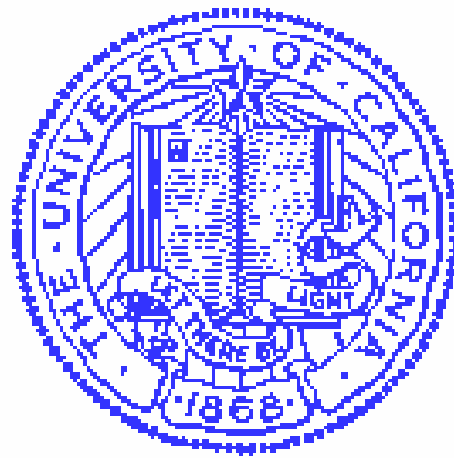


UNIVERSITY OF CALIFORNIA

2003-04

Budget *for* Current Operations



Office of the President
November 2002

THE PRESIDENT'S MESSAGE

“Quality” is a word that is included in discussions of many issues but seldom is defined in a substantive way. In the context of a public research university, the precise meaning of quality requires thoughtful consideration.

The University of California has long held a reputation for quality in teaching, research, and public service. A common conception – one I certainly share – is that the campuses of UC constitute the world’s premier public university. The danger of this general conception of quality, however, is that it can be taken for granted in difficult times. The specific ways in which quality manifests itself, the fragile nature of quality, and the important relationships between quality and resources are too easily forgotten.

A historically generous State of California – a state whose people have believed in the promise of higher education – is largely responsible for the University of California of today. State funding has provided a solid foundation for the University’s operations and made it possible for the University to secure substantial additional funding from federal and private sources. Because of our Partnership Agreement with the State, we have several ways of measuring quality and demonstrating its direct relationship to the resources provided by the State. Despite the State’s inability to fully fund the Partnership over the last two years, the University has met – indeed exceeded – its commitments under the Partnership. We therefore can show that at the University of California, quality means, at a minimum, the following:

- All eligible students are guaranteed a place at the University.
- The students admitted to the University are top academic performers who increasingly represent the vast diversity of California.
- Students are given access to the classes they need to graduate on time, producing graduation rates that are at an all-time high and an average time to degree that is at an all-time low.
- Students are taught by distinguished faculty. UC’s academic programs consistently rank among the top in the nation, and UC faculty represent fully 14% of the membership of the National Academy of Sciences. A talented and committed staff provides essential support to the academic enterprise.

- In addition to teaching, the faculty conduct ground-breaking research that is not only internationally acclaimed – and no public university has more Nobel Prize recipients among its faculty than UC – but also enhances the health, safety, culture, and quality of life of Californians. The response of UC’s research enterprise to the events of September 11, 2001, provides only the most recent example of this point.
- Academic programs respond to the state’s workforce needs. UC’s graduate enrollment has grown more since 1998 than it did over the previous 25 years, helping to address workforce shortages in key areas in California. UC has doubled enrollments in its education credential programs and increased by 50 percent its enrollment of engineering and computer science students.
- The institution plays a key role in the state’s economic development. In partnership with the State and private industry, UC is creating four California Institutes for Science and Innovation to conduct cutting-edge research in fields that will be critical to the future of the California economy.
- The institution uses the talents of its people to help improve education on a broad scale. UC’s outreach programs to K-12 public schools, and its professional development programs for K-12 educators, are reaching tens of thousands of Californians and helping improve the academic performance of the state’s youth.

Clearly, the University’s record of performance for the State of California is strong. The threat now, however, is the major fiscal challenge facing the State. California is emerging from the most recent recession more slowly than predicted, due largely to the rapid rise and fall of the stock market. Between 1995-96 and 2000-01, State revenues from capital gains and stock options increased from \$2.6 billion to nearly \$18 billion – fueling the generous state budgets of the late 1990s – before plummeting back to \$8.2 billion in 2001-02. In addition, many of the actions taken in the 2002-03 spending plan to address the State’s \$23.5 billion budget deficit were one-time in nature. As a result, current projections indicate there may be a permanent imbalance of at least \$10 billion in the State budget, absent any further actions to bring revenues and expenditures into alignment.

The long-term prospects for the California economy are strong, and doubtless the State and the University will emerge from this downturn poised to flourish in a rebounding national economy. California’s economic history is

one of ups and downs, and the good years do provide some opportunity for UC to recoup the losses of the bad years. As we prepare to endure at least a couple of difficult years, however, we must ensure that we not only endure them, but along the way make wise choices to preserve the quality of the institution for the long term.

For the last eight years, the University has built its budget plan on the basis of a funding agreement with the Administration – the Compact with Governor Wilson and the Partnership Agreement with Governor Davis. The Partnership Agreement is a comprehensive statement of the minimum resources needed for the University to accommodate enrollment growth and maintain the standards of excellence that students expect. It also is a statement of the ways in which the University is to manage these resources in order to address the State’s priorities. The Partnership provides a sensible budgetary framework from which to plan for the future.

The University’s budget plan for 2003-04 is once again based on the Partnership. However, a realistic assessment of the State’s current fiscal condition suggests that full funding of the Partnership is highly unlikely. Therefore, it is important to state UC’s highest budget priorities as we move forward. There are two:

- Maintaining quality in the core instructional program as we continue to provide access to all eligible students who wish to attend. During this decade, the University faces major enrollment growth as California’s college-age population booms; between 1998-99 and 2010-11, total enrollment at UC will grow by more than the equivalent number of students at UC Berkeley and UCLA combined. The University will need to hire more than 7,000 faculty in order to accommodate this growth and replace those faculty who will retire or leave. The University must ensure that all students who work hard to become eligible are provided a place to attend and are given the high-quality education they have come to expect of UC. Fulfilling this objective requires funding from the state that preserves both the base budget for the core academic program and the agreed-upon formula for per-student enrollment growth.
- Providing funding for competitive faculty and staff salaries. Perhaps the biggest challenge in this time of both growth and fiscal constraint is maintaining UC’s ability to recruit and retain the most talented faculty and staff. They are central to the institution’s continued quality, and competitive compensation plays a key role in attracting and retaining them. Unfortunately, because of budget cutbacks in recent years, the University’s salaries for both faculty and staff have fallen seriously

behind. It is critical that the University prevent further erosion of its competitive position with respect to salaries and, if possible, attempt to close the gap.

The California of the 21st century, struggling with wide disparities of education and income among its diverse populations, will be looking to UC for solutions to many of its problems. We are well positioned to meet this challenge, if the quality of our core programs is preserved. We intend to work cooperatively with the State on solutions to its current fiscal challenge, always keeping in mind our long-term obligations to the people of California.

Richard C. Atkinson, President
November 2002

UNIVERSITY OF CALIFORNIA



FOREWORD

The University of California was founded in 1868 as a public, State-supported land grant institution. It was written into the State Constitution as a public trust to be administered under the authority of an independent governing board, The Regents of the University of California. There are ten campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. All of the campuses, with the exception of Merced, offer undergraduate, graduate, and professional

education; one, San Francisco, is devoted exclusively to the health sciences. The Merced campus originally planned to enroll its first on-campus students in 2005-06. However, Governor Davis has asked the University to accelerate the opening of the campus and enroll students beginning in 2004-05. The University and the Merced campus are working very hard to meet the Governor's timeline and enroll the first students on campus in fall, 2004.

The University operates teaching hospitals and clinics on the Los Angeles and San Francisco campuses, and in Sacramento, San Diego, and Orange counties. Approximately 150 University institutes, centers, bureaus, and research laboratories operate in all parts of the state. The University's Agricultural Field Stations, Cooperative Extension offices, and the Natural Reserve System benefit people in all areas of California. In addition, the University provides oversight of three Department of Energy Laboratories.

Organization of the Regents' Budget

The *Introduction* and *Summary* provide an overall perspective on the major policy issues, specific objectives, and priorities for 2003-04. The subsequent sections discuss programs in more detail and provide fuller justification of requests for funding increases. The budget is structured to accommodate readers who do not go beyond the *Summary* as well as those who want information on selected topics only. Therefore, important themes are repeated throughout the document. Finally, an index appears at the end of this document to assist readers who are looking for a particular subject area.

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UNIVERSITY OF CALIFORNIA
2003-04 BUDGET FOR CURRENT OPERATIONS AND EXTRAMURALLY FUNDED OPERATIONS

EXPENDITURES

INCOME

| | 2002-03 Budget (S000s) | 2003-04 Proposed (S000s) | Change Amount (S000s) | % |
|--|------------------------------|--------------------------------|-----------------------------|-------------|
| <u>BUDGET FOR CURRENT OPERATIONS</u> | | | | |
| Instruction: | | | | |
| General Campus | \$ 1,894,031 | \$ 2,043,171 | \$ 149,140 | 7.9% |
| Health Sciences | 698,168 | 705,545 | 7,377 | 1.1% |
| Summer Session | 10,168 | 10,473 | 305 | 3.0% |
| University Extension | 225,427 | 235,571 | 10,144 | 4.5% |
| Research | 538,646 | 544,486 | 5,840 | 1.1% |
| Public Service | 254,821 | 256,771 | 1,950 | 0.8% |
| Academic Support: | | | | |
| Libraries | 250,989 | 257,138 | 6,149 | 2.4% |
| Other | 450,507 | 457,046 | 6,539 | 1.5% |
| Teaching Hospitals | 3,128,692 | 3,282,562 | 153,870 | 4.9% |
| Student Services | 386,499 | 398,319 | 11,820 | 3.1% |
| Institutional Support | 482,841 | 486,978 | 4,137 | 0.9% |
| Operation and Maintenance of Plant | 416,086 | 445,847 | 29,761 | 7.2% |
| Student Financial Aid | 324,250 | 349,878 | 25,628 | 7.9% |
| Auxiliary Enterprises | 613,897 | 644,592 | 30,695 | 5.0% |
| Provisions for Allocation | 97,246 | 54,607 | (42,639) | -43.8% |
| University Opportunity Fund and Special Programs | 161,187 | 171,351 | 10,164 | 6.3% |
| Program Maintenance: Fixed Costs, Economic Factors | -- | 196,020 | 196,020 | -- |
| TOTAL BUDGET FOR CURRENT OPERATIONS | \$ 9,933,455 | \$ 10,540,355 | \$ 606,900 | 6.1% |
| <u>EXTRAMURALLY FUNDED OPERATIONS</u> | | | | |
| Sponsored Research | \$ 2,016,359 | \$ 2,127,483 | \$ 111,124 | 5.5% |
| Other Activities | 1,099,010 | 1,138,724 | 39,714 | 3.6% |
| TOTAL EXTRAMURALLY FUNDED OPERATIONS | \$ 3,115,369 | \$ 3,266,207 | \$ 150,838 | 4.8% |
| TOTAL OPERATIONS | \$ 13,048,824 | \$ 13,806,562 | \$ 757,738 | 5.8% |
| <u>MAJOR DEPARTMENT OF ENERGY</u> | | | | |
| <u>LABORATORIES</u> | \$ 3,741,315 | \$ 3,928,381 | \$ 187,066 | 5.0% |

| | 2002-03 Budget (S000s) | 2003-04 Proposed (S000s) | Change Amount (S000s) | % |
|--|------------------------------|--------------------------------|-----------------------------|-------------|
| <u>BUDGET FOR CURRENT OPERATIONS</u> | | | | |
| <u>General Fund</u> | | | | |
| State of California | \$ 3,223,982 | \$ 3,513,945 | \$ 289,963 | 9.0% |
| UC Sources | 480,256 | 469,977 | (10,279) | -2.1% |
| Total General Funds | \$ 3,704,238 | \$ 3,983,922 | \$ 279,684 | 7.6% |
| <u>Restricted Funds</u> | | | | |
| State of California | \$ 77,509 | \$ 77,509 | \$ -- | -- |
| U. S. Government Appropriations | 17,000 | 17,000 | -- | -- |
| <u>Student Fees:</u> | | | | |
| Educational, Registration & Professional School Fees | 729,688 | 806,572 | 76,884 | 10.5% |
| Extension, Summer Session & Other Fees | 321,313 | 336,048 | 14,735 | 4.6% |
| Teaching Hospitals | 3,077,398 | 3,231,268 | 153,870 | 5.0% |
| Auxiliary Enterprises | 613,897 | 644,592 | 30,695 | 5.0% |
| Endowments | 146,974 | 152,853 | 5,879 | 4.0% |
| Other | 1,245,438 | 1,290,591 | 45,153 | 3.6% |
| Total Restricted Funds | \$ 6,229,217 | \$ 6,556,433 | \$ 327,216 | 5.3% |
| TOTAL BUDGET FOR CURRENT OPERATIONS | \$ 9,933,455 | \$ 10,540,355 | \$ 606,900 | 6.1% |
| <u>EXTRAMURALLY FUNDED OPERATIONS</u> | | | | |
| State of California | \$ 196,431 | \$ 196,431 | \$ 0 | 0.0% |
| U.S. Government | 1,713,424 | 1,833,364 | 119,940 | 7.0% |
| Private Gifts, Contracts & Grants | 753,027 | 768,088 | 15,061 | 2.0% |
| Other | 452,487 | 468,324 | 15,837 | 3.5% |
| TOTAL EXTRAMURALLY FUNDED OPERATIONS | \$ 3,115,369 | \$ 3,266,207 | \$ 150,838 | 4.8% |
| TOTAL OPERATIONS | \$ 13,048,824 | \$ 13,806,562 | \$ 757,738 | 5.8% |
| <u>MAJOR DEPARTMENT OF ENERGY</u> | | | | |
| <u>LABORATORIES</u> | \$ 3,741,315 | \$ 3,928,381 | \$ 187,066 | 5.0% |

INTRODUCTION TO THE 2003-04 BUDGET

The University's annual budget is a statement of resources needed to maintain access and 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

Consistent with the California Master Plan for Higher Education, 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 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 reaffirmed the University's missions. The Legislature is again in the process of reviewing the Master Plan with an eye towards developing a plan that begins with K-12 education and extends through higher education.

The University's three primary missions are briefly described below and explained in greater detail throughout the remainder of this document.

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 an 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 that enhance the quality of life, ranging from increases in industrial and agricultural productivity to advances in health care. A stimulating research environment at the University attracts outstanding faculty, improving the quality of education available to students at all levels. The University, with the support of the State, continues to expand its research partnerships with industry, including development of four world-class centers of excellence in cutting-edge scientific discovery known as the California Institutes for Science and Innovation, discussed in more detail in the *Research* chapter of this document.

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 to help solve the problems of today's society.

The Pursuit of Excellence

The University of California is internationally renowned for the quality of its academic programs and consistently ranks among the world's leading institutions in the number of faculty and researchers singled out for awards

and distinctions, election to academic and scientific organizations, and other honors.

UC faculty is well-represented in the memberships of prestigious organizations, such as the National Academy of Sciences, and among winners of the Nobel Prize and Guggenheim Fellowships. Researchers affiliated with UC have been awarded 44 Nobel Prizes, the pinnacle of achievement for groundbreaking research; 12 of the Nobel Prizes have been won since 1995. Current faculty includes 20 Nobel laureates. No public university has won more Nobel Prizes than the University of California.

In May 2002, President Bush named five University of California faculty recipients of the National Medal of Science, the nation's highest award for lifetime achievement in fields of scientific research. With those awards, UC affiliated researchers have received 48 Medals of Science – more than 10 percent of the medals presented – since Congress created the award in 1959.

In 2002, the National Academy of Sciences announced the election of 72 new members, nine of whom are affiliated with the University of California. This brings the total to 327 UC researchers who have been elected to this prestigious Academy. UC has more members than any other college or university.

In 2001, one UC professor, Michael Dickinson – a UC Berkeley professor of integrative biology – received one of the nation's most coveted honors, a MacArthur Foundation Fellowship, which are often referred to as “genius” grants. Since the first MacArthur Fellowships were bestowed in 1981, 47 faculty, researchers and others affiliated with UC have been awarded these prestigious no-strings-attached \$500,000 grants.

In 2002, eight UC faculty were named Guggenheim Fellows by the John Simon Guggenheim Memorial Foundation. More Guggenheim fellowships have been awarded to UC faculty than to any other university or college. Guggenheim Fellows are appointed on the basis of distinguished achievement in the past and exceptional promise for future accomplishment. They include writers, painters, sculptors, photographers, filmmakers, choreographers, physical and biological scientists, social scientists, and scholars in the humanities.

In their 1997 book, *The Rise of American Research Universities: Elites and Challengers in the Postwar Era*, authors Graham and Diamond found that

UC is in the forefront of research productivity and in creating new knowledge. The book ranked Berkeley number one, and Santa Barbara number two, with the six other general campuses ranked in the top 26, among the nation's public research universities. The Graham-Diamond book reinforced the findings of the most recent rankings of the prestigious National Research Council. Analyzing the doctoral programs of 274 universities, the Council ranked over half of the University's 230 graduate programs at the nine campuses in the top 20 of their field—a performance unmatched by any university system in the country.

In an unprecedented survey, the National Science Foundation (NSF) showed that the University of California and its affiliated national laboratories produce more research leading to patented inventions than any other public or private research university or laboratory. This study, which is the most thorough examination to date of the scientific foundation of American patents, highlights the importance of publicly financed scientific research.

All of these distinctions are evidence of the University's preeminence among the nation's leading universities, an accomplishment that benefits all of California. The quality of programs developed and maintained within the University over the years owes much to the citizens of California, who have long recognized the benefits to the State of supporting a public university of national and international distinction.

SUMMARY OF THE 2003-04 BUDGET

For over forty years, the University of California has been committed to the tenets of the California Master Plan for Higher Education, which is the blueprint for higher education in this state. The Master Plan specifies the mission of each public higher education segment and defines the pool of high school graduates from which each segment is to admit its students.

Consistent with the Master Plan, the University has a three-fold mission:

- ⇒ **Teaching**, which consists of undergraduate, professional, and graduate academic education through the doctoral degree. Students develop analytic and communication skills, gain exposure to a wide range of intellectual traditions and emerging concepts, and develop in-depth knowledge in a particular area of study, all of which help prepare them for an increasingly knowledge-based society. UC has a special role under the Master Plan for educating the professional and doctoral students essential to meeting California's—and the nation's—workforce needs, including working cooperatively with the California State University as joint doctoral programs among the two institutions are developed and expanded in graduate academic degree programs.

- ⇒ **Research**. The Master Plan designates the University as the primary State-supported academic institution for research. All universities have a common goal of creating knowledge, educating students to become productive members of society, and helping to train the workforce business and industry need. As one of the nation's preeminent research universities, UC provides an environment in which leading scholars, researchers, and students (undergraduates and graduates) work together to discover new knowledge and train California's future workforce in state-of-the-art technologies necessary to keep California on the cutting edge of economic, social, and cultural development. Teaching and research are inextricably tied together at the graduate level, and increasingly at the undergraduate level.

- ⇒ **Public Service**. The University fulfills its public service mission by contributing to a broad range of activities important to the state, including outreach and K14 improvement programs designed to bolster academic performance and improve students' chances of success in pursuing higher education, cooperative extension programs that benefit

the agricultural community, and health science programs, such as UC's five major teaching hospitals and the outpatient clinical care programs they operate. Public service programs allow state policy makers to draw on the expertise of UC's faculty and staff to address important public policy issues.

The University's budget supports its missions under the Master Plan. Without adequate resources to teach, conduct research, and perform those public services for which the institution is uniquely qualified, the University will not be able to meet the high standards of quality that Californians have come to associate with UC. The University's quality is a hallmark for the State of California. The excellence of its programs attracts the best faculty and students, leverages hundreds of millions of dollars in federal and private funding, and promotes the discovery and dissemination of new knowledge that fuels economic growth and betters our society. The investment of State, federal, and private funds that supports the University benefits not only the University's students, faculty, and staff, but also the citizens of the State of California.

The University's 2003-04 budget request has been developed in the context of the State's deteriorating fiscal situation. The Governor's budget document, issued when he signed the 2002-03 State Budget Act, stated:

"Difficult times lie ahead for California and the nation. Although California's economic recovery began sooner than that of the nation, with employment beginning to grow again in the state five months earlier than in the nation, modest personal income growth and the prolonged slide in the stock market will continue to be a drag on State revenues, particularly the personal income tax."

Even if the economy begins to improve, the State has a structural imbalance between revenues and expenditures that will need to be addressed. Some projections indicate the State will face a deficit from a normal workload budget of over \$10 billion in 2003-04 and for several years thereafter, absent further actions to reduce the structural imbalance between revenues and expenditures. Many of the actions taken to balance the \$23.6 billion budget gap in 2002-03 were one-time in nature or involved a deferral of expenses to future years. Most experts agree the State is still facing a multi-year fiscal problem. This pattern of several recessionary years in a row is consistent with what has occurred in the State's budget over the last three decades, in which the early years of each decade were characterized by funding shortfalls

and budget cuts, and then economic recovery and progress occurred in the rest of the decade.

Prior to the tragedies at the World Trade Center and the Pentagon on September 11, economic forecasts pointed to a short-term slow-down, but projected a positive outlook for the long term. World events may dictate that this slow-down will be deeper and last longer than originally projected. However, the long-term prospects for the national and California economies are strong, and economists continue to predict healthy growth once the State and the nation come out of this temporary slow-down.

Alan Greenspan, Chairman of the Federal Reserve, offered these comments on the national economic situation in testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs one year ago:

“Over the past couple of decades, the American economy has become increasingly resilient to shocks. . . .The shock of September 11, by markedly raising the degree of uncertainty about the future, has the potential to result, for a time, in a pronounced disengagement from future commitments. . . . But the foundations of our free society remain sound, and I am confident that we will recover and prosper as we have in the past. For the longer term, prospects for continued rapid technological advance and associated faster productivity growth are scarcely diminished. Those prospects, born of the ingenuity of our people and the strength of our system, fortify a promising future for our free nation.”

Mr. Greenspan also shared his views with Governor Davis regarding the outlook in California, noting in particular his confidence that the state will weather the challenges presented by the current economic downturn. In particular, Mr. Greenspan noted that “California has more research universities than any other state in the country—9 UC campuses, the California Institute for Technology, Stanford, and the University of Southern California—at a minimum 12 major research universities. Texas has 7, New York has 6, Massachusetts has 7, Florida has 5. No other state has anything approaching this collection of research universities, which not only educate the next generation but create new economies, new wealth and new jobs that their students can fill.” In reporting these comments to a Sacramento breakfast group, the Governor stated: “Let me say that the importance of the universities cannot be overstated. . . . I am totally committed to the power of research institutions and Alan Greenspan thinks that’s one of the . . . reasons why we are so successful.”

It is the University's hope that the State's economic recovery occurs soon so the State can return to providing budget increases sufficient to fully support the Partnership Agreement (described in detail later in this *Summary*). In the meantime, the University, along with the rest of the State, may be facing several more years of operation with insufficient resources.

For 2003-04, the Department of Finance has asked all State agencies to look at options for making cuts of up to 20%. Officials of the Department are pursuing a process similar to last year's, looking at a wide variety of options in great detail, while at the same time analyzing the University's normal budget request, before making proposals in the Governor's Budget in January. As this process is carried out, it is the University's intention to stress the importance of education, including higher education, to the state. Governor Davis has made all segments of education a priority in the past; the University will advocate continuation of that priority with the hope that expected budget reductions would be minimized. It will be important to remind political leaders of the University's impact on the state's economy and quality of life, the challenge of exceptional enrollment growth in higher education, and the importance of preserving the quality of higher education.

In this context, the University is limiting its budget request for 2003-04 to full funding of the Partnership Agreement. While the budget plan does not address all of the University's pressing financial problems, it would provide the University with a sound funding base to meet its basic budgetary needs. If the State's situation deteriorates to the point that, once again, the Partnership cannot be fully funded, the University will work to protect its highest budget priorities. Those priorities are two-fold:

- maintain access and quality so that students who have worked hard to become eligible for the University are provided a place to attend and are given the high-quality education they expect from UC. If quality is sacrificed in the name of access, the University will have fallen short of its historic promise to California's students. Fulfilling this objective requires preserving both the base budget funding for the core academic program and the agreed-upon formula for per-student enrollment growth funding that the University receives from the State;
- provide funding for faculty and staff salary increases to prevent further erosion of UC's competitive position. The University is in the midst of dramatic enrollment growth, meaning that more faculty and staff must be hired than ever before if students are to be provided with the educational

experience they expect. Because of budget cutbacks in recent years, the University's salaries for both faculty and staff have fallen seriously behind comparable institutions. Nothing is more certain to undermine quality than a persistent inability to offer competitive salaries. It is absolutely critical that the University prevent salary gaps from growing any further, despite the State's economic constraints.

These are the University's highest budget priorities in the coming year.

The Partnership Agreement includes both funding principles that provide the University with a foundation on which to plan for the future as well as accountability principles that historically have been important to both the State and the University. The funding principles in the Partnership represent *the minimum* necessary to accommodate enrollment growth and maintain the excellence of the institution to which students seek admission. The accountability principles help gauge the University's performance in its tri-partite mission of teaching, research, and public service.

The importance of the Partnership during this time of dramatic enrollment growth over a prolonged period of time cannot be overstated. Based on current estimates, the University projects enrollment growth of 8,000 students in 2003-04, including planned growth and support for about 4,000 FTE overenrollment in the current year. The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 FTE over this decade; by 2010-11, the University would reach its planned target of 210,000 FTE. This target was revised upward by 1,000 students when the opening date for the Merced campus was accelerated by one year and was further adjusted upward to account for summer enrollment that existed in 1999 for which State support is being phased in, resulting in a revised target for 2010-11 of 217,500. The University is experiencing more rapid growth than the 1999 plan projected—enrollment is currently more than 8,000 undergraduate FTE over the level envisioned in the 1999 plan for 2002-03. Therefore, the University is undertaking a review of the 1999 plan to revise the 2010-11 enrollment projections upward, given recent experience. In any case, such dramatic growth over a prolonged period of time presents the University with a major challenge. Adequate resources are critical to the University's ability to meet this challenge.

Consistent with the Partnership funding and accountability principles, the goals of the University's 2003-04 budget plan are to fund the following:

- competitive salaries and benefits for faculty and staff, including funding for the University's merit program which is key to recruiting, retaining and rewarding the best faculty and staff;
- enrollment of an additional 8,000 students, representing about a 4.6% increase over 2002-03;
- other inflation adjustments;
- continuation of a multi-year plan to phase in State support for summer instruction. Funding has already been provided to allow student fees charged during the summer to be equivalent to those charged during the regular academic year for all campuses and to support existing and new enrollment at four campuses—Berkeley, Davis, Los Angeles, and Santa Barbara;
- financial support for graduate students, enabling the University to improve support packages for existing graduate students, thus ensuring that the packages UC offers are more competitive with those being made by other institutions, and provide additional support for the growing number of graduate students expected over this decade;
- maintenance of new space that comes online during the budget year;
- restoration of a \$29 million one-time base budget reduction adopted in the 2002-03 budget for core needs, including deferred maintenance, instructional technology, instructional equipment, and library materials;
- continuation of a multi-year program to address the permanent budget shortfalls in ongoing building maintenance, instructional technology, and library materials.

The Partnership Agreement recognizes that programs funded from student fee income must receive cost increases and specifies that student fees would increase at the rate of increase in California per capita personal income or the State would provide the equivalent in funding to avoid a student fee increase. For seven years, between 1995-96 and 2001-02, the State chose the latter course, providing funds to avoid increases in student fees. In fact, for the two-year period of 1998-99 and 1999-2000, the State also provided funding to offset the revenue lost from reducing fees by a total of 10% for California resident undergraduates and 5% for California residents enrolled in graduate academic programs. Given this clear commitment on the part of the Governor and the Legislature, the University's budget plans each year have assumed the State would provide the funds to avoid fee increases. In 2002-03, however, while there was no increase in mandatory systemwide student fees

for the eighth consecutive year, the State did not provide the funds necessary for cost increases for student-fee-funded programs. This created a significant gap in the University's 2002-03 budget.

Given the State's continuing fiscal difficulty, the University's 2003-04 budget plan assumes that the State will not have sufficient resources to provide the funds necessary to avoid fee increases in both mandatory systemwide student fees and in professional school fees. Therefore, a fee increase of 6.5% is included for these fees to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue. The level of the fee increase included in the 2003-04 plan is based on the Partnership funding principles and will be re-evaluated if the state's fiscal situation further reduces the funding available to the University.

The 6.5% figure included in the budget plan represents the average percentage increase in student fees or equivalent revenue that would have been raised over the two-year period of 2002-03 and 2003-04 if student fees increased both years at the rate of increase for California per capita personal income, consistent with the funding principles of the Partnership. The revenue generated will provide cost increases to student-fee-funded programs that they should have received in 2002-03 as well as the funding needed for the same purpose in 2003-04. An amount equivalent to at least one-third of the revenue generated from the fee increase will be used to augment student financial aid to mitigate the impact of the fee increase on low-income students. If the State is able to provide sufficient funding to avoid a fee increase for the ninth consecutive year, The Regents will not be asked to approve a fee increase for 2003-04. This issue is not likely to be resolved until the Governor's Budget is developed. Therefore, The Regents will not be asked to take any action now on a fee increase, with the intention that action on the issue be reserved for a later meeting when more is known about the proposed 2003-04 budget for the University.

The State's inability to fully fund the Partnership in the last two years is of deep concern to the University. This funding gap totals \$237 million in 2002-03 and includes shortfalls in salary and benefit increases for faculty and staff, other fixed costs, and core needs. In addition, the University has suffered base budget reductions, including \$32 million for research and \$29 million as a one-time reduction related to core needs (instructional equipment, instructional technology, deferred maintenance, and library materials).

While the University acknowledges that the State's fiscal situation has prevented full funding of the Partnership and has necessitated actions by the State to correct the imbalance between revenues and expenditures, nevertheless this budgetary insufficiency is of serious concern. The potential impact on quality, particularly during a time of unprecedented enrollment growth (in sharp contrast to the budget cuts of the early 1990s, which occurred while enrollments were flat or slightly declining), presents the University with a daunting challenge. It is the University's intention to urge the Governor and the Legislature to continue to place a high priority on education, including higher education, and to minimize the impact of the State's fiscal circumstances on the University.

It is the expectation of the University that any Partnership funding not received during this economic slow-down will be restored to the University's budget when the State's economic situation improves.

Historical Perspective

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

The University has met this challenge several times over the last several decades. The University experienced budget reductions of about 20% in real dollars during the late 1960s and early 1970s. Faculty positions and research funding were cut, and the student faculty ratio deteriorated by about 20%. In the late 1970s and early 1980s, the University again experienced a number of budget cuts. By the early 1980s, faculty salaries lagged far behind those at the University's comparison institutions, and top faculty were being lost to

other institutions; buildings needed repair; classrooms, laboratories, and clinics were poorly equipped; libraries suffered; and the building program 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 were expanded. The capital budget also improved dramatically. There was significant growth in private giving, and the University once again became highly competitive for federal research funds.

By the late 1980s, however, the situation began to change. Fiscal problems at the State level led to a growing erosion of gains made during the mid-1980s. By 1989-90, UC was struggling with the early stages of a fiscal problem that subsequently turned into a major crisis.

The Budget Crisis in the Early 1990s

The University experienced dramatic shortfalls in State funding during the first four years of the 1990s. Although State funding increased in 1990-91, it was below the level needed to maintain the base budget and fund a normal workload budget. Over the next three years, State funding for the University dropped by \$341 million. At the same time, the University had to cope with inflation, fixed cost increases, and workload growth. Consequently, the University made budget cuts totaling \$433 million, equivalent to roughly 20% of its State General Fund budget in 1989-90 (See Display 1). In addition, employees received no cost-of-living increases for three years and

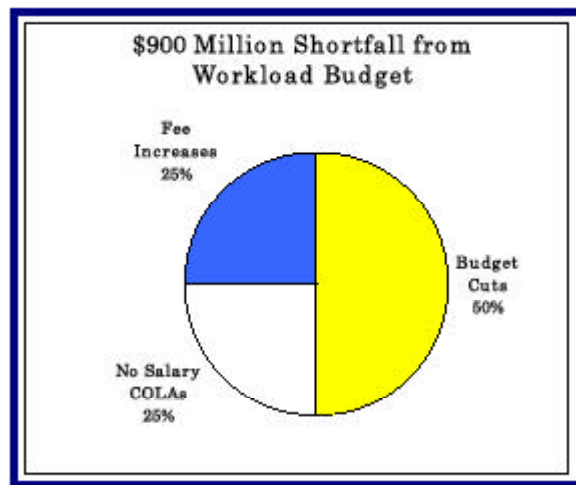
Display 1

| Permanent Cuts to Campus and Office of the President Budgets | | |
|---|---|---------------|
| 1990-91 through 1994-95 | | |
| (\$ in Millions) | | |
| 1990-91 | 5% cut in research, public service, and administration. | \$ 25 |
| 1991-92 | Workforce reduction in both instructional and non-instructional programs; cut in non-salary budgets; undesignated cut. | 120 |
| 1992-93 | Permanent cut of \$200 million phased in over two years. | 200 |
| 1993-94 | Reductions in campus and Office of the President budgets, resulting in further workforce reductions. | 35 |
| 1994-95 | Reductions in campus and Office of the President budgets in order to fund restoration of salary funds cut temporarily in 1993-94. | 53 |
| TOTAL | | \$ 433 |

salaries were reduced on a temporary basis for one year. Student fees were raised, though significant increases in financial aid helped to mitigate the impact on financially needy low- and middle-income students.

The enormity of the budgetary losses during the early 1990s is difficult to grasp. One way to convey the magnitude of the problem is to consider that the University's 1993-94 State General Fund budget was less than it was in 1987-88, even though in the interim there had been inflation, other cost increases, and significant enrollment growth between the years 1987-88 and 1991-92; another way is to consider that the University's budget would have been about \$900 million greater if the State had maintained the base and funded normal cost increases and workload growth over the four years from 1990-91 through 1993-94. The University coped with this shortfall in ways that reflected the limited nature of its options in the short term.

Display 2



As illustrated in Display 2, about half of the loss was taken through budget cuts, approximately another quarter by providing no cost-of-living increases for employees, and the remaining quarter was made up through student fee increases accompanied by increases in student financial aid.

While regrettable, the fee increases were necessary to address budget cuts of such significant magnitude. At the same time, the University mitigated the impact of these fee increases on financially needy low- and middle-income

students through a significant increase in financial aid grants (as opposed to loans). Over five years, through 1994-95, financial aid grants and other gift aid funded from University sources increased by approximately \$118 million, or nearly 170%, to help mitigate the impact of increased fees.

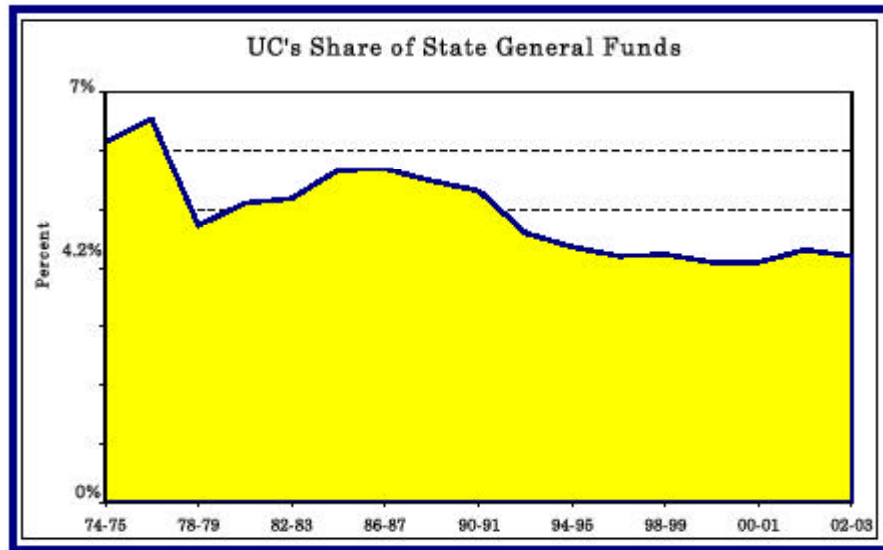
During the early 1990s, the University's General Fund workforce declined by a net total of around 5,000 full-time equivalent (FTE) employees. While much of this decline occurred through early retirements—a preferred approach to layoffs—the result was that the University had many fewer people available to handle the same workload. The instructional program was protected to the extent possible by making deeper cuts in other areas such as administration, research, public service, student services, and facilities maintenance. Administration, especially, was assigned deep cuts both on the campuses and in the Office of the President. In addition, the purchase of scholarly journals for the libraries was severely curtailed, the backlog of deferred maintenance projects continued to grow, and the budget for instructional equipment replacement declined to only about half of the amount needed. Although instructional resources were eroded by the budget cuts, the University honored the Master Plan by continuing to offer a place to all eligible California resident students who sought admission at the undergraduate level and providing students with the classes they needed to graduate in a timely manner.

In 1994-95, after years of steady erosion, the University's budget finally stopped losing ground. For the first time in four years, the State provided the University with a budget increase over the prior year, totaling about 3% (excluding revenue bond payments). Base salary levels were restored following a temporary salary cut in 1993-94, and funding for faculty and staff cost-of-living salary increases of about 3% was provided for the first time since 1990-91. The student fee increase was held to 10% through a compromise agreement to fund deferred maintenance with debt financing. Once again, increases in financial aid accompanied the fee increase, helping to offset the impact on needy students.

While the 1994-95 budget represented a substantial improvement over previous years, the University nonetheless remained in precarious financial condition. As indicated in Display 3 (next page), its share of the State General Fund budget had declined to 4.3%, lower than the previous lowest point of 4.7%, which occurred in 1978-79. Faculty salaries lagged the average of the University's comparison institutions by 12.5%, the workforce had been reduced by 5,000 FTE without a corresponding decline in workload, and the

budget was severely underfunded in several core areas that have a direct relationship to the quality of instructional programs—building maintenance, instructional equipment, instructional technology, and libraries, for example.

Display 3



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

A major turning point came with the introduction of Governor Wilson's 1995-96 budget, which included the following statement:

“Unfortunately, the fiscal difficulties of the early 1990s prevented the State from fully meeting the needs of higher education, and California's competitiveness has been jeopardized. Now that the State's resources have begun to improve, the investment in higher education must be renewed. . . . A strong system of higher education is critical to our social fabric and our ability to compete in the global markets of the 21st Century.”

Translating this perspective into action and signaling a very welcome message about the priority of higher education, the Governor's 1995 Budget included a Compact with Higher Education covering the four years through 1998-99. Its goal was to provide fiscal stability after years of budget cuts and

allow for growth through a combination of State General Funds and student fee revenue. The Compact included provision of State General Fund budget increases averaging 4% per year over the four-year period. The Compact also anticipated general student fee increases averaging about 10% a year as well as additional fee increases for students in selected professional schools. At least one-third of new student fee revenue was to be earmarked for financial aid, with the remainder used to help fund the budget. Additional financial aid was to be provided through the State's Cal Grant Program. The Compact also provided additional funds to cover debt service related to capital outlay projects and deferred maintenance.

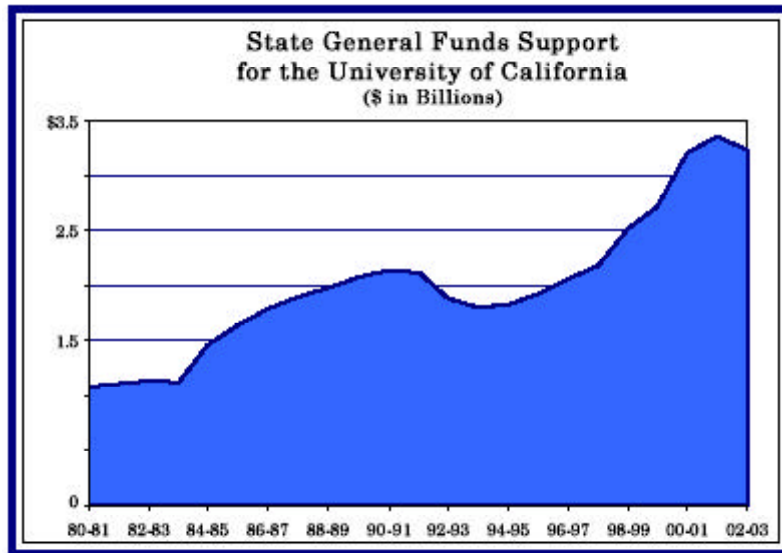
Based on the premise that there was a continuing need for efficiencies in order to maintain student access and program quality within available resources, the Compact also included a \$10 million budget reduction each year for four years, reflecting \$40 million in savings to be achieved through productivity improvements. For the capital budget, the Compact provided \$150 million a year, with priority given to seismic and life-safety projects, infrastructure, and educational technology.

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

The Compact was remarkably successful. During the four years beginning in 1995-96 and ending in 1998-99, the Legislature and the Governor honored the funding principles of the Compact and, in fact, provided funding above the levels envisioned in the Compact. This additional funding eliminated the necessity for increases in student fees, allowed for reductions in student fees for California resident students, helped restore UC faculty salaries to competitive levels, provided \$35 million for a number of high priority research efforts (including the Industry-University Cooperative Research Program, the UC San Diego Supercomputer Center, and a variety of other legislative research initiatives), and increased funding for K-14 outreach by \$38.5 million to expand existing programs and develop new ones. In addition, general obligation bonds and/or lease revenue bonds were provided each year for high priority capital projects.

The University was helped enormously by the four-year Compact introduced by Governor Wilson as part of his January 1995-96 budget. Beginning with the first year of the Compact (1995-96) through 2001-02 (including the first two years of the Partnership), the State provided increased funding for the University's budget every year, as Display 4 shows. The "ups and downs" in Display 4 have largely coincided with the State's economy. The upward trend in the late 1990s and in 2000-01 reflects the high priority the State placed on funding for the University during that period.

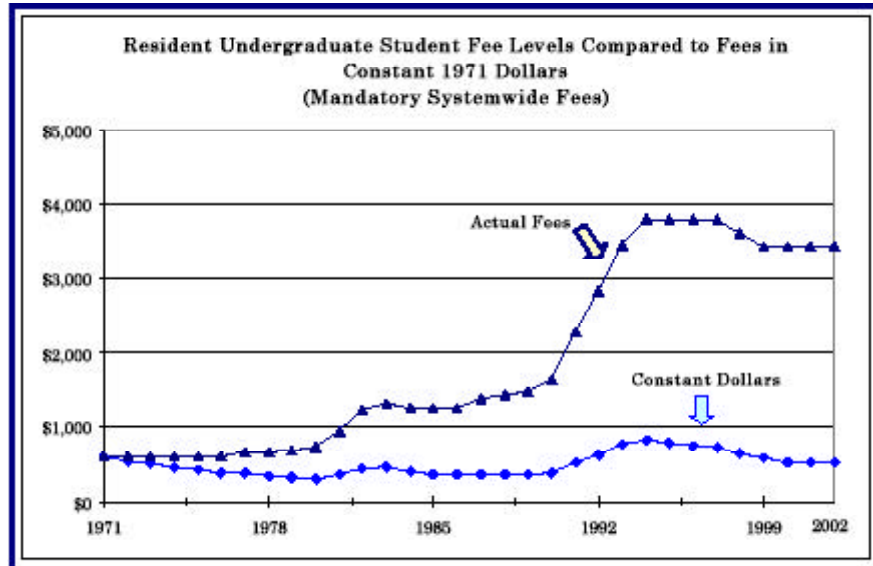
Display 4



The State funding under the Compact allowed the University to maintain the quality, accessibility, and affordability that are the hallmarks of California's system of public higher education. Both the State and the University exceeded their commitments under the Compact. The University enrolled more students than the Compact anticipated, and the State funded them. Faculty salaries were restored to competitive levels, allowing the University to recruit the nation's best faculty. As outlined above, the State provided nearly \$170 million in funding above the level envisioned in the Compact to support high priority programs including outreach and research, and to avoid fee increases. Since the beginning of the Compact in 1995-96 there have been no increases in mandatory systemwide fees. In fact, California resident undergraduate students experienced fee reductions totaling about 10% over a

two-year period between 1998-99 and 1999-2000, and California resident graduate academic students realized a 5% decrease in fees in 1999-2000. The history of student fees is shown in the top line of Display 5.

Display 5



Display 5 also shows that fee levels in 2001-02, when adjusted to reflect constant dollars, are still fairly low. When adjusted to account for a family's ability to pay (using California per capita personal income), fees are actually slightly lower than they were in 1971-72.

A New Partnership Agreement

Governor Davis entered office with a commitment to improve California public education at all levels. His commitment manifested itself in a new Partnership Agreement, the funding principles of which were developed in time to guide development of the 2000-01 budget. These funding principles are outlined in Display 6 (next page).

Display 6

State Funding Commitments:

- An annual average increase of 4% to the prior year's State General Fund base.
- Funding provided at the agreed-upon marginal cost for all enrollment growth (which is expected to be about 3% annually).
- An additional 1% increase to the prior year's State General Fund base to phase in funding to eliminate the annual budgetary shortfalls for ongoing building maintenance, instructional equipment, instructional technology, and libraries.
- Funding for other costs, including debt service related to capital outlay and annuitant health benefits.
- One-time funding, contingent upon the State's financial position, for high priority needs, such as deferred maintenance, libraries, equipment, instructional technology, and capital outlay. These funds, which would be contingent upon the State's fiscal situation, would be in addition to the funds provided to support the University's basic budget.
- Funding for new or expanded special initiatives or programs, such as the development of off-campus centers or the opening of new campuses, special research initiatives, outreach and public service programs to improve K-12 schools, the transition to year-round operations, as well as the costs of legislation agreed to and approved by the State. These funds, which would be contingent upon the State's fiscal situation, would be in addition to the funds provided to support the University's basic budget.
- \$210 million a year for each segment, consistent with Proposition 1A, to support capital outlay needs. Support for State general obligation bond measure and/or lease revenue bonds that would provide additional support for capital outlay needs beginning in 2002-03.
- Revenue equivalent to that which would be generated from annual increases in mandatory systemwide student fees and Fees for Selected Professional School students of no more than the increase in the California per capita personal income.

The Governor and the University continued discussions on the accountability provisions of the new Partnership Agreement throughout the budget negotiation process. The new Partnership Agreement was released on May 17, 2000.

The Partnership includes a wide range of accountability measures and specifies performance data and reporting requirements for each, to be reviewed by the Administration on an annual basis. Many of these reporting requirements will be satisfied by information provided throughout this document. Others will be met with separate reports provided each year to the Department of Finance. The University's progress in achieving the major goals outlined in the accountability measures in the Partnership Agreement are summarized in Display 7 (see next two pages).

Display 7

Progress on Accountability Measures 2002-03

- **Access.** UC continues to admit all eligible applicants who wish to attend. UC has exceeded budgeted enrollment levels each year of the Partnership.
- **Graduate Enrollments.** Graduate enrollments at UC have increased by 3,125 FTE students over the last three years (1998-99 – 2001-02)—more than the previous 25 years.
- **Student Eligibility.** The University has implemented a new path to eligibility (Eligibility in the Local Context, or ELC) that opens UC's doors to the top 4% of students in each California high school. In 2002-03, 13,000 ELC students were identified, 10,800 students applied and were admitted; of these, 6,800 students sent in their statements of intent to register. All ELC-eligible students who apply to the University are guaranteed a space in the UC system.
- **Community College Transfer.** The Partnership specifies an increase in community college transfers of 6% per year, from 10,150 in 1998-99 to 15,300 in 2005-06. Over the last three years, full-year transfer enrollment growth has grown 21.1% – exceeding the Partnership goal. In 2001-02, UC enrolled 12,290 new community college transfer students.
- **Graduation Rates.** Average time to degree for undergraduates who entered in 1994 is now 13 quarters, down from 13.4 quarters for students who entered in 1984. Of the freshmen who entered UC in 1995, 37% graduated in four years, 69% in five years, and 77% in six years. These rates are an improvement over 10 years ago, when the four-year rate was 31%, the five-year rate was 67%, and the six-year rate was 73%.
- **State-Supported Summer Instruction.** The Governor and the Legislature provided funds in 2001-02 for the first State-supported summer terms at the Berkeley, Los Angeles, and Santa Barbara campuses; UC Davis was added in 2002-03. Funds to reduce student fees at all campuses in the summer to the level of the rest of the year were first provided in 2000-01. As a result, summer enrollments increased substantially, enhancing UC's ability to plan for and accommodate the 217,500 students expected to enroll in the University by 2010. The four State-supported campuses enrolled 7,740 FTE students in summer 2002, an increase of 21% over the previous summer. These campuses increased the number of classes they provided by 14% and the number of regular-rank faculty who were assigned to teach by 19% over summer 2001. They also provided an estimated \$13 million in student financial aid that was not available in summer programs without State support.
- **Engineering and Computer Science Enrollment.** UC surpassed its goal in 2001-02 to increase engineering and computer science enrollments by 50%, from 16,000 to 24,000 students – four years ahead of schedule. Because of demand from industry, UC intends to continue growing in engineering and computer and information sciences, increasing 1,000 FTE students annually to 27,000 FTE students in 2003-04.
- **Credential Enrollment.** UC more than doubled its education credential enrollment, from 1,000 FTE students in 1998-99 to 2,300 in 2002-03, as agreed under the Partnership with the Governor. For 2003-04, enrollment is projected to grow another 500 FTE, to 2,800 FTE students.
- **Student Fees.** This is the eighth consecutive year without a systemwide fee increase for UC students. In 1998-99 and again in 1999-2000, fees for resident undergraduates were reduced 5%. Annual student fees at UC are now more than \$2,192 below the average of our public comparison institutions.

Progress on Accountability Measures 2002-03

(Display 7, continued)

- **Financial Aid.** UC students continue to receive more than \$1 billion a year in financial aid, more than half of it in the form of gift aid.
- **UC Merced.** Planning for the University's 10th campus at Merced remains on track for enrolling the first UC Merced students in 2004. In the meantime, the campus has established a system of distributed learning centers in conjunction with local community colleges at three locations: Fresno, Merced, and Bakersfield; a fourth is planned for Modesto. Central Valley outreach programs developed by the campus have led to an increase of 87% (704 students) between 1990 and 2000 in the number of freshmen students enrolled in UC from Central Valley high schools.
- **Teacher Professional Development Programs.** The UC-administered professional development summer and intersession institutes for teachers of reading, mathematics and English language development reached more than 70,000 educators in 2001-02. The professional development provided by these programs will help maximize the performance of California students in core academic areas.
- **Governor's Teacher Scholars Program.** This program provides scholarship support to cover the cost of student fees for participants who enroll in a teaching credential and a master's program and agree to teach in a low-performing school for at least four years. In 2002-03, 425 FTE students are expected to enroll in this program, exceeding the goal of 400 students.
- **Principal Leadership Institute.** The University has developed the Governor's Principal Leadership Institutes, a two-year master's degree program to help meet the state's demand for talented, highly trained school principals. The program began with 100 students in 2001-02 and is expected to enroll 200 FTE students in 2003-04.
- **Science Institutes.** UC has created four California Institutes for Science and Innovation that are pursuing cutting-edge research in fields that will be critical to the future of the state's economy by bringing together university researchers and private-sector partners to push the boundaries of knowledge, maintain California's economic leadership, and create jobs for the state's growing population. While the Institutes are required to provide non-State matching funds at a 2:1 ratio, they expect to do so at a level of 3:1.
- **Research Funding.** The Partnership called for the University to seek to increase its share of federal research and development dollars to help maintain high-quality programs. Federal funding for UC research has increased by an annual average of over 8% over the last three years.
- **Private Support.** Similarly, the University has met with great success in securing private support to **supplement** State funding, raising \$1.2 billion in 1999-2000 – the first year ever over \$1 billion – and exceeding \$1 billion again each year for the following two fiscal years (through June 30, 2002), in spite of the economic recession and sharp downturn in the stock market.

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

Funding During the New Partnership Agreement

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

- a 4% increase to the prior year's General Fund base to support the University's basic budget (these funds are primarily used for compensation and benefit increases, non-salary price increases, and other fixed costs);
- funding to support enrollment growth at the agreed-upon marginal cost of instruction;
- funding to offset the revenue loss associated with holding fees constant;
- a 1% base budget adjustment for core needs to address chronic funding shortfalls in areas of the budget that have a direct relationship to educational quality (instructional equipment, instructional technology, building maintenance, and library materials);
- funding for debt service related to capital outlay projects funded by lease revenue bonds and annuitant health benefits;

- support for State general obligation bond measures and/or lease revenue bonds that would provide additional support for capital outlay needs beginning in 2002-03.
- revenue equivalent to that which would be generated from annual increases in mandatory systemwide student fees and Fees for Selected Professional School Students of no more than the increase in the California per capita personal income;
- in 1999-2000, funding was also provided within the Partnership to fund the first year of the University's initiative to improve undergraduate education. Although the University requested additional funding for this initiative in 2001-02 and received initial support for it in the Governor's Budget, the funding was eliminated as part of the effort to reduce overall State's expenditures.

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

- funding to replace foregone revenue related to a second fee reduction of 5% for resident undergraduate students and a 5% fee reduction for resident graduate academic students;
- \$19 million in funding to provide salary increases beyond normal cost-of-living and merit increases primarily for lower paid staff;
- over \$17.8 million to augment several outreach programs;
- approximately \$76 million to significantly expand K-12 teacher professional development programs;
- about \$53 million for research initiatives (including in the areas of Industry-University Cooperative Research, AIDS, alcohol and substance abuse, brain injury, neurological disorders, engineering and computer science, UC-Mexico collaboration, Internet2, Lupus, spinal cord injury, and labor policy);
- nearly \$44 million for other initiatives, such as expansion of the California Digital Library, Cooperative Extension, Teacher Scholars and Principal Leaders programs, Summer School for Math and Science, planning for a

regional center in the Santa Clara Valley, and development of K-12 Internet connections;

- \$25 million in one-time funds for teaching hospital equipment;
- funding to reduce summer term fees to a level equivalent to what students pay during the regular academic year.

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

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

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

The final 2001-02 budget was the first budget in 7 years that did not provide full funding of the Partnership Agreement (or the preceding Compact). Partnership funds totaling \$90 million were eliminated from the University's proposed budget, reducing by half, or \$60 million, the funding initially proposed for the basic budget—thereby significantly reducing the funding available for compensation and other fixed costs—and eliminating the additional 1% (\$30 million) originally proposed for core needs. The Governor also proposed elimination of funding for several of the programmatic increases recommended in January.

The final Budget Act for 2001-02 contained funding for the University as follows:

- \$59.9 million for a 2% base budget adjustment sufficient to fund continuation costs related to 2000-01 salary increases, a salary increase package averaging a total of 2% for merit salary increases and COLAs for faculty and staff, salary increases for teaching assistants and clerical staff consistent with collective bargaining agreements, a 9% increase for health benefit costs for faculty and staff, and funding for maintenance of new space that came on line during the budget year. Funds for strengthening the quality of undergraduate education were eliminated and funding available for debt financing for deferred maintenance projects was reduced from \$6 million to \$4 million to fund compensation increases;
- \$65 million for an enrollment increase of 7,100 FTE (including an additional 1,400 FTE proposed in the May Revise);
- \$21.5 million for cost adjustments to student-fee-funded programs, avoiding student fee increases for the seventh consecutive year;
- \$20.7 million for State-supported summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses;
- \$75.6 million for energy costs (\$55.9 million for 2000-01 and \$19.7 million for 2001-02 and beyond) to cover substantial increases in natural gas prices;
- \$14 million to continue one-time funds for Internet2;
- \$2 million for faculty start-up costs associated with accelerated hiring at the Merced campus;
- \$6.4 million for increases in research requested by the Governor and/or the Legislature, including \$2 million for the MIND Institute on the Davis campus (to be used to for competitive research grants awarded to faculty throughout the system); \$3 million to continue one-time funding for research into the medicinal benefits of marijuana; \$1 million for spinal cord injury research, and \$350,000 for other miscellaneous research; and
- \$5 million in one-time clinical teaching support funds for teaching hospitals, neuropsychiatric institutes, and dental clinics.

The final budget also contained a \$5 million reduction in funding for the California Professional Development Institutes, in order to align the level of program funding with the level of funding provided in the K-12 budget for teacher stipends, as well as a \$5 million redirection of funds from K-12 School-University Partnership Programs to increase funds for the Mathematics, Engineering, and Science Achievement Program (MESA), Puente, and Early Academic Outreach programs, provide funds for student-initiated outreach, and help fund campus costs associated with the implementation of comprehensive review of admissions applications.

After accounting for other miscellaneous budget adjustments, the total increase in State General Funds for the University's budget was \$162.7 million, an increase of 5.1% over the previous year, bringing State General Funds to a total of \$3.358 billion.

By the time development of the 2002-03 budget began, the State's fiscal situation had deteriorated markedly, necessitating the unusual action on the part of the Governor and the Legislature to adopt mid-year budget reductions for UC of \$40.9 million for the 2001-02 budget. One-time funds provided for energy costs were reduced by \$25 million (leaving \$50 million), support for the California Professional Development Institutes was reduced by \$6 million (leaving a budget of \$50.9 million for 2001-02), and funding for the Digital California Project—K-12 Internet—was reduced by \$4.8 million (to \$27.2 million). An unallocated reduction of \$5 million was also included in the mid-year reductions. Once other adjustments were accounted for, the revised base budget for State General Funds was \$3.322 billion in 2001-02.

Given the continuing decline in State revenues, the University limited its budget request for 2002-03 to the basic funding under the Partnership Agreement. However, the State's resources were once again insufficient to fund the full Partnership.

The State's budget deficit eventually grew to \$23.5 billion (essentially a two-year deficit covering the period 2001-02 to 2002-03), which was resolved after a long budget stalemate in the Legislature through a combination of budget reductions, revenue enhancements (as opposed to tax increases), securitization of the tobacco settlement, debt restructuring, fund shifts, fund transfers, and loans. The cuts to the overall State budget total \$9.5 billion and include \$750 million associated with Control Sections 3.90 and 3.91, which were added to the Budget Act through accompanying legislation at the same time the budget was adopted. This legislation was part of the effort to

reach a budget compromise in the Assembly. The new control sections, among other, things do the following:

- authorize the Governor to reduce appropriations for state operations “by up to 5 percent of the amount of expenditure authority appropriated in the Budget Act of 2002 to reflect a total reduction of up to \$750,000,000.” The Department of Finance is to base the allocation of reductions on plans to be submitted by each state agency;
- specify that these reductions “shall be specific reductions in positions or items of expenditure. The plan shall categorize each reduction as to whether it eliminates resources in excess of those needed to carry out programs effectively or whether the reduction will have a programmatic effect, in which case the plan shall identify that effect;”
- require the Department of Finance to report on the reductions made as part of the Governor’s Budget submitted in January 2003;
- limit total expenditure authorizations from the General Fund for the 2003-04 fiscal year to the total revenues to the General Fund for the 2003-04 fiscal year.

The Governor also vetoed \$235 million from the State budget; however, none of his vetoes affected any provisions in UC’s portion of the budget.

So, while the budget bill was passed, the \$750 million undesignated reduction authorized in the new control sections of the budget prevents the University from finalizing its spending plan for 2002-03. The Department of Finance has informed the University that the process for implementing the provisions contained in the added control sections could take many weeks because of the budget review process specified in the control sections. The University is working closely with the Department of Finance to minimize the impact of these reductions on the University’s budget. In the meantime, the potential for significant further budget cuts in the current year creates tremendous uncertainty for the University’s budget.

This means that the provisions of the Budget Act as adopted by the Legislature and signed by the Governor are not final. *If no other actions were taken to reduce the University’s budget*, the final Budget Act would reflect the following changes in State funding for the University’s 2002-03 budget:

- a 1.5% increase to the basic budget—instead of the 4% called for in the Partnership Agreement—to fund compensation, benefits, and other increases, including continuation costs for 2001-02 salary increases, merit salary increases for faculty and staff, an increase in health benefit costs for faculty and staff (the amount provided within the Partnership was augmented by The Regents in its action to raise nonresident tuition for undergraduates an additional 6% annually—effective spring quarter for 2002-03—to help fund the rising costs of health benefits), and a 1.5% price increase for non-salary budgets;
- funding for 7,700 new FTE students based on the marginal cost of instruction (7,100 FTE proposed in the Governor’s January budget and an additional 600 FTE proposed in the May Revision);
- State support for summer instruction at the Davis campus;
- funding for maintaining new space that comes on line during the budget year;
- annuitant health and dental benefit increases.

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

The budget does not contain funding for major Partnership components, including a cost-of-living adjustment for faculty and staff, cost increases for student-fee-funded programs, and the additional 1% for core needs, including building maintenance, instructional technology, instructional equipment, and libraries. With the 2002-03 budget as currently adopted and before further budget cuts are implemented pursuant to the new control sections, the University’s State-funded budget will be underfunded by \$237 million, based on the funding principles of the Partnership Agreement.

The budget also includes the following base budget reductions from both the Governor’s January and May budget proposals:

- -\$32 million for research programs, which is equivalent to a 10% reduction in State General Funds for research. The budget includes provisional language requiring that the cut be implemented across-the-board for each individual research program. This is a revision to the provisional language proposed by the Governor in the May Revise that would have

given the University flexibility to implement these cuts within a range of 6% to 30%;

- -\$17 million in financial aid to eliminate the “bonus” that was provided to financial aid in 1998-99 and 1999-2000, when student fees were reduced without a corresponding reduction in financial aid;
- -\$15.3 million for the California Subject Matter Projects (\$4 million in January and an additional \$11.3 million in May), leaving a core budget of \$20 million;
- -\$10 million for K-12 Internet connectivity (\$4.8 million was reduced in the January budget, and an additional \$5.2 million was eliminated in May), leaving \$22 million in the budget for this program;
- -\$7.6 million from the 2001-02 budgeted level for outreach programs, as explained in detail below;
- elimination of \$50.9 million in State General Funds for the California Professional Development Institutes. In proposing elimination of these funds in the May Revise, the Governor stated his intent that UC should contract with individual K-12 schools and school districts to continue the operation of these programs using federal and state funds available in the K-12 budget for teacher professional development purposes. University staff worked hard to negotiate these contracts in time to offer professional development training this summer. Early estimates indicate 18,000 teachers received their initial 40-hour intensive sessions through the new contractual arrangement. The University is very optimistic about its ability to work cooperatively with K-12 schools to make this new funding arrangement a success, particularly given the Governor’s continuing support of the California Subject Matter Projects, which provide an important platform and delivery system for the California Professional Development Institutes. There are several potential fund sources K-12 schools can use to fund these programs, including \$63.5 million (half of which is one-time funding reappropriated from the prior year) through the Governor’s Math and Reading Professional Development Program (AB 466, Statutes of 2001), \$10 million of State funds remaining in Goals 2000 funding, and an increase in federal funding totaling \$738 million in available funds through the No Child Left Behind Act. This amount includes \$132 million specifically for the new Reading First Program; and

- a one-time reduction of \$29 million for core needs, including deferred maintenance, libraries, equipment, and instructional technology. The Governor committed in the May Revision that this cut is one-time only and will be restored to the base as the 2003-04 budget is developed.

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

- restored a total of \$18.1 million in funding for specified outreach programs that the Governor had proposed eliminating in the May Revision, including the UC College Preparatory Initiative (online courses), Graduate and Professional Outreach, student-initiated outreach, UC ACCORD, the charter school on the San Diego campus, and Community and Education Resource Centers;
- provided a \$2.5 million augmentation for implementing the Dual Admissions program; and
- designated \$4.3 million in new revenue, to be generated from the proposal to increase nonresident tuition for undergraduate students by 6% above the 4% already proposed in the Regents' Budget for 2002-03, to fund additional restorations and expansions of existing outreach programs, including partial restoration of the funding for K-12 School-University Partnerships (\$3 million) and the ArtsBridge program (\$250,000), full restoration of the funding for Urban School Collaboratives (\$361,000), and additional funding for Graduate and Professional School Outreach (\$350,000) and Central Valley Outreach (\$379,000).

The final outreach package approved by the conference committee and included in the final budget act totals approximately \$25 million. More details about the revised funding levels for outreach programs can be found in the *Public Service* chapter of this document.

The budget also eliminated \$857,000 in State funding for the California College for Podiatric Medicine in recognition of the end of the affiliation agreement between this college and the San Francisco campus and \$550,000 in State funding for the Institute of Global Conflict and Cooperation.

Prior to further cuts that may be made pursuant to the new budget control sections, the University's State General Fund budget for 2002-03 totals

\$3.224 billion, which is a reduction of about \$100 million, or 3%, from the funding level provided in 2001-02, after accounting for mid-year cuts that occurred during 2001-02.

At this point in time, the University once again stands in a precarious position. Faculty and staff salaries have fallen seriously behind competitive levels. This is of deep concern to the University, particularly given the need to recruit 7,000 new faculty to accommodate the student enrollment growth expected in this decade and to replace those who leave, and the need to maintain programmatic and administrative support functions that provide the underpinnings for the quality instructional and research programs University students have come to expect. While some progress was made in the first two years of the Partnership to close funding shortfalls in core areas of the budget, much of this extra funding was lost during the last two years. Funding for base research budgets have been reduced along with funding for recent research and public service initiatives of great importance to the State and the University. Given the weak prospects for the economy over the next year or two, the University's primary goal is to minimize the size of further cuts as much as possible and protect core programs from losing further ground.

Planning for the Longer Term

Enrollment Projections

Consistent with its commitment to maintain access under the Master Plan, the University is continuing to plan for rapid enrollment growth. UC's long-term enrollment projections are based on consideration of four primary factors:

- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (12.5% are eligible, but generally about 7.5% actually enroll);
- assumptions consistent with the Partnership Agreement about increases in California Community College transfer students; and
- increases in graduate enrollment needed to meet workforce needs in academia, industry, and other areas.

Based on current estimates, the University projects enrollment growth of 8,000 FTE students in 2003-04, including planned growth and support for overenrollment in the current year of about 4,000 FTE. The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 FTE over this decade; by 2010-11, the University would reach its planned target of 210,000 FTE. This target was revised upward by 1,000 students when the opening date for the Merced campus was accelerated by one year and was further adjusted upward to account for summer enrollment that existed in 1999 for which State support is being phased in, resulting in a revised target for 2010-11 of 217,500 FTE. The University is experiencing more rapid growth than the 1999 plan projected—enrollment is currently more than 8,000 undergraduate FTE over the level envisioned in the 1999 plan for 2002-03. Therefore, the University is undertaking a review of the 1999 plan to revise the 2010-11 enrollment projections upward, given recent experience. Such dramatic growth over a sustained period of time presents the University with a major challenge. Adequate resources are critical to the University's ability to meet this challenge.

Each campus has a Long Range Development Plan (LRDP) that defines the maximum anticipated enrollment of the campus, reflecting the mandated environmental reviews and approvals necessary for campus development. The existing campus LRDPs were approved between 1989 and 1994. Many of the campuses are currently engaged in the lengthy process of updating their LRDPs, which will include a review of longer-term enrollment capacity. The existing LRDPs anticipated an increase systemwide of 34,000 additional FTE students by 2010-11 over the 1998-99 enrollments at the then-existing campuses. In addition, the University has been planning for 6,000 FTE students to enroll at the Merced campus by 2010. The 1999 enrollment plan envisioned that, by 2010, the University would need to find a way to accommodate about 28,000 more FTE students than the current LRDPs anticipated. Given the University's rapid enrollment growth rate in recent years, this estimate is being revised upward. The University is pursuing a number of strategies to address this enrollment growth, including expanding existing campus LRDP enrollment targets where possible, increasing summer instruction, and increasing the number of students educated in off-campus centers. (Planning for expanded summer instruction is discussed in more detail later in this *Summary* and in the *General Campus Instruction* chapter of this document.)

Eligibility and Admissions Policies

The University has recognized its responsibility to provide an outstanding education to its students and to make a UC education available to a broad cross-section of California students who have prepared themselves for the rigor of a UC education. In the past 18 months, the University has sought to expand the opportunity for a UC education to a broader cross-section of well-qualified high school and community college transfer students. A number of changes have been made to the University's eligibility and admissions policies to achieve this goal. These changes are described in the sections that follow.

Eligibility Policies. Consistent with the Master Plan for Higher Education, UC's policy is to provide access to students in the top one-eighth of the state's graduating class who wish to attend, although a student may not be offered a place at the campus or within the major of first choice. On an annual basis, the University monitors key demographic and financial indicators, as well as recent studies and policy changes that affect enrollment.

One factor affecting enrollment projections is the actual rate of UC eligibility of public high school graduates. In fall 1997, the California Postsecondary Education Commission (CPEC) completed a high school eligibility study, based on 1996 high school seniors, which indicated that 11.1% of California high school graduates were fully eligible for the University. CPEC is currently in the process of conducting a new eligibility study.

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

- Statewide eligibility is achieved if a student completes 15 units of work in specified academic courses, commonly referred to as the “a-f” requirements (or “a-g” requirements beginning fall 2003, as explained below), and meets or exceeds a minimum score on an eligibility index, which includes a combination of high school grade point average (calculated on the 15 academic units), and a combination of the SAT I or ACT test scores and three SAT II scores.

It should be noted that the current SAT and ACT tests are in the process of being reviewed and changed. In June 2002, the College Board agreed to replace the current SAT I with a new test that will be used by colleges and universities nationwide. These changes are consistent with the recommendations for appropriate admissions tests made by UC's Board of Admissions and Relations with Schools (BOARS). Beginning in winter 2005, the College Board will no longer administer the test currently used. The College Board has been working with the University to create a replacement for the SAT I that would meet the University's goal for a core test that is linked closely to curriculum content and also will reflect students' writing abilities. In a parallel effort, ACT, Inc. has committed to augment its current test with a writing examination. Once changes have been made to the SAT I and the ACT exams, BOARS will review the new exams in time for them to be in place for the freshman class that enters UC in fall 2006.

- Alternatively, students may become eligible on test scores alone (although less than 1% of UC students become eligible through this path). To be eligible by examination alone, a student must achieve a total score of at least 1400 on the SAT I and earn a total score of 1760 or higher on three SAT II tests, with a minimum score of 530 on each test.
- A third path, Eligibility in the Local Context (ELC, or the 4% path), was effective for the first time for students entering in fall 2001. It is achieved if a student completes 11 of the "a-f" requirements ("a-g" requirements beginning with admissions for fall 2003) by the end of the students' junior year in high school and he or she is within the top 4% of students (based on GPA) in those courses at their school.

In 2001-02, the first year of implementation, over 11,000 ELC students were identified in the top 4% of their high school classes. Of this total, 9,000 applied to the University and were admitted by a UC campus; of these, 5,600 chose to enroll. Simulations performed comparing applications in 2001-02 with application patterns in previous years indicated the ELC program likely generated over 2,000 applications from students who otherwise might not have applied. The simulation suggests that many of the additional students came from underrepresented minority groups as well as from rural schools. In the second year of the program, 2002-03, the response in the K-12 community has been enthusiastic with almost 100% participation by public schools. ELC-identified students have a very high rate of admissions at all

campuses as they represent the best their schools have to offer. For fall 2002, 13,000 ELC students were identified in the top 4% of their high school classes. Of this total, 10,800 students applied to the University and were admitted by a UC campus; of these, 6,800 students sent in their statement of intent to register. Actual enrollments will be tabulated later this fall.

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

In addition to these changes, The Regents took action to require all freshman applicants applying for admission beginning in fall 2003 to complete one year in their high school of University-approved work in Visual and Performing Arts. This change is intended to support academic preparation of students and to bring consistency to the course requirements for admission to UC and CSU.

Admissions Policies. The University continues to be committed to offering a place to all eligible California high school graduates and qualified CCC transfer students who apply for admission. However, this commitment does not extend necessarily to the student's choice of campus or major. At campuses where the number of UC-eligible students exceeds the number of spaces available (which are the six existing general campuses other than Santa Cruz and Riverside), admissions selection guidelines are employed to select the entering class.

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

Prior to comprehensive review, individual UC campuses that could not accommodate all eligible students admitted students from the pool of UC-eligible applicants using a “two-tiered” selection process. Systemwide admissions guidelines specified 10 allowable “academic” criteria (including such factors as grades, test scores, outstanding work in a particular subject area, completion of additional college preparatory courses, among others) and 4 allowable “supplemental” criteria (such as special talents, unusual leadership or intellectual qualities, and academic accomplishments in the face of disadvantaged circumstances). Campuses varied as to the weight given to the each criteria, but all campuses worked within the guidelines. The guidelines required that 50 – 75% of the entering class be admitted on the basis of academic criteria alone (Tier I) while the remainder of the class was to be admitted using both academic factors and supplemental criteria (Tier II).

This two-tiered selection process had been part of UC’s undergraduate admissions policy and guidelines since the 1960s, though the specific proportions of the class admitted in each tier varied over time and by campus. The two-tiered process was formalized as a Regent’s policy by SP-1, the 1995 resolution that also banned consideration of race and ethnicity in admissions. The Regents rescinded SP-1 in May 2001 (though Proposition 209 continues to prohibit race-based preference in admissions). The Academic Senate, acting on the recommendation of BOARS, approved implementation of the comprehensive review process, which removed the limitation that 50-75% of the entering class had to be admitted by the academic criteria only. This change was approved by the Board of Regents at the November 2001 meeting. While the 10 academic and 4 supplemental criteria were retained, the tier concept was eliminated, enabling use of the combined academic and supplemental criteria for the entire admitted class.

The comprehensive review process, similar to that used by many of the nation’s most selective public and private universities, took effect for the class applying for freshman admission for fall 2002. Applicants admitted under comprehensive review continue to be high-achieving students, admitted from the currently defined UC-eligible pool. All freshman applicants’ records are analyzed not only for their grades, test scores and other academic criteria — important baseline indicators of academic potential — but also for additional evidence of such qualities as motivation, leadership, intellectual curiosity, and initiative. These qualities play an important role in student success in an academic environment as rigorous and challenging as that of UC, and they can be demonstrated in a variety of ways, through a variety of achievements

and experiences. Comprehensive review enhances UC campuses' ability to select each year a class of thoroughly qualified students who demonstrate the promise to make great contributions to the University community and to the larger society beyond. This policy sends a strong signal that UC is looking for students who have achieved at high levels and, in doing so, have challenged themselves to the greatest extent possible.

A separate path to enter the University as a transfer student, the Dual Admissions Program, was approved by The Regents in July, 2001, but implementation was delayed until sufficient resources were made available to fund the information and support services necessary for the success of the program. The 2002-03 budget includes \$2.5 million to begin implementation of this program.

The Dual Admissions Program will help the University address the need to increase community college transfers and to increase opportunities for students from educationally disadvantaged backgrounds. Under this program, students who are within the top 12.5% of their high school class (determined in the same process as ELC students), but who do not meet eligibility requirements through either statewide eligibility or the ELC path, will be eligible for admission simultaneously to a community college and a UC campus. After satisfactorily fulfilling their lower division requirements at a community college, students will be enrolled at the UC campus that admitted them when they were high school seniors and first identified as "Dual Admission" students.

The Dual Admission Program will create a closer link between UC and the community college system and ensure a more effective transfer process as envisioned by the Master Plan. It will also help UC meet the transfer goals set forth in the Partnership Agreement with the Governor to increase the number of community college transfers by 6% annually, to 15,300 students by 2005-06. More importantly, it will send a strong signal to students who have excelled academically but have not quite reached UC eligibility that they have a straightforward path to a UC degree. It is anticipated that this program, in concert with the new Cal Grant entitlement program (described in the *Financial Aid* chapter of this document), will have a positive impact on encouraging more students from disadvantaged backgrounds to seek admission to UC.

The University will implement the program in time to allow students to apply in November 2003 for fall 2004 admission through this path. An information

system necessary to track students admitted through the program is being developed and UC staff are beginning to work with all 108 community colleges to develop a “course compendium” that would be available to students admitted through the program, delineating the programs and services available to them. In addition, efforts to complete articulation agreements between UC and CCC campuses are being accelerated. In order to provide the outreach and counseling necessary success of the program, the University will hire additional counselors to begin implementation of its “One for Three” initiative, which in the first year will provide at least one UC outreach officer or counselor for every three low-transfer community colleges. These staff will ensure that every low-transfer community college will be visited at least once a week. Publications are also being developed for next fall to inform K-12 advisors, parents, and prospective students about the program. This program is further discussed in the *General Campus Instruction* and *Public Service* chapters of this document.

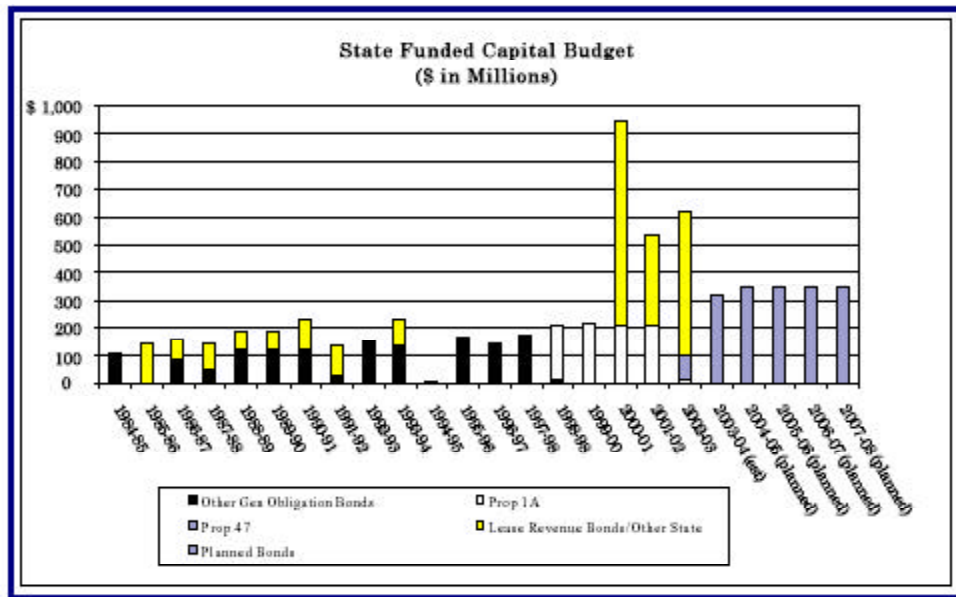
Facilities Needs for Accommodating Enrollment Growth and Maintaining Quality

Adequate facilities are a critical factor in the University’s ability to accommodate the expected rapid growth of students and maintain the quality of the academic program. As Display 8 (next page) indicates, State funding for capital outlay has fluctuated significantly over time.

In November 1998, voters overwhelmingly approved Proposition 1A, which provided higher education with \$2.5 billion in general obligation bonds over four years through 2001-02. The University’s share was about \$210 million per year. The University has also received capital funds from other State sources in the last two years:

- In the 2000-01 budget, the State provided \$133.7 million of State General Funds for capital outlay, including \$75 million for the California Institutes for Science and Innovation and \$50 million for hospital infrastructure. The State also provided \$600 million in lease revenue bond authority for hospital seismic projects required by SB 1953. In addition, approximately \$205.6 million of “Garamendi financing” was authorized for 4 research projects pursuant to Government Code Section 15820.21. (In 1990, the State approved legislation [SB 1308, Garamendi] authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, ongoing maintenance, financing, and related infrastructure for certain research facilities.)

Display 8



- Again in 2001-02, the State provided the University with capital funding above the \$206.9 million provided from Proposition 1A funds, including \$224.6 million in lease revenue bonds for the Merced campus, the Davis campus' M.I.N.D. Institute facilities, the Riverside campus' Heckmann Center for Entrepreneurial Management, and the San Francisco campus' Fresno Medical Center.

Fiscal year 2001-02 marked the final year of funding authorized in Proposition 1A. In spring of 2002, the Legislature and the Governor agreed on a new general obligation bond package for education, embodied in Assembly Bill 16 (Chapter 33, Statutes of 2002). This package proposes two Public Education Facilities Bond Acts, one for 2002 and one for 2004, authorizing a total of \$27 billion in general obligation bond funds over four years to help fund K-12 and higher education facility needs. Proposition 47, the 2002 Bond Act, authorizes more than \$13 billion for K-12 and \$1.65 billion for higher education and is included on the November 2002 statewide general election ballot. The 2004 Bond Act, to be included on the 2004 statewide primary election ballot, would authorize \$10 billion for K-12 and \$2.3 billion for higher education for the two-year period it covers.

In a separate action but as part of the discussion on future capital funding, the State also authorized \$305.8 million in lease revenue bonds to fund design and construction of the Classroom and Office Building at the Merced campus and to accelerate funding for seven projects that originally were scheduled for funding from the 2002 general obligation bonds. This acceleration allowed the campuses to move more quickly on projects originally scheduled for the 2002-03 fiscal year, so construction could actually begin during 2001-02. The State also authorized \$308.5 million in lease revenue bonds for the California Institutes for Science and Innovation to provide the balance of funding needed for design and construction of the Institutes. Funding for the Science Institutes was originally to be provided in increments over a four-year period from State General Funds. However, because of the State's deteriorating fiscal situation, funding was shifted to State lease revenue bonds and the entire amount was authorized.

If approved by the voters, the amount of general obligation bond funding available to the University from the 2002 bond measure will be about \$408 million over the two-year period covered by the measure. When combined with the funding UC received for capital outlay through lease revenue bonds, the total funding available to UC will be nearly \$714 million (plus the funding provided for the Science Institutes) through 2003-04. If the second bond measure is approved by the voters in 2004, the University will receive another \$690 million for capital outlay for the two-year period 2004-05 and 2005-06.

The University's 2003-04 capital budget request has been developed on the assumption that Proposition 47 on the November ballot will be adopted; it is discussed in more detail at the end of this *Summary*.

Future funding for capital outlay continues to be a major issue facing the University. The projected growth over the next decade presents significant challenges. However, even if there were no enrollment growth with which to contend, the University has significant capital needs for seismic and life-safety requirements, modernization of out-of-date facilities that no longer serve the academic programs they house, and renewal of infrastructure and other facility systems that are worn out and cannot accommodate even present needs. Therefore, the University has developed a five-year capital outlay plan that will address needs related to enrollment growth, seismic and other life-safety requirements, renovation of obsolete facilities, and infrastructure based on the funding levels that have been agreed to.

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

To provide a more comprehensive look at the capital program, the University has prepared a five-year capital improvement program for State funds and a separate document that outlines a five-year capital funding program from non-State sources. The State-funded program includes the projects and budget proposed for approval in 2003-04, along with future State funding requirements by campus for the next four following four years, 2004-05 to 2007-08, assuming that the 2002 and 2004 bond issues are approved. The State-funded 2003-04 Budget for Capital Improvements will be presented to the Board for approval at the November Regents meeting, consistent with usual practice.

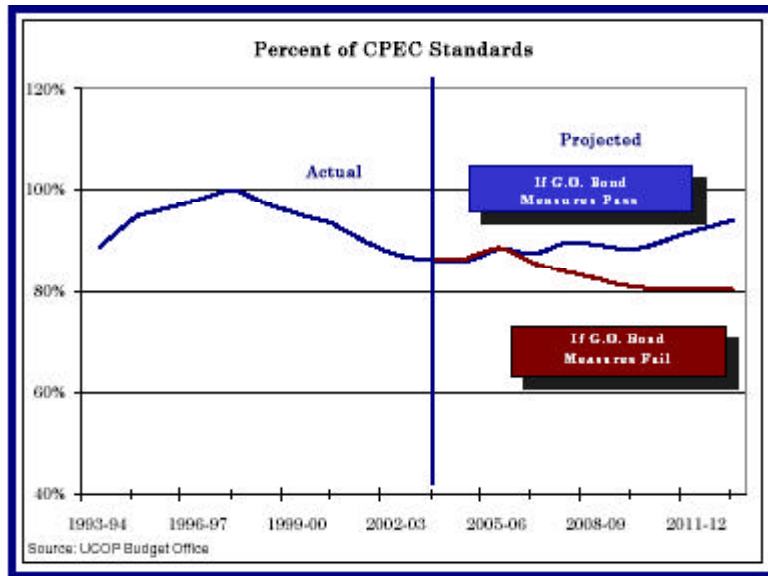
The non-State capital program is based on the campuses' best estimates of non-State fund sources that will be available for defined capital projects over the five-year period 2002-03 to 2006-07, including campus resources, gifts, federal funds, capital reserves, and external debt financing. The program will be presented for information only to provide the Board with a better perspective on the outlook for facilities developed from non-State sources. Projects funded from non-State sources will continue to be brought to the Board for approval throughout the year as the scope and cost of projects are finalized and the feasibility of funding plans are confirmed.

The University's annual budget request to the State is focused on those facilities that traditionally have been State-funded. There is serious concern that capital resources will not be sufficient to support the renewal and modernization of existing facilities and also accommodate projected enrollment growth. Recognizing the State's difficulty in funding the full annual State-supportable capital outlay need, the University has committed to meeting a portion of this \$600 million annual need through significant efforts in private fundraising and devoting a portion of the increase in UC General Funds to pay for debt service on long-term financing for capital renewal and deferred maintenance.

While State funding does not meet all the University's needs, the approximately \$345 million a year for the University agreed-upon as part of

the general obligation bond package is critical to the University's ability to respond to facilities needs related to enrollment growth, life-safety, seismic, and renovation. With that level of funding each year, the University estimates it will construct sufficient space to achieve 93% of the standards for instruction and research space set by the California Postsecondary Education Commission (CPEC space standards) by 2011-12. If proposed bond issues fail and State funding is not provided, the percentage drops to 78% (see Display 9). That level of unmet need would be unacceptable in the context of significant enrollment growth through this decade. Passage of Proposition 47 on the November ballot is key to the University's future.

Display 9



Overview of the 2003-04 Budget Request

While State funding provides the essential core support for the University's operating budget, the University's basic budget is funded from a variety of sources, including State General Funds, revenue from student fees, UC General Funds, federal funds, teaching hospital revenue, gifts and endowments, and income from self-supporting enterprises. The University's

annual budget plan is based on the best estimates of funding available from each of these sources.

Revenue from non-State sources, such as federal funds and private giving, is critical to the University's ability to do research, support students, and operate its teaching hospitals. The Department of Energy Laboratories are entirely federally funded. Over half of the University's research expenditures and nearly one-third of the net operating revenue of the teaching hospitals is from federal funds. In addition, 58% of financial aid received by UC students comes from federal funds, of which 75% is loans, 3% is work-study and 22% was grants, fellowships and scholarships. In recent years, the University has done very well in terms of attracting more federal and private funds for research and financial aid. The uncertainty about the State and national economy, however, makes it difficult to predict how these sources will be affected in the near term. Nevertheless, it is the University's expectation that these fund sources will continue to provide strong support over the long term. Federal and private funds are discussed more fully at the end of this *Summary*.

This section of the *Summary* discusses general support for the University's budget, including State General Funds, UC General Fund income, and student fee revenue based on the Partnership Agreement with the Governor. It describes the need for funding increases for fixed costs, workload and program growth anticipated to be funded as part of the Partnership to support the University's basic budget. A more complete discussion of the existing base budget and associated policy issues within the major functional areas of the budget is contained in the following chapters of this document.

Display 10 identifies the components of the 2003-04 budget plan, with increases totaling \$421 million. This total includes \$290 million in State General Funds, \$49 million in student fee income related to a proposed 6.5% increase in mandatory systemwide and professional school fees, \$28 million in student fee income related to enrollment growth, and \$54 million in UC General Funds, including a 4% increase in nonresident tuition.

Consistent with the Partnership Agreement with the Governor, the \$290 million increase in State General Funds comprises:

- \$126 million, representing a 4% increase to the prior year's State General Fund budget, excluding debt service and one-time funds;

Display 10

| UNIVERSITY OF CALIFORNIA 2003-04 Budget Request (\$ in Millions) | |
|---|----------------|
| 2002-2003 Operating Budget | |
| Estimated State Funds (excluding one-time funds and lease revenue payments) | \$3,150.0 |
| Estimated State and UC General Funds plus student fee income (excluding one-time funds and lease revenue payments) | 4,250.0 |
| PROPOSED INCREASES IN EXPENDITURES (Based on the Partnership) | |
| <u>Fixed Costs</u> | |
| Merit increases for faculty and staff (approximately 1.5%)..... | 45.7 |
| Funding equivalent to an average 4.5% cost-of-living salary adjustment for faculty and staff effective October 1, 2003 plus parity adjustment for police officers..... | 92.7 |
| Funds to support 15% increase in health benefit costs for faculty and staff..... | 28.3 |
| Price increase for non-salary budgets (3%)..... | 29.3 |
| <u>Workload and Program Growth</u> | |
| Enrollment growth (8,000 FTE students) | |
| State funds..... | 72.2 |
| Student fee funds (including \$9.3 million for financial aid)..... | 27.8 |
| Phase-in State support of summer term (3,844 FTE)..... | 31.2 |
| Financial aid related to fee increases..... | 16.4 |
| Professional school-fee-funded cost increases (excluding financial aid)..... | 2.2 |
| Graduate student support..... | 3.0 |
| Operation and maintenance of new space..... | 5.9 |
| Deferred maintenance (debt service)..... | 6.0 |
| Restoration of one-time cut in funding for core needs..... | 29.0 |
| Ongoing maintenance..... | 10.0 |
| Instructional technology..... | 10.0 |
| Library resources..... | 5.0 |
| Instructional equipment..... | 6.5 |
| Total Increase Under the Partnership..... | 421.2 |
| % increase in State and UC General Funds, and Student Fee Income..... | 9.9% |
| PROPOSED INCREASES IN INCOME | |
| State General Funds (4% increase to the base, excludes debt service for capital outlay)..... | 126.0 |
| State General Funds (1% increase to the base for core needs)..... | 31.5 |
| State General Funds (restoration of 2002-03 one-time reduction in funding for core needs)..... | 29.0 |
| State General Funds for enrollment growth (marginal cost rate)..... | 72.2 |
| Funding for phasing-in State-supported summer term..... | 31.2 |
| Revenue from increase in systemwide and professional school fees or State buy-out funds..... | 49.1 |
| Increase in fee income related to increase in enrollment..... | 27.8 |
| UC General Fund income (including 4.0% increase in nonresident tuition)..... | <u>54.4</u> |
| Total Increase in State and UC General Funds and Student Fee Income..... | \$421.2 |

- \$31.5 million, representing a 1% increase to the prior year's State General Fund budget to reduce permanent funding shortfalls in ongoing building maintenance, instructional technology, and library resources;
- \$29 million to restore funds eliminated from the University's base budget in 2002-03 on a one-time basis for deferred maintenance, instructional technology, instructional equipment, and library materials;
- \$72.2 million to fund enrollment growth of 8,000 FTE students (a 4.6% increase) at the agreed-upon marginal cost; and
- \$31.2 million for phasing in State support for summer instruction at the remaining five general campuses.

As described earlier in this *Summary*, the Partnership with the Governor recognizes that programs funded from student fee income must also receive cost increases and specifies that student fees would increase at the rate of increase in California per capita personal income or the State would provide the equivalent in funding to avoid a student fee increase. For seven years, between 1995-96 and 2001-02, the State chose the latter course, providing funds to avoid increases in student fees. In fact, for the two-year period of 1998-99 and 1999-2000, the State also provided funding to offset the revenue lost from reducing fees by 10% for California resident undergraduates and 5% for California residents enrolled in graduate academic programs. In 2002-03, however, while there was no increase in mandatory systemwide student fees for the eighth consecutive year, the State did not "buy out" the fee increase by providing the funds needed for cost increases for student-fee-funded programs. This left a significant gap in the University's budget.

Given the State's continuing fiscal difficulty, the University's 2003-04 budget plan assumes that the State again will not have sufficient resources to provide the funds necessary to avoid fee increases in both mandatory systemwide student fees and in professional school fees, and therefore a fee increase of 6.5% is included for these fees to provide for salary, benefit, and other cost adjustments to portions of the budget funded by student fee revenue. In addition, consistent with past practice, an amount equivalent to at least one-third of the revenue generated by the fee increase will provide an augmentation for student financial aid to mitigate the impact of the fee increase on low-income students. If the State is able to provide sufficient funding to avoid a fee increase for the ninth consecutive year, The Regents will not be asked to approve a fee increase for 2003-04. The level of the fee increase included in the 2003-04 plan is based on the Partnership funding

principles and will be re-evaluated if the State's fiscal situation further reduces the funding available to the University.

The 6.5% figure represents the average percentage increase in student fees or equivalent revenue that would have been raised over the two-year period of 2002-03 and 2003-04 if student fees increased both years at the rate of increase for California per capita personal income, consistent with the funding principles of the Partnership. For resident undergraduate students, the fee increase will equal \$75 per quarter for students attending campuses that operate on a quarter basis. Details on how the fee increase would affect other levels and types of students are provided in the *Student Fees* chapter of this document. The revenue generated from the fee increase will provide cost increases to student-fee-funded programs that they should have received in 2002-03 as well as the funding needed for the same purpose in 2003-04. Funding also will be used to augment student financial aid to mitigate the impact of the fee increase on low-income students.

It is also proposed that professional school fees rise by the same percentage. In January 1994, The Regents approved a Fee Policy for Selected Professional School Students. This policy called for regular increases in fees for selected professional programs until the fees reached the average of fees charged for the same program at comparable high quality institutions.

For three years, fee increases were instituted and professional schools used the revenue to maintain and enhance the quality of their programs, and to provide for additional financial aid. AB 1318 (Ducheny) was enacted in 1997, freezing all fees for two years, including the Fees for Selected Professional School Students. Not only did the professional school programs refrain from increasing fees, but they also received no funds for cost increases associated with programs supported from these fees.

The 2000-01 and 2001-02 budgets recognized this budget disparity and included \$1.4 million and \$1.5 million respectively to provide cost increases for programs funded from Fees for Selected Professional School Students. However, no such funding was provided in 2002-03.

The University's 2003-04 budget plan assumes State funding will not be provided for these costs and, therefore, includes an increase in each of these professional school fees of 6.5%, the same rate of increase proposed for mandatory systemwide fees. Also, parallel with the proposal for a mandatory systemwide student fee increase, an amount equal to at least one-third of the

revenue generated will be used to augment student financial aid for students in professional degree programs. A complete schedule showing the impact on each of the disciplines charging by this fee is shown the *Student Fees* chapter of this document.

Also included in the budget is an increase in nonresident tuition of 4.0%, which is consistent with State policy. This policy calls for consideration of the following two factors in setting the level of nonresident tuition: (1) the total nonresident charges imposed by the public salary comparison institutions and (2) the average cost of instruction. As a result of this increase, nonresident undergraduate students will be charged an additional \$500 and nonresident graduate students will be charged an additional \$445. With these increases, total fees and tuition charged to nonresident students at the University will continue to be less than projected tuition and fees at the public higher education institutions that are used by the University for faculty salary comparison purposes.

The total requested budget increase in sources used to support the general budget is about 9.9%, 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). Each component of the University's budget request is described in more detail below and in relevant chapters throughout this document.

Fixed Costs and Economic Factors

Merit Salary Increases for All Eligible Employees. Funding for merit salary increases, which are increases based on satisfactory or better performance within salary ranges intended to reflect the market, is again among the University's highest budget priorities. The merit salary programs recognize and reward excellence and are critical to the preservation of quality. Merit salary increases are not automatic. Academic merit salary increases are awarded only after extensive review of individual achievements. Staff merit salary increases are awarded to eligible individuals on the basis of performance. The 2003-04 budget includes \$45.7 million for merit increases for faculty and staff.

Cost-of-Living-Adjustment (COLA) Salary Increase Effective 10/1/03.

The University's goal has been to maintain market-based competitive salaries for its employees. This means providing sufficient funds, through a combination of merit increases and COLAs, to keep UC faculty salaries at the average of the salaries provided at the eight comparison institutions, and to

provide salary increases for other employees that, on average, at least keep pace with inflation and the marketplace.

For 2003-04, the University is proposing to use \$92.7 million in funding provided within the Partnership for COLA salary increases averaging 4.5% for eligible faculty and staff employees, effective October 1, 2003. The cost of this increase, including related employee benefits, is \$92.7 million. Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements for represented employees under the Higher Education Employer-Employee Relations Act (HEERA).

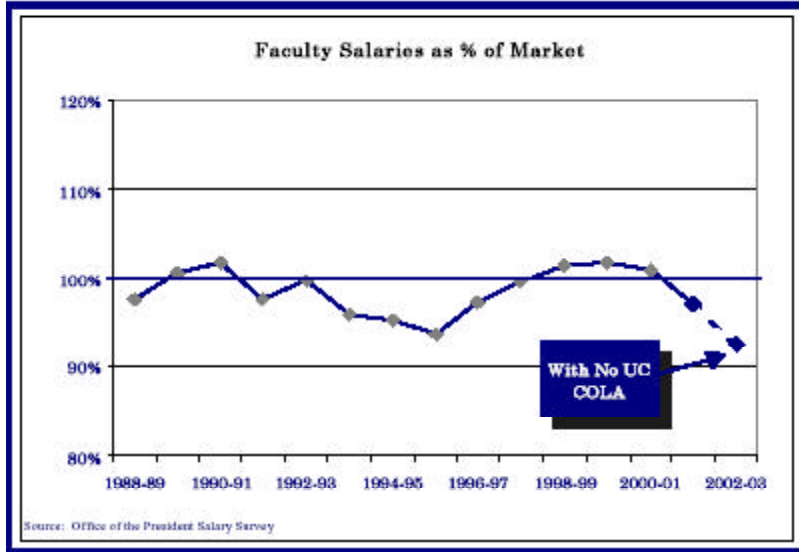
As part of the State's actions to reduce the University's Partnership funding in the 2001-02 and 2002-03 budgets, the University lost funding that had been targeted for COLAs and parity increases for faculty and staff. As a result, the University was only able to fund a combination of merit and COLA increases averaging 2% for faculty and staff in 2001-02 and merit increases of 1.5% in 2002-03.

It is estimated that salaries for faculty are likely to lag the average of the University's comparison institutions in the current year by about 7.5%, based on the CPEC methodology for calculating this average. Display 11 (next page) shows the degree to which faculty salaries over time have compared to the average salaries at the University's faculty salary comparison institutions, and points out the gap that has occurred in recent years, as well as the degree to which this gap increases, without funding for COLAs.

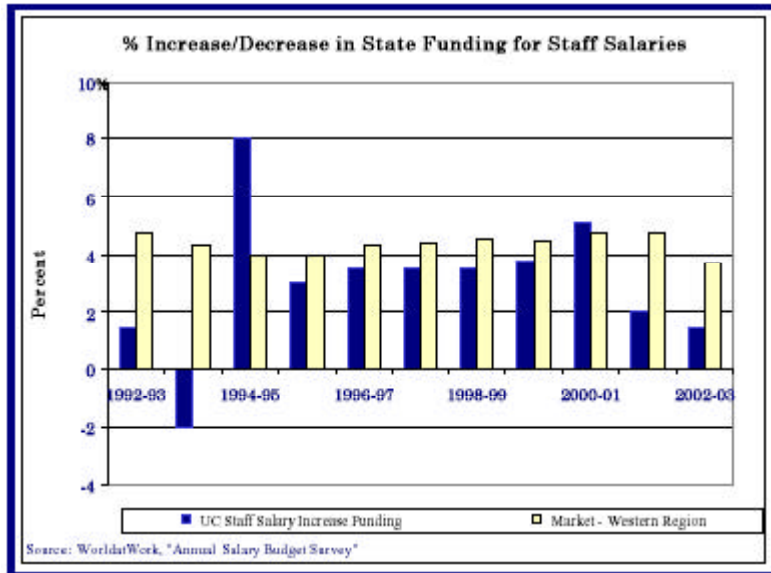
The University estimates it will have a similar gap with respect to staff salaries. As a result of the lack of salary funding in the early 1990s and in the last two years, staff salaries are behind where they otherwise would have been, on average, by about 7.5%. Display 12 (next page) compares the annual salary increase funding for UC staff employees to market data from over 800 employers of all sizes and industries, including the public sector, in the western United States. As the chart shows, market salaries have been increasing at approximately 4% per year, but UC staff salaries have not been keeping pace, especially in recent years when the State's fiscal crisis has prevented full funding of the Partnership Agreement.

There is considerable concern within the University about its ability to recruit and retain high quality faculty and staff as the institution continues to lose ground in terms of its ability to offer competitive salaries.

Display 11



Display 12



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

The salary increase requested for 2003-04 is also critical for staff employees. This funding will permit market-based adjustments needed to help restore salaries for those critical employee groups that are lagging the market to levels that are more competitive. The University received no funding for COLAs for three years in the early 1990s; before 2000-01, the University's salaries were about 6% behind what they would have been if employees had received 2% COLAs annually in the early 1990s. The 2000-01 Budget Act provided an additional \$19 million in recognition of this historical imbalance, which was distributed in a manner that provided lower-paid employees earning \$40,000 or less with a salary increase of 2%, while employees earning between \$40,000 and \$80,000 received a 1% increase. These increases were over and above the regular merit increases and COLAs provided to University employees.

The \$19 million provided in 2000-01 was intended to be the first part of a multi-year plan to make up for the lack of salary increases in the early 1990s and provide more competitive salaries to University staff employees in the coming years. With the additional \$19 million increase in 2000-01, the gap between what University employees would have received with normal increases throughout the decade and what they did receive was reduced to about 4%. Unfortunately, further ground was lost in the 2001-02 and 2002-03 budgets when the Partnership was underfunded.

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

Market lags for police officers are a particular concern for the University this year. As safety considerations have become paramount since the tragedies of September 11, 2001, all jurisdictions, including the State of California, have recognized and addressed the need to increase salaries for safety personnel. Salary increase funding in recent years has been insufficient to remedy the ever-increasing, double-digit lags in police officer salaries. These lags have resulted in severe recruitment and retention problems for University police officers, jeopardizing the University's ability to adequately respond to safety issues. In recognition of the need to maintain and enhance the University's safety programs, the University proposes to use \$580,000 above the general cost-of-living funds provided in 2003-04 to provide officers with a 5% market parity adjustment. This parity adjustment will be in addition to the normal cost-of-living adjustment.

Funding for salary increases is among the University's highest priorities for 2003-04. Moreover, it is the University's expectation that when the State's fiscal situation improves, the Partnership funds eliminated from the 2001-02 and 2002-03 budgets will be restored, allowing the University to bring faculty and staff salaries back to competitive levels.

Academic and Staff Employee Benefits. The University is proposing to use \$28.3 million in funding provided within the Partnership for a 15% increase in funding for health and dental insurance for its employees. Notwithstanding the success of the University in reducing the cost of health benefits in the 1990s, and a continuing commitment to control costs, the University is impacted by California and nationwide trends toward dramatically increasing employee health benefit costs in recent years; they are expected to increase by 20 – 25% next year. Providing adequate resources for employee benefits is an essential component to the University's overall ability to offer competitive compensation packages to its employees, especially given the very limited salary increase funds that have been available to the University in recent years.

Price Increases. In order to offset the impact of inflation on the non-salary budget and maintain the University's purchasing power, \$29.3 million in funding within the Partnership is proposed to cover price increases averaging 3%.

Workload and Program Growth

Funding for Enrollment Growth of 8,000 FTE Students. The University is seeking \$72 million in State funds, or approximately \$9,000 per student, in marginal cost of instruction funding to support an increase of 8,000 FTE students, representing a 4.6% increase over 2002-03 budgeted enrollments.

The marginal cost of instruction is based on a negotiated agreement with the State regarding the level of support the State provides for each new budgeted FTE student. The added funding will provide salary and benefits for additional faculty positions; related instructional support such as clerical and technical personnel, supplies and equipment; support for teaching assistant positions; institutional support; and support for libraries and student services.

Included in the proposed enrollment growth of 8,000 FTE students is anticipated growth of 1,825 FTE graduate students. The University has a multi-year plan to increase graduate enrollment by an average of 1,000 students annually. In 2003-04, budgeted graduate enrollment is projected to grow 1,725 FTE students on the general campuses and 100 FTE students in the health sciences, including funding for overenrollment in 2002-03 (in 2002-03, UC estimates it will exceed budgeted graduate enrollment by more than 1,000 FTE).

Also included are an estimated 500 FTE students who will enroll in teacher credential programs as part of the University's commitment to more than double the number of students enrolled in these programs by 2003-04. Since 1998-99, enrollment in these programs has increased from 1,000 FTE to 2,300 FTE in 2002-03. The increase proposed for 2003-04 will bring the total to 2,800 FTE. Helping to meet California's growing need for highly qualified K-12 teachers is an integral part of the University's role in working with California schools and students.

The overall enrollment growth proposed in 2003-04 also includes growth of 1,000 FTE students in engineering and computer and information sciences. In 1997-98, the University embarked on an eight-year plan to expand enrollment in these fields by at least 50% by 2005-06, bringing total enrollment to about 24,000 students. This plan has been so successful that the University met and exceeded this goal in 2001-02, four years early. Because of demand from industry, UC intends to continue growing in engineering and computer and information sciences, increasing 1,000 FTE students annually to 27,000 FTE students in 2003-04.

Although the high-tech sector has recently suffered during the current economic slowdown, the demand for engineers and computer scientists is projected to continue to rise in the long-term. Occupations associated with engineering and computer and information sciences remain among the fastest growing occupations, according to the U.S. Bureau of Labor Statistics. In its most recent report, *Occupational Outlook Handbook, 2002-03*, the Bureau projects that by 2010, jobs for computer scientists will increase 40%, and for computer engineers the increase will reach nearly 50%.

Phasing in State Support for a Summer Term. As part of its effort to accommodate increased enrollment over this decade, the University is in the process of phasing in expanded summer instruction at all eight general campuses, making available to students State-supported summer instruction that is similar in quality to course offerings during the regular academic year. Fees during the summer term are equivalent (on a per-unit basis) to those charged during the regular academic year, and when summer instruction is fully funded, University financial aid will be provided that is at least equivalent to that provided during the regular academic year.

In the 2000-01 budget, the State provided funding to ensure that student fees paid by UC-matriculated students during the summer are equivalent, on a per unit basis, to what they pay during the regular academic year. As a result, lower fees were instituted at all eight general campuses for the summer of 2001. In the 2001-02 budget, the State provided full funding for existing summer enrollment at three campuses—Berkeley, Los Angeles, and Santa Barbara. State support for summer instruction was added at the Davis campus as part of the 2002-03 budget. These campuses were the first to receive State support for summer instruction because their enrollments meet or exceed levels in their LRDPs and community agreements, which limit enrollment targets during the regular academic year. Expansion of summer instruction will allow them to accommodate their share of the expected growth in enrollments over this decade without jeopardizing commitments under their LRDPs.

For 2003-04, UC is requesting \$31.2 million to provide State funding to support summer instruction for 3,844 year-average FTE students, which represents the total who attended summer sessions on the four remaining UC campuses—Irvine, Riverside, San Diego, and Santa Cruz in summer 2002. This funding for existing enrollment is based on the 2003-04 marginal cost of instruction of \$9,030 per FTE student less the \$3.5 million already provided for these four campuses in the 2000-01 and 2002-03 budgets (to bring summer

fees to levels equivalent, on a per-unit basis, to those charged during the regular academic year) and excluding funding provided separately for summer education credential enrollments. These new funds will bring the *existing* summer enrollment of UC students into the permanent base of State-funded enrollments, thereby providing funding for faculty salaries, instructional and institutional support (required to offer programs in the summer that are similar in quality and breadth to the regular year), student support services, libraries, and student financial aid that is equivalent to that of the rest of the year. Funding for summer enrollment *growth* in 2003-04 is included in the general campus workload request for 8,000 FTE students.

In the past year, from summer 2001 to 2002, the University expanded its summer enrollment by 9,500 UC-matriculated headcount students—2,100 year-average FTE students. The four campuses that were fully funded by the State for summer instruction—Berkeley, Davis, Los Angeles, and Santa Barbara—grew 1,340 FTE students. The remaining four campuses grew about 775 students. In the two years from summer 2000 to 2002, the University expanded its summer enrollments by 5,000 year-average FTE students (an increase of about 20,000 summer headcount students). The four campuses that were fully funded by the State grew about 80%, or nearly 3,500 FTE students. The remaining four campuses grew 61%, or about 1,500 FTE students.

Also in summer 2002, the four fully State-funded campuses—Berkeley, Davis, Los Angeles and Santa Barbara—increased the number of classes they provided by 14% and the number of regular-rank faculty and lecturers who were assigned to teach by 19% over summer 2001. Over the two-year period from summer 2000 to 2002, classes and regular-rank faculty were up about 30%. UC's report on summer 2002 will be available in November 2002.

The key to achieving significant enrollment growth in the summer is to offer students summer instruction that is similar in quality and breadth to the rest of the year, student support services, access to libraries, and student financial aid. The State funds provided for summer instructional workload at the regular marginal cost rate at the Berkeley, Davis, Los Angeles, and Santa Barbara campuses were central to UC's plan to accommodate significant enrollment growth during the summer.

State funding for the remaining four campuses' summer programs is a central element to UC's overall plan to accommodate increased enrollment of all eligible students. Without the student support and financial aid, for example,

that is provided through State support for summer instruction, the remaining campuses are at a severe disadvantage in providing a summer program equivalent to the State-funded campuses.

New Space to Be Maintained. The University is requesting \$6 million to support basic maintenance of 650,000 additional square feet of space to be occupied beginning in 2003-04 by programs eligible for State funding.

Graduate Student Support. For 2003-04, the University is including in its request within the Partnership \$3 million to be used to establish more graduate fellowships that will enhance financial support for the most promising graduate students. Such support will help make the University's support packages more competitive with those offered by other institutions. This is the second year of a multi-year plan to increase support for graduate students consistent with the recommendations of the University's Commission on the Growth and Support of Graduate Education, appointed in January 2001 to find ways to provide adequate graduate student support in a competitive market. The Commission identified a total need of \$215 million and recommended six initiatives forming an integrated strategy to achieve the level of growth and support UC is planning, including:

- Actively advocate with the federal government an increase in the annual level of fellowship stipends from the current \$16,000-18,000 to \$25,000, and an additional 1,500 stipends nationwide for graduate students.
- Urge the State to create a program of repayable fellowships for doctoral students in California universities who, upon graduation, agree to teach in California higher education institutions.
- Ask the State to fund 1,000 "incentive grants" for students awarded prestigious national fellowships to make the University of California more competitive in enrolling them.
- Develop a program of Collaborative Industry-University Internships for graduate students, particularly at the master's level, integrated with their academic programs.
- Increase fundraising to create a University of California Graduate Fellowships Endowment of \$125 million that will provide \$5 million annually for first-year and dissertation-year fellowships in underfunded disciplines.
- Develop a solid case for more funding for nonresident graduate students, noting their benefit to the state and national economies.

This initiative is in response to the emphasis The Regents have placed on the importance of the University's graduate programs. California's future strength depends on investing now in graduate education. Although the economic slowdown has had a severe impact on the state's high-tech industries, there is broad agreement that the high-tech sector will be a key component of California's return to economic health and that the state will need more highly educated workers. In addition, California's own colleges and universities will need to hire about 40,000 new faculty by 2010 to teach the large numbers of additional undergraduates expected and to replace retiring faculty members.

Currently, UC graduate student support exceeds \$500 million annually. Much of this is provided through *research assistantships* (RA's) funded from federal, state, and industrial contracts and grants; *teaching assistantships* (TA's) funded by the State of California as part of the marginal cost funding in support of enrollment growth; and *fellowships and grants* funded by fee revenue, which increases with enrollment growth. While these traditional funding sources are dependent on the continued investment of the State in enrollment growth and on the ability of future faculty to garner research grants with the same success that current faculty achieve, the likelihood of achieving a substantial portion of the needed increase in student support from these sources is high.

However, after these traditional sources are counted, a sizeable gap between UC's graduate-support need and funding still exists. By 2010, the University must secure another \$65 million annually to reach its goals for graduate student support. In the course of its work, the Commission on the Growth and Support of Graduate Education concluded that the remaining \$65 million in graduate support need must be met largely by providing fellowships. The amount of work graduate students must now do in teaching, research, and non-University employment is more than comparable institutions expect. After looking at the offers made by comparable institutions and listening to the first-hand experience of UC's graduate students and faculty, the Commission concluded that the solutions must include fellowships, particularly for first-year and dissertation-year students, and internships that are carefully integrated with academic program goals.

Deferred Maintenance. The University's 2003-04 budget plan continues to place an emphasis on rebuilding and maintaining the University's physical plant. The combined effects of annual underfunding for ongoing building maintenance, the lack of permanent funding for deferred maintenance for

many years, and the fact that only a fraction of University's capital improvement budget is used to replace worn-out building systems have resulted in a backlog of deferred maintenance projects that exceeds \$500 million for "priority one" projects. The 2003-04 budget proposes to use \$6 million of the increase in UC General Funds as debt service to pay for the long-term financing of deferred maintenance and infrastructure projects totaling \$60-65 million—the final amount depends on market conditions at the time of financing.

Since 1998, approximately \$285 million (funded from four consecutive years of debt financing through 2001-02, one-time funds provided from the State, and a permanent budget of \$7 million in State funds) has been directed toward reducing the deferred maintenance backlog. However, while gains are made on the positive side, continued underfunding of the budget for ongoing maintenance prevents significant progress from being realized. In 2001-02, a total of \$6 million for debt financing of deferred maintenance projects had been proposed in the Governor's January budget. However, with the elimination of \$90 million in Partnership funding in the May Revise, the amount available for this purpose was reduced to \$4 million. With the continuing erosion of the State's fiscal situation, no funding was provided for this purpose in 2002-03 and the \$7.1 million in permanent funding was eliminated on a one-time basis, further exacerbating this problem. Because deferred maintenance continues to be a high priority for the University, the 2003-04 budget plan proposes to resume the debt financing program begun five years ago.

Restoration of One-Time Reduction in Funding for Core Needs. The 2002-03 budget included a one-time base budget reduction of \$29 million that was distributed among four critical areas of the budget—instructional technology, instructional equipment, library materials, and deferred maintenance. In making the proposal for the one-time reduction, the Governor stated in the May Revise his intent that the funds be restored in the 2003-04 budget.

Funding for Historically Underfunded Core Budget Programs. Among the funding principles of the Partnership Agreement with the Governor is a commitment to provide an annual 1% increase to the prior year's State General Fund base for the four-year period of the Partnership to help eliminate the funding shortfalls in four core areas of the budget, including ongoing building maintenance, instructional technology, instructional equipment replacement, and library resources. These are

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

The 1% base budget adjustment for these programs under the Partnership was fully funded in 1999-2000 and 2000-01. However, as a result of the State's deteriorating fiscal situation, funds for these core areas were not provided in the 2001-02 and 2002-03 budgets. The problems created by this funding gap were exacerbated by the one-time base budget reduction of \$29 million included in the 2002-03 budget for three of these four core areas. It is the University's expectation that the \$61.7 million unfunded in 2001-02 and 2002-03 will be restored to the University's budget once the State's fiscal situation improves, and campuses will be on track once again to close the historical funding gaps in these core areas of the budget.

The budget plan for 2003-04 proposes an increase of \$31.5 million to be distributed among the four core areas of the budget, described below.

- **Ongoing Building Maintenance.** Adequate funding for ongoing building maintenance continues to be a high priority for The Regents. Consistent with the goal supported by the Governor and the Legislature to fully fund ongoing building maintenance over a number of years, the University is including in its budget plan for 2003-04 an increase of \$10 million for ongoing building maintenance.
- **Instructional Technology.** The 2003-04 budget plan includes \$10 million as part of its continuing effort to support the increasing use of technology, a critical element of the University's commitment to maintain the quality of its teaching and research programs. Additional funding is needed to create and maintain the infrastructure and technical capability to operate and provide students with access to technology. The rapid evolution of hardware and software requires a continuous cycle of replacement and upgrade. Technology-enhanced teaching and learning requires recurring expenditures for maintenance and support.

- **Library Resources.** The University's 2003-04 budget plan includes \$5 million for library resources, including \$4 million to expand campus collections and reduce the permanent budget shortfall over time. Over the last decade, the combined effects of growth in enrollments and academic programs, inflation, and reduced budgets have seriously eroded the libraries' ability to support the University's academic programs. The remaining \$1 million will be used to continue the expansion of the shared digital collection of the California Digital Library (CDL). The University's ground-breaking effort to create the CDL complements the proposed increase in funding for print resources by creating a shared university-wide collection of high-quality digital content.
- **Instructional Equipment.** The University's 2003-04 budget plan includes \$6.5 million to fund replacement of aging and obsolete equipment, a critical component of the University's teaching and research programs. Obsolete equipment ranges from equipment that is functional but lacks the capability and efficiency of modern replacements, to pieces that are of limited use because replacement parts are not readily available or the equipment is costly to operate and maintain. Many of the University's programs rely heavily on equipment, but reliable, up-to-date equipment is most critical in the sciences and engineering, where the vast majority of the equipment is used. These are also the disciplines in which the University is planning to grow over this decade. Often, equipment is the key to staying on the cutting edge of a particular discipline.

One-Time Funding for Merced

Development of UC Merced is part of the University's strategy to increase its enrollment capacity, to encourage San Joaquin Valley students to attend the University of California, and to provide the benefits of a research university to Californians in the San Joaquin Valley. In November 1999, the Governor requested that UC accelerate the opening date of the new Merced campus to fall 2004, a year earlier than originally planned. The University is currently making every effort to meet that target and has made considerable progress in the last year towards the goal.

The campus will open with 60 faculty and will offer six initial majors in the social sciences/humanities/arts, engineering, and natural sciences, and the

requisite general education courses. This represents a significant scaling back from the original plan, necessitated by the State's fiscal situation.

Most faculty must be hired before the campus opens so that the academic program, courses, graduation requirements, and counseling programs can be developed and the departmental structure put in place. Therefore, the campus plans to hire 15 permanent faculty in 2002-03 and 20 additional permanent faculty in 2003-04; another 25 permanent faculty will be hired in 2004-05 to reach the 60 permanent faculty needed to open the campus. Additional temporary faculty (lecturers) will also be hired to help meet the requirements for faculty needed to open the campus in 2004-05.

One-time funds are needed to help pay for faculty salaries and start-up expenses, including instructional support costs and research support (major equipment is being funded through the capital budget), and essential campus functions (such as start-up funding for the library) until permanent funding begins to be provided through normal enrollment workload funding.

A total of \$2 million was provided in the 2001-02 budget and \$4 million in the 2002-03 budget for faculty hiring costs. The University is formulating an additional request for one-time funds to continue faculty hiring and development of essential functions for 2003-04. Such support is absolutely necessary if the University is to meet the deadline for opening the campus by 2004.

Restoration of Partnership Funds Eliminated from the 2001-02 and 2002-03 Budgets

The Partnership Agreement represents a four-year commitment on the part of the Governor to provide the University with State funding needed to maintain quality and access at a time when the University's enrollment is anticipated to grow dramatically over this decade. Unfortunately, the State's fiscal situation has continued to deteriorate over the last two years, and the State has been unable to fully fund the Partnership Agreement. The 2001-02 budget contained a \$90 million shortfall in Partnership funding and the 2002-03 budget included another \$147 million shortfall. In both years, funds for salary increases and other fixed costs were reduced and funding was eliminated for the 1% for core needs component of the Partnership.

Display 13 shows the shortfall in funding under the basic Partnership over both years.

Display 13

| Unfunded Partnership Funds 2001-02 and 2002-03 Budgets | | Amount Unfunded (\$ in Millions) |
|--|--|---|
| <u>2001-02 Partnership Underfunding</u> | | |
| Partnership calls for 4% basic budget increase (funds for salaries and benefits for faculty and staff)—only 2% funded | | \$60.0 |
| Partnership calls for 1% base budget increase for core needs (maintenance, instructional equipment, instructional technology, and library materials—not funded) | | 30.0 |
| <u>2002-03 Proposed Partnership Underfunding</u> | | |
| Partnership calls for 4% basic budget increase (funds for salaries and benefits for faculty and staff)—only 1.5% funded | | 79.3 |
| Partnership calls for 1% base budget increase for core needs (maintenance, instructional equipment, instructional technology, and library materials—not funded) | | 31.7 |
| Partnership calls for revenue equivalent to an increase in fees at the rate of increase in the California Per Capita Personal Income, either through fee increase or State buy-out—no fee increase was proposed and no fee buy-out provided in the budget. | | 36.1 |
| Total Unfunded Partnership—2001-02 through 2002-03 | | \$237.1 |

In addition, \$32 million in base budget reductions were made in the area of research and a one-time base budget reduction of \$29 million was made to core needs (deferred maintenance, instructional equipment, instructional technology, an library materials) during 2002-03.

It is the University’s expectation that when the State’s fiscal situation improves, the Partnership funds eliminated in 2001-02 and 2002-03 will be restored to the University’s budget. In addition, it is the University’s expectation, based upon discussions with the Department of Finance, that the \$32 million in base budget reductions to research programs will also restored, once the State’s fiscal situation improves.

High Priorities for Funding Above the Partnership

Included in the funding principles of the Partnership Agreement with the Governor is a recognition that the University may request funding above the Partnership for initiatives in public service, research, and other high priority areas that are of critical importance to the State and the University. Given the State's weakened fiscal situation, the Department of Finance has informed State agencies, including the University, that they will not consider funding proposals for any new initiatives in 2003-04. Therefore, the University is making no requests for funds above the Partnership for 2003-04 and instead will focus on obtaining full funding of the Partnership Agreement with the Governor.

Federal Funding

Federal funding is a major source of financial support for the University. The federal government provides nearly 51% of University research expenditures, almost all of the student loan and work-study funds, about 25% of grant aid its students receive, and about one-third of the net operating revenue of the teaching hospitals. The three Department of Energy Laboratories, for which the University has management responsibility, are almost entirely supported by federal funds.

The University remains highly competitive in terms of attracting federal research dollars, with fluctuations in the University's funding closely paralleling trends in the budgets of federal research granting agencies. In recent years, federal research funding has increased on an annual basis by 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, 8% in 2000-01, and 8.4% in 2001-02.

In 1997, after twenty years of deficits in federal government spending, the President and Congress reached an agreement to balance the federal budget over the five-year period from 1998 through 2002. Of specific concern to the University was a part of the budget plan that envisioned no increases in overall domestic discretionary spending during this period; most of UC's federal research funds come from the discretionary portion of the federal budget. This, in combination with tight spending caps, led to predictions of dramatically reduced funding for University research.

After the 1997 agreement, however, there was a dramatic turnaround due in large part to the sustained strength of the national economy. Revenues

increased more rapidly than had been projected, and the budget was balanced three years ahead of schedule. By 1998, the government recorded a surplus for the first time in three decades. The budget picture improved from a record \$290 billion deficit in FY1992 to a record \$236 billion unified surplus in FY2000. (The unified surplus refers to the surplus in all government accounts, including Social Security.) Once a balanced budget was achieved, however, the President and Congress agreed to establish a new goal: balancing the budget without counting the Social Security surplus, or recording an on-budget surplus. Initially, this commitment created problems for the FY2002 budget negotiations.

The August 2002 mid-year forecast by the Congressional Budget Office (CBO) projects a unified budget deficit of \$145 billion for FY2003, additional deficits for FY2004 and FY2005, and a small surplus of \$15 billion for FY2006. The August 2002 CBO estimates for the ten-year outlook project a much smaller surplus than forecast in March, down from \$2.3 trillion over the ten-year period, to just \$1 trillion. These forecast changes are caused by three roughly co-equal factors: reduced tax receipts, increased debt interest payments, and increased spending.

Prior to 2002, the tax reduction bill passed in June of 2001 resulted in changes that will reduce the long-term surplus by \$1.8 trillion over the next ten years. The bill will reduce tax revenues by an estimated \$1.3 trillion over the next eleven years, plus the federal budget will have an additional \$500 billion in extra interest costs relating to slower debt retirement. These factors have combined over the last 20 months to reduce the projected surplus from nearly \$5.6 trillion over ten years to \$1 trillion over the same time period.

In February 2002, the President submitted his FY2003 budget and prioritized spending to increase national defense, combat the economic slowdown, and fund the war on terrorism. In addition, his budget sought to limit growth in domestic spending to keep the federal budget deficit as small as possible. The President proposed large increases in national defense expenditures with small increases that averaged 2% over the rest of the federal budget.

Congress was unable to complete any of the 13 appropriations bills before the October 1 deadline for the start of the new fiscal year. President Bush has signed a second continuing resolution providing funding at FY2002 levels for programs in unsigned appropriations bills through October 11. More

continuing resolutions likely will be used to keep the government operating while Congress campaigns and then returns after the November elections to wrap up the spending measures. Several factors are complicating efforts to agree on the spending levels in this year's appropriations bills. One is the high tension between the White House Office of Management and Budget's fiscal conservatism and the Appropriations committee members' desire to spend more money than was requested by the Administration – leaving a wide opening for the potential veto of several appropriations bills if the Administration believes that Congress has spent more than the Administration is willing to allow. The second factor is impending mid-term elections and the desire of both parties to emphasize issues of interest to the electorate. The third factor is the slow progress on the appropriations process to date, with most bills not yet ready for a House-Senate conference.

The resolution of differences turns on how much the House and Senate decide to spend in discretionary funds. The House has a ceiling on discretionary spending which is nearly \$10 billion below the Senate's. The final resolution of this difference will have enormous implications for UC. For example, the Senate and House provide nearly a 12-13% increase for NSF's overall budget, and almost all of it is for providing nearly a 15% increase in NSF's research budget. In the House version with its lower ceiling, the increase came at the expense of funding "first responder" needs for anti-terrorism that were included in the President's budget FEMA request.

It is unlikely that an NSF increase of the proposed magnitude will be provided if the Administration succeeds in persuading the Congress to adopt the lower present House ceiling and requiring the Appropriations Committee to fund "first responder" needs from within the VA-HUD-Independent Agencies bill. But the NSF increase could be sustained if, in a spirit of compromise, the President and the OMB accept more spending than called for in the President's request.

A post-election session may change the outlook for this year's appropriations bills but if the House remains under Republican control and the Senate retains its narrow Democratic majority, the longer-term outlook for research spending will be similarly conflicted. The Administration will likely continue to act in a fiscally conservative fashion. Increases in domestic discretionary spending will be difficult for the Administration to request and difficult for Congress to appropriate without further burdening the economy with debt.

In addition, Congress and the President will have finished their 5-year commitment to double the NIH budget, making large increases in research funding less likely without the driving force of the 15% increases to the NIH budget each year. Moreover, with a large defense research increase in FY2003 (12%), it will be harder to sustain a second year of large defense research spending increases. Although the NSF budget is just one-fifth that of NIH, the proposed FY2003 appropriations action for NSF reflects a large increase of nearly 13% and there is a new movement underway among some in the Congress to double NSF's budget over the next 5 years. On the other hand, a potential war with Iraq could require further domestic spending cuts and reduce the economic growth, increasing the budget deficit beyond current estimates.

More details on the outcome of the federal budget negotiations will be provided at the November and March Regents meetings. The federal budget is discussed in more detail in the *Research, Teaching Hospitals,* and *Financial Aid* chapters of this document.

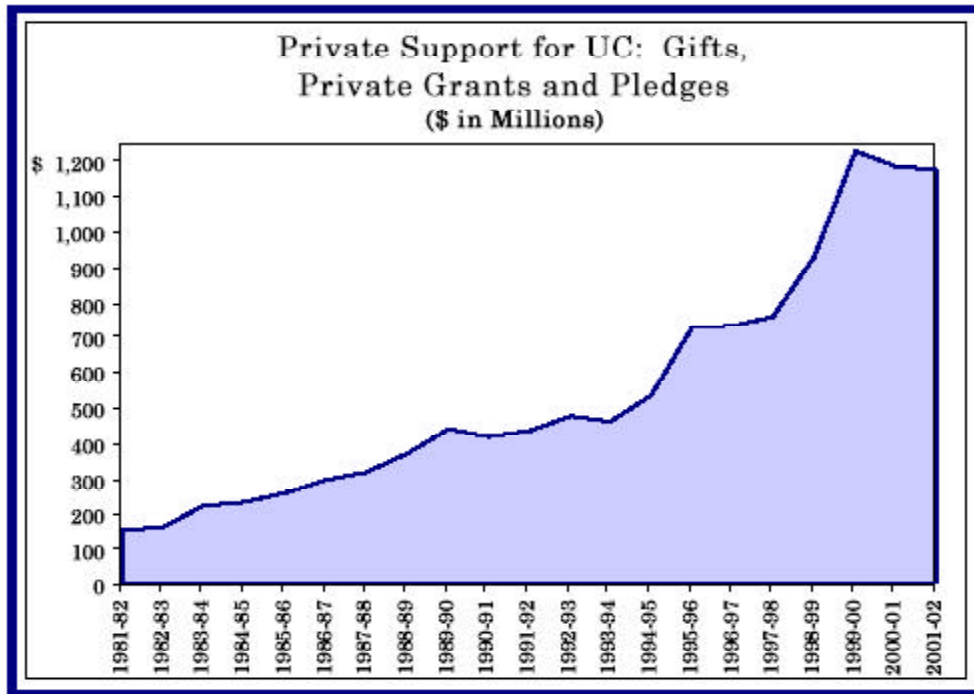
Private Funds

Gifts and private grants are received from alumni and other friends of the University, campus-related organizations, corporations, foundations, and other nonprofit entities; private contracts are received from for-profit and other organizations. For 2003-04, expenditures of funds from gifts, and private contracts, and grants to the University are estimated to be \$768.1 million, an increase of 2% over projected 2002-03 expenditures. Expenditures from these sources have increased by almost 125% in the ten-year period from 1992-93 to 2002-03.

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

As shown in Display 14, alumni and other supporters committed *just under* \$1.2 billion in gifts, grants and pledges to the University in 2001-02 to support UC's instruction, research and public service programs. The 2001-02 total represents a 4.3% decrease from 1999-2000, the year in which the University reached its high point in terms of private giving when donors contributed *slightly over* \$1.2 billion.

Display 14



Donors in 2001-02 directed \$497.7 million (42.5%) of support to University operations, \$241.5 million (20.6%) to campus improvement, and \$407.7 million (34.8%) to endowments. Of the total donations in 2001-02, \$566.6 million (48.4%) was specified for use in the health sciences. Just over 98% of the private support was restricted by the donors as to purpose, which underscores the need for continued support from the State and Federal governments.

Private support for the University is derived from a number of sources. In 2001-02, gifts and grants from non-alumni individuals totaled \$278.5 million; from private foundations \$460.6 million; corporations, \$186.2 million; alumni, \$159.9 million; and campus organizations and other sources, \$86.6 million.

The University's remarkable achievement in obtaining funding in recent years is a testament to UC's distinction as the leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations, and other supporters hold the University. Additionally, the results underscore the continued confidence among donors in the quality of UC's programs and the importance of its mission. At the same time, this year's private support totals reflect the changes in the

economy and financial markets, the effect of which is likely to be evident in private giving to the University in 2003-04.

Capital Improvements

The University's 2003-04 request for State funds for capital improvements is presented in more detail in a companion document titled, *2003-04 Budget for Capital Improvements*.

Adequate funding for facilities is essential to the University's commitment to maintain progress on seismic and other life-safety improvements, address essential infrastructure and building renewal needs, and upgrade and expand academic facilities necessary to support enrollment growth, particularly in the sciences and engineering.

In November 1998, voters overwhelmingly approved Proposition 1A, a four-year bond measure that provided the three public segments of higher education with \$2.5 billion (or \$210 million for each segment annually) in funding for capital outlay projects. The 2001-02 budget was the last year in which Proposition 1A funds were available.

The University's 2003-04 capital budget request has been developed on the assumption that the November 2002 bond measure, discussed in the section of this *Summary* titled "Planning for the Longer Term," will be adopted by the voters in November.

The University's request for \$315.5 million in general obligation bond funding for the 2003-04 State capital budget includes funding for 39 major capital projects. Of the 39 major capital projects, funds are requested to support construction or complete design and undertake construction for 24 projects, and to begin or continue design on 15 projects.

Eleven of the 39 major capital projects address serious seismic and other life-safety hazards, including the provision of facilities to improve campuses' abilities to respond to earthquakes and other emergencies; three projects will modernize and renovate facilities to accommodate academic programs; 16 projects involve new buildings to expand instruction, research, and academic support facilities to accommodate enrollment growth; and infrastructure renewal or expansion is the focus of 9 projects. A total of

\$16.7 million included for the Merced campus will be used to construct the final phase of campus infrastructure, to design the Logistical Support/Service Facility, and to renovate facilities at the Castle Aviation Center to provide flexible research laboratory and office space for the initial faculty.

GENERAL CAMPUS INSTRUCTION

| 2002-03 BUDGET | |
|-----------------------|-------------------------|
| Total Funds | \$ 1,894,031,000 |
| General Funds | 1,597,078,000 |
| Restricted Funds | 296,953,000 |

| 2003-04 INCREASE | |
|-------------------------|-------------|
| General Funds | 122,963,000 |
| Restricted Funds | 26,177,000 |

The University's 2003-04 budget plan is based on the Partnership Agreement with Governor Davis which represents a commitment on the part of the Governor to provide the University with State funding needed to maintain quality and access during a period of exceptional enrollment growth. The Partnership includes funding principles that provide the University with a budgetary foundation on which to plan for the future, as well as accountability measures that are of critical importance to the State and the University.

Among the funding principles of UC's Partnership Agreement with Governor Davis are commitments to provide the University with funding in the following areas related to the budget: enrollment growth consistent with the California Master Plan for Higher Education related to the instructional budget; transition to year-round, State-supported instruction; and a 1% permanent increase to UC's prior year State General Fund base to address budget shortfalls in critical core areas, including instructional equipment replacement and instructional technology. Funding for special initiatives and one-time funding may be requested above the Partnership, depending on the availability of additional State resources. Given the State's deteriorating fiscal situation, the University is not requesting any funds for special initiatives above the Partnership.

Consistent with these principles, the University's 2003-04 budget plan includes \$72.2 million to support a budgeted enrollment increase of 8,000

full-time-equivalent (FTE) students, a 4.6% increase over the prior year, including planned growth and recognition of overenrollment in 2002-03 of about 4,000 FTE students. The proposed budgeted enrollment growth reflects the University's commitment to admit all eligible freshman applicants and to increase the number of new students transferring to UC from the California Community Colleges by 6% annually, consistent with the Partnership. Between 1998-99 and 2001-02, UC increased new transfer students by 21%.

In addition to accommodating all UC-eligible students who wish to attend, the University has undertaken several major initiatives to help meet the state's workforce needs.

- The University has a multi-year plan to increase graduate enrollment by an average of 1,000 students annually. In 2002-03, UC estimates it will exceed budgeted enrollment by more than 1,000 FTE graduate students. In 2003-04, budgeted graduate enrollment is projected to grow 1,725 FTE students on the general campuses, including funding for overenrollment in 2002-03, and 100 FTE students in the health sciences, to 30,915 FTE students.
- In 2002-03, UC reached its goal to more than double the number of its graduate education credential students between 1998-99 and 2002-03, increasing from 1,000 to an estimated 2,300 FTE students. For 2003-04, enrollment is projected to grow another 500 FTE, to 2,800 FTE students.
- In 1997-98, the University embarked on an eight-year plan to expand enrollment in engineering and computer and information sciences to 24,000 FTE students in 2005-06, a 50% increase in these fields. By 2001-02, the University had exceeded that goal by 1,000 FTE students, four years ahead of the original plan. These disciplines grew by another 1,000 students in 2002-03. Because of demand from industry, UC intends to continue growing in engineering and computer and information sciences, increasing by 1,000 FTE students to a total of 27,000 in 2003-04.

The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 FTE over the decade; by 2010-11, the University would reach its planned target of 210,000 FTE. This target was revised upward by 1,000 students when the opening date for the Merced campus was accelerated by one year and was further revised upward to account for State-supported summer enrollment, resulting in a revised target for 2010-11 of 217,500 FTE students. However, the University is experiencing

more rapid growth than the 1999 plan projected—2002-03 enrollment is more than 8,000 undergraduate students above the level envisioned in the 1999 plan. UC is undertaking a review of the 1999 plan to revise the 2010-11 enrollment projections upward, given recent experience. In any case, such dramatic growth over a prolonged period of time presents the University with a major challenge. Adequate resources are critical to the University's ability to meet this challenge.

By fully funding summer programs on all UC general campuses, UC plans by 2010-11 to accommodate growth of 17,000 year-average FTE students during the summer. To help begin the conversion from self-supporting to State-supported summer programs, the State has provided funding to reduce the fees charged to UC students in all UC Summer Sessions and has fully funded summer instruction at the marginal cost rate on four campuses: Berkeley, Davis, Los Angeles, and Santa Barbara. The 2003-04 budget plan includes \$31.2 million to complete the phase-in of full State support for UC's *existing* summer enrollment in summer 2002. Enrollment *growth* during the summer will be funded as part of the overall enrollment workload increase.

In addition to funding for enrollment, the University's 2003-04 budget plan includes \$3 million to be used to establish more graduate fellowships that will enhance financial support for the most promising graduate students; and \$6.5 million to fund replacement of aging and obsolete equipment and \$10 million for instructional technology, consistent with the Partnership funding principle to provide funding to address chronic budget shortfalls in core areas of the budget. The University is also formulating an additional request for one-time funds for UC Merced in 2003-04, which are absolutely necessary if the University is to meet the deadline for opening the campus by 2004.

Instructional Program Overview

Preserving student access to high-quality education is the hallmark of the University's 2003-04 budget plan. Consistent with the California Master Plan for Higher Education, the University provides undergraduate, professional, and graduate academic education through the doctoral degree level and serves as the primary State-supported academic agency for research. A fundamental mission of the University is to educate students at all levels, from undergraduate to the most advanced graduate level, and to offer motivated students the opportunity to realize their full potential. Ideally, this

means that the University should be able to accommodate all qualified undergraduates and also provide graduate academic and professional instruction in accordance with standards of excellence, societal need, and available resources. To do this, the University must maintain a core of well-balanced, quality programs and in addition provide support for rapidly developing and newly emerging fields of knowledge.

The general campus Instruction and Research (I&R) budget includes direct instructional resources associated with schools and colleges located on the eight UC general campuses; the San Francisco campus offers health sciences programs exclusively. (Health science programs are discussed in the *Health Science Instruction* chapter of this document. This chapter focuses on general campus instruction.) The major budget elements and their proportions of the general campus I&R base budget are: faculty and teaching assistant salaries and benefits, 60%; instructional support, 35%, which includes salaries and benefits of laboratory assistants, supervisory, clerical, and technical personnel, and some academic administrators, as well as costs of instructional department supplies; and instructional equipment and technology, 5%.

The University offers instructional programs spanning more than 150 disciplines from agriculture to zoology. Courses offered within instructional programs are authorized and supervised by the Academic Senate of the University, which also determines the conditions for admission and the qualifications for degrees and credentials. Undergraduate, graduate, and professional schools and colleges offer bachelor's, master's, and doctoral degrees—over 800 degree programs in all. The University began awarding degrees in 1870 and since then has conferred more than one million degrees.

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

The purpose of graduate programs is to inspire independence and originality of thought in the pursuit of knowledge. Graduate degrees fall into two broad categories: professional master's degrees, which are awarded to students

embarking on careers such as education, business, architecture, and social work; and academic master's and doctoral degrees, which are awarded in recognition of a student's ability to advance knowledge in a given field of study.

Under the California Master Plan for Higher Education, the University has primary responsibility among publicly-supported institutions to prepare professional and doctoral students to help meet California's and the nation's workforce needs. Currently, the University offers full-time master's degree programs in the liberal arts and professions, as well as self-supporting, alternatively scheduled programs in business administration, dentistry, education, law, and public health.

In addition, the University has begun a new degree initiative, the Master of Advanced Study (MAS), which will expand UC's ability to offer advanced degrees to working adult professionals. The first MAS program was initiated in 2000-01 at UC San Diego in Leadership in Healthcare Organizations. In 2001-02, additional MAS degrees were approved: Criminology, Law and Society at UC Irvine and Clinical Research-Biostatistics at UCSF. Several more are in development on other UC campuses. Adding to working adults' knowledge during the course of their careers is becoming critical as new professions are emerging, multiple career changes are becoming common, and the workplace is evolving to an information-based economy. The MAS degree program will offer working adults an additional, convenient set of options for attaining an advanced degree congruent with their professional and personal interests in a manner that accommodates their schedules.

As part of UC's overall commitment to meeting the need for educational leaders, the University plans to double the production of education doctorates within the decade. To achieve this goal, UC is expanding existing programs and creating new doctoral degree programs in education at UC and in collaboration with CSU through joint degree programs. This is a major priority for UC. The University wishes to ensure that the Ed.D. degree is available systemwide and that the programs are offered in a manner that makes them accessible to working professionals. Collaboration permits efficient use of existing resources, enriches the programs, and makes the degree geographically more accessible throughout the State.

In addition to the University's regular academic-year offerings, students may enroll in courses through University Extension. The University offered its

first Extension courses to students beyond the immediate campus community more than 100 years ago. Since then, University Extension has grown into one of the largest continuing education providers in the country and is discussed more fully in the *University Extension* chapter of this document.

The Partnership Agreement

The University's Partnership Agreement with Governor Davis calls upon UC to be accountable for a number of educational outcomes, including the following for instruction:

- maintain access for qualified students under the California Master Plan for Higher Education;
- accommodate annual enrollment growth of about 5,000 FTE students over the remainder of the decade, reaching UC's planned target of 217,500 FTE students by 2010-11, including all summer enrollment;
- more than double the number of students in UC's education credential programs, and increase engineering and computer sciences enrollments by 50%;
- enroll graduate students who will produce quality research and meet California's workforce needs;
- increase the number of transfer students from California Community Colleges;
- provide a quality education and an adequate supply of classes so that students can graduate in a timely manner;
- implement more extensive use of existing facilities to accommodate enrollment demands, such as phasing in year-round, State-supported instruction;
- enroll students at a tenth campus, UC Merced, and in off-campus centers;
- increase intersegmental collaborations with the other segments of higher education; and

- continue a multi-year plan to phase in State support for summer instruction (funding has already been provided to allow student fees charged during the summer to be equivalent to those charged during the regular academic year for all campuses and to support existing and new enrollment at the first four campuses—Berkeley, Davis, Los Angeles, and Santa Barbara).

Maintaining Freshman Student Access

The University is maintaining its commitment to the Master Plan for Higher Education to provide a place on one of the UC campuses for all eligible California applicants who wish to attend, and typically has enrolled more students than funded by the State. Campuses received applications for fall 2002 admission from 63,000 California high school seniors. Almost 31,500 California high school graduates have chosen to attend the University, an increase of 6.8% from 2001.

The University continues to examine and refine its application process to ensure that there are no barriers to academically eligible students wishing to apply to UC. One such effort is *Pathways*, the University's Web-based application and advising system. *Pathways* allows prospective applicants to access up-to-date, detailed campus information via the Web, receive admissions and financial aid information, and complete their application for admission on the Web. Outreach to potential UC applicants is discussed more fully in the *Public Service* chapter of this document.

Eligibility and Admission Policies

Consistent with the Master Plan for Higher Education, UC's policy is to provide access to students in the top one-eighth of the state's graduating class who wish to attend, although a student may not be offered a place at the campus or major of first choice. On an annual basis, the University monitors key demographic and financial indicators, as well as recent studies and policy changes that affect enrollment. One factor affecting enrollment projections is the actual rate of UC eligibility of public high school graduates.

Changes in Eligibility Policy. In 1998, to respond to the last CPEC eligibility study and to increase the diversity of the UC student body, The Regents approved revised guidelines, based upon recommendations of the

Academic Senate, for freshman admission to the University. As a result, effective in fall 2001, an additional path by which students may become eligible was added—Eligibility in the Local Context, as discussed below. There are now three paths by which students may become eligible for freshman admission to UC:

- Statewide eligibility is achieved if a student completes 15 units of work in specified academic courses, commonly referred to as the “a-f” requirements (or “a-g” requirements beginning fall 2003, as explained below) and meets or exceeds a minimum score on an eligibility index, which currently includes a combination of high school grade point average (calculated on the 15 academic units) and a combination of scores on the SAT I or ACT test and three SAT II tests.

The current SAT I and ACT tests are in the process of being reviewed and changed. In June 2002, the College Board agreed to replace the current SAT I with a new test that will be used by colleges and universities nationwide. These changes will be consistent with the recommendations for appropriate admissions tests made by UC’s Board of Admissions and Relations with Schools (BOARS). Beginning in winter 2005, the College Board will no longer administer the test currently used. The College Board has been working with the University to create a replacement for the SAT I that would meet the University’s goal for a core test that is linked closely to curriculum content and also will reflect students’ writing ability. In a parallel effort, ACT Inc. has committed to augment its current test with a writing examination. It is anticipated changes to these examinations will be in place for the freshman class that enters UC in fall 2006.

- Alternatively, students may become eligible on test scores alone, although less than 1% of UC students take this path. To be eligible by examination alone, a student currently must achieve a total score of at least 1400 on the SAT I or 31 on the ACT and earn a total score of 1760 or higher on three SAT II tests, with a minimum score of 530 on each test.
- A third path, Eligibility in the Local Context (ELC or the 4% path), is achieved if a student completes 11 of the “a-f” requirements (“a-g” requirements beginning with admissions for fall 2003) by the end of his or her junior year in high school and he or she is within the top 4% of students (based on GPA) in those courses at his or her school.

In 2001-02, the first year of implementation, more than 11,000 ELC students were identified in the top 4% of their high school classes. Of this total, 9,000 applied to the University and were admitted by a UC campus; of these, 5,600 chose to enroll. Simulations performed comparing applications in 2001-02 with application patterns in previous years indicated the ELC program likely generated an additional 2,000 applications from students who otherwise might not have applied, including many from underrepresented minority groups and rural schools. In the second year of the program, 2002-03, the response in the K-12 community has been enthusiastic with almost 100% participation by public schools. ELC-identified students have a very high rate of admissions at all campuses as they represent the best their schools have to offer. For fall 2002, more than 13,000 ELC students were identified in the top 4% of their high school classes. Of this total, 10,800 students applied to the University and were admitted by a UC campus; of these, 6,800 students sent in their statement of intent to register. Actual enrollments will be tabulated later this fall.

The California Postsecondary Education Commission (CPEC) completed its last high school eligibility study in 1997, based on 1996 high school seniors, which indicated that 11.1% of California public high school graduates were eligible for the University through the statewide eligibility and test score paths combined. The additional ELC process adds approximately 1.4% of high school graduates to the eligibility pool, bringing the total to 12.5% consistent with the California Master Plan for Higher Education. The University has found that nearly all of the students eligible through the ELC process additionally completed all the statewide requirements as well. CPEC is currently conducting another eligibility study.

In addition to these changes, The Regents took action to require all freshman applicants applying for admission beginning in fall 2003 to complete one year in their high school of University-approved work in Visual and Performing Arts, adding one more requirement to the “a-f” courses (“a-g” for students admitted for fall 2003). This change is intended to support academic preparation of students and to bring consistency to the course requirements for admission to UC and CSU.

Admission Selection and Comprehensive Review. The University continues to be committed to offering a place to all eligible California high school graduates and qualified CCC transfer students who apply for admission. However, this commitment does not extend necessarily to the student's choice of campus or major. At campuses where the number of

UC-eligible students exceeds the number of spaces available—UC's undergraduate campuses except for the Riverside and Santa Cruz campuses—admissions selection guidelines are employed to select the entering class.

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

Prior to comprehensive review, individual UC campuses that could not accommodate all eligible applicants admitted students from the pool of UC-eligible applicants using a "two-tiered" selection process. Systemwide admissions guidelines specified ten allowable "academic" criteria (including such factors as grades, test scores, outstanding work in a particular subject area, completion of additional college preparatory courses, etc.) and four allowable "supplemental" criteria (such as special talents, unusual leadership or intellectual qualities, and academic accomplishments in the face of disadvantaged circumstances). Campuses varied as to the weight given to the various criteria, but all campuses worked within the guidelines. The guidelines required that 50-75% of the entering class be admitted on the basis of academic criteria alone (Tier I) while the remainder of the class was to be admitted using both academic factors as well as supplemental criteria (Tier II). This two-tiered selection process had been part of UC's undergraduate admissions policy and guidelines since the 1960s, though the specific proportions of the class admitted in each tier varied over time and by campus. The two-tiered process was formalized as a Regent's policy by SP-1, the 1995 resolution that also banned consideration of race and ethnicity in admissions. The Regents rescinded SP-1 in May 2001 (though Proposition 209 continues to prohibit race-based preference in admissions). The Academic Senate, acting on the recommendation of BOARS, approved implementation of the comprehensive review process, which removed the limitation that 50-75% of the entering class had to be admitted by the academic criteria only. This change was endorsed by the Board of Regents at the November 2001 meeting. While the ten academic and four supplemental criteria were retained, the tier concept was eliminated, enabling use of the combined academic and supplemental criteria for the entire admitted class.

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

Displays 1 and 2 (next page) show by ethnicity the headcount of general campus and health science students enrolled at the University in fall 1980 and, more than two decades later, in fall 2001, the latest year available.

Enrollment Growth in 2003-04 (\$72,240,000 Increase)

The Partnership Agreement with the Governor includes the commitment to provide UC with funding for enrollment growth consistent with access under the Master Plan for Higher Education at an agreed-upon rate per FTE student, the "marginal cost of instruction." The University's budget plan includes a request for \$72.2 million to support budgeted enrollment growth of 8,000 FTE students in 2003-04. Funding for enrollment growth provides the resources necessary to recruit excellent faculty, which in turn affects the quality of instructional programs, and thus, funding for enrollment remains among the University's highest priorities.

The State provides funding for each additional FTE student added to the University's current budgeted enrollment level based on the methodology developed and agreed to by UC, CSU, the State Department of Finance, and

Display 1

| Domestic Undergraduate Headcount | | | | |
|---|---------------|----------------|---------------|----------------|
| Fall 1980 - 2001 | | | | |
| | 1980 | 2001 | Change | Percent Change |
| African-American | 3,474 | 4,452 | 978 | 28% |
| American-Indian | 483 | 908 | 425 | 88% |
| Chicano | 3,816 | 13,872 | 10,056 | 264% |
| Latino | <u>1,539</u> | <u>4,761</u> | <u>3,222</u> | 209% |
| Subtotal | 9,312 | 23,993 | 14,681 | 158% |
| Asian | 10,700 | 41,186 | 30,486 | 285% |
| Filipino | 1,304 | 6,817 | 5,513 | 423% |
| White/Other | 68,200 | 61,940 | (6,260) | -9% |
| Decline to State | 5,362 | 11,034 | 5,672 | 106% |
| Subtotal | 85,566 | 120,977 | 35,411 | 41% |
| TOTAL | 94,878 | 144,970 | 50,092 | 53% |

Display 2

| Domestic Graduate Headcount | | | | |
|------------------------------------|---------------|---------------|----------------|----------------|
| Fall 1980 - 2001 | | | | |
| | 1980 | 2001 | Change | Percent Change |
| African-American | 996 | 1,120 | 124 | 12% |
| American-Indian | 132 | 232 | 100 | 76% |
| Chicano | 900 | 1,572 | 672 | 75% |
| Latino | <u>579</u> | <u>1,181</u> | <u>602</u> | 104% |
| Subtotal | 2,607 | 4,105 | 1,498 | 57% |
| Asian | 2,145 | 6,086 | 3,941 | 184% |
| Filipino | 117 | 638 | 521 | 445% |
| White/Other | 20,394 | 22,712 | 2,318 | 11% |
| Decline to State | <u>5,354</u> | <u>3,224</u> | <u>(2,130)</u> | <u>-40%</u> |
| Subtotal | 28,010 | 32,660 | 4,650 | 17% |
| TOTAL | 30,617 | 36,765 | 6,148 | 20% |

Note: Includes general campus and health sciences enrollment.

the Legislative Analyst's Office (the marginal cost of instruction). For 2003-04, this methodology results in a marginal cost of \$9,030 per FTE student. Based on the current budgeted student-faculty ratio of 18.7:1, this funding will provide salary and benefits for 427.8 FTE faculty positions and related instructional support, instructional equipment, support for teaching assistant positions, institutional support, and support for libraries and student services. Actual FTE enrollments in 2001-02, budgeted FTE enrollments for 2002-03, and proposed FTE enrollments for 2003-04 by campus are included in the *Appendix* to this document.

Throughout the years of budget cuts in the early 1990s, the University kept its historic promise to the citizens of California by continuing to offer admission to all eligible Californians applying at the undergraduate level and it managed, through extra efforts of its faculty, to provide a quality education. Although the State began fully funding projected enrollment by 1994-95, the University's actual enrollment has each year exceeded the level supported by the State—by as many as 4,500 FTE students in 1997-98 and about 4,000 FTE students in 2001-02, although one-third of the 2001-02 overenrollment occurred in summer. UC is overenrolled again in 2002-03 and expects actual enrollments to exceed budgeted enrollments by 4,000 FTE students, this time mostly in the regular academic year. In mid-November, the University will have better information on actual enrollments for 2002-03.

Initiative to Expand Education Programs

Increasing the Number of UC Education Credentials. The University is committed to increasing its role in the training and preparation of K-12 teachers. In response to great interest expressed from the Legislature and the Governor that UC should be doing more in this area, UC more than doubled its education credential enrollment, from 1,000 FTE students in 1998-99 to 2,300 in 2002-03, as agreed under the Partnership with the Governor. For 2003-04, enrollment is projected to grow another 500 FTE, to 2,800 FTE students. This growth comprises graduate students who are concurrently pursuing their master's degree in education and their teaching credentials.

In 1999-2000, the State provided the University with \$500,000 for the planning and development of the *Governor's Teacher Scholars Program*, a program intended to attract well-qualified students into the teaching profession and to culminate in the award of a credential and master's degree. In 2002-03, 425 FTE students are expected to enroll in this program, exceeding the goal of 400

students set in 1999-2000. The program offers scholarship support to cover the cost of student fees, generally shortening students' time to degree and begin teaching. Participants are required to teach for at least four years in a school with a large proportion of students from low-income families. If they teach fewer than four years, they will be required to repay their scholarship assistance proportionately.

The University takes seriously its increased role in helping the State to meet workforce needs in education, especially at a time when additional well-qualified teachers are needed to help with State and federal initiatives to reduce class size. California's public school population is projected to increase more than 20% from 1997-98 to 2006-07, according to the California Department of Finance. At the same time, one out of six California teachers is over 55 years of age, which implies that a significant portion of the state's teachers will soon retire. These factors presage a need for 20,000 to 25,000 new teachers annually, as much as a 50% increase from the number of credentials awarded in California in 1997-98.

Initiative to Increase Education Leadership Training. In addition to increasing the number of qualified teachers graduating from UC, the University of California recognizes the state's need for more and better-qualified individuals to assume leadership positions in K-12 and the community colleges and is committed to taking a prominent and active role in meeting those needs. The new model of leadership training rests on intensive research-based programs that give future K-12 and community college leaders the skills necessary to implement current educational reforms, especially curricular-based reforms. The leader of an educational enterprise—from an academic department to a university campus—needs to be first and foremost a leader with understanding of the subject matter at hand. Such a leadership model should be successful at all levels of education, be it third-grade reading programs or managing a career-oriented technical education program at a community college.

Research on effective schools has repeatedly found that a strong principal is an essential component in school success. However, leading a school is a very challenging career, demanding expertise in a wide variety of areas including business and management, legal issues, and curriculum and instruction. School districts all across California are experiencing a growing shortage of available personnel to serve as principals, partially as a result of the demanding nature of the profession.

The University is now undertaking major initiatives that will enable it to meet the demands of K-12 and the community colleges for qualified and enlightened teachers and administrators who are both scholars and effective advocates for change. The University has initiated the *Governor's Principal Leadership Institute*. The 1999-2000 budget provided \$500,000 for planning and development of the program that, beginning in 2000-01, began offering broad-based training and scholarships to highly talented prospective school principals in exchange for their service as principals in public schools. In 2003-04, the two-year program will serve a total of 200 FTE (250 headcount) students. The program culminates in the award of at least a master's degree (with coursework applying to a doctoral degree), and is interdisciplinary in design, drawing upon the faculty expertise of a wide variety of professional schools, including the schools of education, law, business and management, and public health. Participants receive scholarships to pay for their fees and must serve for four years as a principal, vice-principal, or other administrator in a public elementary or secondary school. They must repay their scholarship assistance if they leave administrative service before their four-year commitment is completed.

The University plans to double the production of education doctorates within the decade. To achieve this goal, UC is expanding existing programs and creating new doctoral degree programs in education at UC and in collaboration with CSU through joint degree programs. This is a major priority for UC. The University wishes to ensure that the Ed.D. degree is available systemwide and that the programs are offered in a manner that makes them accessible to working professionals. Collaboration permits efficient use of existing resources, enriches the programs, and makes the degree geographically more accessible throughout the State.

Currently, UC and CSU have four joint doctoral programs in education, including the well-regarded Joint Doctoral Degree in Educational Leadership offered by UC Davis, UCLA, UC Santa Barbara, and CSU Fresno. UC Berkeley, UCLA, and UC San Diego also offer joint Ph.D.s with regional CSU campuses. In November 2001, recognizing the pressing need for more highly trained education professionals, UC and CSU entered into a formal agreement to work more closely together to increase efforts to develop, implement, and sustain joint doctoral degree programs in education. The agreement establishes a Joint Ed.D. Board to oversee the development of joint CSU/UC Ed.D. programs designed to meet statewide and regional educational leadership needs and to accommodate working professionals so that they can complete these programs in a reasonable timeframe. Senate

Concurrent Resolution 93 (Alpert, 2002) was adopted by the Legislature to memorialize this agreement. CSU and UC are to jointly report to the Legislature every two years, beginning in June 2004, on program implementation and the extent to which these programs are fulfilling identified state needs for training in educational leadership. Each system pledged \$2 million for program planning and implementation over a two-year period, with funds to be administered by the newly created Joint Ed.D. Board.

After consultation with K-12 and community college stakeholders, the Joint Ed.D. Board issued a Request for Proposals to UC and CSU campuses for planning, development, and implementation grant funding. The Joint Ed.D. Board meets quarterly to review proposals and allocate funds. To date, five new joint Ed.D. programs have been awarded planning and/or development funds and two have been awarded implementation funding, pending academic program approval. Several programs are expected to begin enrolling students in fall 2003. It is proposed that students will enroll as UC students with State funding and student fees set at the UC levels, and funding assigned to CSU and UC on a workload basis. All programs will be designed to accommodate the needs of working professionals. The Joint Ed.D. Board will make every effort to ensure that programs are available in all parts of the State and that particular regional needs are met.

The University of California is also committed to other ways of improving training for education leaders, and enhancement of education programs on UC campuses is already underway. For example, UC Davis has transformed its Division of Education into a new model School of Education; UCLA is successfully linking its graduate programs in education with teacher training and outreach efforts. Similar efforts are occurring at all the UC campuses.

Engineering and Computer and Information Sciences Initiative

The University is well-recognized for its role in California's economic growth. A significant component of this role is helping to meet the state's need for a highly-trained workforce. Large and small California-based employers share a strong interest in having a highly qualified and competitive workforce in an economy that is being reshaped by new technologies and global competition. The University's ability to meet this need remains vital to the long-term performance of California's economy.

Although the high-tech sector has recently suffered an economic slowdown, the demand for engineers and computer scientists is projected to continue in

the long-term. Occupations associated with engineering and computer and information sciences remain among the fastest growing occupations, according to the U.S. Bureau of Labor Statistics. In its most recent report, *Occupational Outlook Handbook, 2002-03*, the Bureau projects that by 2010, jobs for computer scientists will increase 40%, and for computer engineers the increase will reach nearly 50%. Further compounding this growth in demand to fill new jobs is the aging of the scientific and engineering workforce and concomitant retirements. According to the National Science Board's Science and Engineering Indicators-2002, 24% of S&E employees with bachelor's degrees, 36% of those with master's degrees, and 44% of those with doctorates are now 50 years or older.

As the country moves further into an information-based economy, demand for engineers and computer scientists will continually increase in the non-engineering sectors. Yet, according to the National Science Foundation, graduate and undergraduate enrollment in engineering has declined at American universities for more than a decade.

This situation is of special concern in California, because the State's high-tech industries will remain a driving force in the growth of the economy. According to the California Council on Science and Technology, analysts expect that recent high-tech declines are temporary and that demand for technology workers will remain strong. Indeed, the California Employment Development Department projects that, between 1998 and 2008, California will need to hire over 265,000 new employees in computer-oriented occupations that require a bachelor's degree or higher, to meet job growth and replacement needs.

California's technology-oriented companies will continue to demand highly-trained engineers and computer scientists as many sectors specialize increasingly in advanced stages of design, research, and development. Demand for engineers and computer scientists is found also in California's exploding field of biotechnology and in other emerging sectors, such as bioinformatics and genomics, nanotechnology, and wireless communications. Also, UC anticipates additional demand for engineers and computer scientists to meet a host of new and significant national security needs in the wake of the September 11 tragedies. Targeting enrollment growth in engineering and the computer and information sciences to address this demand is an investment in the state's economic future.

UC is responding to these needs. In 1997-98, the University embarked on an eight-year plan to expand enrollment in engineering and computer and

information sciences to 24,000 FTE students in 2005-06, a 50% increase in these fields. By 2001-02, the University had exceeded that goal by 1,000 FTE students, four years ahead of the original plan. These disciplines grew by another 1,000 students in 2002-03. Because of demand from industry, UC intends to continue growing in engineering and computer and information sciences, increasing by 1,000 FTE students to a total of 27,000 in 2003-04.

Despite the University's current growth initiative, however, California educates insufficient numbers of engineers from its own colleges and universities. The number of bachelor's degrees in engineering awarded by California institutions declined 14% over the past decade. At the master's degree and doctoral levels, one indication of shortages of highly trained technology workers is that in the past decade California doubled its H-1B visa quota for foreign technology workers. As a percentage of its 25 - 34 year-old population, California is slightly below the national average of graduate students in science and engineering (1.2%), ranking 24th in the nation. This is particularly troublesome, since according to a recent study (*State Technology and Science Index: Comparing and Contrasting California*, Ross DeVol et al., September 2002), California ranks near the top in the nation on other economic and technological measures, such as the availability of venture capital and expenditures for research and development. In short, California is not preparing enough engineers and computer scientists; and, as demand continues to outpace supply, the need for well-trained computer scientists and engineers will increase. Given the importance of technology to California, the State's and the University's emphasis on producing engineering and science degrees is particularly timely.

Regents' Initiative: Graduate Student Financial Support Needs (\$3,000,000 Increase)

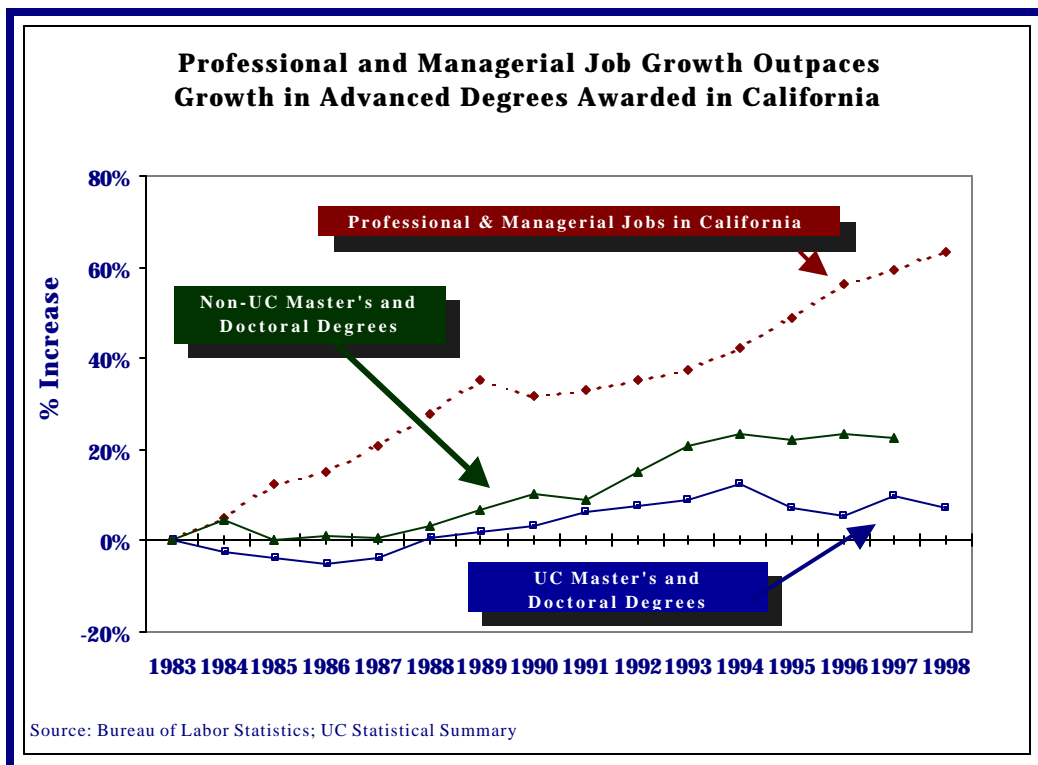
The Regents have placed great emphasis on the importance of the University's graduate programs. California's future strength depends on investing now in graduate education. Although the economic slowdown has had a severe impact on the state's high-tech industries, there is broad agreement that the high-tech sector will be a key component of California's return to economic health and that the state will need more highly-educated workers.

The State's Need. California's growing pharmaceutical and biotechnology industries will require more researchers and skilled technicians to discover and implement new products. Currently, 85% of the state's biotechnology

companies employ UC alumni with graduate degrees, often in key scientific and decision-making roles. California's own colleges and universities will need to hire about 40,000 new faculty by 2010 to teach the large numbers of additional undergraduates expected and to replace retiring faculty. Because many doctoral institutions in other states are not planning graduate enrollment increases, even more of these new college faculty than in the past must come from UC's graduate programs—perhaps as many as one-third of faculty who will teach in California's public and private four-year institutions.

California's universities and colleges fall far short of producing enough graduates for professional and managerial jobs, as shown in Display 3. California has experienced sharp growth in professional and managerial jobs in the past two decades, with only small increases in the number of graduate degrees awarded by its public and private universities. This has been expensive for California companies because they have had to recruit from out-of-state and compete for scarce talent within California. And it is a

Display 3



disadvantage to the citizens of this state because many do not have the educational degrees required for the fastest growing and highest paying jobs.

Even with California's economic slowdown, there is a need for more high-level employees, and there will be shortages when the economy improves.

Graduate Student Growth and Support. UC plans to help meet California's needs, and with State support, has begun a multi-year plan to increase its graduate enrollments by 1,000 students annually. From 1998-99 to 2001-02, UC's actual graduate enrollment grew from 25,600 to 28,725 FTE students. This growth of 3,125 students is more than the total graduate enrollment growth in the previous 25 years. In 2002-03, UC estimates it will exceed budgeted enrollment by more than 1,000 FTE graduate students. In 2003-04, budgeted graduate enrollment is projected to grow 1,725 FTE students on the general campuses, including funding for overenrollment in 2002-03, and 100 FTE students in the health sciences, to 30,915 FTE students.

UC will be unable to continue this growth unless it also increases graduate student financial support funding, both for the additional graduate enrollments and to be competitive in attracting the very best students. In January 2001, the Chair of The Board of Regents, Sue Johnson, and President Richard Atkinson appointed a Commission on the Growth and Support of Graduate Education to explore in depth the issues related to providing adequate graduate student support in a competitive market, and to identify strategies for achieving this essential increase in funding. The Commission identified a total need of \$215 million annually by 2010. As described below, much of this need is expected to be met through expansion of traditional funding sources. However, the Commission concluded that by 2010 a \$65 million annual gap between funding and student support need will still exist, unless new initiatives are developed. The Commission recommended six initiatives forming an integrated strategy to achieve the level of growth and support UC needs:

- Actively advocate with the federal government an increase in the annual level of fellowship stipends from the current \$16,000-18,000 to \$25,000, and an additional 1,500 stipends nationwide for graduate students.
- Urge the State to create a program of repayable fellowships for doctoral students in California universities who, upon graduation, agree to teach in California higher education institutions.
- Ask the State to fund 1,000 "incentive grants" for students awarded prestigious national fellowships to make the University of California more competitive in enrolling them.

- Develop a program of Collaborative Industry-University Internships for graduate students, particularly at the master's level, integrated with their academic programs.
- Increase fundraising to create a University of California Graduate Fellowships Endowment of \$125 million that will provide \$5 million annually for first-year and dissertation-year fellowships in underfunded disciplines.
- Develop a solid case for more funding for nonresident graduate students, noting their benefit to the state and national economies.

Currently, UC graduate student support exceeds \$500 million annually. Much of this is provided through *research assistantships* funded from federal, State, and industrial contracts and grants; *teaching assistantships* funded by the State as part of the marginal cost funding in support of enrollment growth; and *fellowships and grants* funded partly by the increased fee revenue directed toward financial that comes with enrollment growth. If the State continues to provide full marginal cost funding for enrollment growth, increases in teaching assistantships will be available for increasing numbers of graduate students. If UC can continue to garner federal and State research funding, increases in graduate research assistantships can keep up with graduate enrollment growth, although the 10% reduction to organized research programs included in the 2002-03 budget undermines UC's efforts to provide sufficient research assistantships.

The third source of graduate support—fellowships—is underfunded. In the course of its work, the *Commission on the Growth and Support of Graduate Education* concluded that by 2010 UC faces an annual shortfall of \$65 million in graduate support which must be met largely by providing fellowships. The amount of work graduate students must now do in teaching, research, and non-University employment is more than comparable institutions expect. After looking at the offers made by comparable institutions and listening to the first-hand experience of UC's graduate students and faculty, the Commission concluded that the solutions must include fellowships, particularly for first-year and dissertation-year students, and internships that are carefully integrated with academic program goals. The Commission's recommendations listed above are based on this assessment.

In November 2001, President Atkinson asked the Chancellors to take four actions to implement the Commission's recommendations, and to provide him a progress report on these actions in fall 2002:

- Issue a public statement on the importance of graduate student support to the campus's future success, and include that priority in future statements to the public and the University community.
- Encourage deans and department chairs to include graduate student support in their requests to donors and in their relations with industry.
- Develop a campus plan that states clearly what administration and faculty will do to expand support for graduate education and demonstrate progress toward achieving the Commission's recommendations, particularly improvements in campus environments for graduate students and other internal practices.
- Assist the Office of the President to develop proposals and processes to achieve the Commission's recommendations.

However, while campuses have begun taking action, the University has lost ground in State funding for graduate support because of the cuts to research programs in the 2002-03 budget, which significantly impacted funding for Research Assistantships.

For 2003-04, the University is including in its request for funding within the Partnership a total of \$3 million to be used to support the Commission's recommendation to establish more graduate fellowships that can be used to enhance financial support for the most promising graduate students. Such support will help make the University's support packages more competitive with those offered by other institutions. This is the second year of a multi-year plan to increase support for graduate students consistent with the recommendations of the Commission. These recommendations will be addressed in budget requests and/or legislation, as appropriate, in future years. In January 2003, the University will submit a progress report to The Regents on graduate support.

Transfer from California Community Colleges to UC

The University has significantly increased its enrollment of students from the California Community Colleges over the past three decades and, as a result of recent partnerships with community colleges and the Governor, has pledged to further strengthen its commitment to the transfer function.

In 1997, the University and California Community College (CCC) Chancellor's office entered into a Memorandum of Understanding (MOU) that seeks to increase the number of CCC students transferring to the University. The MOU sets a target of 14,500 new CCC students transferring by 2005-06, up from about 10,150 students transferring in 1998-99. In the Partnership Agreement with the Governor, the goal was increased to 15,300 students, representing average annual growth of 6%. This rate of growth in new transfers is unprecedented in the history of the University. And for CCC campuses, it means preparing many more UC "transfer ready" students and encouraging them to apply to a UC campus.

Since the signing of the MOU in November 1997, the University and the CCC have been working together to increase the number of students who transfer to UC from a CCC campus. The aim of this collective effort has been to tackle the most difficult problems that have challenged the effectiveness of transfer as a ladder to a University of California degree.

Between 1998-99 and 2001-02, UC increased new transfer students by 21%, from 10,150 to 12,290 students, 75 students more than its target. In 2001-02 alone, the increase was 9.6%. Average growth since implementation of the Governor's Partnership is 6.6%, a growth rate that slightly exceeds the overall target set for community college transfer to UC. The University expects to meet its enrollment target of 12,950 CCC students in 2002-03.

If UC is to sustain an average annual growth in new transfers of 6% over a several-year period, funding for transfer support programs will be critical. With adequate funding, the University is committed to meeting the goal of the Partnership. But for UC to accomplish this, the CCC system must provide a pool of transfer-ready students and UC must be able to nurture them.

Other new and proposed programs are also expected to help UC meet its Partnership goal to increase the transfer of CCC students to the University, including Dual Admissions and Cal Grant Entitlement:

Dual Admissions. The Dual Admissions Program was approved by The Regents in July, 2001, but implementation was delayed until sufficient resources were made available to fund the information and support services

necessary for the success of the program. The 2002-03 budget includes \$2.5 million to begin implementation of this program.

Under this program, students who are within the top 12.5% of their high school class (determined in the same process as ELC students), but who do not meet eligibility requirements through either statewide eligibility or the ELC path, will be eligible for admission simultaneously to a community college and a UC campus. After satisfactorily fulfilling their lower division requirements at a community college, students will be enrolled at the UC campus that admitted them when they were high school seniors and first identified as “Dual Admission” students.

The Dual Admission Program will create a closer link between UC and the community college system and ensure a more effective transfer process as envisioned by the Master Plan. It will also help UC meet the transfer goals set forth in the Partnership Agreement with the Governor to increase the number of community college transfers by 6% annually, to 15,300 students by 2005-06. More importantly, it will send a strong signal to students who have excelled academically but may not have reached UC eligibility that they have a straightforward path to a UC degree. It is anticipated that this program, in concert with the new Cal Grant entitlement program (described briefly below and in more detail in the *Financial Aid* chapter of this document), will have a positive impact on encouraging more students from disadvantaged backgrounds to seek admission to UC.

University staff are working quickly to implement the program in time to allow students to apply for fall 2004 admission to a CCC campus. An information system necessary to track students admitted through the program is being developed and UC staff are beginning to work with all 108 community colleges to develop a “course compendium” that would be available to students, delineating the programs and services available to them in time for their November 2003 application.

In addition, efforts to complete additional articulation agreements between UC and CCC campuses are being accelerated. In order to provide the outreach and counseling necessary for success of the program, the University will hire additional counselors to begin implementing its “One for Three” initiative, which in the first year will provide at least one UC outreach officer or counselor for every three low-transfer community colleges. These staff will ensure that every low-transfer community college will be visited at least once a week. Publications are also being developed for next fall to inform K-12 advisors, parents, and prospective students about the program. Outreach associated with this program is further discussed in the *Public Service* chapter of this document.

Cal Grant Entitlement. Since implementation began in 2001-02, the new Cal Grant Entitlement Program has expanded the availability of Cal Grant awards for California residents attending a community college or a four-year institution. Cal Grant A or Cal Grant B Entitlement Awards significantly improve freshman students' ability to develop a plan for meeting the costs of attending college—students know in advance that at least a Cal Grant will be available to help fund their educational costs through four years of college, whether they attend a four-year institution or attend a combination of community college and a four-year institution. The availability of a Transfer Entitlement Award provides community college students with the knowledge that if they work to become transfer eligible and are otherwise eligible for a Transfer Entitlement Award, they will have a Cal Grant to help cover costs once they transfer. The re-configured Cal Grant Program should ultimately increase the number of awards among prospective transfer students, thereby reducing concerns about financing a UC education and increasing the number of students who transfer from a community college to UC. This program is discussed in more detail in the *Financial Aid* chapter of this document.

Articulation

Curriculum articulation between CCC and UC campuses is the road map showing how the coursework CCC students complete at a community college satisfies UC requirements both for general education and in preparing for specific majors. During the past year, UC has increased its investment in articulation agreements with California Community Colleges. Because preparing for an academic major is an essential ingredient for student success, most of these new agreements delineate the courses students should complete at a community college to prepare themselves for specific UC majors.

Transfer students must know how the courses they take at a community college will apply toward a degree at a particular UC campus. “Course articulation” refers to agreements between educational institutions that specify for students how a course they complete at one institution (e.g., a community college) can be used to satisfy a requirement at a second institution (e.g., a UC campus). Course articulation falls into several different categories:

- **Universitywide Articulation.** The curricula of each California Community College is reviewed by the Office of the President annually to

determine those courses transferable as elective credit to all campuses of the University.

- **Major Preparation Articulation.** Articulation of courses needed for the major is critically important for students planning to transfer to UC. In order to make it easier for CCC students to satisfy the lower-division major requirements of similar majors at different UC campuses, the Intersegmental Committee of Academic Senates has sponsored the Intersegmental Major Preparation Articulated Curriculum project (IMPAC). Currently in its third year, this five-year program is designed to coordinate the lower-division preparation requirements of various high-demand majors with the goal of creating common intersegmental major-preparation curricula. Regional and statewide conferences of UC, CSU, and CCC faculty have been held to discuss common course requirements and to coordinate systemwide articulation agreements on high demand majors. IMPAC has made progress on agreements in the physical sciences, mathematics, biological sciences, and social sciences. Future conferences will focus on humanities and fine arts majors.

UC campuses have developed articulation agreements with all CCC campuses in their service areas (regions where UC campuses focus their outreach with local high schools and CCC campuses). The UC Office of the President reviews all courses offered by the CCC campuses each year and determines the UC-transferability of each course. The resulting Transfer Course Agreements designate which courses can be transferred for credit to meet University admissions, general education, and graduation requirements.

Each UC campus then develops articulation agreements, beginning with each CCC campus in its service area, that designate which courses at the community college are equivalent to courses taught at the UC campus and hence will be accepted for transfer.

Under the Partnership agreement, each UC campus plans to articulate all high demand majors with the community colleges in each campus' service area. "High demand majors" at the University are defined by the number of applications that are received at each campus per year. The resulting list of high demand majors varies, of course, by campus.

Display 4

| Major Articulation Agreements for 2000 to 2002 | | | |
|---|---|--|--|
| Campus | Coverage in UC Campus Service Area | Number of CCCs with Major Articulation Agreements | Majors per Articulation Agreement (average) |
| Berkeley | Complete | 108 | 96 |
| Davis | Complete | 108 | 121 |
| Irvine | Complete | 88 | 20 |
| Los Angeles | Complete | 35 | 31 |
| Riverside | Complete | 108 | 74 |
| San Diego | Complete | 37 | 81 |
| Santa Barbara | Complete | 53 | 58 |
| Santa Cruz | Complete | 108 | 40 |

Display 4 shows the number of community colleges with which UC campuses have established major articulation agreements (column 3) and the number of majors that are contained within each articulation agreement (column 4). All UC campuses have major articulation agreements with all of their service area community colleges. In addition, four UC campuses have articulation agreements with every community college in the state. All UC campuses have more than 20 majors articulated with the community colleges with which they have major articulation agreements, and in addition, are developing additional agreements outside their service area.

UC is also continuing to use the *Intersegmental General Education Transfer Curriculum*. Each UC campus allows transfer students to meet UC campus general education requirements for graduation by completing the Intersegmental General Education Transfer Curriculum (IGETC). According to a May 2000 study by the Intersegmental Committee of Academic Senates, 83% of students who transferred to UC in fall 1997 completed IGETC to fulfill their general education requirement.

In 2001, the University, along with CSU and the California Community College system, voluntarily agreed to modify IGETC to make it easier for transfer students to use. In the original development of IGETC, students needed to complete the entire general education curriculum prior to transfer. This requirement has been relaxed so that a student may complete up to two courses after transfer to a UC or CSU campus in cases in which students, through no fault of their own, were unable to obtain or complete IGETC

courses prior to transfer. It is anticipated that this will facilitate the transfer process.

Completing IGETC is not advisable for all students in all majors, however. Students studying engineering, physical sciences, and other high-unit and highly sequenced majors are advised to complete pre-major courses rather than IGETC or other UC general education courses at the lower division level.

The specific elements of the University's outreach to CCC campuses are discussed in more detail in the *Public Services* chapter of this document.

Strengthening the Quality of Undergraduate Education

The University is committed to preserving student access as defined by the California Master Plan for Higher Education. 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.

The 2000-01 budget included \$6 million as the first increment of funding in a multi-year plan to strengthen the quality of undergraduate programs. These funds were included within the 4% increase for the basic budget under the Partnership. The University's 2001-02 budget request included another increase of \$8 million within the Partnership as the second increment in this multi-year plan. While this proposed increase was included in the Governor's January budget, it was necessary to eliminate it from the University's expenditure plan when the University's Partnership funding was reduced by \$90 million in the May Revise. Once again, in 2002-03, no funding was provided for this program. Given the State's fiscal crisis, UC is not requesting funding for this program in 2003-04, but it is the University's expectation that new funding will be provided when the State's fiscal situation improves.

The University intends to define more explicitly what an undergraduate education in a research context should accomplish with an eye to strengthening the undergraduate experience at UC. Each campus is forming a *Task Force on Undergraduate Education in a Research Context* to define how undergraduate education can be strengthened and to increase faculty involvement in undergraduate instruction. As part of that effort, UC plans to expand its instructional offerings by at least 1,000 undergraduate classes and in so doing considerably increase its program of freshman seminars such that every freshman who wishes to enroll will be assured access to a freshman seminar or equivalent small-class experience taught by a regular-rank faculty

member.

Programs that enhance faculty interaction with undergraduates currently exist on all campuses, and the University intends to expand these efforts. For example, UC Berkeley already enrolls nearly 2,000 students in freshman seminars annually. UC Davis enrolls about 650 students in 15-student freshman seminars. Some departments at UC San Diego now require all faculty to teach a freshman seminar. The College of Letters and Science at UC Santa Barbara offers small seminars through its freshman seminar program. Faculty who teach large introductory courses also teach discussion sections for honors students enrolled in these courses. UC Santa Cruz requires entering freshmen to take a seminar course in their college. These courses are designed to enhance students' powers of critical thinking and analysis and to provide them with a setting in which to express effectively their opinions orally and in writing.

While faculty commitment to small seminars remains strong, the faculty resources needed to expand these efforts have been limited. Current student-faculty ratios tend to create large classes and decrease the chance for one-to-one contact in independent studies and opportunities for small group seminars.

Campuses will also seek ways to provide undergraduate students with greater opportunities to participate in research. In the mid-1990s, the Boyer Commission Report, *Reinventing Undergraduate Education: A Blueprint for American Research Universities*, drew the nation's attention to the problems and potential strengths of the research university. The report's defining recommendation is that research universities, like those in the UC system, should make research-based learning the standard.

UC currently offers undergraduate students many opportunities to participate in research as members of research teams in laboratories across many disciplines, and through conducting independent research under close faculty guidance on students' senior theses and other extended analytical writing projects. A recent survey of regular-rank UC faculty on one campus indicated that of those who responded (55%), 80% had directed undergraduate research projects. Projects include laboratory experiments, field surveys, senior theses and term papers, and literature review and analysis. Although faculty typically work on research projects with 2-3 undergraduates per year, some work with a dozen or more on their projects. Faculty indicate that they have more undergraduates in their

laboratories than they did ten years ago. Furthermore, surveys of UC undergraduates indicate that one in three seniors has participated in faculty research.

Funding from the State would enhance the depth and breadth of the undergraduate experience in research in a number of ways, all characterized by increasing the interaction between faculty and undergraduate students. UC faculty also seek non-State support for their efforts to integrate their research and teaching. This year, three UC faculty, out of a total of 20 nationally, each received a \$1 million Howard Hughes Medical Institute award to support their teaching in biology. The awards, part of an effort to improve undergraduate science education, are intended to develop new programs that will bridge the gap between the laboratory and the classroom. The recipients were chosen from a group of 150 professors nominated by their universities.

The University is increasing its attention to policies and practices related to faculty instructional activities. Faculty workload policies are reviewed by campus administration. It is the University's policy that the faculty workload policy of every academic department should fall within the range of policies used by UC's comparable research universities and UC campuses are expected to ensure that actual faculty workload conforms to departmental policies. This year a systemwide *Task Force on Faculty Instructional Activities* will be examining UC's current workload policies and practices, comparing them to those of other universities, and developing improved ways of measuring and describing faculty teaching activities.

Timely Graduation

Maintaining current levels of faculty teaching activity and improving the student-faculty ratio will contribute to students' timely graduation. The University has decreased the enrolled time, that is, registered terms, it takes a student to complete an undergraduate program. Time to degree has dropped from 13.4 enrolled quarters (where a four-year degree equals 12 quarters) for the 1984 regularly-admitted freshman class to 13.0 for the 1994 cohort (the most recent data available). Since the 1988 cohort of entering freshmen, time to degree has averaged 13 quarters.

About half of the regularly-admitted, UC freshmen graduate in 12 or fewer registered quarters; they are able to do this by taking full academic loads each year and by not exceeding the 180 units required for graduation. Some

students, however, do take more total units—for example, students with double majors, students who change majors after having already made substantial progress, and students in majors that require more units to graduate. And, some students take more time by taking lighter loads in some terms. By increasing the average number of units taken in a term and reducing the average taken over a student's career, more students could graduate in four years, making room for others. Under the provisions of UC's Partnership Agreement with the Governor, once students have taken more than 120% of the units that are required for graduation by their particular major, they will not be counted in UC's calculation of State-supported enrollment. Units taken by students exceeding the 120% limits were excluded from the calculation of estimated FTE enrollment for 2003-04.

In the 1950s, only half of the University's new freshmen graduated within six years following matriculation. (Graduation rates are based on elapsed time—the date of first enrollment to the date of graduation.) Thirty years later, of all freshmen regularly admitted in 1984, 31% graduated in 4 years, 67% in five years, and 73% in six years. Ten years later, graduation rates have improved again. Of all freshmen who were regularly admitted in 1995, 37% had graduated in 4 years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 69% of the 1995 entering freshmen received a baccalaureate degree within five years and 77% within six years. The need for students to work to support their education is the prime factor accounting for longer times to graduation. Persistence rates—the proportion of an entering class of students who return to enroll in their second and subsequent years—also have shown gains over the past decade. The proportion of freshmen who returned to enroll in their second year increased from about 88% of the 1984 cohort to nearly 93% of the 2000 cohort. Two-year persistence increased from 76% of those entering in fall 1984 to 84.5% of those entering in fall 1999 (the most recent data available).

All UC general campuses are committed to ensuring that undergraduate students are able to complete their degrees in four years. Accordingly, the campuses have developed new advising and administrative initiatives to facilitate four-year degree completion. Campuses continue to ensure course availability by sustaining increases in faculty teaching effort, creatively managing the curriculum and its delivery, recalling retired faculty, and using technology.

Students beginning their higher education at a community college campus have historically done very well after transferring to UC. About three-quarters of CCC transfer students graduate within four years of transferring, and on the average take about 7 to 8 quarters at UC to complete their degree. Transfer students' UC grade-point averages upon graduation are about the same as those who entered as freshmen.

Accommodating Enrollment Growth through 2010-11

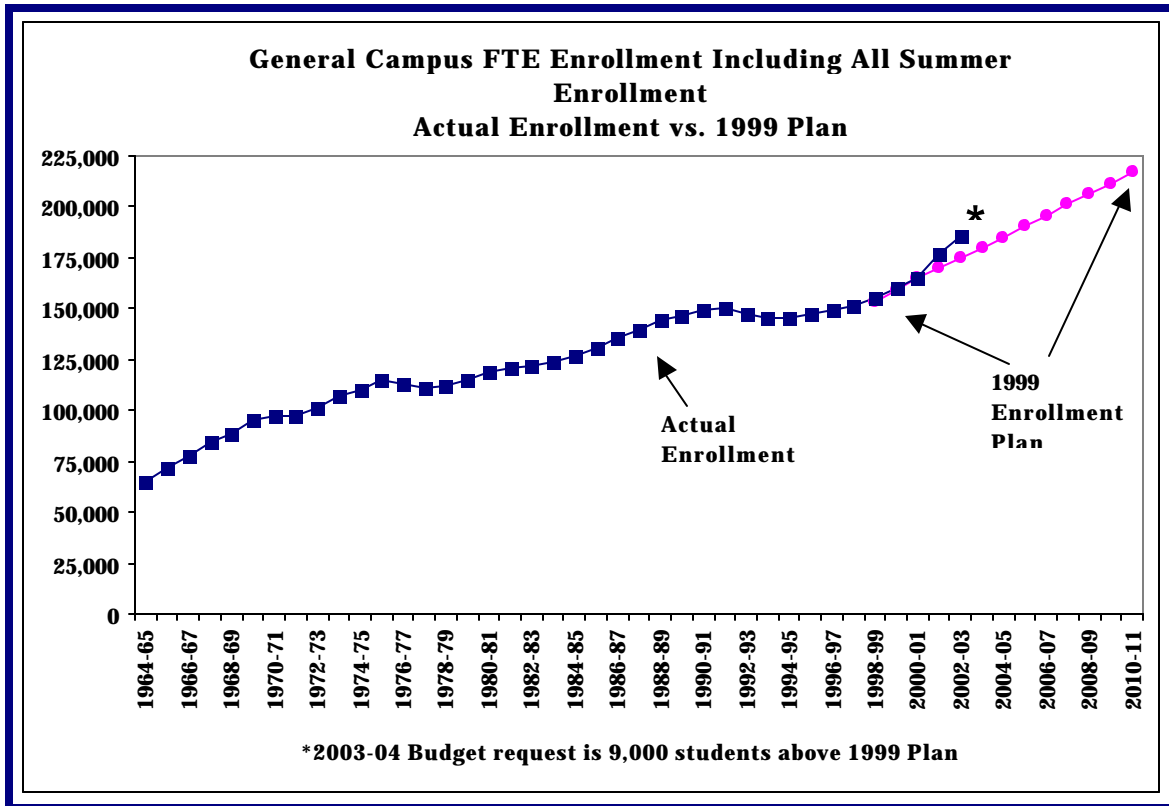
UC's undergraduate enrollment planning is based on a commitment to student access to the University under the Master Plan for Higher Education, which provides that the top 12.5% of California public high school graduates, as well as those transfer students from the California Community College campuses who have successfully completed specified college work, are eligible for admission to the University. Graduate and professional enrollment planning is based on assessments of state and national needs, program quality, and available financial support for students.

The University's 1999 long-term enrollment plan called for annual enrollment growth of about 5,000 FTE over this decade; by 2010-11, the University would reach its planned target of 217,500 FTE students including 6,500 FTE summer enrollment that existed prior to the phase-in of State support for summer instruction. However, the University is experiencing more rapid growth than the 1999 plan; 2002-03 enrollment is more than 8,000 undergraduates over the level envisioned in the 1999 plan. It is necessary to revisit the 1999 plan to revise annual enrollment growth upward, given recent experience. In any case, such dramatic growth over a sustained period of time presents the University with a major challenge.

In 1999, the University projected growth of 64,000 students in the 12-year period between 1998-99 and 2010-11. By 2002-03, UC has already enrolled an estimated 30,000 of this student increase (from 147,000 to 177,000 FTE students); the remaining growth of 34,000 students (see Display 5, next page) will include 6,000 FTE students at the new UC Merced campus. Plans to accommodate the balance of 28,000 FTE students involve continuing summer expansion, described below; increasing the number of students educated off-campus, e.g., in study-abroad programs; and increasing capacity during the regular academic year by expanding existing campus Long Range

Development Plans (LRDPs) enrollment targets where possible. Throughout the planning process, campuses will work cooperatively with their local

Display 5



communities to minimize the adverse impacts of increased enrollments to the extent possible while honoring the University's commitments to students eligible under the Master Plan. Off-campus programs and expanded LRDPs will allow additional growth of more than 10,000 students, and summer instruction will accommodate the remaining growth.

Continued Phase-In of State Support for Summer Instruction (\$31,223,000 Increase)

In its April 2000 report, *The Feasibility Of Year-Round Instruction within the University Of California*, the University determined that conversion to a State-funded summer—with substantial increases in summer enrollment—is critical to accommodating enrollment growth at the University.

Assuming full funding for summer programs on all UC general campuses, UC plans to accommodate growth of about 17,000 year-average FTE students

during the summer in addition to the summer enrollment prior to the phase-in of State support in 2001-02, for a total of 24,000 year-average FTE or about 120,000 headcount summer students in 2010-11, double the current number.

To help begin the conversion from self-supporting to State-supported summer programs, the State provided \$13.8 million in 2000-01 to reduce the fees charged to UC students in all UC Summer Sessions in 2001. Student fees are now equivalent (on a per-unit basis) to those charged during the regular academic year at all UC campuses. For 2001-02, the State also provided workload funding of \$20.7 million, allowing UC to provide a level of academic support as well as State and University-funded financial aid during the summer that is similar in quality to the regular academic year on three UC campuses: Berkeley, Los Angeles, and Santa Barbara. For 2002-03, the State provided workload funding of \$7.4 million, adding UC Davis to the list of campuses fully State-supported in the summer, and provided \$1 million to buy down fees for the increased number of students at non-State-supported campuses since fees were first reduced in 2000-01.

For 2003-04, UC is requesting \$31.2 million to provide State funding to support 3,844 year-average FTE students, which represents the total who attended Summer Sessions on the four remaining UC campuses—Irvine, Riverside, San Diego, and Santa Cruz in summer 2002. This funding for existing enrollment is based on the 2003-04 marginal cost of instruction of \$9,030 per FTE student less the \$3.5 million already provided for these four campuses in the 2000-01 and 2002-03 budgets (to bring summer fees to levels equivalent, on a per-unit basis, to those charged during the regular academic year) and excluding funding provided separately for summer education credential enrollments. These new funds will bring the *existing* summer enrollment of UC students into the permanent base of State-funded enrollments, thereby providing funding for faculty salaries, instructional and institutional support (required to offer programs in the summer that are similar in quality and breadth to the regular year), student support services and libraries, and student financial aid that is comparable to that of the rest of the year. Funding for summer enrollment *growth* is included in the general campus workload request for budgeted growth of 8,000 FTE students for 2003-04.

Display 6

| UC-Matriculated FTE (Year-Average Equivalent) Summer Enrollment | | | | | | |
|--|--------------|--------------|---------------|-------------------------|-------------------------|-------------------------|
| <i>State-Funded</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>% Increase</i> | | |
| | | | | <i>2000 to 2001</i> | <i>2001 to 2002</i> | <i>2000 to 2002</i> |
| Berkeley | 1,390 | 1,925 | 2,104 | 38% | 9% | 51% |
| Davis | 824 | 933 | 1,512 | 13% | 62% | 83% |
| Los Angeles | 1,222 | 2,099 | 2,450 | 72% | 17% | 100% |
| Santa Barbara | <u>854</u> | <u>1,446</u> | <u>1,675</u> | <u>69%</u> | <u>16%</u> | <u>96%</u> |
| <i>Subtotal</i> | 4,290 | 6,403 | 7,741 | 49% | 21% | 80% |
| <i>Non-State Funded (Fee-Reduction Only)</i> | | | | | | |
| Irvine | 971 | 1,240 | 1,518 | 28% | 22% | 56% |
| Riverside | 430 | 636 | 823 | 48% | 29% | 91% |
| San Diego | 775 | 906 | 1,088 | 17% | 20% | 40% |
| Santa Cruz | 351 | 502 | 631 | 43% | 26% | 80% |
| <i>Subtotal</i> | 2,527 | 3,284 | 4,060 | 30% | 24% | 61% |
| TOTAL | 6,817 | 9,687 | 11,801 | 42% | 22% | 73% |

In the past year, from summer 2001 to 2002, the University expanded its summer enrollment by 9,500 UC-matriculated students—2,115 year-average FTE students (Display 6). The four campuses that were fully funded by the State for summer instruction—Berkeley, Davis, Los Angeles, and Santa Barbara—grew 1,340 FTE students. The remaining four campuses grew about 775 students. In the two years from summer 2000 to 2002, the University expanded its summer enrollments by 5,000 year-average FTE students (an increase of about 20,000 summer headcount students). The four campuses that were fully funded by the State grew about 80% or nearly 3,500 FTE students. The remaining four campuses grew 61%, or about 1,500 FTE students.

In summer 2002, the four fully State-funded campuses—Berkeley, Davis, Los Angeles and Santa Barbara—increased the number of classes they provided by 14% and the number of regular-rank faculty who were assigned to teach by 19% over summer 2001. Over the two-year period from summer 2000 to 2002, classes and regular-rank faculty were up about 30%. UC's report on summer 2002 will be available in November 2002.

The key to achieving significant enrollment growth in the summer is to offer students summer instruction that is similar in quality and breadth to the rest of the year, student support services, access to libraries, and student financial aid. The State funds provided for summer instructional workload at the regular marginal cost rate at the Berkeley, Davis, Los Angeles, and Santa Barbara campuses were central to UC's plan to accommodate significant enrollment growth during the summer. State funding for the remaining four campuses' summer programs is a central element to UC's overall plan to accommodate increased enrollment of all eligible students. Without the student support and financial aid, for example, that is provided on fully-funded campuses, the remaining campuses cannot provide a summer program equivalent to the State-funded campuses.

In order to increase summer enrollments and the proportion of regular faculty who teach during the summer, campuses are creating incentives as they design their own summer programs, drawing on the experience of the first four State-supported summer programs to identify ways to increase summer enrollments. As campuses develop their summer instructional plans, they will endeavor to ensure that the increased enrollments do not displace existing summer programs dedicated to outreach for K-12 students, professional development programs for K-12 teachers, University Extension courses for both local and international participants, and orientation and research programs for UC students.

Under the Partnership Agreement with the Governor, UC has agreed to implement more extensive use of existing facilities to accommodate enrollment demands and to help alleviate enrollment pressures during the regular academic year. Also consistent with the Partnership, funding requests to the State for new classrooms and class laboratories are justified using legislatively-approved utilization standards and the assumption of instructional workload during the summer that is equivalent to 40% of the average workload during fall, winter and spring. UC estimates that in this decade, \$200-240 million could be saved in capital funds because of additional classroom, class lab, and related instructional space that would not be needed.

Off-Campus Instructional Activity

While summer instruction is a crucial element in enabling the University to meet the coming enrollment demand, campuses' plans for growth will also include other approaches. These will include increasing enrollment during regular terms, improving time to degree, and increasing enrollment in

off-campus programs. The University is developing various options to handle enrollment growth in off-campus programs, including the following:

- **Education Abroad Program.** UC currently provides opportunities for students to spend time abroad and is exploring ways of increasing overseas enrollments in the Education Abroad Program (EAP) from current levels of about 2,200 year-average FTE students to more than twice that number by 2010-11. EAP will do so by continuing to offer full-year full immersion programming as well as shorter-term opportunities during the regular academic year. Furthermore, EAP's expansion plans include providing more opportunities during the summer term, adding programs that meet general education and breadth requirements, and increasing offerings for students in academic disciplines who have not traditionally studied abroad.
- **UC Washington Center.** The UC Washington Center just completed its first year of operation serving nearly 900 individual students from all eight general campuses of the University. The Center hosted 13 visiting faculty and 12 graduate student TAs to support the academic programs, in addition to the campus faculty and staff on site in Washington, D.C. The Center is an 11-story mixed-use facility with 8 floors of residential space and 3 floors of academic and administrative space. The building houses the Office of the Federal Governmental Relations and other administrative and research units in addition to the UC Washington academic programs. The building itself has numerous teaching venues including a 90+ seat auditorium, a 300-person multipurpose room that can be subdivided into three classrooms, a computer lab, a distance learning lab, four seminar rooms and three conference rooms. All venues have access to the building's extensive array of technologies that include multimedia, local area network, and high-speed Internet capabilities, as well as video-conferencing. The Center will begin its second year of full operation in September 2002. The UC Washington Center may also serve as a model for other off-campus programs that could be developed for UC students, including a program in Sacramento that is currently in the early planning stages.
- **Ventura Center.** The UC Santa Barbara off-campus center in Ventura County is another small but successful model. The Ventura Center provides instruction to students who are taught by regular UC faculty and instructors, either in person or interactively via closed-circuit television.
- **UC Merced Centers.** UC Merced is creating a system of distributed

learning centers throughout the San Joaquin Valley. The UC Merced Center, Fresno opened in 1997 and the Merced Tri College Center opened in 1999. A UC Merced Center in Bakersfield began operation in cooperation with Kern County Office of Education this summer, and a UC Merced Center in Modesto is being planned. The UC Merced Center in Fresno includes programs from UC, California State University Fresno and Bakersfield, the Fresno County Children and Families Commission, and the State Center Consortium. The Merced Tri-College Center houses programs from UC Merced, California State University at Stanislaus, and Merced College. A primary focus of the center is to facilitate transfer of Merced area students to UC and CSU. These distributed learning centers provide access throughout the San Joaquin Valley to Summer Session courses, University Extension and certificate programs and will be the hub of activity for programs that will help students in community colleges transfer to the University. Also, the centers provide a wide range of outreach programs for K-12 and community college students and faculty.

- **Silicon Valley Center.** The Santa Cruz campus is developing an off-campus center located in Santa Clara County, described later in this chapter.

The University of California, Merced

Development of UC Merced is part of the University's strategy to increase its enrollment capacity, provide access to students in the San Joaquin Valley, and provide the benefits of a research university to central valley Californians. In November 1999, the Governor requested that UC accelerate the opening date to fall 2004, a year earlier than originally planned. The University is currently making every effort to meet that target and has made considerable progress in the last year towards the goal.

One-Time Funding for UC Merced. The campus will open with 60 faculty and will offer six initial majors in the social sciences-humanities-arts, engineering and natural sciences, and the requisite general education courses. This represents a significant scaling back from the original plan, necessitated by the State's fiscal situation.

Most faculty must be hired before the campus opens so that the academic program, courses, graduation requirements, and counseling programs can be developed and the departmental structure put in place. Therefore, the

campus plans to hire 15 permanent faculty in 2002-03 and 20 additional permanent faculty in 2003-04; another 25 permanent faculty will be hired in 2004-05 to reach the 60 permanent faculty needed to open the campus. Additional temporary faculty (lecturers) will also be hired to help meet the requirements for faculty needed to open the campus in 2004-05.

One-time funds are needed to continue to help pay for faculty salaries and start-up expenses, including instructional support costs and research support (major equipment is being funded through the capital budget), and essential campus functions (such as start-up funding for the library) until permanent funding begins to be provided through normal enrollment workload funding.

One-time funding totaling \$2 million was provided in the 2001-02 budget and \$4 million in the 2002-03 budget for faculty hiring costs. The University is formulating an additional request for one-time funds to continue faculty hiring and development of essential functions in 2003-04. Such support is absolutely necessary if the University is to meet the deadline for opening the campus by 2004.

In 1999-2000 and 2000-01 the full-scale preliminary planning for the campus was underway with the greatest emphasis placed on site selection and development of long range physical planning, including environmental reviews and studies. In 2001-02, a formal organizational structure was put in place; in 2002-03, the pre-launch of detailed academic programming and the recruitment of faculty began. In 2003-04 the full-scale launch of all campus programs and processes will occur. Most important, faculty will be in place to fully develop undergraduate and graduate degree programs, coursework, and related research programs. The campus will also plan student housing, residential life programs, dining, and other essential services. The full-scale launch of the campus library and technology infrastructure will also be underway in 2003-04.

Campus Planning. As requested, the University provided the California Department of Finance with a Long Range Budget Plan in May 2000. The Long Range Budget Plan identifies the activities that must be funded in order to open the campus in fall 2004 with 1,000 students and increase to 6,000 students by 2010. The Merced campus is critical to the University's longer term ability to accommodate projected enrollment growth. Each spring, the University submits a report to the Legislature that identifies progress on all physical and academic planning activities, and updates the campus budget. The State provided \$9.9 million in the University's base budget for planning

and start-up costs associated with academic programs to be offered in the San Joaquin Valley as well as planning, start up costs, and ongoing support for the Merced campus. This core funding will continue to be used to establish the development of academic programs, support the salaries of campus staff and faculty and fund environmental permitting activities necessary to fully develop the campus site. In order to accelerate the opening of the campus to 2004, financial support must also be accelerated. In 2001-02 and 2002-03, the State provided supplemental one-time funding to advance faculty recruitment efforts. Considerable additional funding will be needed in 2003-04 to continue faculty recruitment and to provide for core instructional support functions and student services. The University will continue ongoing discussions with the Administration and the Legislature related to needs associated with acceleration of the opening date for the campus.

Campus Buildout. Development of the campus is slated for a 2000-acre section of a 7,030-acre site located in Eastern Merced County. At full build-out, the campus is expected to accommodate 25,000 students. The site will include a 750-acre area for the Natural Reserve System, and a 5,000-acre preserve on the remaining land to the north and east of the campus. Campus planning has focused on protecting and preserving the unique environmental features of the area through the acquisition of over 20,000 acres adjacent to the site, using \$30 million made available through the Wildlife Conservation Board.

Working with State and federal agencies as well as numerous constituencies, including the City and County of Merced, has proven to be a very complex planning and permitting process that has required an extraordinary level of legal effort and a resource base that is much greater than originally envisioned. Planning for the campus must satisfy regulatory requirements while at the same time allow for the kind of comprehensive conceptions required by an institution that will exist in the area for hundreds of years. The design and construction of the campus will adhere to principles of environmental stewardship, conservation, and sustainability. UC Merced will model new cost-effective ways to reduce consumption of water and energy, control traffic impacts, increase population densities, and minimize waste through careful use and reuse.

Academic Staffing. The Chancellor has successfully recruited for key leadership positions to accelerate the organizational development of the campus. The Executive Vice Chancellor and Provost, the Vice Chancellor for Administration, the Vice Chancellor for Advancement, and the Vice

Chancellor for Student Affairs have been appointed. The Deans for Engineering and for Natural Sciences also have been appointed, as well as the Vice Chancellor for Research/Dean of Graduate Studies, and the Director of the Sierra Nevada Institute. The Dean for Social Sciences, Arts and Humanities is currently under recruitment. These key appointments provide the nucleus of leadership to recruit outstanding faculty who will create early distinction in target fields. Faculty recruitment began in 2002-03 and will accelerate in 2003-04.

In 2003-04, the academic leadership and founding faculty will fully develop the degree programs and prepare coursework in anticipation of delivering instruction in fall 2004. In 2001-02, the campus formalized plans for the campus' initial academic program offerings. Six undergraduate majors will be offered in fall 2004: biological sciences, earth systems sciences, environmental engineering, computer science, world cultures and history, and social and behavioral sciences. Five graduate groups are planned that have strong interdisciplinary connections: systems biology, environmental systems, computer and information systems, world cultures and history, and behavioral sciences. Additionally, a business degree is under development.

The 2001-02 and 2002-03 Budgets for Capital Improvements accelerated the capital funding schedule for the Merced campus in order to fund the projects required to open the campus for instruction in fall 2004. Those budgets provided construction funding for the first three academic buildings and two phases of the Site Development and Infrastructure Project. The third phase of the Site Development and Infrastructure project was funded in 2002-03. The Logistical Support/Services Facilities Project is one of two projects proposed in the 2003-04 Budget for Capital Improvements.

Space has been leased at Castle Aviation Business Center (formerly Castle Air Force Base) to provide for initial administrative needs and for the first faculty. Because it is necessary to renovate the facility to accommodate research activities, initial funding for a renovation project is included in the 2003-04 Budget for Capital Improvements.

The campus also has several non-State capital projects planned. Construction of the first student housing and dining facilities begins in 2002-03. In 2003-04, it is anticipated that construction will begin on the second student housing complex, parking lots, and a student recreation and wellness center.

Silicon Valley Center

The University has completed its third year of planning for an off-campus center in the Santa Clara Valley. This proposed center—the UCSC Silicon Valley Center, led by UC Santa Cruz on behalf of the University of California system—has the potential to become a highly visible focused research and education facility, capitalizing on its location in the heart of the state’s innovative technology development industry. The Silicon Valley Center (SVC) is an important element in the University’s long range planning efforts to increase collaborative research with industry and with various agencies, including NASA, accommodate projected enrollment demand, develop collaborative relationships with the California State University (CSU) and the California Community Colleges (CCC), and expand outreach programs with K-12 schools and students.

The State has provided \$1.1 million in each of three years to conduct planning for the Silicon Valley Center. The efforts in the first year were focused on building an educational collaborative among San Jose State University, Foothill-DeAnza Community College, and UC Santa Cruz, broadly articulating the types of programs that could be situated at the Silicon Valley Center, and identifying a location appropriate to those goals. As a result of those analyses, the proposed NASA Research Park (NRP) at NASA Ames was selected as the preferred site and the campus has been working as a partner with NASA to address the master planning and environmental issues associated with that site.

In the second and third years, extensive work was conducted on site master planning and environmental analysis, as well as continuing to plan for the educational collaborative. Academic planning, originally intended to be carried out in 2001-02, has been initiated in the current year. Both site planning and academic planning will continue in this next year.

Not surprisingly, the downturn in the State’s economy, and in the economy of the Silicon Valley region in particular, has affected NASA’s implementation plans and schedule, which has therefore required UCSC to revise its approach to planning the site.

To date, the Santa Cruz campus has:

- designated the Campus Vice Chancellor for Research to coordinate both site planning and academic planning efforts, with the Vice Provost for Academic Affairs leading the academic planning efforts;

- identified the proposed research park at NASA Ames as its preferred site for a permanent location and negotiated a Letter of Intent with NASA for use of the NRP site;
- completed the initial land use plan for the NRP site and begun the process of preparing a site master plan by evaluating the infrastructure needs of the site;
- submitted proposals to NASA regarding the establishment of a University Affiliated Research Center at the site, and defined UC's potential role in the ownership and management of the prospective Laboratory for Advanced Science and Research (LASR);
- developed an MOU for an educational collaborative among San Jose State University, Foothill-DeAnza Community College, and UC Santa Cruz, initiated collaborative planning, and developed concepts for initial programs;
- published an initial draft Academic Vision statement and begun developing the analytic framework to support planning an academic program; and
- established the first on-site facility (Building 555, provided by NASA to UC without charge) for research and teaching.

In 2002-03, the Santa Cruz campus intends to initiate a detailed academic planning process, develop an academic plan for the curriculum and degree programs at the Center, to begin planning to accommodate UCSC summer session courses at the Center, and to continue planning a joint use facility for collaborative education activities.

In 2003-04, funding will be used to continue site and physical planning, and to refine the academic plan. Specifically, during 2003-04, planning for a phased approach to implementing the SVC will be undertaken, and the CEQA process could be initiated for the first phase. In addition, UCSC will continue to investigate alternatives for providing faculty, staff, and student housing in support of the SVC.

Benefit to the State

Programs at the Silicon Valley Center will address several different significant statewide and regional needs. The demand for this Center is driven by: (1) a significant research and public service agenda of mutual interest to Silicon Valley, the University of California, and the State of

California; (2) an anticipated surge in UC enrollments over the next ten years; and (3) the rising demand for a UC institution in Silicon Valley, in a period where new directions in technological innovation are needed to spur renewed economic growth.

Statewide, the SVC will provide the catalyst for developing innovative research programs that address the future directions for the high technology economy. These research programs, benefiting from interactions with a wide variety of existing and future high technology companies, will inevitably spur future economic growth in the region and in the State as a whole. Further, the research and associated curricular programs at the SVC will be a statewide magnet for faculty and graduate students. One major component of these research programs is the prospective University Affiliated Research Center (UARC) under review by NASA, which is a parallel effort to the SVC planning and implementation effort. The UARC, if awarded to UC, will provide facilities and equipment for UC faculty, UC student researchers, and for visiting scientists to pursue research in nanotechnology, biotechnology, bioinformatics, and other innovative fields. In addition, the SVC and the associated UARC will provide an outstanding vehicle for technology transfer from faculty, students, and staff to local companies. Consequently, this activity will be a direct benefit to the California economy as well as providing real world experience for students.

Because it is linked to both Foothill/DeAnza Community College and San Jose State University through the Collaborative for Higher Education, and because the selected site has direct light rail connections to East San Jose, San Jose State University, and other parts of the San Jose area, the Silicon Valley Center will contribute greatly to outreach and integration of students into the UC system. Joint instructional programs are an important component of the effort and it is anticipated that, in cooperation with local community colleges, the Center would collaborate with Foothill-DeAnza Community Colleges to offer undergraduate courses tailored to the needs of students from the Santa Clara Valley and designed to facilitate transfer to UC (e.g., a bridge-to-major program). The Center programs will also foster student internships and research field studies, and contribute to workforce development within the Silicon Valley region.

Increasing Intersegmental Cooperation

The University has established several joint programs with the California State University (CSU). Collaboration between UC and CSU campuses offers many advantages. Building on the strengths of the two systems, joint programs allow for the creation of specialized degrees that might not otherwise be possible, improve outreach to segments of the population that are underrepresented in graduate studies, enhance opportunities for joint research projects, facilitate sharing of instructional resources in support of graduate study, and make graduate degrees more geographically accessible.

Collaboration takes several forms. A wide range of UC academic departments collaborate with CSU in the California Pre-Doctoral Degree Program that encourages CSU's best master's degree students to pursue doctoral training at the University. In cases where CSU has an existing master's degree program and UC has a complementary doctoral degree program, courses in the two systems can be articulated and students encouraged to move along an integrated path from the CSU master's degree to the UC doctoral degree.

UC and CSU also combine resources to offer joint degrees, where faculty jointly offer the graduate program throughout the student's tenure and the degree is awarded jointly by both systems. UC and CSU currently offer a total of 14 joint doctoral degree programs in several disciplines, including ecology, education, engineering sciences, geography, physical therapy, and public health. UC campuses currently participating in joint doctoral degree programs include Berkeley, Davis, Los Angeles, San Diego, San Francisco, and Santa Barbara. Joint doctoral degree programs are under discussion in other disciplines, including Evolutionary Biology to be offered by UC Berkeley and San Diego State and Criminal Justice, to be offered by UC Davis and CSU Fresno. A clinical doctorate in Physical Therapy, to be offered by UC San Francisco and San Francisco State University, is also in the planning stages.

Four of the existing joint doctoral programs are in education, including the well-regarded Joint Doctoral Degree in Educational Leadership offered by UC Davis, UCLA, UC Santa Barbara, and CSU Fresno. Particular effort is being made to increase the number of joint degrees offered in education. New joint Ed.D. programs are being planned by the Berkeley, Davis, Irvine, Merced, Riverside, San Diego, Santa Barbara, and Santa Cruz campuses, in collaboration with neighboring CSU campuses. Funds have been made available to assist programs in their planning efforts and several are expected

to begin enrolling students in fall 2003. Expanding the existing joint programs and creating new ones in education with CSU is a very high priority for UC.

Instructional Technology Initiative (\$10,000,000 Increase)

The University needs substantial increases in funding to address the growing importance of technology for instruction in 2003-04. Among the funding principles of UC's Partnership Agreement with the Governor is the commitment to provide a 1% increase to the prior year's State General Fund base committed to addressing permanent funding shortfalls in critical core areas of the budget, including instructional technology. As originally envisioned, State funds provided over the four-year period of the Partnership would eliminate over two-thirds of the shortfall. The remainder is expected to be funded through a redirection of resources at the campus level.

Request for 2003-04

Consistent with the Partnership, the University's 2003-04 budget plan proposes to increase permanent funding for instructional technology by \$10 million in order to address a continuing substantial gap between need and available funds. In 1997, the University developed a preliminary quantitative model to estimate costs of instructional technology at UC. Based on this model, the cost to the University for instructional technology in 1996-97 was estimated to be approximately \$136 million, funded by a combination of sources, including State funds, UC funds (through internal budgetary reallocations), one-time extramural grants, gifts, and miscellaneous sources. According to the model, a minimum increase of \$50 million over the 1996-97 base would be required to provide a modest upgrade in instructional technology, based on then-current planning, enrollment, and cost levels. Beginning in 1997-98, the State began to fund this need, and by 2000-01 had provided \$29.1 million in additional funding for instructional technology, leaving a gap of \$20.9 million.

Restoration of Unfunded 2001-02 and 2002-03 Partnership Funds

The University's 2001-02 budget request included an increase of \$12 million and the 2002-03 request included an increase of \$13.7 million, consistent with the Partnership agreement related to funding for core needs. However, as a result of the State's deteriorating fiscal situation, these Partnership funds were not provided in either year. The problems created by this funding gap were exacerbated by the one-time base budget reduction of \$29 million

included in the 2002-03 budget in four core areas, including instructional technology, further inhibiting the University's progress in closing the funding gap in this program. It is the University's expectation that the \$20.9 million gap in permanent funding and the instructional technology portion of the \$29 million one-time funding reduction will be restored to the University's budget once the State's fiscal situation improves.

Technology is Critical to Maintaining the Quality of Academic Programs

Technology will play an important role in the University's future. This winter, the University will initiate its first online degree program in Criminology, Law, and Society at UC Irvine. Across the UC system, programs are being developed to help faculty introduce new instructional technologies into the classroom.

In 2002, the UC Teaching, Learning & technology Center (TLtC) commenced its second year of operations, supporting instructional technology efforts throughout the system through its grants program and webzine. The TLtC awarded over \$450,000 in large and small grants for intercampus collaborative projects that implement technology in teaching and learning. The *TLtC Webzine & Online Forum* (www.uctltc.org), which was launched in December 2001, began its first year of publishing news and feature stories about how educational technology is being used in the UC system. The Webzine also aggregates resources and services from the UC campuses and national organizations, as well as hosts a searchable database of how UC instructors use technology in their teaching. Finally, in 2003-04, the TLtC will launch an online educational piece that informs the UC community about copyright and intellectual property issues as they relate to instructional technology

Technology dramatically improves data handling, process simulation, problem-solving, creative presentations, and communication. New technologies are making possible unprecedented interaction with primary data and are enabling complex networks of communication among students and faculty. Students are using portable computing platforms in increasing numbers, as wireless communication capabilities grow on campuses. Web-based portals now offer a single point of access for students to a broad array of integrated information sources and services. For students, these technologies create opportunities to grapple with real data and real problems early in their learning careers, linking them directly to the research enterprise. Participation in the research process and the mastery of the skills

and analytical rigor that it engenders will be lifelong assets for graduates who seek professional opportunities and advanced degrees in any field.

In just the past few years, digital applications have become so powerful and pervasive that faculty, students, and instructional staff risk being isolated from the academic mainstream if they do not have ready access to such electronic capabilities as email, electronic calendaring, Web browsers, electronic journals and data banks, word-processing, presentation applications, and spreadsheets. Also, campuses must have current technology in order for students to receive a state-of-the-art educational experience that will prepare them for the best jobs in today's high-technology marketplace. Continuing investments are required not only in infrastructure but also in technical support for faculty, staff, and students so that these new systems can be used effectively

The use of information-based technologies to manage the curriculum and maintain the quality of instructional programs became increasingly significant beginning in the early 1990s. Today, academic departments across the UC system are using electronic means to communicate with their students via the use of email and the Web to disseminate information on departmental policies and procedures, major and minor requirements, lectures, fellowships and internships, events and class scheduling. Even students studying abroad receive rapid responses to their requests for advice.

Information technology also has improved students' access to course material. In 1996-97, for example, the College of Letters and Science at UCLA launched a program to provide a website for every undergraduate course in the College. Most websites include the course syllabus, instructor data, links to the library, bulletin boards, and other items such as online quizzes and lecture notes.

Some websites are significantly richer. For example, one course website contains an online gallery of interactive student artwork. Another faculty member in a Department of Asian American Studies asked her students to contribute an oral history of an Asian immigrant. Each oral history included a brief digitized video of the interview subject, an audio excerpt from the interview, a map showing the subject's migration route, and a timeline that placed the immigrant's life in the context of Asian history.

The Web has also has facilitated placement testing, section quizzes and

other forms of assessment. UC Santa Cruz, for example, is using online placement exams in its language and chemistry programs and working to expand this to mathematics, biology, and writing. The Department of Linguistics at UC San Diego has put many quizzes and midterms on the Web while a faculty member in Anthropology has developed a Web-based system for creating self-correcting quizzes. UCLA has established the Media Center to support faculty with instructional projects. Hundreds of faculty have attended workshops on integrating multimedia slide shows and the Web into classroom teaching. UC Davis has created the Arbor, which offers a range of services including consultation, workshops, seminars, and guest speakers to assist faculty with instructional technology. In 1997-98, the Arbor served 193 faculty, enhancing 250 courses that affected over 6,000 students.

Faculty who utilize information technology in their teaching depend on classrooms with state-of-the-art technology. However, campuses have a shortage of connected classrooms. At UCLA, for example, only about one-half of the 196 general assignment classrooms are connected to the Web.

UC campuses use technology to collaborate. UCLA, for example, has provided eleven courses that were electronically received by five other UC campuses (Irvine, Riverside, San Diego, Santa Barbara, and Berkeley). UC Santa Cruz and UC Davis jointly offered Hebrew instruction via distance learning. Two professors in Nuclear Engineering at UC Berkeley collaborated with instructors at UC San Francisco to teach a new course on the *Physics of Medical Imaging* for undergraduates.

Recurring Costs of Technology

The main benefits of technology are improvements in quality, depth and complexity of what students can learn—benefits that are difficult to quantify. There is a price tag that accompanies these improvements and, rather than reducing costs, the use of technology can increase or shift costs. Academic initiatives that make use of digital technology rely on an extensive infrastructure that is expensive to develop and maintain.

The University plans to increase funding every year to help narrow the gap between current funding from State and University sources, and what is needed in the longer term. From a budgetary standpoint, the key challenge is to view closing the gap between current and needed expenditures not as a one-time expenditure but as a permanent commitment to staying abreast of

evolving technology and its relationship to higher education in the 21st century.

Instructional Equipment Replacement Program (\$5,600,000 Increase)

Among the funding principles of UC's Partnership Agreement with the Governor is the commitment to provide a 1% increase to the prior year's State General Fund base committed to addressing permanent funding shortfalls in critical areas of the budget, including instructional equipment replacement. As originally envisioned, State funds provided over the four-year period of the Partnership would eliminate over two-thirds of the shortfall for the four core areas, including instructional equipment replacement (IER). However, as a result of the State's deteriorating fiscal situation, State funding for these core areas was not provided in the 2001-02 and 2002-03 budgets. The problems created by this funding gap was exacerbated by the one-time base budget reduction of \$29 million in the 2002-03 budget, including a portion for the IER program. It is the University's expectation that this funding will be restored to the University's budget once the State's fiscal situation improves.

Using an agreed-upon methodology for calculating need, the State began funding the IER program in 1976-77, and provided full funding from 1984-85 to 1989-90. From 1990-91 to 2000-01, annual permanent State funding fell short of each year's IER need. Over the decade, the annual shortfall accumulated to a total of more than \$200 million (unadjusted dollars). One-time funding has reduced the net shortfall to \$163 million.

For 2003-04, UC's IER need is \$60.9 million, \$5.6 million more than the funding provided by the State, assuming the funds eliminated on a one-time basis in 2002-03 are restored.

For budgetary purposes, the University's IER need is defined as the annual depreciation of instructional equipment, such as that used in foreign languages or science laboratories, over the period of its useful life. The life span of most University instructional equipment is from 3 to 15 years; much of the equipment still in use is now obsolete.

Instructional equipment is essential to maintain the high quality of UC's instructional programs. New equipment is needed in student computer labs, as an aid in teaching presentations, to teach students how to operate the

equipment itself, and by students who are working with faculty on research, as part of their academic training.

Many of the University's programs rely heavily on equipment, but reliable, up-to-date equipment is most critical in the sciences and engineering, where the vast majority of the equipment is used. The need for equipment in engineering and the sciences, disciplines that are expected to grow significantly this decade, is especially crucial because laboratory sciences require more instructional equipment, the equipment is more expensive, and technological advances occur more rapidly, which results in a need to upgrade as well as replace existing equipment.

IER funds can be used to leverage extramural funding for equipment that faculty can use in teaching graduates and advanced undergraduates, as well as in their research. Campuses must have current technology in order for students to get a cutting-edge educational experience that will prepare them for the best jobs in today's high-technology marketplace. Unless the University can provide high-tech instructional equipment, it could lose its best faculty and students to other institutions that can provide the necessary facilities and equipment. This will weaken the University's instructional programs and reduce the University's ability to provide the highly skilled personnel needed for California's high technology industries.

HEALTH SCIENCE INSTRUCTION

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 698,168,000 |
| General Funds | 352,091,000 |
| Restricted Funds | 346,077,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 7,377,000 |

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

To operate the instructional program, the health science schools require faculty, administrative and staff personnel, supplies, and equipment. Faculty requirements are determined in accordance with student faculty ratios, 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 budgeted student faculty ratio for medical students is 3.5:1; for dentistry students, 4:1; and for pharmacy students, 11:1.

Faculty salary and benefit costs constitute about 64% of the total budget for the health science instructional program. Instructional support costs represent 25% of the budget. These costs include salary and benefit costs for non-faculty personnel, equipment, and supplies that are provided for each faculty position based on support levels determined for each school. The remaining 11% of the program's budget provides funding for other expenses, including employee benefits, partial support of stipends paid to interns and residents, and a portion of malpractice insurance premiums.

In addition to the resources provided in the instructional budget, the costs of clinical training traditionally have been supplemented by physician and other professional fee income and by revenues generated by the medical centers. However, financial support for medical education and clinical training has declined substantially as a result of recent changes in the organization and delivery of health services. These changes include dramatic decreases in professional and teaching hospital revenues due to the growth of managed care and declining-revenue in federal reimbursements from Medicare and Medicaid that resulted from efforts to balance the federal budget. As a result, there is a need to broaden the sources of financial support for the costs of medical education, including those incurred in outpatient settings. These issues are discussed in more detail in the *Teaching Hospitals* chapter of this document.

In 1996-97, the University's five medical centers were successful in obtaining State approval for the Medi-Cal Medical Education Supplemental Payment Program, which provided matching funds to attract \$50 million in additional federal Medicaid funds to support educational costs related to services provided to the state's Medi-Cal population. Under this program, the medical centers received \$35 million, \$38 million, \$54 million during the next three years, and \$55 million for each of the last two years. The fluctuating funding in 1996-97 and 1997-98 was attributable to the expansion of the Medi-Cal Medical Education Program to include payments to other major teaching hospitals and the fact that the UCSF Medical Center was treated separately during the period of its merger with Stanford. These Medi-Cal funds, along with the graduate medical education payments that have long been a part of Medicare, have provided essential resources for the University and other teaching hospitals in support of their teaching and patient care missions.

The original legislation for the Medi-Cal Medical Education Program was to sunset on June 30, 1999, but was extended twice, most recently through June 30, 2004. The University is working with the State on a broader, longer-term program to fund graduate medical education in outpatient as well as inpatient settings, and to address issues related to funding for other health care professionals. Until a model is developed and adopted by the State, the continuation of the Medi-Cal Medical Education Supplemental Payment program is essential.

As the University plans for the 21st century, continuing efforts will be focused on supporting and sustaining high quality programs in health science education, research, and patient care. Important initiatives at UC's medical schools will continue to address issues of diversity and outreach, specialty balance and workforce needs, and the critical need to develop stable long-term financing mechanisms to provide support for graduate medical education and other health professions training. These efforts will be guided by workforce projections, marketplace realities, public interests, and the recommendations of state and national policymakers. Continued partnerships with the Legislature, State agencies, and other stakeholders will be necessary to address current state needs for improving access to care in under-served communities, improving the diversity of the California health workforce, providing care for the poor and uninsured, and supporting the health providers and institutions dedicated to filling these needs. The University stands ready to contribute to this effort and looks forward to collaborating with others to meet these challenges successfully.

Health Science Enrollments Nationally and Within UC

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

Health Science Enrollments Nationally

The University's health science planning process has historically considered national health care workforce projections. In the early 1970s, the Graduate Medical Education National Advisory Committee (GMENAC) predicted a shortage of physicians. By the early 1990s, however, projections indicated a national shortage of generalists and a significant oversupply of specialists by the year 2000.

More recent analyses, including a 1995 study published in the *Journal of the American Medical Association* and a 1997 report issued by the Center for the Health Professions at the San Francisco campus (UCSF), have supported earlier projections concerning an oversupply of specialists, but indicate that the generalist workforce appears to fall within the range necessary for the future. These examples underscore the need to continually re-examine workforce projections for medicine and for all the health professions.

In 1997, the University of New York's Center for Health Workforce Studies, with support from the federal Health Resources and Services Administration and in collaboration with the Center for the Health Professions at UCSF, undertook a comparative study of medical education, physician training and physician supply and distribution in New York and California (the study was updated in 1998 to include Texas). The following are among the findings of special relevance to California:

- For a state of its size and population, California has a relatively limited medical education and training system.
- The state has an adequate overall physician supply because of the high rate of retention of doctors trained in California (nearly 70%) and because of the in-migration of physicians trained elsewhere.
- California significantly trails the national average in educational opportunities for medical students. By contrast to New York State, which enrolled 44 medical students per 100,000, and a U.S. average of 28.5 medical students per 100,000 population, California trained only 15.7 students per 100,000 in 1997.
- During the years 1985 to 2000, the state's population grew by 28%, while medical school enrollment remained basically flat. The net impact was an 8% decrease in the ratio of medical students per 100,000 population.

- All three states have experienced strong growth in the number of practicing physicians during the years 1985 to 1996, ranging from 23% in California to 40% in Texas. When adjusted for population growth, and in contrast to a national increase of 22.4%, California's physician-to-population ratio increased by only 2.6%.
- California trains comparatively few international medical graduates (IMGs). On a per capita basis, the difference is particularly striking with New York training 41.5 IMGs per 100,000, Texas training 6.0, and California training only 3.4 per 100,000.

In March 1999, the Council on Graduate Medical Education (COGME), which was authorized by Congress in 1986 to provide an ongoing assessment of physician workforce trends and federal and private sector efforts to address workforce needs, issued its most recent report. Among the major findings are:

- The national rate of growth in physician supply has moderated slightly, but is still likely to lead to a surplus in some regions;
- The number of generalists is increasing with an appropriate overall supply likely to be achieved in the next few years;
- The dependence on hospital inpatient reimbursement to support graduate medical education poses a threat to the nation's training sites;
- The advent of managed care and other recent developments "do not bode well ... for teaching hospitals that serve as safety net providers;"
- The increase in the number of female physicians and growth in the number of non-physician clinicians will impact the health workforce and should be given careful consideration in the future.

Also included in the COGME report are recommendations calling for promotion of a more effective marketplace, development of an integrated workforce planning process, utilization of financial incentives to achieve priority goals, and increased advocacy for a stable financing system to provide long-term support for graduate medical education (GME).

Although California's supply of primary care physicians (at 72 per 100,000) falls within COGME's recommended range of 60 to 80 physicians per 100,000,

six of the state's ten regions were below the COGME range, and two others were only slightly above the minimum. These findings underscore the need to develop new strategies to improve access to care through improved distribution of physicians, particularly in the state's rural areas and inner-cities.

Health Science Enrollments in the University

After peaking in the early 1980s, budgeted enrollments in the health sciences remained relatively steady through 1997-98. Display 1 shows total budgeted University health science enrollment and the first-year class size for selected professional programs for the academic years 1970-71, 1981-82, and 1989-90, and planned budgeted enrollments for 2003-04. Display 1 also shows that after increases through 1981-82, enrollments began to decrease. These decreases were due in large part to budget cuts sustained by the University.

Display 1

| Health science Year-Average Headcount Enrollments: Total | | | | | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Enrollment And First-Year Class Size for Selected Programs | | | | | |
| | 1970-71 Budget | 1981-82 Budget | 1982-83 Budget | 1989-90 Budget | 2003-04 Budget |
| Total Enrollment | 7,015 | 12,750 | 12,217 | 12,022 | 12,266 (a) |
| First Year Class Size: | | | | | |
| Medicine | 429 | 652 | 622 | 622 | 622 |
| Dentistry | 175 | 216 | 197 | 176 | 168 |
| Veterinary Medicine | 83 | 129 | 122 | 122 | 131 (a) |
| Pharmacy | 93 | 120 | 117 | 117 | 167 |
| Optometry | 54 | 68 | 65 | 65 | 65 |

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

The 1998-99 State Budget included an augmentation of \$2.5 million to support an increase of nine students per year for each of the four years of the Doctor of Veterinary Medicine (DVM) program, for a total of 36 students, and of 30 students in the veterinary residency program. By agreement with the State, the DVM enrollment increase will be phased in and will not actually be

completed until 2007-08. The total increase, however, is reflected in the table above.

The University's enrollment plan for 2003-04 includes an increase of 100 health sciences students. These increases are for graduate academic and other high priority areas. The graduate academic increases are in select areas where strong academic and economic demand exists, such as medical information science and bioengineering. For example, the San Francisco campus has begun to increase enrollments in medical information science, which includes areas such as bioinformatics (crucial to modern genome research), and image and signal science. In addition, in conjunction with Berkeley, the campus plans to increase enrollments in the joint Berkeley/San Francisco Graduate Group in Bioengineering. Modest increases are also planned in human genetics, chemistry and chemical biology, neuroscience, and biophysics.

Other health sciences enrollment growth is occurring in pharmacy. At the July 2000 meeting, The Regents' approved a new School of Pharmacy at the San Diego campus, with curricula leading to the degrees of Doctor of Pharmacy and Doctor of Philosophy. Pharmacy practice is rapidly changing from traditional compounding and dispensing responsibilities to expanded roles in collaboration with other health professionals in the use and management of drug information, management of chronic disease therapy, pharmacoconomics, therapeutics, ambulatory care, palliative care, patient education and counseling, pharmaceutical formulation, and clinical testing of the products of biotechnology. The changing nature of pharmacy practice has resulted in the need for more and better-trained pharmacists in retail pharmacies, hospital pharmacies, pharmacy outpatient and ambulatory care service, and home care. The establishment of the School at San Diego is consistent with the campus' academic plan and long-range development plan. The School, which builds on a 25-year partnership with UCSF in clinical pharmacy education, admitted its first class of 25 Doctor of Pharmacy students, 5 graduate academics, and 10 residents in fall, 2002. An increase of 25 Doctor of Pharmacy and 5 graduate academics is included as part of the 2003-04 enrollment increase requested for San Diego in the *General Campus* Instruction section of this document. At steady state, the School will have an entering class of 60 and a total of 240 students in the Doctor of Pharmacy program, 60 Ph.D. students, and 30 residents.

Also, within existing budgeted enrollments for the various schools and colleges, programs are being modified in response to workforce concerns.

Among medical residents, for example, there has been an increased emphasis on training primary care physicians and a concurrent reduction in the number of specialists trained.

As part of the University's efforts to address future needs in the health sciences, a major new systemwide planning effort was initiated during the 2000-01 academic year. This initiative encompasses a broad-based review of the size and scope of existing UC programs; consideration of projected health workforce needs; review of state and national data concerning health science educational opportunities for students; and assessment of the resources required to meet future needs. This effort is coordinated by the Division of Health Affairs in the Office of the President, in partnership with the University-wide Health Sciences Committee, and senior leadership from the UC health science campuses.

In view of major state and national workforce shortages in nursing, the Health Sciences Committee made this profession its first focus. Although the University's role in nursing education is small by comparison to that of the California State University system and the California Community Colleges, its role is particularly important with respect to graduate nursing programs, advanced specialty practice and the preparation of future faculty for nursing education programs throughout the state. In April 2001, the University launched a carefully focused planning process involving the schools of nursing at UCLA and UCSF and nursing programs at other UC campuses. As a result of these efforts, the Health Sciences Committee is reviewing options for the University to assist with the impending shortage. Possible options include re-establishment of a small baccalaureate program or potential expansion of masters-level programs.

The University is also considering expanding medical school enrollments recognizing that while California's population has been growing over the past twenty years, medical school and other health sciences enrollments actually decreased.

History

The 1970s

In spring 1975, the University developed a 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. The State approved the plan and provided the operating budget resources needed to accommodate health science enrollment growth. Facilities to accommodate the enrollment growth were funded by a health sciences bond issue on the 1972 ballot. The enrollment levels envisioned in the 1975 plan were largely achieved by 1981-82.

The 1980s

By 1982-83, however, the State's fiscal problems and downward revisions of estimated future health workforce needs led to a number of decisions that significantly reduced the actual enrollment levels that were in line with the earlier plan. Due to these and other changes discussed below, health sciences budgets were reduced by \$12.6 million during the period 1982-83 through 1988-89, resulting in enrollment reductions of 1,193 students in existing programs. Some of this decline was offset by an increase of 384 students in selected or new programs, including 218 students in the Drew/UCLA Medical Education Program. The following is a brief summary of the enrollment reductions of the 1980s:

- a four-year phased reduction of 388 students in medicine, dentistry, nursing and veterinary medicine necessitated by a 2.5% reduction in the University's 1982-83 base budget;
- a reduction of an additional 140 professional students in the health science schools due to the elimination of federal capitation funds. These funds had been provided by the federal government beginning in 1972-73 to encourage the expansion of enrollments in the health sciences. The federal capitation funds for the University peaked at \$6.4 million in 1974-75 and were phased out by 1990-91;
- elimination of 267 medical residency positions in non-primary care specialties in response to a \$2 million budget reduction included in the 1982-83 State Budget (in addition to 70 cut as a result of the 2.5% cut);
- reduction of 450 students (including 210 residents and 42 family nurse practitioners, 84 dental students and 21 residents, 37 graduate professional nurses, 50 baccalaureate students, and 6 graduate professional students in public health), partially offset by an increase of 24 graduate academic students in nursing and 28 graduate academic students in public health. These reductions occurred over a four-year period beginning in 1985-86.

The Early 1990s

Fiscal problems escalated in the early 1990s, eventually resulting in a major fiscal crisis for the State. As part of an overall plan to accommodate over \$400 million in budget cuts in the early 1990s, the University reduced total budgeted enrollments by 5,500 FTEs, including 412 health science students. Although the 1992-93 Governor's Budget provided funding for new enrollment growth of 100 health science 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.

As one means of coping with cuts of this magnitude in such a short time frame, the University offered three early retirement programs. As a result, health science programs lost a number of senior faculty and student faculty ratios deteriorated. In order to maintain the quality of the health science instructional program, a substantial portion of the vacant faculty positions must be refilled. Income from the Fee for Selected Professional School Students (net of financial aid) is being used in part for this purpose.

Fee for Students in Selected Professional Schools

The Fee for Selected Professional School Students was charged to first-time students in fall 1994 and became a permanent feature for all subsequent classes in medicine, dentistry and veterinary medicine. Since fall 1996, a similar fee has been charged to students in nursing, optometry and pharmacy. 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 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. Income from the Fee for Selected Professional School Students is being used to help fill a portion of faculty positions vacated through early retirements and, thus, to support student enrollments that have been restored to 1990-91 budgeted levels. The Fee for Selected Professional School Students is discussed in more detail in the *Student Fees* chapter of this document.

New Initiatives and Challenges in the Health Sciences

As part of its efforts to meet the future workforce needs to ensure quality health care for Californians, and to restore reductions to University health education programs as a result of budget cuts in the 1980s and early 1990s, the University is developing initiatives in the areas described below.

Curriculum Changes: Focus on Cultural Competency and Latino Health Care

The ethnic composition of California's population is changing and the University of California is concerned about increasing the diversity of future medical student classes to reflect the changing ethnicity of the population, and to improve the cultural competency of medical students as a means of improving the health status of all Californians.

Population projections for California indicate that the Latino population will double from 10.6 million in 2000 to over 21 million by 2025. Latinos currently comprise 31% of the state's population. By 2025, the proportion will increase to 41%. At that time, Latinos will be the largest population group in the state and will represent the largest portion of Limited English Proficient (LEP) population in state. California's physician workforce must be equipped to reflect the needs of its diverse population.

To improve the cultural competence of health care providers in California, clinicians must be given opportunities to learn about the socio-cultural values, health beliefs, and lifestyles of different ethnic groups, in this case, for Latinos. The University of California, Irvine College of Medicine, in coordination with the Office of Health Affairs in the University of California Office of the President, proposes development of a specialized curriculum to train physicians who are experts in providing health care to the underserved Spanish-speaking community. Running parallel to the traditional curriculum, the specialized curriculum will provide a group of highly qualified and motivated medical students with an immersion experience in Latino culture and health care needs through class content, language development, clinical experiences, and special electives in Spanish-speaking countries.

Students selected through a competitive process for the specialized curriculum must have demonstrated a commitment to health care delivery

for underserved communities in general, and to the Latino community in particular. Not only will the curriculum prepare students for roles in the delivery of health care to Latinos, but it is also expected to serve as a magnet for highly qualified students seeking an outstanding medical education and a multicultural, multidisciplinary approach. As a result of the specialized curriculum, University of California, Irvine College of Medicine expects to prepare selected students to provide culturally effective care to Latinos and to increase the number of Latino medical school enrollees and graduates.

The UC Irvine College of Medicine is planning a specialized curriculum to include multiple course offerings on Latino Health Care. The course work – Curriculum on Latino Health Care (CLHC) – would compliment the existing medical school curriculum to train highly qualified physicians who are culturally sensitive and linguistically capable of providing care to the underserved Spanish-speaking community of California. A research project culminating in a thesis on a subject dealing with health issues of Latinos will be required as part of the CLHC program. Completion of the CLHC program will result in an “MD with Thesis” or an MD and an MS degree, depending on the coursework completed by the student. The initial program at the Irvine campus is the first phase of a larger plan to create similar programs at other University of California medical schools.

The College of Medicine and Irvine Academic Senate review and approval process will occur during the 2003-2004 academic school year. Concurrently, funding will be sought from the University of California, health-care organizations, foundations, and federal agencies to support the program and students. Pending approval and funding, the program will seek to enroll its first class in September 2004.

Restructuring Premedical Preparation: Biomedical Sciences at UC Riverside

UC Riverside is initiating changes to its Biomedical Sciences Program (BSP) to increase opportunities for students interested in a career in health sciences, regardless of their undergraduate major, and to increase the likelihood that the BSP will produce graduates interested in serving California’s medically underserved communities.

The UCR/UCLA Thomas Haider Program in Biomedical Sciences has provided an accelerated track to obtaining both the B.S. and M.D. degrees through a joint UCR Division of Biomedical Sciences and UCLA School of

Medicine program. The program trimmed the traditional eight years for a B.A./B.S. and M.D. education to seven years. The resulting intensity and selectivity of the program (approximately 250 freshmen were admitted to the program each year, of which 24 ultimately were accepted for the medical school portion of the program), however, led to frustration among students and a belief within the campus and among community physicians that a restructured program would be more effective in meeting health care needs. In response to these concerns, in the closing days of the negotiations, the Legislature together with the University agreed to the following language for Item 6440-001-0001 of the Supplemental Report of the 2003 Budget Act:

“It is the intent of the Legislature that the UC Riverside Biomedical Sciences program be reconfigured, consistent with the following objectives/goals:

1. Increase the probability that all interested students from across campus will become successful in attaining a career in the health sciences, including obtaining an M.D. degree from the UCR/UCLA Biomedical Sciences Program or from other medical schools throughout the state and country.
2. Improve the academic progress of all students who are dismissed from the Biomedical Sciences undergraduate program during their first three years at UC Riverside.
3. Increase the accessibility of the medical school phase of the Biomedical Sciences Program to a broader range of undergraduate students, including educationally disadvantaged students and those who require some experience and guidance prior to deciding upon a career path.
4. Help meet the state’s need for physicians and health practitioners who are committed to pursuing medical careers of service in medically underserved communities.”

The language also states:

“It is the intent of the Legislature that future funding for the UC Riverside Biomedical Sciences program shall be contingent upon the successful reconfiguration of the program to address the above goals and structural changes agreed by the university. It is the intent of the Legislature that program changes will be accomplished in time to be

implemented no later than for the entering class of fall 2004. It is further the intent of the Legislature that admission to the UC Riverside/UCLA Biomedical Sciences program, as it currently exists, will be suspended effective for the entering class of fall 2003, until structural changes are fully implemented.”

“The university shall report to the fiscal committees of the Legislature by January 15, 2003 on its efforts to reconfigure this program and meet the requirements of this language.”

During the summer of 2002, the Riverside faculty and administration evaluated a number of options to develop a campus-wide program to meet the revised goals. The proposed programmatic changes are currently being reviewed by Academic Senate committees and will be placed on the agenda for the November Academic Senate meeting for action. For students entering the Riverside campus in 2003, the old admissions process for the BSP will be eliminated and admissions temporarily suspended. The expectation is that programmatic changes and new admissions process will be effective for the entering class of 2004.

Support for students interested in medicine and the allied health sciences will be expanded. Potential areas of enhanced support include:

- a. Expansion of the health sciences advising services available to students. Advising will be conducted on a coordinated, campus-wide basis.
- b. Expansion of support services, such as test preparation courses, for students interested in health sciences careers.
- c. Enhancement of summer enrichments programs such as the Fast Start Program, which prepares educationally disadvantaged students prior to their matriculation as freshmen for the increased academic demands of the University of California curriculum.
- d. Enhancement of pipeline programs such as the Health Sciences Partnership for Disadvantaged Student Development Program (Health Sciences Partnership). To expand the pipeline of underrepresented students entering the BSP, the program is partnering with the Riverside County Office of Education in the Health Sciences Partnership for Disadvantaged Student Development Program (Health Sciences Partnership). The Health Sciences Partnership promotes

faculty-to-faculty interactions, including via teleconferencing, and encourages development of academic curricula at the high school level to better prepare students for post-secondary education.

- e. Increases in direct faculty interactions with undergraduates interested in medicine and allied health sciences through programs such as the first-year seminar series.
- f. Expansion of interactions with the professional community to increase student access to mentors with diverse practices.

Significant structural changes to the UCR/UCLA Biomedical Sciences Program are likely to include:

- Pre-medical students will no longer enter the BSP as freshmen. Rather, UCR will create an undergraduate major for students who desire a curriculum specifically designed to prepare them for a career in a health science, whether or not they intend to be considered for the 24 seats in the UCR/UCLA Biomedical Sciences Program.
- Students from any major on the campus, as well as community college transfer students who meet admissions criteria will be eligible to apply for the 24 seats in the program and applications to the BSP will be accepted from students in their 3rd, 4th, or 5th years of undergraduate study. The UCR/UCLA Biomedical Sciences Program – i.e., the medical school phase of the program – will continue, unchanged, to consist of a four-year medical education, with students spending the first two years at UCR and the last two years at UCLA.

The criteria for admission to the Biomedical Sciences Program will be reviewed with the aim of making them more comprehensive. This will be done by the faculty in the Division of Biomedical Sciences at UCR, in conjunction with faculty at the UCLA School of Medicine. One of the goals of revising the criteria for admissions will be to increase the likelihood that the BSP will produce graduates interested in pursuing careers serving the State's medically underserved communities.

Medical Student Diversity

During the 1990's UC medical schools experienced significant declines in the enrollment of underrepresented minority students. A Statewide Medical Student Diversity Task Force was appointed by the UC President in October

1999 to assess the causes of these declines and to make recommendations for the future. In November 2000, the Task Force's *Special Report on Medical Student Diversity* was issued. The report contained twelve major recommendations addressing pre-medical education and advising, outreach, admissions, financial aid, the medical student curriculum, and the need for continuity in the future.

Based upon these recommendations, UC medical schools have continued an active partnership with the State's private medical schools in pursuing new strategies to increase the diversity of the California medical student body and to address emerging workforce needs. A new *Medical Student and Workforce Initiative* led by the Vice President for Health Affairs is among the major efforts now underway. This initiative is intended to improve the quality and consistency of pre-medical advising, increase understanding of population-based workforce needs, and increase the recruitment and retention of medical students who are committed to meeting these needs in the future. A three-year grant from The California Endowment totaling \$4,228,500 was provided to the Office of Health Affairs in March 2001 to help fund this effort.

Three activities are being undertaken as part of this initiative. These include: organization and sponsorship of premedical advising conferences during each year of the grant; coordination and development of new studies that describe current and projected health workforce needs in California; and development of new scholarship programs to increase the recruitment and retention of medical students who are committed to serving underserved populations. Matching funds for the scholarship program will be provided by participating medical student programs, including the five UC medical schools, the UC Berkeley Joint Medical Program, the UC Riverside Biomedical Sciences Program, the UCLA-Drew Medical Student Program at the Charles R. Drew University of Medicine and Science, and the State's three private schools at Stanford University School of Medicine, Loma Linda School of Medicine, and the Keck School of Medicine at USC.

Caring for California's Aging Population

In September 2000, the Governor signed Assembly Bill 1820 enacting the Geriatric Medical Training Act of 2000. This legislation contains findings regarding the aging of the California population and expresses the Legislature's intent that UC assume a leadership role in meeting these needs by expanding its teaching, research, and community service programs in geriatrics. Among other things, the measure expresses the Legislature's

intent that UC medical students, and medical residents in certain specialties, complete a definable curriculum in geriatric medicine that meets recognized core competencies for the care of the elderly. The initiatives called for in AB 1820 are intended to promote and "...instill the attitudes, knowledge, and skills that physicians need to provide competent and compassionate care for older persons..." In support of these goals, a one-time research budget augmentation of \$2 million dollars was provided to the University's Academic Geriatric Resource Program in 2000-01 to support the development of initiatives consistent with the new legislation.

At the same time, a total of \$4 million dollars in one-time funding was provided by the State to establish two new endowed chairs at UC medical school campuses at a level of \$2 million per chair. The University is working to secure additional private funding to help ensure that a new chair in geriatrics is ultimately established at each of its five medical schools. Currently an additional \$4 million has been raised as part of this initiative. By establishing these chairs, the University intends to create a strong systemwide foundation for state-of-the-art teaching, leadership in clinical care and research in aging. The faculty filling these chairs will provide leadership in undertaking new initiatives to prepare UC student and residents to meet the health care needs of older Californians. Recruitment efforts are expected to begin in late fall.

Paying for the Costs of Health Science Education

Over the next few years, one of the major issues that the UC health sciences will continue to face is how to maintain high-quality educational programs and training of doctors and other health care professionals in a price-sensitive, competitive, managed care environment. Strong academic medical centers are an essential part of this effort.

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 students and 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 current government subsidies for medical education are continued and increased, or alternative sources of funding are found to support education-related costs that enable the medical centers to compete with

non-teaching institutions for market share, the operating margins of the University's medical centers will decline, which will have negative consequences for the academic program.

In addition, there is continuing pressure from accrediting bodies, managed care plans, and other policy makers to shift the locus of medical training from inpatient to outpatient care sites. Currently, neither the Medicare nor Medicaid programs reimburse providers for teaching costs in an outpatient setting. The University is reviewing many options for funding medical and health science education in both the short term and over the long term.

SUMMER SESSIONS

| 2002-03 BUDGET | |
|-------------------------|----------------------|
| Total Funds | \$ 10,168,000 |
| General Funds | -- |
| Restricted Funds | 10,168,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 305,000 |

Historically the State has provided funding for students enrolling in the fall, winter, and spring terms, but not summer. Through summer 2000, summer sessions were supported from student course and registration fees set by each UC campus. As a key strategy for accommodating the enrollment demand projected for the next ten years, the University has begun converting summer instruction from a self-supporting to a State-supported program. This plan is discussed more fully in the *General Campus Instruction* chapter of this document; some details are provided below. For UC-matriculated enrollments, funding for summer is being shifted to the general campus instructional budget. Funding for non-UC students will remain in the Summer Sessions budget.

In 1999-00, the State began providing enrollment funding at the agreed-upon marginal cost of instruction for all UC students enrolled in summer education credential courses. The State provided \$13.8 million in 2000-01 to reduce the fees charged to UC students in all UC Summer Sessions in 2001. Student fees are now equivalent (on a per-unit basis) to those charged during the regular academic year at all UC campuses. For 2001-02, the State also provided workload funding of \$20.7 million, allowing UC to provide a level of academic support as well as State and University-funded financial aid during the summer that is similar in quality to the regular academic year on three UC campuses: Berkeley, Los Angeles, and Santa Barbara. For 2002-03, the State provided workload funding of \$7.4 million, adding UC Davis to the list of campuses fully State-supported in the summer, and provided \$1 million to

buy down fees for the increased number of students at non-State-supported campuses since fees were first reduced in 2000-01. For 2003-04, UC is requesting \$31.2 million to provide State funding to fully support summer instruction on the four remaining UC campuses—Irvine, Riverside, San Diego, and Santa Cruz in summer 2003.

In summer 2002, approximately 70,000 students registered for UC summer sessions. About 88% were students who registered on a UC campus during the regular year. The balance was from the California State University, California Community Colleges, and other institutions. Non-UC students pay fees that pay for the full cost of their education.

In the past year, from summer 2001 to 2002, the University expanded its summer enrollment by 9,500 UC-matriculated students—2,115 year-average FTE students. The four campuses that were fully funded by the State for summer instruction—Berkeley, Davis, Los Angeles, and Santa Barbara—increased enrollment by 1,340 FTE students. The remaining four campuses grew by about 775 students. In the two years from summer 2000 to 2002, the University expanded its summer enrollments by 5,000 year-average FTE students (an increase of about 20,000 summer headcount students). Summer sessions at the four campuses that were fully funded by the State grew about 80% or nearly 3,500 FTE students. The remaining four campuses grew 61%, or about 1,500 FTE students.

The key to achieving significant enrollment growth in the summer is to offer students summer instruction that is similar in quality and breadth to the rest of the year, student support services, access to libraries, and student financial aid. The State funds provided for summer instructional workload at the regular marginal cost rate at the Berkeley, Davis, Los Angeles, and Santa Barbara campuses were central to UC's plan to accommodate significant enrollment growth during the summer.

UNIVERSITY EXTENSION

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 225,427,000 |
| General Funds | -- |
| Restricted Funds | 225,427,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 10,144,000 |

University Extension is the largest continuing education program in the nation, providing courses to nearly 400,000 registrants who are typically employed adult learners with a bachelor's degree. Extension is a self-supporting operation and its offerings are dependent upon user demand.

The University offered its first Extension courses to students beyond the immediate campus community more than 100 years ago. Today, Extension divisions at each of UC's eight general campuses offer over 21,000 different courses, programs, seminars, conferences, and field studies throughout California and in a number of foreign countries. Almost 60% of Extension's offerings are designed to serve the continuing educational needs of professionals. Over 380 certificate programs are offered in such areas as computing and information technology, graphics and digital arts, and health and behavioral sciences.

Extension also offers degree-equivalent study in undergraduate education programs, and cultural enrichment and public service programs. Various kinds of undergraduate degree credit courses are available, either as replications of existing UC campus courses or structured as undergraduate classes but with content not found in an existing campus offering. Extension explores history, literature, and the arts in traditional and innovative ways, providing cultural enrichment to Californians. In addition to classes, Extension also organizes lecture series, summer institutes, public affairs forums, and other events for the general public.

University Extension offers hundreds of courses on the Web, allowing students to take the courses from wherever their computer is located. The Extension Divisions at UC Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz list Web-based classes through the California Virtual Campus (CVC) which grew out of the Web-based course catalogue developed in 1997 by UC, the California State University, and California Community Colleges. CVC is now fully operational; more than 3,000 courses are offered by more than 100 institutions. Extension Divisions at UC Berkeley and UCLA have more online courses listed than any other institution. In addition to online courses, the Center for Media and Independent Learning, a statewide division of Extension, offers more than 200 high school, university, and professional development courses by mail and fax.

RESEARCH

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 538,646,000 |
| General Funds | 299,581,000 |
| Restricted Funds | 239,065,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 5,840,000 |

The California Master Plan for Higher Education designates the University as the primary State-supported academic agency for research. As one of the nation's preeminent research institutions, the University provides a unique environment in which leading scholars and promising students seek to expand fundamental knowledge of the physical world, human nature and society. Knowledge discovered in the University's research programs has yielded a multitude of benefits, ranging from technological applications that increase industrial and agricultural productivity to insights into social and personal behaviors that help improve the quality of human life. Through its public service activities, the University strives to improve the dissemination of research results and to translate scientific discoveries into practical knowledge and technological innovations that benefit the State and nation.

State Funding for Research

State funding for research over the last fifteen years has reflected the ups and downs of the State's economy. In the early 1990s, when the State struggled through several recessionary years, State funds for research were cut by nearly 20%, which was deeper than other University programs were cut. Once the State's economy began to recover, both the Governor and the Legislature made research a priority by providing augmentations for specific research projects. New state funding, however, was tied to the creation of new units or to specific research areas. Major examples include funding for

the Industry-University Cooperative Research Program (\$17 million), the M.I.N.D. Institute (Medical Investigation for Neurological Disorders—\$8 million), a new Institute for Labor and Employment (\$5.5 million), expanded research programs associated with California's increased ties with Mexico (\$5 million), as well as new initiatives in certain health fields such as spinal cord injury and alcohol and substance abuse, with funding allocated to specific campus centers. While these increases enabled UC to meet new research challenges in specific areas, most existing organized research units absorbed significant budget cuts that were never restored.

In 2002-03, the State once again was in recession. As a result of the downturn in the California's economy and the resulting revenue decrease at the State level, State support for the University's Organized Research budget was reduced by \$32 million dollars, or 10%, in 2002-03. The cut applied to every individual research program receiving State support, including research programs separately identified in provisions of the Budget Act. When the State's fiscal situation improves, it is the University's expectation based upon discussions with the Department of Finance that these funds will be restored.

The 10% cuts enacted in the 2002-03 budget act will force reductions in programs and activities that promise wide benefit to the people of California and will threaten UC's capability to carry out its research mission. State funds provide the infrastructure and core support for programs necessary to place the University in a strong position to compete for federal and private foundation grants. The ability of UC faculty to leverage seed funding for research to compete with peer institutions in winning large grants from federal agencies, such as the National Science Foundation (NSF), National Institutes of Health (NIH), and the Department of Energy (DOE), will be further compromised. UC's ability to recruit and retain top young faculty and the best and brightest graduate students will be further hampered. As a result, research that is essential to the economic future of the state will be reduced further in scope, weakening California's leadership role in areas such as information technology, biotechnology, agriculture, and the health sciences. Additionally, UC's considerable strengths in the humanities, social sciences and the arts – areas which traditionally garner less research support – will continue to be significantly underfunded.

Because Organized Research interconnects with and supports graduate and undergraduate student training as well as outreach to K-12, these cuts will undermine the University's mission to train and support the next generation

of California's leaders. Organized research provides a long-standing and essential source of financial support and real-world training to graduate and professional students. Students supported through UC research across the system number in the thousands. The reduction in research funding over the past decade has – and will continue to have – a proportional impact on UC's ability to support and train graduate and professional students. This is especially unfortunate given the findings of a recent study by the Commission on the Growth and Support of Graduate Students that California has fallen behind in its support for graduate student education and is now last among the 15 largest states in growth in graduate enrollments over the past decade. This Commission found that California has actually had negative growth during the past decade in terms of the number of graduate students it educates, and that compared to other states, California educates a very low proportion of graduate students, awarding only 0.14 doctorates per 1,000 population – less than half the proportion achieved in Massachusetts. Reduced funding for research only exacerbates this already regrettable situation.

K-12 outreach and undergraduate students are also affected by cuts in research funding. The opportunity to gain hands-on research experience is what distinguishes undergraduate education at UC from that obtained at many four-year institutions. Many of the approximately 40 multicampus research units and 160 campus-based organized research units run K-12 outreach programs and welcome undergraduates into their research activities. Some programs, such as the SpaceCam program at the California Space Institute, have been models of successful outreach that have encouraged significant numbers of high school students to pursue higher education at UC. Once at UC, many of these students participate in undergraduate research programs that, in addition to enhancing their education, better prepare them for graduate and professional school and subsequent careers. With cutbacks in their operating budgets, organized research units will be forced to eliminate these useful programs. These developments are especially unfortunate, given the increasing challenges of finding ways for all young Californians to enroll and thrive at UC.

In the document accompanying release of the Governor's 2002-03 budget in January, the Governor stated that: "Investment in research and development and the creation of a highly educated workforce have become statewide imperatives, as a result of the emergence of knowledge-based industries and the globalization of California's economy." Given the reality of the State's fiscal situation, difficult choices must be made, but choices made in the near

term must be consistent with the goals for the long term. As a high-technology state, California will continue to rely on cutting edge research and highly educated workers, and the critical need for talented people with advanced degrees is especially important in the fields of engineering and computer science. California and the nation must have more scientists and engineers who can create, invent, and reach solutions to increasingly complex problems. Reductions in State support for the University's research budget have far-reaching consequences well beyond fostering research excellence itself. These reductions threaten California's ability to help industry innovate and contribute to a strong economy; they hinder California's efforts to provide an outstanding educational experience to graduate and undergraduate students, the next generation of state leaders; they deter outreach efforts to attract young Californians to higher education; and they disadvantage UC's ability to attract the best faculty.

Importance of University Research

Economists attribute at least 50% of this nation's economic growth since World War II to innovation resulting from research and development, with university research playing a key role. Many similarly believe that California's recovery from the recession of the early 1990s was due, in large part, to the commercial impacts of research and training conducted by major institutions like the University of California. Almost all of the industries in which California leads the world—agriculture, aerospace, aviation, biotechnology, software and computers, telecommunications, multimedia, semiconductors, environmental technologies—have depended heavily on the contributions of university-based research.

To keep California's economy growing, it is essential to invest in the research necessary to fuel the creation of new products and processes that boost productivity and create jobs. As other states have launched aggressive and well-financed campaigns to lure away California's high-technology businesses, California has responded with the Industry-University Cooperative Research Program and other aggressive strategies, including tax benefits, to keep these businesses here and to attract more. Faculty research not only furthers fundamental knowledge and helps to sustain California's economy; it also enhances instruction in several significant ways. By engaging in research, an instructor keeps up with developments in the field and is able to communicate to students first-hand the sense of excitement and adventure that accompanies the pursuit and

discovery of new knowledge. Faculty research also stimulates change in the curriculum, improvement of teaching material, development of new courses, and even new disciplines, particularly in rapidly advancing fields like genetics, microelectronics, and information and computer sciences.

Moreover, faculty research affords students the opportunity to develop research skills and work in a creative research environment alongside top scholars engaged at the cutting edge of knowledge in their fields. Undergraduate students on all campuses are able to participate in research projects under the direct guidance of a faculty member, fostering the development of skills of inquiry and problem solving, and the acquisition of knowledge in a discipline of interest. Finally, through collaborative research with industry, students experience how discoveries are transformed into products and services that benefit the public, as well as see first-hand how their education is relevant to future careers in industry.

California Institutes of Science and Innovation

In order to strengthen California's economic competitiveness, Governor Gray Davis created a plan for four California Institutes for Science and Innovation (Cal ISI) at the University of California. These Institutes are expected to increase the state's capacity for creating the new knowledge and highly skilled workforce that will drive entrepreneurial business growth and expand the California economy into new industries and markets.

An unprecedented three-way partnership among the State, California industry, and the University of California, the Institutes will focus on research fields key to the future of California's economy and will undertake basic, multidisciplinary research on complex problems requiring the kind of scope, scale, duration, world-class scientists and outstanding students that the University can provide. The State and industry will help with equipment and facilities, all of which will speed the delivery of public benefits through new products, technologies, services, and jobs.

The law requires that \$2 from non-State sources be provided for every \$1 of State funds devoted to the Institutes. To date, the Institutes have commitments from non-State resources, which, by the end of the first four years for each Institute, will yield a match of approximately 3 to 1, significantly exceeding the 2 to 1 match required by law. The non-State sources include grants from the federal government, gifts and grants from industry, private foundations, and individuals, as well as University on-State funds. These commitments have been sustained despite the impact

of the recent economic downturn on industry and on the stock market that supports the ability for foundations and individuals to donate.

Leveraging the State's Investment. The University is implementing the California Institutes for Science and Innovation consistent with Assembly Bill 2883 (Chapter 79, 2000), which authorized the first three institutes, and Chapter 106 (2001 Budget Act), which authorized the fourth. The legislation authorized State funding of \$100 million for planning, design and construction of each Institute. Legislation also authorizes that up to 5% of the total annual appropriation may be used for operating purposes.

The first increment of funding for each Institute was provided from General Funds. In order to address State budget constraints, the Governor proposed and the Legislature approved legislation (SB4xxx, Peace, 2002) permitting the use of \$308.5 million of State Public Works Board (SPWB) Lease Revenue Bonds to fund the remaining construction and equipment for the Institutes. This amount includes \$90 million to replace State General Funds that originally had been appropriated for 2001-02 but were later reverted to the State to help fund the State's budget deficit.

As noted above, the State funding for the development of the Institutes included temporary operating budget support for the first four years of the Institutes' operations, including \$4.8 million for 2002-03. These funds provide important core research administrative support and seed money for extramural contracts and grants. The current plan is that in 2004-05 when the State's fiscal situation improves, the University will put forward a request for permanent operating budget funds for the Institutes in order to enable them to continue their important contributions to the State's research and economic development.

Selection Process. The four institutes were selected through a competitive, peer-reviewed process from a field of 11 initial proposals developed by the ten campuses. Selection of the finalists was based on the following criteria: vision, excellent scientific and engineering personnel, highest merit scientific research plans, innovative and relevant educational experiences for students, likely economic outcomes for California, well-justified budgets, and clear-cut facilities and construction plans. Proposals were developed by faculty and then were evaluated on academic merit and on financial merit by the Office of the President; budgetary and financial plans were reviewed by Office of the President staff. The findings of those reviews were communicated to the

Governor's Selection Committee, an international review panel of distinguished scholars and scientific experts from the private sector and academia appointed by the Governor to advise him and President Atkinson on the most meritorious candidates for establishing the initial three institutes. The Committee advanced four proposals, rather than the three requested, because they found them to be of such compelling quality and merit.

The four California Institutes for Science and Innovation have made significant progress in launching research, education and industry partnership activities in the first year. Each involves at least 100 researchers drawn from all of the participating UC campuses, as well as many more students. Each has actively engaged industry partners in the development of research and education activities and in technology transfer. Each has also developed truly innovative educational opportunities for participating students that will position them to assume leadership positions in California's science and technology enterprise.

The Four Institutes: Already Producing Results. The four Institutes have begun operations while planning is underway for their facilities. Each Institute is briefly described below.

- ***California Institute for Science and Innovation in Bioengineering, Biotechnology and Quantitative Biomedical Research (QB3):*** UC San Francisco leads a partnership with UC Berkeley and UC Santa Cruz. QB3 is developing new technologies and new areas of research for drug discovery and for the diagnosis and treatment of cancer, arthritis, and other diseases through the convergence of mathematics, engineering, and physical sciences with biomedical and genome research.

The fusion of biological sciences with high-level technology is producing the foundation for important advances in medical devices, such as the following two examples. Research on micro-electro-mechanical systems (MEMS), designed to deliver medicines in carefully controlled amounts and locations, will lead to designs for drug delivery devices of remarkably small size and high controllability. Controlled drug delivery will help reduce dosages, exposure to unwanted side effects, and healthcare cost. Research on a miniaturized microscope, composed of a micro-lens and scanner system, provides the prototype for a tiny medical imaging system so small that it can be balanced on the end of a ballpoint pen and may someday be used to visualize and identify very small amounts of biological materials, such as infectious agents or tumor cells. The goal is to make

the technology small, inexpensive, and easy to use in a clinical or medical laboratory setting.

The convergence of quantitative sciences (mathematics, statistics, and computer science) with biological sciences is positioning the Institute for major advances in the post-Genome Project era of biomedical research. Research programs focus on building information technology capabilities for accessing and analyzing the enormous data sets required to understand how the human body functions as a complex system of cells and molecules. This knowledge enables both the identification of disease processes and the design of carefully targeted diagnostics and therapeutics. Using this “systems biology” approach, Institute researchers are gaining insights to cancer, arthritis, Alzheimer’s Disease, and muscular dystrophy, among other diseases. QB3 has launched a statewide Computational Biology Consortium to extend its reach beyond the three campuses and draw California’s best scientific experts together to solve complex research problems.

QB3 has also launched special programs aimed at accelerating the transfer of new knowledge to California businesses, where it can be translated into practical products and technologies for healthcare. The Center for BioEntrepreneurship presents programs for students and faculty that describe the fundamentals of business development and technology transfer. A second initiative, “Reporting on Science – Workshops for Science Journalists,” provides educational and informational programs for journalism students and professional journalists. It is lead by Orville Schell (Dean, UCB Journalism School), and by Professor Graham Fleming (UCB Professor of Chemistry).

- ***California NanoSystems Institute (CNSI)***: UCLA leads a partnership with UC Santa Barbara. CNSI is creating a laboratory for research, education and technology development in the exciting new field of nanoscience, which enables scientists to design materials and functional machines at the level of individual molecules and atoms.

CNSI has achieved remarkable breakthroughs in gallium nitride crystal engineering that will soon make lighting fixtures substantially more energy efficient and enable a full spectrum of applications from the home to traffic lights and large-scale displays. These novel materials provide foundation for solid-state white lighting that will replace today’s inefficient light bulbs and monitors.

Significant research progress has been made on photonic devices that enable optical switching, optical multiplexing, and light manipulation in communications devices. This research will enable the next major improvement in communications, greatly increasing the capacity of information that can be handled by the communications infrastructure.

New materials based on nanosciences are particularly important in advancing the power of computing. CNSI research has achieved internationally significant milestones in next generation information technologies essential for expanding the memory capacity and computational strength of computers. This includes advances in molecular electronics, spintronics (spin polarized currents), and quantum computing.

CNSI scientists, including the inventor of the PET scanner, have launched an ambitious research program to develop ultra-early medical diagnostic tools that enable physicians to detect molecular errors in human cells and tissues before they lead to disease. They are developing technologies to examine, in the patient, the function of genes and proteins implicated in disease. This involves the development of diagnostic materials, equipment, and technologies integrated for clinical use with scientists' best understanding of the molecular biology and physiology. It also involves managing huge volumes of data, extracting medically-significant information, and creating models and visualizations to support clinical decision-making. CNSI has built strong collaborations with researchers at the Los Alamos National Laboratory and the Lawrence Livermore National Laboratories managed by the University of California.

Another important CNSI research area is focused on the development of the novel manufacturing technologies and tools that couple silicon-based manufacturing processes with the atomic precision, selectivity, and sensitivity characteristic of biological systems. Under development are designs for construction of large, multi-user fabrication facilities that enable rapid prototyping of novel devices and structures.

California Institute for Telecommunications and Information **Technology (CAL (IT)2)**: UC San Diego leads a partnership with UC Irvine. Cal (IT)2 is designing local and regional communications systems in a unique environment that immerses scientists and students in cutting edge technology and enables them to work in collaboration with researchers from firms on problems that will determine the future directions of communications.

Cal (IT)² researchers have made significant advances in developing information and communications systems to improve transportation. In the area of auto safety, researchers are building vehicles containing video cameras and sensors systems that monitor drivers, noise, passenger positions, and driving conditions such as weather and traffic. Coupled with an onboard computer and wireless communications technology, these sensor systems send and receive data to enable the driver and traffic managers to determine conditions and make decisions on how to improve traffic flow. In addition, developments in another transportation research program will enable the deployment of shared, public fleets of electrical vehicles by local and regional governments.

Another major research development includes a research award by the National Science Foundation. Cal (IT)² has been selected to lead the national Biomedical Informatics Research Network program, creating a testbed to address the needs of U.S. biomedical researchers to access and analyze neuroscience data available at multiple sites throughout the country.

A major research effort well underway is developing an optically-connected, immersive environment that enables the simultaneous visual projection of information from multiple sites, including data transmitted wirelessly by sensor arrays deployed in large regions and related, real-time analyses provided by research laboratories around the world. This enables virtual research teams, with members located at remote sites, to work collaboratively and simultaneously on the same data sets. Visualization systems require high bandwidth optical connectivity, and are increasingly utilized by industry and government, particularly in command-and-control sites used in shipbuilding and defense applications. They have already been applied in Cal (IT)² for remote sensing of earth conditions and of earthquake activities in a wide region east of San Diego.

- Center for Information Technology Research in the Interest of **Society (CITRIS)**: UC Berkeley leads a collaboration with UC Davis, UC Santa Cruz and UC Merced. More than 150 faculty members from more than 28 departments across the four campuses are taking on the challenge of designing complex information systems for major societal challenges in energy management, traffic systems, disaster mitigation, and distance health care and education.

CITRIS research and education programs will change the way researchers collect, share, and utilize data. It will also transform decision-making in government, commerce, and the greater societal arena, by delivering new kinds of vital data for rapid analyses that are essential for saving lives and dollars.

CITRIS' initial vision centered around six societal-scale applications of information technology – energy efficiency, transportation, earthquake preparedness, environmental monitoring, health care and education – and was recently expanded to include special initiatives in Homeland Defense and Cultural Research. The CITRIS partnership will be the first to create and harness information technology to tackle society's most critical needs by building effective models – Societal Scale Information Systems (SIS) – for pervasive, secure, energy-efficient, and disaster-proof information systems that are adaptable to the needs of the people and organizations that use them.

Industry has responded enthusiastically to CITRIS' research agenda. More than 20 California companies are already actively engaged in CITRIS research and education programs. Many more are contributing to the Institute.

CITRIS research on microsensors – tiny wireless computers comprised of a radiochip and battery programmed to continuously monitor the environment – is the fundamental building block of the information networks program. Since it was launched, CITRIS research programs have achieved remarkable progress in the design of “Smart dust motes,” scaling down the size and cost of the wireless sensors from palm-sized, \$80,000 units to microscopic devices costing less than \$70 each. This research program supported energy use monitoring on the UC Berkeley campus during last year's energy crisis. It can be adapted to monitor energy, temperature, light, movement, and hazardous materials, including chemicals and biological agents. The sensor network-enabled projects also focus on 3D modeling of buildings to provide real-time information on human activity, energy consumption, and emergencies, such as earthquakes, fires, and floods, as well as on terrorist-related conditions.

The Digital Laboratory under development in CITRIS presents an important model for very large-scale research networks and a unique educational environment. It will enable researchers and students from any discipline to access databases in any department on the UCB campus

and, eventually, remote locations. This is particularly important in fields, such as anthropology and social science, where data collections are growing at a rapid pace but information networks are lacking and opportunities to “mine” the data are lost. Economics researchers are helping to build research networks that support the study of regional economies and the leading indicators of economic variables. They are also studying issues related to SIS and privacy, a key social consideration.

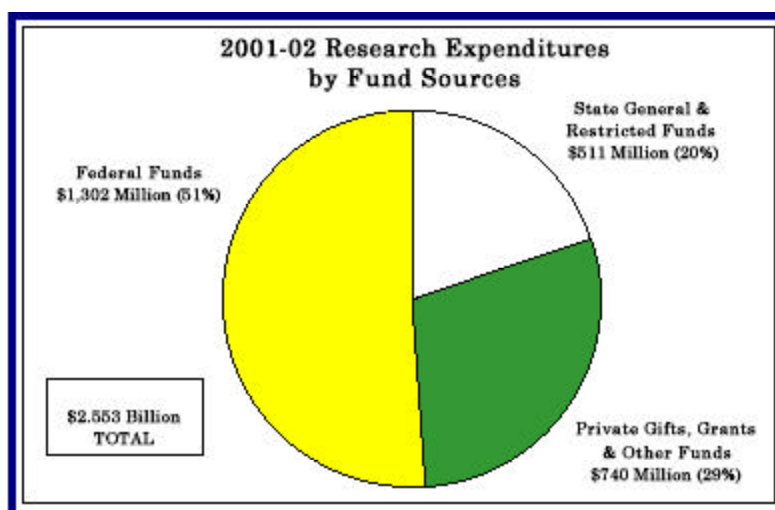
Other Organized Research

For many University research programs, State funds are the core that attracts extramural funds necessary to support major research projects. As shown in Display 1, the University’s research expenditures in 2001-02 included about \$2 billion in non-State funds and \$511 million in State General and restricted funds, a ratio of nearly four to one.

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

University research is supported from a variety of fund sources. Display 1 (next page) shows actual research expenditures by fund source for 2001-02. That year, research expenditures totaled \$2.553 billion, an increase of \$234 million, or 10%, over the prior year. In 2002-03, State funds for research were reduced, but with projected increases in other sources, resources will increase to approximately \$2.652 billion. This includes \$2.016 billion from extramural sources (i.e., federal government, private individuals, foundations, industry), \$97.4 million from Regents’ funds, \$299.58 million from State General Funds, and \$239.1 million from restricted funds (State

Display 1



and non-State funds). The \$239.1 million in restricted funds includes special State funds to support a coordinated statewide program of tobacco-related disease research administered by the University (\$19.4 million for 2002-03). Another tobacco tax provides support for the Breast Cancer Research Program (\$14.7 million). The Breast Cancer Research Program also receives special State funds from the California Breast Cancer Research Fund (\$480,000), which derives from the State personal income tax check-off.

Of the \$299.6 million in State General Funds, approximately 27% is allocated to Agriculture; 12% to single-campus (ORUs); and 9% to a combination of MRUs and systemwide programs to support research on AIDS, microelectronics, Industry-University Cooperative Research Program, biotechnology, and toxic substances research. The remaining 39% is related to permanent and one-time funding for other research activities not formally constituted as MRUs, including, among others, Internet2, universitywide programs in substance and alcohol abuse prevention, neurodevelopmental disorders, spinal injury research, and individual faculty research.

Despite the projected increase in federal and private contracts and grants, the decrease in State support for research is a cause for concern. State funds for

research provide the core funding that enable UC to develop in new areas and position itself to continue to compete successfully for new federal research initiatives. In addition, the State-private sector partnerships offer potential direct economic benefits for California. Restoration of State support for research eliminated in 2002-03 will be a very high priority for the University, when the economy improves.

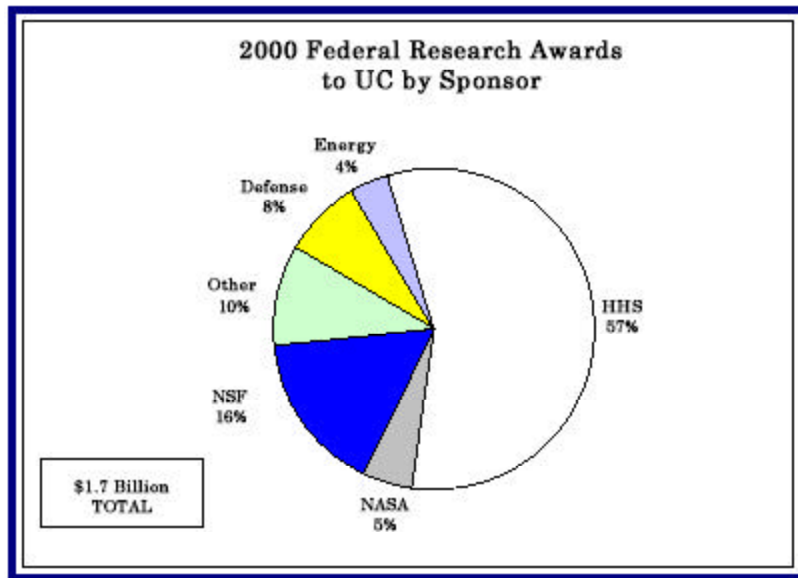
Federal Funding for Research

Federal funds are the University's single largest source of support for research, accounting for approximately 51% of all University research expenditures in 2001-02.

In addition to the federal funds in the University's research budget, the University manages three Department of Energy Laboratories: the Lawrence Berkeley Laboratory (LBL), the Lawrence Livermore National Laboratory (LLNL), and the Los Alamos National Laboratory (LANL). With combined expenditures of \$3.563 billion in 2001-02, the Labs conduct research important to the State and the nation, including research on bioterrorism, nuclear nonproliferation, and environmental cleanup. In the new budget year, with the emphasis on homeland security, the University expects to receive funds to build a defense computing center as well as increased funding for bioterrorism research. While the Laboratories are separate entities, research at the Labs has direct and indirect benefit to University faculty and students. For example, as part of a high-intensity neutron diffractometer for characterizing bulk materials project (HIPPO) funded by the Department of Energy (DOE) at LANL, the physics department at UC Berkeley was funded to design and manufacture several components of this detector. The detector is now installed and operating at the Los Alamos Neutron Scattering Center (LANSCE).

The University remains highly competitive in terms of attracting federal research dollars, with fluctuations in the University's funding closely paralleling trends in the budgets of federal research granting agencies. Thus, the outcome of the annual federal budget process has important ramifications for the University's research budget.

Display 2



As shown in Display 2, about 73% of the University's 2001 (the most recent year for which data are available) federal research awards came from just two federal agencies, Health and Human Services (HHS), primarily through the National Institutes of Health (NIH), and the National Science Foundation (NSF). Other agencies that figure prominently in the University's awards are Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Department of Energy (DOE).

The FY2002 federal budget, the first budget under the Bush Administration, provided record increases (14%) for research and development programs across the government, with substantial increases over FY2001 for NIH (16%), NSF (8%), and DOE (5%). The large increase for NIH for the fourth year indicates continuing strong bipartisan support for the goal of doubling the agency's budget over a five-year period.

The second budget request of the Bush presidential administration continues support for NIH and proposes increases for DOD and DOE, but seeks to limit discretionary budget increases overall to 2%. To accomplish this, all other discretionary programs including other research programs would be limited to stable or declining funding. This is a concern for the University. With the large increase in students and faculty projected for the UC system, to

maintain academic quality, the University requires research funding to grow by about 7% per year over the next 10 years in order to cover inflation and enrollment-related faculty growth. The federal budget projections and political divisiveness will make it very difficult to sustain such large annual increases over the next decade.

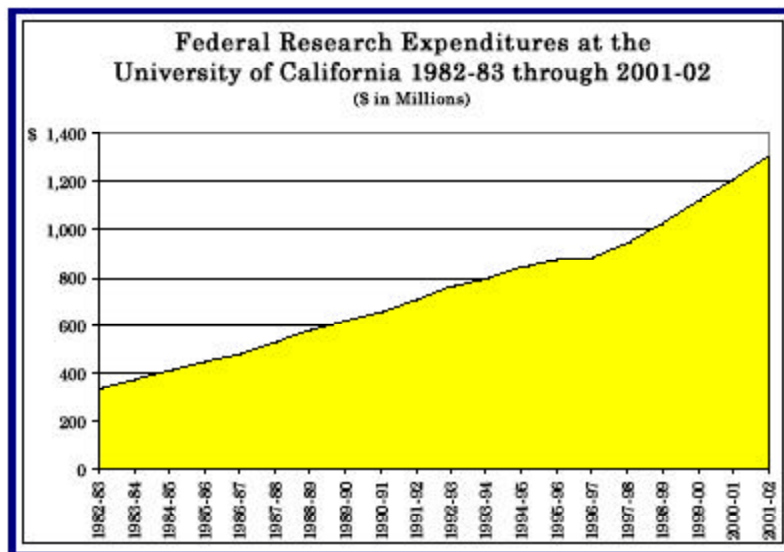
The President's FY 2003 budget reflects the new realities of a stepped-up war on terrorism, a mild recession and slowing federal government treasury receipts as well as tax cuts approved in 2001. The August 2002 mid-term budget projections from the Congressional Budget Office reflect the changed budget picture and projections of budget deficits through 2005 and a ten-year surplus of only \$1 trillion, down from projections as recent as 2000 of \$5.6 trillion.

Bipartisan support for initiatives for national defense, disaster relief, and stimulation for the weakening national economy may result in support for larger increases for research in FY2003, but the final outcome is still uncertain.

Historical Trends in University Federal Research Funding

Display 3 illustrates trends in federal research funding for the University over the eighteen-year period between 1982-83 and 2001-02. In the decade

Display 3



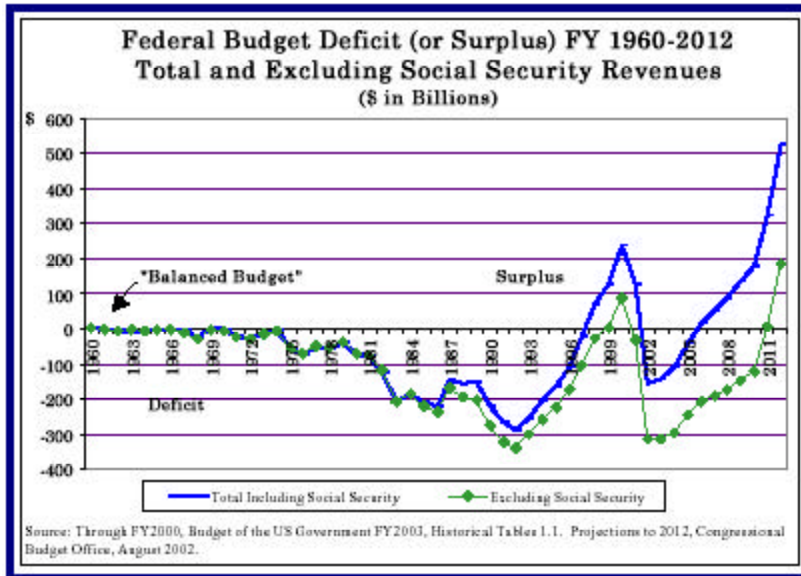
between 1982-83 and 1992-93 and again from 1997-98 through 2001-02, federal support for research at the University grew dramatically. With a commitment to research established as a national priority by both the President and the Congress, annual federal research expenditures at the University increased by an average of almost 10% during this period. Between 1992-93 and 1995-96, however, the focus of the federal government was deficit reduction. As a result, while total University expenditure of federal research dollars continued to increase, the rate of growth slowed. Federal research expenditures at the University increased by an average of about 4% per year, and in 1996-97, there was no increase over the previous year. However, progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in new growth for funding; the University's federal research expenditures increased by 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, 8% in 2000-01 and 8.6% in 2001-02. Clearly the federal research budget and the University benefited from the robust economy and a growing surplus.

Balanced Budget Agreement

In 1997, after twenty years of deficits in federal government spending, the President and Congress reached an agreement to balance the federal budget over the five-year period from 1998 through 2002. Of specific concern to the University was a part of the budget plan that envisioned no increases in overall domestic discretionary spending during this period; most of UC's federal research funds come from the discretionary portion of the federal budget. This, in combination with tight spending caps, led to predictions of dramatically reduced funding for University research.

After the 1997 agreement, however, there was a dramatic turnaround due in large part to the sustained strength of the national economy. Revenues increased more rapidly than had been projected, and the budget was balanced three years ahead of schedule. By 1998, the government recorded a surplus for the first time in three decades. As shown in Display 4 (next page), the budget picture improved from a record \$290 billion deficit in FY1992 to a record \$236 billion unified surplus in FY2000. (The unified surplus refers to the surplus in all government accounts, including Social Security.) Once a balanced budget was achieved, however, the President and Congress agreed to establish a new goal: balancing the budget without counting the Social Security surplus, or recording an on-budget surplus. Initially, this commitment created problems for the FY2002 budget negotiations.

Display 4



The Surplus

The August 2002 mid-year forecast by the Congressional Budget Office (CBO) projects a unified budget deficit of \$145 billion for FY2003, additional deficits for FY2004 and FY2005, and a small surplus of \$15 billion for FY2006. The August 2002 CBO estimates for the ten-year outlook project a much smaller surplus than forecast in March, down from \$2.3 trillion over the ten-year period, to just \$1 trillion. These forecast changes are caused by three roughly co-equal factors: reduced tax receipts, increased debt interest payments, and increased spending.

Prior to 2002, the tax reduction bill passed in June of 2001 resulted in changes that will reduce the long-term surplus by \$1.8 trillion over the next ten years. The bill will reduce tax revenues by an estimated \$1.3 trillion over the next eleven years, plus the federal budget will have an additional \$500 billion in extra interest costs relating to slower debt retirement. These factors have combined over the last 20 months to reduce the projected surplus from nearly \$5.6 trillion over ten years to \$1 trillion over the same period.

In February 2002, the President submitted his FY2003 budget and prioritized spending to increase national defense, combat the economic slowdown, and fund the war on terrorism. In addition, his budget sought to limit growth in domestic spending to keep the federal budget deficit as small as possible. The President proposed large increases in national defense expenditures with small increases that averaged 2% over the rest of the federal budget.

Outlook for FY 2003 and Beyond

Congress was unable to complete any of the 13 appropriations bills before the October 1 deadline for the start of the new fiscal year. President Bush has signed a second continuing resolution providing funding at FY2002 levels for programs in unsigned appropriations bills through October 11. More continuing resolutions likely will be used to keep the government operating while Congress campaigns and then returns after the November elections to wrap up the spending measures. Several factors are complicating efforts to agree on the spending levels in this year's appropriations bills. One is the high tension between the White House Office of Management and Budget's fiscal conservatism and the Appropriations committee members' desire to spend more money than was requested by the Administration – leaving a wide opening for the potential veto of several appropriations bills if the Administration believes that Congress has spent more than the Administration is willing to allow. The second factor is impending mid-term elections and the desire of both parties to emphasize issues of interest to the electorate. The third factor is the slow progress on the appropriations process to date, with most bills not yet ready for a House-Senate conference.

The resolution of differences turns on how much the House and Senate decide to spend in discretionary funds. The House has a ceiling on discretionary spending which is nearly \$10 billion below the Senate's. The final resolution of this difference will have enormous implications for UC. For example, the Senate and House provide nearly a 12-13% increase for NSF overall budget, and almost all of it is for providing nearly a 15% increase in NSF's research budget. In the House version with its lower ceiling, the increase came at the expense of funding "first responder" needs for anti-terrorism that were included in the President's budget FEMA request.

It is unlikely that an NSF increase of the proposed magnitude will be provided if the Administration succeeds in persuading the Congress to adopt the lower present House ceiling and requiring the Appropriations Committee to fund "first responder" needs from within the VA-HUD-Independent Agencies bill. But the NSF increase could be sustained if,

in a spirit of compromise, the President and the OMB accept more spending than called for in the President's request.

A post-election session may change the outlook for this year's appropriations bills but if the House remains under Republican control and the Senate retains its narrow Democratic majority, the longer-term outlook for research spending will be similarly conflicted. The Administration will likely continue to act in a fiscally conservative fashion. Increases in domestic discretionary spending will be difficult for the Administration to request and difficult for Congress to appropriate without further burdening the economy with debt.

In addition, Congress and the President will have finished their 5-year commitment to double the NIH budget, making large increases in research funding less likely without the driving force of the 15% increases to the NIH budget each year, and with a large defense research increase in FY2003 (12%), it will be harder to sustain a second year of large defense research spending increases. Although the NSF budget is just one-fifth that of NIH, the proposed FY2003 appropriations action for NSF reflects a large increase of nearly 13% and there is a new movement underway among some in the Congress to double NSF's budget over the next 5 years. On the other hand, a potential war with Iraq could require further domestic spending cuts and reduce the economic growth, increasing the budget deficit beyond current estimates.

Benefits of Research

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

- In their 1997 book, *The Rise of American Research Universities*, Hugh D. Graham and Nancy Diamond quantitatively measure and compare institutional research performance at 203 public and private universities in the U.S. Based on faculty members' grant, publication, and fellowship award records across different fields, the authors concluded that the University of California as a system leads the nation in research excellence and productivity among public universities. They cite the remarkable rise of the University's smaller, younger campuses as well as the success of its large, established ones.

- Another indicator of how well UC does relative to other research universities is the National Science Foundation study on the scientific basis of American patents. UC produced more research leading to patented inventions than any other public or private research university or laboratory during the periods studied.

The University's research activities yield a multitude of benefits, ranging from increases in industrial and agricultural productivity to advances in health care and improvements in the quality of life. The following discussion presents examples of UC's contributions to the economic and social well-being of the state and nation.

Economic Impact

In terms of a direct impact on the California economy, University research programs attract large amounts of extramural funds for expenditure within the state. In 2000-01, the University spent over \$2 billion dollars received from the federal government and private sources for research—nearly four 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. Recently, UC San Diego identified 119 such companies nurtured by research from that campus, which together employ more than 15,000 people and generate annual revenues in excess of \$1.8 billion. UC scientists founded one in five biotechnology companies in California, including three of the world's top companies, Genentech Inc. of South San Francisco, Chiron 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.

Partnerships with Industry

The Industry-University Cooperative Research Program (IUCR), established in 1996-97, has emerged as an important mechanism for making targeted investments in areas of research that are of strategic importance to the California economy. This competitive matching grant program is modeled, in part, on the University's successful MICRO Program, which demonstrates UC's track record in using research partnerships to enhance economic development. Since its establishment in 1981, MICRO has played an important role in nurturing the development of California's world class microelectronics and computer industries. In 2001-02, IUCR competitive grants in the amount of \$22 million was awarded to UC researchers and their private sector sponsors. The private sector provided \$32.9 million in matching contributions.

The competitive matching grant programs created by the IUCR Program have been carefully selected by industry and University experts for their dual importance to California's economically important entrepreneurial high technology businesses and to the University's goals for expanding basic research and education. Each program focuses on an area of the global economy where California is poised for or has recently attained worldwide leadership, and aims to partner University researchers and students not only with established companies, but also with promising young companies. To date, two-thirds of participating firms are small businesses and more than one-third have fifty or fewer employees.

These joint research projects create new knowledge that helps keep California businesses competitive, accelerate worldwide investment in the California economy, speed creation of high paying jobs for Californians, and improve health, food production, and the environment in the state.

The programs are proving important to young faculty and to students. Nearly one-quarter of participating faculty hold entry level or assistant professor appointments. Moreover, as the five programs expand, they will be creating unique research training opportunities for as many as 500 undergraduates, graduate students, and postdoctoral scholars each year. Matching grants have been awarded to investigators at each of the nine campuses.

In addition to MICRO, which is now part of IUCR Program, there are six other fields in which the IUCRP invests in matching grants with California companies:

- Biotechnology helps California maintain its leadership position in the biotechnology industry through jointly funded research projects.
- Communications and Networking: promotes jointly sponsored research partnerships in wired, wireless, and Internet technologies.
- Digital Media: defines the frontiers of digital media through broadly interdisciplinary projects that draw together California businesses with UC researchers.
- Information Technology for Life Sciences: supports jointly sponsored research at the interface of life and health sciences and mathematics, statistics, computational and information sciences, and engineering.
- Electronics Manufacturing: addresses the fast-paced research needs of semiconductor equipment and materials manufacturers through research partnerships.

MICRO invests its annual \$4.6 million in funding from the University and State to attract industry to support UC research and graduate student training. MICRO awards funds to faculty-initiated research projects that are jointly supported by microelectronics companies. MICRO also provides graduate student fellowships to ensure an uninterrupted supply of well-trained scientists and engineers for California's microelectronics industry. As an integral part of the IUCR Program, MICRO helps ensure California's continued world leadership in microelectronics.

Agriculture

California farmers and ranchers produced more than half of the nation's fruits, nuts and vegetables, and generated \$29.8 billion in gross cash receipts in 2001. A major employer and revenue generator in the state, agriculture accounts for 1.1 million jobs and more than \$60 billion in personal income. California is the nation's leader in agricultural exports, shipping more than \$6.5 billion in food and agricultural products around the world. Among the 350 commodities produced in California are the billion-dollar commodities of milk and cream, grapes, nursery products, cattle and calves, and lettuce.

In the early 1900s, UC scientists discovered how to remove alkali salts from Central Valley soils, thereby transforming California into one of the world's most productive farming regions. Similar contributions have continued

unabated in the past century. In a recent study on the payback of the State's investment in agricultural research, it was shown that farm production increased nearly 300% from 1949 to 1985, with almost half of this growth directly related to research.

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

- New varieties of strawberries, walnuts, citrus, and many other fruits, nuts, field and vegetable crops have been developed at UC enabling California to be the leading producer of agricultural produce in the nation;
- Basic principles of biological control and integrated pest management have been discovered leading to the control of a myriad of insect pests found in agricultural, urban and natural systems, reduced pesticide use and improved environmental quality;
- Improved land reclamation, irrigation (including drip systems), and drainage techniques have led to better land growing more productive crops more efficiently while conserving natural resources.

In the natural resources area, AES and CE academics are addressing challenges and opportunities associated with land, air and water resources. Some recent examples of successes include:

- Effective ways to reduce the impacts of wastes on land, water and air resources;
- Strategies for the protection of rangelands, watersheds and water quality by reducing impacts of livestock production;
- Innovative agricultural and forestry practices leading to improved wildlife habitat – e.g. modification of rice production techniques to support migratory waterfowl populations.

With its mission orientation and direct linkages to clientele, the Division of Agriculture and Natural Resources is uniquely positioned within UC to be

“responsive” to the needs of Californians. Recent examples are the mobilization of AES and CE to address Pierce’s Disease in grapes and Sudden Oak Death. ANR scientists and advisors are working to develop methods to control Pierce’s Disease, a devastating disease of grapes, ornamentals and other crops, and its insect vector – the glassy-winged sharpshooter. ANR scientists have also responded with critical field research to identify hosts for the pathogen that causes Sudden Oak Death, and measures to slow its destructive spread to coastal oaks, redwoods and other trees and shrubs.

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 AIDS syndrome and the malignancies associated with it and to isolate the causative agent for AIDS in humans. Molecular biology research has given us relatively inexpensive, safe, and effective vaccines and hormones, as well as a variety of other therapeutic agents. Genetic engineering technologies being developed at UC promise to help find cures for some of 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 cigarettes; corrective surgery before birth for formerly fatal fetus abnormalities; an innerear 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.

The State has recently funded several new initiatives in medical research, including funds for research on substance and alcohol abuse, and operating support and annual debt service support for a facility to house basic science research on various neurodevelopmental disorders and to develop effective treatments, among other augmentations.

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

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

In the 200001 budget, the University of California also received \$2 million in onetime funds for its longstanding Academic Geriatric Resource Program (AGRP) and \$4 million in onetime funds to create new endowed chairs in geriatrics at UC medical school campuses. The \$2 million of funding was used to fund a wide range of AGRP activities, including medical education curriculum development, focusing on the health needs of the state's aging population.

Other programs funded recently by the State support research on the diagnosis, treatment and prevention of lupus, a disease of the autoimmune system; and brain and spinal cord injury treatment and cure.

Other Research Areas

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 earthquake effects. Research on global climate and earth systems is benefiting California fisheries and agriculture by leading to better predictions of hazards such as drought, flooding, and other natural disasters, and to more effective means of mitigating their effects. New materials are being developed that could lead to better synthetic products, such as prosthetic devices more acceptable to the body and longerlasting, easycare contact lenses. UC researchers forging

ahead in new research areas such as roadway technologies, alternative fuels, and truck safety are addressing California's changing transportation needs. Social science research is furthering our understanding of issues critical to California's social and political wellbeing. Examples include collaborative research between California and Mexico focusing on issues of critical interest such as trade and economic development, research on law and society, and public responses to technological advances.

PUBLIC SERVICE

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 254,821,000 |
| General Funds | 175,229,000 |
| Restricted Funds | 79,592,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 1,950,000 |

Public service includes a broad range of activities organized by the University to serve local communities, students, teachers in K-12 schools and community colleges, and the public in general. A major component of public service is the University's intersegmental outreach and K-14 improvement programs designed to provide assistance to K-14 students and schools to encourage more students to become qualified for higher education. Public service also includes Cooperative Extension, which is the University's largest public service program, providing applied research and educational programs in agriculture and natural resources, family and consumer sciences, community resource development, and 4-H youth development for Californians. Campuses conduct other public service programs, which are almost completely supported by user fees and other non-State fund sources, including such activities as arts and lecture programs and community service projects. In addition, the University's public service programs include a health sciences program jointly operated with the Los Angeles campus—the Charles R. Drew University of Medicine and Science.

History and Overview of the University's Outreach And K-14 Improvement Programs

For nearly thirty-five years, the University has been at the forefront of the nation's efforts to develop programs to assist educationally disadvantaged

students in gaining access to higher education. The development and expansion of outreach programs has been a high priority for both the University and the State of California, as reflected in the nearly \$56 million increase provided by the State for outreach efforts since 1996-97.

In July 1995, The Regents approved two resolutions, SP-1 and SP-2, 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. At the same time, The Regents affirmed their commitment to diversity. Proposition 209, which was approved by the voters in November 1996 and went into effect in August 1997, stipulates that the state, including the University, “shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting.” Existing programs have been reconfigured to comply with both The Regents’ resolutions adopted in 1995 as well as the provisions of Proposition 209. In May 2001, The Regents adopted a resolution that rescinded SP-1 and reaffirmed the University’s commitment to a student body representative of California’s diverse population and to achieving this diversity through programs that continue to comply with Proposition 209.

Recognizing the potential impact of new admissions criteria on diversity in future student enrollment, The Regents established the Outreach Task Force to identify ways in which outreach programs can help to ensure that the University remains accessible to students from educationally disadvantaged backgrounds. The Outreach Task Force was asked to review current UC outreach efforts and recommend ways to improve and expand existing activities and create new programs. The Task Force began its deliberations in February 1996 and proposed goals and strategies for UC outreach that were adopted by The Regents in July 1997. The recommendations of the Outreach Task Force have guided the development of outreach programs since that time.

In summer 2002, the University established the Strategic Review Panel on UC Educational Outreach to assess the effectiveness of the University of California’s outreach programs in meeting its goals, to define desirable changes to the University’s overall outreach plan, to set reasonable short- and long-term goals for the University in pursuing its outreach agenda, and to recommend a new working alliance with the state’s K-12 educational bodies and the California Community Colleges. The panel and its study

teams are composed of representatives from the state's business, philanthropic, education, and government communities.

Since implementation of the Outreach Task Force recommendations, the scope of the University's outreach effort has grown, especially as regards teacher professional development. In addition, the University is close to the end of a five-year horizon set by the Task Force for measuring the success of the programs, so a review at this time is appropriate. Further, since the release of the Outreach Task Force report, numerous significant changes have taken place in statewide K-12 education policy, such as the new statewide curricular standards and statewide accountability measures, that have important consequences for outreach programs. Finally, State budget support for outreach has changed substantially over the past two years. The Strategic Review Panel plans to complete its work by December 2002.

The University of California's mission extends to providing support and enrichment to students, teachers, and schools in the K-12 education segment. This work has been active historically, and in recent years, redoubled with the expansion of outreach programs, the implementation of teacher professional development activities, and online services to schools, among others. Although the 2002-03 budget saw declines in some areas—particularly in the area of teacher professional development—the University remains steadfast in its commitment to helping develop the capacity of K-12 schools in California. At this time, new ideas are taking shape that will make University expertise available in areas such as professional development, new technology, and planning and analysis to bolster K-12 providers across the state as they seek to raise levels of student achievement. Central to this strategy is the drawing together of research, instruction, and public service to provide resources to K-12 that exemplify the vast experience and capacity within the University to improve educational opportunity in California.

The goals of the University's outreach programs are to contribute to the academic enrichment of UC campuses through a diverse student body, to improve opportunities for California students in educationally disadvantaged circumstances to achieve eligibility and to enroll at UC campuses, and to assist in the reform of K-12 schools across the state.

The University is meeting these goals through *school-university partnerships* intended to foster long-term, systemic change in low-performing schools;

student academic development programs designed to help prepare students, including those from disadvantaged backgrounds, for the academic demands of higher education; *informational outreach and recruitment programs*, to provide better and more timely information to students, families, teachers, and counselors to improve planning and preparation for college; and *research and evaluation* to identify the root causes of educational disparity and to evaluate the effectiveness of the University's outreach programs.

Over the years, the University's work with California's elementary and secondary schools has grown from a focus on traditional outreach and recruitment programs that encourage students to attend the University to an extensive array of programs across the nine campuses that benefit thousands of K-12 students and their teachers, and help improve the quality of K-12 educational programs.

The University works in collaboration with elementary and secondary education as well as other postsecondary institutions, community groups, and business in its efforts to improve student preparation. This collaboration is critical to the success of these programs. Moreover, students who participate in the University's outreach programs will be better prepared for all segments of higher education—the University of California, the California State University, the community colleges, and private higher education institutions.

Funding for Outreach Programs

Prior to implementation of the Outreach Task Force recommendations, the University estimated that approximately \$60 million from all fund sources (including funds from other segments for specified programs) was being spent on the outreach programs that now form the key components of the University's outreach initiative. The Outreach Task Force set a five-year goal of doubling the resources spent for this effort. With the help of the State and other educational institutions in California, the University achieved its funding goals much earlier than anticipated.

Display 1 (next page) shows base budgets and the distribution of new State and University funds by major program category for K-14 and higher education segments since the implementation of the Outreach Task Force recommendations. The table displays subtotals for programs historically regarded as outreach, as well as the teacher professional development programs that are not traditionally regarded as outreach but are critical

Display 1

| Systemwide K-12 and Community College Outreach Programs and K-12 Professional Development Programs for Teachers and Staff Annual Funds Available 2002-03 a) (Includes Funds from all Sources) (\$200s) | | | | | |
|---|---|---|---------------------------------------|--|--|
| | 1997-98 Base Budget State/UC Funds Prior to Appropriations | Appropriations, Reductions, 1997-98 to 2002-03 State/UC Funds and Cost Adjustments b) | 2002-03 Total State/UC Funds | Estimated Funds from Other Segments, Private, Federal Sources c) | 2002-03 Total Funds Available |
| Systemwide K-14 Outreach Programs | | | | | |
| K-12 Student Academic Development Programs | | | | | |
| Early Academic Outreach Program (EAOP) | \$ 4,704 | \$ 12,014 | \$ 17,812 | \$ 0,547 | \$ 27,069 |
| Student-Initiated Outreach/Visit | - | 1,695 | 1,695 | 106 | 2,160 |
| MESA K-12 Programs (community college programs shown below) d) | 4,109 | 6,312 | 10,481 | 0,911 | 20,982 |
| High School Parents (community college programs shown below) | - | 2,301 | 2,301 | 2,435 | 4,716 |
| Test Preparation | - | 750 | 750 | 750 | 2,250 |
| Classrooms | - | 800 | 800 | - | 493 |
| UC Links | - | 479 | 479 | 300 | 1,279 |
| Subtotal, K-12 Student Academic Development Programs | \$ 8,903 | \$ 24,951 | \$ 34,187 | \$ 3,928 | \$ 49,811 |
| University K-12 School/Community Partnerships | | | | | |
| K-12 School-University Partnerships | \$ - | \$ 9,011 | \$ 9,011 | \$ 0,000 e) | \$ 9,011 |
| Urban Community-School Collaborative | - | 901 | 901 | - | 993 |
| Community Education and Resource Center Initiative (CERCI) | - | 329 | 329 | 266 | 995 |
| UC College Preparatory Initiative (online courses) | - | 4,028 | 4,028 | - | 4,428 |
| UC Deans | - | 578 | 578 | - | 578 |
| Charter School | - | 1,064 | 1,064 | 0,200 | 4,254 |
| GEAR UP | - | - | - | 5,000 | 5,000 |
| Artfulbridge | - | 399 | 399 | 399 | 544 |
| Subtotal, K-12 School-Community Partnerships | \$ - | \$ 14,012 | \$ 14,012 | \$ 5,755 | \$ 25,774 |
| Community College Programs | | | | | |
| Transfer Programs f) | \$ 1,718 | \$ 0,000 | \$ 5,000 | \$ 15,854 | \$ 21,564 |
| Dual Admissions | - | 2,500 | 2,500 | - | 2,500 |
| ASSET | 160 | 72 | 452 | 369 | 1,451 |
| MESA Community College Programs | 22 | 1,258 | 1,280 | 5,940 | 6,690 |
| Parents Community College Programs | 112 | 440 | 800 | 2,000 | 2,851 |
| Subtotal, Community College Programs | \$ 2,002 | \$ 4,270 | \$ 10,032 | \$ 24,123 | \$ 44,612 |
| Central Valley Programs | | | | | |
| Graduate and Professional School Programs | \$ - | \$ 2,420 | \$ 2,420 | \$ 1,270 | \$ 3,690 |
| Informational Outreach and Recruitment | 1,800 | 5,850 | 7,748 | 2,780 | 10,527 |
| Evaluation | 4,750 | 809 | 5,160 | - | 5,160 |
| Research | - | 300 | 700 | - | 700 |
| Research | - | 447 | 447 | 100 | 997 |
| Total, All K-14 Outreach Programs | \$ 17,668 | \$ 67,342 | \$ 75,010 | \$ 40,207 | \$ 128,367 |
| K-12 Professional Development Programs for Teachers and Staff | | | | | |
| California Subject Matter Projects | \$ 14,300 | \$ 5,074 | \$ 20,000 | \$ 0,000 g) | \$ 29,200 |
| Pre-Intern Teacher Academies | - | 750 | 750 | - | 750 |
| New Teacher Center | - | 600 | 600 | 2,000 | 3,100 |
| Total, K-12 Professional Development Programs | \$ 14,300 | \$ 6,424 | \$ 21,350 | \$ 2,000 | \$ 29,100 |
| Total, All Programs | \$ 32,264 | \$ 94,224 | \$ 96,360 | \$ 44,107 | \$ 157,617 |

a) This table includes programs that were identified by the Outreach Task Force as programs that would play a major role in the University's outreach initiative, both at the individual student level and through other outreach improvement programs. While there are additional programs not included in this table that are also aimed at helping improve K-14 outreach, only those systemwide programs which the Outreach Task Force identified as key elements to the success of the outreach initiative are included in this budget summary. The Outreach Task Force identified \$60 million as the total being spent in 1997-98 for these programs. In this table, that figure has been updated to include community college programs and to reflect inflationary and other budget adjustments. The \$69 million includes the \$32.2 million shown in the first column of this display plus \$29 million from "Estimated Funds from Other Segments, Private, Federal Sources," the fourth column of this display. This table also includes new outreach programs approved by the Legislature and Governor in the 1998-99, 1999-2000, and 2000-01 budgets as well as reductions and reallocations in the 1991-92 and 2002-03 budgets.

b) Includes new funds from 1996-97 which were temporarily allocated in the first year and not made permanent until 1997-98. Includes matching funds for graduate programs.

c) Includes \$21.7 million in K-12 matching funds required for new funding provided in 1998-99 and adjusted for budget reductions and reallocations in 2001-02 and 2002-03. Appropriations prior to 1998-99 did not have a matching requirement.

d) Includes funding for the MESA Engineering Program (MEP) at four-year colleges and universities.

e) Does not include federal and state funds available for low-performing schools.

f) Includes estimated community college funding of \$11.6 million from Partnership for Excellence funding and \$3.9 million related to transfer and articulation programs.

components of the University's initiative to enhance K-12 school improvement. Display 1 also shows the best estimate of other funds available for systemwide programs related to outreach and K-14 improvement programs, including private funds, federal funds, and funds from other educational segments. Outreach budgets declined for the second year in a row in 2002-03 as explained below; current funds available total over \$170 million.

Display 2 shows changes in State and University funds for systemwide K-14 outreach and K-12 professional development programs from 1996-97 to 2002-03. The totals in Display 2 do not include cost increases or other budget adjustments. These totals are accounted for in Display 1 (see column 2 of Display 1).

Display 2

| Outreach and K-14 Improvement Programs Changes in State and University Funds (\$ in Millions) | | | |
|---|----------------|---------------------|----------------|
| | State Funds | University Funds | Total |
| Systemwide K-14 Outreach Programs | | | |
| 1996-97 | \$ 1.0 | \$ 2.0 | \$ 3.0 |
| 1997-98 | 1.0 | 1.7 | 2.7 |
| 1998-99 | 33.5 | 5.0 | 38.5 |
| 1999-00 | 5.5 | 1.5 | 7.0 |
| 2000-01 | 7.5 | 1.0 | 8.5 |
| 2001-02 | (2.0) | - | (2.0) |
| 2002-03 | <u>(11.9)</u> | <u>4.3</u> | <u>(7.6)</u> |
| Subtotal | \$ 34.6 | \$ 15.5 | \$ 50.1 |
| K-12 Professional Development Programs | | | |
| 1999-00 | \$ 11.8 | \$ - | \$ 11.8 |
| 2000-01 | 71.3 | - | 71.3 |
| 2001-02 | (5.3) | - | (5.3) |
| 2002-03 | <u>(72.2)</u> | <u>-</u> | <u>(72.2)</u> |
| Subtotal | \$ 5.6 | \$ - | \$ 5.6 |
| All Programs | | | |
| 1996-97 | \$ 1.0 | \$ 2.0 | \$ 3.0 |
| 1997-98 | 1.0 | 1.7 | 2.7 |
| 1998-99 | 33.5 | 5.0 | 38.5 |
| 1999-00 | 17.3 | 1.5 | 18.8 |
| 2000-01 | 78.8 | 1.0 | 79.8 |
| 2001-02 | (7.3) | - | (7.3) |
| 2002-03 | <u>(84.1)</u> | <u>4.3</u> | <u>(79.8)</u> |
| Total | \$ 40.2 | \$ 15.5 | \$ 55.7 |

In 1998-99, the State provided a significant infusion of funds to support The Regents' diversity initiative. The detailed budget plan approved by the State for the outreach augmentations provided in 1998-99 is shown in Display 3. The State also required that funds for student academic development programs, school-university programs, and Central Valley programs be matched on a one-to-one basis by K-12 schools.

In 1999-2000 and 2000-01, the State again provided significant augmentations to expand the University's outreach and K-14 improvement efforts, bringing the total funds available from State and University sources for these programs to nearly \$184 million by 2000-01 (see Display 3). The final budget for 2001-02 included no further augmentations, but did include a redirection of \$5 million from the longer-term school-university partnership programs to student academic development programs. As a result, funding was increased for the Mathematics, Engineering, Science Achievement Program (MESA), Puente, and the Early Academic Outreach Program (EAOP). Funds were also redirected to student-initiated outreach/yield programs at each campus and for support of the comprehensive review of applications for admission at the campuses.

In addition, as part of the final actions to balance the budget and create a larger reserve, the Governor vetoed \$2 million in funding for outreach programs in 2001-02. Legislation subsequently approved by the Legislature and the Governor (AB 1287, Cardenas, Chapter 564) specified how the \$2 million veto was to be distributed. Display 4 shows the changes in the 2001-02 outreach budget.

In 2001-02, the Legislature also approved a proposal made by the Governor to align program and stipend funding for the California Professional Development Institutes (CPDIs) by reducing program funds by \$5 million and increasing the stipend budget by a like amount. The final 2001-02 Budget Act also included language requiring a one-time reversion of \$10.7 million in unspent funds from the 2000-01 CPDIs. Due to the State's deteriorating fiscal situation, further budget reductions became necessary for the 2001-02 fiscal year for the CPDIs. As part of a series of mid-year budget adjustments, the Governor proposed a further one-time reduction of \$6 million to the CPDI program.

Display 3

| Outreach Initiatives State Funds (\$000s) | | | |
|---|-----------------------|-------------------------|-----------------------|
| <u>Systemwide K-14 Outreach Programs</u> | <u>1998-99</u> | <u>1999-2000</u> | <u>2000-01</u> |
| Student Academic Development Programs such as Early Academic Outreach, MESA, Puente (a) | \$ 15,000 | \$ - | \$ 1,000 |
| School-University Partnerships | 15,000 | - | - |
| Charter School | 1,000 | - | - |
| Community College Programs | 3,500 | - | 1,000 |
| Central Valley (a) | 1,000 | - | - |
| Graduate and Professional School Outreach | 500 | 1,500 | 1,000 |
| Online Advanced Placement Courses | - | 4,000 | 4,000 |
| Informational Outreach and Recruitment | 1,000 | - | - |
| Evaluation | 1,200 | - | - |
| UC All Campus Collaborative on Outreach Research and Dissemination (UC ACCORD) | 300 | - | 500 |
| Subtotal | \$ 38,500 | \$ 5,500 | \$ 7,500 |
| <u>K-12 Professional Development Programs</u> | | | |
| California Subject Matter Projects | - | - | 20,000 |
| California Reading Professional Development Institutes | - | 8,000 | 14,000 |
| English Language Development Professional Institutes | - | 5,000 | 5,000 |
| High School English Professional Development Institutes | - | - | 12,000 |
| Elementary Mathematics Professional Development Institutes | - | - | 7,500 |
| Algebra Professional Development Institutes | - | - | 2,500 |
| Algebra Academies Professional Development Institutes | - | - | 1,700 |
| High School Mathematics Professional Development Institutes | - | - | 8,000 |
| Pre-Intern Teacher Academies | - | 750 | - |
| New Teacher Center | - | - | 500 |
| Subtotal | \$ - | \$ 11,750 | \$ 71,800 |
| TOTAL | \$ 38,500 | \$ 17,250 | \$ 78,800 |

Display 4

| 2001-02 Outreach Redirection Reallocation, Veto State Funds (\$000s) | |
|---|-------------------|
| \$5 Million Redirection | |
| School-University Partnerships | \$ (2,785) |
| Los Angeles Basin Initiative | (1,250) |
| Community Education and Resource Center (CERC) | (315) |
| Division of Agriculture & Natural Resources K-12 Outreach | (100) |
| California Subject Matter Projects | (250) |
| Nexus | (100) |
| Urban Community School Collaborative | (100) |
| SAGE Scholars | (100) |
| Total | \$ (5,000) |
| Reallocation | |
| Early Academic Outreach Program (EAOP) | \$ 1,000 |
| Mathematics, Engineering Science Achievement (MESA) | 1,000 |
| Puente | 500 |
| Student-Initiated Outreach/Yield | 1,000 |
| Comprehensive Admission Review | 750 |
| High-Yield Recruitment a) | 750 |
| Total | \$ 5,000 |
| Reduction due to the Governor's Veto | |
| Informational Outreach | \$ (1,000) |
| Graduate and Professional School Outreach | (250) |
| High-Yield Recruitment a) | (750) |
| Total | \$ (2,000) |

a) AB 1287 specifies that the \$750,000 intended for High-Yield Recruitment in the 2001-02 final Budget Act be used to help fund the \$2 million that the Governor vetoed from the University's outreach budget in July 2001.

Display 5

| 2002-03 Outreach Initiatives State Funds, UC General Funds (\$000s) | |
|--|--------------------|
| Systemwide K-14 Outreach Programs | 2002-03 |
| Reductions | |
| K-12 School-University Partnerships | \$ (12,013) |
| ArtsBridge | (1,500) |
| Urban Community-School Collaborative | (361) |
| Presidential Grants in Education | (522) |
| Evaluation a) | (500) |
| Subtotal | \$ (14,896) |
| Augmentation, Reallocations From State Funds | |
| Early Academic Outreach Program (EAOP) a) | \$ 100 |
| Gateways a) | 400 |
| Dual Admissions Program | 2,500 |
| Subtotal | \$ 3,000 |
| Augmentations from UC General Funds (Nonresident Tuition Revenue) b) | |
| K-12 School-University Partnerships | \$ 3,000 |
| ArtsBridge | 250 |
| Urban Community-School Collaborative | 361 |
| Central Valley Programs | 379 |
| Graduate and Professional School Outreach | 350 |
| Subtotal | \$ 4,340 |
| K-12 Professional Development Programs | |
| Reductions c) | |
| California Subject Matter Projects | \$ (15,315) |
| California Professional Development Institutes | (56,866) |
| Subtotal | \$ (72,181) |
| TOTAL | \$ (79,737) |
| <p>a) \$500,000 of funding previously used for outreach evaluation will be used to restore funds in MESA, Puente and EAOP budgets that were previously used to fund the Gateways Program.</p> <p>b) The final budget for 2002-03 includes a compromise package that designates \$4.3 million in new revenue, to be generated from the proposal proposal to increase nonresident tuition for undergraduate students by 6% above the 4% already proposed in the Regents' Budget for 2002-03 to fund additional restorations and expansions of existing outreach programs.</p> <p>c) In proposing elimination of these funds for the California Professional Development Institutes, the Governor state his intent that UC should contract with individual K-12 schools and school districts to continue the operations of these programs using federal and State funds available in the K-12 budget for teacher professional development purposes.</p> | |

Although the State's budget for 2002-03 has been signed by the Governor, it has not been finalized. The spending plan adopted by the Legislature includes new control sections authorizing the Governor to make up to \$750 million in further reductions to State operations, at his discretion. Display 5 shows the 2002-03 changes to the University's outreach budget as it currently stands based on the Budget Act adopted in September before additional control section cuts have been allocated.

The 2002-03 Budget Act includes a reduction of \$9 million for the K-12 School-University Partnership program and a \$1.25 million reduction for ArtsBridge (remaining funding for these programs is discussed below). The University is working with K-12 institutions to preserve these programs as well as seek outside funding to replace lost support. In addition, the 2002-03 Budget Act eliminates the Presidential Grants Program (\$522,000), includes a \$15.3 million reduction for the California Subject Matter Projects, and eliminates the funding for the California Professional Development Institutes (\$56.9 million). In proposing elimination of these funds for the California Professional Development Institutes, the Governor stated his intent that UC contract with individual K-12 schools and school districts to continue the operation of these programs using federal and State funds available in the K-12 budget for teacher professional development purposes. The University is very optimistic about its ability to work cooperatively with K-12 schools to make this new funding arrangement a success, particularly given the Governor's continuing support of the California Subject Matter Projects, which provides the platform and delivery system for the California Professional Development Institutes. The Final Budget Act also included a compromise package for UC's budget that was formulated during the conference committee's deliberations on the budget. The compromise package did the following:

- restored a total of \$18.1 million in funding for specified outreach programs that the Governor had proposed eliminating in the May Revise, including the UC College Preparatory Initiative (online courses), Graduate and Professional Outreach, student-initiated outreach, UC ACCORD, the charter school on the San Diego campus, and Community and Education Resource Centers;
- provided a \$2.5 million augmentation for implementing the Dual Admissions program; and
- designated \$4.3 million in new revenue, to be generated from the proposal to increase nonresident tuition for undergraduate students by 6% above the 4% already proposed in The Regents' budget plan for 2002-03, to fund additional restorations and expansions of existing outreach programs, including partial restoration of the funding for K-12 School-University Partnerships (\$3 million) and the ArtsBridge program (\$250,000), full restoration of the funding for Urban School Collaboratives (\$361,000), and additional funding for Graduate and Professional School Outreach (\$350,000) and Central Valley Outreach (\$379,000).

As part of a compromise reached during legislative deliberations on the budget, the University also agreed to shift \$500,000 from outreach evaluation to Early Academic Outreach, the Mathematics, Engineering, Science Achievement (MESA), and Puente in order to fund those programs' commitment to the Gateways program.

The remainder of this chapter contains descriptions of the programs that currently exist to achieve the University's outreach, diversity, and K-14 improvement goals.

K-12 Student Academic Development Programs

Student academic development activities are aimed at enriching students' academic achievement in specific academic areas through special skills-building programs, tutoring, and group study; career counseling; parent involvement; mentoring; and field trips to UC campuses. A key element in the University's K-12 partnership efforts, student academic development programs have been very effective in preparing students to enroll in higher education as measured by the number of program participants who subsequently become eligible for and enroll at UC and other postsecondary education institutions.

Consistent with the Task Force recommendations and the intent of the Legislature, UC has expanded existing successful student academic development programs such as the Early Academic Outreach Program (EAOP), the Mathematics, Engineering, Science Achievement Program (MESA), and Puente to reach more high school and community college students. Additionally, the Task Force recommended that academic development programs to increase awareness of college preparation early in a student's education should be created to reach students and families much earlier in their child's K-12 academic career.

Systemwide UC academic development programs are working to: (1) increase the number of UC-eligible program graduates from disadvantaged backgrounds by 100% between 1997 and 2002, and (2) increase the number of competitively eligible program graduates from disadvantaged backgrounds by 50% between 1997 and 2002.

In order to increase coordination and strengthen the working relationships among programs, the University's student-centered outreach programs have established a partnership, the EAOP, MESA, Puente (EMP) Outreach

Collaborative, to identify, plan, develop and implement work products and processes that will benefit student participants and their families. Accomplishments to date include the development of an Individual Academic Planner, a Test Preparation Guide, and a Financial Aid Planner.

The following is a description of some of the student academic development programs that are key to the University's overall outreach efforts. Budget figures for each program are included in Display 1, earlier in this chapter.

Early Academic Outreach Program

Since its beginnings in 1976, EAOP has grown steadily to become a comprehensive educational support system that provides academic development services, "a-g" course completion support, academic advising, test preparation, programs for families, and services to schools throughout the state. Virtually all EAOP students attend schools with low college-going rates and will be the first in their families to go to college. The program works closely with these students, their families, teachers, counselors, and school administrators to ensure that these students have the opportunity to achieve academically and that their determination to succeed is rewarded. Middle and high school students, as well as an increasing number of elementary school students, have access to a multifaceted array of programs and services that support students in attaining UC eligibility and competitive eligibility. EAOP provides academic enrichment services that help middle school students develop strong critical reading, analytical writing, and mathematics skills, and begin thinking about and preparing for college. High school students have access to a variety of academic development classes and activities that prepare them to succeed in honors and Advanced Placement courses and to make a successful transition from high school to the University of California. EAOP also ensures that students complete all the requirements for UC admission by conducting PSAT and ACT-EXPLORE testing sessions, helping students prepare for the SAT/ACT exams, monitoring "a-g" course enrollment and completion, advising students as they develop a challenging course schedule that will help them attend the campus of their choice, and providing guidance as students select the UC campus that is right for them and assisting students with information on financial aid, housing, filing deadlines, and a myriad of other college-related concerns for students, their families, teachers, counselors, and school administrators. Campus tours, field trips, guest speakers, mentoring programs, and services that generate enthusiasm about college among students and their families are important components of the EAOP experience.

A growing component of EAOP is targeted at parents, providing them with the information they need to help their children prepare for college. Through workshops, study sessions, and weekend on-campus programs, EAOP families actively participate in preparing their children for academic success.

In 2001-02, over 85,000 students participated in EAOP at 630 middle schools and high schools. The number of junior high and middle school students receiving full services increased by 15% to 24,255 students served at 268 schools. In 2001-02, EAOP served 60,195 high school students at 369 schools. Of the approximately 14,000 high school seniors that EAOP serves annually, more than 90% will go on to attend college. Nearly 25% of African-American and Chicano/Latino students who enter the University as first-time freshmen are EAOP participants.

Mathematics, Engineering, Science Achievement Program (MESA)

The goal of MESA is to increase the number of educationally disadvantaged students who ultimately make their careers in mathematics- and science-based fields, such as engineering, computer science, and the physical sciences. MESA operates four programs designed to strengthen the mathematics and science skills of these students.

MESA operates two pre-college programs. The MESA Schools Program (MSP) assists elementary through high school students with academic preparation, financial aid and academic counseling, parent involvement, collaborative study skills development, field trips to various campuses, and career counseling. MESA's Success Through Collaboration (MESA STC), a partnership with American Indian education programs, the California Department of Education, tribal governments and communities, industry, and others, offers a program similar to the MSP with an added emphasis on culturally relevant activities. MESA K-12 teachers receive special training in science and mathematics that is used to benefit all students, not just MESA participants. The MESA program has significantly expanded the number of educationally disadvantaged students at the University of California. UC-eligible participants from MESA's pre-college programs increased from 421 in 1998-99 to 530 in 1999-2000 and to 784 in 2000-01, an increase over 1998-99 of 363 students, or 86.2%.

As part of the MESA undergraduate program, the MESA Engineering Program (MEP) provides freshman orientation, academic and career counseling, group study methods, academic excellence workshops, and

tutoring to engineering and computer science students at four-year colleges and universities.

The MESA California Community College Program (MESA CCCP) provides academic assistance similar to the MEP with the goal that the students will successfully transfer to four-year institutions and attain science- and mathematics-based degrees. With new resources from the State, MESA CCCP expanded from 10 centers in 1998-99 to 35 centers by the end of the 2001-02 academic year. MESA's community college program enabled 261 students from educationally disadvantaged backgrounds to transfer to the University of California in fall 2000 and 369 in fall 2001. All of the students have entered mathematics- or science-based fields of study.

Because of MESA's success in producing highly qualified professionals urgently needed by California industry, about 250 corporations are involved in supporting the program. The California MESA model has been replicated in seven states, with pilot programs in three additional states. In 2001, MESA was named among the five most innovative programs in the country by Innovations in American Government, an award jointly sponsored by the Ford Foundation, Harvard University, and the Council for Excellence in Government. MESA also is a recipient of the Presidential Award for Excellence in Science, Mathematics, and Engineering Mentoring.

MESA receives funds through budget appropriations to the University, CSU, and the community colleges. MESA also receives support from independent colleges, federal agencies, industry, private foundations, and local school districts.

In 2001-02, MESA served over 24,818 pre-college students (an increase of 2,818 students, or 13%) as well as 9,029 community college and university students.

Puente

Since 1981, the Puente Project has fulfilled its mission to help educationally underserved students succeed in school, earn college degrees, and return to the community as mentors and leaders. Puente serves both high school and community college students with an integrated program of rigorous college preparatory English courses, academic counseling, and mentors from the professional community. Puente is jointly sponsored by the University and the California Community Colleges (CCC), and conducts 35 high school

programs and 63 community college programs, including 10 CCC start-up programs in spring 2003. Puente impacts over 66,000 students through its core student and extended staff training programs, and works with 188 teachers and counselors throughout the state. Training sessions for students and staff are research-based and utilize best practices in consultation with field staff.

Puente is unique because the program is delivered by credentialed teachers and counselors in the schools. Since its inception, Puente staff members have trained hundreds of teachers and counselors in Puente's effective methods for teaching writing skills and counseling educationally underserved students. Puente's High School Program students take rigorous college preparatory English classes taught by the same teacher in both ninth and tenth grades. The Puente-trained high school counselor works closely with students from grades 9 to 12, monitoring their academic progress, providing information about college requirements, planning college tours, and encouraging and involving parents in their children's education. Community mentoring experiences are integrated into classroom assignments and program activities. The CCC Puente Program also utilizes the teacher/counselor team model used in the high school program described above, with community mentor experiences integrated into the Program's activities. The CCC team focuses on rigorous writing assignments that will improve the success rates in English 1A, and on clarifying the transfer requirements to UC and four year institutions. Each year the Puente staff critique the training sessions both before and after each session to continue to develop and implement the most effective statewide training methodologies.

An independent evaluation of High School Puente showed that Puente students outperform their matched comparisons in high school graduation, "a-f" course completion, and UC and CSU enrollment. The study showed that Puente students attended four-year colleges at almost twice the rate of non-Puente students (43% vs. 24%) and applied to UC in much larger numbers compared to a control group of non-participants (24% vs. 8%).

The success of Puente has been recognized nationally, most recently by the prestigious Innovations in American Government Award in 1998, jointly sponsored by Harvard University, the Ford Foundation, and the Council for Excellence in Government.

Test-Preparation Programs

Beginning in spring 2001, UC expanded its test administration services to offer the ACT-EXPLORE, along with the PSAT, to more than 15,000 students in grades 8-10. Conducted at each UC campus (or in the campus region), EAOP administered one or both of the exams to educationally disadvantaged students who participate in such academic development programs as EAOP, MESA, and Puente. Each participant's ACT-EXPLORE and PSAT results are used to develop individual academic plans and to help schools improve their college-preparatory programs.

Gateways

Gateways is an interactive Web-based electronic tool that is designed to assist middle and high school students with understanding the requirements for college preparation and gaining admission to UC. The site provides current UC eligibility information, the ability to maintain an extensive academic profile, and access to school-to-career information, activities, and services, including the University's pre-collegiate outreach programs. Gateways has become an important component of the University's student-centered programs. In addition, Gateways provides information about students, such as contact information, test scores, course plans and career interests, to program administrators and other university personnel who wish to communicate with the students in order to facilitate their participation in outreach programs, help guide them through their academic program, and encourage them to apply to the University. Gateways also provides a data warehouse for researchers and program evaluators. This program is also discussed in the Community College Transfer section of this chapter.

Rural and Remote Outreach College-Going Initiative

The college-going rate of high school graduates from rural and remote counties in California is disproportionately low, particularly with regard to the University of California. Without some intervention to address this problem, another subset of California's population will continue to be underserved. Even accounting for the smaller population base, students from rural and remote counties are significantly underrepresented in UC and the California State University (CSU) system. Research to date, however, indicates that many of these students met (or nearly met) admission requirements for both systems. For a variety of reasons, these students selected the California Community Colleges (CCC) as their college

destination. Unfortunately, very few of these students ultimately transferred to four-year institutions; and many of those that began a transfer curriculum took an inordinate amount of time to finish their programs of study at the community colleges. Some never finished them at all, including two-year certificate programs.

The University is using existing resources to support a “College-Going Initiative” to accelerate development of a college-going environment in rural and remote counties focused on increasing student application, admission, and acceptance rates to baccalaureate-granting institutions of higher education, particularly UC. Due to the remoteness of some counties, it is imperative that UC work in close collaboration with CSU and CCC to implement this “College-Going Initiative” in these regions.

Student-Initiated Outreach/Yield Programs

The 2001-02 budget included a redirection of \$5 million from the longer-term school-university partnership programs to student academic development programs. As a result, funding was increased for the University’s student-centered programs and funds were provided for support of the comprehensive review of applicants for admission. In addition, \$1 million was provided for the Student-Initiated Outreach/Yield Program for student-initiated outreach activities focused on recruitment and mentorships aimed at high school juniors and seniors. Student-initiated outreach/yield funds are being used for college information days, campus tours, conferences, workshops, and cultural activities for admitted and prospective high school students and their parents. These activities are designed to provide a glimpse of campus life and to motivate students to apply to and enroll at a UC campus. At some campuses, high school students are paired with a UC student for a day of classes and activities. Workshops provided to high school students in 2001-02 included information on campus academic programs, choosing a major, moving away from home, adjusting to campus life, career exploration, leadership skills, cross-cultural communication, the application and admission process, and financial aid.

UC Links

UC Links (University-Community Links) is a network of after-school program sites that provide access to quality educational resources and activities for children from diverse low-income communities throughout the state. These programs engage UC undergraduate and graduate students in practicum academic coursework that places them in after-school programs in school and

community settings. As part of their course requirements, the University students interact closely with K-12 children in guided learning activities designed to promote the children's computer and basic literacy skills, increase their knowledge in various subject areas, and develop social skills and aspirations for higher learning.

Since 1996, UC Links has grown from a set of 14 sites into a statewide collaborative initiative engaging university and K-12 faculty, staff, and students in 35 community- and school-based programs, serving 3,434 K-12 youth from low-income neighborhoods throughout the state and linking them in guided learning activities with 1,129 UC students. A major intersegmental collaborative effort, UC Links brings together 8 UC undergraduate campuses, 3 California State University campuses, 2 independent colleges, and 3 community colleges to work with schools and community organizations in offering these programs. Measures of program participants' reading scores, writing competency, and educational aspirations show improvement after participation in the program.

University/K-12 School/Community Programs

The University has established a variety of programs that involve intensive partnership efforts among UC campuses, local K-12 schools, and community programs. These efforts incorporate development activities aimed directly at individual students, but go beyond them to include whole-school, district, and community efforts to improve teaching, curriculum, and other services that affect student eligibility and improve college-going rates.

In summer 2002, the University of California and the California County Superintendents of Education Services (CCSESA) formed a new relationship to benefit teachers and students through the development of regional collaborations throughout the state. UC and CCSESA share the goals of ensuring academic success of every student in K-12, consistent with state standards, and ultimately, that each student is provided the opportunity to receive a baccalaureate degree from an institution of higher education. One of the key goals of the regional collaborations is that they will, across all student groups, significantly increase school performance on the API, improve the pass rates on the high school exit exam, increase high school graduation rates, and increase UC and CSU eligibility and enrollment rates. California's application pursuant to new federal legislation, "No Child Left Behind,"

makes explicit the responsibility of county offices of education for these schools and student success therein.

The CCSESA/UC partnership will focus on collaborative work that is systemic, comprehensive and long-term. Components of the partnership will include teacher professional development, leadership development and professional advancement, data analysis and evaluation, a focus on low-performing schools, research to build greater understanding of the issues, use of technology to facilitate learning, and establishing high achieving and college-going environments in K-12 schools. The University will work with the CCSESA in order to fulfill these goals using funds from the federal No Child Left Behind legislation.

The following are descriptions of programs UC initiated to focus on specific aspects of the University/K-12 school/community partnerships concept.

K-12 School-University Partnerships

As part of the major augmentation of State funds for outreach in 1998-99, \$13 million was used to expand the University's efforts to improve opportunities for educationally disadvantaged students in California through comprehensive partnerships with selected elementary, middle, and high schools.

Funding was used to establish partnerships with 73 high schools throughout the state. The campuses were also working in partnership with 55 middle schools and 128 elementary schools that feed into these high schools. In developing partnerships, priority was given to schools where average student performance on the SAT is in the lowest two academic quintiles of schools statewide. School-university partnerships represent a means of affecting systemic change in K-12 schools that goes beyond the traditional types of student academic outreach efforts. These programs have adopted an integrated academic approach to improve access within schools by incorporating school- and student-centered efforts with teacher-centered and curriculum-based programs aimed at training and developing teachers to strengthen the academic foundation at partner schools where students' performance is below the statewide average.

Each of the UC campuses collaborates with school administrators, families, and students, as well as regional businesses and community-based organizations to effect long-term, broad-scale changes in academic culture and achievement.

Funding for the program was reduced by more than \$4 million in 2001-02 as a result of the Legislature's redirection of funds from school-university partnership programs to student academic development programs. An additional \$9 million was eliminated from the program in the 2002-03 budget due to the State's fiscal problems. The total remaining budget is \$3 million funded from nonresident tuition revenue. The University's goal in 2002-03 is to preserve the infrastructure of the program as the University seeks to create new alliances with K-12 to build capacity in low-performing schools and seek other sources of funding such as the federal funds available through the No Child Left Behind Act.

Budget Act language for 2002-03 requires the University to conduct a review of its long-term outreach efforts involving a broad representation of stakeholders, including, but not limited to, the University's partners in the K-12 system, representatives of the Legislature, students, and other interested parties. The University is also asked in the language to continue to give priority in funding under this subsection to campus programs that have demonstrated success in meeting the state's goal of improving the chances for pupils from a wide diversity of backgrounds to become eligible for the University of California and to campus programs that meet the requirements of federal funds for improving schools identified as low-performing pursuant to state and federal law. School-university partnerships will be evaluated through the University's Strategic Review Panel on UC Educational Outreach described earlier.

“A-G” Course Progress in California’s High Schools

The University of California is interested in developing with its educational partners the statewide capacity to measure each public California high school's progress in “a-g” course completion. Systematically measuring progress in “a-g” course completion can provide the state a system of indicators that mark, over time, the extent to which California's high school students are completing, and with what proficiency, UC and CSU coursework requirements. The development of the information systems that support UC's Eligibility in the Local Context (ELC) provide substantial technical infrastructure from which to build this effort. The University would expand the transcript review process used in ELC from identifying the top 4% of students to include 100% of students in schools where transcripts exist in electronic form. Revised algorithms would be piloted to mark student- and school-level progress on the “a-g” pattern. As a policy tool, the “a-g” progress indicator can be used to set goals and measure changes that are of central importance to all segments of the education system in the state.

The Urban Community-School Collaborative (UCSCol)

Research has shown that factors beyond the classroom significantly impact student academic achievement. The UCSCol is responsible for creating collaborative university-school-community models for strengthening K-12 urban education to promote the educational achievement of educationally disadvantaged youth. Faculty play a pivotal role in carrying out applied research on educational, social, economic, public safety, housing, and health-related issues that impact the educational opportunities of youth in urban and rural communities. The UCSCol program allocates funds: 1) to faculty who are engaged in programs that examine school activities within the context of students' whole lives (i.e., other facets of students' lives that influence learning and achievement) and seek to understand how to effectively engage students in the business of learning, and 2) for faculty-led activities that provide direct academic support services to rural and inner-city students through school- and community-based organizations. The program enables the resources of the UC campuses, local communities, school districts, and other institutions and agencies through the state to use their resources collectively to target issues identified by local constituents and individual communities.

Community Education and Resource Center (CERC) Initiative

For many years, the University has provided educational outreach opportunities to students in targeted low-performing schools through a myriad of school-based programs. However, many of the eligible students who live in the communities where these programs are offered do not attend neighborhood schools and are bused to, or have chosen to attend schools, outside of their home school districts. In addition, a significant number of immigrant children live in poor urban communities where local schools are often ineffective in building ties and addressing the distinctive needs of foreign-born families. The CERC Initiative is intended to provide educational opportunities and more effectively reach students in disadvantaged communities by creating a physical presence at community service and faith-based organizations. Many community service and faith-based organizations attempt to address the inadequacies of the local school systems and have the capacity to mediate the day-to-day needs between immigrant families and local schools. These organizations can more effectively address the educational needs of families in ways that go beyond the traditional practices of local schools and address factors that impede the academic achievement of youth through supplemental educational programs (e.g.,

after school and weekend tutorial sessions, standardized test preparation, and other educational activities). Parental lack of understanding and disengagement is a serious concern. Partnering with community service and faith-based organizations makes the University more accessible and will enable UC to support activities that may potentially increase family awareness of and involvement in the educational process and foster academic achievement.

Charter School

The Preuss School on the San Diego campus, formerly known as the University of California, San Diego (UCSD) Model Charter School, has successfully completed its third year of operation. For the 2002-03 school year, approximately 172 new students will join the 493 continuing students and will occupy grades 6 through 11. The school is planning to reach full enrollment (700 students) in 2003-04. The purpose of the school is to prepare students from low-income and educationally disadvantaged backgrounds to be competitively eligible for the University of California (UC) and other selective four-year institutions. These students will be the first generation in their families to attend college, should they apply and be accepted.

The Preuss School began its operations in 1999-2000 in temporary facilities located on the San Diego campus. Operations moved to a new permanent facility on the UCSD East Campus area for the beginning of the 2000-01 school year. The new facility was constructed entirely with private gift funds totaling approximately \$13.9 million. The UCSD Model Charter School has been named "The Preuss School" in recognition of the Preuss family's \$5 million capital contribution.

The school received a permanent augmentation of \$1 million in 1998-99 from the State. The majority of its operating funding comes from other State and federal sources, totaling over \$3.2 million for 2002-03 including Average Daily Attendance (ADA) and federal and State categorical funding sources. The funds provided in the University's budget are used for supporting the cost of an extended year and day format, lower class sizes, transportation costs, additional course offerings, as well as extracurricular activities such as the Saturday Enrichment Activities, Enrichment Week, and athletics programs

UC Nexus K-12 Technology Initiative

The Internet and other new technologies represent rich resources for teaching and learning, new tools for collaboration with schools, and new ways for UC

to extend its outreach efforts and services to schools across the state. However, many schools are still inadequately equipped and many teachers are not adequately trained in incorporating digital resources into instruction. Since 1997, UC Nexus has helped to focus the University's attention on these issues and coordinate educational outreach efforts to utilize technology-based educational resources and activities in its work with low-performing rural and urban schools. UC Nexus works with outreach programs to explore uses of the Internet to expand the University's reach and possibilities for collaboration with schools in all regions of the state.

The UC College Preparatory Initiative (UCCP)

In 1998-99, using \$400,000 in University funds, UC Santa Cruz campus began implementing UCCP online learning with a pilot program involving 44 students in 13 high schools. The goal of the program was to offer online Advanced Placement (AP) courses to students attending high schools that offered few or no AP courses. In 1999-2000, the University received \$4 million from the State to develop and implement online AP courses on a much larger scale. In 2000-01, that allocation was increased to \$8 million to enable the development of additional distance learning courses in core subject matter areas and to expand the UCCP advanced placement initiative to additional high schools throughout the state. UCCP online college preparatory courses fulfill admissions requirements to the University; they do not replace existing high school curriculum, but rather provide access where it is limited or does not exist.

In 2001-02, with \$8.4 million in funding, UCCP continued to expand the number of schools it served and the number of courses it offers. Exceeding projections, UCCP served 223 high schools in 56 of California's 58 counties. A total of 2,908 students completed 5,269 semester enrollments from a catalog of 15 AP and honors courses, representing a 200% increase in enrollments. More than 3,500 students registered in 5,187 sections of AP Exam Review in 10 subject areas. AP Exam Review is a test preparation tool to help students study for the AP exam, including subject areas not currently offered by UCCP. UCCP also piloted online tutoring and cybermentoring programs designed to fill gaps in local subject matter support for online learning and to improve student retention. In partnership with the Center for Digital Innovation at UCLA, UCCP completed the development of online AP courses in Environmental Science as well as Physics B and C. Development of an AP Biology course was completed the previous year. Working in partnership with the Digital California Project (DCP), these courses will be provided to schools via Internet2 this fall. UCCP's annual AP

Summer Institute was attended by 146 educators from throughout the state. Approximately 60% of attendees came from AP Challenge Grant schools (schools that have to meet one of the following criteria: offer three or fewer AP courses, offer no mathematics or science AP courses, have less than 20% of graduates continuing on to a four-year college or university, or more than 50% of the student body qualifies for free and reduced lunch).

In 2002-03, in addition to providing AP and honors courses to schools with few or no AP courses, UCCP will expand its scope to increase the number of educationally disadvantaged students enrolling in college preparatory courses in schools identified as low-performing, providing professional development to teachers in these schools necessary to successfully teach these courses, and providing academic support for enrolled students to make the transition to a higher education institution. In fall 2002, the UCCP course catalog has expanded to 18 full courses including advanced Calculus. Future curriculum development will focus on increasing the representation of core college preparatory courses in the catalog (as well as AP Curriculum). The cybermentoring program will expand to employ 15 upper division students from three campuses to provide web-based tutoring and peer counseling to targeted high school students. Teacher development will include providing access to adaptive online curriculum for local use and continued sponsorship of a summer institute. UCCP will continue toward its five-year goal of generating 6,000 course enrollments and providing college preparatory support to students in all of California's 58 counties.

UC ArtsBridge

In 1998-99, the State provided the University with \$1.5 million for the expansion of ArtsBridge, a program established at the Irvine campus in 1996 to work in partnership with California public schools to provide high quality arts education. UC ArtsBridge provides scholarships to qualified UC graduate and undergraduate students to teach the arts and conduct arts-related workshops in art, dance, drama, music, and digital arts in K-12 schools. With the funds provided in 1998-99, the program expanded to additional UC campuses. However, funding for the program was reduced by \$1.25 million, or 83%, in 2002-03 due to the State's fiscal problems. The total remaining in State funds is \$250,000 in 2002-03. ArtsBridge programs are seeking outside grant and foundation funding as well as in-kind services to continue the program during 2002-03 and into the future. The program is being reviewed by the Strategic Review Panel on UC Educational Outreach.

GEAR UP Federal Funding

In 1999, California received a \$25 million grant, \$5 million in each of the next five years, for GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs), a federal program sponsored by the California Education Roundtable, to encourage more young people to have high expectations, stay in school, study hard, and take the right courses to go to college. The University is administering the grant for the State in coordination with the other segments, the California Postsecondary Education Commission, the Student Aid Commission, and the Governor's Office.

Components of the grant include: professional development programs for middle school teachers, including the articulation of standards frameworks and aligning skills in K-12 English and mathematics with higher education's expectations; parent information and public awareness programs on the importance of high academic achievement; and a resource and materials clearing-house to help middle school educators communicate with students and their families about the importance of preparing for college.

Community College Transfer Programs

Facilitating the transfer of students from the California Community Colleges to the University is among the highest priorities of the University. That commitment is embodied in the University's Memorandum of Understanding with the California Community Colleges to increase the number of transfer-ready students transferring from the community colleges to UC from about 10,150 in 1998-99 to 14,500 by 2005-06. In the Partnership Agreement with the Governor, this total has been increased to 15,300 students, or annual growth of about 6%. The Partnership Agreement also specifies a goal for increasing the number of student transfers from low-transfer California Community College campuses by 15% annually.

As indicated in Display 1 earlier in this chapter, the total budget from State and UC sources for the University's community college transfer programs is \$10.4 million in 2002-03. When funds from other sources are added, the total is \$34.6 million.

Between 1998-99 and 2001-02, UC increased new transfer students by 21.0%, from 10,161 to 12,290 students. In 2001-02 alone, the increase was 9.4%. Average growth since implementation of the Governor's Partnership is 6.6%,

a growth rate that slightly exceeds the overall target set for community college enrollment to UC.

Understanding the policies and requirements for transfer is complicated because of the variety of transfer requirements among UC campuses and among programs or disciplines within campuses. California residents who wish to transfer from a California Community College to the University of California must take courses that are transferable, that satisfy University and college general education and breadth requirements, and that fulfill prerequisites in the student's major. Every school on every UC campus specifies the courses a student must take during the first two years of college to prepare for advanced study in a major. Such courses may be required as part of the major, as prerequisites for other courses that are required as part of the major, or required to gain admission to the major.

Once they apply, community college students receive priority over all other advanced standing applicants and the admission rate of community college transfers is significantly higher than for any other group at this level. Every eligible transfer applicant is admitted to one of the University's campuses. However, getting students to the point of being qualified for transfer and actually submitting their applications for admissions can be a challenge

The University has developed The Dual Admissions Program, approved by The Regents in July 2001. This transfer program, which began in 2002-03 with \$2.5 million in State funding, is intended to address the need to increase community college transfers and to help with the University's efforts to increase opportunities for students from educationally disadvantaged backgrounds. Under this program, students who are within the top 12.5% of their high school class, but who do not meet eligibility requirements through either the statewide eligibility or 4% paths, can be admitted simultaneously to a community college and a UC campus. After satisfactorily fulfilling their freshman and sophomore requirements at a community college, students will enroll at the UC campus that admitted them when they were first identified as "Dual Admission" students.

The Dual Admissions Program will create a closer link between UC and the community college system and ensure a more effective transfer process as envisioned by the Master Plan. It will also help UC meet the transfer goals set forth in the Partnership Agreement with the Governor. More importantly, it will send a strong signal to students who have excelled

academically in disadvantaged high schools that they have a straightforward path to a UC degree, via the California Community Colleges.

University staff are working at an accelerated pace to implement the program in time to allow students to apply in November 2003 for fall 2004 admission. An information system necessary to track students admitted through the program is being developed and UC staff are beginning to work with all 108 community colleges to develop a “course compendium” that would be available to students admitted through the program, delineating the programs and services available to them. In addition, efforts to complete additional articulation agreements between UC and CCC campuses are being accelerated. In order to provide the outreach and counseling necessary for success of the program, the University will hire additional counselors to begin implementation of its “One for Three” counseling initiative, which will provide at least one UC outreach officer or counselor for every three selected community colleges. These staff will ensure that every selected community college will be visited at least once a week by a UC transfer advisor who will complement the efforts of their community college counter-part. Publications are also being developed for next fall to inform K-12 advisors, parents, and prospective students about the program.

The University will continue to work with the Governor and the Legislature to obtain funds necessary to continue with the implementation of this program. This program is also discussed in the *General Campus Instruction* chapter of this document.

Counselor Professional Development

To assure that up-to-date and accurate information about transfer preparation and application are widely available at community colleges, the University sponsors training sessions for both high school and community college counselors.

“Ensuring Transfer Success” Community College Counselor

Institutes. Each spring, the University offers, with the California State University and the California Community Colleges, three two-day CCC counselor institutes, *Ensuring Transfer Success*. The institutes provide focused workshops addressing transfer issues at both the California State University and the University of California. New and veteran transfer counselors are provided comprehensive information about transfer admission policies and practices, transfer support services, and general education and graduation requirements in a small, interactive environment, allowing

in-depth discussion. In 2002, over 1,000 counselors from over 90% of California's community colleges were served at these events. Since the inception of the program, counselor participation has increased 237%.

UC Counselor Conferences. Each fall, the University hosts large-scale conferences around the state for both high school and community college counselors. These one-day conferences provide a specific set of workshops for the professional development of high school and community college counselors. These conferences include sessions on University eligibility requirements and selection criteria, completing the UC application, financing higher education, and non-academic factors affecting transfer performance, among other workshops. In fall 2002, the University sponsored six events and served over 5,000 counselors.

Outreach Programs

As noted above, University staff and faculty are increasing their personal contact with students and CCC counselors. Both MESA and Puente have community college programs that prepare students academically for college and eventual transfer to four-year institutions. Last year these programs served over 7,000 community college students with academic advising, tutorial assistance, and mentoring.

The Transfer Center Program. This jointly-funded program was initiated in 1985-86 as an intersegmental program involving the University, CSU, and CCC. Transfer Centers are located on CCC campuses and serve as the focus of transfer activities. Center staff provide direct services to identify, encourage, and assist potential transfer students. The Centers help students prepare for upper division work by providing academic planning services and employing articulation agreements to ensure that CCC course work will be accepted for transfer.

Building technologies to serve outreach. Two university-wide programs are designed to provide students and counselors with up-to-date transfer information.

- ***ASSIST***, which is described later in this section.
- ***Gateways***, which is a Web-based electronic tool that is dramatically expanding student access to and understanding of the information needed to prepare for higher education. Gateways is an interactive site where current high school students, and soon CCC students, have access to tools

for planning and gaining admission to a UC campus. Via Gateways, students have a personalized guide to enrollment on a UC campus, and soon these tools will be available to facilitate the transfer process. Gateways is discussed earlier in this chapter.

Articulation and Evaluation

Transfer students must know how the courses they take at a community college will apply toward a degree at a particular UC campus. “Course articulation” refers to agreements between educational institutions that specify for students how a course they complete at one institution (e.g., a community college) can be used to satisfy a requirement at a second institution (e.g., a UC campus). Articulation is discussed in more detail in the *General Campus Instruction* chapter.

ASSIST—The Articulation System Stimulating Inter-Institutional Student Transfer

The Articulation System Stimulating Inter-institutional Student Transfer (ASSIST) is California’s official statewide repository for course articulation and transfer information. ASSIST is a computerized information system that provides counselors and students with detailed course transfer and articulation information to help them plan their academic careers, facilitate a seamless transfer process, and reduce the number of redundant courses they may take as they move from community colleges to universities. Counselors and students use ASSIST to determine how courses taken at various community colleges will be applied to specific major programs of study at universities once they transfer. This helps students plan a more efficient package of coursework, significantly reducing the frustration and cost of retaking what may have appeared to be similar courses. Students also use ASSIST to help decide alternative courses of study as their interests change by providing them with information to compare how courses they have already taken may apply to different areas of study. Students, faculty, and staff are currently receiving over 250,000 course articulation reports each month (or 10,000 reports each day) from ASSIST. The website is receiving up to 4 million hits a month, up from 2 million hits a month last year.

Operating since 1985, ASSIST is a cooperative, intersegmental effort overseen by a Board of Directors whose membership includes the California Community Colleges, California State University, University of California, and California Postsecondary Education Commission.

Every University of California and California State University campus is required to maintain in ASSIST all of the most current agreements that have been established with any of the California Community Colleges. Since 1996, the extensive ASSIST database has been available free of charge to all students, faculty, and staff via the Internet at www.assist.org.

Central Valley Outreach

College readiness and access for San Joaquin Valley students at the primary and secondary levels are critical to the future of the University of California and to the success of UC Merced. Beginning in 1986, existing campuses of the University maintained outreach operations in the San Joaquin Valley to encourage Valley students to attend the University of California. With the development of UC Merced, responsibility for these programs shifted to the Merced campus. Programs now target K-12 and community college students throughout the San Joaquin Valley and are designed to inform, motivate and help students prepare academically for the University of California and for the Merced campus when it opens in 2004. Funding for Central Valley outreach programs totals \$2.4 million, including an augmentation of \$379,000 in 2002-03.

Services currently reach 144 high schools and 11 community colleges in 13 counties, extending from San Joaquin to Kern, including Inyo and Mono Counties. UC Central Valley Outreach provides a range of informational outreach programs to area schools and colleges, while providing targeted academic development programs for selected School/University Partnership and Early Academic Outreach Program (EAOP) schools. UC Central Valley Outreach has added student development programs and school-centered programs in K-12 schools located throughout the San Joaquin Valley. Comprehensive school-university partnerships have been formed with four high school districts and their feeder middle and elementary schools in Merced, Fresno, and Kern Counties. Additional partners were identified in Stanislaus County; however, development was postponed to ensure resources could be concentrated in Kern County to effectively develop additional new partnerships there. The partnerships in Stanislaus County are planned for implementation in 2003-04.

The impact of these services between 1990 and 2001 has been substantial in the region. The number of freshmen students from the San Joaquin Valley who enrolled at the University of California has climbed steadily, from 808

students in 1990 to 1,512 students in 2001, an 87% increase. Enrollment from the region went from 1,368 in fall 2000 to 1,512 in fall 2001 a 10.5% increase in freshmen. The number of San Joaquin Valley high school students applying to UC reached 3,174 in fall 2001, an increase of 8.8% over fall 2000. The number of students admitted also improved to 2,779 an increase of 12% over the previous fall. The admission rate in the Valley has been approximately 85%. Preliminary figures indicate an 8% increase in applications for fall 2002 from the region.

Preliminary data suggest that Central Valley Outreach programs have been successful since their inception. For example, the UC Scholars Early Academic Outreach Program has made great strides toward meeting its goals since its creation in 2000. That year, 512 students from participating high schools were admitted to UC campuses. In fall 2001, 580 students were admitted from the same participating schools. In fall 2001, 351 graduates from participating schools enrolled at UC campuses as compared to 307 in fall 2000. This represents a 14.3% increase in freshmen enrollment from participating EAOP schools. Preliminary figures for fall 2002 show that 646 students from partnership schools were admitted to UC campuses, an 11.4% increase from the previous year.

Community college outreach is a key element in UC's Central Valley outreach efforts. Nearly 30% of Valley high school graduates begin their postsecondary education at a community college. UC Central Valley Outreach provides direct services via classroom presentations, workshops, conferences, and individual advising at all regional community colleges.

From fall 1995 to 2001, there has been a steady increase in applicants and enrollment to the University from local community colleges. In fall 1995, 255 community college students transferred to UC campuses from the region. In Fall 2001, there were 447 community college transfers, an overall increase of 75%.

The UC eligibility and participation rates (5-6% and 3.3-3.5% respectively) among Central Valley high school graduates are about half the statewide averages. Since eligibility has a direct correlation with potential for enrollment, it is essential to continue efforts to increase eligibility rates if there is to be a sustained increase of participation among Valley students at UC campuses. Therefore, UC Merced's objectives include creating an awareness of the opening of UC Merced and continuing to work directly

with high schools to address UC eligibility and academic achievement through school-university partnerships, EAOP, and other school engagement activities.

Graduate and Professional School Outreach

Graduate and professional school outreach programs are designed to identify, prepare, and encourage students from educationally disadvantaged backgrounds to attend and succeed in graduate and professional school. Programs are supported from a combination of State and University funds in graduate academic programs and medical and law schools. As shown in Display 1 earlier in this chapter, the total budget from State and University funds for 2002-03 for outreach in the University's graduate and professional school programs, including matching funds from schools, is \$7.7 million (\$6.3 million of this total is State funds alone). In addition, it is anticipated that the program will receive approximately \$2.8 million in private and federal funds. Program descriptions for each of these areas are included below.

Graduate Academic Outreach

To foster graduate academic outreach, the University received State funds in 1999-2000 in the amount of \$562,500 to establish the UC LEADS Program. This program was designed to identify undergraduate students from educationally disadvantaged backgrounds enrolled in science, engineering, and mathematics programs at the University of California, and to provide these students with an immersion program of undergraduate educational experiences to prepare them to assume positions in industry, government, public service, and academia following the completion of their doctoral degree at the University of California. Scholars receive an undergraduate mentorship experience and campus academic enrichment opportunities, and participate in annual University-wide symposia, summer research programs, and professional and scientific societies. Participants also travel to other UC campuses for training and exposure to graduate study. Seventy-four Scholars were funded in the program's first year. In 2000-01, the University received \$485,000 to double the number of UC LEADS scholars, bringing the program to a steady-state level of 148 first- and second-year participants. Of those UC LEADS Scholars who have graduated from UC, half have been admitted to graduate programs.

Medical School Outreach

Over the past five years, the five UC medical schools received almost \$1.3 million in State funds, to be matched equally by the medical schools (\$74,000 in 1997-98, \$312,500 in 1998-99, \$562,500 in 1999-2000, and \$335,000 in 2000-01). In combination, these funds are being used for post-baccalaureate re-applicant and applicant programs that support students who need to improve their eligibility status; undergraduate medical school preparation programs; liaisons with local community colleges that focus on academic preparation for medical school; and a variety of other outreach activities. Over the years, 88% of those participating in the postbaccalaureate reapplicant programs have subsequently gone on to medical school.

Law School Outreach

Over the same four-year period, UC's three law schools were allocated \$755,000 and were also required to provide a one-to-one match (\$12,000 in 1997-98, \$187,500 in 1998-99, \$375,000 in 1999-2000, and \$180,000 in 2000-01). These funds are being used to identify potential students, and prepare and encourage them to apply to law school through programs such as summer opportunities to strengthen writing and study techniques, visits to undergraduate institutions nationwide, regional and national law forums, and support for student organizations' efforts to recruit diverse student populations.

Law schools are also using these funds to expand efforts by staff, faculty, alumni, student organizations, and law students themselves to encourage applicants who have been admitted to UC law schools to select UC over other higher education institutions. These efforts include regional orientations and receptions; pre-law advising on admitted applicants' undergraduate campuses; and hosting admitted applicants for campus visits, tours, and receptions.

Informational Outreach and Recruitment

The Outreach Task Force recommended an aggressive program of informational outreach to provide better and more timely information to students, families, teachers, and counselors to improve planning and preparation for college. With the new funds provided for these efforts in 1998-99, the University increased considerably its visits to K-12 schools and

the California Community Colleges. The University also expanded its advising efforts to reach more students and their families in order to better explain the requirements for UC eligibility and avenues for admission to all UC campuses. The University has increased its efforts to reach families at the critical, early stages of their children's education to help them become more involved in the process for planning for college.

Some of the University's most extensive informational outreach activities include: college counseling programs for potential students, community and media relations activities such as visits and press conferences by University leaders, telephone campaigns, direct-mail campaigns to targeted students, campus visits, visits of current UC students to their home schools, events with high-level campus administrators, and campus efforts to increase visibility. The University uses several Internet programs to provide students, parents, and counselors with up-to-date admissions and transfer information, including *Gateways* and *ASSIST*, which are described earlier in this chapter.

Due to the State's rapidly deteriorating fiscal situation, the Governor vetoed \$2 million from outreach programs in the final Budget Act for 2001-02. Subsequently, legislation was enacted (AB 1287, Cardenas), specifying how the University must distribute the \$2 million veto, including a reduction of \$1 million in the budget for Informational Outreach and Recruitment. This represents the elimination of all new funds received for these efforts in the 1998-99 outreach augmentation. The University is making every effort to preserve effective publications and communication programs.

Evaluation of Outreach Programs

Beginning in 1998-99, the State provided \$1.2 million to evaluate the University's outreach programs. The University of California has implemented a sophisticated evaluation program to assess the impact of the University's outreach and K-12 Improvement Programs on students and schools. The evaluation of outreach programs is a joint faculty/administrative effort, with oversight from a distinguished panel of faculty researchers and evaluation experts from across the University system. Multiple methods, multiple designs, and an integrated data-collection and analysis system provide information on program effectiveness. The primary objectives of the evaluation are fourfold:

- measure the progress each program has made in achieving the numerical goals for UC eligibility and enrollment established in the Outreach Task Force Report;
- assess the effectiveness and “value-added” impact of outreach programs using a rigorous comparison-group design;
- describe and document the structure, operation, and evolution of outreach programs; and
- provide feedback to campus program staff to facilitate continuous program improvement.

Student-level and school-level data collection, site visits, case studies, formal accountability reporting, and a network of data sharing agreements provide UC staff with a wide set of tools to assess not only the implementation of programs, but also progress toward attaining the eligibility goals. The evaluation also assesses the “value-added” of outreach efforts by comparing the progress and outcomes of students in outreach programs and in partnership schools with similar students and schools that have not participated in the University’s programs. These analyses will augment the University’s ability to judge the educational merit and cost-effectiveness of programs.

At the very core of the evaluation is the objective to use data and research findings to direct and redirect program efforts to their greatest utility. For the major programs of educational outreach and K-12 improvement, systematic outcome indicators are measured on an annual basis, including UC eligibility, applications, admission, and enrollment. In addition, matriculation patterns into other higher education segments are tracked (California State University, the California Community Colleges, California private, and out-of-state institutions).

The University has also implemented and begun to measure satisfactory completion of critical academic courses, benchmarks that are consistent with UC eligibility. Data collected from student records at UC partner high schools indicate that the modest eligibility rates for underrepresented students are often the result of inadequate preparation in high school in courses that meet the “a-g” requirements. In many cases, as many as 85% of underrepresented students are off-track by ninth grade, having failed to satisfactorily complete key courses, or not having taken the courses at all.

As a result, the progress that schools are making often begins with extremely low baseline eligibility rates in the initial years. The tracking of course-taking patterns allows for year-over-year measurement of progress as well as substantial opportunities to redirect and support students through outreach programs.

As a way of understanding incremental changes in the schools with which the University works, a variety of data sets are routinely analyzed to assess progress. For example, elementary, middle, and high school SAT 9 data are analyzed to assess performance toward meeting grade-level standards in reading, mathematics, and science. As a proxy for understanding the changing educational opportunities in each school, teacher credential levels, graduation rates, college-preparation, test-taking rates, and other indicators of school-level quality are examined for annual progress.

The most recent report of evaluation findings can be found in *Expanding Educational Opportunity: Status Report on the Educational Outreach and K-12 Improvement Programs of the University of California*, UC Office of the President, fall 2001. A data appendix has been prepared in fall 2002 to provide updates to the report. The University also submitted a Legislative Report in April 2002 on the use of outreach funding and on the outcomes and effectiveness of outreach programs. An attachment to that report included estimated UC eligibility, applications, admissions, and enrollment from 1998-99 to 2000-01. A similar report will be submitted again in March 2003. The University has also been asked to provide a detailed report to the Legislature by December 2002 describing the evaluation program, including a description of how funds have been used to date and how funds will be used in the future. The evaluation of outreach programs is currently under review as part of the work of the Strategic Review Panel on Educational Outreach. Funds for evaluation were reduced by \$500,000 in 2002-03, leaving a total of \$700,000 for the program.

Research

The Outreach Task Force recommended using the University's research expertise to identify the root causes of educational disparity within California's school system from K-12 through postsecondary education. A systemwide faculty planning group recommended the creation of the UC All Campus Consortium on Research for Diversity (UC ACCORD) that builds on existing faculty expertise and research infrastructure to examine the

problems and challenges of access to higher education by California's disadvantaged schoolchildren. Working in concert with the University's Outreach programs, ACCORD ensures that the University maintains a multi-pronged, and knowledge-based approach to meeting this challenge.

UC ACCORD, housed at UCLA, has undertaken a program of research that embodies the University of California's substantial, long-term commitment to improving access to education for California's schoolchildren. All of its projects seek to support and inform efforts to replace the current inequalities in K-12 schooling and disparities in access to higher education with equitable conditions and outcomes for children from all regions of California.

In 2002-03, ACCORD will support the work of 15 UC scholars from 5 UC campuses with dissertation fellowships, post-doctoral fellowships, research augmentation grants, and faculty research seed grants. These projects examine the structures, practices, and beliefs in California's public schools and universities that advantage and disadvantage different student populations, and investigate the strategies, systems of support, and policies that enable students to navigate successfully the pathway through K-12 and on to (and through) California's public universities. All of ACCORD's research projects seek to help fulfill the commitment to diversity and point to solutions in ways useful to policy-makers, teachers, students, and parents. Additionally, a team of ACCORD faculty researchers is developing a set of statistical indicators that will monitor and track the state's progress toward more equitable K-12 and college experiences. Beginning in winter 2003, these indicators will be reported annually to the public.

ACCORD is governed by a board comprised of representatives from all 10 campuses, and three faculty working groups oversee its activities. The Research Working Group identifies how new research can fill gaps in existing knowledge about outreach strategies. The Professional Community Working Group is responsible for ensuring that ACCORD develops and strengthens as a scholarly community that includes both researchers and outreach practitioners. The Public Engagement Working Group has developed a communication strategy for making UC ACCORD research visible and useful to the UC outreach community, education leaders, elected officials, and the public.

UC ACCORD received \$300,000 in new State funds in 1998-99 and an additional \$509,000 in 2000-01. The total budget for 2002-03 is \$847,000.

K-12 Professional Development Programs for Teachers and Staff

Building on his 1999-2000 investment in UC K-6 reading professional development programs for teachers, the Governor proposed a dramatic expansion in 2000-01 of similarly structured programs for K-12 teachers in other areas and grade levels to provide professional development. The Governor's plan included expansion of the California Subject Matter Projects (CSMPs), the California Reading Professional Development Institutes, and the English Language Development Professional Institutes; and the creation of new institutes for high school English, elementary mathematics, algebra, and high school mathematics. These programs were designed to serve over 70,000 participants per year, including 25,000 participants in the California Subject Matter Projects and 45,000 in the California Professional Development Institutes (CPDIs). A statute authorizing expansion of existing institutes and development of all but one of the new institutes was adopted by the Legislature and signed by the Governor in 2000 (AB 2881, Wright). The Algebra Academies Professional Development Institute was enacted into law in SB 1688 (Polanco) the same year.

In 2002-03, due to the State's fiscal problems, all State funding was eliminated for the CPDIs in the budget and \$15.3 million was reduced from the California Subject Matter Projects.

In proposing elimination of these funds in the May Revise, the Governor stated his intent that UC should contract with individual K-12 schools and school districts to continue the operation of these programs using federal and State funds available in the K-12 budget for teacher professional development purposes. The University is very optimistic about its ability to work cooperatively with K-12 schools to make this new fee-for-service funding arrangement a success, particularly given the Governor's continuing support of the California Subject Matter Projects, which provide an important platform and delivery system for the California Professional Development Institutes. In fact, in 2000-01, CSMP sites conducted approximately 70% of the CPDI programs serving 62% of all CPDI participants. The core infrastructure of the CSMPs is essential to the University's ability to continue to provide professional development services through a fee-for service-model.

There are several potential sources K-12 schools can use to support these programs, including \$10 million of State funds in remaining Goals 2000 funding, \$63.5 million through the Governor's Mathematics and Reading

Professional Development Program (AB 466, Statutes of 2001)—half of which is one-time funding reappropriated from the prior year, and an increase in federal funding totaling \$738 million available to California’s K-12 schools through the No Child Left Behind Act. This amount includes \$132 million designated specifically for the new Reading First Program.

To meet the Governor’s expectation that UC-based professional development services continue through fee-for-service relationships with districts, UC intends to use a substantial portion of the \$20 million provided for the CSMPs in 2002-03 to support the infrastructure needed to deliver these services.

To facilitate the effective and efficient delivery of services, UC has initiated a partnership with the state’s County Offices of Education. This partnership, organized through the California County Superintendents Educational Services Association (CCSESA), will facilitate communication of information between districts and UC program providers, ensuring the provision of services in a timely and need-appropriate manner. The UC/CCSESA partnership is discussed in more detail earlier in this chapter.

Display 1, in an earlier section of this chapter, shows the total funds available from all fund sources for the professional development programs for 2002-03. Display 6 shows the augmentations and decreases in funding for the University’s professional development programs from 1999-2000 to 2002-03.

Each of these programs is described in more detail below.

California Subject Matter Projects

The University has statutory responsibility to establish, administer, and maintain a network of professional development programs designed to enhance the academic content knowledge, teaching effectiveness, and student achievement of teachers, principally from the K-12 segment. K-12 teachers, those from low-performing schools in particular, participate in the projects’ intensive training institutes with faculty and academic staff from the University and other institutions of higher education as well as accomplished teachers. Follow-up activities are provided for participants during the academic year. Participants are organized and supported to systematically share what they have learned with colleagues in their schools and districts through workshops, coaching, mentoring, and other academic programs.

Display 6

| University of California Annual Augmentations, Reductions K-12 Professional Development Programs for Teachers and Staff (a) State Funds (\$000s) | | | | | |
|---|------------------|------------------|-------------------|--------------------|------------------------|
| | 1999-00 | 2000-01 | 2001-02 | 2002-03 | Total Augmentations |
| California Subject Matter Projects | \$ - | \$ 20,000 | \$ (250) | \$ (15,315) | \$ 4,435 |
| California Professional Development Institutes | | | | | |
| California Reading Professional Development Institutes | \$ 6,000 | \$ 14,000 | \$ (1,616) | \$ (18,384) | \$ - |
| English Language Development Professional Institutes | 5,000 | 5,000 | (822) | (9,178) | - |
| High School English Professional Development Institutes | - | 12,000 | (970) | (11,000) | - |
| Elementary Mathematics Professional Development Institutes | - | 7,500 | (906) | (6,894) | - |
| Algebra Professional Development Institutes | - | 2,500 | (202) | (2,298) | - |
| Algebra Academies Professional Development Institutes | - | 1,700 | (187) | (1,563) | - |
| High School Mathematics Professional Development Institutes | - | 8,000 | (647) | (7,353) | - |
| Subtotal California Professional Development Institutes | \$ 11,000 | \$ 60,700 | \$ (5,000) | \$ (56,700) | \$ - |
| Pre-Intern Teacher Academies | 750 | - | - | - | 750 |
| New Teacher Center | - | 600 | - | - | 600 |
| Total All Programs | \$ 11,750 | \$ 71,300 | \$ (5,250) | \$ (72,015) | \$ 6,785 |

(a) Totals exclude California Subject Matter Projects' base budget. Starting for cost adjustments.

CSMP sites continue to develop programs in order to support teaching and learning consistent with the statewide academic content and performance standards being developed for K-12 schools by the State Board of Education. In the past year, the CSMP sites have given added programmatic emphasis to state-adopted instructional materials (that districts purchase for their teachers and students) to ensure the effective use of these materials. While an improvement in teacher's content knowledge is an important focus of both the California Subject Matter Projects and the California Professional Development Institutes, the California Subject Matter Projects (CSMPs) also have the additional role of identifying and developing teacher leaders. As stated above, in 2000-01 CSMP sites conducted approximately 70% of the CPDI programs serving 62 percent of all CPDI participants. The CSMPs continue to provide the core infrastructure and leadership development for the California Professional Development Institutes. This core infrastructure is essential to the University's ability to continue to provide professional development services through a fee-for-service model.

A nine-member policy board, the Concurrence Committee, oversees the CSMPs. The CSMPs work in close collaboration with public and private higher education institutions as well as K-12 schools. The CSMP network

currently consists of six projects supported by the State, each addressing subject areas taught in K-12 schools. These six subject areas are writing, reading and literature, mathematics, science, history-social science, and international studies. The University is funding two additional projects in the areas of foreign language and the arts. Ongoing work conducted by the regional sites comprising the CSMP network reflects an expanded set of priorities outlined by AB 1734 (Mazzoni), the 1998 statute reauthorizing State support of the CSMPs. Legislation extending the sunset date for the reauthorization of these programs was adopted during the 2002 legislative session and approved by the Governor (AB 2950 Strom-Martin). In 2000-01, the CSMPs served more than 25,000 teachers in 129 projects throughout the state. It is estimated that in 2001-02, CSMPs served approximately 35,000 teachers.

Consistent with the provisions of AB 1734, the program was evaluated by an independent evaluator. The final report was submitted to the University in August 2002 and indicated that the program is highly regarded by participating teachers and has a positive effect on participants' classroom practices and careers.

As part of the Governor's teacher professional development initiative of 2000, the CSMP received an augmentation of \$20 million bringing the total annual funding for the program in the University's budget for 2000-01 to \$35.6 million. In 2001-02, the Legislature redirected \$5 million from school-university partnership programs to student academic development programs as shown earlier in Display 4, including a \$250,000 reduction in the California Subject Matter Projects. Due to the State's fiscal problems, the CSMP budget was reduced by \$15.3 million, leaving a total State budget of \$20 million for 2002-03.

California Professional Development Institutes

The principal aim of the California Professional Development Institutes is to help teachers across California improve student achievement in the core content areas. All institutes are intended to strengthen teachers' content knowledge. Institutes (in English Language Arts, English Language Development, and Mathematics) provide at least a 40-hour intensive institute during summer or intersession and at least an additional 80-hour follow-up throughout the following year. This program was built upon the accomplishments of the California Subject Matter Projects and the successful implementation of the 1999-2000 California Reading Professional Development Institutes.

The University was asked to coordinate this effort, in full partnership with the California State University, independent colleges and universities, and K-12. Colleges and universities throughout California host institutes on campuses and in school districts during the summer and intersession followed by academic year sessions. Stipends are provided to teacher participants.

Between 1999-2000 and 2000-01, the California Professional Development Institutes received a total of \$61.7 million from the State. However, the final 2000-01 State budget for K-12 did not provide for \$10 million of the stipend portion of the program. In 2001-02, the Legislature approved a proposal made by the Governor to align program and stipend funding by reducing the program funds by \$5 million and increasing the stipend budget by a like amount. The final 2001-02 Budget Act also included language requiring a one-time reversion of \$10.7 million in unspent funds from the 2000-01 CPDI budget. Due to the State's deteriorating fiscal situation, further budget reductions became necessary for the 2001-02 fiscal year. In November 2001, the Governor proposed a series of mid-year budget adjustments, including a further reduction of \$6 million to the CPDI program. By 2002-03, the State's fiscal problems had deteriorated to the point that all State funding was eliminated for the CPDIs.

The University will continue to serve teachers through the CPDIs in 2002-03 by contracting with school districts for State and federal funds targeted for teacher professional development. University staff worked diligently to negotiate these contracts in time to offer professional development training this summer. Early estimates indicate 18,000 teachers received their initial 40-hour intensive sessions through the new contractual arrangement. The University is very optimistic about its ability to work cooperatively with K-12 schools to make this new funding arrangement a success, particularly given the Governor's continuing support of the California Subject Matter Projects, which provide an important platform and delivery system for the California Professional Development Institutes.

Upon completion of training funded from the 2001-02 CPDI allocation, it is estimated that the University and its partner institutions will have served approximately 26,000 participants in English Language Arts Institutes, over 8,000 participants in English Language Development Institutes, and over 10,000 participants in Mathematics Institutes.

In addition, using 2001-02 CPDI funds, UC established seven Regional Implementation Centers (RICs) as the implementation infrastructure for

the Reading CPDIs and AB466 reading training. These RICs are housed at County Offices of Education across the state.

Pre-Intern Teacher Academies

In 1999-2000, the University received \$750,000 for the *Pre-Intern Teacher Academies* designed to prepare K-8 teachers who are presently teaching on emergency credentials to meet subject matter requirements in order to pass examinations and to fulfill other necessary requirements for entry into teacher preparation programs leading to certification. Since 2000-01, the Academies have been administered by the Santa Cruz campus in coordination with the New Teacher Center, described below. The Pre-Intern Teacher Academies are designed to prepare K-8 teachers who are presently teaching on emergency credentials to meet subject matter requirements in order to pass the Multiple Subject Assessment for Teachers examination and to fulfill other necessary requirements for entry into teacher preparation programs leading to certification. For 2002-03, this training has been modified to align with the new multiple and single subject exams. It is being offered throughout California in high-need regions. The Academies provide training to the mentors of pre-interns and collaborate with the California Subject Matter Projects on a regional and statewide level regarding the coaching and mentoring of subject matter competency for new teachers. In addition, the Academies together with the New Teacher Center (described in the next section), are developing and providing online resources to support pre-intern teacher preparation leading to certification.

New Teacher Center

In 2000-01, the State provided \$600,000 in permanent funding for the expansion and ongoing support of New Teacher Center (NTC) programs, which provide consultation and technical assistance to schools, colleges, and universities statewide, all of which will be hiring or training unprecedented numbers of new teachers and principals over the next ten years. The New Teacher Center, which began in 1988 at UC Santa Cruz, integrates research and practice, by supporting effective induction and teacher development programs to help ensure better teaching and school leadership, higher teacher and principal retention, and increased student achievement. Private foundations will contribute approximately \$2.5 million to the NTC in 2002-03.

The New Teacher Center provides direct services to 1,000 beginning teachers in 31 school districts in the Monterey Bay/Silicon Valley region. Teachers in these induction programs have contact with their mentors on a weekly basis

and such meetings occur at their own school. In addition, the NTC's training and technical assistance reaches thousands of teachers and administrators throughout California

With the funds provided by the State, the New Teacher Center continues to expand its services: designing and implementing high-quality induction programs in collaboration with school districts, colleges, and universities; serving as a resource to policy makers; conducting research; supporting program development; disseminating information about effective induction practices; creating training materials, including video, online, and print formats in the areas of teacher performance, classroom practice, mentoring and coaching, training new teachers, and effective instruction; and sponsoring statewide and regional conferences and forums focusing on new teacher learning. In addition, the Center works in cooperation with the California Department of Education and the Commission on Teacher Credentialing on a number of initiatives, including the Beginning Teacher Support and Assessment Program (BTSA).

The Digital California Project (K-12 Internet Initiative)

The Digital California Project (DCP) is a program to extend broadband, advanced service electronic networks now used by the University of California, independent research universities, and the California State University to points within reach of every K-12 school district in California.

The Internet is a worldwide system of computer networks—a network of networks in which users at any one computer can, if they have authorization, get information from any other computer. The potential for increased access to information for education is enormous.

Access to information resources via networks is now generally viewed as an effective means to reach K-12 students and educators with programs and services. While the use of information technology is not a panacea, many resources are available across the network that can help enrich curricula and teaching-learning experiences in K-12. Both higher education and industry believe these resources must become accessible to all California's K-12 educators so they can be integrated into regular curricula and services at the K-12 level.

An important byproduct of the CalREN/DCP network will be greater K-12 and higher educational collaboration. For example, the network is already being used for live webcasts, videoconferencing and virtual events by and between K-12 and higher educational institutions that utilize video streaming made possible by the CalREN/DCP network. The growing capacity for this type of work has the potential to significantly assist with UC's delivery of online degree programs, professional development programs, courses offered to K-12 staff through extension programs, and the dissemination of research findings. This capacity may also help UC with its efforts to increase its presence in the K-12 community throughout all regions of the state during a time period when the resources to do so have been greatly reduced.

In 2000-01, the University received \$32 million to begin the development of the DCP network, but as a result of the State's deteriorating financial situation, funding was reduced to \$27.2 million for 2001-02 after a mid-year budget cut, and to \$22 million for 2002-03.

With the funding provided by the State, the University has contracted with the Corporation for Education Network Initiatives in California (CENIC) to implement the proposal to develop geographically-dispersed access points to link K-12 schools to one another, to segments in California higher education, and to the Internet. CENIC is working with every county to install necessary equipment in or near every county education office to create a "node" that is directly connected to CalREN-2. Specifically, the DCP network plan extends the Internet infrastructure backbone into all 58 counties in the state by providing 12 DCP backbone hub sites strategically located regionally throughout California, and 71 primary access nodes, at least one in each county. In order to extend and maintain the high-speed CalREN-2 network to the counties, funds are required for installation of equipment, reserves for equipment replacement on a periodic cycle, ongoing staffing to maintain operations, and ongoing fees for telecommunications bandwidth.

After collaborating with K-12 technology experts in each region of the state, CENIC identified the most appropriate locations for the first seventy node sites (or servers) that local schools and districts would connect to in order to reach the CalREN higher education network. As of June 30, 2002, 60 node sites are operational in 51 or 88% of the 58 counties. Sixty-five percent of K-12 schools, serving 68% of K-12 students statewide are currently connected to the network. It is estimated that at least 87% of the schools and 91% of the K-12 students will be served at the end of the 2002-03 school year as additional work is completed on building the network.

The reduction to \$22 million for 2002-03 will be accommodated by delaying or devising lower cost alternatives for completing the initial complement of nodes, or delaying or reducing the number of additional nodes (equipment and circuits) to be added in the second round. Delaying or eliminating the second round of nodes for the DCP system will not reduce the number of counties connected to DCP, but instead will result in a reduced level of potential service or reduced efficiency of service to the school districts and schools connected to DCP through the county connections, connections that are themselves served by the DCP nodes.

Connections from the county node to individual school districts and buildings will be decided on locally and paid from Digital High School funding, federal E-rate funding or other resources available locally. Local districts and schools will be responsible for providing their own on-site computing equipment, purchasing access to curricular resources, and supporting professional development and specialized teaching staff.

Cooperative Extension

The University of California, through the Division of Agriculture and Natural Resources, is uniquely positioned to contribute significantly to solutions to complex problems and challenges facing California today. The University has an “on the ground” presence in 57 California counties through UC Cooperative Extension and other programs of the Division of Agriculture and Natural Resources. Over 270 county-based advisors and other academics team with campus based specialists (over 130) and Agricultural Experiment Station researchers (over 600) to bring the latest research-based information and technological advances to Californians. Cooperative Extension represents the partnership among federal, state, and local entities, an important component of the University of California as a Land Grant University.

The research and educational programs of Cooperative Extension are tailored to contribute science-based solutions to agricultural, human, environmental and natural resources-related problems at the regional and local level. Over 25,000 Californians extend and enhance Cooperative Extension’s outreach efforts by participating as volunteers in the UC 4-H Youth Development, Master Gardner, and Master Food Preserver programs.

During the difficult fiscal years of the early 1990s, the Cooperative Extension budget was cut by \$9 million, or 20%. This included a targeted cut of 5% to all UC research and public service programs in 1990-91. In recognition of the need to restore the extra 5% cut to these programs, the State provided permanent augmentations for agricultural research (\$2.75 million in 1998-99) and Cooperative Extension (\$2 million in 1999-2000 and \$1 million in 2000-01). The augmentations in 1999-2000 and 2000-01 enabled the University to begin to address the significant reductions in Cooperative Extension programs and capabilities that had occurred in the early 1990s.

The Division operates nine research and extension centers across California from Oregon to the Mexican border. The centers represent different climates, landscapes and cropping systems. These field research stations serve as outdoor laboratories for UC scientists conducting basic and applied research. They also serve as outreach venues where Cooperative Extension academics conduct educational meetings for clientele, host field days and demonstrate the latest research findings.

The Central Coast region encompasses eight counties (Monterey, San Benito, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz and Ventura) and includes the rich Salinas Valley. The region generates in excess of \$5 billion dollars a year in revenue at the farm gate, supporting substantial acreage of summer and winter vegetables, strawberries and wine grapes. With the closure of the Bay Area Research and Extension Center in highly urbanized Santa Clara County this fall, the region is left without a research and extension center. The optimal size for the central coast REC would be in the 200- to 400-acre range. It would be located on land suited to vegetable and wine grape production. A one-time allocation of \$118,000 to support preliminary planning for the center, including identification and evaluation of potential facility sites, was included in the 2001-02 budget but eliminated in mid-year reductions.

Industry support for a central coast REC is solid, broad-based, long-term, and growing. The University is actively seeking a donation of land for the new center, and funding for facilities construction is included in the University's five-year capital outlay plan.

Charles R. Drew University of Medicine and Science

Since 1973, the State has appropriated funds to the University to support a program of clinical health science education, research and public service operated by the Los Angeles campus in conjunction with the Charles R. Drew University of Medicine and Science.

The Charles R. Drew University of Medicine and Science is a private, nonprofit corporation with its own Board of Trustees. Drew University conducts educational and research programs in south central Los Angeles in collaboration with Martin Luther King, Jr. County Hospital, also known as King-Drew Medical Center. State General Funds are provided to Drew under two separate contracts, each administered by the University. One contract relates to State support for medical instruction, including the Postgraduate Medical Education Program and the joint Drew/UCLA Undergraduate Medical Education Program. The second contract covers a separate public service program operated by Drew to provide funding for a prescribed list of health science educational, research, and clinical public service programs in the Watts-Willowbrook community.

Between 1982-83 and 1990-91, State funding for the Drew programs did not include regular adjustments for inflation, which resulted in a funding deficiency for Drew. 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. None of these requests was funded by the State. Although the Drew programs were sheltered from the budget cuts assigned to UC programs between 1990-91 and 1994-95 (in fact, the University augmented the Drew budget by \$340,000 from UC discretionary funds beginning in 1990-91), the negative effects of the earlier underfunding remained.

In 1996-97, Drew began to receive income from the Fee for Selected Professional School Students, which is used to support the instructional program at Drew. The fee is discussed in the *Student Fees* chapter of this document. Also, in recognition of the serious funding deficiency, the 1997 and 1998 State budgets included augmentations for Drew. The 1997 budget augmentation was \$500,000 and required the University to provide equivalent matching funds, for a total augmentation of \$1 million. The 1998 augmentation provided an additional \$1 million for Drew programs. With subsequent price increase adjustments, the current total State funding for Drew is \$10.3 million.

While the earlier augmentations made the budget whole, the negative effects of the earlier period of underfunding remained, and for 2000-01, the State provided a one-time allocation of \$7.85 million for Drew Medical Center. This infusion of funding had a substantial and beneficial impact, allowing Drew's financial position to stabilize. Budget language attached

to this appropriation required that UC increase its oversight of Drew's expenditure of funds. As a result, the University has intensified its financial oversight of Drew. The University held monthly meetings with senior officials from Drew and continues to work with Drew to improve the quality of management information available.

ACADEMIC SUPPORT—LIBRARIES

| 2002-03 BUDGET | |
|-----------------------|-----------------------|
| Total Funds | \$ 250,989,000 |
| General Funds | 212,688,000 |
| Restricted Funds | 38,301,000 |

| 2003-04 INCREASE | |
|-------------------------|-----------|
| General Funds | 5,000,000 |
| Restricted Funds | 1,149,000 |

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

The University's 2003-04 budget plan includes a request for \$5 million for additional library materials, including expansion of the shared digital collection of the California Digital Library, consistent with the funding principles of the Partnership Agreement with Governor Davis. Among those funding principles is the commitment to support a 1% increase to UC's General Fund base to address shortfalls in four core areas of the budget, including library materials. The University's 2001-02 and 2002-03 budget requests included increases of \$5 million each year for this purpose. However, due to the State's deteriorating fiscal situation, funding for core needs was not provided in those years. In addition, the 2002-03 budget included a one-time reduction of \$29 million for core needs, including funding for libraries. It is the University's expectation that the \$10 million will be restored to the University's budget once the State's fiscal situation improves, and that the \$29 million one-time funding reduction for core needs, including the funding for library collections, will be restored in 2003-04.

Over more than a decade, the combined effects of growth in enrollments and academic programs, inflation, and reduced budgets have seriously eroded the libraries' ability to support the University's academic programs. At the same time, there has been a steady increase in the growth of knowledge, with worldwide book production nearly doubling between 1989 and 1998 to over 1 million new titles per year. Rapid advances in technology, particularly digital, promise enormous improvements in the capability of academic libraries to acquire, store, manage, and deliver the information needed for teaching and research, but at additional cost. For the foreseeable future, electronic information resources will complement the growing traditional collections of the University. In the coming years, the library program will also be affected by unprecedented levels of enrollment growth.

The historic shortfall in library resources will be addressed with funding provided through the Partnership and through a redirection of campus resources, once the State's economy improves. However, if the University were to adhere to traditional methods of providing library collections and services, even these new resources would be insufficient to cope with future increases in library materials prices that continue to outpace inflation, or with the impact of anticipated enrollment growth on existing library facilities and services. For these reasons, the University's strategy addresses the existing shortfall in ways that lay the foundation for innovation in library development by:

- fully exploiting the capabilities of available technology, in particular digital library services;
- integrating the digital and print service environments;
- developing alternative models of scholarly communication; and
- expanding digital library services to the people of California.

To achieve this, the University's strategic program for libraries includes three components:

- rebuilding and sustaining campus collections;
- enhancing and expanding the ability to use library resources in all formats more efficiently and effectively through resource sharing; and

- building one shared digital collection, the California Digital Library, to support the work of faculty and students at all campuses on an equal basis.

The University's library budget is divided into four categories that are described below.

- Acquisitions-processing, which represents 55% of the budget, includes expenditures for library materials and binding, and all staffing activities related to acquiring library materials and preparing them for use, such as ordering, receiving, and cataloging.
- Reference-circulation, which represents 39% of the library budget, includes providing users with information and materials, managing circulation of materials, shelving and re-shelving books, maintaining periodical and document collections, providing reference services, and instructing students and faculty in the use of the library and its printed and electronic information resources.
- The systemwide Library Automation unit, which provides university-wide bibliographic access to the resources of the University's libraries through the MELVYL online union catalog, represents 2% of the total library budget.
- The California Digital Library (CDL), which was established in 1997-98, represents 4% of the total budget.

2003-04 Budget Request

The University's 2003-04 budget plan includes an increase of \$5 million for library materials and more effective sharing of these materials among the campuses, consistent with the provisions of the Partnership, as well as restoration of the \$29 million one-time cut imposed in the 2002 Budget Act for core areas, including libraries. Between 1998-99 and 2000-01, the State provided \$7 million to support the development and expansion of the California Digital Library (CDL), and \$8.7 million for library materials and expanded sharing of library collections that began to address a permanent budget shortfall that was estimated at \$33 million in 1999-2000. During the same period, the State also provided \$14 million in one-time funds for library materials.

The 2003-04 budget request continues a multi-year strategy to address the library budget shortfall and prevent further erosion in the quality of current library collections and services. This multi-year strategy, which grew out of a major UC planning effort initiated in 1996, recognizes the need to balance print and digital resources; develop innovative services to provide access to information resources regardless of format; and establish new partnerships between faculty, libraries, professional societies and publishers to develop viable alternative models of scholarly and scientific communication that can succeed in a new fiscal and technological environment.

Sustaining Campus Collections (\$4,000,000 Increase)

Of the \$5 million increase in funding for campus library material provided within the Partnership, \$4 million will be used to expand campus collections and reduce the permanent budget shortfall over time.

For the foreseeable future, traditional print collections will continue to be essential for teaching and learning and for the scholarly and research activities of students and faculty. Improved resource sharing and the creation of a shared digital collection are essential complementary strategies that will leverage limited University resources.

Although the quantity of information available in digital formats is growing rapidly, it represents only a small portion of the total published literature and other content required to support teaching and research. For example, according to the industry standard reference, Ulrich's Directory of Periodicals, about 20,000 of the 164,000 periodical titles in publication in 2000 were available in digital form, about 12% of the total. The strategy of sharing library materials among campuses to help maximize limited financial resources can work only if the campus collections remain viable. Funds must be invested in collections that support core campus programs as well as collections of specialized resources that both maintain the richness of the campuses' libraries and ensure a cost-effective resource sharing program.

The University's plan for campus collections only partially addresses the effects of inflation and the information explosion, and helps prevent further erosion in the purchasing power of the materials budget. The University continues to monitor and participate in national initiatives and activities intended to convince the publishing community that the current pricing patterns are unacceptable and cannot be sustained, and has, through the *eScholarship* initiative described below, fostered a number of projects led by UC scholars to experiment with new and more cost-effective methods of

scholarly communication. Given the continuously spiraling rate of increases for library materials, it is critical that these efforts are continued and expanded.

The California Digital Library (\$1,000,000 Increase)

Of the \$5 million increase requested for 2003-04, \$1 million will be used to continue the expansion of the shared digital collection of the CDL. The University's groundbreaking effort to create the CDL complements the proposed increase in funding for campus-based resources by creating a shared university-wide collection of high-quality digital content. By bringing together technology and the acquisition of knowledge, the CDL paves the way for a future when the distinguished library collections developed to support the teaching, learning, research, and scholarship of the University's faculty and students will be available without regard to the conventional limits of time and space.

In 1998-99, the State provided \$3 million to support the initial implementation of the CDL. These funds were used primarily to build digital resources in science disciplines. In 1999-2000, the State provided \$1.5 million and in 2000-01, \$2.5 million, to continue development of the CDL, allowing expansion into other disciplines as well as an increase in the number of constituents served. Additional funding will support the continued expansion of new digital resources in the arts, humanities, sciences, and social sciences, including additional published digital journals and secondary sources, thousands of digital visual resources, current and historical social and economic statistics, and original research publications by UC faculty in social sciences and humanities. Government and UC-produced content will be available to the public.

Since the CDL opened its "digital doors" in January 1999, it has made available to faculty, students and staff from all UC campuses almost 7,000 journal titles, 232 reference databases, and nearly 7,000 finding aids that provide access to unique special collections resources. In 2001-02, over 20 million searches were conducted in CDL catalogs and reference databases, and over 4 million digital journal articles were used, more than three times the 1998-99 level. As a complement to adequate campus collections and expanded resource sharing, the CDL promises enduring benefits through innovation and transformation of library service in the University of California. Among the benefits already delivered or achievable are:

- **Leverage from Economies of Scale and Technology.** As a collaborative effort of all UC campuses, the CDL is able to utilize institutional strength to negotiate with external vendors, alleviate pressures on print collections, achieve economies of scale, and relieve the campuses of the need to provide additional support for the development of digital collections. Universitywide licensing has provided extremely favorable discounts and greatly expanded access to materials previously unavailable at some campuses. As one rough indicator of the magnitude of this benefit, many of the 7,000 journal titles now available digitally to all UC students and faculty, were previously purchased in print form by only a few campuses. Available evidence suggests if the campuses had attempted individually to provide the same level of Universitywide access to these 7,000 titles by purchasing additional print subscriptions, the annual additional cost to the University would have exceeded \$24 million per year.
- **Expanded Access.** Not only does the UC community have access to a wealth of material that individual campuses might not have been able to afford if they had acted independently, but also these digital resources are equally accessible to all students and faculty at any time of the day or night, regardless of location.
- **Managing the Impact of Enrollment Growth.** The capabilities of the CDL are particularly significant as a means to provide high-quality service to students and faculty in the face of unprecedented levels of enrollment growth over the next ten to fifteen years, at manageable cost and with minimum impact on existing library facilities, collections and services. Although there are noticeable marginal costs involved in serving additional users with digital collections (including network and computing infrastructure and operating costs, as well as licensing and support costs for the digital materials), these costs are likely to be considerably less than would be incurred to provide the same level of support using conventional library facilities, collections and services.
- **New Forms of Digital Information Resources.** In addition to the 7,000 journal titles available through the CDL and dozens of journal citation and abstracting databases that provide users with convenient access to these rich collections, the CDL has continued to expand the creation of collections of high-quality material that have never been available in digital form. Special collections and archives of the UC campuses and their California partners, including some California State

University campuses, museums such as the J. Paul Getty Museum, and private institutions such as the University of the Pacific and Stanford University, are being made available to the University and the public through the CDL's Online Archive of California (OAC). Access to information describing these unique collections and their tens of millions of items is now available. Many of the items themselves are currently being digitized with UC and external grant funding. For example, the Japanese American Relocation Digital Archive (JARDA) was completed in 2001, Museums in the Online Archive of California will be completed in 2002, and California Cultures, an OAC project related to California's ethnic minorities, is currently in progress. In addition, with support from the California State Library, in July 2001 the CDL unveiled the prototype of a new collection called *Counting California*, which provides easy and convenient access to a wide variety of numeric data about California. Some 4,000 numeric datasets are currently included. The goal is to provide a single easy-to-use interface through which users can find, combine, and use data about population, health, crime, income, education and other topics.

- **Innovative Services.** The digital environment is capable of supporting a host of innovative computer-based tools that enable library users to more easily locate, access, and use a wide variety of digital and print information resources. In addition, most digital journals available through the CDL are linked to its journal abstract and index databases; when a user retrieves a citation to a journal for which the CDL has digital access, the user can retrieve and display the cited article with a single click of the mouse. A search tool, called *Searchlight*, makes it possible for CDL users to search multiple databases and digital collections simultaneously and easily, producing a consolidated list of resources that may satisfy the user's information need. In 2002-03, *Searchlight's* capabilities will be expanded to allow more flexibility in choosing resources to search. In addition, the CDL has started an examination of strategies for management of visual resources, such as art and architectural images, that are particularly important for teaching and research in the arts, humanities, and professions. The CDL has also partnered with the University of California Press to make several hundred of its books available online, greatly expanding access to these valuable scholarly resources.
- **New Methods of Scholarly Communication.** The CDL provides the foundation by which the University and its faculty may experiment with,

promote and implement new methods of scholarly communication. Through its *eScholarship* initiative, the CDL stimulates and facilitates innovation in scholarly communication in support of research and teaching; this includes creation, production, peer review, management, and dissemination of scholarly output. Among the accomplishments of this program are the *eScholarship Repository*, launched in Spring 2002 to provide faculty with a central location for pre-publication scholarly work—including working papers, pre-prints and technical reports—regardless of discipline. In its first six months, dozens of campus and University-wide research units have signed up to join the repository. Another is the University of California International and Area Studies (UCIAS) Digital Collection, a peer-reviewed electronic publications partnership of the University of California Press, the CDL's *eScholarship* Program, and internationally-oriented research units on eight UC campuses. UCIAS makes available peer-reviewed articles, monographs, and edited volumes free of charge to a global network of scholars and encourages international intellectual exchange and research collaboration.

- **Service to All Californians.** Because digital library resources are available and accessible without regard to distance, the CDL provides the capability to offer increased access to the library resources of the University for all Californians. All CDL resources are available to the public through workstations located in the UC Libraries, and resources for which access is not restricted by a publisher contract or license are freely available to anyone with an Internet connection. The *Counting California* collection of government-produced statistics is now available to the public in prototype form, and a special version of the *Searchlight* multi-database search tool is customized for public use. To further expand access to the CDL for California citizens, and to help make its technologies, collections, and experience available to assist in the development of library services throughout California, the CDL has entered into a collaborative agreement with the State's Library of California Board. The Board oversees a statutorily authorized program, under the direction of the California State Library, to expand cooperative and collaborative services among California libraries of all types.

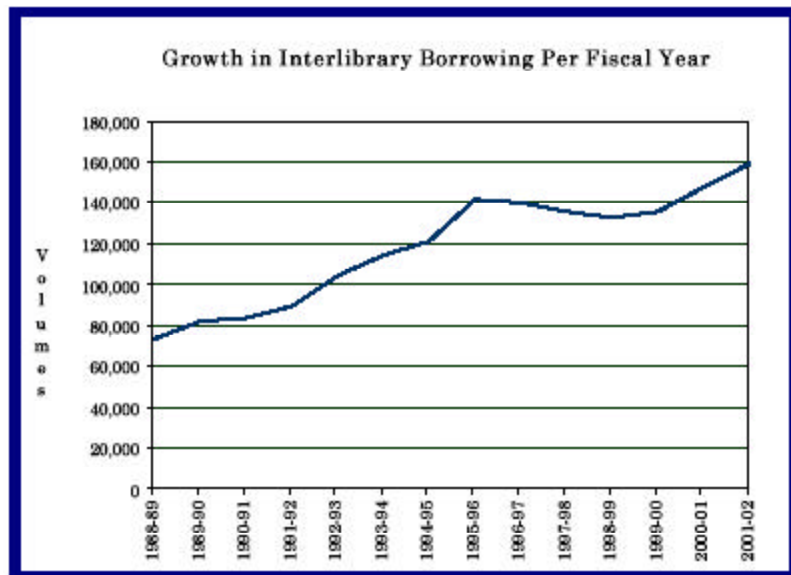
Resource Sharing

The University will continue to expand and improve resource sharing, which is an effective strategy to leverage limited resources and build diverse collections systemwide. As part of this strategy, the University will continue to: (1) provide incentives for campus libraries to participate in expanded

resource sharing, (2) develop and maintain systems and data to support resource sharing, (3) plan, coordinate, and monitor resource sharing activities, and (4) provide for rapid delivery of materials from campus to campus. The California Digital Library (CDL) plays a critical role in the University's library resource sharing program, not only by creating a shared digital collection available to all campuses, but also in developing systems and services that provide technological support for sharing of campus-based library resources. For 2003-04, the University proposes to continue the expansion of the CDL, as described above, while sustaining its other library resource sharing programs with existing funds. The University regards expansion of the resource sharing program as a high priority once the State's fiscal situation improves.

Interlibrary borrowing among UC's libraries (which accounts for about 75% of all items borrowed from other libraries) has increased by 127% since 1988-89, while borrowing from libraries outside UC increased by 99% (Display 1). At the same time, between 1988-89 and 2001-02, while intercampus lending and borrowing was growing at an average annual rate of nearly 10%

Display 1



per year, the ratio of budgeted student FTE per library FTE increased sharply, from 60 students per library staff FTE to over 71 students per FTE, an increase of nearly 20%. New permanent State funding provided through the Partnership and additional one-time State funding for library materials have begun to provide some relief from the growing pressures on interlibrary resource sharing. It is nonetheless critical that the University continue to reinvest in campus resource sharing capabilities and provide the campuses with the capacity to meet anticipated increases in lending and borrowing activity through the duration of the Partnership.

The growth in interlibrary borrowing among UC's libraries can be attributed in large part to the high level of coordination that exists in the UC library system and the effectiveness of existing automated tools, such as the MELVYL online union catalog and associated journal index databases, which help users locate the materials they need in the collections of the other UC campuses. The University will continue to invest in this essential foundation for resource sharing by upgrading the shared and linked bibliographic systems of the UC Libraries and providing support for the database resources that have contributed to the success of these efforts.

Considerable progress has already been made in this direction with support from Resource Sharing funds. Introduced in January 1999, a service called *Request* permits authorized University users of the CDL to directly borrow material held at another campus without going through time-consuming and costly interlibrary loan procedures. The service has proven remarkably successful; between 1999 and 2001-02, *Request* transactions grew from 36,000 per year to 193,000, an increase of 436%.

A new enhancement to *Request*, called *Desktop Delivery*, will be fully implemented during the 2002-03 academic year. This new service will deliver to faculty and students copies of requested articles at their desktop using World-Wide-Web technology. *Desktop Delivery* can substitute for photocopying and mailing/faxing of requested articles and provides a faster and more responsive service for library users.

Background

In 1977, the University adopted a comprehensive library plan to improve library service and reduce 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. The State's support helped the University create a nine-campus library system with capabilities for coordination, collaboration and sharing of resources that are unequalled by the research libraries of any similar university system. Those capabilities were essential in helping the UC libraries cope with the forces that have acted in concert to erode the quality of campus library collections over the last decade. However, the programs and strategies of 1977 are no longer sufficient to deal with the library and scholarly communication problems of today.

Over the last decade, the ability of the existing library budget to sustain traditional library collections and services has been eroded by three principal factors:

- growth in both enrollments and the number of approved academic programs requiring library support;
- persistent high inflation in the costs of published scholarly and educational materials; and
- the State's fiscal difficulties, which resulted in reduced overall funding for the University in the early 1990s and again in recent years.

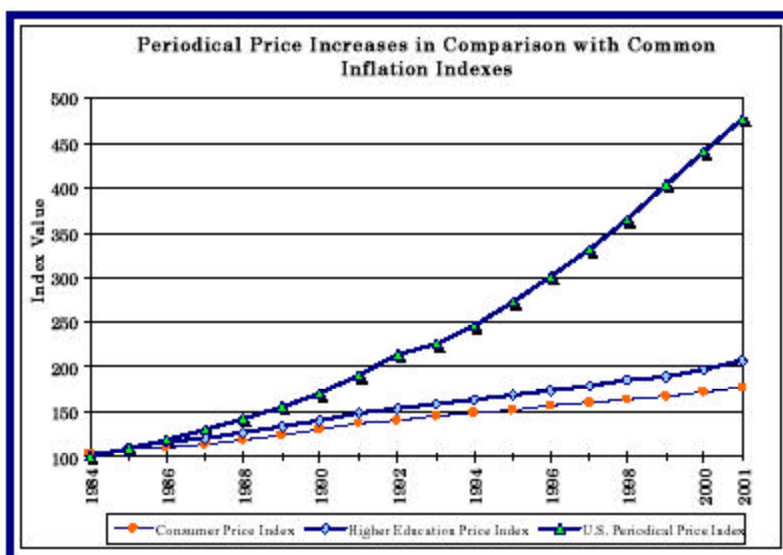
Enrollment and Program Growth

A key factor affecting the quality of library service is the growth in enrollment and in the number of graduate programs offered by the University since the current budgeted library acquisition rate of 614,000 volumes was established in the late 1970s. The budgeted acquisition rate has not been adjusted despite a 54% increase in enrollment since 1977-78 and the addition of numerous new graduate and professional degree programs. Based on the most recent University projections, enrollment is expected to grow by about 5,000 students annually through 2010-11. Even if inflationary costs had been fully funded during this period, the libraries would still find themselves unable to fully support enrollments and the academic programs of the University.

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, while the State has been unable to provide full funding to meet the impact of inflation on the library materials budget. According to published industry statistics, U.S. periodical prices rose at an average annual compound rate of almost 12% per year between 1992 and 2002, greatly exceeding general inflation as measured by both the Consumer Price Index and the Higher Education Price Index (Display 2).

Display 2



Over the past ten years, the University's estimate of annual price increases for all forms of library materials has averaged about 7% per year, more than twice the rate of inflation in the general economy. Consequently, the libraries have lost nearly 48% of their purchasing power since 1988. The severity of this problem is manifested by the cancellation of serial subscriptions (scholarly journals and other periodical items) estimated at almost 41,000 titles, or 12% of the total, since 1988. The rate of inflation in the cost of library materials continues to outpace cost increases in the general economy.

Funding has been provided by the State for non-salary price increases, but this has only partially addressed the problem. The University estimates that, after accounting for additional permanent State funding provided for library collections in 1999-2000 and 2000-01, erosion of buying power through unfunded price inflation has reduced the collections budget from 614,000 budgeted volumes to the equivalent of only 321,000 budgeted volumes. New permanent funding totaling \$8.7 million provided by the State since 1998-99 has begun to address this deficiency. The \$14 million in one-time funds provided by the State in 1998-99 and 2000-01 provided welcome temporary relief, but did not restore the purchasing power of the permanent budget.

The Early 1990s

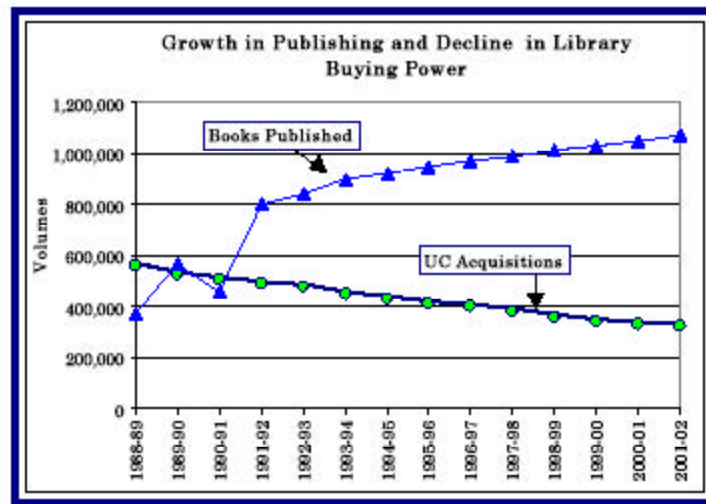
During the early 1990s, the purchasing power of the University's library budgets eroded dramatically as a result of cuts to campus budgets totaling \$433 million. While campuses took steps to protect their libraries from the full force of these cuts, library budgets nonetheless shared in the overall budget reductions during this period. 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. For example, between 1988-89 and 2001-02, the ratio of budgeted student FTE per library FTE increased by nearly 20%, from about 60 students per library staff FTE to over 71 students per FTE.

The cumulative impact of these factors on the ability of the libraries to support the University's programs will continue to grow. In the coming years, additional adverse effects may result from the growth in new knowledge and changing information technology.

Continued Growth of Knowledge

As shown in Display 3 (next page), the amount of new knowledge published each year has continued to grow at a constant pace, with the result that the University's libraries are able to acquire an ever-smaller share of the universe of documented knowledge. To illustrate, between 1989 and 1998, world book production nearly doubled, from about 565,000 new titles to over 1,000,000 new titles per year. Thus, even if the University's budget had kept pace with inflation, acquisition of materials by the UC libraries would not have kept pace with the continually increasing base of the world's published knowledge.

Display 3



The erosion of buying power described previously exacerbates this deficiency. As a result of all these forces, the UC libraries are increasingly less able to support faculty and student needs from existing campus collections.

Digital Technologies

Rapid growth and change in information technology and its increasing importance in publishing, scholarly communication and library service have created new opportunities, but at the same time have added new problems, complexities, and unfunded costs. Over the last ten years, advances in the development and use of new technologies to create, publish, store, search for, and deliver published information have accelerated significantly. In most disciplinary areas, electronic information resources have already achieved significance as a method for publishing and communication, and are indispensable for support of teaching and research. As described previously, the University, through its California Digital Library, has positioned itself to provide many of the potential benefits of the new digital forms of scholarly and educational materials.

Digital publication also raises challenging new issues for library planning, budgeting and operation. For example:

- the digital publishing industry is still immature. While industry practices have advanced considerably over the last five years, significant issues of

format, distribution, technical standards, pricing, and use restrictions based on copyright law and licensing practice still remain to be resolved before digital publications can be routinely incorporated into the UC libraries;

- although pricing practices for digital publications remain a matter of speculation, the prices charged by commercial publishers for digital publications are unlikely to be significantly lower than for print; based on experience to date, digital prices are higher;
- digital publications are beginning to replace print in many disciplines, 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 digital publications may ultimately replace most printed publications. It appears that the surge in digital publishing and use of the Internet to access and distribute information has had little effect on the continued growth in the amount of information published in paper form or the ongoing inflation in the cost of conventional publications;
- a key mission of the University of California libraries is to maintain an archival record of information needed for research, teaching and learning. The emergence of networked technology, digital publishing and scholarly communication in electronic form challenge our existing strategies for archival collection management. This new environment requires new and untested techniques for preserving and enhancing access to existing material now in other formats, and raises pressing issues related to archival methods and management for materials originally collected in digital format or in both digital and print forms.

Comprehensive digital collections and associated facilities and services will not be available immediately, nor will digital 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. In addition, 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 opportunities for reallocation of traditional library materials and staffing budgets.

Planning for the Future

As with all research universities, the University of California faces significant challenges in providing faculty and students access to the scholarly information they need for research, teaching, and learning. Over the next decade, the formidable task for universities will be to develop a financially sustainable model for managing scholarly information, including its production as well as its access and use. In the long run, only fundamental changes in the methods of scholarly publishing and communication can successfully address the structural issues underlying the current problems.

The magnitude of the challenge to develop this model is such that it cannot be addressed in a single year. Effecting changes so fundamental and far-reaching will require a focused effort over an extended period. At the same time, it is imperative that the existing deficiencies described above are addressed, but it must be done in a way that acknowledges the need for change and builds a foundation for the future.

Over its 130-year history, the University, with the ongoing support of the State, has built a remarkable library resource, second in size only to the Library of Congress. The University is committed to sustaining the greatness that has characterized the UC Libraries for over a century, even as it confronts the economic and technological forces that will reshape the understanding of library excellence in the next century.

ACADEMIC SUPPORT—OTHER

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 450,507,000 |
| General Funds | 182,093,000 |
| Restricted Funds | 268,414,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 6,539,000 |

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: outpatient clinics at the five academic medical centers at Davis, Irvine, Los Angeles, San Diego, and San Francisco (for a discussion of the hospitals and clinics, see the *Teaching Hospital* chapter of this document); two dental clinics (Los Angeles and San Francisco) with off-campus community dental clinics; occupational health centers in the north and in the south; the veterinary medicine clinical teaching facilities at Davis and in the San Joaquin Valley and a satellite site in San Diego; an optometry clinic at Berkeley; and two neuropsychiatric institutes (Los Angeles and San Francisco). In addition, a number of demonstration schools, vivaria, and other activities provide academic support to health sciences and general campus programs. Most of these facilities provide experience for students as well as valuable community services. Their financial support is derived from a combination of State funds, patient income, and other revenue.

The University's clinics are largely self-supporting through patient fees. State funds for Clinical Teaching Support (CTS) are appropriated to the University for the hospitals, neuropsychiatric institutes, and the dental clinics, in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes.

The funds are generally used to provide financial support for patients who are essential for the teaching program, but who are unable to pay the full cost of their care. During the early 1990s, actual reductions to the University's State-funded base budget totaled more than \$400 million. As part of the plan for accommodating these reductions, the University permanently reduced \$20 million in CTS funding, eroding the University's ability to provide services to low-income patients and ensure an adequate patient base for teaching purposes.

In recognition of the financial hardships UC's clinics are still experiencing related to the cuts in the early 1990s, the State provided a one-time allocation of \$5 million in the 2001-02 budget for CTS, including \$2 million for the hospital clinics (\$400,000 per medical center), \$2.5 million for the NPIs (\$1.7 million for Los Angeles and \$800,000 for San Francisco), and \$500,000 divided equally among the two dental clinics.

Description of Programs

The on-campus and community dental clinics at Los Angeles and San Francisco serve primarily as teaching laboratories in which dental students and graduate professional students enrolled in the schools of dentistry pursue organized clinical curricula under the supervision of dental school faculty. The community dental clinics provide a spectrum of teaching cases that are generally not available in the on-campus clinics. The dental clinics give students actual clinical experience and a broader perspective in determining treatment plans, thereby enhancing the required training in general and pediatric dentistry. While providing valuable clinical experience for students, the clinics also serve to meet the dental health needs of thousands of low-income patients, many of whom would not otherwise receive dental care.

The occupational health centers were created as a joint project of the California Department of Industrial Relations and the University of California to help serve the occupational health needs of California. The major functions of the centers are teaching (the training of occupational

physicians and nurses, toxicologists, epidemiologists, and industrial hygienists); public service (providing a referral service for occupational illnesses, promoting health in the workplace, and providing clinical care); and research (stimulating research on the causes, diagnosis, and prevention of occupational illnesses). Each center serves as the focal point for occupational health-related activities on the campuses in its geographical area, thereby strengthening the University's programs of teaching and research in these fields.

The two veterinary medicine clinical teaching facilities, one at Davis and the other in the San Joaquin Valley, are specialized teaching hospitals and clinics that support the School of Veterinary Medicine. Students enrolled in veterinary medicine are trained at these facilities by faculty of the School of Veterinary Medicine in the clinical aspects of diagnosis, treatment, prevention, and control of diseases in animals.

The optometry clinic at Berkeley serves primarily as a clinical teaching laboratory for the School of Optometry, while providing a complete array of visual health care services. At the clinic, optometry faculty supervise students in the clinical aspects of the prevention, diagnosis, and remediation of visual problems. In addition, students receive clinical experience at various Bay Area community health centers, which exposes them to a broad range of cases and provides a much-needed public service to the community.

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

Demonstration schools serve as teaching laboratories for experimentation, research, and teacher training in the field of education. 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 under Academic Support—Other include support for the arts and specialized physical sciences and engineering projects.

TEACHING HOSPITALS

| 2002-03 BUDGET | |
|-------------------------|-------------------------|
| Total Funds | \$ 3,128,692,000 |
| General Funds | 51,294,000 |
| Restricted Funds | 3,077,398,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 153,870,000 |

The Role of the University Teaching Hospitals

The University of California owns and operates five academic medical centers—Davis, Irvine, Los Angeles, San Diego, and San Francisco. Their primary mission is to support the clinical teaching programs of the five schools of medicine and the educational programs in the University's other health sciences schools (e.g., dentistry, nursing, and pharmacy). In addition to supporting the clinical teaching programs, the academic medical centers provide a full range of health care services in their communities and are sites for the development and testing of new diagnostic and therapeutic techniques. Three of the hospitals are former county hospitals and function as safety net providers in their counties. The University of California's academic medical centers are a major resource for California and the nation as they perform their tripartite mission of teaching, research, and public service.

The core clinical experiences for health science students occur at the five academic medical centers and at a variety of affiliated teaching sites. The medical centers support a broad range of educational programs for medical students, postgraduate physicians (interns and residents), practicing physicians in the community, nurses, and allied healthcare professionals, preparing them for current and future healthcare needs. The medical centers provide all levels of care from primary to quaternary. In response to changes in the financing and delivery of health care, and as the result of the

University's efforts to expand training opportunities in primary care, the medical centers have developed more outpatient clinical training sites and primary care networks.

The UC medical centers conduct basic and clinical research which are essential to continued advancement in the understanding and treatment of diseases and the improvement in the health status of the population. Research projects include clinical trials of investigational drugs, devices and medical procedures, as well as epidemiological studies that contribute substantially to the general public's well-being and to the education and patient care missions.

The University's academic medical centers comprise one of the largest health care systems in California and are among the largest Medi-Cal providers in the State.

In 2002-03, the University medical centers will have a combined licensed capacity of 3,387 beds and are expected to generate more than 800,000 patient days on roughly 138,000 admissions, and more than 3.7 million outpatient visits.

The five UC medical centers have different histories and serve unique roles in their communities. Prior to the 1960s, the University had two medical schools, one at San Francisco and one at Los Angeles. The University owned and operated teaching hospitals on both campuses in fulfillment of its mission to educate medical students and residents in a clinical setting. Both medical schools also had affiliation arrangements with county, Veterans Affairs, and other hospitals to provide educational experiences for the campus' medical students and residents.

In the 1960s, the decision was made to develop three new medical schools at the Davis, Irvine, and San Diego campuses. The University's plan was to repeat the San Francisco and Los Angeles models with on-campus teaching hospitals and affiliations with county, Veterans Affairs, and other hospitals. However, while supporting the University's education and research efforts, the Legislature wanted the University to give a higher priority to providing medical care for the poor. Therefore, the Legislature provided resources to purchase three existing county hospitals and initiated capital projects to renovate the facilities to make them more suitable for the University's education, research, and patient care missions.

Financial Issues Facing the Teaching Hospitals

Throughout their history, the three former county hospitals have provided care to a disproportionately high percentage of Medi-Cal and uninsured patients. Since most of these services are government financed, these medical centers are particularly vulnerable to changing public policies related to the funding and provision of health care for the poor. They continue to be the “safety net” provider in their respective counties, and rely heavily upon supplemental payments from Medi-Cal disproportionate share programs.

The UCLA and UCSF Medical Centers are also struggling with financial issues. While they don't serve as the designated “safety net” providers in their counties, they do serve many Medi-Cal and low-income patients, although not enough to qualify as disproportionate share providers. They are therefore ineligible for Medi-Cal disproportionate share supplemental payments.

The market forces related to increases in managed care have resulted in declining revenues per patient. The financial impact of declining revenues are intensified by dramatic cost increases for labor, pharmaceuticals, and other operating expenses.

While the University's medical centers face financial challenges similar to other hospitals trying to survive in a price-sensitive managed care competitive environment, they have added responsibilities related to their function as academic institutions. The costs associated with new technologies, biomedical research that has the potential to improve lives, the education and training of health care professionals, and provision of care for a disproportionate share of medically underserved Californians make it difficult for the UC medical centers to compete with providers that do no teaching or research. While academic medical centers receive some compensation for teaching costs from government payors, including Medicare and Medi-Cal, it does not cover actual costs. Also, the level of compensation does not include teaching costs incurred in outpatient settings. No other payors (i.e., commercial, contract, county, etc.) recognize the added costs of teaching in their payment to academic medical centers. Therefore, one of the University's highest priorities is to ensure that the medical centers have a dedicated and sustained source of funding to support graduate medical education.

The financial viability of UC medical centers directly affects the quality of the instructional programs at the University's Schools of Medicine. Schools of Medicine are heavily dependent upon revenues generated from patient care by the medical centers and faculty practice plans. Financial support from the academic medical centers enables the Schools of Medicine to recruit and retain good faculty, expand existing and create new academic programs, and support primary care initiatives. The medical centers must therefore generate sufficient funds for their operational and capital needs, as well as for their respective Schools of Medicine and primary care networks.

Since managed care has become the primary system for delivering and financing health services, the University has experienced a shift in the delivery of care, with the major growth occurring in outpatient settings. Market forces have required that UC medical centers accept negotiated rates from private and some public payors that do not recognize educational costs. Like all hospitals, the University's academic medical centers were affected by the Balanced Budget Act (BBA) of 1997. The BBA contained some of the most sweeping and significant changes to the Medicare and Medicaid programs since their inception. The changes were expected to reduce the growth of Medicare reimbursement by \$116 billion between federal fiscal years 1998 and 2002, with over \$4 billion in payment reductions for indirect medical education costs. The University of California worked vigorously with members of Congress to delay or roll back the dramatic cuts proposed by the BBA. The University's efforts contributed to the passage of the Balanced Budget Refinement Act of 1999 (BBRA) and the Medicare, Medicaid, and State Child Health Insurance Program (SCHIP) Benefits Improvement Protection Act of 2000, referred to as BIPA 2000. The University is continuing to work with other academic medical centers to prevent or lessen the impact of these cuts.

As of October 1, 2002, some of the budget cuts mandated by the BBA went into affect because the provisions provided by the BIPA were not extended. The cost of the Medicare cuts to the nation's teaching hospitals is estimated to be \$4.2 billion over the next five years. These cuts are projected to cost the average teaching hospital over \$700,000 annually, according to the Association of American Medical Colleges. More specifically, the 20% reduction in Medicaid Disproportionate Share Hospital (DSH) funding to states is estimated to be \$10.4 billion over the next five years.

For the UC medical centers the cuts are more dramatic because of the size of its medical education programs and the inordinate number of Medi-Cal and

low-income patients treated. Display 1 shows the estimated reduction in reimbursement for this fiscal year and the next two fiscal years when compared to fiscal year 2002, the last year under BIPA.

Display 1

| UC Medical Centers Impact of Federal Budget Cuts On October 1, 2002 To UC Medical Centers in Two Key Areas (\$000s) | | | |
|--|-------------------|-------------------|-------------------|
| | <u>FY 2002-03</u> | <u>FY 2003-04</u> | <u>FY 2004-05</u> |
| Medicare Indirect Med. Ed. Rate (Rate cut from 6.5 to 5.5) | \$8.30 | \$11.00 | \$11.00 |
| Medicaid Funding to States for Disproportionate Share Programs * (20% cut in funding to states, "DSH Cliff") | 9.4 | 12.5 | 12.5 |
| Total | \$17.70 | \$23.50 | \$23.50 |

* These cuts have an impact on the University's three Medi-Cal Disproportionate Share Hospitals, i.e., Davis, Irvine and San Diego.

Over time, UC medical centers have pursued with the State both short-term and long-range solutions to address fiscal challenges and avert significant losses. State-funded capital and operating subsidies were provided to the three former county hospitals in the mid-1980s to assist them in reaching a broader patient base. Special supplemental funding is being provided by the State to all California hospitals, including UC's three former county hospitals, that treat a disproportionate share of Medi-Cal and other low-income patients. In addition to the federal Medicare program, which recognizes the costs of medical education, the University developed a program with the State of California to obtain federal Medicaid matching dollars to support educational costs incurred in providing services to Medi-Cal patients. The University was successful in seeking the Governor's and the Legislature's approval to extend the Medi-Cal Medical Education Program for two additional years, to June 30, 2004. In the 2000-01 budget, the State provided one-time funds for equipment (\$25 million) and infrastructure (\$50 million), and authorized lease revenue bonds for seismic needs (\$600 million). In the 2001-02 budget, the State provided a one-time augmentation for Clinical Teaching Support (CTS) of \$5 million that was

shared among medical centers, the neuropsychiatric institutes and the dental clinics. This augmentation was provided in recognition of CTS budget cuts in the early 1990s. Throughout the history of UC's teaching hospitals, State assistance has been vital to their financial stability and has had a beneficial impact on the hospitals' ability to conduct their teaching mission and provide patient care.

The medical centers have taken steps to remain competitive in their respective markets by holding down costs and by expanding their presence in the market through affiliation with physician groups or the addition of hospital sites. As part of their strategy to capture greater market share and to improve their patient mix, three UC medical centers expanded their patient care by adding hospitals at different locations. In 1990, Mount Zion Health Systems integrated with UCSF Medical Center; in 1993, UCSD built the Thornton Hospital on the La Jolla campus; and the UCLA Medical Center acquired the Santa Monica Hospital in 1995.

The financial viability of UC medical centers depends upon dedicated and sustained funding to support medical education and care for the poor, as well as payment strategies that recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment, and invest in infrastructure and program expansion. In recent years, there has been considerable legislative interest in and recognition of the financial difficulties facing the University's medical centers. Some of this interest has been generated by concerns over the University's ability to provide health care to the State's indigent population as the medical centers pursue long-term strategies to ensure their fiscal viability while supporting the University's academic mission. Another major concern is compliance with SB 1953, the Hospital Seismic Safety Act, which requires acute care hospitals to ensure that their facilities can maintain uninterrupted operations following a major earthquake.

The remainder of this chapter reviews the major sources of funding for patient care and teaching, changes in the financing and delivery of health care that have occurred over the past decade, and the challenges that lie ahead.

Funding for Patient Care

The University's medical centers are paid for services provided to patients. The major sources of patient revenue are government-sponsored health care programs (i.e., Medicare, Medi-Cal and the California Healthcare for

Indigents Program); commercial insurance companies (i.e., managed care contracts and private insurance); and self-pay patients. Several government-sponsored programs provide supplemental payments in recognition of the role the UC medical centers play in providing a disproportionate share of care to the State's indigent population.

Medicare

The federal Medicare program (Title XVIII of the Social Security Act) is a third-party payor managed by the Social Security Administration that underwrites the medical costs of persons 65 years of age and older, and persons under 65 who are disabled or have end-stage renal disease. Medicare reimburses hospitals for inpatient care on a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services were reimbursed based upon costs until August 1, 2000, when Medicare implemented a prospective payment system for hospital outpatient care – the Ambulatory Payment Classification (APC) - in an attempt to hold down rising costs in such settings.

In 2001-02, the number of Medicare days were 202,344, representing 26% of total patient days. The Medicare program generated approximately \$685.8 million of net operating revenue, accounting for approximately 23.3% of the total net operating revenue of the UC medical centers. The Medicare population is an important segment of the patient mix seen at UC medical centers; and it will become increasingly important as a large portion of the nation's population lives longer.

Medi-Cal

Medicaid, known as Medi-Cal in California, is a State-administered third-party payor designed to reimburse medical costs of the medically indigent and those on certain public welfare programs, such as Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI) for the aged, blind, and disabled. Inpatient services provided to Medi-Cal beneficiaries are paid under a contract at a prospectively determined, negotiated per-diem rate. The California Medical Assistance Commission (CMAC) is the agency established to negotiate with hospitals on behalf of the State. Reimbursement for outpatient services is based on prospectively determined fee schedules.

In 1982 the California Legislature established the Selective Provider Contracting Program (SPCP). The program operates under a federal waiver in accordance with Section 1915 (b) (4), Title XIX, of the Social Security Act. The SPCP has worked to provide adequate access to hospital services for Medi-Cal beneficiaries, while at the same time achieving significant savings over the traditional “cost based” reimbursement system. In addition to the SPCP, Medi-Cal implemented managed care programs in 1994. Supplemental Medi-Cal payments that are negotiated by CMAC (i.e., SB 1255 and the Medi-Cal Medical Education Programs, described later in this chapter) are included under the federal waiver of the Medi-Cal Selective Provider Contracting Program.

In 2001-02, the number of Medi-Cal days were 176,376, representing 22.7% of total patient days. The Medi-Cal program generated \$454.4 million of net operating revenue, accounting for approximately 15.5% of the total net operating revenue of the UC medical centers.

Supplemental Medi-Cal Disproportionate Share Payments

In addition to the prospectively determined negotiated per-diem rates paid under the Medi-Cal Selective Provider Contracting Program the following supplemental Medi-Cal payments are provided to hospitals that provide a disproportionate share of care to Medi-Cal and low-income patients.

SB 1255 Funds. In 1989-90, the State established the Disproportionate Share and Emergency Services Fund, also known as the SB 1255 program, through which public agencies that own eligible disproportionate share hospitals, 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 Department of Health Services (DHS) to public and private 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 result from negotiations between the University and CMAC.

From June 1990 to June 2002, the University received about \$283.7 million in new federal funds from this program. The continuation of this program, which has been a significant source of funding for the Davis, Irvine, and San Diego Medical Centers, is uncertain in light of federal attempts to constrain Medicaid’s growth and the review of federal waiver of the Medi-Cal Selective Provider Contracting Program. Elimination of the SB 1255 program would mean the loss of about \$50 million a year for the eligible UC medical centers.

SB 855 Funds. In 1991-92, the State created a second vehicle, known as the SB 855 program, to provide supplementary payments to hospitals providing a disproportionate share of their inpatient services to Medi-Cal and other low-income patients. In 2001-02, the University received approximately \$61 million in SB 855 funds, accounting for about 4.3% of the total net patient revenue at the Davis, Irvine and San Diego Medical Centers. From 1991-92 through 2001-02, the University received about \$567 million in new federal funds from this program.

The SB 855 program requires governmental entities, such as counties, hospital districts, and the University, which own eligible disproportionate share hospitals, to make mandatory transfers to the Department of Health Services for deposit into the Medi-Cal Inpatient Payment Adjustment Fund. Unlike the SB 1255 program, these are mandatory transfers, the levels of which are determined by formula, rather than negotiated by CMAC. These funds are used to secure matching federal Medicaid dollars. The pool of funds is then distributed by the DHS to all public and private disproportionate share hospitals. The distribution of SB 855 funds is derived by a formula based on the previous year's data regarding the number of Medi-Cal days and the percentage of other low-income beneficiaries served. It is important to note that private hospitals that qualify as disproportionate share providers do not transfer funds into the program but share in the distribution of funds from the program.

Beginning in 1993-94, distributions from the SB 855 program were subject to federal provisions which set a ceiling on the distributions that could be made to individual hospitals and, cumulatively, to each state. This ceiling is referred to as a hospital's OBRA CAP. All Medi-Cal reimbursement—including SB 1732 capital funds for Medi-Cal disproportionate share hospitals, the Medi-Cal Medical Education funds and SB 1255—are factors in determining a hospital's OBRA CAP. The SB 1732 and the Medi-Cal Medical Education programs are described later in this section.

In 1999-2000, the net benefit to eligible disproportionate share hospitals was approximately \$20 million less than the amount received in 1998-99 because the total amount of federal funding available to the State of California decreased. The decrease was due to a combination of factors, including a reduction in Medi-Cal days and Medicaid cuts in the Balanced Budget Act of 1997.

The total number of Medi-Cal inpatient days across the State is declining as managed care plans exert tighter controls on admissions and length of stay. The number of inpatient Medi-Cal days will decrease further if legal and illegal immigrants are removed from the Medi-Cal rolls as a result of federal welfare and immigration reform. A continued decrease in Medi-Cal patients hinders the University's clinical teaching programs, and could limit the University's ability to participate in the SB 855, SB 1255, and SB 1732 programs. Other reductions to the SB 855 program are due to the federal government's rule that lowers the Medicaid Upper Payment Limit from 150% to 100% of cost and the Governor's increase in the administrative fee for the SB 855 program from \$25 million to \$85 million.

Tobacco Tax Funds

In November 1988, voters approved Proposition 99, which imposed an additional tax on cigarettes and other tobacco products and created six separate accounts from which funds are 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 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, Isenberg) specifying how Proposition 99 funds were to be distributed. In 2001-02, the University medical centers received a total of \$4.1 million as compared to \$14.6 million in 1989-90. The amount of Proposition 99 funds in 2002-03 is projected to decrease to \$2.4 million in anticipation of a decline in the use of tobacco products due to health education and higher taxes on these products. Although the amounts have declined over the years, these funds are an important source of revenue for indigent care at the UC medical centers.

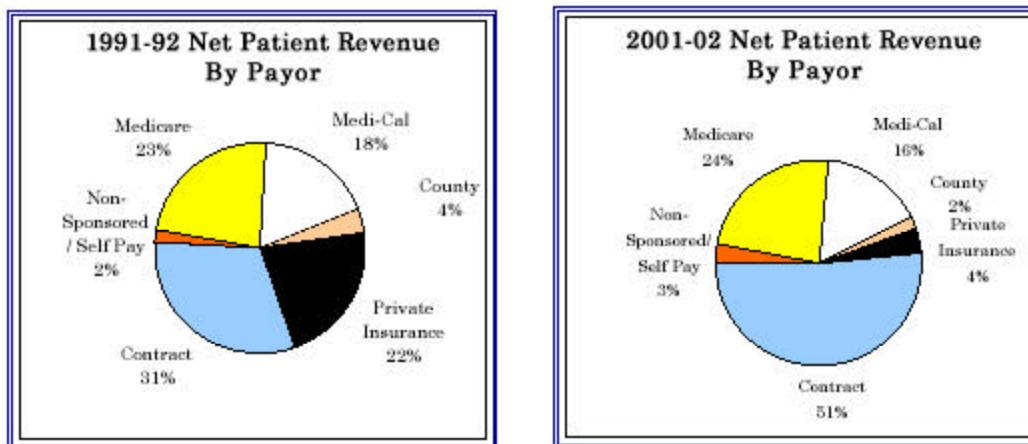
Changes in Health Care Financing

Rising health care costs in the 1980s, demographic changes, and changing economic conditions caused the State, the Congress, and the private sector to initiate fundamental changes in the financing of health care services. The traditional fee-for-service reimbursement system has been almost completely replaced by competitively established fixed-price payments (i.e., capitated, per-diem, or global rates by diagnosis). As a result, costs unique to

academic settings (e.g., treating sicker patients, providing services to a disproportionate number of uninsured or under-insured patients, and providing medical education in a clinical setting) are not fully reimbursed. In addition, the loss of fee-for-service or cost-based reimbursement in the private sector has eliminated the opportunity to cover some of these costs through cross-subsidization.

Over a ten-year period, 1991-92 through 2001-02, the percentage of net patient revenue from patients covered by fee-for-service (i.e., private payors) decreased from 22% to 4%, while net patient revenue from patients covered by contractual or capitated arrangements increased from 31% to 51% (see Display 2). The slight decrease in the percentage of Medi-Cal net patient revenue is due to Medi-Cal managed care days being reported as contract days because of their similarity in payment arrangements.

Display 2



Changes in health care financing that have negatively affected the medical centers began in 1982. Reforms of the State Medi-Cal program instituted selective hospital contracting for inpatient services at flat per-diem pricing, stricter eligibility requirements, and the transfer of responsibility for the medically indigent adults (MIAs) from the State to the counties (funding for the MIAs was provided at less than the 70% of projected State expenditures for the base year 1982-83). The transfer of the MIA patients directly affected the three former county hospitals—Davis, Irvine, and San Diego—because the local tax dollars used to subsidize hospitals operated by local government were not available to University-operated medical centers.

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

During the same period, changes in federal Medicare payment policies for hospitals included a prospective payment system for inpatient care based on payments-per-case according to Diagnosis Related Groups (DRGs), rather than on actual hospital costs. These changes also limited payments for teaching costs and phased out cost-based payments for capital improvements. Effective August 1, 2000, outpatient care provided to Medicare patients was changed from cost-based reimbursement to a prospective payment system, which uses the ambulatory payment classification system.

In the early 1990s, DHS was given authority to hasten the transition of Medi-Cal from a fee-for-service to a managed care system for approximately 2.5 million Aid to Families with Dependent Children beneficiaries. Under these managed care programs, the provider agrees to treat Medi-Cal enrollees for a fixed rate-per-member-per-month. The provider is therefore at risk and is liable for any expenses incurred beyond the monthly capitation payments. The University's medical centers are at increased financial risk for managing the care of patients covered under these programs. The type and the size of the Medi-Cal managed care programs varies among counties.

Special Subsidies for the Three Former County Hospitals

The 1985 Budget Act authorized the Legislative Analyst to contract for a study of the effectiveness of the management of the three former county hospitals operated by the Davis, Irvine and San Diego Medical Centers. In April 1986, the consultant reported that management of the three hospitals was effective and that their operating losses were fundamentally attributable to the environment in which they operate. The consultant also emphasized that the fiscal survival of these hospitals would depend upon a State-funded operating subsidy to help cover their significant volume of uncompensated and undercompensated patient care. The outcome of a management review of the operations of these three medical centers resulted in an agreement with the State, whereby the State provided \$86 million to fund cost-saving and revenue-enhancing capital outlay projects and equipment purchases, and \$28.6 million to mitigate operating losses. The UC Irvine Medical Center received all of the \$28.6 million operating subsidy because it was the only UC medical center that incurred losses.

Meeting the State and University Budget Shortfalls

In the early 1990s, in recognition of the fact that the State provided more than \$80 million of assistance by funding needed capital improvements at the three former country hospitals during the 1980s, the University and the State turned to the medical centers to help alleviate some of the University's budgetary problems. At that time, the University was experiencing unprecedented cuts in its operating budget and the academic medical centers were experiencing modest gains.

In 1992-93, the medical centers funded a \$43 million shortfall in the University's operating budget. In 1993-94 and 1994-95, the State redirected \$237 million in SB 855 transfer funds from all transferring entities when they would otherwise have been used to capture matching federal Medicaid dollars. This redirection of dollars by the State reduced the total amount of SB 855 funds available for distribution. In addition, the University's share of SB 855 funds was reduced by \$15 million on a one-time basis by the Legislature.

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

In 1994-95, the University and the State reached agreement to shift \$18 million of State support from the medical centers on a one-time basis to help meet needs in critically underfunded areas in the general operating budget, (i.e., libraries, instructional equipment, and deferred maintenance). The shift recognized actual and estimated operating gains at the medical centers during 1992-93 and 1993-94, which were above the 5% recommended by the Legislative Analyst, and supported by the Legislature.

In response to this action, the University undertook a study to look at the medical centers' needs for working capital, capital outlay, and equipment, as well as maintaining a prudent reserve. The study concluded that future actions by the Legislature to limit the medical centers' ability to accumulate adequate reserves would make it even more difficult to compete in price-sensitive markets. Notwithstanding this finding, the 1995 State Budget Act redirected \$5.5 million, a portion of the medical centers' net gain above 5%, from CTS funds to help fund the University's deferred maintenance budget on a one-time basis. The medical centers only achieved a 2.8% operation margin in 1995-96, and the \$5.5 million of CTS funds were restored to the medical centers in 1996-97.

Funding For Teaching

Traditionally, funds supporting medical education in a clinical setting have been generated from patient care revenues. A number of significant changes in both the delivery of and payments for patient care have occurred that place these sources at risk. For example, as price has become a major factor in the medical centers' ability to compete, the medical centers have accepted negotiated rates that do not recognize medical education costs. This has occurred at the same time that patient care revenues have declined. At the same time, through the Balanced Budget Act, the federal Medicare program has reduced reimbursement for indirect costs associated with medical education provided for graduate medical education. In addition, more care is being provided in ambulatory care centers for which the reimbursement rates do not recognize teaching costs. The following is a brief summary of the major sources of revenue that currently support teaching.

Graduate Medical Education Funds

Medicare provides teaching hospitals with Graduate Medical Education (GME) payments to help pay for the direct medical costs (DME) of providing a medical education and for the direct programmatic costs allowable under Medicare, such as salary and benefits for full-time-equivalent residents.

Medicare Indirect Medical Education (IME) payments are provided to teaching hospitals for some of the indirect costs associated with medical education, such as the extra demands placed on the medical center staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents.

The combined DME and IME payments in 2001-02 were \$111.6 million, approximately 16.3% of Medicare reimbursement to the five medical centers. This was an increase of \$2.9 million or 2.7% over the previous fiscal year. The increase is the result of federal legislation that increased DME reimbursement while IME reimbursement was being reduced. More information about DME and IME funding is provided later in this chapter under *Current Issues – Medicare and Medicaid Budgets*.

Clinical Teaching Support

State General Funds, called Clinical Teaching Support (CTS), are appropriated to the University in recognition of the need to maintain a sufficiently large and diverse patient population at the medical centers for

teaching purposes. These funds are generally used to provide financial support for patients who are essential for the teaching program, but who are unable to pay the full cost of their care.

The 2001-02 budget included about \$51 million in CTS funds for the five UC medical centers which included \$2 million of the \$5 million one-time CTS augmentation provided for in the 2001-02 budget, with the balance going to the neuropsychiatric hospitals and dental clinics. While CTS funds represent less than 2.2% of the total operating revenue for the medical centers, they continue to be important to the quality of the clinical teaching programs and to the financial stability of the medical centers.

Medi-Cal Medical Education Funds

In 1996-97, the Legislature adopted supplemental language asking the University to develop options for dealing with the costs of providing medical education in a clinical setting.

The University reviewed many alternatives, and successfully pursued an option to help fund graduate medical education costs through the Medi-Cal program by securing federal matching funds. In 1996-97, the University, working with the California Medical Assistance Commission, the Department of Finance (DOF), and the Department of Health Services, developed a program specifically for the University's five medical centers that allowed the University to obtain an additional \$50 million in matching federal Medicaid funds to support educational costs incurred in the treatment of Medi-Cal inpatients.

The State approved legislation (SB 391, Solis, 1997) to continue the program through 1998-99 and to expand it by creating two supplemental payment funds that are financed through voluntary intergovernmental transfers and then matched with federal Medicaid funds. The supplemental payment funds are the Medi-Cal Medical Education Supplemental Payment Fund, and the Medi-Cal Large Teaching Emphasis Hospital and Children's Hospital Medical Education Supplemental Payment Fund. Medi-Cal contracting hospitals that meet the definition of the university teaching hospitals (e.g., UC medical centers) or major (non-university) teaching hospitals are eligible to negotiate for funding from CMAC to cover the medical education costs associated with Medi-Cal inpatient care.

In 1997, the State approved legislation (SB 1130, Thompson) which expressed legislative intent that the University take the lead in pursuing a more

comprehensive approach to health professionals education funding and report to the Governor and Legislature regarding progress toward a long-term solution. The University submitted two progress reports, one in December 1998 and the other in March 2000. In January 2002, the University provided a report that proposed options for long-term funding of GME. In addition to the reports, the University has worked with the CMAC, the DHS, the DOF, and other stakeholders to develop a proposal for long-term funding of graduate medical and health professions education.

In 1996-97, the University's five medical centers received \$50 million in new federal dollars through this program to help support medical education in a clinical setting. From the inception of this program in 1996-97 to 2001-02, the UC medical centers received about \$287 million of new federal funds, an average of \$48 million per year. While these funds are critical for the teaching mission of the medical centers, the amount provided is insufficient to fund the total costs of medical education in an inpatient setting; and no funding is provided to cover costs in an outpatient setting. This program was scheduled to sunset on June 30, 2000. Working with the Legislature and the Administration, the University secured adoption of a trailer bill to the 2000 State Budget that extended authorization for the program to June 30, 2002. In the State Budget Act of 2002, the Medi-Cal Medical Education program was extended for another two years to June 30, 2004.

The University is continuing to work with the State on a broader, longer-term program to fund graduate medical education in both inpatient and outpatient settings, and to include other health care professionals in reimbursement formulae. In April 1999, the University hosted a "Medical Education Financing and Policy Forum" to discuss the current and future financing of graduate medical and related health professions education. This forum provided opportunities for dialogue among leaders and stakeholders of the State agencies, health sciences educational institutions, professional associations, and others in discussing new options and alternative approaches for supporting teaching hospitals and clinics in California. Data are critical for developing options for funding the training of an appropriate health care workforce, including non-physician professionals. The University is working with the Office of Statewide Health Planning and Development (OSHPD) to assess the health care workforce needs of California.

Capital Funds for Medi-Cal Disproportionate Share Hospitals (SB 1732)

The SB 1732 program, the Construction and Renovation Reimbursement Program, provides supplemental Medi-Cal reimbursement to disproportionate share hospitals for debt service costs (i.e., principal and interest) of approved capital construction. Both the Davis and San Diego Medical Centers received approval (Davis in 1998-99 and San Diego in 1999-00) from the DHS for annual supplemental funding of approximately \$6.5 million and \$2 million, respectively, over the life of the debt service. These funds are for the following projects: the Tower II, the Ambulatory Care Center, Inpatient Radiology Renovations, and the Central Plant at the Davis Medical Center, and Thornton Hospital at the San Diego Medical Center. UC Irvine, also a disproportionate share hospital, had no projects that qualified.

Current Issues

Medicare and Medicaid Budgets

The 1997 BBA contained some of the most sweeping and significant changes to Medicare and Medicaid since the inception of these programs. These changes were expected to reduce Medicare spending by \$116 billion by 2002. Over the same time, federal Medicaid spending would have been reduced by \$10.4 billion.

Two of the more significant Medicare cutbacks that affect the University are reductions in the annual inflation adjustments to the Prospective Payment System (PPS) rates for hospitals and to the IME payments for medical education.

- The BBA would have reduced the annual PPS adjustment by 1% for each year from 1997 to 2002, thus achieving about \$11 billion in savings over five years. The impact on the UC medical centers was estimated to be about \$45 million during this time. The annual impact was estimated to range from about \$4 million in 1997 to about \$14 million in 2002.
- The BBA proposed to reduce the IME factors from 7.7% in 1997 to 5.5% in 2002. This reduction was predicted to achieve \$4.2 billion in savings over five years. Another \$3.4 billion in savings over the same period would have been achieved through changes in DME payments. The impact to

the UC medical centers was estimated to be more than \$70 million over the course of the five years. On average, the impact was estimated to range from \$6 million in 1997 to over \$20 million in 2002.

The BBA was also expected to cut Medicaid spending by \$10.4 billion, primarily from reductions in payments for disproportionate share hospitals. These reductions would have greatly affected the UC medical centers because 16% of net operating revenue comes from Medi-Cal and about 25% of Medi-Cal payments UC medical centers come from disproportionate share funds, (i.e., SB 855 and SB 1255 funds).

A number of groups, including UC medical centers and the Association of American Medical Colleges (AAMC), voiced concern that the BBA's significant payment reductions would put teaching hospitals at financial risk. An analysis prepared by the AAMC concluded that the average teaching hospital would lose \$45.8 million in Medicare reimbursement between 1998 and 2002. An analysis prepared by the University of California projected Medicare reimbursement losses of about \$200 million for the five UC medical centers over four years.

Congress responded to the concerns by passing the BBRA in 1999. The BBRA provided temporary relief from the dramatic cuts proposed by the BBA. After the BBRA sunsets September 30, 2001, the cuts imposed by the BBA were slated to resume. The University continued to work vigorously with members of Congress to maintain the momentum established to restore funding or to reduce the impact of future cuts to the Medicare and Medicaid programs. As a result of these efforts and the efforts of other academic medical centers, Congress passed the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA). The BIPA of 2000 provides temporary relief by delaying for one year the dramatic cuts proposed by the BBA. The BIPA extended temporary relief from the BBA cuts to September 30, 2002 and increased the DME funding to 85% of the national average. On September 30, 2002 the BIPA provisions expired and most of the reductions in Medicare reimbursement proposed by BBA were enacted. One such reduction proposed by the BBA is to reduce Medicaid DSH funding to states by 20%. This reduction to the Medicaid Disproportionate Share Hospital (DSH) program is referred to as the "DSH Cliff". The impact to the three UC medical centers that are Medi-Cal disproportionate share hospitals is estimated to be \$12.5 million, annually.

There are two additional federal actions which are projected to have significant impacts on the UC medical centers: the Health Insurance Portability and Accountability Act (HIPAA) - Privacy Standards and the Medicaid Upper Payment Limits.

The HIPAA privacy standards empower the patient to request, amend and obtain certain information. This is of concern to the University because academic medical centers, given the many arenas in which they interact with protected health information, are more likely than their community hospital counterparts to be the subject of an extensive number of patient requests. The cost to comply with a potentially extraordinary number of requests is an unfunded mandate with significant financial consequences for academic medical centers. Health care providers, including the UC medical centers, must comply with the "Privacy Rule" under HIPAA by April 2003.

In January 2001, the Health Care Financing Administration (HCFA), now called the Center for Medicare and Medicaid Services (CMS), finalized the regulation that revised Medicaid's "Upper Payment Limit" rules, ending certain accounting techniques that allow states to inappropriately inflate their share of federal Medicaid matching funds. Although the State of California did not inappropriately inflate Medicaid matching funds, the new federal regulations may significantly reduce the funding the UC medical centers receive from Medi-Cal supplemental funding programs by placing a reimbursement cap on the UPL at 100% of costs. This is a reduction from the 150% of costs that is currently provided to the UC medical centers. The impact to the UC medical centers that are Medi-Cal disproportionate share hospitals would be approximately \$50 million. The cuts will be phased in over the next few years.

Impacts of Managed Care

Academic medical centers are profoundly affected by changes in the delivery and financing of health services. These changes are the direct or indirect result of an increase in the percentage of the population enrolling in "managed care plans" for health care coverage. When reimbursement was provided on a fee-for-service basis, the medical centers were able to generate the patient volume and dollars needed to support teaching and research. Patients were attracted to the cutting-edge quality of the specialized treatments for complicated health problems offered by academic medical centers.

Managed care seeks to reduce costs in two primary ways. First, managed care emphasizes prevention and primary care intervention in order to reduce the need for more costly hospitalization and specialist services later on. Primary care physicians serve as “gatekeepers,” coordinating care and controlling referrals to more costly specialized services, including inpatient care. Some services that have traditionally been provided on an inpatient basis are now provided in outpatient facilities as efforts are made to reduce costs. Improvements in procedures and new technologies will continue to allow more services to be performed in outpatient settings.

As a result of these trends, the UC medical centers have experienced a shift from inpatient to outpatient settings, a shift that threatens both volume of patients seen in an inpatient setting and reduces revenues.

While there is pressure from accrediting bodies and other policy makers to shift the locus of medical training from inpatient to outpatient care sites, the costs of medical training in outpatient settings are generally higher than in inpatient settings. Further financial challenges have been created by this change, given that medical education costs for outpatient services are not directly reimbursed by Medicare or Medi-Cal. The University is working with the State to identify the costs of medical education in outpatient settings, with the hope that this leads to adjustments in reimbursement by the State and federal governments. Legislation signed by the Governor in October 2002 (SB 915, Frommer), establishes a Medi-Cal outpatient supplemental payment program but will need federal approval before funds become available.

The second way in which managed care seeks to control costs is by contracting with a network of preferred providers to deliver services at negotiated (discounted) rates and to assume risk for a defined population. To compete successfully for these contracts, physicians are joining with hospitals and other providers to form integrated delivery systems that provide the full range of care, from outpatient and lab services to inpatient and skilled nursing care. Integrated delivery systems offer a continuum of care and derive competitive advantages from economies of scale that can result in lower prices; data collection capabilities that can monitor outcomes over time, which can be an advantage in attracting patients; and convenience for insurers, who can negotiate with many doctors and multiple services as a group rather than on a one-on-one basis. Providers who remain outside these networks face a reduced market for their services, as more of the population uses managed health care on either a voluntary or mandatory basis.

As major purchasers of services on behalf of Medi-Cal and Medicare beneficiaries, the State and federal governments are encouraging the development of contractual arrangements with selected providers for these populations. Unless the negotiated rates recognize the legitimate costs incurred by academic medical centers and provide the necessary funding, the University's medical centers will not be able to recover full costs for providing the services.

Seismic Safety Issues

SB 1953 (Alquist), the Hospital Seismic Safety Act was enacted in late 1994. This legislation requires general acute-care inpatient hospitals to meet standards designed to prevent collapse in a major earthquake by 2008, even though the hospital may not remain operational after the earthquake. By 2030, hospitals would be required to meet higher building standards that would increase the probability of remaining operational following a major earthquake. No provisions for funding were included in the legislation.

Compliance with SB 1953 will affect the State's hospital industry and the delivery of health care, as well as the teaching and research activities conducted at the UC medical centers. The University estimates that costs to the teaching hospitals for compliance with SB 1953 through the year 2008 will be significant, at least \$600 million.

A trailer bill to the 2000 State Budget Act authorized the State Public Works Board (SPWB) to issue up to \$600 million in State lease revenue bonds for seismic correction of the University's acute care hospital facilities required by SB 1953. As with previous SPWB funding for other University projects since the mid-1980s, the asset for the financing will be either the new hospital facility or—if the project involves renovation of an existing facility where prior hospital debt poses a constraint—another acceptable existing facility will be designated as the asset for financing. If a new hospital building is involved and will serve as the asset for the bond, the site is leased to the SPWB by the University, the University signs agreements to act as agent for the SPWB in construction of the new facility, and then leases the completed facility from the SPWB for operation. If an existing facility serves as the asset (termed "asset transfer"), the existing facility will be leased to the SPWB, the University will act as SPWB agent for the alterations, and then will lease the resulting upgraded facility from the SPWB for operation. The SPWB retains ownership of the leased facility until full repayment of the State lease revenue bonds used for the project, after which ownership is

returned to the University. Negotiations between the University and the Department of Finance will determine the repayment arrangements on the debt service.

In anticipation of the sale of the \$600 million of state lease revenue bonds, The Regents approved the following allocations at their meeting in November 2000: Davis - \$120 million, Irvine - \$235 million, Los Angeles - \$180 million, San Diego - \$40 million and San Francisco - \$25 million.

In addition, the medical centers have other significant capital needs, such as upgrades necessary for programmatic changes, which cannot be addressed with the State's lease revenue bonds. Therefore, the UC medical centers will be required to use hospital reserves and conduct significant funding campaigns to supplement available funds. The Los Angeles Medical Center has significant funding provided from insurance and from the Federal Emergency Management Agency (FEMA) as a result of damage done by the Northridge earthquake in January 1994.

The 2000 Budget Act also provided \$25 million in one-time funds for medical center equipment in recognition of financial projections which indicated that the medical centers would not have a sufficient operating margin at the end of 1999-00 to allow for normal capital and equipment costs. The State funds were used for equipment in 2000-01. As a condition for receiving these funds, the Legislature required the University to prepare a report that explained how the funds would be used and demonstrated that the funds did not supplant other funds that would have otherwise been used for equipment in 2000-01. Each medical center was allocated \$5 million. The required report was submitted in February 2001.

The 2000 Budget Act also provided \$50 million in State General Funds for infrastructure projects that were non-seismic capital improvements at the medical centers. This funding was appropriated in recognition of the millions of dollars required for improvement apart from the seismic problems to address deficiencies and remain competitive in today's managed care market. Such needs include a broad range of high-priority projects, such as the upgrade of operating rooms, modernization of patient facilities, correction of deficiencies in clinical laboratories, upgrade of deteriorated utility services, and replacement of aged and inadequate building systems. This allocation was made in parallel to the State lease revenue bonds allocation so that the infrastructure work could be done in conjunction with the seismic work. The \$50 million for infrastructure needs were allocated among the medical

centers as follows: \$25 million to San Diego, \$10 million to Los Angeles and \$5 million each to the Davis, Irvine and San Francisco Medical Centers.

Responding to the Challenges

UC medical centers face legitimate concerns regarding the need for adequate funding to support their tripartite mission. In recent years, temporary fixes have provided short-term relief. Significant among these have been the Benefits Improvement and Protection Act of 2000; the extension of Medi-Cal Medical Education program to June 30, 2004, SB 1732 funds for the Davis and San Diego Medical Centers; one-time appropriations in the 2000-01 State Budget for hospital equipment (\$25 million) and for infrastructure (\$50 million); authorization for the SPWB to issue up to \$600 million of lease-revenue bonds for medical centers to comply with SB 1953; and a one-time CTS augmentation of \$5 million in the 2001-02 State Budget.

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

The medical centers have adapted to the managed care environment by expanding their outpatient and primary care services to complement their existing inpatient services. This has enabled the centers to compete more successfully for commercial contracts, and to provide students with more exposure and training in primary care. The expanded primary care patient base has also resulted in more referrals to the University's own inpatient and specialty services.

The University's academic medical centers are also responding by reducing costs through restructuring and improved efficiencies. The centers are developing stronger links with other providers, especially community hospitals and physicians in larger networks.

The following is a brief description of how each of the University's five academic medical centers is responding to the changes in the health care industry.

UC Davis Medical Center

With an increasing emphasis nationally on both the cost of health care and the quality of health care, UC Davis Medical Center (UCDMC) continues to

seek innovative approaches to the efficient delivery of high-quality primary and tertiary care. Meanwhile, demand for both inpatient and outpatient services remains exceptionally high, with demand exceeding capacity in the emergency department, in most of the specialty and many of the primary care clinics, and in the hospital.

Sustaining its teaching and research missions while responding to the overwhelming public service needs and patient care demands of the Sacramento region has required proactive financial management designed to maintain a stable, if modest, bottom line.

With an emphasis on collaboration, UCDCMC has sought a regional approach to meeting the health care needs of Northern Californians. Novel telemedicine applications – ranging from a pediatric ICU over 100 miles distant from the medical center to the provision of translation services to non-English speaking patients in its own clinics – have enabled UCDCMC to provide a level of service that otherwise would not be available. With links to over 70 telemedicine sites in rural regions of the state, UC Davis's Center for Health and Technology is a world leader in developing new approaches to health care delivery.

Collaborations with scientists at Lawrence Livermore National Laboratory helped UC Davis Cancer Center earn National Cancer Institute designation this year. With more than 200 scientists working on cancer research, one of the most robust clinical trials programs in the nation, and jointly operated treatment centers with community hospitals in Merced and Marysville, the UC Davis Cancer Center is bringing high quality cancer care to patients throughout the Northern California.

Another collaborative program – the M.I.N.D Institute (Medical Investigation of Neurodevelopment Disorders) – will open a unique new facility at UCDCMC in April 2003. The only one of its kind in the world, the center will feature research and clinical space designed to enhance collaboration among scientists, clinicians, educators, and parents of children with autism and other neurodevelopmental disorders.

In a major initiative to improve both patient safety and operational efficiency, UCDCMC recently invested in an electronic medical record system (EMR), with the implementation process now underway. The EMR will move the medical center toward becoming a “filmless” and “paperless” environment,

where patient medical records, laboratory results, appointment scheduling, prescriptions and many other hospital operations are handled electronically.

Other initiatives aimed at strengthening quality while reducing costs include, implementing innovative strategies for managing emergency department patient load, reducing hospital length of stay, expediting admissions and transfers, enhancing operating room capacity, reducing clinic wait times, and improving communication among care providers and between providers and patients. A new labor and delivery unit opened at the medical center in the summer of 2002, improving services and capacity for obstetric patients. Other new inpatient units for services such as orthopedics and neonatal intensive care are under construction.

UC Davis Medical Center is the dominant provider of indigent care in the Sacramento region. With only 15% of the total market share, but more than 43% of the indigent care, UCDMC demonstrates a commitment to public service unequalled by any other hospital in the region. Through strong financial management and creative approaches to delivering high quality patient care, UC Davis Medical Center will continue to serve its community through teaching, research, and public service.

UC Irvine Medical Center

UC Irvine Medical Center (UCIMC) again made exceptional progress in fiscal year 2002 on all three of its institutional goals of quality of patient care, patient satisfaction, and financial performance. In addition, UCIMC successfully fulfilled the education and research missions of an academic medical center.

In the past year, the Leapfrog Group acknowledged the Irvine Medical Center as the safest hospital in California. The UCIMC was the only hospital in the state to meet all of Leapfrog's criteria for provision of quality patient care. The University Healthcare Consortium, a national academic health system organization, also recognized UCIMC as a leader in ambulatory care. In addition, for the fourth year in a row, patient satisfaction with health care received at the UCIMC has increased, with significant improvements noted in ambulatory services.

A recent survey of employees that addressed thirty-six issues related to employee needs and satisfaction indicated UCIMC exceeded the national benchmarks on every staff issue except one – the need to invest more resources in the hospital's aging technology.

Now in the fifth year of the UCI Health Sciences Strategic Plan, the Medical Center exceeded all of its goals. UC Irvine Medical Center and College of Medicine continue to focus on quality, customer satisfaction, financial performance, and the highest ethical standards in research and patient care.

The UCIMC continues to prepare for a number of serious financial challenges, such as shortages in almost every category of healthcare worker, including nurses and pharmacists. This translates into double-digit salary increase demands and difficulty in recruiting new, well-trained employees while retaining current employees. Many physician specialists, particularly in anesthesiology and radiology, are in short supply in the competitive Southern California market. Without these health care specialists, the service UCIMC can provide to the community may be limited. The Medical Center faces further cost inflation pressure as a result of both the soaring cost of pharmaceuticals and the new higher standards of care established by new technologies.

The Medical Center is dealing with shortage of space for operating rooms, ambulatory visits, faculty physicians and support staff; this is coupled with the overhead of maintaining an aging facility. The cost of replacing old equipment with new technologies, and of modifying existing buildings to house these new technologies, challenge UCIMC's access to capital. New government regulations, such as the new federal Health Insurance Portability and Accountability Act of 1996 and safety regulations, require capital to implement and add to the existing burden.

UCIMC's plans to build a new hospital will resolve many of these issues. An extensive planning process is currently underway, and the project is expected to be completed by 2007, in time to comply with SB 1953 requirements.

The Medical Center is working closely with the Orange County Health Care Agency and other providers in the community to address improvements in funding and access to care for the county's indigent population. Expected cuts to disproportionate share support and supplemental medical education funding at both the federal and state levels compound the problems of providing care to underfunded patients.

Finally, there are continuing challenges in the healthcare marketplace, in which many medical groups and some payors are financially unstable and patients are experiencing an ever restricting scope of their insurance

coverage. UCIMC regularly reviews all commercial payor contracts to ensure that it is receiving the best terms possible.

The Medical Center will respond to these challenges with several ongoing initiatives. An intensive external review of all facets of the Medical Center's operating costs has been completed, and there are plans to implement improvements over the next several years. The Medical Center is also committed to improving its business procedures toward a goal of maximum efficiency.

To further meet its challenges, the UC Irvine Medical Center is investing in more than two dozen clinical programs, which, when fully implemented, will add approximately thirty new physicians to its faculty to strengthen its clinical programs. UC Irvine's University Children's Hospital is also collaborating with Children's Hospital Orange County (CHOC) to leverage a significant amount of county tobacco settlement funds to provide health care to the county's children.

With these successes, the Irvine Medical Center will meet its mission and provide the College of Medicine with the ideal environment for education and clinical research.

UCLA Medical Center

The UCLA Medical Center continues to be challenged by an increasingly difficult and competitive southern California healthcare market. The major challenges confronting the Medical Center include the following:

- 1. Consolidation of California's major health plans, with the emergence of Blue Cross of California, a subsidiary of Wellpoint, as the dominant for-profit health plan. In 2002, Blue Cross of California has an estimated statewide HMO and PPO enrollment of 6.4 million enrollees. As a result, Blue Cross of California has and will continue to wield significant leverage in negotiating with its contracted providers. Kaiser Foundation, the largest California commercial HMO, continues to increase its market share, accounting for 41% of all statewide commercial health plan enrollment in 2002. In the Los Angeles County metropolitan statistical area (MSA) there were an estimated 1.5 million Kaiser enrollees. These potential patients do not have access to non-Kaiser providers like UCLA, unless through selected contracted services.*
- 2. For-profit healthcare providers competing against UCLA Healthcare within its primary service area and for its tertiary services and other*

specialized services. With its acquisition of the Daniel Freeman Memorial Hospitals in 2001, Tenet Healthcare owns five community hospitals on the west side of Los Angeles, with an inpatient market share approaching that of UCLA Healthcare. Tenet's current attempt to close Daniel Freeman Marina Hospital is consistent with its market consolidation strategy but the closure has been delayed for political and legal reasons.

A significant threat to UCLA Medical Center's tertiary and quaternary programs is the planned expansion of USC University Hospital. This Tenet-owned downtown hospital is building a new \$90-million, 10-story patient tower.

3. *Downsizing and restructuring of the Los Angeles County health system.* Historically, Los Angeles County Hospital has been the provider of last resort for the estimated 2.4 million uninsured county residents, through federal and State funding support. Unless Los Angeles County can reduce its cost structure, it is projected to accrue a cumulative loss of more than \$700 million by fiscal year 2005-06. The Los Angeles County Department of Health Services has begun closures of some of its community health clinics, and plans to convert High Desert Hospital into an ambulatory clinic. If the County is unable to obtain an extension of its federal 1115 waiver, Los Angeles County-Olive View and Los Angeles County-Harbor UCLA will be designated as multi-ambulatory care centers, and Martin Luther King-Drew will become a community hospital with emergency services only. While negotiations among the county, State, and federal governments are underway, the likelihood of the waiver extension is not promising. The impact of these potential changes may include loss of UCLA residency sites, and increased demand for trauma, emergency, and pediatric services among the county's uninsured population.
4. *Independent Practice Association (IPA)/Medical Group failures continue to occur.* During the past year, a number of southern California IPAs and medical groups closed or entered into bankruptcy. This has resulted in a further market consolidation and the write-off of receivables from the bankrupt IPAs by the UCLA Medical Center.
5. *Hospital closures and bankruptcies.* In February 2002, Tenet Healthcare closed its St. Luke Medical Center in Pasadena, diminishing the acute hospital bed capacity in this affluent community by 165 beds. Henry Mayo Newhall Memorial Hospital, with whom UCLA Healthcare has a good working relationship, filed bankruptcy in 2002. The tight hospital reimbursement picture coupled with increasing costs is a constant threat to most southern California hospitals. The closure of these two hospitals

reduces the number of acute care beds in the area, thus putting greater demands on existing hospitals to treat the patients that would have gone to other hospitals for care.

In spite of these challenges, the UCLA Medical Center managed to generate a positive bottom line during fiscal year 2001-02. It continues to focus its resources towards implementation of the primary service area and regional recommendations from the 1997 Medical Enterprise Strategic Plan.

The UCLA Medical Center continues to experience high acute care utilization. As of fiscal year-to-date September 20, 2002, it reported an average daily census (ADC) of 474, compared with an ADC of 462 during the same time period last year.

During the upcoming fiscal year UCLA Healthcare will face the challenge of generating sufficient funds to continue implementation of the building programs both at the Westwood and Santa Monica campuses and provide support to its school of medicine.

During the upcoming 2003-04 fiscal year, the UCLA Medical Center's major financial objectives will continue to focus on improvement of its financial operating performance and increasing its cash reserves. With respect to the former, management will focus its efforts to reduce out-of-network costs and other significant controllable costs (e.g., pharmaceuticals), increase work productivity, and leverage Santa Monica-UCLAMC to match patient acuity with an appropriate level of acute cost of care.

To enhance the medical center's cash position, management will continue to prioritize timely accounts receivable collections throughout the organization, limit the organization's capital expenditures, and effectively manage the costs of the medical center replacement building programs.

Successful implementation of these tactics should enable the UCLA Medical Center to remain an important and prestigious academic, research, and clinical resource for the residents of California.

UC San Diego Medical Center

During fiscal year 2003 the Medical Center will continue to face the challenge of generating a positive margin sufficient to maintain its cash reserves, fund capital investments, and preserve its bond rating in a time of

reduced support for indigent care and medical education and continued labor shortages in key categories, including nurses. Management will remain focused on the strategic initiatives to: 1) enhance the centers of excellence to retain and attract patients; 2) focus on core operations through partnerships with physicians; 3) enhance revenues; and 4) invest in facilities, equipment, and information systems that enhance clinical programs. In addition, for the longer term, management will continue to focus on securing the capital resources needed to meet the infrastructure and seismic safety needs of the primary teaching facility in Hillcrest and the service expansion and programmatic needs at both hospital sites, i.e., Hillcrest and La Jolla.

UC San Francisco Medical Center

UCSF Medical Center continues to maintain an outstanding national reputation. The latest US News and World Report survey ranked UCSF Medical Center 7th in the nation, up from 9th in 2001. The results also place UCSF Children's Hospital as the best in Northern California.

UCSF Medical School and Medical Center now rank among the nation's top 10 programs in the following specialties: neurology and neurosurgery, respiratory disorders, hormonal disorders, digestive disorders, gynecology, rheumatology and urology. UCSF Medical School and Medical Center also rank among the top 20 programs in pediatrics, cancer, eyes, heart and heart surgery, kidney disease, geriatrics, psychiatry, orthopedics, and ear, nose and throat.

Patient activity continues to grow. Inpatient occupancy is close to 80% and the acuity (case mix index) of the patients seen is among the highest in the University of California system. During fiscal 2001-2002, the Medical Center admitted 24,652 patients, recording 150,216 patient days. Outpatient activity is also growing, with over 640,000 visits each year.

The Medical Center's organizational goals for fiscal 2001-2002 included quality of care, patient satisfaction, and financial performance. Quality of care was measured by performance on a mock Joint Commission on Accreditation of Healthcare Organizations (JCAHO) survey done by an independent firm. The Medical Center achieved its target, with an "outstanding" level and an overall score of 90.

In the area of patient satisfaction, the Medical Center measured progress using a patient satisfaction survey. Among other questions, the survey asks our customers, "What is the likelihood that you would recommend UCSF

Medical Center to others?" The Medical Center's performance improved over the year to a composite score of 87.6, just below its target of 88.

With respect to the 2001-02 financial goal, the UCSF Medical Center reported net income in excess of \$30 million, well ahead of budget and last year's results. Cash increased another \$18 million this year, even after substantial capital expenditures.

During fiscal 2001-02, the Medical Center completed a Strategic Plan for the balance of the decade. A key objective of the Strategic Plan is to accumulate financial resources sufficient to replace seismically impaired Mt. Zion facilities by the end of the decade. A core strategy to reach this objective is growth in inpatient and outpatient clinical operations over the next five years. Accommodating this growth will mean significant challenges around capacity and site planning at Moffitt/Long Hospital.

UCSF Medical Center's six strategies, as outlined in the Strategic Plan are: (1) create capacity for growth, (2) grow targeted services, (3) plan for the development of a mothers' and children's hospital, (4) increase patient satisfaction, (5) continue to improve operating performance, and (6) launch workforce development initiative.

Tactics to address growth include completing a long-range development plan, assessing alternative uses of Mount Zion facilities, completing plans to increase beds over the next five years, facilitating ambulatory growth in support of inpatient expansion, and completion of cardiovascular business planning.

UCSF will again conduct a JCAHO mock survey and measure performance and improvements. External quality indicators will be used to benchmark current performance and to develop multi-year improvement plans. Implementation of the regulations imposed by the Health Insurance Portability and Accountability Act will continue and design of computerized physician order entry will be completed.

The Mothers' and Children's Hospital will be a focus for UCSF, with an expanded marketing plan, attainment of California Children's Services certification, and plans for increased referrals for tertiary business.

UCSF plans to further enhance the patient satisfaction/customer service program by establishing department-specific training, adding concierge and greeter programs, and promoting “best practices” within the organization. Operating and financial performance improvements will include several revenue cycle initiatives, establishment of a return on investment process for all new programs and projects, significant supply chain savings and improvements, a second phase of the Call Center Plan, and increased budget accountability. The Medical Center is committing significant funds to the development of a Clinical Information System to be installed over the next five to seven years.

The Workforce Development plan will address results of the Employee Survey, reduce employee turnover, reduce workers’ compensation loss days, develop Core Competencies and Expectations for Managers, and expand employee reward and recognition programs.

On the regulatory front, UCSF Medical Center continues to work with the Fiscal Intermediary to resolve open cost report issues and to conclude audits on merger-era cost reports, meeting face-to-face several times each month. UCSF is confident that many of the remaining issues will be resolved during fiscal 2002-03. In addition to known Medicare receivables and payables, the Medical Center’s financial statements include loss contingencies related to these open cost report issues, as required by accounting standards. It is anticipated that the Medical Center will make significant cash payments related to Medicare payables and possibly Medicare loss contingencies during fiscal 2002-03.

Fiscal year 2001-02 marked the return of substantial financial and operational stability to UCSF Medical Center. Although the situation is still somewhat fragile, the medical center has the momentum and the management commitment to further improve operations and operating financial results, continue to increase customer satisfaction, further enhance clinical quality, and begin to implement the Strategic Plan to grow patient volumes.

Future Issues

As UC medical schools and medical centers look to the future, the University remains committed to excellence in health sciences education and responsiveness to societal health needs. Meeting these challenges

successfully will require increasing collaboration among educators, teaching hospitals, managed care organizations, and others to ensure that the quality of patient care and medical education continue to meet the high standards of American medicine and modern society.

With their tripartite mission of teaching, research, and public service, UC's academic medical centers constitute a major resource for California and the nation by providing excellent training for tomorrow's health professionals, educational opportunities for community health professionals who participate in the University's clinical teaching and continuing education programs, and health care services to thousands of patients each day.

Below is a partial list of issues and concerns facing the UC medical centers:

- compliance with SB 1953;
- increasing salary costs, especially for represented employees;
- the costs of compliance with HIPAA;
- Medicare and Medicaid cuts in reimbursement after BIPA legislation sunsets in 2003;
- the financial impact of the Upper Payment Limits;
- sustainable support for the schools of medicine;
- approval of the extension of the waiver of the Medi-Cal Selective Provider Contracting Program;
- the high cost of medical supplies, especially pharmaceuticals; and
- terrorism preparedness.

These issues and concerns come during difficult economic times at all levels of government.

STUDENT FEES

Overview

There are two mandatory systemwide fees currently assessed to all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support student financial aid, student services programs, and a share of the University's operating costs, including instruction-related costs. Display 1 (next page) shows fee levels for resident undergraduate and graduate students from 1978-79 through 2003-04 (estimated).

Students also must pay mandatory campus fees, also called miscellaneous fees, that cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government, and construction, renovation, and repair of sports and recreational facilities.

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.

In addition to all mandatory systemwide fees, campus-based fees, and any applicable professional school fees, nonresident students must pay nonresident tuition.

In the early 1990s, mandatory systemwide student fees increased dramatically as one of the many ways in which the University was able to weather the State's fiscal difficulties. As the State emerged from its economic difficulties, the Governor and the Legislature placed a renewed priority on higher education. From 1995-96 to 2001-02, the State provided funding to the University equivalent to what would have been generated had mandatory systemwide fees been increased, eliminating the need to increase these fees during those years. In addition, the State provided funding to reduce mandatory systemwide fees for California resident undergraduate students by 10% (\$370), and to reduce mandatory systemwide fees for California resident graduate academic students by 5% (\$190). In 2000-01

Display 1

UNIVERSITY OF CALIFORNIA
STUDENT FEE LEVELS
1978-2003

| | Average Annual Fees per Resident Undergraduate Student | | | | | | Average Annual Fees per Resident Graduate Student | | | | | |
|--|--|--------------|--------------|---------------|----------------|--------------|---|--------------|--------------|---------------|------------------|---------------------|
| | Ed/Reg Fees | | Ed/Reg Fees | | Misc. (a) | Total (a)* | Ed/Reg Fees | | Ed/Reg Fees | | Misc. (a) | Total (a)* |
| | Reg. | Ed. | Total | % | | | Reg. | Ed. | Total | % | | |
| 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 | 463 | 475 | 938 | (30.5%) | 60 | 998 | 463 | 535 | 998 | (30.5%) | 45 | 1,043 |
| 1982-83 | 510 | 725 | 1,235 | (31.7%) | 65 | 1,300 | 510 | 785 | 1,295 | (31.7%) | 51 | 1,346 |
| 1983-84 | 523 | 792 | 1,315 | (6.5%) | 72 | 1,387 | 523 | 852 | 1,375 | (6.5%) | 58 | 1,433 |
| 1984-85 | 523 | 722 | 1,245 | (-5.3%) | 79 | 1,324 | 523 | 782 | 1,305 | (-5.3%) | 63 | 1,368 |
| 1985-86 | 523 | 722 | 1,245 | (0.0%) | 81 | 1,326 | 523 | 782 | 1,305 | (0.0%) | 64 | 1,369 |
| 1986-87 | 523 | 722 | 1,245 | (0.0%) | 100 | 1,345 | 523 | 782 | 1,305 | (0.0%) | 82 | 1,387 |
| 1987-88 | 570 | 804 | 1,374 | (10.4%) | 118 | 1,492 | 570 | 804 | 1,374 | (10.4%) | 100 | 1,474 |
| 1988-89 | 594 | 840 | 1,434 | (4.4%) | 120 | 1,554 | 594 | 840 | 1,434 | (4.4%) | 125 | 1,559 |
| 1989-90 | 612 | 864 | 1,476 | (2.9%) | 158 | 1,634 | 612 | 864 | 1,476 | (2.9%) | 222 | 1,698 |
| 1990-91 | 673 | 951 | 1,624 | (10.0%) | 196 | 1,820 | 673 | 951 | 1,624 | (10.0%) | 482 | 2,106 (b) |
| 1991-92 | 693 | 1,581 | 2,274 | (40.0%) | 212 | 2,486 | 693 | 1,581 | 2,274 | (40.0%) | 557 | 2,831 (b) |
| 1992-93 | 693 | 2,131 | 2,824 | (24.2%) | 220 | 3,044 | 693 | 2,131 | 2,824 | (24.2%) | 608 | 3,432 (b) |
| 1993-94 | 693 | 2,761 | 3,454 | (22.3%) | 273 | 3,727 | 693 | 2,761 | 3,454 | (22.3%) | 703 | 4,157 (b) |
| 1994-95 | 713 | 3,086 | 3,799 | (10.0%) | 312 | 4,111 | 713 | 3,086 | 3,799 | (10.0%) | 786 | 4,585 (b, c) |
| 1995-96 | 713 | 3,086 | 3,799 | (0.0%) | 340 | 4,139 | 713 | 3,086 | 3,799 | (0.0%) | 836 | 4,635 (b, c) |
| 1996-97 | 713 | 3,086 | 3,799 | (0.0%) | 367 | 4,166 | 713 | 3,086 | 3,799 | (0.0%) | 868 | 4,667 (b, c) |
| 1997-98 | 713 | 3,086 | 3,799 | (0.0%) | 413 | 4,212 | 713 | 3,086 | 3,799 | (0.0%) | 923 | 4,722 (b, c) |
| 1998-99 | 713 | 2,896 | 3,609 | (-5.0%) | 428 (d), (e) | 4,037 | 713 | 3,086 | 3,799 | (0.0%) | 839 (d) | 4,638 (b, c) |
| 1999-2000 | 713 | 2,716 | 3,429 | (-5.0%) | 474 (d), (e) | 3,903 | 713 | 2,896 | 3,609 | (-5.0%) | 969 (d) | 4,578 (b, c) |
| 2000-01 | 713 | 2,716 | 3,429 | (0.0%) | 535 (d), (e) | 3,964 | 713 | 2,896 | 3,609 | (0.0%) | 1,138 (d) | 4,747 (b, c) |
| 2001-02 (excl. health ins.) | 713 | 2,716 | 3,429 | (0.0%) | 430 (d) | 3,859 | | | | | | |
| 2001-02 (incl. health ins.) | 713 | 2,716 | 3,429 | (0.0%) | 917 (d) | 4,346 | 713 | 2,896 | 3,609 | (0.0%) | 1,305 (d) | 4,914 (b, c) |
| 2002-03 (excl. health ins.) | 713 | 2,716 | 3,429 | (0.0%) | 453 (d) | 3,882 | | | | | | |
| 2002-03 (incl. health ins.) | 713 | 2,716 | 3,429 | (0.0%) | 979 (d) | 4,408 | 713 | 2,896 | 3,609 | (0.0%) | 1,327 (d) | 4,936 (b, c) |
| Plan per Partnership: | | | | | | | | | | | | |
| 2003-04 (excl. health ins.) | 760 | 2,894 | 3,654 | (6.5%) | 453 (d) | 4,107 | | | | | | |
| 2003-04 (incl. health ins.) | 760 | 2,894 | 3,654 | (6.5%) | 979 (d) | 4,633 | 760 | 3,085 | 3,845 | (6.5%) | 1,327 (d) | 5,172 (b, c) |
| Notes: | | | | | | | | | | | | |
| (a) Represents the average of fees charged by the nine campuses. | | | | | | | | | | | | |
| (b) The \$376 annual Special Fee for Law and Medicine is not included in figures shown. | | | | | | | | | | | | |
| (c) The Fee For Selected Professional School Students is not included in figures shown. | | | | | | | | | | | | |
| (d) Beginning in 1998-99, campus miscellaneous fees are calculated on a weighted basis using enrollments. | | | | | | | | | | | | |
| (e) Miscellaneous fee levels include charges for waivable mandatory student health insurance established through student referendum at the Berkeley and Santa Cruz campuses. | | | | | | | | | | | | |
| * Total fees are the sum of the Ed/Reg Fees combined and estimated campus miscellaneous fees, which are higher for graduate students. | | | | | | | | | | | | |

and 2001-02, the Governor also proposed, and the Legislature approved, additional funding for the University in lieu of increasing professional school fees, net of financial aid, so that programs funded from these fees could be cost-adjusted.

Given the State's commitment to avoid fee increases, the University's 2002-03 budget plan assumed that the State once again would provide funding to avoid fee increases in both mandatory systemwide student fees and in professional school fees. Unfortunately, the State's fiscal situation continued to deteriorate and, while there was no fee increase for the eighth consecutive year, the State was unable to provide the additional funds to the University to replace the revenue that an increase in these fees would have generated.

The Partnership Agreement recognizes that programs funded from student fee income must also receive cost increases for salaries, benefits, and cost adjustments to those portions of the budget funded by student fee revenue and specifies that they should be funded either through an increase in student fees equivalent to the rate of increase in California per capita personal income, or the State will provide the equivalent in funding to avoid the student fee increase.

Accordingly, as it has done in the past, the University will request in its budget the funds either from the State or from student fees to provide cost increases for student-fee-funded programs. However, recognizing the State's continuing fiscal difficulty, the University's 2003-04 budget plan assumes that the State will not have sufficient resources to provide the funds necessary to avoid fee increases in both mandatory systemwide student fees and in professional school fees. Therefore, a fee increase of 6.5% is included in the University's budget plan to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue. The level of the fee increase included in the 2003-04 budget plan is based on the Partnership funding principles and will be re-evaluated if the state's fiscal situation further reduces the funding available to the University. Consistent with past practice, an amount equal to one-third of the revenue generated by the fee increase will be used to mitigate the impact of the fee increase on financially needy students.

The 6.5% figure represents the average percentage increase in student fees or equivalent revenue that would have been generated over the two-year period of 2002-03 and 2003-04 if student fees had increased both years at the rate of

increase for California per capita personal income, consistent with the funding principles of the Partnership. If the State is able to provide sufficient funding to avoid a fee increase for the ninth consecutive year, The Regents will not be asked to approve a fee increase. This issue is not likely to be resolved until the Governor's Budget is developed; therefore, The Regents will not be asked to take any action now on a fee increase with the intention that action on the issue be reserved for a future meeting when more is known about the proposed 2003-04 budget for the University. In addition, the 2003-04 budget plan assumes a 4% increase in nonresident tuition, consistent with the State's policy on adjustment of nonresident tuition.

As noted previously, from 1995-96 to 2001-02, the State provided additional funding to the University to avoid increases in these fees during those years. In addition, the State provided funding to reduce mandatory systemwide fees by 10% for resident undergraduate students and 5% for resident graduate students. If, during that same period of time, the University had adjusted mandatory systemwide fees by the annual increase in California per capita personal income (PCPI), the average of student charges for UC undergraduate students in 2002-03 would have been \$6,202, an increase of \$2,320 over the actual average of \$3,882. Had the fees increased steadily during this period, the average of student charges at UC would be on par with the average of total tuition and fees charged at the University's public comparison institutions (\$6,074), as shown in Display 2 (see next page).

History of Student Fees

Historically, the combination of adequate State support and low student fees has maintained the affordability of the University; financial aid programs also helped to maintain access for needy students.

Student Fees in the 1980s

In 1981-82 and 1982-83, reductions to the University's State-funded budget resulted in significant increases in fee levels, and student fees were used to fund programs previously supported from other sources, primarily State funds. In 1984-85, the State reversed the pattern of annual fee increases by approving a \$70 per student reduction in student fees. In 1985, the State adopted a long-term student fee policy that provided for gradual and moderate fee increases and established guidelines for fee increase calculations, financial aid, notification to students of fee increases, and consultation with students.

Display 2

| Undergraduate Student Fees Adjusted for Increases in Per Capita Personal Income | | | | |
|--|--------------------------------------|---|--------------------------|-------|
| <u>Year</u> | <u>Actual Mandatory Fees</u> | <u>What Fees Would Have Been Without State Buyouts/Reductions</u> | | |
| | | <u>PCPI Increase</u> | <u>Adjusted Fees</u> | |
| 1995-96 | \$ 3,799 | 5.30% | \$ | 4,000 |
| 1996-97 | 3,799 | 6.90% | | 4,276 |
| 1997-98 | 3,799 | 4.50% | | 4,469 |
| 1998-99 | 3,609 | 4.50% | | 4,670 |
| 1999-2000 | 3,429 | 4.15% | | 4,864 |
| 2000-01 | 3,429 | 4.50% | | 5,083 |
| 2001-02 | 3,429 | 4.90% | | 5,332 |
| 2002-03 | 3,429 | 7.82% | | 5,749 |
| 2002-03 UC Miscellaneous Fees | 453 | | | 453 |
| 2002-03 UC Total Fees | 3,882 | | | 6,202 |
| 2002-03 Average of Total Fees at Public Comparison Institutions | | | \$ | 6,074 |

In 1985-86 and again in 1986-87, mandatory systemwide student fees were held to their 1984-85 levels. In each of these three years, the State provided an increase in General Funds for student financial aid which, in turn, released an equivalent amount of student fee income to offset the 1984-85 fee reduction and to compensate for the impact of inflation on student services programs for those three years. In 1987-88, 1988-89, and 1989-90, student fees were increased by about 10%, 4%, and 3%, respectively.

Student Fees 1990-91 through 1994-95

The historic commitment to low fees was eroded in the early 1990s by the State's severe fiscal difficulties and the resulting dramatic decline in State support for the University. The shortfalls in State funding were accommodated in three ways: about half through budget cuts, roughly a quarter by not providing employees with cost-of-living salary adjustments, and another quarter through general student fee increases. Thus, there was considerable volatility in fee increases during the early 1990s.

Mandatory systemwide fees increased significantly during the three-year period of 1991-92 through 1993-94. In 1994-95, when State support for the University's budget was still severely constrained, the University was nevertheless able to hold the fee increase to 10%. A higher increase had been proposed in order to generate sufficient revenue to fund the budget; instead the State authorized the use of \$25 million in debt financing for deferred maintenance, thereby releasing General Funds previously budgeted for deferred maintenance that could then be used to support the budget and keep the fee increase to 10%. Throughout this period, fees were accompanied by significant increases in financial aid that helped offset the impact of the fee increases on needy students. The commitment to financial aid, which is addressed in the *Student Financial Aid* chapter of this document, has helped maintain the accessibility of a UC education.

Student Fees 1995-96 through 2002-03

The 1995-96 Governor's Budget proposed a four-year Compact with higher education, with a goal of providing fiscal stability to the University after years of budget cuts and allowing for growth through a combination of State General Funds and student fee revenue. The Compact included the expectation that General Fund budget increases averaging 4% per year over the four-year period would be provided. The Compact also anticipated general student fee increases averaging 10% a year, as well as additional fee increases for students in selected professional schools. However, for the duration of the Compact, the State provided the University with additional revenue above the proposed Compact levels to "buy out" the annual student fee increases. In 1998-99, the State provided sufficient funds to not only buy out the annual student fee increase (thereby avoiding a fee increase of 10%), but also funds to reduce mandatory systemwide student fees by 5% for resident undergraduate students, consistent with AB 1318.

By 1999-2000, the new Partnership Agreement with the Governor was in full effect. It calls for, in part:

- an annual average increase of 4% to the prior year's State General Fund base.
- funding provided at the agreed-upon marginal cost for all enrollment growth (which is expected to be about 3% annually).
- an additional 1% increase to the prior year's State General Fund base to phase in funding to eliminate the annual budgetary shortfalls for ongoing

building maintenance, instructional equipment, instructional technology, and libraries.

- funding for unavoidable costs, including debt service related to capital outlay and annuitant health benefits.
- revenue equivalent to that which would be generated from annual increases in mandatory systemwide student fees and Fees for Selected Professional School Students of no more than the increase in the California per capita personal income.

In 1999-2000, the State provided sufficient funds to avoid the need for a 4.1% student fee increase and, beyond that, to reduce mandatory systemwide fees by 5% for resident undergraduates and graduate academic students. This fee reduction was the second for resident undergraduate students resulting in a total reduction over a two-year period of 10%.

In 2000-01 and again in 2001-02, the State followed the funding principles of the Partnership and eliminated the need to increase student fees by providing the University with revenue equivalent to the amount that would have been generated had mandatory systemwide fees been increased by the estimated growth in California per capita personal income, which increased by 4.5% in 2000-01 and 4.9% in 2001-02. The University's 2002-03 budget plan assumed that the State would again provide funding to avoid fee increases in both mandatory systemwide student fees and in professional school fees. Unfortunately, the State's fiscal situation continued to deteriorate to the point that, while there was no fee increase for the eighth consecutive year, the State was unable to provide the additional funds to the University to replace the revenue that an increase in fees would have generated.

For 2002-03, the University fee levels for undergraduate resident students (excluding health insurance fees) are \$2,192 less than the average fees for the University's four public salary comparison institutions. In addition, University fees for resident graduate students continue to be below the average fees charged at the University's four public salary comparison institutions. Even with the increases in nonresident tuition approved by The Regents for 2002-03, the University's fees for nonresident undergraduate and graduate students remain less than the average fees for the comparison institutions. Display 3 shows the average resident and nonresident fees charged at the University's four public comparison institutions.

Display 3

| University of California and Public Salary Comparison Institutions Student Fees | | | | |
|--|-----------------|------------------|-----------------|------------------|
| Public Salary Comparison Institutions 2002-03 Fees | Undergraduate | | Graduate | |
| | Resident | Nonresident | Resident | Nonresident |
| University of Illinois | \$ 6,704 | \$ 15,308 | \$ 7,420 | \$ 16,094 |
| University of Michigan | 7,960 | 24,185 | 12,197 | 24,517 |
| State University of New York | 4,850 | 9,750 | 6,153 | 9,469 |
| University of Virginia | 4,780 | 19,990 | 5,661 | 18,751 |
| 2002-03 Average Fees of Comparison Institutions | \$ 6,074 | \$ 17,308 | \$ 7,858 | \$ 17,208 |
| 2002-03 Average UC Fees (<i>excluding</i> undergraduate health insurance fees) | \$ 3,882 | \$ 16,261 | \$ 4,936 | \$ 16,258 |
| 2002-03 Average UC Fees (<i>including</i> undergraduate health insurance fees) | \$ 4,408 | \$ 16,787 | \$ 4,936 | \$ 16,258 |
| 2003-04 Estimated Average Fees for Public Salary Comparison Institutions | \$ 6,590 | \$ 18,606 | \$ 8,486 | \$ 18,154 |
| 2003-04 Estimated Average UC Fees with 6.5% increase in Systemwide Fees (<i>excluding</i> UG health insurance fees) | \$ 4,107 | \$ 17,481 | \$ 5,172 | \$ 16,952 |
| 2003-04 Estimated Average UC Fees with 6.5% increase in Systemwide Fees (<i>including</i> UG health insurance fees) | \$ 4,633 | \$ 18,007 | \$ 5,172 | \$ 16,952 |

For 2002-03, the mandatory systemwide fees paid by resident undergraduate students are expected to be about 21% of the actual cost of their education, with the State providing most of the remainder.

As fees have increased over time, the percentage of additional fee income dedicated to financial aid has increased commensurately, from 16% 14 years ago to 33% at present. Financial aid provided to UC students through the Cal Grant program also has increased. Funds from the Cal Grant program and financial aid provided from student fee revenue helped cover fee increases for UC students who demonstrated financial need.

During the period when fees increased, the percentage of new freshmen from low-income families—those with less than \$30,000 in parental income—did not decline. The *Student Financial Aid* chapter of this document provides a full discussion of financial aid, including State, federal, private, and University sources.

Policy on Adjustment of Student Fee Levels

In 1985, the State adopted a long-term student fee policy which provided for gradual and moderate fee increases and established guidelines for fee increase calculations, financial aid, notification to students of fee increases, and consultation with students. In addition, the policy provided for fee increases of up to 10% when expenditures were projected to exceed available State revenues. Although The Regents adopted the policy in 1985, it was routinely suspended beginning with the 1991-92 budget. The policy was not reauthorized by the Legislature and is no longer in effect.

In the context of reduced State financial support for the University and an anticipated dramatic increase in student demand over the next 15 years, in January 1994, based on extensive discussions with the State and within the University community, The Regents approved a Student Fee and Financial Aid Policy that applies to the Educational Fee and University Registration Fee. The policy recognizes that the commitment to low fees has been eroded by dramatic declines in State support, and specifically authorizes the use of Educational Fee revenue for general support of the University, including costs related to instruction. The policy recognizes that, for California resident students, funding the cost of a UC education is a shared responsibility among the State, the students, and their families. A goal of the policy is to maintain access to a quality educational experience at the University for low- and middle-income students without unnecessarily subsidizing high-income students.

Under the policy, the Educational Fee continues to be a mandatory charge assessed to all resident and nonresident students to be established annually, based on the following factors: (1) the resources necessary to maintain access under the Master Plan, to sustain academic quality, and to achieve the University's overall missions; (2) the amount of support available from various sources to assist needy students in funding the cost of their education; (3) overall State General Fund support for the University; and (4) student charges at comparable public institutions. Income from the

Educational Fee is used for the general support of the University's operating budget, including costs related to instruction. The policy also established a methodology for setting annual University Registration Fee levels that may vary among the campuses within a range established annually by The Regents. Finally, to assist students and their parents in planning for future educational expenses, the policy provides for recommendations to be made annually to the Board concerning the proposed levels for the Educational Fee and the University Registration Fee for the next academic year. Because fee increases have not been instituted for eight consecutive years, the fee policy has not been actively operational since its inception.

Supplemental Language to the 2002 Budget Act directed the California Postsecondary Education Commission (CPEC) to convene a work group to develop for future legislative consideration a new long-term student fee policy, and to report to the Legislature by December 1, 2002. The work group, which began meeting in summer 2002, is composed of representatives from the University of California, the California State University, the California Community Colleges, the Department of Finance, the Legislative Analyst's Office, the State Department of Education, and students. In developing such a policy recommendation, CPEC is charged with considering the impact of its recommendations on: (a) State General Fund revenues, (b) student access to higher education, (c) student financial aid needs and requirements, (d) the resources needed by the state's public university systems to offer high quality instruction programs, and (e) effects on various identifiable student populations.

Educational Fee

The University's 2003-04 budget plan includes an increase of 6.5% in the Educational Fee. For undergraduate students, this increase is equal to \$178 per year; for graduate academic students, the increase is equal to \$189 per year; and for graduate professional students and all nonresident students, the increase is equal to \$202 per year. The increase is expected to generate about \$36.4 million in new revenue. The level of the fee increase included in the 2003-04 budget plan is based on the Partnership funding principles and will be re-evaluated if the state's fiscal situation further reduces the funding available to the University.

The Educational Fee was established in 1970. Though use of revenue from the Educational Fee initially was designated primarily for capital outlay

purposes; in subsequent years, an increasing proportion of the Fee was allocated for student financial aid. In 1976, The Regents adopted a policy that Educational Fee income was to be used exclusively for support of student financial aid and related programs. The Regents modified that policy in 1981 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.

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 methodology for setting annual Educational Fee levels.

University Registration Fee

The University's 2003-04 budget plan includes an increase of 6.5% or \$47 in the University Registration Fee. This increase is expected to generate about \$9.4 million in new revenue. The level of the fee increase included in the 2003-04 budget plan is based on the Partnership funding principles and will be re-evaluated if the state's fiscal situation further reduces the funding available to the University.

The Student Fee and Financial Aid Policy approved by The Regents in January 1994 permits the Registration Fee to vary across campuses. The University Registration Fee is a charge made to each registered student for services that are necessary to students but not part of the University's programs of instruction, research, or public service. Included in these services are activities such as counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students. Chancellors are authorized to determine specific allocations of Registration Fee income on their campuses, within appropriate University policies and guidelines. Each campus has a Registration Fee Committee, which includes a majority of student members, to advise the Chancellor on pertinent issues.

Because there have been no increases in mandatory systemwide fees and the reductions in mandatory student fees implemented in 1998-99 and 1999-2000

were not applied to the Registration Fee, the Registration Fee level has remained the same since 1994-95.

Fee for Selected Professional School Students

The University's 2003-04 budget plan includes an increase of 6.5% in the Fee for Selected Professional School Students, ranging from \$118 for Nursing students to \$418 for law students. This increase is expected to generate about \$3.3 million in new revenue.

Pursuant to the provisions of the 1990 State Budget Act, a Special Fee for Law School and Medical School Students of \$376 per year was implemented, effective as of 1990-91.

In January 1994, The Regents approved a Fee Policy for Selected Professional School Students. In approving the new fee policy, the University reaffirmed its commitment to maintain academic quality and enrollment in the designated professional school programs, and recognized that earning a degree in these programs benefits the individual as well as the state. The policy provides that the fee for each selected professional program is to 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. Professional school students pay mandatory systemwide fees and miscellaneous campus-based fees and, when appropriate, nonresident tuition. The Special Fee for Law and Medical school students is coordinated with the Fee for Selected Professional School Students. Display 4 (next page) shows the fee levels previously approved by The Regents, as well as the proposed fee levels for 2003-04.

In 1997, AB 1318 (Chapter 853) was enacted, which, among its provisions, specified a two-year freeze on fees for California residents, including those enrolled in graduate academic or professional school programs. Thus, the planned professional school fee increases for 1998-99 that were previously reviewed by The Regents were not implemented. Since that time, it has been the policy of the Governor and the Legislature to continue to avoid fee increases, including increases in professional school fees. As a result, professional school fees remain at the 1997-98 levels.

Display 4

| Fees for Selected Professional School Students Annual Fee Levels by Year of First Enrollment* | | | | | | |
|--|---|----------|----------|----------|-------------------|---------------|
| | Fees Previously Approved by The Regents | | | | Proposed Increase | New Fee Level |
| | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 2003-04 | |
| | | | | | | |
| Medicine | \$ 2,376 | \$ 3,376 | \$ 4,376 | \$ 5,376 | \$ 352 | \$ 5,728 |
| Dentistry | 2,000 | 3,000 | 4,000 | 5,000 | 328 | 5,328 |
| Veterinary Medicine | 2,000 | 3,000 | 4,000 | 4,000 | 262 | 4,262 |
| Law | 2,376 | 4,376 | 6,376 | 6,376 | 418 | 6,794 |
| Business | 2,000 | 4,000 | 6,000 | 6,000 | 393 | 6,393 |
| Riverside ** | 2,000 | 3,000 | 4,000 | 5,000 | 1,393 | 6,393 |
| Optometry | | | 2,000 | 3,000 | 197 | 3,197 |
| Pharmacy | | | 2,000 | 3,000 | 197 | 3,197 |
| Nursing | | | 1,500 | 1,800 | 118 | 1,918 |
| Theater, Film, & TV | | | 2,000 | 2,000 | 131 | 2,131 |

* In addition, professional school students pay mandatory Universitywide fees and miscellaneous campus-based fees.
 ** Riverside will also implement the last phase of the fee previously approved by The Regents.

Not only did the professional school programs refrain from increasing fees, but they also received no funds for cost increases associated with programs supported from these fees. The State Budget Acts of 2000 and 2001 recognized this disparity and included \$1.4 million and \$1.5 million respectively to provide cost increases for programs funded from Fees for Selected Professional School Students. The University's 2002-03 budget plan assumed that the State would again provide funding to avoid fee increases in professional, school fees. Unfortunately, the State's fiscal situation continued to deteriorate and, while there was no fee increase for the eighth consecutive year, the State was unable to provide the additional funds to the University to replace the revenue that an increase in these fees would have generated. The 2003-04 budget plan assumes State funding will not be provided for these costs and each of these fees will increase by 6.5%, the same rate of increase proposed for mandatory systemwide fees. The level of the fee increase included in the 2003-04 budget plan is based on the Partnership funding principles and will be re-evaluated if the state's fiscal situation further reduces the funding available to the University.

Display 5 shows 2002-03 professional school fees at the University of California in relation to the University's four public salary comparison institutions. Because most of the University's four public salary comparison institutions do not offer degree programs in Veterinary Medicine and

Display 5

**UNIVERSITY OF CALIFORNIA
2002-03 FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS**

| University of California | <u>Under-graduate</u> | <u>Graduate</u> | <u>Medicine</u> | <u>Dentistry</u> | <u>Veterinary Medicine</u> | <u>Law</u> | <u>Business Admin.</u> | <u>Optometry</u> | <u>Pharmacy</u> | <u>Nursing</u> | <u>Theater, Film & TV</u> |
|--|-----------------------|-----------------|------------------|------------------|--------------------------------|------------------|----------------------------|------------------|------------------|-----------------|-----------------------------------|
| Current 2002-03 Fees | | | | | | | | | | | |
| Educational Fee, University Registration Fee, and Average Miscellaneous Fees | \$ 3,882 * | \$ 4,936 | \$ 5,199 | \$ 5,610 | \$ 7,073 | \$ 5,035 | \$ 5,287 | \$ 4,201 | \$ 5,339 | \$ 5,094 | \$ 4,739 |
| 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 Fees for 2002-03 (excl. health insr.) | \$ 3,882 * | \$ 4,936 | \$ 10,575 | \$ 10,610 | \$ 11,073 | \$ 11,411 | \$ 11,287 | \$ 7,201 | \$ 8,339 | \$ 6,894 | \$ 6,739 |
| Comparison Institution Fees | | | | | | | | | | | |
| Current 2002-03 Fees | | | | | | | | | | | |
| <i>Public Salary Comparison Institutions</i> | | | | | | | | | | | |
| University of Illinois | \$ 6,704 | \$ 7,420 | \$ 21,716 | \$ 15,132 | \$ 12,564 | \$ 12,830 | \$ 15,284 | | \$ 11,730 | \$ 10,156 | \$ 7,420 |
| University of Michigan | \$ 7,960 | \$ 12,197 | \$ 19,919 | \$ 18,733 | | \$ 24,991 | \$ 27,687 | | \$ 15,241 | \$ 12,575 | \$ 12,197 |
| State University of New York | \$ 4,850 | \$ 6,153 | \$ 15,995 | \$ 13,015 | | \$ 11,605 | \$ 6,125 | | \$ 11,875 | | \$ 6,153 |
| University of Virginia | \$ 4,780 | \$ 5,661 | \$ 18,285 | | | \$ 20,627 | \$ 25,831 | | | \$ 4,650 | \$ 5,661 |
| <i>Additional Fee Comparison Institutions for Selected Programs</i> | | | | | | | | | | | |
| University of Alabama | | | | | | | | \$ 12,000 | | | |
| Michigan State University | | | | | \$ 12,800 | | | | | | |
| University of Minnesota | | | | | \$ 14,492 | | | | | | |
| University of Missouri | | | | | | | | \$ 16,752 | | | |
| Ohio State University | | | | | | | | \$ 10,995 | | | |
| University of Wisconsin | | | | | \$ 15,843 | | | | | | |
| <i>Average Public Comparison Institution</i> | | | | | | | | | | | |
| Total Fees | \$ 6,074 | \$ 7,858 | \$ 18,979 | \$ 15,627 | \$ 13,925 | \$ 17,513 | \$ 18,732 | \$ 13,249 | \$ 12,949 | \$ 9,127 | \$ 8,590 |
| <i>Private Salary Comparison Institutions</i> | | | | | | | | | | | |
| Harvard University | \$ 27,448 | \$ 27,448 | \$ 32,708 | | | \$ 29,500 | \$ 31,800 | | | | |
| Massachusetts Institute of Technology | \$ 28,230 | \$ 28,230 | | | | | \$ 32,470 | | | | |
| Stanford University | \$ 27,443 | \$ 27,204 | \$ 33,063 | | | \$ 30,880 | \$ 33,300 | | | | |
| Yale University | \$ 27,130 | \$ 22,330 | | | | \$ 31,400 | \$ 31,650 | | | | |

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

** Except the Riverside campus which charges \$5,000 per MBA student per year.

Optometry, additional public institutions are used for fee comparison purposes. While they are not used for fee comparison purposes, the table also shows the 2002-03 tuition and fees at the University's four private salary comparison institutions. The private comparison institutions do not offer all of the professional degree programs that UC offers; therefore the comparisons focus on medicine, law, and business administration.

In every case, the fees for resident students enrolled in these selected professional schools are lower than the average of the tuition and fees charged by comparable public institutions. The differential between UC fees for these programs and the tuition and fees charged at comparable public institutions has grown significantly over the past five years, ranging from \$2,233 in Nursing to as much as \$8,404 in Medicine. The greatest differentials are seen in Medicine, Business, Optometry, and Law but significant differentials are found in Dentistry and Pharmacy as well. Even with the proposed 6.5% increase in UC professional school fees, it is expected that the fees for resident students enrolled in these programs will remain lower than the average of the tuition and fees charged by comparable public institutions.

Due to a concern about the ability of students with high debt to pursue public interest occupations, some professional schools have developed programs to assist students in meeting their loan repayment obligations after graduation. The University will continue to monitor the debt levels of these students.

Nonresident Tuition

Consistent with the statewide policy on nonresident tuition, the University's 2003-04 budget plan includes an increase of 4% in nonresident tuition—a \$500 increase for nonresident undergraduates and a \$445 increase for nonresident graduate students. These increases are expected to generate about \$11.5 million in new revenue.

With the proposed increase in nonresident tuition, the University's total 2003-04 charges for nonresident undergraduate students will be \$18,007 (total includes health insurance fees). The University's total charges for nonresident graduate students will be \$16,952. These figures are less than the projected average of tuition and fees charged at the University's four public salary comparison institutions by \$599 for nonresident undergraduate students and \$1,202 for nonresident graduate students. Display 3 (depicted

earlier in this chapter) shows the 2003-04 projected average nonresident tuition and fees for students at the four public salary comparison institutions.

University of California students who do not qualify as California residents under Section 110.2, Matters Relating to Residency, of the Standing Orders of The Regents, are required to pay nonresident tuition. In addition to paying nonresident tuition, out-of-state students must also pay the Educational Fee, the Registration Fee, miscellaneous campus fees and, if applicable, the Fee for Students in Selected Professional Schools.

In May 1992, The Regents adopted stricter requirements for establishing residency for tuition purposes. This action allowed the University to be consistent with the federal definition of “financial independence” at that time and to give full weight to this factor in assessing whether undergraduate and graduate students should be classified as residents for tuition purposes. Effective fall 1993, students seeking classification as residents are considered financially independent if they are at least one of the following: at least 24 years old; a veteran of the U.S. Armed Services; married; a ward of the court; both parents are deceased; have legal dependents other than a spouse; a graduate student and not claimed on another’s income tax as a dependent for the immediately preceding tax year; or a single undergraduate student who is financially self-sufficient and who was not claimed on another’s income tax return as a dependent for the preceding two years.

State Policy on Adjustment of Nonresident Tuition

In 1988-89, the Legislature adopted Senate Concurrent Resolution 69 (Morgan) expressing its intent to adopt a long-term nonresident student fee policy. The resolution called on the California Postsecondary Education Commission (CPEC) to convene meetings of representatives from the University of California, the California State University, Hastings College of the Law, the California Community Colleges, the Department of Finance, the Legislative Analyst’s Office, and students, to develop recommendations for a long-term nonresident student fee policy. The Advisory Committee convened by CPEC issued a report in June 1989, which concluded with the following recommendation:

As California’s public postsecondary education segments annually adjust the level of nonresident tuition they charge out-of-state students, the nonresident tuition methodologies they develop and use should take into consideration, at a minimum, the following two factors: (1) the total nonresident charges imposed by each of their

public comparison institutions and (2) the full average cost of instruction in their segment.

Under no circumstances should a segment's level of nonresident tuition plus required fees fall below the marginal cost of instruction for that segment.

In addition, each segment should endeavor to maintain that increases in the level of nonresident tuition are gradual, moderate, and predictable, by providing nonresident students with a minimum of a ten-month notice of tuition increases. Each governing board is directed to develop its own methodology for adjusting the level of nonresident tuition, but those methodologies should be consistent with this recommendation.

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

Nonresident Tuition Levels Since 1987

Between 1987-88 and 1991-92, fees for nonresident students increased substantially, creating a significant differential between the University's total tuition and fees and those charged at other public institutions. In recognition of that differential, there were no increases in nonresident tuition during the five-year period 1991-92 through 1995-96, although there were increases in mandatory systemwide fees. Even though nonresident tuition did not increase during these five years, the number of students paying nonresident tuition declined in the early 1990s. Notwithstanding subsequent increases in nonresident tuition, the number of nonresident students paying the tuition fee began to rebound beginning in 1995-96. Consistent with the statewide policy on adjustment of nonresident tuition, The Regents have approved annual increases in nonresident tuition since 1996-97.

The *2002-03 Budget for Current Operations* included a proposal to increase the Nonresident Tuition Fee by \$428 (4%) for nonresident undergraduate and graduate students over the 2001-02 level. Because the State's fiscal situation continued to decline, the Governor and Legislature proposed additional actions to address the expected State budget deficit in 2002-03. Among those

actions was a proposal by the Legislature for an additional \$642 (6%) increase in the Nonresident Tuition Fee, for undergraduate students only, to help fund certain University outreach programs. At their July meeting, The Regents approved both proposals. The Regents also approved an additional \$235 (an amount equivalent to one academic quarter's share of an additional 6%, or \$706, annual increase), to be assessed in the spring term to undergraduate students only, to help defray the rising costs of employee health benefits. The entire \$706 increase will be included in the base undergraduate nonresident tuition rate for full implementation in 2003-04. To assist the campuses remain competitive in the recruitment and enrollment of graduate students, the additional \$706 increase was applied to nonresident undergraduate student charges only.

Display 6 (next page) shows the total tuition and fee charges for nonresident undergraduate students since 1978. Because mandatory systemwide fees have not increased since 1994-95, increases in the total tuition and fees charged to nonresident undergraduate students have been moderate, averaging about 5.4% since 1998-99, including the increase in 2002-03.

Miscellaneous Campus Fees

Other campus mandatory fees, also called miscellaneous fees, cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government and construction, renovation, and repair of sports and recreational facilities. The level of miscellaneous fees varies from campus to campus and between graduate and undergraduate students. Generally, students must vote to establish or increase campus miscellaneous fees.

Miscellaneous campus fees also include student health insurance fees. Between 1990 and 1991, graduate students at all UC campuses voted to establish a mandatory student health insurance fee. Effective fall 2001, The Regents require all undergraduate students to have health insurance. Students can purchase a health insurance plan from their campus or they can demonstrate they have such insurance from other sources and opt out of the campus health insurance plan. The coverage provided in the health

insurance plans and the fees to cover the cost of the premium are determined by each individual campus and, as a result, these fees are considered miscellaneous campus fees. Display 1 at the beginning of this chapter shows miscellaneous campus fees over time

Display 6

| UNIVERSITY OF CALIFORNIA TOTAL TUITION AND FEE CHARGES FOR NONRESIDENT UNDERGRADUATE STUDENTS 1978-2003 | | | | | | |
|---|---------------------------|---------------------|---------------------|----------------------|--------------------------------------|--|
| Year | Mandatory Systemwide Fees | Average Campus Fees | Nonresident Tuition | Total Fees & Tuition | Total % Increase in Tuition and Fees | |
| 1978-79 | \$ 671 | \$ 49 | \$ 1,905 | \$ 2,625 | -- | |
| 1979-80 | 685 | 51 | 2,400 | 3,136 | 19.5% | |
| 1980-81 | 719 | 57 | 2,400 | 3,176 | 1.3% | |
| 1981-82 | 938 | 60 | 2,880 | 3,878 | 22.1% | |
| 1982-83 | 1,235 | 65 | 3,150 | 4,450 | 14.7% | |
| 1983-84 | 1,315 | 72 | 3,360 | 4,747 | 6.7% | |
| 1984-85 | 1,245 | 79 | 3,564 | 4,888 | 3.0% | |
| 1985-86 | 1,245 | 81 | 3,816 | 5,142 | 5.2% | |
| 1986-87 | 1,245 | 100 | 4,086 | 5,431 | 5.6% | |
| 1987-88 | 1,374 | 118 | 4,290 | 5,782 | 6.5% | |
| 1988-89 | 1,434 | 120 | 4,956 | 6,510 | 12.6% | |
| 1989-90 | 1,476 | 158 | 5,799 | 7,433 | 14.2% | |
| 1990-91 | 1,624 | 196 | 6,416 | 8,236 | 10.8% | |
| 1991-92 | 2,274 | 212 | 7,699 | 10,185 | 23.7% | |
| 1992-93 | 2,824 | 220 | 7,699 | 10,743 | 5.5% | |
| 1993-94 | 3,454 | 273 | 7,699 | 11,426 | 6.4% | |
| 1994-95 | 3,799 | 312 | 7,699 | 11,810 | 3.4% | |
| 1995-96 | 3,799 | 340 | 7,699 | 11,838 | 0.2% | |
| 1996-97 | 3,799 | 367 | 8,394 | 12,560 | 6.1% | |
| 1997-98 | 3,799 | 413 | 8,984 | 13,196 | 5.1% | |
| 1998-99 | 3,799 | 428 | 9,384 | 13,611 | 3.1% | |
| 1999-2000 | 3,799 | 474 | 9,804 | 14,077 | 3.4% | |
| 2000-01 | 3,799 | 535 | 10,244 | 14,578 | 3.6% | |
| 2001-02 (excl. health ins.) | 3,799 | 430 | 10,704 | 14,933 | 2.4% | |
| 2001-02 (incl. health ins.) | 3,799 | 917 | 10,704 | 15,420 | 5.8% | |
| 2002-03 (excl. health ins.) | 3,799 | 453 | 12,009 | 16,261 | 8.9% | |
| 2002-03 (incl. health ins.) | 3,799 | 979 | 12,009 | 16,787 | 8.9% | |
| * Reflects partial implementation (\$235) of an additional 6% increase. The total 6% (\$706) increase will be included in the base for calculations of the 2003-04 fee level. | | | | | | |
| 2003-04 (excl. health ins.) | 4,048 | 453 | 12,980 | 17,481 | 7.5% | |
| 2003-04 (incl. health ins.) | 4,048 | 979 | 12,980 | 18,007 | 7.3% | |
| ** The base level for 2002-03 was \$12,480, reflecting the full additional 6% increase that was implemented in 2002-03, and was the basis for calculating the increase for 2003-04. | | | | | | |

Summer Instruction Programs

Fees also are charged for Summer Session courses and programs. As part of the 2000 Budget Act, the State provided \$13.8 million in funds to reduce Summer Session fees at all general campuses, on a per-unit basis, for UC-matriculated students enrolled in UC degree courses in summer 2001 and beyond to an amount equivalent to mandatory systemwide fees charged during the regular academic year. The 2001 Budget Act provided funding to begin phasing in State support for the summer at three general campuses—Berkeley, Los Angeles, and Santa Barbara. The 2002 Budget Act continues phasing in State support for summer by providing funding for the Davis campus. The University's 2003-04 budget plan includes the phase-in of State support for the remaining four general campuses; however, the extent to which this request is funded will depend on the State's fiscal situation. The plan to increase State support for summer instruction is discussed in more detail in the *General Campus Instruction* chapter of this document.

Self-Supporting Programs

In addition to the fees charged for regular degree programs, the University also charges fees for courses and programs in University Extension, and Self-Supporting Graduate and Professional Degree Programs. These programs are not supported by State funds and varying fees are charged to cover the costs of offering those courses and programs.

STUDENT SERVICES

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 386,499,000 |
| General Funds | -- |
| Restricted Funds | 386,499,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 11,820,000 |

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.

Student services programs were adversely affected by severe budget cuts during the early 1990s, when the University was forced to make reductions totaling \$433 million due to a fiscal crisis in the State. Those cuts have not been restored in the student services area. The strain on student services budgets has been exacerbated over time by the increasing demand for services to students with disabilities described later in this section. Many of the services those students require are very expensive and cause limited student services funds to be even more scarce.

Community Service

The University's community service activities range from traditional volunteer services (such as tutoring), in which students generally receive no remuneration or formal recognition, to activities in which students receive academic credit or a stipend. These activities may be student-run or

sponsored by the campus administration. Although student-run programs are often coordinated by registered student organizations and student governments (and thus may be supported to some degree by University student fee funds), they may just as likely be administered by interested and committed students with no special linkage to official student organizations. Programs administered by the campus administration generally have a higher profile, receive support from a variety of sources, and may be faculty sponsored. The most prominent of these are service-learning courses. These courses are reviewed and approved by the faculty through the Academic Senate of the campus. They link students directly with the academic curriculum of the department, college, or school, and provide students with both a formal in-class component and an out-of-class or fieldwork component designed to enhance and extend the in-class activities.

In July 1999, community service activities received greater public visibility when the Governor requested that the University of California, the California State University, and the California Community Colleges consider his call to establish a community service requirement for undergraduate students. In addition, the Partnership Agreement with the Governor includes an objective for the University to provide opportunities for all students to participate in community service or service learning activities.

There is broad support for community service within the University. The Academic Council developed several strategies to increase voluntary student public service at the University. These proposals offer ways to increase the visibility of public service programs among students, make participation possible among more low-income students who often cannot afford to participate in community service activities without compensation, focus on projects that present learning opportunities, and increase UC undergraduate student participation in community service from 33% of all undergraduate students in 1999-2000 to a goal of 66% or more by 2005-06.

Campuses are in the process of describing the range and scope of community service activities taking place, employing new ways to stimulate students to engage in community service, identifying quality indicators and best practices that can guide campuses in advancing and institutionalizing a range of quality public service activities for students, ensuring campus involvement in community service initiatives in the state and nation, clarifying the role of community service at UC, and establishing a set of recommendations for the long-term enhancement of service learning at the campuses.

Counseling and Career Guidance

Students may visit a counselor concerning such issues as scholastic performance, choice of major, personal concerns, assessing interests and aptitudes, or exploring long-range career opportunities. Group counseling is provided on many campuses. In addition, campuses sponsor career planning and placement services that provide students and alumni with assistance in defining their career objectives, teach job search skills, and promote 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 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 and Santa Cruz campuses have approved campus ballot initiatives requiring all students to have health insurance as a condition of attending the University. In September 2000, The Regents approved a proposal to require proof of health insurance coverage as a non-academic condition of enrollment for all University undergraduate students, effective with the fall term 2001. The requirement for health insurance is waived if students provide proof of comparable coverage.

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. Through *Pathways*, the University's Web-based application and advising system, prospective applicants can explore each campus, receive admissions and financial aid information, and initiate their application for admission by completing forms at the website. Students can also communicate online with University staff regarding admissions questions.

The Budget Act for 2001-02 redirected \$5 million in funding from longer-term school-university partnership outreach programs to provide support for several shorter-term programs, including \$750,000 for the comprehensive review of applications, contingent on the elimination of the two-tiered admissions system and the establishment of a unitary admissions review process. The comprehensive review policy, approved by The Regents in November 2001 and first effective for students applying to the University for fall 2002, encourages campuses to continue to place greatest weight on academic accomplishments while also reviewing the full range of qualifications an applicant presents and to consider these in the context of the student's educational and personal circumstances. Campuses are reading more files than in prior years and are looking at more information. This review requires more time for each individual applicant and, depending on the campus implementation approach, may also require gathering additional contextual information (for example, information about overall resources and achievement levels in the student's high school). The new funds provided for comprehensive review in 2001-02 were used to hire and train additional admissions readers. In addition, some campuses used the new funds to enhance the systems they use to manage applications and to gather and array additional contextual data on high schools. Comprehensive review is also discussed in the *General Campus Instruction* chapter of this document.

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. The University is committed to providing adequate financial aid as one means of ensuring that a student's financial circumstances do not preclude access to higher education. This is discussed in more detail in the *Financial Aid* chapter of this document.

Services to Students With Disabilities

State and federal laws require that the University provide to students with disabilities academic support services necessary to the pursuit of their studies. These services include readers for the blind, interpreters for the deaf, note-taker services, mobility assistance, tutors, provision of adaptive educational equipment, and disability-related counseling, among other services. The State has never fully funded services to students with disabilities at the University of California. Yet, these services are federally-mandated or otherwise unavoidable; the costs must be covered whether or not funds are provided by the State. In the absence of adequate State funds for this purpose, funds are redirected from other programs within student services in order to adequately fund this program. In 2001-02, the University provided services to approximately 5,100 students with disabilities and expended approximately \$5.6 million on these services.

STUDENT FINANCIAL AID

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 324,250,000 |
| General Funds | 68,938,000 |
| Restricted Funds | 255,312,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 25,628,000 |

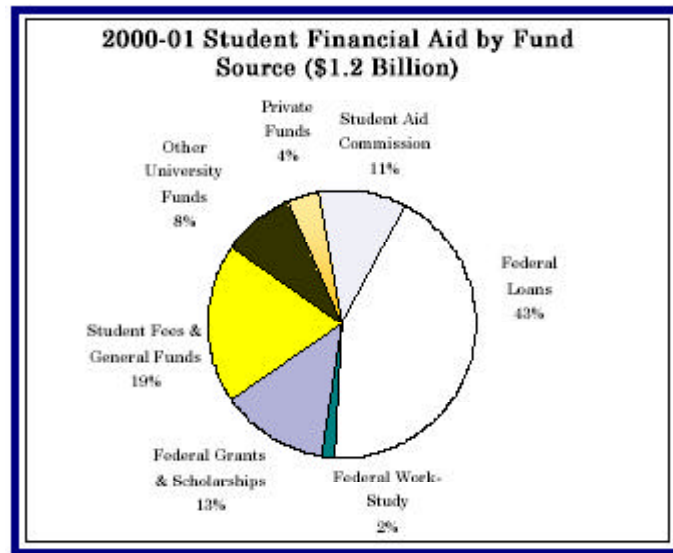
Financial aid plays an important role in making the University accessible to students. Inherent in such a role is the concern that financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree. This basic concern is at the heart of the University's Financial Aid policy.

Overview

UC students receive scholarships, fellowships, grants, loans, and work-study jobs to assist them in meeting the educational costs of attending the University such as fees, living expenses, books and supplies, and transportation. Financial assistance comes from four sources: the federal government; University funds, including student fees, State General Funds, endowments, and discretionary funds; the State's Cal Grant programs; and private agencies. University students received more than \$1.2 billion in student aid in 2000-01, the most recent year for which final data are available. Display 1 (next page) shows the proportion each fund source contributed to the total amount of financial support provided to UC students in 2000-01.

In 2000-01, about 59% of UC undergraduate students and 73% of UC's graduate students received financial aid. Over half (54%) of the financial aid UC students received was in the form of scholarships, grants and fellowships.

Display 1



Historically, the University has been committed to setting aside a portion of revenue from fee increases for financial aid for needy students. As fees increased over time and as the percentage of students with financial need increased, the percentage of revenue from fee increases dedicated to financial aid also increased, from 16% fourteen years ago to 33% at present. Current University policy requires that an amount equivalent to at least one-third of all new student fee revenue be set aside for financial aid. This policy was consistent with agreements in the four-year Compact with the Wilson administration and it has continued in the current Partnership Agreement with the Davis administration.

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

Display 2 shows total financial aid expenditures for 2000-01 by type of financial award and source of funds for each.

Display 2

| | Student Aid Commission | Federal | University Funds | | | Total |
|--|---------------------------|-----------------|--|------------------------------|------------------|-------------------|
| | | | State General Funds and Student Fees | Other University Funds | Private Funds | |
| Scholarships, Grants, Fellowships | | | | | | |
| Fell Grants | \$ - | \$ 101.5 | \$ - | \$ - | \$ - | \$ 101.5 |
| Cal Grant A | 75.4 | | | | | 75.4 |
| Cal Grant B | 48.6 | | | | | 48.6 |
| Other | 2.4 | 54.1 | 228.3 | 99.7 | 39.8 | 422.3 |
| Subtotal | 128.9 | 155.6 | 228.3 | 99.7 | 39.8 | 647.7 |
| Loans | | | | | | |
| Perkins Loans | | 29.8 | | | | 29.8 |
| FFELP/FFDSLP | | 483.8 | | | | 483.8 |
| Other | - | 4.2 | 8.0 | 1.8 | 11.5 | 19.8 |
| Subtotal | - | 517.8 | 8.0 | 1.8 | 11.5 | 532.9 |
| Work-Study | | | | | | |
| Federal | | 19.0 | | | | 19.0 |
| State | 1.2 | | | | | 1.2 |
| University | - | - | - | - | - | 0.1 |
| Subtotal | 1.2 | 19.0 | - | - | - | 20.2 |
| Total | \$ 127.5 | \$ 691.8 | \$ 232.4 | \$ 101.0 | \$ 48.1 | \$ 1,900.8 |
| Totals do not add due to rounding | | | | | | |

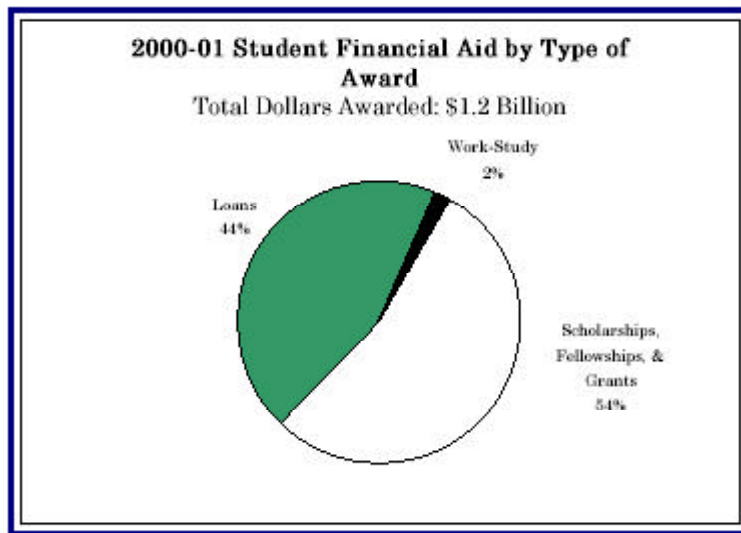
Unfortunately, the State's fiscal situation has deteriorated in recent years. As a result, the \$17 million "bonus" for financial aid was eliminated from the University's 2002-03 budget. The net change for 2002-03 to the University aid program, after accounting for adjustments related to enrollment increases, is a reduction of \$10.5 million. For 2003-04, fee revenue directed to financial aid will increase by a total of \$25.6 million—\$9.2 million, which is the equivalent of one-third of the fee revenue that will be generated by new students paying the fee, plus \$16.4 million, which is equivalent to one-third of the revenue generated from the 6.5% fee increase proposed for 2003-04.

In addition to setting aside at least one-third of new fee revenue for financial aid purposes, the University has supplemented financial aid with other University funds. Looking at all University fund sources, almost all of which is awarded in the form of grants, scholarships, and fellowships, funding for financial aid increased by 175% between 1990-91 and 2000-01.

The amount of financial aid provided in 2000-01 represents an increase of about \$76 million, or 6.7%, over the amount received in 1999-2000. Included in that increase was \$57 million in the form of additional grants, scholarships, and fellowships. The rate of increase in support for these types of assistance was more than double that for loan assistance.

Display 3 shows the proportion of total financial aid that was used for loans, work-study, and scholarships, grants, and fellowships.

Display 3



Financial aid totals for 2000-01 are the first to include aid administered for a State-supported summer term at UC. In accordance with the Partnership Agreement, campuses with State-supported summer programs are to provide financial aid packages to UC summer students that are comparable to students' academic year packages. At the four campuses now receiving State

support for summer instruction, the University has provided new University financial aid funds for summer awards that are generally comparable to University financial support levels for non-summer terms. Consistent with the practice for the academic year, one-third of summer fee revenue is directed to University student aid. While the University continues to advocate for the availability of equivalent non-University funding for summer students, federal policy restricts the University from offering federal grant assistance at an equivalent level for year-round students.

In addition, the University is developing a database to facilitate summer enrollment for financial aid recipients attending for the summer term at a campus other than their home campus. This database, known as the Intercampus Summer Enrollment (ISE) system, will allow UC campuses to share financial aid and enrollment information starting in the summer of 2003, thereby streamlining the summer enrollment process for UC financial aid recipients wishing to attend another UC campus.

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

Undergraduate Student Aid

Mandatory systemwide fees for undergraduate students were reduced by 5% in 1998-99 and an additional 5% in 1999-2000. Although fees decreased, the State did not correspondingly reduce associated financial aid in the University's budget until 2002-03, which allowed the University to increase slightly the average gift aid award for needy undergraduate students for several years. As a result, almost \$8 million in 1998-99 and \$17 million annually thereafter through 2001-02 was made available to reduce the work or loan requirements for students (these totals include aid provided to both undergraduate and graduate students).

The percentage of undergraduate students receiving some type of financial aid in 2000-01 was 59%. Financial aid awards for undergraduate recipients

averaged about \$9,675 in 2000-01. Fifty-four percent of undergraduate aid was awarded in the form of “gift” aid (scholarships, fellowships, and grants) rather than “self-help” aid (loans and work-study). About 73% of all undergraduate aid was awarded on the basis of financial need in 2000-01, reflecting the principle that undergraduate financial support is primarily intended to provide access to a University education for those students who otherwise would be unable to afford to attend. Non-need-based support comprised the remaining 27% of aid to undergraduates. The majority (74%) of non-need-based support is awarded in the form of loans, with scholarships comprising the remainder.

Graduate Student Aid

The financial support provided to graduate academic students is substantially different from that provided to graduate professional students. The largest proportion of aid awarded to graduate academic students is in the form of fellowships and grants. In contrast, the largest proportion of aid awarded to graduate professional students is in the form of loans. These differences are discussed below.

Graduate Academic Student Aid

Compared to undergraduate students, a greater proportion of graduate students receive financial support (73%), and typically their average annual financial aid award, which excludes research and teaching assistantships, is significantly higher. Because graduate students generally do not rely on parental support to meet educational costs and are more likely to have dependent family members, graduate students tend to have a greater need for financial support. Graduate students also generally incur higher educational expenses and have higher student debt.

The largest proportion of aid awarded to graduate academic students is in the form of fellowships and grants (79% in 2000-01), rather than loans and work-study. In addition to this aid, graduate students also receive significant financial support as teaching and research assistants. In 2000-01, approximately 18,500 graduate students received nearly \$293 million from such appointments. Assistantships form an important part of total financial support for graduate academic students, accounting for nearly 60% of their total financial support. In 2000-01, the per capita graduate

academic award from assistantships (\$12,178) exceeded the combined amount received from fellowships, grants, loans, and work-study (\$8,761).

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University today. This issue is discussed more fully in the *General Campus Instruction* chapter of this document.

Professional School Student Aid

In 1994, The Regents approved a Fee Policy for Selected Professional School Students, which was implemented beginning with the fall 1994 academic term. While some campuses have set aside more, the policy provides that an amount of funding equivalent to at least one-third of the total revenue from the fee be used for financial aid to help maintain the affordability of professional school programs. The majority of the funds are used for grant and fellowship awards with some funds set aside for loan repayment assistance programs.

The largest proportion of aid awarded to graduate professional students is in the form of loans (67%), rather than fellowships or grants. The differences in support patterns for graduate academic and graduate professional students reflect the contrasting approaches to graduate student support. Fellowship, grant, and assistantship support are viewed as more successful and loans less successful for recruiting and retaining doctoral students whose academic programs are lengthy and whose future income prospects are relatively low. In contrast, student loans are viewed as more appropriate for students pursuing professional degrees. These programs are relatively shorter and students' incomes have the potential to be substantially higher.

Education Financing Model

As discussed in the *Student Fees* chapter of this budget, UC fees increased significantly during the 1990s, largely due to major shortfalls in State funding for the University's budget. In January 1994, The Regents adopted a new University policy for setting fees that called for maintaining the affordability of the University and focused on providing enough University financial aid to maintain accessibility for all students.

As a result, the University developed the Education Financing Model, which is used to determine undergraduate student aid funding needs, allocate undergraduate aid funds among the campuses, and guide the awarding of aid

funds to undergraduate students. The Model is based on the following set of principles:

- the total cost of attendance (fees, living and personal expenses, books and supplies, and transportation) is considered in assessing funding needs, allocating aid funding, and awarding funds to students;
- meeting the costs of attending the University requires a partnership among students, their parents, federal and state governments, and the University;
- all students should be expected to make some contribution toward their cost of attendance through work and/or borrowing;
- students should have flexibility in deciding how to meet their expected contribution; and
- campuses should have flexibility in implementing the Model to serve their particular student bodies and are encouraged to supplement centrally distributed financial aid funds with their own resources.

The formula for determining the amount of grant aid needed is shown in Display 4.

Display 4

| Education Financing Model | |
|-------------------------------|--|
| Student Expense Budget | |
| <i>Less</i> | Reasonable Contribution from Parents |
| <i>Less</i> | Manageable Student Contribution from Working |
| <i>Less</i> | Manageable Student Contribution from Borrowing |
| <i>Less</i> | Federal and State Grant Aid |
| <i>Equals</i> | University Grant Aid Needed |

To meet the grant need determined by the Model, the University augments financial aid by an amount equivalent to at least one-third of any new fee revenue.

Student Expense Budget

The total undergraduate educational expenses associated with attending the University are considered in assessing need. These expenses include direct educational expenses—fees, books, and supplies—for a California resident, plus a modest allowance for living, transportation, and miscellaneous expenses. A uniform method is used by the campuses to determine standard undergraduate student expense budgets. The method recognizes regional variations in costs and in student spending patterns. Beginning in 1998-99, the undergraduate student expense budgets included a health care allowance, and since 2001-02, all campuses have a mandatory health insurance fee. In addition, as of 2000-01, the budgets also include a component for computer-related expenses (the purchase of a computer is not in the standard student budget although a student's budget can be adjusted if he or she is purchasing a computer).

Contribution from Parents

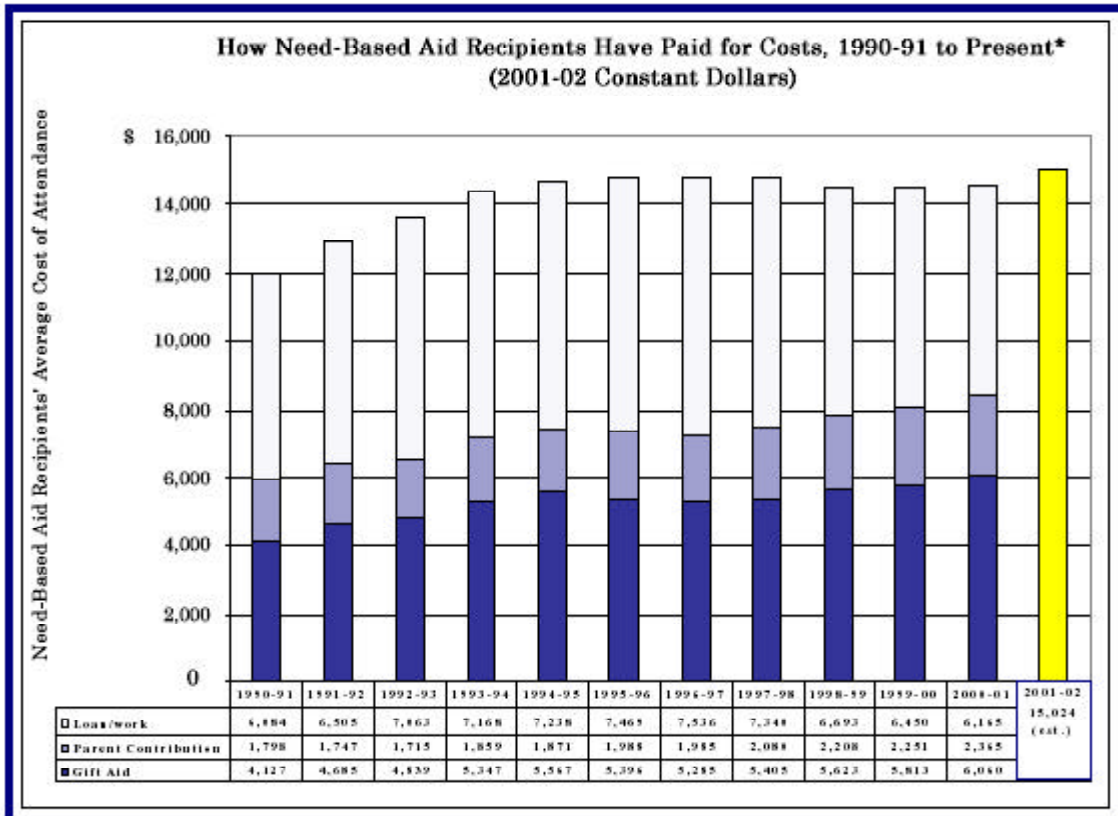
Parents are expected to help pay for the costs of attending the University if their children are considered financially dependent (all students are considered financially dependent unless they meet the requirements contained in the federal definition of independence). The amount of the parental contribution is determined by a federally mandated formula for determining need, which takes into account parental income and assets (other than home equity), the size of the family, the number of family members in college, and non-discretionary expenses. Particularly low-income parents have an expected contribution of zero. If parents do not contribute the amount expected under the federal need analysis standards, the student is expected to make up the difference through extra borrowing and/or work, or by reducing his or her expenses.

Contribution from Work and Borrowing

Students are expected to make a contribution to their educational expenses from earnings and borrowing. The expected contribution should be manageable so students are able to make steady progress toward completion of the baccalaureate degree and to meet loan repayment obligations after graduation. The Model includes ranges for loan and work expectations based on the University's estimate of the minimum and maximum manageable

loan/work levels. They are adjusted annually for inflation, and periodically for market changes in student wages and expected post-graduation earnings. As shown in Display 5, the amount students have had to contribute to their educational expenses from earnings and borrowing has declined in the last four years.

Display 5



Contribution from Federal and State Grant Aid

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

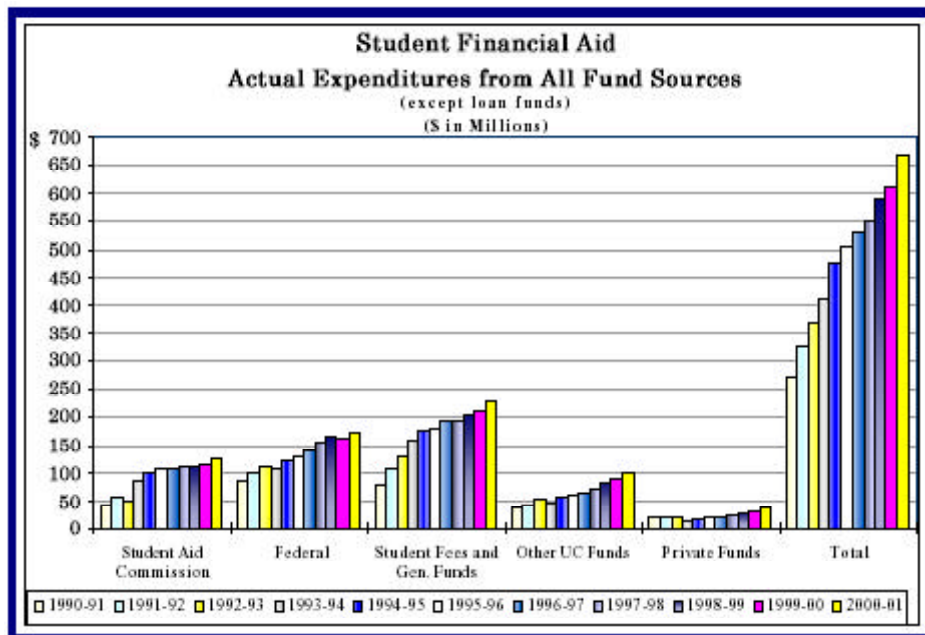
Campus-based scholarships and grants from gifts, endowments, campus discretionary funds, the Regents’ Scholarship Program, and scholarships and grants from outside agencies are excluded from the framework of the

Education Financing Model. These funds generally are used to reduce the loan and work expectations of students. The University began phasing in the Education Financing Model in 1997-98 and fully implemented the Model in 2001-02.

Fund Sources for Financial Aid

Display 6 shows the changes in financial aid expenditures (except loan funds) from various fund sources since 1990-91. Total funds increased dramatically over the ten-year period.

Display 6



Federal Aid

In 2000-01, UC students received \$691.8 million in federal financial aid, which represented approximately 57.6% of all support awarded during that year. The vast majority of federal aid was in the form of loans.

Overall, UC students received about 5% more of federally funded aid in 2000-01 than they received the previous year. A 7% increase in Pell Grant dollars going to UC students was fueled largely by a \$175 increase in the maximum

Pell grant in 2000-01. While federal loan volume increased at a slower rate (4%), the significance of the federal student loan programs is demonstrated by the fact that these programs continued to comprise three-quarters of all federally funded aid and nearly one-half (43%) of total financial support received by University students in 2000-01.

Taxpayer Relief Act of 1997 and Economic Growth and Tax Relief Reconciliation Act of 2001. The Taxpayer Relief Act (TRA) of 1997 implemented a number of new provisions that continues to affect UC students and their families. The Economic Growth and Tax Relief Reconciliation Act of 2001 extended eligibility for some of the TRA benefits and established some additional tax benefits. The TRA included reporting requirements for institutions of higher education, which impose significant administrative tasks on the University. To comply with the reporting requirements, the University contracted with an outside vendor to collect, maintain, and report the required data to the IRS and to students and their families. To assist them in claiming the credit, each student is provided access to the information mailed and reported via a secured web site, as well as a toll-free number to call with questions regarding the Act, the tax credits, the information reported to the IRS, and the financial amounts provided.

Hope and Lifetime Learning Tax Credits. The Taxpayer Relief Act of 1997 established two tax credit programs, which provide tax credits to qualified taxpayers for tuition and fees paid for postsecondary education. The Hope Tax Credit provides tax credits for payments made for students who are in their first two years of postsecondary education. The Lifetime Learning Tax Credit provides smaller tax credits, but taxpayers are not limited to payments made during the first two years of postsecondary education. In general, middle- and lower-middle-income students and their families benefit from the two tax credit programs, although the Economic Growth and Tax Relief Reconciliation Act of 2001 expanded eligibility for the program by increasing income ceilings.

In an effort to ascertain the benefit of the tax credits to UC students and their families, the University solicited and received a grant from the Lumina Foundation to survey UC students on their use of the Hope and Lifetime Learning Tax Credits. Of those students surveyed, 29% indicated that they had claimed either a Hope or Lifetime Learning Tax Credit for tax year 1999. Based on this information, the University estimates that UC students and their families received tax credits totaling nearly \$80 million in 1999.

- **Penalty-Free IRA Withdrawals.** Taxpayers may withdraw funds penalty-free from either a traditional Individual Retirement Account (IRA) or a Roth IRA for undergraduate, graduate, and postsecondary vocational education expenses. Previously, withdrawals from IRAs prior to retirement were subject to early withdrawal penalties. This provision permits students and their families to withdraw funds for educational purposes without penalty. This provision is intended to assist middle-income students and their families.
- **Education IRA.** The Economic Growth and Tax Relief Reconciliation Act of 2001 increased from \$500 to \$2,000 the maximum annual contribution to an Education IRA. Although contributions are not tax deductible, earnings on the IRA are tax-free and no taxes will be due upon withdrawal if used for qualified higher education expenses. The Education IRA is phased out for families with incomes between \$150,000 and \$160,000. This provision is intended to assist middle-income students and their families.
- **Student Loan Interest Deduction.** Taxpaying borrowers may take a tax deduction for interest paid on student loans (available even if the taxpayer does not itemize other deductions). While the original provisions limited the deduction to individuals in the first 60 months of repayment, the Economic Growth and Tax Relief Reconciliation Act of 2001 eliminated the limitation. Because eligibility for the deduction is phased out for taxpayers with higher incomes, middle-income and lower-middle-income borrowers with high debt levels are the primary beneficiaries of the reinstatement of the tax deduction of student loan interest.
- **U.S. Savings Bonds.** The interest on U.S. savings bonds is, in certain circumstances, tax-free when bond proceeds are used to cover eligible education expenses. Individuals who purchase Series EE or Series I bonds when they are at least 24 years of age, may withdraw bond proceeds tax-free if they are used to cover tuition, fees, or contributions to a qualified state tuition program, such as Scholarshare or an Education IRA. Eligibility for tax-free withdrawals is a function of income level when the bond is redeemed and is intended to assist middle-income students and their families.

Future Funding Prospects. As of this writing, federal support for student aid programs remains uncertain for 2003-04. However, given the nation's economic slow-down, it appears unlikely that there will be funding available

to expand support for federal student aid programs. Thus, any changes in programs and funding levels are anticipated to be small and expected to have only a marginal overall impact on UC students.

The Pell Grant Program is the federal aid program that has seen the most significant increases in funding in recent years. The maximum award for those recipients from the lowest-income families is \$4,000 for 2002-03, while it was \$2,700 only five years earlier. Any increases in the Pell Grant maximum award for 2003-04 are expected to be modest. Support for other federal programs—the Supplemental Educational Opportunity Grant Program, the Federal Work-Study Program, the Leveraging Educational Assistance Programs, and the Perkins Loan Program—will likely be flat.

Cal Grant Programs

California university and college students receive financial support from a number of State programs. These programs, administered on behalf of the State by the California Student Aid Commission, include the Cal Grant A, B, C, and T programs and the State Work-Study Program. These programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. In 2000-01, University of California students were awarded \$127.5 million in financial aid from all programs administered by the Student Aid Commission.

The Cal Grant Program provides undergraduates with “portable” financial aid that can be used at an eligible California institution of the students’ choice. Cal Grant Awards for recipients attending UC and CSU currently cover systemwide student fees.

Cal Grant funding for UC students grew by 10% in 2000-01 due to the increase in the number of new awards being made by the state and growth in UC undergraduate enrollment. Increases in Cal Grant funding for UC students in the preceding few years were modest because there had been no increases in mandatory systemwide fees since 1994-95 and undergraduate fees actually decreased in 1998-99 and again in 1999-2000.

The 2001-02 award cycle marks the first-year implementation of a newly reconfigured Cal Grant Program. The enactment of Senate Bill 1644 in 2000 replaced the existing Cal Grant A and B awards with Cal Grant A Entitlement Awards, Cal Grant B Entitlement Awards, California Community College Transfer Cal Grant Entitlement Awards, and

Competitive Cal Grant A and B Awards. In addition, a teaching service requirement was added to the Cal Grant T program.

In its first year, the reconfigured program resulted in a net decline in the number of new awards made to UC students. The new focus of the Cal Grant program on students entering college directly from high school resulted in about a 30% increase in the number of new awards made to UC students directly from secondary schools. However, this increase was more than offset by a decline in the number of new awards received by continuing students, who competed for a relatively small pool of Competitive Awards. The full impact of the changes to the program are unclear since statutory language for the program delays full implementation until 2003-04, when the first full cohort of students will be eligible for Transfer Entitlement Awards. The University anticipates that these awards will result in an increase in the number of students transferring to UC with Cal Grants and that full implementation of the program will allow the University's students to recover from the reduced number of new awards seen over-all in the first year of implementation.

Cal Grant A and B Entitlement Awards. These awards are given to students entering college directly from high school. Any California resident student graduating from high school is eligible to apply for an award through the Cal Grant Program. Awards are made based upon a student's financial need and grades, and they are made independent of a student's admission to a college or university. Once a student has received an award, the student may use the award to help pay college expenses at the eligible California institution of the student's choice.

Cal Grant A Entitlement Awards are used to help financially needy California residents pay tuition and fees at qualifying *four-year* institutions. If a student has qualified for an award, but decides to attend a California Community College first, the student may choose to hold his or her award in reserve for up to two years. (While at the community college, any student qualifying for a Cal Grant A Entitlement Award would be eligible for community college financial aid, such as the Board of Governors' Fee Waiver.) While the law specifies that the award can be held for a maximum of two years, the law also gives the California Student Aid Commission the ability to extend the time it may be held in reserve for an additional year, for a maximum of three years, if the Commission believes the rate of academic progress has been appropriate, given the student's personal and financial circumstances. To be eligible for a Cal Grant A Entitlement Award,

applicants must have a high school GPA of at least 3.0, have family income and assets below the established ceilings for this program, and have met the application deadline in the year following high school graduation.

First-year Cal Grant B Entitlement Award recipients receive a grant of about \$1,550 to cover a portion of “access costs,” which include transportation, books, supplies and other living expenses. Beginning with the second year, the award includes a tuition and fee award *in addition to* access costs at qualifying four-year institutions. To be eligible for a Cal Grant B Entitlement Award, applicants must have a high school GPA of at least 2.0, have family income and assets below the established ceilings for this program, and have met the application deadline in the year following high school graduation.

California Community College Transfer Cal Grant Entitlement

Awards. These awards are available to California residents attending a community college who were not awarded a Cal Grant A or B Entitlement Award within a year of graduating from high school but who, at the time of transfer to a qualifying four-year institution, have a community college GPA of at least 2.4, are under 24 years old, and have family income and assets below the same established ceilings as those for the Cal Grant A and B Entitlement Awards. The award amounts are the same as the Cal Grant A and B Entitlement Awards and will depend on the family income and assets determination.

The establishment of entitlement for the Cal Grant program will be of tremendous value in the outreach effort to convince prospective college students that there is funding available to help them attend college. Students who believe that there is financial support available to enable them to attend college are more likely to prepare themselves academically. In addition Entitlement Awards will significantly improve a student’s ability to develop a plan for meeting the costs of attending college—a student will know in advance that at least a Cal Grant will be available to help fund his or her educational costs through four years of college, whether he or she attends a four-year institution or attends a combination of community college and a four-year institution.

The new entitlement provisions will greatly expand the number of students who receive a Cal Grant award. While the former Cal Grant A program had a GPA cutoff that varied each year, the entitlement program’s GPA cutoff of 3.00 is lower than the cutoff had been in most recent years. While the former Cal Grant B program determined recipients based on a complex formula

accounting for such factors as GPA, family income, family size, and parents' education levels, the entitlement program is far simpler. Cal Grant B Entitlement Awards are available to all applicants with a minimum GPA of 2.0 and who have income and assets below established ceilings (which are lower than those for the Cal Grant A Entitlement program). Students attending CSU or a community college are most likely to benefit from the expanded program; however, students wishing to come to UC also will benefit to the extent that the new program facilitates transferring from a community college to UC.

Competitive Cal Grant A and B Awards. The law also establishes Competitive Cal Grant A and B Awards that provide additional awards beyond the Entitlement Awards. These Competitive Awards allow certain students with financial need who are not eligible for an Entitlement Award (for instance the student who has been out of high school for more than one year and missed the entitlement deadline) to compete for one of 22,500 additional Cal Grant Awards. Award recipients are selected on the basis of an index that gives special consideration to disadvantaged students. Half of the awards are reserved for students who enroll at a California Community College. The remaining half are available to all students, and while most of these go to CSU or a community college, some UC students benefit as well.

Scholarshare Trust College Savings Program

In addition to increasing support for the Cal Grant programs, the State also established a program to encourage all families, especially those from middle-income backgrounds, to embark upon a system of long-term savings for their children's college expenses. These families have been turning to borrowing in order to meet these costs. In response to this trend, the State created the "Scholarshare Trust College Savings Program," a tax-exempt college savings fund administered by the California State Treasurer. The program began in 1999.

The Scholarshare Trust manages individual accounts, which are pooled into large funds and invested in a number of different financial instruments by the State or its agent. Investments are capped so that the yield from the account does not exceed the projected education expenses at an independent college or university. Earnings from the investments are not taxed at either the federal or state level provided that they are used to cover qualified education expenses.

Governor's Scholars Program

Senate Bill 1688 (Chapter 404, 2000) established the Governor's Scholars Program, which provides a \$1,000 scholarship to each public high school student who demonstrates high academic achievement on certain standardized tests. The bill also established the Governor's Distinguished Mathematics and Science Scholars Program, which provides a \$2,500 scholarship to public high school students who also obtain a specified score on an advanced placement examination in calculus and an advanced placement examination in biology, chemistry, or physics. The intent of both programs is to provide an incentive for high achieving students to perform even better. It is anticipated that a high proportion of these scholarship recipients will attend UC.

University Student Fees and State General Funds

Approximately 37% of enrolled undergraduates and 56% of enrolled graduate students received some form of financial assistance from University aid programs. Educational Fee income is used to support both need-based and merit-based programs, while State General Fund income is statutorily restricted to the support of need-based financial aid. Display 6, which appears earlier in this chapter, shows the increases in financial aid expenditures from student fee revenue and State General Funds since 1990-91. The total amount of aid from student fees and State General Funds increased by about \$17 million to \$232.4 million between 1999-2000 and 2000-01.

In 1998-99, the State provided funds to reduce fees by 5% for resident undergraduate students. This was followed by a 5% reduction in fees for resident undergraduate and graduate students in 1999-2000. Both times fees were reduced, the State agreed that the University should retain financial aid at existing levels despite the fact that fees had decreased. This "bonus" totaled \$17 million, which was used to provide additional grant assistance and reduce the need for recipients to contribute to the cost of their education through work or borrowing.

In 2000-01 and 2001-02, the State provided sufficient revenue to the University to hold mandatory systemwide student fees and fees for professional school students at their 1999-2000 levels. Unfortunately, with the deterioration in the State's fiscal situation, the \$17 million "bonus" for financial aid was eliminated from the University's 2002-03 budget. The net change for 2002-03 to the University aid program, after accounting for

adjustments related to enrollment increases, is a reduction of \$10.5 million. For 2003-04, fee revenue directed to financial aid will increase by a total of \$25.6 million—\$9.2 million, which is the equivalent of one-third of the fee revenue that will be generated by new students paying the fee, plus \$16.4 million, which is equivalent to one-third of the revenue generated from the 6.5% fee increase proposed for 2003-04.

Other University Aid

In addition to the universitywide programs described above, University financial aid is also provided through various campus-based programs funded by endowment income, current gifts, repayments from University loans, and campus discretionary funds. In 2000-01, about \$101 million in University aid from these sources was awarded to students, of which nearly all (\$99.7 million) was awarded in the form of fellowships, scholarships, and grants.

Aid through Private Sources

Private agencies and companies also provide student financial support through scholarships and other forms of aid. Small scholarships from a student's local PTA or Rotary Club are reported here alongside traineeships and fellowships from private companies (e.g., Hewlett Packard and IBM) and associations and foundations (e.g., the National Merit Scholarship Foundation and the American Cancer Society). Nearly all funds in this category are awarded to students in the form of grant support. In 2000-01, more than \$48 million was awarded to UC students from private agency programs, which represented 4.0% of the financial support students received during that year.

INSTITUTIONAL SUPPORT

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 482,841,000 |
| General Funds | 335,937,000 |
| Restricted Funds | 146,904,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 4,137,000 |

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.

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, although more students mean, for example, more record-keeping related to students and employees, additional 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.

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. Specific examples of new workload requirements are: revised accounting standards by the federal Government Accounting Standards Board, federal A21 requirements regarding costing policies and practices, the Health Insurance Portability Act requirements for patient privacy guarantees and institutional oversight programs to assure compliance, and the California Medical Waste Act, which requires specialized handling of more research materials prior to disposal. Failure to comply with these mandates can often result in fines and penalties or more severe sanctions.

Institutional Support budgets, already constrained by historical underfunding, were further impacted by the State of California's fiscal problems in the early 1990s, when the University experienced severe budgetary shortfalls. As a result, University budgets were cut by \$433 million, or about 20% of the 1989-90 State-funded budget. Further base budget reductions totaling \$40 million occurred between 1995-96 and 1998-99, due to required productivity improvements under a four-year Compact between then-Governor Wilson and higher education. 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.

On the systemwide level, core administrative activities in the Office of the President were reduced substantially, including a 20% cut over the two-year period between 1993-94 and 1994-95. The Office of the President also experienced additional reductions related to the \$40 million in productivity improvements achieved by 1998-99.

Including all fund sources, Institutional Support expenditures declined from 12% of total expenditures in 1971-72 to 11.5% in 1983-84. From 1983-84 to 1991-92, the proportion fluctuated between 11% and 12%. By 2000-01,

Institutional Support expenditures as a percentage of total expenditures had declined to less than 10%.

Notwithstanding the substantial budget reductions in Institutional Support, investments in technology have enabled the University to make significant progress in increasing the efficiency of its operations while maintaining or improving services. Examples of cost saving procedures and activities include: systematically replacing high-volume and labor-intensive transactions such as payroll, personnel, purchasing, and reimbursements with online systems; allowing administrative units and academic departments to reduce administrative costs by sharing resources; renegotiating rate structures with various energy providers; using electronic tools to increase dissemination of information, ranging from course materials to news releases and job postings; and contracting with outside vendors for the management and disposal of hazardous wastes, which will result in large cost reductions.

As noted above, the four-year Compact with the Wilson Administration required productivity improvements of \$10 million per year for a total of \$40 million by 1998-99. Each year, the University reported on its ongoing efforts to streamline administrative processes and business practices, as well as plans to achieve the \$10 million of productivity improvements within all functions of the University. Productivity improvements applied both to academic and nonacademic activities.

The Partnership Agreement with Governor Davis also contains productivity provisions. The funding principles of the Partnership include a 1% increase to the prior year's State General Fund base each year for four years, with the funding to be committed to addressing permanent funding shortfalls in four critical areas of the budget: ongoing building maintenance, instructional equipment replacement, instructional technology, and library materials. The University estimates its total shortfall in these areas to be about \$150 million. State funds provided within the Partnership will eliminate over two-thirds of the shortfall. The remainder is expected to be funded through a redirection of resources at the campus level through productivity savings.

Unfortunately, achieving the goal of full funding for these critical programs has been delayed. Due to the State's deteriorating fiscal situation the Partnership has been underfunded for the last two fiscal years; no funds were provided in either 2001-02 or 2002-03 toward the shortfall in funding for core

needs. Once the State's fiscal situation improves and funding for core needs is resumed, the University will return to its plan to eliminate the funding shortfall in these core areas of the budget through Partnership funds and a redirection of University resources.

The University is very concerned about the impact of the State's present budget crisis on its academic programs. In consequence, the University is reallocating \$10 million over the next two years from Institutional Support and Academic Administration (which includes deans' and provosts' offices, and other administrative costs directly related to Instruction) to Instructional programs. It is the University's expectation that although funding for Institutional Support has declined in comparison to other University functions as workload has been increasing, advancements in technology and other productivity improvements will allow the University's administrative infrastructure to operate effectively.

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.

OPERATION AND MAINTENANCE OF PLANT

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 416,086,000 |
| General Funds | 366,490,000 |
| Restricted Funds | 49,596,000 |
| 2003-04 INCREASE | |
| General Funds | 28,900,000 |
| Restricted Funds | 861,000 |

The University maintains more than 95 million gross square feet of space at the nine campuses and the agricultural field stations. Of the total gross square feet, over 48 million square feet, or 50%, is maintained with State funds.

The University's teaching and research programs depend upon adequate facilities and are affected when systems in the buildings fail. A longstanding budget shortfall for ongoing building maintenance and the lack of permanent funds for facilities renewal and deferred maintenance have combined to create a serious deferred maintenance problem throughout the University. The limited availability of State capital outlay dollars for building and infrastructure renewal has also been a significant constraint, leaving the University with maintenance and renewal problems that cannot be adequately addressed with current resources.

Recognizing the magnitude of the budget problem and the fact that the State's fiscal situation is severely strained, the University is limiting its budget request for 2003-04 to full funding of the Partnership Agreement with the Governor, which includes the following:

- **Support for the operation and maintenance of new space.** A permanent increase of \$5.9 million is included to pay for the operation and maintenance of new State-supportable space that will come on line in 2003-04;

- **Increased funding for ongoing building maintenance.** An additional \$10 million is requested as part of a multi-year strategy to fully fund ongoing building maintenance;
- **Long-term financing of deferred maintenance projects for 2003-04.** The budget plan proposes to use \$6 million from the increase in UC General Funds expected in 2003-04 to pay for the long-term financing of the Deferred Maintenance Program; and
- **Restoration of \$7.1 million for the State deferred maintenance program.** The budget plan includes a proposal to restore \$7.1 million for the deferred maintenance program. These permanent funds were eliminated on a one-time basis in the 2002-03 budget.

Maintenance of New Space (\$5,900,000 Increase)

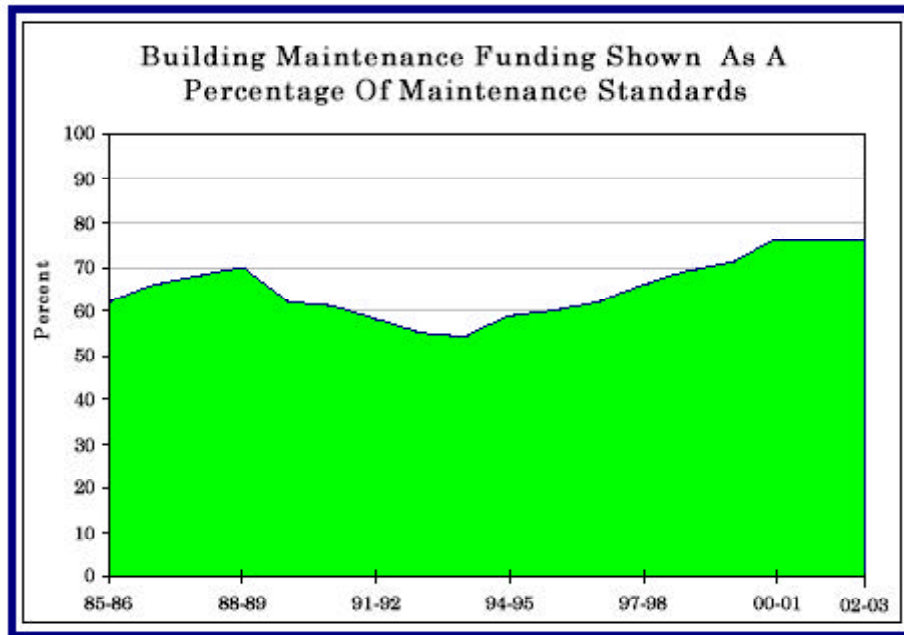
For 2003-04, \$5.9 million is requested to provide funds for approximately 650,000 square feet of additional space that will be occupied by programs eligible for State support. Several campuses have large facilities that will be coming on line in 2003-04; the most significant of these include Physical Sciences at Santa Cruz, Croul Hall at Irvine, and Natural Sciences at San Diego.

Ongoing Building Maintenance (\$10,000,000 Increase)

The University's 2003-04 budget plan includes a request for a \$10 million increase for building maintenance, consistent with the funding principles of the new Partnership Agreement with Governor Davis. Among those principles is the commitment to support a 1% increase to UC's General Fund base to address budget shortfalls in four core areas of the budget, including building maintenance. Display 1 shows the history of underfunding for Building Maintenance.

During the 1980s, the University worked with the California State University, the Department of Finance, and the Legislative Analyst's Office to develop workload standards to be used as the basis for determining the appropriate level of funding for the maintenance of the physical plant. Based on these standards, annual ongoing building maintenance has been

Display 1



chronically underfunded. In an attempt to provide a solution to the problem of inadequate funding for ongoing building maintenance, the Legislature proposed a plan to eliminate the annual shortfall in funding for ongoing building maintenance over a period of four years. The Legislature's plan proposed to augment the University's 1996-97 budget by \$7.5 million, to be matched one-to-one by University funds for a total increase of \$15 million. In each of the following three years, the University was to use State funds from within the Compact (the funding agreement with then-Governor Wilson) to increase the budget for building maintenance by \$7.5 million and to match this each year by an equal amount from the University. This plan was to have resulted in annual increases of \$15 million for ongoing building maintenance.

However, the Governor vetoed the \$7.5 million augmentation proposed by the Legislature in 1996-97 in order to provide an adequate reserve for the State. Notwithstanding this action, the University honored its commitment and funded \$7.5 million for building maintenance in 1997-98, and an additional \$6 million in 1998-99. Beginning in 1999-2000, the funding principles of the Partnership Agreement with Governor Davis called for annual increases to the ongoing building maintenance budget as part of the 1% increase to UC's General Fund base for chronically underfunded core areas of the budget.

Among the stated goals of the Partnership Agreement was the Governor's commitment to provide four years of augmentations to the funding base from within the Partnership for building maintenance (between 1999-00 and 2002-03), at which point the State was to have funded two-thirds of the annual shortfall in this area. The remainder of the shortfall was to be funded from a redirection of existing resources at the campus level.

Consistent with the Partnership funding principles, \$4 million was provided in 1999-2000 and \$4.5 million in 2000-01 from Partnership funds. However, due to the State's deteriorating fiscal situation, \$11 million in Partnership funds originally proposed for this program in the University's budget for 2001-02 and \$13 million in Partnership funds proposed for 2002-03 were not included in the University's final budget; this continued underfunding is of deep concern to the University. These funds are essential if the University is to maintain its assets and curb the growth in the deferred maintenance backlog.

Deferred Maintenance and Facilities Renewal
(\$6,000,000 Increase)
(\$7,100,000 Restoration)

Addressing the deferred maintenance and facilities renewal problem is one of the University's highest priorities. The University's 2003-04 budget plan includes the restoration of \$6 million from 2002-03 eliminated from the University's budget to provide for long-term financing of the deferred maintenance program. In addition, the University requests the restoration of \$7.1 million eliminated on a one-time basis from the University's 2002-03 budget. All of these funds will be used for critical, high-priority deferred maintenance projects.

A Long-Term Plan to Address the University's Facilities Renewal and Maintenance Needs

The University has developed a long-term funding plan to address its vast facilities inventory. To adequately maintain the University's physical plant, funding must be provided for four different, but related, purposes:

- **Ongoing building maintenance**—maintenance required for building systems on a regular basis in order to keep a building operational;

- **Facilities renewal**—annual need for replacement of building systems, as they approach the end of their useful life, i.e. wear and tear;
- **Deferred maintenance**—a category of need that exists because of unfunded ongoing maintenance and facility renewal, thus representing how far “behind” the University is at any point in time; and
- **Capital outlay for renovation and adaptation of obsolete facilities**—funding for major renovation of building structures and systems.

Inadequate funding for any one of these purposes will result in the deterioration of the University’s physical assets. Factors contributing to the existing deferred maintenance backlog and facility renewal problems include:

- inadequate funds for ongoing maintenance to properly maintain building systems and infrastructure;
- lack of systematic funding for facilities renewal;
- limited funds in the capital budget to address the replacement of building systems, and general resistance to using capital funds to address deferred maintenance; and
- aging facilities—nearly two-thirds of all State-supportable space was built before 1970, due to tremendous growth throughout the University during the 1950s and 1960s. The systems in these facilities, many of which are now 35 to 45 years old, are exceeding their useful lives.

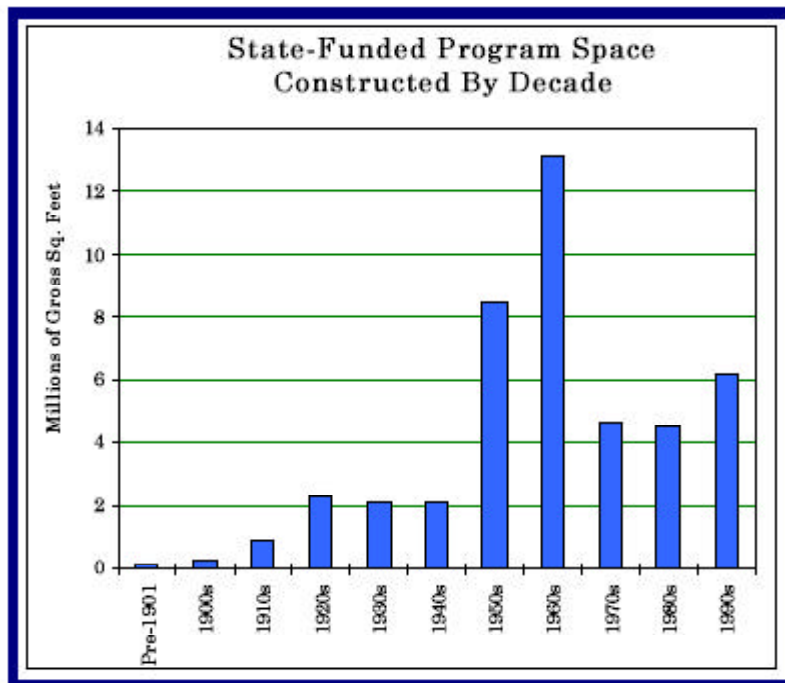
Discussions of facilities renewal and deferred maintenance tend to focus on buildings, but attention must also be given to the infrastructure that constitutes the major support systems for the campuses. These are extensive, complex systems that are costly to maintain or replace. Examples of infrastructure are utility systems such as electricity and water distribution systems, roads, sidewalks, and bridges.

The need for facilities renewal funding is driven by the normal use of building systems, which inevitably causes wear and tear on building systems to the point that their useful lives are exceeded and the systems must be replaced, regardless of how well they are maintained. Heating and ventilation systems, elevators, and roofs are a few examples of these systems. The useful lives of

these building systems have been shortened when proper and timely maintenance has not been available. For example, even though a building is designed to last 50 to 100 years, its roof will need replacement every 25 years, and its built-in equipment, such as fume hoods and cold rooms, will need replacement every 20 to 30 years.

Over time, unfunded facilities renewal turns into unfunded deferred maintenance. Once deferred, building and infrastructure systems still need to be replaced, but it becomes more costly, and continued deferral increases the need for emergency repairs. This leads to the deterioration of the capital assets and ultimately affects the quality of facilities provided for teaching and research. When laboratory and research space is outdated or in a substandard and deteriorated condition, the University's ability to attract and retain outstanding faculty and students is compromised. Display 2 illustrates by decade the growth in square footage of State-funded program space, specifically in the 1950s and 1960s, which impact the renewal and deferred maintenance critical path requirements.

Display 2



Identifying the Extent of the Problem

Funding for facilities renewal must be addressed in a systematic and predictable way if the University is to significantly reduce its current backlog of deferred maintenance projects, as well as stem the accrual of new deferred maintenance projects.

The University has needed a reliable, cost-effective method of determining its facilities renewal needs. Rather than applying a simple depreciation model, or relying on costly facilities audits, the University has chosen to develop a mathematical budget model that can be applied equitably across all facilities. The intent is to have an analytical tool to predict funding needs over time for facilities renewal, and to estimate the current backlog of deferred maintenance projects. Using this model, the University has been able to compile consistent and comparable data for all campuses at a lower cost than by the more traditional method of surveying facilities.

The model “de-constructs” a building into the systems that need to be renewed or replaced on a periodic basis, such as electrical equipment, plumbing systems, or roofs. The model estimates the year in which renewal will be required for each system based on the estimated life cycle of the system and the original construction date of the building. A different renewal cycle can be projected for each building component by profiling each building system, construction date, and projected renewal dates. The model can project annual renewal costs over any time period as specified—for example, 10, 25, or 50 years into the future.

With this model, the University has analyzed systemwide facilities renewal needs in order to develop appropriate funding strategies to best address the challenge of preserving the University’s physical assets. The University currently estimates that \$200 million is required annually to address facility renewals. In addition, over \$500 million is required to deal with the University’s highest priority deferred maintenance projects.

Funding History

Prior to 1994-95, the University’s budget included nearly \$20 million a year in permanent funding for deferred maintenance. While not sufficient to address the University’s deferred maintenance needs, it was a reliable and predictable source of funding. In 1994-95, the State and the University reached agreement on a plan that redirected this permanent funding to help limit fee increases to no more than 10%.

As a result of this agreement, the State authorized the University to use \$25 million in long-term financing in 1994-95 to pay for high priority deferred maintenance projects. A second authorization for \$25 million was included in the 1995-96 budget. Consistent with the agreement with the State, repayment of the debt is included in the University's State-funded budget.

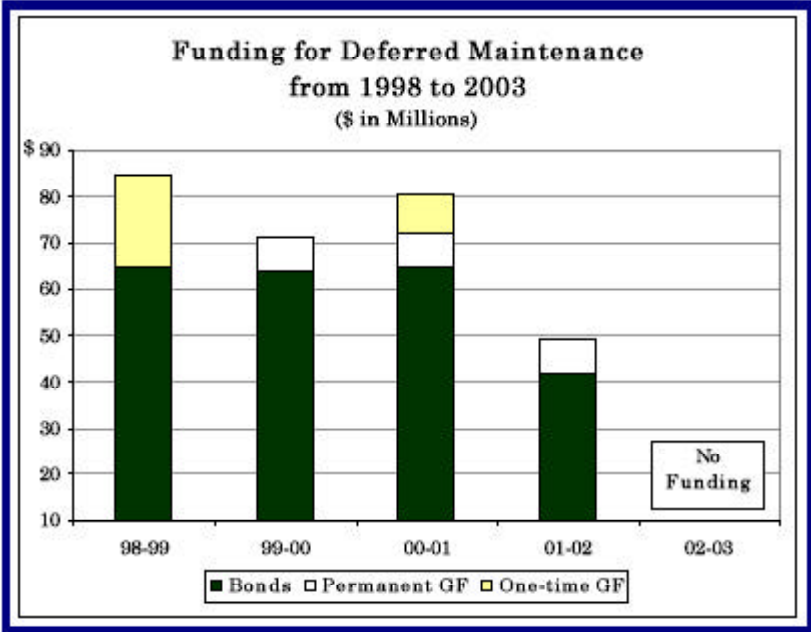
Since that time, deferred maintenance has been funded from a variety of sources, including one-time funding from the State, long-term debt financing through University sources, and a permanent State augmentation to the budget that occurred in 2000-01. The funding for each year is outlined below:

- The 1996 State Budget Act appropriated \$5 million in general obligation bonds for deferred maintenance, and the University used \$19 million of one-time University funds and excess UC General Funds for deferred maintenance.
- In 1997-98, the University again used \$7.9 million in excess UC General Funds for deferred maintenance.
- In February 1998, The Regents approved a new approach to deferred maintenance that provided significant levels of funding over the last several years. The program consisted of an annual issuance of 15-year bonds to be repaid by using a portion of the increase each year in UC General Funds. The Regents authorized the Treasurer to sell bonds that provided \$64.8 million for deferred maintenance projects in 1998-99. In that year, the State also provided \$20 million in one-time funds for high priority deferred maintenance projects.
- In 1999-2000, the State provided the University with a permanent General Fund increase of \$7.1 million in lieu of one-time funding for deferred maintenance. The University also continued its long-term financing program for deferred maintenance, providing another \$64 million in that year.
- In 2000-01, the State provided one-time funds of \$8 million and the University once again authorized long-term debt financing for deferred maintenance projects totaling \$64 million.
- In 2001-02, the funding provided through the University's long-term debt financing program decreased to \$45.5 million due to the underfunding of the Partnership. No one-time funds were provided from the State.

- In 2002-03, the long-term debt financing program was temporarily suspended. In addition, the final Budget Act included a one-time cut of \$29 million related to core needs, including \$7.1 million for deferred maintenance. The University's 2003-04 budget request assumes that this one-time cut will be restored.

Display 3 illustrates that over the last four years, approximately \$285 million has been generated for the most urgent deferred maintenance problems. This total includes permanent funds, long-term debt financing, and one-time State funds. While this infusion of funds has been significant, new projects are added to the list each year due to nearly a decade of insufficient funding for building maintenance, coupled with a lack of funding for systematic renewal of building components that wear out with normal use and require replacement on a periodic basis (while many University buildings may be designed to last from 50 to 100 years, certain components and systems within buildings require replacement two to three times during the life of the building).

Display 3



The University's deferred maintenance problem cannot be eliminated until ongoing building maintenance is adequately supported and funding is provided to address the costs associated with the predictable renewal of building and infrastructure systems before critical deficiencies develop.

Other Operation and Maintenance of Plant Functions

Janitorial Services

The 2003-04 budget provides funding at about 65% of the recommended standard for janitorial services. In 2002-03 this represented a \$22 million shortfall in funding. Under these circumstances, reasonable levels of cleanliness for both health and quality of life are difficult to maintain, particularly as the University faces increasing pressure to limit its options for delivering cost-effective services for its rapidly growing inventory of facilities. In the future, the University will consider improving the levels of funding for Janitorial Services as a part of the next Partnership Agreement.

Utilities Maintenance and Operations

The 2003-04 budget provides funding at about 70% of the recommended standard for utilities maintenance and operations. This shortfall in funding was over \$7.5 million in 2002-03.

Grounds Maintenance

The 2003-04 budget provides funding at about 60% of the recommended standard for grounds maintenance. In 2002-03, this represented a \$7 million shortfall in funding. Adequate grounds maintenance is an essential component of both safety and quality of life at the campuses.

Hazardous Materials and Toxic Site Remediation

The costs of disposing of hazardous materials are of continuing concern. Materials not formerly regulated by State and federal agencies are now defined as hazardous, and contribute to an increase in volume. Increasingly, stringent requirements have added to the costs of handling, treatment, and disposal. The remediation of contaminated sites is expensive and urgent, and often is mandated by State and federal regulatory agencies.

Purchased Utilities

The University experienced significant increases in purchased utility costs in 2000-01 and 2001-02 as a result of the statewide energy crisis. While the direct access contract with Enron Corporation largely protected most UC campuses from the volatility of statewide electricity rates until March 2002, the University paid substantially more for natural gas throughout 2000-01 and 2001-02.

The State provided the University with \$75 million for budget shortfalls for 2000-01 and 2001-02 to help offset the increased purchase utility costs; \$20 million of the funding provided was to be a permanent allocation. However, the mid-year budget cuts in 2001-02 eliminated \$25 million, which included all of the permanent allocation, leaving only \$50 million of one-time funding for this ongoing shortfall in the University's Purchased Utility budget.

The University continues to identify ways to mitigate this ongoing shortfall. To replace the Enron contract, which expired in March 2002, the University negotiated a "direct-access" contract in effect until June 2003 with Arizona Public Service Energy Services (APSES). While the rates are favorable, the University expects continued shortfalls in Purchased Utilities due to the existing and possible future Department of Water Resources and utility surcharges—ranging between \$500,000 to \$2 million annually—assessed to each campus that remains a "direct-access" customer. In addition, the campuses with co-generation facilities may pay a similar surcharge for producing electricity.

Campuses continue to implement energy-related projects to reduce consumption or to lower rates in anticipation of the energy crisis. These projects have ranged from the installation of energy efficient lighting fixtures, motors, and pumps, to large-scale projects such as energy-efficient co-generation facilities at the San Francisco, Los Angeles, and San Diego campuses. The University will continue to implement energy conservation measures.

AUXILIARY ENTERPRISES

| 1999-2000 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 506,924,000 |
| General Funds | -- |
| Restricted Funds | 506,924,000 |
| 2000-01 INCREASE | |
| General Funds | -- |
| Restricted Funds | 20,260,000 |

The University's primary goal in administering auxiliary enterprises is to support its academic mission with the highest levels of service. Auxiliary enterprises are self supporting services that are primarily provided to students, faculty, and staff. Student and Faculty Housing, Parking, and Bookstores are the largest auxiliaries. No State funds are provided for auxiliary enterprises; therefore, they must generate sufficient revenues to cover all of their direct and indirect operating costs. The annual budget is based upon income projections, and all budget increases are funded by corresponding increases in revenue.

During 1999-2000, revenue from auxiliary enterprises will be approximately \$506 million, and will be expended as follows: 60 percent for residence and dining services; 15 percent for parking operations; five percent for intercollegiate athletics; 15 percent for bookstores; and five percent for other expenditures.

Student Housing

The largest element in this budget program is student housing, comprised of approximately 37,599 residence hall and single student apartment bed-spaces and 5,916 student family apartments. Campus housing operations frequently include dining and recreation facilities. These facilities will provide capacity for about 43,515 students in 1999-2000. Due to high enrollments, the number of students accommodated will likely exceed stated capacities as a result of making triples out of rooms designed for two as well as modifying study areas into temporary quarters.

To enhance the quality of undergraduate education, the University strives to assure that affordable student housing is available. There are several issues that must be considered as housing plans to accommodate the growth are developed. A few of these housing-related growth issues are:

- Rapid and sustained increases in enrollment will challenge the ability of campus housing programs to meet commitments of guaranteeing housing for a certain portion of the students.
- Communities will be impacted if increasing numbers of students look for off-campus housing. Students will be affected if the availability of off-campus housing declines or becomes unaffordable.
- Housing facilities are heavily used during the Summer for accommodating Summer Session students, campus outreach programs, conferences, and orientation programs. Summer is also a traditional time for scheduling work to correct deferred maintenance and facility renewal problems, since it minimizes the disruption that would otherwise take place during the academic year.

For the past decade, campuses have provided housing to most entering freshmen. In the fall of 1998, there was heightened demand for student housing at some campuses because of an increase in the size of freshman classes, an increase in the numbers of transfer students, and an increase in demand from returning students to continue living on campus because of higher off-campus rents and/or lack of available rental units.

Although increased demand for student housing was acute at Berkeley, Los Angeles, San Diego, San Francisco, and Santa Cruz, the other campuses were able to accommodate students with less difficulty. All campuses housed freshmen and transfer students who met enrollment and housing deadlines. However, none of the campuses was able to accommodate all the continuing students who sought housing. This situation is predicted to continue.

Enrollment trends and off-campus market conditions are subject to rapid change while campus student housing stock changes at a much slower pace, and there is a continuous reassessment of student housing supply relative to projected demand.

By the fall 2003 term, should construction proceed as planned, the University will add 9,165 new spaces (both bed spaces and spaces in apartment units) to its existing housing stock, and will have space to accommodate 52,680 students.

Faculty Housing Programs

The California housing market is a continuing deterrent to faculty recruitment efforts, particularly of junior faculty. Various programs to alleviate this problem have been implemented since 1978. One of these programs provides rental housing to the faculty. The units are self-supporting without subsidy from student rental income, and are made available to newly appointed faculty on the basis of criteria established by each campus. There are currently 600 units available at seven campuses: Berkeley, Irvine, Los Angeles, San Diego, San Francisco, Santa Barbara, and Santa Cruz.

Home loan programs have provided mortgage loans with favorable interest rates and/or down payment requirements to 2,979 faculty members and other designated employees. In addition, the Salary Differential Housing Allowance Program has provided

1,188 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. Six campuses, in coordination with the Office of the President, have developed for-sale housing on land owned by the University. The land is leased to the purchaser of a unit built by a private developer. Resale restrictions control prices and determine eligibility for new buyers. The Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz campuses have completed or are in the process of completing projects which will provide over 1,000 units, including townhouses, condominiums, and single-family structures. No State funds are provided for faculty housing programs.

Parking

Another major auxiliary is the parking program with approximately 97,000 spaces for students, faculty, staff, and visitors.

PROVISIONS FOR ALLOCATION

| 2002-03 BUDGET | |
|-------------------------|----------------------|
| Total Funds | \$ 97,246,000 |
| General Funds | 62,819,000 |
| Restricted Funds | 34,427,000 |
| 2003-04 INCREASE | |
| General Funds | -42,639,000 |
| Restricted Funds | -- |

Provisions for allocation serve as a temporary repository for certain funds until final allocation decisions are made. For instance, funds allocated for fixed cost increases, such as salary adjustments (i.e., cost-of-living, parity, and merit increases), employee benefit increases, and price increases, are held in provision accounts pending final allocation. Fixed cost increases for 2003-04 are discussed in the *Program Maintenance: Fixed Costs and Economic Factors* chapter of this document. The 2003-04 budget reflects the reduction of one-time funds appropriated in the 2002-03 budget that are not available in 2003-04.

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

Rental Payments for Facilities Funded from Lease Revenue Bonds

Funds to pay for rental payments for University facilities constructed from lease revenue bonds were initially appropriated to the University in 1987-88. Under the conditions of this funding mechanism, the University contracts with the State to design and construct facilities, provides the State Public Works Board (SPWB) with a land lease for the site on which buildings will be constructed, and enters into a lease purchase agreement for the facilities with the SPWB. Annual lease payments are appropriated from State funds and used to retire the debt. At the end of the lease term, ownership of the facilities automatically passes to the University. In 2002-03, \$90.9 million was appropriated to the University for revenue bond lease payments.

Debt Service Payments for Deferred Maintenance Projects

In 1994-95 and again in 1995-96, the State authorized \$25 million in long-term debt financing to pay for high priority deferred maintenance projects involving the renewal or replacement of capital assets. All projects funded by this mechanism are required to have a useful life of at least 15 years. It was determined that the University should provide the financing and that funds to repay the principal and interest would be provided in future years in the annual State Budget.

The 1999 State Budget Act appropriated a total of \$5.1 million to pay for the principal and interest related to the 1994-95 and the 1995-96 deferred maintenance projects. The 2003-04 budget continues this level of funding.

2003-04 Funding Request

The University is working with the Department of Finance and the State Treasurer to determine the appropriate amount required in 2003-04 for debt service related to major capital projects funded by lease revenue bonds. Consistent with the Partnership Agreement, funding for these capital-related costs will be provided separately from the University's basic budget appropriation for operating support. The University will work with the Department of Finance to ensure that the correct amount of funding needed for the debt service, and related insurance premiums and State administrative costs, will be available in time to be included in the 2003-04 Budget Act.

Cost of Compliance with Recently Enacted Legislation

Among the provisions of the new Partnership Agreement with the Governor is the principle that funding for the cost of legislation enacted by the State should be provided in addition to funding provided for support of the University's basic budget within the Partnership. Each year the University identifies pending State legislation, which, if enacted, would generate additional costs. 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.

The University will continue to work with the Department of Finance to acquire funds needed to cover the cost of implementing recently enacted legislation.

PROGRAM MAINTENANCE: FIXED COSTS AND ECONOMIC FACTORS

| 2003-04 INCREASE | |
|-------------------------|----------------|
| General Funds | \$ 165,460,000 |
| Restricted Funds | 30,560,000 |

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.

2003-04 Budget Request

The University's request for a 2003-04 budget increase was calculated on a budget base of \$4.25 billion, which consists of programs that are funded from State and University General Funds and/or student fees (Educational Fee, Registration Fee, and the Fees for Selected Professional School Students). This funding base is consistent with those used for preparation of the University's past budgets and is the one used for review by the Department of Finance and the Legislature. Funds required for program maintenance in 2003-04 are summarized in Display 1.

Display 1

| Funds Required for Program Maintenance in 2003-04 | |
|--|---------------|
| <i>Requested within Partnership:</i> | |
| Merit salary increases for eligible employees | \$ 45,729,000 |
| Cost-of-living adjustments averaging 4.5% for employees on October 1, 2003 | \$ 92,691,000 |
| Employee health and dental benefit increases of 15% | \$ 28,300,000 |
| Price increase of 3% | \$ 29,300,000 |

Merit Salary Increases (\$45,729,000 Increase)

Funding for merit salary increases, which are increases based on satisfactory or better performance within existing salary ranges intended to reflect the market, is again among the University's highest budget priorities. The merit salary programs recognize and reward excellence and are critical to the preservation of the quality of the University.

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 additional funding required to finance 2003-04 merits is equal to 1.78% of the academic salary base.

Staff merit salary increases are also awarded on the basis of individual performance and are not automatic. Eligible employees are considered for a merit increase once a year. Many staff positions are only eligible for performance-based merit salary increases, which are funded from a pool created by combining funds for cost-of-living adjustments (COLAs) with those provided for merit increases. In 2003-04, the University will require an amount equal to 1.54% of the staff salary base to fund merits.

With the addition of related employee benefits, a total of \$45.7 million in State funds will be required to pay for merit increases in 2003-04.

Cost-of-Living-Adjustment Salary Increase on 10/1/03 (\$92,691,000 Increase)

The University's goal is to maintain market-based competitive salaries for its employees. This means providing sufficient funds, through a combination of merits and COLAs, to keep UC faculty salaries at the average of the salaries provided at the eight comparison institutions, and to provide salary increases for other employees that, on average, at least keep pace with inflation and the marketplace.

For 2003-04, the University is requesting funding within the Partnership for COLA salary increases averaging 4.5% for eligible faculty and staff employees, effective October 1, 2003. The cost of this increase, including related employee benefits, is \$92.7 million. Actual salary and benefit actions

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

As part of the State's actions to reduce the University's Partnership funding in the 2001-02 and 2002-03 budgets, the University lost funding that had been targeted for COLAs and parity increases for faculty and staff. As a result, the University was only able to fund a combination of merit and COLA increases averaging 2% for faculty and staff in 2001-02 and merit increases of 1.5% in 2002-03.

It is estimated that salaries for faculty are likely to lag the average of the University's comparison institutions in the current year by about 7.5%, based on the California Postsecondary Education Commission (CPEC) methodology for calculating this average. The University estimates it will have a similar gap with respect to staff salaries, related to the lack of salary funding in the early 1990s and in the last two years. As a result, staff salaries are behind where they otherwise would have been, on average, by about 7.5%.

There is considerable concern within the University about its ability to recruit and retain high quality faculty and staff as the institution continues to lose ground in terms of its ability to offer competitive salaries.

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

The salary increase requested for 2003-04 is also critical for staff employees. This funding will provide market-based adjustments needed to help restore salaries for those critical employee groups that are lagging the market to levels that are more competitive. The University received no funding for COLAs for three years in the early 1990s; before 2000-01, the University's salaries were about 6% behind what they would have been if employees had received 2% COLAs annually in the early 1990s. The 2000-01 Budget Act provided an additional \$19 million in recognition of this historical imbalance, which was distributed in a manner that provided lower-paid employees earning \$40,000 or less with a salary increase of 2%, while employees earning between \$40,000 and \$80,000 received a 1% increase. These increases were

over and above the regular merit increases and COLAs provided to University employees.

The \$19 million provided in 2000-01 was to be the first part of a multi-year plan to make up for the lack of salary increases in the early 1990s and provide more competitive salaries to University staff employees in the coming years. With the additional \$19 million increase in 2000-01, the gap between what University employees would have received with normal increases throughout the decade and what they did receive was reduced to about 4%. Unfortunately, further ground was lost in the 2001-02 and 2002-03 budgets when the Partnership was underfunded.

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

Market lags for police officers are a particular concern for the University this year. As safety considerations have become paramount since the tragedies of September 11, 2001, all jurisdictions, including the State of California, have recognized and addressed the need to increase salaries for safety personnel. Salary increase funding in recent years has been insufficient to remedy the ever-increasing, double-digit lags in police officer salaries. These lags have resulted in severe recruitment and retention problems for University police officers, jeopardizing the University's ability to adequately respond to safety issues. In recognition of the need to maintain and enhance the University's safety programs, the University proposes to use \$580,000 above the general cost-of-living funds provided in 2003-04 to provide officers with a 5% market parity adjustment.

Funding for salary increases is among the University's highest priorities for 2003-04. Moreover, it is the University's expectation that when the State's fiscal situation improves, the Partnership funds eliminated from the 2001-02 and 2002-03 budgets will be restored, allowing the University to bring faculty and staff salaries back to competitive levels.

***Academic and Staff Employee and Annuitant Benefits
(\$28,300,000 Increase)***

The University is requesting funds to provide a 15% increase in funding for health and dental insurance for its employees. Notwithstanding the success of the University in reducing the cost of health benefits in recent years, and a continuing commitment to efforts to control costs, the University is impacted by California and nationwide trends toward dramatically increasing employee health benefit costs in recent years; they are expected to increase by 20 – 25% next year. Providing adequate resources for employee benefits is an essential component to the University's overall ability to offer competitive compensation packages to its employees, especially given the very limited salary increase funds that have been available to the University in recent years. The cost of these increases in employee health and dental insurance costs is expected to be \$28.3 million in 2003-04.

For annuitant benefits, the University is requesting funding that is equivalent to the funding provided for the State's annuitants. The Department of Finance traditionally calculates these costs based on the most recent available data and, consistent with the principles of the Partnership, provides the funding separately. Thus, estimates of the rise in actual costs related to annuitant benefits are not included in the Regents' Budget at this time.

Provision for Price Increases (\$29,300,000 Increase)

The University is requesting \$29.3 million, a 3% increase, to offset the impact of inflation on non-salary budgets and maintain the University's purchasing power. Although the University purchases many commodities, whose expected cost increases exceed current inflation estimates, the request for funding is limited to a 3% increase to stay within funding available under the Partnership. Recent economic forecasts are projecting an overall inflation rate of about this level.

Increases significantly greater than 3% are anticipated for several major commodities. Based on an annual report from campus libraries and industry sources, such as *The Bowker Annual* for 2002, the University anticipates increases of about 8.2% for subscriptions and 6.9% for serial services. Subscriptions and serial services represent more than 65% of the library materials budget, and the purchase of library materials is one of the largest expenditures made each year. The University will also experience higher cost increases for other commodities, such as equipment, and liability and

property insurance. The University incurs substantial cost for all of these items.

Productivity Improvements

The University remains committed to, and continues to work toward, achieving productivity improvements. Consistent with the Partnership Agreement with the Governor, savings that result from these efforts will be reallocated to meet funding shortfalls in high priority areas, including instructional equipment replacement, ongoing building maintenance, instructional technology, and library materials.

UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS

| 2002-03 BUDGET | |
|-------------------------|-----------------------|
| Total Funds | \$ 161,187,000 |
| General Funds | -- |
| Restricted Funds | 161,187,000 |
| 2003-04 INCREASE | |
| General Funds | -- |
| Restricted Funds | 10,164,000 |

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.

Federal Reimbursement

All federal contract and grant activity generates costs which are divided into two basic categories—direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting a specific contract or grant. These costs are charged directly to individual contracts or grants. Indirect costs are those expenses which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The University Opportunity Fund and the Off-the-Top Overhead Fund derive from this reimbursement.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University General Funds and is used, along with State General Funds, to help fund the University's basic budget. The remaining 45% is the source of the University Opportunity Fund. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated.

In 1990, the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities, the related infrastructure, and financing of these projects. Under the provisions of the legislation, the University is authorized to use 100% of the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintain the facility. Any reimbursement received in excess of what is needed to finance and maintain the facility is allocated as previously described. Of the 23 projects approved by the Legislature to be financed in this manner, 11 have been completed, 1 received gift funding and was removed from the program, and 11 are in the planning and construction stages. Among those in the planning stage are 7 new projects that are part of the California Institutes for Science and Innovation program.

Off-The-Top Overhead Fund

The Off-the-Top Overhead Fund is used to support administrative costs related to federal contract and grant activity in areas such as campus contract and grant offices, academic departments and Organized Research Units (ORUs).

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 these funds.

Research

Campuses often use their University Opportunity Fund allocations to enhance their faculty recruitment efforts by providing support for such research needs as laboratory alterations, equipment, research assistants, fieldwork, and debt service for new buildings. The adequacy of funding for these and other basic research needs has a substantial impact on the success of efforts to recruit and retain high-caliber faculty. The level of research support that can be offered is often a pivotal factor in the success of efforts to recruit 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. In the physical and natural sciences, it is not unusual for the University to provide several hundred thousand dollars in research support in the recruitment of a faculty member.

Research support is also critical in retention of distinguished faculty members, who regularly receive attractive offers from other institutions. Department chairs report that it is difficult, and occasionally impossible, to replace key faculty members lost to other institutions with scholars of equal stature. Loss of a faculty member disrupts both the instructional and the research programs of the University. The future of the University is dependent upon the quality of its faculty. The use of the University Opportunity Fund for the recruitment and retention of distinguished faculty members helps to secure that future.

Since 1970, The Regents have used University Opportunity Funds to provide core support for high priority systemwide research programs not adequately funded from other sources. Such programs include the Keck Observatory, the Energy Institute, and the Institute for Mexico and the United States. Some campuses use a portion of the University Opportunity Fund allocation as seed money for a continued and selective expansion of their research programs. They also use University Opportunity Funds in combination with State and other University funds to address the special needs encountered by individual faculty members in the conduct of research, such as funding for equipment and supplies, text preparation, research assistants, and fieldwork and travel.

Instruction

Allocations for instruction are designed to provide continuing incentives to explore new instructional approaches and programs. Innovative instructional activities are essential for maintaining dynamic, high quality academic programs. The Education Abroad Program is typical of those funded. This Program furthers students' academic progress and enhances their communication skills, cultural enrichment, and understanding of the contemporary world through intensive involvement in a different culture. University Opportunity Funds help to support guest students on University campuses who are here as a result of reciprocal arrangements with foreign institutions that are hosting University of California students. This is an essential part of the operation of the Education Abroad Program, but is not supported by State funds.

Some campuses use University Opportunity Funds to provide support for programs designed to give special recognition to excellence of undergraduate instruction or to support course evaluations to give faculty the feedback needed to improve teaching. In all, about \$12.5 million is allocated annually to support instructional activities.

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, such as administrative computing, and environmental health and safety.

Funds are also provided under Institutional Support to maintain and improve the University's capabilities to attract external funding, primarily from private sources. Such programs have been funded since the mid-1960s from a combination of various funds. Support is provided to meet alumni and development data processing requirements and for management information systems. Allocations from the University Opportunity Fund also provide support for the University's public safety, and staff and management development programs.

Department of Energy Laboratory Management Fee

Contracts for University management and oversight of the Department of Energy National Laboratories at Berkeley (LBNL), Livermore (LLNL) and

Los Alamos (LANL) provide compensation to the University for its management of the Laboratories. The compensation for federal fiscal year (FY) 2003 will be as follows:

1. Reimbursement of actual costs for support of the Office of the Vice President for Laboratory Management in an amount not to exceed \$7.4 million. The increase from the previous limit of \$6.6 million in FY2002 compensates for the projected number of personnel and salary levels.
2. Reimbursement of indirect costs associated with management of the Laboratories that are incurred by the University. The amount for FY2003 is set at \$10.4 million. Annual contract indirect payments are distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. The \$10.4 million is budgeted as UC general fund income and helps to fund the University's operating budget.
3. Payment of performance management fees of up to \$16 million annually, dependent on the Department of Energy's evaluation of performance at the three Laboratories. The existing contract for managing LBNL ended on September 30, 2002. On July 31, 2002, DOE announced its intent to enter into negotiations to extend the contract to September 30, 2007. The new contract might contain some changes in the way the size of the fees are determined. The maximum amount is not expected to change.

These performance management fees are used to cover costs related to audit disallowances at the Laboratories, other federally-unreimbursed costs incurred in the course of contract performance, and to support two University research program funds—the Complementary and Beneficial Activities (CBA) Fund and the University of California Directed Research and Development (UCDRD) Fund.

Complementary and Beneficial Activities (CBA) Fund

The CBA Fund provides for academic activity considered to be “complementary and beneficial” to the University, Los Alamos and Lawrence Livermore, and the DOE. Lawrence Berkeley has a strong collaborative effort with the UC campuses, but does not participate in the CBA-funded programs. CBA activities include a variety of institutes and programs for UC students

and research fellowships for faculty and graduate students. The CBA fund is administered by the University of California Office of the President.

Supported activities include two Multi-campus Research Units: the Institute of Geophysics and Planetary Physics (IGPP) and the Institute for Global Conflict and Cooperation (IGCC). In addition, UCOP conducts competitive solicitations for direct collaborations between the UC campuses and Lawrence Livermore and Los Alamos national laboratories through its two programs funded through the CBA Fund, described below.

Campus-Lab Collaborations Program (CLC). The CLC Program was established in 1994 to facilitate greater scientific cooperation between the UC campuses and the defense laboratories. The program provides seed money to encourage non-traditional long-term collaborative research programs. New awards granted in 2001 totaled approximately \$2.0 million for the first two years of a three-year grant program. Five projects were funded in areas as diverse as medical imaging, advanced research in semiconductors, and innovative use of radiocarbon dating for the study of global climate processes. A new competitive solicitation will be published in 2003.

Campus-Laboratory Exchange Program (CLE). One-third of the CLC Program funding was set aside in 2001 to establish a new initiative, the Campus Laboratory Exchange (CLE) Program. The CLE Program funds shorter term projects but requires greater exchange of faculty, Laboratory staff, students, and postdoctoral students between the defense laboratories and the campuses. Five projects were selected for the second year of the program.

UC Directed Research and Development (UCDRD) Fund

The UCDRD Fund is used to support research and research-related activities. Certain uses of the Fund are particularly encouraged by the University, such as collaborative research performed with UC faculty, post-doctoral students, and graduate students, and research that could lead to long-term growth and health of the laboratories and the University. All three UC-managed national laboratories participate in activities supported by the Fund. Selection of the projects funded by the UCDRD is at the discretion of each laboratory director or his designee; the UC Office of the President provides oversight of the UCDRD Fund.

Lawrence Livermore National Laboratory Programs (LLNL).

At LLNL, support from the UCDRD Fund is invested in a variety of areas. Efforts and programs funded include “mini-grants” to UC faculty and students for research with LLNL institutes; instrumentation for the Lick and Keck Telescopes; support for the joint UCD-UCM-LLNL Edward Teller Education Center; five University-LLNL institutes; and collaborations with Historical Black Colleges and Universities.

Los Alamos National Laboratory Programs (LANL). At Los Alamos, the UCDRD Fund supports several programs. The Collaborative University-Los Alamos Research (CULAR) Program supports joint LANL-UC campus research in areas that match the Laboratory’s core competencies in materials, earth and environmental systems, and bioscience and biotechnology. In FY2001, the CULAR program supported 30 projects. The UC Research Partnerships Initiatives (UCRPI) supply seed funds for collaborations that are of strategic importance to Los Alamos and that have significant potential for attracting external funds. There were 23 UCRPI collaborations in FY2001. Los Alamos also has similar UCDRD Fund supported programs with four New Mexico universities. In FY2001, a total of 13 of these projects were supported.

Lawrence Berkeley National Laboratory Programs (LBNL).

LBNL has utilized the UCDRD Fund to promote the development of new collaborative programs and to recruit or retain associated faculty researchers. Examples from the past year include: commissioning of 12 new beamlines for intermediate energy x-ray experiments at the Advanced Light Source; purchase of a camera to support 3-dimensional imaging of chromosomal activity; seed funding for the development of innovative new energy-efficiency programs; and the purchase of a high-performance computer to provide a testbed for the National Energy Research Scientific Computing Center and campus collaborations. UCDRD funds also provided continuing support for the France-Berkeley fund, which aids joint UC Berkeley and French educational and research projects.

INCOME AND FUNDS AVAILABLE

General Fund Income and Funds Available

The programs described in this budget document will require General Fund resources in 2003-04 of \$4 billion, including \$3.5 billion in State General Funds, and \$470 million in University General Funds. University General Funds are comprised of nonresident tuition, a portion of the federal indirect cost reimbursement, overhead on State agency agreements, and income from the application for admission and some other smaller fees.

Nonresident tuition will produce \$203.5 million in University General Fund income. This income estimate is based on the 2003-04 nonresident tuition level proposed in this budget and on the number of students expected. In addition, the application fee and a number of smaller fees will produce University General Fund income totaling \$19.5 million.

Overhead on State agency agreements totaling \$10 million will be used to help fund the University's budget.

Federal Indirect Cost Reimbursement

All federal contract and grant activity generates costs, which are divided into two basic categories—direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting a specific contract or grant. These costs are charged directly to individual contracts and grants. Indirect costs are those expenses that cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not directly charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The basis for this reimbursement is arrived at through a series of complex negotiations between the University and the federal government that result in indirect cost rates that are then applied against contract and grant activity.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, approximately 20% of the reimbursement accrues directly to the University for costs related to

federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. It is estimated that \$85.8 million will be provided from this source in 2003-04.

The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University General Funds and is used, along with State General Funds, to help fund the University's budget. It is estimated that \$190.2 million will be provided from this source in 2003-04. The remaining 45% is the source of the University Opportunity Fund, estimated to be \$155.4 million in 2003-04. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated. Expenditures from the University Opportunity Fund are discussed more fully in the *University Opportunity Fund and Special Programs* chapter of this document.

In addition, in 1990 the State approved legislation allowing the special use of incremental indirect cost recovery generated by research activities in certain new research facilities. Under the legislation (SB 1308, Garamendi), 100% of the reimbursement can be used to pay for construction and ongoing maintenance of the research facility. In such a case, the designated indirect cost recovery is taken off the top of the total indirect cost reimbursement before any other split is made.

Contracts for University management and oversight of the Department of Energy National Laboratories at Berkeley (LBNL), Livermore (LLNL) and Los Alamos (LANL) provide compensation to the University for its management of the Laboratories. The compensation for federal fiscal year (FY) 2003 will be as follows:

1. reimbursement of actual costs for support of the Office of the Vice President for Laboratory Management in an amount not to exceed \$7.4 million. The increase from the previous limit of \$6.6 million in FY2002 compensates for the projected number of personnel and salary levels.
2. reimbursement of indirect costs associated with management of the Laboratories that are incurred by the University. The amount for FY2003 is set at \$10.4 million. Annual contract indirect payments are distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. The \$10.4 million is budgeted as UC general fund income and helps to fund the University's operating budget.

3. Payment of performance management fees of up to \$16 million annually, dependent on the Department of Energy's evaluation of performance at the three Laboratories. The existing contract for managing LBNL ended on September 30, 2002. On July 31, 2002, DOE announced its intent to enter into negotiations to extend the contract to September 30, 2007. The new contract might contain some changes in the way the size of the fees is determined. The maximum amount is not expected to change.

These performance management fees are used to cover costs related to audit disallowances at the Laboratories, other federally-unreimbursed costs incurred in the course of contract performance, and to support two University research program funds. The UC Directed Research and Development (UCDRD) Fund supports high priority research needs at the Laboratories, with emphasis given to collaborative research with the campuses. The Complementary and Beneficial Activities (CBA) Fund fosters collaborative research efforts between the Los Alamos and Livermore laboratories and the UC campuses. These programs are further described in the *University Opportunity Fund and Special Programs* chapter of this document.

Restricted Fund Income and Funds Available

Other State Funds

In addition to State General Fund support, the University's budget for current operations includes \$77.5 million in appropriations from State special funds including, for example, \$22 million from the California State Lottery Education Fund, \$19.4 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program, and \$14.7 million for the Breast Cancer Research Program, also funded from the Cigarette and Tobacco Products Surtax Fund. Also included in State special funds is \$480,000 for the Breast Cancer Research Program appropriated from the Breast Cancer Research Fund, which derives revenue from the personal income tax check-off.

Student Fees

The 2003-04 budget plan assumes a fee increase of 6.5% in mandatory systemwide student fees to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue. This figure represents the average percentage increase in student fees or

equivalent revenue that would have been generated over the two-year period of 2002-03 and 2003-04 if student fees had increased both years at the rate of increase for California per capita personal income, consistent with the funding principles of the Partnership. Based on the number of students expected to enroll, income from mandatory universitywide fees (Educational Fee and University Registration Fee) is currently projected to be \$755.8 million in 2003-04.

Income from the Educational Fee is used to support student services, student financial aid, and a share of the University's operating costs, including instruction, libraries, operation and maintenance of plant, and institutional support. Income from the University Registration Fee is used to support counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students.

UC student fees increased substantially during the early 1990s, largely due to major shortfalls in State funding for the University's budget. As discussed in the *Financial Aid* section of this document, financial aid grew substantially as well during this time. There have been no increases in the Educational Fee or the University Registration Fee since 1994-95; in fact, these fees have been reduced by 10% for California resident undergraduate students and 5% for California resident graduate academic students.

The University's 2003-04 budget plan includes an increase of 6.5% in the Fee for Selected Professional School Students, ranging from \$118 for nursing students to \$418 for law students. In 2003-04, income from the professional school fees will be approximately \$50.8 million, based on the number of students expected to enroll and the fee increase included in the 2003-04 budget plan. An amount equivalent to at least one-third of the revenue will be used for financial aid. Remaining fee income will be used to support the professional school programs. Fee income can be used to hire faculty and teaching assistants as well as for instructional and computing equipment, libraries, other instructional support, and student services. University student fees are discussed in detail in the *Student Fees* chapter of this document.

Income from University Extension fees paid by nearly 400,00 registrants supports the largest continuing education program in the nation. Extension is entirely self-supporting and its programs are dependent upon user demand.

As part of the 2000 Budget Act, the State provided sufficient funds to reduce Summer Session fees for summer 2001 and beyond to an amount equivalent, on a per-unit basis, to mandatory university-wide fees charged during the regular academic year. This was done with the expectation that summer session enrollments will increase to accommodate a portion of the University's projected enrollment growth. A full discussion of State-supported summer instruction is included in the *General Campus Instruction* chapter of this document.

Teaching Hospitals

The University's academic medical centers generally receive three types of revenue: (1) patient service revenue, (2) other operating revenue, and (3) non-operating revenue.

- Patient service revenues are charges for services rendered to patients at a medical center's established rates, including rates charged for inpatient care, outpatient care, and ancillary services. Major sources of patient service revenue are government-sponsored health care programs (i.e., Medicare, Medi-Cal and the California Healthcare for Indigents Program), commercial insurance companies, contracts (e.g., managed care contracts), and self-pay patients. The rate of growth in revenues has slowed significantly in recent years due to fiscal constraints in government programs and the expansion of managed care.
- Other operating revenues are derived from the daily operations of the medical centers as a result of non-patient care activities. The major source is Clinical Teaching Support, provided by the State to help pay for the costs of the teaching programs at the medical centers. Additional sources of other operating revenue are cafeteria sales and parking fees.
- Non-operating revenues result from activities other than normal operations of the medical centers, such as interest income and salvage value from disposal of a capital asset.

Medical Center revenues are used for the following expenses: salaries and benefits, supplies and services, depreciation and amortization, malpractice insurance, interest expense, and bad debts. Remaining revenues are used to meet a medical center's working capital needs, fund capital improvements, and provide an adequate reserve for unanticipated downturns. The *Teaching Hospitals* chapter of this document discusses the history of the financial problems confronting the medical centers and how those problems have been and will continue to be addressed.

In 2003-04, expenditures of hospital income for current operations are projected to increase by \$153.9 million or about 5%. The main reasons for the increase are: 1) an increase in patient activity, 2) growth in labor costs, especially due to new labor contracts, and 3) the increase in the cost of pharmaceuticals.

Sales and Services

Income from sales and services of educational and support activities is projected to total \$765 million in 2003-04. This includes income from the health sciences faculty compensation plans and a number of other sources, such as neuropsychiatric hospitals, the veterinary medical teaching hospital, dental clinics, fine arts productions, publication sales, and athletic facilities users.

Endowment

The Treasurer of The Regents invests endowment and similar funds. The vast majority of these funds participate in the General Endowment Pool (GEP) or in the High-Income Pool (HIP). The GEP portfolio is designed to promote capital growth in line with or in excess of the rate of inflation, along with steady increases in income. The HIP portfolio is designed to produce a relatively high and stable level of current income.

In 1998-99, The Regents changed the methodology for calculating the amount available for expenditure from funds invested in the GEP. From 1958 through 1997-98, the procedure had been to generate payments to the endowed activities based only on income generated. Income at that time was defined as dividends, interest, rents, royalties and the like. Under the new methodology as approved by the Regents, and depending on the recommendations of the President and the Treasurer, each year the GEP will pay out up to 4.75% of the 60-month moving average of the market value of a unit invested in the GEP. Each year, campuses are able to use up to a maximum of 15 basis points (0.15%) of the total payout amount to support endowment administrative costs. In 1998-99, The Regents approved a payout rate of 4.35% for expenditures in 1999-2000, an increase of 9.1% of the amount available for expenditure in 1998-99. The Regents will be asked to approve a payout rate of 4.5% for expenditure in 2003-04, an increase from 4.45% in 2002-03.

The amounts shown in the Endowment category on the Income and Funds available schedule at the end of this chapter represent the expenditure of the

payout distributed on endowments and similar funds. Endowments require that the principal be invested in perpetuity with the income or approved payout used in accordance with terms stipulated by donors or determined by The Regents.

In the ten-year period between 1991-92 and 2001-02, actual expenditures from endowments increased by over 162%. The University is projecting expenditures of \$152.9 million in 2003-04.

Auxiliary Enterprises

Auxiliary enterprises are non-instructional support services provided primarily to students in return for specified charges. Programs include residence and dining services, parking, intercollegiate athletics, bookstores and faculty housing. No State funds are provided for auxiliary enterprises. Budget increases for each service are matched by corresponding increases in revenue. Revenue from auxiliary enterprises is projected to increase from \$613.9 million in 2002-03 to an estimated \$644.6 million in 2003-04.

Extramural Funds

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

Research

For 2003-04, extramural research funding is projected to be \$2.13 billion, including \$1.47 billion of federal funds. Federal funds are the University's single most important source of support for research, accounting for approximately 51% of all University research expenditures in 2001-02. While UC researchers receive support from virtually all federal agencies, the National Institutes of Health and the National Science Foundation are the two most important, accounting for approximately 73% of the University's federal research contract and grant awards in 1999-2000.

In the decade between 1982-83 and 1992-93 federal support for research at the University grew dramatically. With a commitment to research established as a national priority by both President Clinton and the Congress,

annual federal research expenditures increased by an average of almost 10% during this period. After 1992-93, however, the focus of the federal government was on deficit reduction. While research expenditures continued to increase, the rate of growth slowed. Between 1992-93 and 1995-96 federal research expenditures at the University increased by an average of about 4% per year, and in 1996-97 there was no increase over the previous year. However, progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in continuing gains for federal research programs; the University's federal research expenditures increased by 7% in 1997-98, by nearly 9% in 1998-99, by 9.5% in 1999-2000, by 8% in 2000-01, and by 8.6% in 2001-02.

While final decisions regarding research funding are yet to be made, the recognized link between research and the economy, and between research and national security, will likely result in support for research funding. The longer-term outlook is more uncertain. The Congress and the President will have finished their 5-year commitment to double the NIH budget, making large increases in research funding less likely without the driving force of 15% increases to the NIH budget each year. On the other hand, there is an effort underway among some in the Congress to double NSF's budget over the next five years. The projected \$1.47 billion of federal funds for UC in 2003-04 represents a 7% increase over the estimated 2002-03 budget.

In addition to the funding of research contracts and grants, federal funds entirely support the Department of Energy Laboratories, for which the University has management responsibility. In 2003-04, this support is projected to be approximately \$3.93 billion.

Student Financial Aid

In 2000-01, UC students received \$691.8 million in federal financial aid, including \$155.6 million in gift aid and the remainder in the form of loans and work-study. Overall, UC students received about 5% more in federally-funded aid in 2000-01 than they received in the previous year. The significance of the federal loan programs for UC students is demonstrated by the fact that these programs comprise three-quarters (75%) of all federally funded aid and nearly one-half (43%) of the total financial support received by UC students in 2000-01. Federal aid also assists undergraduate and graduate students through a variety of other programs. Needy students are eligible for federally-funded grant programs such as Pell Grants, and they may seek employment under the College Work-Study Program, where the federal government subsidizes up to 75% of the student employee's earnings.

A 7% increase in Pell Grant dollars going to UC students was fueled largely by a \$175 increase in the maximum Pell grant in 2000-01. Graduate students receive fellowships from a number of federal agencies such as the National Science Foundation and the National Institutes of Health.

The *Student Financial Aid* chapter of this document discusses these and other financial aid programs. It also discusses the potential impacts on federal financial aid that could result from a slowing economy and the effects of the Economic Growth and Tax Relief Reconciliation Act of 2001.

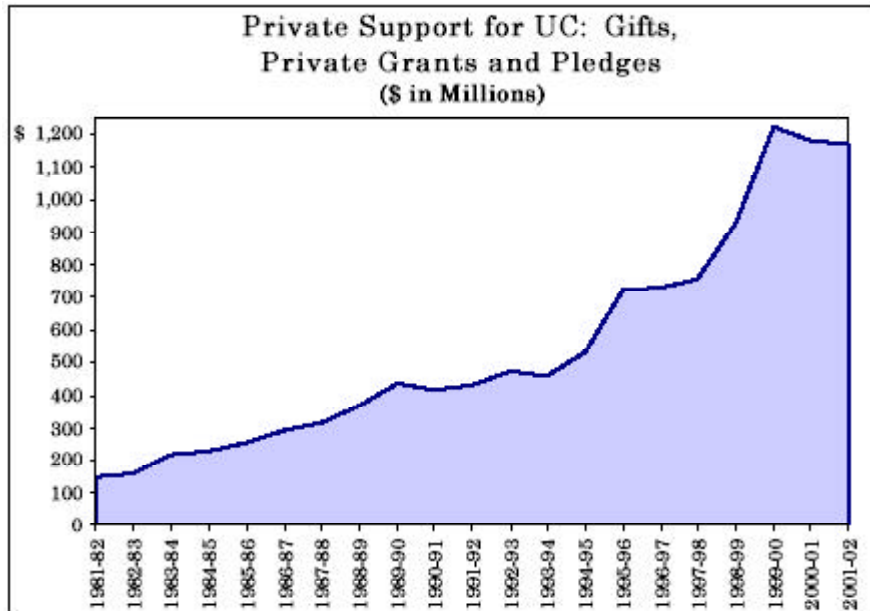
Private Funds

Gifts and private grants are received from alumni and other friends of the University, campus-related organizations, corporations, foundations, and other nonprofit entities; private contracts are received from for profit and other organizations. For 2003-04, expenditures from gifts and private contracts and grants to the University are estimated to be \$768.1 million, an increase of 2% over projected 2002-03 expenditures. Expenditures have increased by over 125% in the ten-year period between 1992-93 to 2002-03.

The University continues to aggressively seek and develop non-State revenue sources, particularly private funds. After six record-setting years of growth, the receipt of gifts, private grants, and pledges declined somewhat during the last two years. As shown in the Display (next page), in 2000-01, alumni and other supporters committed just under \$1.2 billion in gifts, grants, and pledges to the University. The 2001-02 total represents a 4.3% decrease from 1999-2000, when donors contributed slightly over \$1.2 billion to support UC's instruction, research and public service programs. These declines in funding from private sources are the first since 1993-94.

Donors in 2001-02 directed \$497.7 million (42.5%) of support to University operations; \$241.5 million (20.6%) to campus improvement; and \$407.7 million (34.8%) to endowments. Of the total donations in 2001-02, \$566.6 million (48.4%) was specified for use in the health sciences. Just over 98% of the private support was restricted by the donors as to purpose, which underscores the need for continued support from the State and Federal governments.

Display 1



Private support for the University is derived from a number of sources. In 2001-02, gifts and grants from non-alumni individuals totaled \$278.5 million; from private foundations \$460.6 million; corporations, \$186.2 million; alumni, \$159.9 million; and campus organizations and other sources, \$86.6 million.

The University's remarkable achievement in obtaining funding in recent years is a testament to UC's distinction as the leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations, and other supporters hold the University. Additionally, the results underscore the continued confidence among donors in the quality of UC's programs and the importance of its mission. At the same time, this year's private support totals reflect the changes in the economy and financial markets, the effect of which is likely to be evident in private giving to the University in 2003-04.

INCOME AND FUNDS AVAILABLE
(\$000s)

| | <u>Estimated</u> <u>2002-03</u> | <u>Proposed</u> <u>2003-04</u> | <u>Proposed</u> <u>Changes</u> |
|---|------------------------------------|-----------------------------------|-----------------------------------|
| STATE APPROPRIATIONS | | | |
| General Fund | \$ 3,223,982 | \$ 3,513,945 | \$ 289,963 |
| Special Funds | <u>77,509</u> | <u>77,509</u> | <u>--</u> |
| TOTAL, STATE APPROPRIATIONS | <u>\$ 3,301,491</u> | <u>\$ 3,591,454</u> | <u>\$ 289,963</u> |
| UNIVERSITY SOURCES | | | |
| General Funds Income | | | |
| Student Fees | | | |
| Nonresident Tuition | \$ 173,040 | \$ 203,500 | \$ 30,460 |
| Application for Admission and Other Fees | 19,500 | 19,500 | -- |
| Interest on General Fund Balances | 26,100 | 26,100 | -- |
| Federal Contract & Grant Overhead | 169,377 | 190,177 | 20,800 |
| DOE Allowance for O/H & Management | 10,400 | 10,400 | -- |
| Overhead on State Agency Agreements | 9,700 | 10,000 | 300 |
| Other | <u>7,500</u> | <u>10,300</u> | <u>2,800</u> |
| Subtotal | \$ 415,617 | \$ 469,977 | \$ 54,360 |
| Prior Year's Income Balance | 64,639 | -- | (64,639) |
| Total UC General Fund Income | <u>\$ 480,256</u> | <u>\$ 469,977</u> | <u>\$ (10,279)</u> |
| Special Funds Income | | | |
| GEAR UP State Grant Program | \$ 5,000 | \$ 5,000 | \$ -- |
| United States Appropriations | 17,000 | 17,000 | -- |
| Local Government | 58,916 | 58,916 | -- |
| Student Fees | | | |
| Educational Fee | 543,140 | 601,638 | 58,498 |
| Registration Fee | 139,078 | 154,181 | 15,103 |
| Special Law/Medical Fee | 1,820 | 1,820 | -- |
| Professional School Fees | 45,650 | 48,933 | 3,283 |
| University Extension Fees | 225,427 | 235,571 | 10,144 |
| Summer Session Fees | 10,168 | 10,473 | 305 |
| Other Fees | 85,718 | 90,004 | 4,286 |
| Sales & Services - Teaching Hospitals | 3,077,398 | 3,231,268 | 153,870 |
| Sales & Services - Educational Activities | 528,759 | 549,909 | 21,150 |
| Sales & Services - Support Activities | 210,385 | 214,592 | 4,207 |
| Endowments | 146,974 | 152,853 | 5,879 |
| Auxiliary Enterprises | 613,897 | 644,592 | 30,695 |
| Contract and Grant Off-the-Top Overhead | 80,156 | 85,767 | 5,611 |
| DOE Management Fee | 16,000 | 16,000 | -- |
| University Opportunity Fund | 145,187 | 155,351 | 10,164 |
| Other | <u>201,035</u> | <u>205,056</u> | <u>4,021</u> |
| Total Special Funds | <u>\$ 6,151,708</u> | <u>\$ 6,478,924</u> | <u>\$ 327,216</u> |
| TOTAL, UNIVERSITY SOURCES | <u>\$ 6,631,964</u> | <u>\$ 6,948,901</u> | <u>\$ 316,937</u> |
| TOTAL INCOME AND FUNDS AVAILABLE | <u>\$ 9,933,455</u> | <u>\$ 10,540,355</u> | <u>\$ 606,900</u> |

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

| | 2002-03 Budget | | | 2003-04 Proposed | | | Proposed Increases | | |
|---|----------------|--------------|--------------|------------------|--------------|---------------|--------------------|------------|------------|
| | GENERAL | RESTRICTED | TOTAL | GENERAL | RESTRICTED | TOTAL | GENERAL | RESTRICTED | TOTAL |
| | FUND | FUNDS | FUNDS | FUND | FUNDS | FUNDS | FUND | FUNDS | FUNDS |
| INSTRUCTION | | | | | | | | | |
| General Campus | \$ 1,597,078 | \$ 296,953 | \$ 1,894,031 | \$ 1,720,041 | \$ 323,130 | \$ 2,043,171 | \$ 122,963 | \$ 26,177 | \$ 149,140 |
| Health Sciences | 352,091 | 346,077 | 698,168 | 352,091 | 353,454 | 705,545 | -- | 7,377 | 7,377 |
| Summer Session | -- | 10,168 | 10,168 | 0 | 10,473 | 10,473 | -- | 305 | 305 |
| University Extension | -- | 225,427 | 225,427 | -- | 235,571 | 235,571 | -- | 10,144 | 10,144 |
| RESEARCH | 299,581 | 239,065 | 538,646 | 299,581 | 244,905 | 544,486 | -- | 5,840 | 5,840 |
| PUBLIC SERVICE | | | | | | | | | |
| Campus Public Service | 120,640 | 65,948 | 186,588 | 120,640 | 67,448 | 188,088 | -- | 1,500 | 1,500 |
| Cooperative Extension | 54,589 | 13,644 | 68,233 | 54,589 | 14,094 | 68,683 | -- | 450 | 450 |
| ACADEMIC SUPPORT | | | | | | | | | |
| Libraries | 212,688 | 38,301 | 250,989 | 217,688 | 39,450 | 257,138 | 5,000 | 1,149 | 6,149 |
| Organized Activities | 182,093 | 268,414 | 450,507 | 182,093 | 274,953 | 457,046 | -- | 6,539 | 6,539 |
| TEACHING HOSPITALS | 51,294 | 3,077,398 | 3,128,692 | 51,294 | 3,231,268 | 3,282,562 | -- | 153,870 | 153,870 |
| STUDENT SERVICES | -- | 386,499 | 386,499 | -- | 398,319 | 398,319 | -- | 11,820 | 11,820 |
| INSTITUTIONAL SUPPORT | 335,937 | 146,904 | 482,841 | 335,937 | 151,041 | 486,978 | -- | 4,137 | 4,137 |
| OPERATION AND MAINTENANCE OF PLANT | 366,490 | 49,596 | 416,086 | 395,390 | 50,457 | 445,847 | 28,900 | 861 | 29,761 |
| STUDENT FINANCIAL AID | 68,938 | 255,312 | 324,250 | 68,938 | 280,940 | 349,878 | -- | 25,628 | 25,628 |
| AUXILIARY ENTERPRISES | -- | 613,897 | 613,897 | -- | 644,592 | 644,592 | -- | 30,695 | 30,695 |
| PROVISIONS FOR ALLOCATION | 62,819 | 34,427 | 97,246 | 20,180 | 34,427 | 54,607 | (42,639) | -- | (42,639) |
| UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS | -- | 161,187 | 161,187 | -- | 171,351 | 171,351 | -- | 10,164 | 10,164 |
| SUBTOTAL | \$ 3,704,238 | \$ 6,229,217 | \$ 9,933,455 | \$ 3,818,462 | \$ 6,525,873 | \$ 10,344,335 | \$ 114,224 | \$ 296,656 | \$ 410,880 |
| PROGRAM MAINTENANCE | | | | | | | | | |
| Fixed Costs, Economic Factors | -- | -- | -- | 165,460 | 30,560 | 196,020 | 165,460 | 30,560 | 196,020 |
| TOTAL UNIVERSITY | \$ 3,704,238 | \$ 6,229,217 | \$ 9,933,455 | \$ 3,983,922 | \$ 6,556,433 | \$ 10,540,355 | \$ 279,684 | \$ 327,216 | \$ 606,900 |

GENERAL CAMPUS AND HEALTH SCIENCES

Full-Time-Equivalent Enrollments--Year Average

| | <u>2001-02</u> <i>Actual</i> | <u>2002-03</u> <i>Budgeted</i> | <u>2003-04 Proposed</u> <i>Total</i> | <u>Change</u> |
|--------------------------|---------------------------------|-----------------------------------|---|---------------|
| BERKELEY | | | | |
| General Campus | 30,406 | 30,050 | 30,930 | 880 |
| Health Sciences | 715 | 757 | 757 | 0 |
| Total | <u>31,121</u> | <u>30,807</u> | <u>31,687</u> | <u>880</u> |
| DAVIS | | | | |
| General Campus | 22,672 | 23,700 | 24,850 | 1,150 |
| Health Sciences | 2,032 | 1,898 | 1,898 | 0 |
| Total | <u>24,704</u> | <u>25,598</u> | <u>26,748</u> | <u>1,150</u> |
| IRVINE | | | | |
| General Campus | 19,719 | 20,500 | 21,800 | 1,300 |
| Health Sciences | 1,078 | 1,040 | 1,040 | 0 |
| Total | <u>20,797</u> | <u>21,540</u> | <u>22,840</u> | <u>1,300</u> |
| LOS ANGELES | | | | |
| General Campus | 31,009 | 30,950 | 31,890 | 940 |
| Health Sciences | 3,734 | 3,719 | 3,719 | 0 |
| Total | <u>34,743</u> | <u>34,669</u> | <u>35,609</u> | <u>940</u> |
| RIVERSIDE | | | | |
| General Campus | 13,238 | 14,000 | 15,000 | 1,000 |
| Health Sciences | 53 | 48 | 48 | 0 |
| Total | <u>13,291</u> | <u>14,048</u> | <u>15,048</u> | <u>1,000</u> |
| SAN DIEGO | | | | |
| General Campus | 19,534 | 20,600 | 21,550 | 950 |
| Health Sciences | 1,262 | 1,106 | 1,106 | 0 |
| Total | <u>20,796</u> | <u>21,706</u> | <u>22,656</u> | <u>950</u> |
| SAN FRANCISCO | | | | |
| Health Sciences | 3,852 | 3,698 | 3,698 | 0 |
| SANTA BARBARA | | | | |
| General Campus | 19,848 | 20,200 | 20,680 | 480 |
| SANTA CRUZ | | | | |
| General Campus | 12,786 | 13,100 | 14,300 | 1,200 |
| TOTALS | | | | |
| General Campus | 169,213 | 173,100 | 181,000 | 7,900 |
| Health Sciences | 12,726 | 12,266 | 12,266 | 0 |
| Total, Excluding Buyout | <u>181,939</u> | <u>185,366</u> | <u>193,266</u> | <u>7,900</u> |
| Health Science Increase | | | 100 | 100 |
| Summer enrollment buyout | 3,365 | 4,262 | 8,106 | 3,844 |
| GRAND TOTAL | 185,304 | 189,628 | 201,472 | 11,844 |

GENERAL CAMPUS
Full-Time-Equivalent Enrollments--Year Average
Including Summer Growth

| | <u>2001-02</u> <i>Actual</i> | <u>2002-03</u> <i>Budgeted</i> | <u>2003-04 Proposed</u> | |
|--------------------------|---------------------------------|-----------------------------------|-------------------------|---------------|
| | | | <i>Total</i> | <i>Change</i> |
| BERKELEY | | | | |
| Undergraduate | 22,656 | 22,480 | 22,980 | 500 |
| Graduate | 7,750 | 7,570 | 7,950 | 380 |
| Total | <u>30,406</u> | <u>30,050</u> | <u>30,930</u> | <u>880</u> |
| DAVIS | | | | |
| Undergraduate | 19,215 | 20,040 | 21,000 | 960 |
| Graduate | 3,457 | 3,660 | 3,850 | 190 |
| Total | <u>22,672</u> | <u>23,700</u> | <u>24,850</u> | <u>1,150</u> |
| IRVINE | | | | |
| Undergraduate | 17,431 | 18,070 | 19,050 | 980 |
| Graduate | 2,288 | 2,430 | 2,750 | 320 |
| Total | <u>19,719</u> | <u>20,500</u> | <u>21,800</u> | <u>1,300</u> |
| LOS ANGELES | | | | |
| Undergraduate | 23,678 | 23,770 | 24,510 | 740 |
| Graduate | 7,331 | 7,180 | 7,380 | 200 |
| Total | <u>31,009</u> | <u>30,950</u> | <u>31,890</u> | <u>940</u> |
| RIVERSIDE | | | | |
| Undergraduate | 11,762 | 12,290 | 13,225 | 935 |
| Graduate | 1,477 | 1,710 | 1,775 | 65 |
| Total | <u>13,238</u> | <u>14,000</u> | <u>15,000</u> | <u>1,000</u> |
| SAN DIEGO | | | | |
| Undergraduate | 16,873 | 17,810 | 18,550 | 740 |
| Graduate | 2,661 | 2,790 | 3,000 | 210 |
| Total | <u>19,534</u> | <u>20,600</u> | <u>21,550</u> | <u>950</u> |
| SANTA BARBARA | | | | |
| Undergraduate | 17,223 | 17,710 | 17,910 | 200 |
| Graduate | 2,625 | 2,490 | 2,770 | 280 |
| Total | <u>19,848</u> | <u>20,200</u> | <u>20,680</u> | <u>480</u> |
| SANTA CRUZ | | | | |
| Undergraduate | 11,650 | 11,840 | 12,960 | 1,120 |
| Graduate | 1,136 | 1,260 | 1,340 | 80 |
| Total | <u>12,786</u> | <u>13,100</u> | <u>14,300</u> | <u>1,200</u> |
| GENERAL CAMPUS | | | | |
| Undergraduate | 140,488 | 144,010 | 150,185 | 6,175 |
| Graduate | 28,725 | 29,090 | 30,815 | 1,725 |
| Total, Excluding Buyout | <u>169,213</u> | <u>173,100</u> | <u>181,000</u> | <u>7,900</u> |
| Health Science Increase | | | 100 | 100 |
| Summer enrollment buyout | 3,365 | 4,262 | 8,106 | 3,844 |
| GRAND TOTAL | 172,578 | 177,362 | 189,206 | 11,844 |

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