provides funding at 72 percent of recommended standard, leaving a shortfall of approximately $6.1 million. Further, replacement costs in this category are estimated to be $5.0 million. Although this is the best-supported of the five areas studied, the impact of the funding shortfall is felt not only in operating inefficiencies but also in increases in deferred maintenance as hardware and equipment can not be kept in good repair.

Grounds Maintenance

In the area of grounds maintenance, the 1996-97 budget provides funding at 60 percent of recommended standard, leaving a shortfall of at least $9.4 million. Annual replacement costs are estimated to be $4.0 million. While lack of funding for grounds maintenance can be more easily tolerated during tight financial periods than lack of funding for building maintenance, grounds maintenance is an essential component of both safety and quality of life at the campuses.

Disposal of Hazardous Material

The cost of disposing hazardous materials is of increasing concern to the University. As enrollments have shifted to high technology disciplines and as methods of instruction and research have changed, there has been an increase in the production of hazardous wastes. Materials once considered benign by federal and state regulatory agencies are now defined as hazardous and have contributed to the volume. Increasingly stringent requirements have added to the cost of hazardous materials handling, treatment, and disposal. The University's workload and costs have increased dramatically in recent years without commensurate increases in funding.

Maintenance problems potentially compromise the University's ability to fulfill its educational mission and maintain the quality of its programs. Adequate funding must be provided to support reasonable standards of repair, safety, cleanliness, and appearance of University facilities.

AUXILIARY ENTERPRISES

1996-97 Budget:	
Total Funds	$468,040,000
General Funds	--
Restricted Funds	468,040,000
1997-98 Increase:	
General Funds	--
Restricted Funds	$20,100,000

Auxiliary enterprises are non-instructional support services provided primarily to students in return for specified charges. Auxiliary enterprises generate sufficient revenues to cover all direct and indirect operating costs. During 1996-97, it is anticipated that $468.0 million will be generated through auxiliary enterprises and expended approximately as follows: 61 percent for residence and dining services; 13 percent for parking operations (including van pools); 5 percent for intercollegiate athletics; 16 percent for bookstores; and 5 percent for other.

The largest element in this budget program is student housing, comprised of approximately 26,900 residence hall spaces and 14,000 apartment spaces with associated dining and recreation facilities. These facilities will house about 41,000 students in 1996-97. They are available to single students and student families, and may also be used as conference and visitor housing during the summer months.

A subset of the student housing element is faculty rental housing. Approximately 660 units are available at seven campuses: Berkeley, Irvine, Los Angeles, San Diego, San Francisco, Santa Barbara, and Santa Cruz. 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.

A second major element is the parking program with approximately 89,200 spaces for students, faculty, staff, and visitors.

No State funds are provided for auxiliary enterprises. The annual budget is based upon income projections. Any budget increases are matched by corresponding increases in revenue.

Faculty Housing Programs

The California housing market is a continuing long-term deterrent to faculty recruitment efforts, particularly of junior faculty, and to successful retention of those faculty considered essential to academic program goals. Various programs to alleviate this problem have been implemented since 1978.

Home loan programs have provided mortgage loans with favorable interest rates and/or down payment/underwriting requirements to 2,437 faculty members and other designated employees. In addition, the Salary Differential Housing Allowance Program has provided 846 faculty members with housing assistance during their first years of employment with the University, and the Mortgage Credit Certificate Program has furnished a federal tax credit for 51 faculty who were first-time home buyers.

The University continues to explore other faculty housing alternatives. Several 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 builder/developer. Resale restrictions control prices and determine eligibility for new buyers. The Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz campuses have completed or are in the process of completing projects which will provide over 865 units, including townhouses, condominiums, and single-family structures. No State funds are provided for faculty housing programs.

PROVISIONS FOR ALLOCATION

1996-97 Budget:	
Total Funds	$28,639,000
General Funds	7,425,000
Restricted Funds	21,214,000
1997-98 Increase:	
General Funds	$10,234,000
Restricted Funds	6,307,000

Provisions for allocation serve as a temporary repository for certain funds until final allocation decisions are made. For instance, funds allocated for fixed cost increases, such as salary adjustments (i.e., cost-of-living, parity, and merit increases), employee benefit increases, and price increases, are held in provision accounts pending final allocation. 1997-98 fixed cost increases are discussed in this budget under "Program Maintenance: Fixed Costs and Economic Factors."

The University's budgetary savings target is a negative appropriation that is permanently budgeted in provision accounts. The concept underlying the assignment of a budgetary savings target is that salary savings will accrue during the year as the result of normal employee turnover. Savings in the amount of the assigned target must be achieved each year in order to balance the budget. The University believes that the two percent target assigned in the mid-1970s was a reasonable target representing natural savings. However, the University's current budgetary savings target is six percent, which requires forced savings that must be achieved in ways that significantly diminish the resources available for conducting programs and maintaining quality.

Rental Payments For Facilities Funded From Lease Revenue Bonds / Debt Service Payments For Deferred Maintenance Projects Funded By University Borrowed Funds (Amounts to be Determined Later)

Rental Payments for Facilities Funded From Lease Revenue Bonds

Funds to provide 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 1996-97, funds appropriated to the University for revenue bond lease payments total $91.4 million. The University is working with the Department of Finance and the State Treasurer to determine the appropriate amount required to support rental payments in 1997-98. Consistent with the provisions of the Governor's four-year compact with higher education, the University will request that the appropriation for these capital-related costs be provided separate from the University's main appropriation for operating budget support. An exact figure for this appropriation will be determined later. At present, an estimate of the 1997-98 requirements places the total amount needed at approximately $93.3 million, an increase of $1.9 million. This estimate is based on revenue bonds already sold. The actual amount could increase if the State Treasurer sells additional bonds.

Debt Service Payments for Deferred Maintenance Projects

In 1994-95 and again in 1995-96, the State authorized $25 million in long-term debt financing to pay for high priority deferred maintenance projects involving the renewal or replacement of capital assets. All projects funded by this mechanism are required to have a useful life of at least 15 years. It was determined that the University should provide the financing and that funds to repay the principal and interest would be provided in future years in the annual State Budget. The funds appropriated to the University to repay the principal and interest assume that repayment is at a rate that does not exceed the rate available to the State Treasurer for State General Obligation bonds. This arrangement was part of an agreement with the State to limit the student fee increase to ten percent (rather than the 18 percent that had been proposed by the Regents). In essence, this was a shift of deferred maintenance costs from the University's General Funds to long-term debt financing, with the released General Funds used to substitute for student fee income. The agreement allowed the University to meet a goal that was important to the University, the State and the students; namely, holding the fee increase in 1994-95 to ten percent.

The 1996 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. Funds provided for these payments, while included in the University's main appropriation item for operating budget support, were in addition to the annual increase provided as part of the four-year compact. No increase in funding level is anticipated in 1997-98 because the State did not authorize additional long-term financing for deferred maintenance.

1997-98 Funding Request

The total funding required for debt service related to major capital projects funded by lease revenue bonds, related insurance premiums and State administrative costs, and

any additional funds needed for the debt service related to high priority deferred maintenance projects will be available to be included in the 1997-98 Governor's Budget.

Cost Of Compliance With Recently Enacted Legislation (Amount to be Determined Later)

Each year the University identifies pending State legislation which, if enacted, would generate additional costs for the University. During the legislative session, the University develops cost estimates for each bill and those estimates are submitted to the Department of Finance to be considered for funding in the subsequent year. Final estimates, however, cannot be determined until the Governor signs or vetoes legislation in late September.

The University intends to work with the Department of Finance to acquire funds in 1997-98 to cover the cost of implementing recently enacted legislation as well as additional legislative mandates that may be enacted during the current session.

PROGRAM MAINTENANCE: FIXED COSTS AND ECONOMIC FACTORS

1997-98 Increase:	
General Funds	$69,000,000
Restricted Funds	33,038,000

This segment of the budget proposal includes funding for employee salary and related benefit adjustments, and for general and specific price increases required to maintain the University's purchasing power at present program levels. This segment also discusses savings to be achieved through productivity improvements called for in the four-year compact with higher education.

1997-98 Budget Request

The University's request for a 1997-98 budget increase was calculated on a budget base of $2.836 billion, which includes programs funded from State and University General funds and student fees (Educational Fee, Registration Fee, and the Fee for Selected Professional School Students). This funding base is similar to those used for preparation of the University's 1995-96 and 1996-97 budgets and the one used for review by the Department of Finance and the Legislature.

Funds required for program maintenance in 1997-98 are summarized in the following table:

Funds Required for Program Maintenance, 1997-98

Continuation Cost of 1996-97 Salary Increases	$ 15,265,000
Funding Equivalent to an Average 2% Cost-of-Living Salary Increase for Employees on 10/1/97	30,712,000
3% Parity Salary Increase for Ladder Rank Faculty on 10/1/97	16,876,000
Merit Salary Increases for Eligible Employees	34,085,000
Price Increases	11,800,000
Productivity Improvements (-$10.0 million) & Restoration of Funds Cut Temporarily in 1995-96 and 1996-97 ($3.3 million)	-6,700,000
TOTAL	$102,038,000

Continuation Cost of 1996-97 Salary Increases ($15,265,000 Increase)

The 1996-97 budget included funding equivalent to a two percent cost-of-living salary increase (COLA) for University employees effective October 1, 1996. In addition, ladder rank faculty were provided with a parity salary increase averaging three percent on the same date. Because 1996-97 funding is sufficient to pay the salary increases for only nine months, from October through June, full-year funding must be provided in 1997-98. The continuation cost for three months, including related employee benefits, is $15,265,000.

Cost-of-Living Salary Increase on 10/1/97 ($30,712,000 Increase)

Within the framework of the four-year compact with higher education, the University is requesting funding equivalent to an average two percent COLA for University employees. Funding equivalent to an additional three percent parity salary increase for ladder rank faculty only is requested as the second phase of a three-year plan to restore competitive faculty salaries by 1998-99. The request for a parity salary increase is discussed later on.

Historically, requests for faculty salary increases have been based on faculty salaries paid at eight institutions used for salary comparisons, and requests for staff salary increases have been based on equivalent treatment with State employees. Before 1995-96 all other academics received, on average, the same salary increase as faculty. Under the four-year compact with higher education, the University has a three-year plan to restore ladder rank faculty salaries to the average salary level at the comparison institutions by 1998-99 and to provide, through a combination of merits and COLAs, salary increases for other employees that, on average, at least keep pace with inflation. If funds are available, special consideration may be given to other academics and staff in cases where the University s compensation falls significantly below appropriate marketplace benchmarks.

Neither State of California nor University employees received a COLA in 1991-92 and 1992-93. In 1993-94 and 1994-95, State of California employees received COLAs totaling eight percent (5% in January 1994 and 3% in January 1995), while University employees received only three percent on average (October 1994). The University received funding for COLAs averaging 1.5 percent in 1995-96 and two percent in 1996-97. No funding was provided for COLAs for State employees in these two years. A two percent COLA in 1997-98 will allow University employees to catch up with increases previously provided to State employees, as well as keep up with inflation.

The cost of an average two percent COLA salary increase and related employee benefits for University employees, effective October 1, 1997, is $30,712,000.

Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA). Some staff positions are only eligible for performance based merit salary increases, which are funded from a pool created by combining funds for COLAs with those provided for merit increases.

Three Percent Ladder Rank Faculty Parity Salary Increase ($16,876,000 Increase)

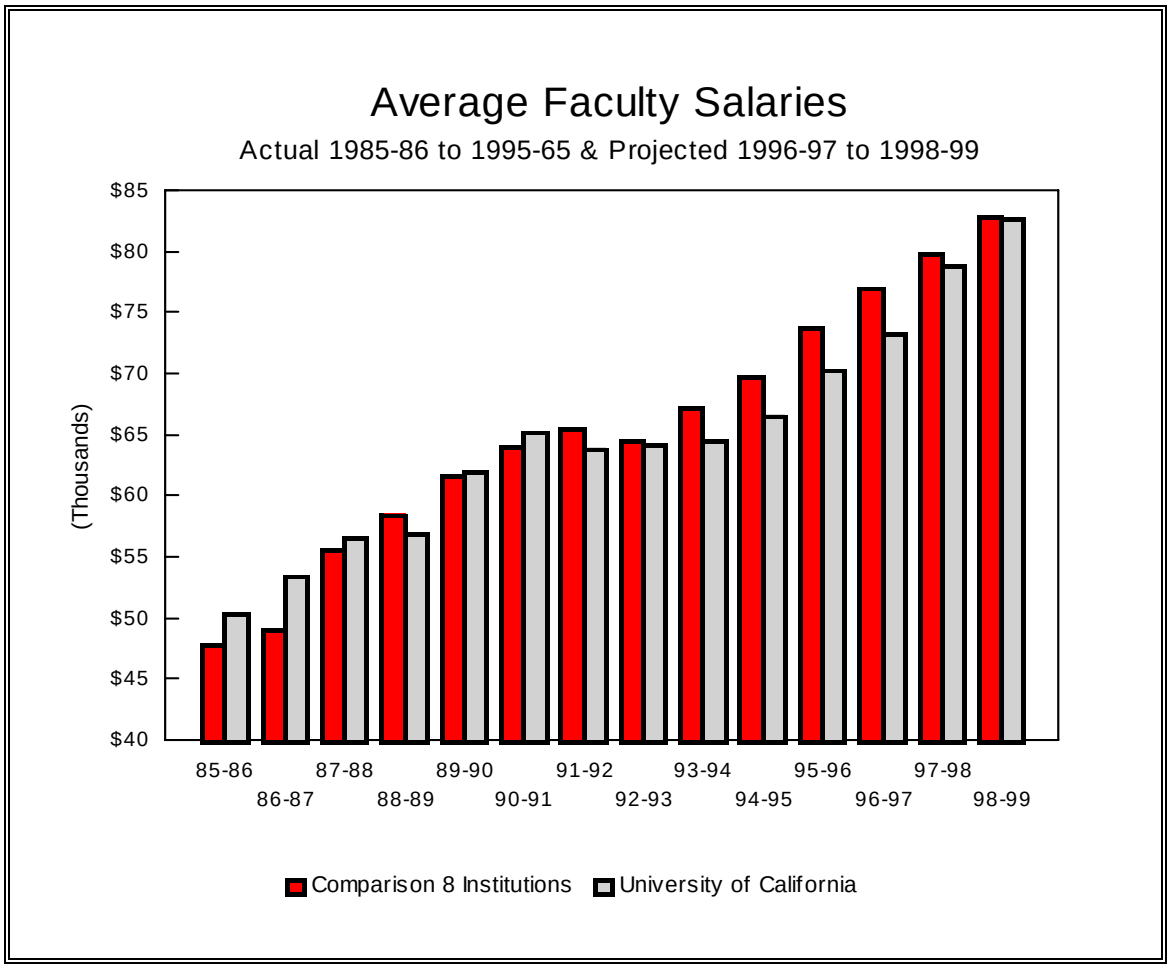
An additional parity salary increase for ladder rank faculty only, averaging three percent, is part of the University's three-year plan to restore faculty salaries to the average salary level at the eight comparison institutions by 1998-99. Even with funding for normal merit increases, a two percent COLA, and a three percent parity salary increase, preliminary estimates indicate that 1997-98 salaries of University faculty will lag about three percent behind faculty salaries at the comparison institutions. Updated projections will be available in November.

The reason for the salary lag is that for a period of almost four years, from January 1991 through October 1994, University faculty (and other employees) received no COLA. Furthermore, salaries were cut temporarily by an average of 3.5 percent during 1993-94. Previous salary levels were restored in 1994-95, but only because the University cut budgets by $53 million and reallocated the released funds to salaries. In 1994-95, the University received funding for the first COLA for faculty since January 1991 (3% on average in October 1994), followed by additional COLAs in 1995-96 (1.5% on average in October 1995) and 1996-97 (2% on average in October 1996). In addition, the University's ladder rank faculty received parity salary increases in 1995-96 (1.5% on average in October 1995) and 1996-97 (3% on average in October 1996).

This lag sends a negative message about the University across the nation, making it more difficult to recruit and retain those individuals who meet the University's traditional high standards. Nothing is more certain to undermine quality than a persistent inability to meet the competition. Restoration of the University's historic position in the marketplace is absolutely essential if its renowned quality is to survive.

The display on the next page shows how the salary lag for ladder rank faculty increased in recent years. A similar disparity existed in the early 1980s, and at that time more than one-fourth of the first-offer candidates for faculty positions declined the University's offer of employment. Subsequent increases in faculty salaries resulted in an improved acceptance rate. The display also illustrates the University's plan to restore faculty salaries to the level of the comparison institutions by 1998-99.

The cost of a three percent parity salary increase and related employee benefits for ladder rank faculty, effective October 1, 1997, is $16,876,000.



The Supplemental Report of the 1995 State Budget Act directed the California Postsecondary Education Commission (CPEC) to make recommendations to the Legislature, the Department of Finance, and the Legislative Analyst on the methodologies for calculating faculty salaries for the University of California and the California State University. The University worked with CPEC on this effort, and a revised methodology for the University was agreed upon, endorsed by the Legislature, and used for the comparison of 1996-97 faculty salaries. It is expected that this revised methodology will remain in place for the next three years, after which it may again be revisited. While the revised methodology incorporated a number of changes, the most important, from the University's viewpoint, is that the public and private institutions as a group are now given equal weight in calculating the average salary for the comparison institutions. This change recognizes that the University competes as much with the smaller private as with the larger public institutions. The revisions to the methodology did not result in significant changes in the salary lag projected for 1997-98.

Academic and Staff Employee and Annuitant Benefits (No Increase)

Historically, the University's practice has been to request funding for health insurance and other benefits for employees and annuitants that is equivalent to funding provided for all other State employees and annuitants. With the University's overall funding

increases now limited to what is provided under the four-year higher education compact, it is only possible to meet basic needs, such as supporting enrollment growth, restoring competitive faculty salaries, providing salary increases for other employees that on average at least keep pace with inflation, maintaining additional space, and funding inflation related fixed cost increases in the non-salary budget. There is simply not enough money to do all of this and also fund possible increases in benefit costs. Since the University utilizes a total compensation approach in which funding for salary increases and benefit costs are pooled, any increases in health benefits would need to be funded from dollars that would otherwise be allocated for cost-of-living salary increases. Fortunately, efficiency measures adopted by the University have been successful in reducing the cost of health benefits in recent years. The University will continue its effort to control costs, although this will become increasingly difficult.

Merit Salary Increases ($34,085,000 Increase)

Funding for merit salary increases, which are increases within existing salary ranges, is again among the University's highest budget priorities. These merit salary programs are critical to the preservation of the excellence of the University.

Academic merit salary increases provide an incentive to maintain and expand teaching and research skills, and enable the University to be competitive with other major research universities in offering long-term career opportunities. Academic merit increases are never automatic. They are awarded on the basis of each individual's academic attainment, experience, and performance in teaching, research and creative work, professional competence and activity, and University and public service.

The University requires an amount equal to 2.3 percent of the academic salary base to fund its academic merit program. A portion of this need is met from funds released by downgrading the salaries of certain faculty positions to their normal entry levels; such downgrading occurs whenever a faculty position is vacated as a result of retirement. The net additional funding required to finance 1997-98 merits is equal to 1.71 percent of the academic salary base. With the addition of related employee benefits, a total of $18,641,000 in State funds is required.

Staff merit salary increases are awarded on the basis of individual performance; they are never automatic. Eligible employees are considered for a merit increase once a year. The 1997-98 request for State funds will provide about three quarters of the full-year funding needed for staff merits, with the remaining one quarter of the total cost to be financed from funds released through downgrading salaries of vacated positions to normal entry levels. Some staff positions are only eligible for performance based merit salary increases, which are funded from a pool created by combining funds for COLAs with those provided for merit increases. In 1997-98, the University will require an amount equal to 1.54 percent of the staff salary base to fund merits. With the addition of related employee benefits, a total of $15,444,000 in State funds is required.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding

beyond what can be provided through the compact. If the California economy continues to grow , the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, or all, of the priorities that have been identified. Funding to accelerate the restoration of competitive salaries for ladder rank faculty is among the identified priorities.

Under the compact, the University has a three-year plan to restore faculty salaries to the average of its comparison institutions. The University would like to move more quickly to close this gap. In 1996-97, the University received funding for a three percent parity salary adjustment for ladder rank faculty. The 1997-98 budget includes a request for a second parity adjustment of three percent for ladder rank faculty. Even when this parity adjustment is combined with normal merit increases and a COLA averaging two percent, faculty salaries will still lag about three percent behind faculty salaries at the University's comparison institutions. To fully close this gap in 1997-98, and restore competitive faulty salaries in two rather than three years, would require an additional $16.9 million in State funding. The ability to pay competitive faculty salaries is a critical factor in the University's ability to recruit and retain faculty-- who are, of course, the most important factor in maintaining the overall excellence of the University.

Provisions for Price Increase ($11,800,000 Increase)

The University's 1997-98 budget request includes $11,800,000, which represents a 2.5 percent increase, to offset the impact of inflation on nonsalary budgets and to maintain the University's purchasing power. Although the University purchases many commodities--library materials, technical supplies, specialized equipment--whose costs exceed current inflation estimates, the request for funding is limited to 2.5 percent to stay within budgetary guidelines.

The UCLA Business Forecast is projecting a 2.6 percent increase in the Consumer Price Index (CPI) for both California and the nation. The Department of Finance projections assume an average 2.7 percent inflationary increase.

The CPI measures inflation on a particular "basket of goods" acquired by consumers. Many of the goods acquired by the University are not included, or are not given adequate weight, in the calculation of the CPI. A different index, the Higher Education Price Index (HEPI), is often cited as a more accurate indicator of the impact on inflation. From 1983 to 1995, the Higher Education Price Index was, on average, almost one percentage point higher than the CPI.

Increases significantly greater than 2.5 percent are anticipated for several major elements. Based on an annual report from campus libraries as well as the Department of Finance, the University anticipates increases of 10.1 percent for subscriptions and 6.4 percent for serial services. Industry sources, including the Bowker Annual for 1996, confirm that the average annual increases in the costs of library materials will exceed ten percent in 1997-98. Subscriptions and serial services represent more than 60 percent of the library materials budget. The purchase of library materials is one of the largest expenditures incurred each year.

The University will also experience higher cost increases for hazardous waste removal as well as medical and laboratory supplies. Laboratory chemicals, agricultural chemicals such as fertilizers and pesticides, and paper and printing are just a few of the many commodities the University purchases in quantity whose increases will exceed 2.5 percent in 1997-98.

Productivity Improvements and Restoration of Funds Cut Temporarily in 1995-96 ($6,700,000 Decrease)

Consistent with the terms of the four-year compact with higher education, the University's 1997-98 budget proposal includes a $10 million budget reduction to be achieved through productivity improvements. The compact calls for productivity improvements of $10 million each year, resulting in a total base budget reduction of $40 million by 1998-99. The basic premise is that there is a continuing need for productivity improvements in order to maintain student access and program quality within available resources. This is not a new concept. The University had to cope with budget cuts totaling $433 million between 1990-91 and 1994-95, and is thus very familiar with the need to do more with less. In order to meet the budget reductions, productivity improvements have been initiated that affect many aspects of the University--administrative processes, academic program support, student services, and business practices. A number of common strategies are being pursued and mechanisms are in place to share the best practices among campuses. When appropriate, new administrative systems and cost saving measures have been developed and implemented on a Universitywide basis.

Last year the University issued a report titled *1995-96 Budget Plan for Productivity Improvements*. This report discussed ongoing efforts to streamline administrative processes and improve services to students. It also described plans to achieve $10 million of productivity improvements in 1995-96. This was the first of several annual reports that will be presented to The Regents, each one describing plans for the coming year and discussing achievements of the previous year.

In addition to calling for productivity improvements, the four-year compact with higher education seeks to provide the University with an average annual four percent increase in State general funds and assumes that revenue from student fees would increase by an average of about ten percent per year. However, in the first year of the compact State funds fell short of meeting basic needs by $13.3 million. The University made temporary budget cuts in that amount in 1995-96, taking one-time actions to accommodate the shortfall. For the 1996 State Budget Act, the majority of these one-time actions were converted to permanent productivity improvements, totaling $10 million as required under the compact. With the permanent reductions replacing the temporary reductions, there was a zero net impact on the University's 1996-97 budget. In 1997-98, the remaining $3.3 million of the temporary budget reductions related to the 1995-96 shortfall will be made permanent through productivity improvements. An additional $6.7 million in productivity improvements will be achieved in 1997-98 allowing the University to be in compliance with the compact.

SPECIAL REGENTS' PROGRAMS

1996-97 Budget:	
Total Funds	$115,083,000
General Funds	--
Restricted Funds	115,083,000
1997-98 Increase:	
General Funds	--
Restricted Funds	--

The following section discusses three fund sources, the University Opportunity Fund, the Off-the-Top Overhead Fund, and the Department of Energy (DOE) Laboratory Management Fee. The Management Fee is the annual compensation provided to the University for management and oversight of the DOE Laboratories at Berkeley, Livermore and Los Alamos and is discussed at the end of this chapter.

All federal contract and grant activity generates costs, which are divided into two basic categories--direct and indirect. Direct costs are those which can be identified as directly benefiting a specific contract or grant and, therefore, are charged directly to that contract or grant. Indirect costs are those 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, primarily State appropriations, with reimbursement later provided by the federal government. The University Opportunity Fund and the Off-the-Top Overhead Fund derive from this reimbursement.

The University is concerned about the future level of funding that will be provided in support of indirect costs. The Congress and the President have reached agreement to balance the federal budget over a seven year period (by the year 2002). This will result in significant budget reductions in many federal programs, including those that support university research. The Research section of the budget discusses federal research support at the University and the magnitude of proposed federal spending reductions.

The University has an agreement with the State of California regarding the disbursal of federal reimbursement of indirect costs. Pursuant to this agreement, the first approximately 20 percent of the reimbursement accrues directly to the University of California for costs directly related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. The remaining 80 percent of the federal reimbursement is used in two ways. Fifty-five percent is budgeted as University general funds and is used, along with State General funds, for general purposes such as faculty salaries. The remaining 45 percent is the source of the University Opportunity Fund and is returned to campuses primarily on the basis of how it was

generated.

Less than ten percent of the combined Off-the-Top Overhead Fund and University Opportunity Fund is used to support systemwide programs such as research programs and the Education Abroad Program, as well as systemwide administrative functions.

In 1990, the State approved legislation authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and maintenance of certain research facilities, the related infrastructure, and financing of these projects. Under the provisions of the legislation, the University is authorized to use 100 percent 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 eleven projects approved by the Legislature to be financed in this manner, three have been completed, four more will complete construction in 1996-97, one project received gift funding and has been removed from the program, and the remaining three are under construction.

Off-The-Top Overhead Fund

The Off-the-Top Overhead Fund is used to support costs related to federal contract and grant activity such as campus contract and grant offices and the University's Washington, D.C. office. The amount of indirect cost reimbursement allocated to this Fund pursuant to the agreement with the State may need to be reexamined at some point in the future as Federal policies become more restrictive and limit the University's ability to recover indirect costs. As an example, changes in OMB Circular A-21 mean that certain departmental administrative costs, previously considered as direct costs, will now be considered as indirect charges. This change reduces the reimbursement received by the University because there is an overall cap on administrative costs. The University will continue to review the implications of these changes with respect to the Off-the-Top Overhead Fund and may in the future seek an increase in the Fund. Although the discussion of the Off-the-Top Overhead Fund occurs here, expenditures from the Fund actually occur in various functions and are not included in this section.

University Opportunity Fund

Allocations to campuses from the University Opportunity Fund are based on the amount of indirect cost reimbursement generated by the campus. This approach represents a

reinvestment in research and an incentive to further develop the University's research capacity. Each campus has discretion as to the use of University Opportunity Funds.

The following is a programmatic description of functional areas under which campuses expend University Opportunity Funds.

Research

Campuses often use their University Opportunity Fund allocations to enhance their efforts in the recruitment of the faculty by providing support for such research needs as laboratory alterations, equipment, 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 a high-caliber faculty. The level of research support that can be offered is often a pivotal factor in the success of efforts to recruit or retain the most promising junior faculty members. The University must be in a position to offer a level of research support that is competitive with other institutions. Research support may be required by a faculty member for a number of needs, including laboratory renovation, research assistants, field work, and, particularly, research equipment. In the physical and natural sciences, it is not unusual for the University to provide $200,000 or more in research support in the recruitment of a faculty member.

High quality faculty draw federal contract and grant support for research to the University and their presence assists in attracting other prominent faculty. Research support can also be critical in retention of a distinguished faculty, who regularly receive attractive offers from other institutions. Department chairs report those key faculty members lost to other institutions are difficult, and occasionally impossible, to replace with scholars of equal stature. Loss of a faculty member disrupts both the instructional and the research programs of the University.

The recruitment and retention of a distinguished faculty are of paramount concern to the University. The future of the world's premier public institution of higher education, and of its students, is dependent upon the quality of its faculty. The use of the University Opportunity Fund for research support and faculty recruitment and retention will help to secure that future.

Since 1970, The Regents have used University Opportunity Funds to provide core support for high priority research programs not adequately funded from other sources, such as the Keck Observatory and the Supercomputer Center located at San Diego. University Opportunity Funds are used, for example, to support the Universitywide Energy Research Group, which was created in 1980-81 to develop and coordinate a systemwide multidisciplinary approach to energy-related research with an emphasis on the specific needs and problems of California. Support is also provided to conduct research on the social, economic, educational, and policy issues of United States-Mexico relations as they affect California, the Southwestern United States, and Mexico. The University has a commitment to programs directed at Pacific Rim nations, which are increasing in importance with respect to the economic future of California 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. University Opportunity funds are also used in combination with State and other University funds to address the special needs encountered by individual faculty members in the conduct of research, such as funding for equipment and supplies, text preparation, research

assistants, and field work 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 Educational Abroad Program is typical of those funded. The Education Abroad Program furthers students academic progress and enhances their communication skills, cultural enrichment, and understanding of the contemporary world through intensive involvement in a different culture. University Opportunity Funds help to support guest students on University campuses who are here as a result of reciprocal arrangements with foreign institutions that are hosting University of California students. This is an essential part of the operation of the Education Abroad Program, but is not supported by State funds.

Institutional Support

Currently, a portion of the University Opportunity Fund is used to support administrative activities for which adequate State support has not been provided, for example, administrative computing and environmental health and safety. It is the University's long-term goal to significantly reduce University Opportunity Fund expenditures in such areas and to focus the Fund on activities which foster excellence in academic programs. Activities discussed below are typical of those funded in the Institutional Support category.

Funds are provided under Institutional Support to maintain and improve the University's capabilities to attract external funding, primarily from private sources; such programs have been funded since the mid-1960s from a combination of various funds. Support is provided to meet alumni and development data processing requirements and for management information systems. Allocations from the University Opportunity Fund also provide support for the University's public safety and staff and management development programs.

Department of Energy Laboratory Management Fee

Contracts for University management and oversight of the Department of Energy (DOE) National Laboratories at Berkeley (LBNL), Livermore (LLNL) and Los Alamos (LANL) provide for annual contract compensation totaling $25 million and for direct charging of actual costs for the Laboratory Administration office, currently about $3.8 million. The University and the Federal government are currently in the process of renegotiating these contracts.

Annual contract compensation is distributed in accordance with a Memorandum of

Understanding between the University and the State Department of Finance. Of the total, $11 million is budgeted as UC general fund income and helps to fund the University's operating budget. The remaining funds are used to cover costs related to audit disallowances and for the two University research programs described below. The UC Directed Research and Development (UCDRD) Fund was developed to support high priority research needs at the Laboratories, with emphasis given to collaborative research with the campuses. The Complementary and Beneficial Activities (CBA) Fund was established to foster collaborative research efforts between the Laboratories and the UC campuses.

UC has recognized the benefits for the University as a whole of encouraging collaborations and has supported these efforts with funds derived from the DOE contracts for managing the Laboratories. The CBA Fund supports a number of collaborative research activities including two Multicampus Research Units, the Institute on Global Conflict and Cooperation (IGCC) and the Institute of Geophysics and Planetary Physics (IGPP). In addition, the Campus-Laboratory Collaborations (CLC) Program was established in 1994 to enhance and facilitate greater collaboration and cooperation between the UC campuses and the Laboratories. Supported by the CBA Fund, the CLC Program provides seed money to encourage initiation of long-term collaborative research programs. Awards for 1996-97 totaled $2 million, with six projects funded in areas as diverse as earthquake hazards, water resources modeling, novel materials design, and radioactive waste management. In addition, three "targets of opportunity" were funded for one year to encourage investigators to work together to create new research strength areas.

Funding from the UCDRD Fund is provided in support of research projects at each of the three Laboratories. Collaborative research with UC campuses is a high-priority use for these funds. UCDRD Funds at LLNL were used to provide enhanced support to the CLC projects and to provide UC researchers with access to the Laboratory's massively parallel computing facilities, including a new Shared Memory Processor. LLNL also used UCDRD funds to provide start-up support for a new joint endeavor with the Davis campus, the Institute for Laser and Plasma Sciences, and for a joint effort with the Keck Observatory to support the adaptive optics and laser guides star efforts. LBNL has used its funds to make major equipment purchases and laboratory space improvements for staff and faculty in several disciplinary areas, and to provide matching funds for a National Science Foundation-supported effort to supply an ultrashort-pulse x-ray scattering capability at the Advanced Light Source facility. UCDRD Funds at LANL have been used to support collaborations with the UC campuses through three different programs. Studies in the areas of materials, bioscience, and earth and environmental sciences are funded through the Collaborative UC/Los Alamos Research Program, while the Research Partnership Initiatives provides seed funding in areas of strategic importance to the Lab. The visiting Scholar Program supports longer-term research visits to the campuses or to the laboratory for LANL staff or faculty, respectively.

In addition to the above efforts, a number of other institutes and centers established at the Laboratories in recent years have resulted in increased collaboration with the UC faculty. These include, for example: the Los Alamos Neutron Scattering Center, the

Center for Materials Science, the High Performance Computing Center, the Center for Human Genome Studies, the Center for Accelerator Mass Spectrometry, the Institute for Transactinium Sciences, the Plasma Physics Research Institute, the National Center for Electron Microscopy, and the Center for Advanced Materials. The Institute of Geophysics and Planetary Physics (IGPP), established at the Laboratories in the early 1980s, is the largest single conduit for research collaborations at both LANL and LLNL.

INCOME AND FUNDS AVAILABLE

General Fund Income and Funds Available

The programs described in the preceding pages will require general fund resources in 1997-98 of $2.4 billion, including $2,142 million in State general funds, and $268 million in University general funds. University general funds are comprised of nonresident tuition, the State's share of federal indirect costs reimbursement, overhead on State agency agreements, and income from the application for admission fee and some other smaller fees.

Nonresident tuition will produce $98 million in University general fund income. This income estimate is based on the 1997-98 nonresident tuition level proposed in this budget and on the number of students expected. In addition, the application fee and a number of smaller fees will produce University fund income totaling $13 million.

Overhead on State agency agreements totaling $5 million will be used to help fund the University's budget.

Federal Indirect Cost Reimbursement

The University has an agreement with the State regarding the disbursal of federal reimbursement of indirect costs on federal contracts and grants. Pursuant to this agreement, the first 20 percent of the reimbursement accrues directly to the University for costs directly related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. It is estimated that $52.6 million will be provided from this source in 1997-98.

The remaining 80 percent of the federal reimbursement is used in two ways. Fifty-five percent is budgeted as University general funds and is used, along with State general funds, to help fund the University's budget. It is estimated that $116.7 million will be provided from this source in 1997-98.

The remaining 45 percent is the source of the University Opportunity Fund and is returned to the campuses primarily on the basis of how it was generated. In addition, in 1990 the State approved legislation allowing special use of incremental indirect cost recovery generated by research activities in certain new research facilities. Under the legislation, 100 percent of the reimbursement can be used to pay for construction and maintenance of the research facility. In such a case, the designated indirect cost recovery is taken off the top of the total indirect cost reimbursement before any other split is made.

Contracts for University management and oversight of the Department of Energy

national laboratories at Berkeley, Livermore and Los Alamos provide for annual contract compensation totaling $25 million and for direct charging of actual costs for the Laboratory Administration office, currently about $3.8 million. Annual contract compensation is distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. Of the total, $11 million is budgeted as UC general fund income and helps to fund the University's operating budget. The remaining funds are used to cover costs related to audit disallowances and for two University research programs--the UC Directed Research and Development Fund and the Complementary and Beneficial Activities Fund--established to support high priority research needs and to foster collaborative research efforts between the laboratories and the campuses.

Restricted Fund Income and Funds Available

Other State Funds

In addition to State general fund support, the University's budget for current operations includes $58.7 million in appropriations from special State funds, including for example $14.7 million from the Breast Cancer Fund, $17.5 million from the California State Lottery Fund, and $20.4 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program. In 1996-97, the University received an additional $40 million to support the Tobacco-Related Disease Research Program. The $40 million were one-time funds that had been set aside pending resolution of litigation.

Student Fees

University student fees are discussed in detail in the Student Fees section of this document. Income from the University's existing general mandatory fees (Educational Fee and University Registration Fee) for 1997-98 is currently projected at $643 million, based on the number of students expected to enroll and a fee increase of $330 per student. The distribution of the fee increase between the Educational Fee and the University Registration Fee will be determined by the President at a later date. 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 which provide extracurricular benefits for students.

A new mandatory Instruction Technology Fee of $40, recommended for implementation beginning in 1997-98, is expected to generate revenue of $6 million in 1997-98. One third, or $2 million, will be set aside for financial aid.

UC student fees increased substantially during the early 1990s, largely due to major shortfalls in State funding for the University's budget. Income from the Educational Fee and the University Registration Fee increased from $229.9 million in 1989-90 to $591.1 million in 1996-97. As dicussed in the Financial Aid section of this document, financial aid grew substantially as well.

In 1997-98, income from the Fee for Selected Professional School Students will be approximately $34.5 million based on the number of students expected to enroll, the fee levels previously approved by The Regents, and the proposed fee increases for 1997-98. At least one-third of the revenue will be used for financial aid. Remaining fee income will be used to support the professional school programs. Fee income can be used to hire faculty and teaching assistants as well as for instructional and computing equipment, libraries, other instructional support, and student services.

University Extension and Summer Sessions are fully funded by student fees. These programs are constrained by the estimated fee income for any budget year.

Teaching Hospitals

The University's five 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, and self-pay patients.

Other operating revenues are derived from the daily operations of the medical centers as a result of non-patient care activities. The major source is Clinical Teaching Support, provided by the State to help pay for the costs of the teaching programs at the medical centers. Additional sources of other operating revenue are cafeteria sales and parking fees.

Non-operating revenues result from activities other than normal operations of the medical centers, such as interest income and income from disposal of equipment.

Over the last five years (1990-91 to 1995-96), net patient service revenues at the five medical centers increased by about 20 percent from $1.5 billion to $1.8 billion, due to increases in medical center rates, in revenues received for treating indigent patients, and in disproportionate share provider payments for Medi-Cal and low

income patients. Other operating revenue increased by 9 percent due to parking fees and cafeteria receipts. For the same period, non-operating revenues increased by 52 percent, from

$7.5 million to $11.4 million due to interest income on cash invested in the University's short-term investment pool.

Medical Center revenues are used for the following expenses: salaries and benefits, supplies and services, depreciation and amortization, malpractice insurance, interest expense, and bad debts. Remaining revenues are used to meet a medical center□s working capital needs, fund capital improvements, and provide an adequate reserve for unanticipated downturns. The Teaching Hospital section of this document discusses the major fiscal uncertainties facing the medical centers.

In 1997-98, expenditures of hospital income for current operations are projected to increase by $36.6 million or about two percent compared to 1996-97.

Sales and Service

Income from sales and services from educational and support activities is projected to total $552.2 million in 1997-98, including the health sciences faculty compensation plans and a number of other sources of income, such a fine arts production income, publication sales, and athletic facilities user fees.

Endowment Income

The amounts shown in the Endowment category on the Income and Funds available schedule at the end of this section represent the expenditure of income earned on endowments, funds functioning as endowments, and life income funds. Endowments require that the principal be invested in perpetuity with the income use din accordance with terms stipulated by donors or determined by The Regents. Under trust law, endowment funds may not be invested in loans for projects within the University. The University is legally bound to keep the principal intact and to comply with donor restrictions. Guidelines have been issued to ensure that the University will not be bound by restrictions that are difficult to administer or that are in conflict with established goals or policies. Funds functioning as endowments are primarily gifts from donors that the University treats as endowments, i.e., the principal is preserved and only the income is expended. Life income funds are held in trust by the University with the income paid periodically to designated beneficiaries; principal vests with the University and income payments cease upon the death of the beneficiaries.

Endowment and Similar Funds are invested by the Treasurer of The Regents. The vast majority of these funds participate either in the General Endowment Pool or in the High Income Pool. The General Endowment Pool is designed to promote capital

growth along with steady increases of income. The High Income Pool portfolio is designed to produce a relatively high and stable level of current income.

Expenditures of endowment income increased from $30.5 million to $36.9 million (21.3 percent) between 1983-84 and 1988-89; during the next seven years, through 1995-96, expenditures increased to $69.6 million (53.4 percent). It is estimated that $76.9 million of endowment income will be available in 1997-98.

1994-95 was the third year The Regents issued gift annuity agreements under authority granted by the State of California. During the fiscal year, the University entered into approximately $60,000 in new annuity agreements with various beneficiaries, bringing the accumulated total to over $3 million. Funds from the agreements are recorded in the Endowment and Similar Funds group.

The primary sources of the preceding discussion of endowment income and policies are the University's Accounting Manual and the Financial Highlights section of the 1994-95 Financial Report presented to The Regents in the Fall of 1995. The annual comprehensive report covering the University's 1995-96 financial activities will be presented to The Regents later this fall.

Auxiliary Enterprises

Auxiliary enterprises are non-instructional support services provided primarily to students in return for specified charges. Services include residence and dining services, parking, intercollegiate athletics, and bookstores. Faculty housing is also an auxilary enterprise. No State funds are provided for auxiliary enterprises. Budget increases for each service are matched by corresponding increases in revenue. Over the past five years, revenue from auxiliary enterprises has increased from $365.1 million in 1991-92 to an estimated $481.4 million in 1997-98.

Extramural funds

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

Research

In 1995-96, federal research expenditures at the University amounted to approximately $869 million. While UC researchers receive support from virtually all the federal agencies, the National Institutes of Health and the National Science Foundation are the two most important, accounting for approximately two-thirds of the University's federal research contract and grant awards in 1994-95 (the latest

year for which data are available). 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. For 1995-96, this support amounted to approximately $2.3 billion.

Federal funds are the University's single most important source of support for research, accounting for approximately 57 percent of all University research expenditures in 1995-96. In the last dozen years, federal support for research at the University has grown dramatically. Between 1983-84 and 1988-89, with a commitment to research as a national priority by both the President and the Congress, annual federal research expenditures increased by an average of approximately nine percent. Since 1988-89, the focus of the federal government has been on deficit reduction. As a result, while expenditures have continued to increase significantly, the rate of growth has slowed down, dropping to four percent in 1995-96.

The outlook for federal funding of research in the immediate future is not encouraging. The Congress and the President have reached agreement to balance the federal budget over a seven year period (by 2002). This will result in significant budget reductions for many federal programs, including those that support university research. The Research section of this document provides a substantial discussion of the potential magnitude and impacts of proposed federal spending reductions.

Student Financial Aid

In 1994-95, UC students received $501 million in federal financial aid, which represented more than half (58 percent) of all support awarded during that year. Overall, UC students received 22 percent more federal funded aid in 1994-95 than they received in the previous year. This was principally due to large increases in borrowing under federal loan programs. The significance of the federal loan programs for UC undergraduate and graduate students is demonstrated by the fact that the subsidized loan programs comprised just over one-half (54 percent) of all federally funded aid and nearly one-third (32 percent) of the total financial support received by UC students in 1994-95. 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 percent of the student employee's earnings. Graduate students receive fellowships from a number of federal agencies such as the National Science Foundation and the National Institutes of Health.

The Student Financial Aid section of this document discusses these, and other programs. It also discusses the potential impacts on federal financial aid that could result from the agreement between the President and Congress to balance the

federal budget by the year 2002.

Private Gifts and Grants

Private gifts and grants are received from alumni and other friends of the University, campus-related organizations, corporations, foundations and other nonprofit entities. In 1995-96, expenditures of private gifts and grants to the University totaled $416.1 million, an increase of 5.9 percent over 1994-95 expenditures of $392.8 million. Expenditures have increased by 149.6 percent in the ten-year period since 1985-86, when expenditures were $166.7 million. In 1995-96, the University received $721 million in donations and pledges, the second consecutive year of record-breaking fund raising.

Approximately 96 percent of gifts are designated by the donor for a specific purpose. Research is the largest category for which private gifts and grants are provided, followed by campus improvement projects (e.g., purchases of buildings, equipment and land, or construction or renovation of buildings or other facilities) and financial aid to students (e.g., scholarships, fellowships, awards, and prizes).

INCOME AND FUNDS AVAILABLE
($000s)

INCOME AND FUNDS AVAILABLE	Estimated 1997-98	Proposed 1998-99	Proposed Change
STATE APPROPRIATIONS			
General Funds	$ 2,181,616	$ 2,316,616	$ 135,000
Special Funds	67,913	67,913	--
TOTAL, STATE APPROPRIATIONS	$ 2,249,529	$ 2,384,529	$ 135,000
UNIVERSITY SOURCES			
General Funds Income			
Student Fees			
Nonresident Tuition	$ 98,012	$ 109,012	$ 11,000
Application for Admission and Other Fees	13,000	13,500	500
Interest on General Fund Balances	16,000	17,500	1,500
Contract & Grant Overhead	116,712	116,712	--
Allowance for O/H & Management	11,000	11,000	--
Overhead on State Agency Agreements	5,000	5,500	500
Prior Year Balance - Deferred Maintenance	12,648	--	(12,648)
Other	8,200	9,700	1,500
Total General Funds Income	$ 280,572	$ 282,924	$ 2,352
Special Funds Income			
United States Appropriations	$ 19,000	$ 19,000	$ --
Local Government	55,000	55,000	--
Student Fees	--	--	
Educational Fee	485,800	488,800	3,000
Registration Fee	111,300	112,000	700
Special Law/Medical Fee	1,820	1,820	--
Special Professional Fee	34,526	40,401	5,875
University Extension	195,600	205,600	10,000
Summer Session	30,700	32,200	1,500
Other Fees	30,500	32,000	1,500
Sales & Services - Educational Activities	401,632	420,982	19,350
Sales & Services - Teaching Hospitals	1,904,592	1,943,718	39,126
Sales & Services - Support Activities	150,520	158,020	7,500
Endowments	81,000	87,000	6,000
Auxiliary Enterprises	481,415	500,615	19,200
DOE Management Fee	52,550	52,550	--
Contract and Grant Administration	17,500	17,500	--
University Opportunity Fund	97,583	97,583	--
Other	168,539	176,800	8,261
Total Special Funds	$ 4,319,577	$ 4,441,589	$ 122,012
TOTALS, UNIVERSITY SOURCES	$ $4,600,149	$ $4,724,513	$ $124,364
TOTAL INCOME AND FUNDS AVAILABLE	$ $6,849,678	$ $7,109,042	$ $259,364

BUDGET FOR CURRENT OPERATIONS
EXPENDITURE BY PROGRAM AND FUND TYPE
(000'S)

	1997-98 Budget			1998-99 Proposed			Proposed Increases		
	GENERAL FUNDS	RESTRICTED FUNDS	TOTAL FUNDS	GENERAL FUNDS	RESTRICTED FUNDS	TOTAL FUNDS	GENERAL FUNDS	RESTRICTED FUNDS	TOTAL FUNDS
INSTRUCTION									
General Campus	$ 1,023,683	$ 251,114	$ 1,274,797	$ 1,042,283	$ 261,031	$ 1,303,314	$ 18,600	$ 9,917	$ 28,517
Health Sciences	263,218	334,963	598,181	263,218	351,663	614,881	--	16,700	16,700
Summer Session	--	30,700	30,700	--	32,200	32,200	--	1,500	1,500
University Extension	--	195,600	195,600	--	205,600	205,600	--	10,000	10,000
RESEARCH	206,117	106,876	312,993	208,117	106,876	314,993	2,000	--	2,000
PUBLIC SERVICE									
Campus Public Service	29,389	53,380	82,769	29,389	53,380	82,769	--	--	--
Cooperative Extension	44,131	10,871	55,002	44,131	10,871	55,002	--	--	--
ACADEMIC SUPPORT									
Libraries	151,579	39,678	191,257	154,579	39,678	194,257	3,000	--	3,000
Organized Activities	114,312	269,874	384,186	114,312	280,024	394,336	--	10,150	10,150
TEACHING HOSPITALS	51,730	1,904,592	1,956,322	51,730	1,943,718	1,995,448	--	39,126	39,126
STUDENT SERVICES	--	215,549	215,549	--	217,516	217,516	--	1,967	1,967
INSTITUTIONAL SUPPORT	215,784	112,655	328,439	215,784	112,655	328,439	--	--	--
OPERATION AND MAINTENANCE OF PLANT	300,434	57,157	357,591	302,786	57,157	359,943	2,352	--	2,352
STUDENT FINANCIAL AID	62,260	170,727	232,987	62,260	173,918	236,178	--	3,191	3,191
AUXILIARY ENTERPRISES	--	483,979	483,979	--	503,179	503,179	--	19,200	19,200
PROVISIONS FOR ALLOCATION	(449)	34,692	34,243	(449)	44,953	44,504	--	10,261	10,261
SPECIAL REGENTS' PROGRAMS	--	115,083	115,083	--	115,083	115,083	--	--	--
SUBTOTAL	$ 2,462,188	$ 4,387,490	$ 6,849,678	$ 2,488,140	$ 4,509,502	$ 6,997,642	$ 25,952	$ 122,012	$ 147,964
PROGRAM MAINTENANCE									
Fixed Costs, Economic Factors	--	--	--	111,400	--	111,400	111,400	--	111,400
TOTAL UNIVERSITY	$ 2,462,188	$ 4,387,490	$ 6,849,678	$ 2,599,540	$ 4,509,502	$ 7,109,042	$ 137,352	$ 122,012	$ 259,364

GENERAL CAMPUS AND HEALTH SCIENCES
Full-Time Equivalent Enrollments--Year Average

	1996-97 Actual	*1997-98 Budgeted*	*1998-99 Proposed Total*	*Change*
BERKELEY				
General Campus	27,507	27,400	27,600	200
Health Sciences	694	757	757	0
Total	28,201	28,157	28,357	200
DAVIS				
General Campus	19,857	19,700	19,900	200
Health Sciences	1,958	1,832	1,832	0
Total	21,815	21,532	21,732	200
IRVINE				
General Campus	15,666	15,000	15,350	350
Health Sciences	1,145	1,040	1,040	0
Total	16,811	16,040	16,390	350
LOS ANGELES				
General Campus	28,099	27,650	27,950	300
Health Sciences	3,825	3,719	3,719	0
Total	31,924	31,369	31,669	300
RIVERSIDE				
General Campus	8,429	8,200	8,400	200
Health Sciences	50	48	48	0
Total	8,479	8,248	8,448	200
SAN DIEGO				
General Campus	15,990	16,000	16,350	350
Health Sciences	1,233	1,052	1,052	0
Total	17,223	17,052	17,402	350
SAN FRANCISCO				
Health Sciences	3,699	3,552	3,552	0
SANTA BARBARA				
General Campus	17,436	17,200	17,400	200
SANTA CRUZ				
General Campus	9,799	9,850	10,050	200
TOTALS				
General Campus	142,783	141,000	143,000	2,000
Health Sciences	12,604	12,000	12,000	0
Total	155,387	153,000	155,000	2,000

GENERAL CAMPUS
Actual Year-Average FTE Enrollments

	1996-97 Actual	*1997-98 Budgeted*	*1998-99 Proposed Total*	*Change*
BERKELEY				
Undergraduate	20,307	19,890	20,090	200
Postbaccalaureate	10	0	0	0
Subtotal	20,317	19,890	20,090	200
Graduate	7,190	7,510	7,510	0
Total	27,507	27,400	27,600	200
DAVIS				
Undergraduate	16,757	16,550	16,720	170
Postbaccalaureate	60	60	60	0
Subtotal	16,817	16,610	16,780	170
Graduate	3,040	3,090	3,120	30
Total	19,857	19,700	19,900	200
IRVINE				
Undergraduate	13,662	12,885	13,160	275
Postbaccalaureate	124	115	115	0
Subtotal	13,786	13,000	13,275	275
Graduate	1,880	2,000	2,075	75
Total	15,666	15,000	15,350	350
LOS ANGELES				
Undergraduate	21,262	20,930	21,160	230
Postbaccalaureate	0	0	0	0
Subtotal	21,262	20,930	21,160	230
Graduate	6,837	6,720	6,790	70
Total	28,099	27,650	27,950	300
RIVERSIDE				
Undergraduate	7,141	6,865	7,035	170
Postbaccalaureate	107	115	125	10
Subtotal	7,248	6,980	7,160	180
Graduate	1,181	1,220	1,240	20
Total	8,429	8,200	8,400	200
SAN DIEGO				
Undergraduate	13,822	13,795	14,075	280
Postbaccalaureate	82	75	85	10
Subtotal	13,904	13,870	14,160	290
Graduate	2,086	2,130	2,190	60
Total	15,990	16,000	16,350	350
SANTA BARBARA				
Undergraduate	15,279	15,100	15,220	120
Postbaccalaureate	9	10	10	0
Subtotal	15,288	15,110	15,230	120
Graduate	2,148	2,090	2,170	80
Total	17,436	17,200	17,400	200
SANTA CRUZ				
Undergraduate	8,841	8,875	9,050	175
Postbaccalaureate	2	0	0	0
Subtotal	8,843	8,875	9,050	175
Graduate	956	975	1,000	25
Total	9,799	9,850	10,050	200
GENERAL CAMPUS				
Undergraduate	117,071	114,890	116,510	1,620
Postbaccalaureate	394	375	395	20
Subtotal	117,465	115,265	116,905	1,640
Graduate	25,318	25,735	26,095	360
Total	142,783	141,000	143,000	2,000