

# UNIVERSITY OF CALIFORNIA

**2005-06**

**Budget *for* Current Operations**



## PRESIDENT'S MESSAGE

As I mark the end of my first year as President of this great university, I am impressed both by how far we have come in one year and by the depth of the challenges still ahead of us.

When I took office a year ago, the State was bracing for its fourth consecutive year of fiscal crisis, with estimates of the structural deficit reaching \$15 billion. California was completing a gubernatorial recall election that led to a mid-term change in administrations. The University of California was wrestling with its own priorities as it faced a fourth year of budget cuts unprecedented in their magnitude. The uncertainty that surrounded us was deeply unsettling, making it very difficult to plan for the University's future.

The impact of the state funding crisis on the University has been severe, as it has been for all State-funded entities. Over the last several years, the University has endured \$490 million in base budget cuts; another \$420 million in budget cuts have been offset by student fees. Our employees have had no pay raises for two years; meanwhile, health benefit costs have skyrocketed, eroding the buying power of our employees' salaries. Our ability to recruit and retain the high quality faculty, students, and staff that make this the greatest public university in the world has been seriously jeopardized.

To those of us in the University, and to many in the broader business community of California, this disinvestment has seemed counter-intuitive. We see the University as one of the primary engines that power the state's economy and keep California competitive in the global market. In the 19<sup>th</sup> century, California's rich natural resources gave this state a competitive edge. In the mid-20<sup>th</sup> century, California benefited from strength in the aerospace and entertainment industries and from manufacturing. Then, at the end of the 20<sup>th</sup> century, the state's economy was transformed by new technologies and global competition. As a result, California's economy became one of the largest and most dynamic in the world.

With the latest fiscal crisis, however, California was hurt more than most states when the Internet bubble burst in the spring of 2000. Since then, California's unemployment rates have been above the national average and per capita personal incomes have been growing more slowly than the national

average. The respected UCLA Anderson Forecast recently took a long-term look at California's demography and economy. In its September, 2004 report, the Forecast attributed California's relative drop in incomes to a growing "education gap" with the rest of the United States. "*Those with 4 years of college or more rose by over 7 percentage points in the rest of the U.S. (between 1985 and 2003), from 18.6% to 26.8% of the population 25 years and older. Here in California, the proportion only rose by 3 percentage points, from 24.7% to 29.8%.*" The report concluded that a lack of investment in education and infrastructure will continue to erode the economic advantages that California has enjoyed and impact the quality of life in the state.

This past year has brought some very positive news, however. We are grateful that Governor Schwarzenegger has affirmed the connection between higher education and economic growth and has worked with us to develop a new Higher Education Compact, a framework that establishes funding and outcome priorities for the next six years. The funding agreement is a comprehensive statement of the *minimum* resources needed for the University to accommodate enrollment growth and maintain the excellence of the institution to which students seek admission; it also is a statement of the accountability principles upon which the State may measure the University's performance.

The Compact stops the bleeding of the last few years and provides a sensible budgetary framework from which to plan for the future. For nearly 15 years, the University has either been in the depths of state fiscal crisis or the highs of state fiscal surplus; the Compact provides the stability needed to plan for the next 10, 15, and 20 years of the University's development. As with similar past accords, it is an agreement with the Governor for which the University and the Governor must seek the support of the Legislature through the normal budget process each year – and the support of the Legislature for the needs of higher education this past year has been heartening.

As we plan for the University's future, we are reminded constantly of the unique role the University can play in recovering from its current fiscal crisis. In my view, the University of California is critical to *keeping California competitive* in the coming decade, in several ways:

- Our education programs educate the undergraduate and graduate students needed to meet state workforce demands. California's

economy is increasingly knowledge-based, requiring more workers with advanced training and degrees, particularly in the engineering, computer, and science fields. The University has exceptionally strong programs in these areas, and recent efforts to attract more students into these fields have been successful.

- Our research forms the basis for new knowledge and innovation that creates new products, new companies, new jobs, and entire new industries. University researchers are on the forefront of discoveries that lead to cures for diseases, improve the food we eat, help buildings withstand earthquakes, improve transportation systems, develop techniques for addressing global climate change, identify best practices for K-12 educational improvement, and strengthen ties to Mexico, along with a wide variety of other benefits to the state.
- The University's public service efforts provide state-of-the-art health care; in-the-field assistance to the agricultural industry to improve products and growing techniques; partnerships with K-12 and other higher education segments to help close the educational achievement gap that currently exists in this state; and arts and cultural events that improve the social well-being of our citizenry.

As we plan for the best ways we can help keep California competitive over the longer term, we recognize that our needs are greater than the State of California can shoulder alone. Our budget has always consisted of a variety of fund sources. While State funds provide the core support for the basic operations of the University, these funds leverage billions of additional dollars that are poured into the California economy from the federal government, private donors, and other sources. We know that we must continue maximizing our efforts to tap into these additional resources to help maintain the excellence, and the broader contributions, of the University.

We also have begun to develop initiatives that, when the State's fiscal situation improves, we believe will further help meet pressing needs facing California. One such initiative would build on the already established partnerships with industry in key sectors of the economy to develop centers of excellence in emerging fields. The California Institutes for Science and Technology and the Industry-University Cooperative Research program

have laid important groundwork; such programs that create robust partnerships with industry and lead to broad economic growth can be expanded dramatically in the next few years if core resources are provided to leverage additional external investment.

Another, related initiative is being developed to help meet the state's demand for qualified teachers and workers in mathematics and science fields. As noted in a recent analysis of California's workforce needs conducted by the Milken Institute, "Surprisingly for a state with world-dominating scientific industries and outstanding university science and engineering programs, only 1.2 percent of Californians age 25-34 are enrolled in science and engineering graduate programs. This places the state slightly below the national average at 27th place." Moreover, math and science test scores of 7th and 8th graders in California rank at or near the bottom of the list nationally. This fact can be in part attributed to the fact that a growing percentage of K-12 teachers in math and science are not credentialed in the field or are not credentialed at all. Recognizing the importance of addressing this need, the Governor has asked UC to work with CSU, K-12, and business leaders on a major initiative to reverse this trend by improving the supply and quality of science and math teachers in the state.

The University stands ready to assist the state in energizing its economy and improving the quality of life for its citizens. Doing so requires adequate resources to meet enrollment demand and to provide our students with the high-quality education Californians have come to expect from the University. I look forward to working with the University community, with state and federal leaders, with the business community, and with the broad community of Californians to enhance UC's impact on California and to maximize our efforts to keep California competitive in the years to come.

Robert C. Dynes, President  
November, 2004

# UNIVERSITY OF CALIFORNIA



## FOREWORD

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

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

### ***Organization of the Regents' Budget***

The *Introduction* and *Overview* provide an overall perspective on the major policy issues, specific objectives, and priorities for 2005-06. 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 *Overview* 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**  
**2005-06 BUDGET FOR CURRENT OPERATIONS AND EXTRAMURALLY FUNDED OPERATIONS**

EXPENDITURES					I N C O M E				
	2004-05	2005-06	Change			2004-05	2005-06	Change	
	Budget	Proposed	Amount	%		Budget	Proposed	Amount	%
	(\$000s)	(\$000s)	(\$000s)			(\$000s)	(\$000s)	(\$000s)	
<u>BUDGET FOR CURRENT OPERATIONS</u>					<u>BUDGET FOR CURRENT OPERATIONS</u>				
Instruction:					<u>General Fund</u>				
General Campus	\$ 2,023,417	\$ 2,094,938	\$ 71,521	3.5%	State of California	\$ 2,720,841	\$ 2,835,841	\$ 115,000	4.2%
Health Sciences	763,094	770,063	6,969	0.9%	UC Sources	<u>544,258</u>	<u>555,477</u>	<u>11,219</u>	2.1%
Summer Session	11,682	11,682	0	0.0%					
University Extension	200,905	206,932	6,027	3.0%	Total General Funds	\$ <u>3,265,099</u>	\$ <u>3,391,318</u>	\$ <u>126,219</u>	3.9%
Research	490,268	500,638	10,370	2.1%					
Public Service	180,796	184,910	4,114	2.3%	<u>Restricted Funds</u>				
Academic Support:					State of California	\$ 62,597	\$ 59,360	\$ (3,237)	-5.2%
Libraries	243,525	245,707	2,182	0.9%	U. S. Government Appropriations	17,000	17,000	--	--
Other	453,445	462,613	9,168	2.0%	Student Fees:				
Teaching Hospitals	3,707,346	4,009,096	301,750	8.1%	Educational, Registration & Professional School Fees	1,255,745	1,394,402	138,657	11.0%
Student Services	413,962	419,027	5,065	1.2%	Extension, Summer Session & Other Fees	344,006	354,000	9,994	2.9%
Institutional Support	458,861	462,542	3,681	0.8%	Teaching Hospitals	3,657,577	3,959,327	301,750	8.2%
Operation and Maintenance of Plant	435,928	453,322	17,394	4.0%	Auxiliary Enterprises	676,822	710,663	33,841	5.0%
Student Financial Aid	469,339	508,249	38,910	8.3%	Endowments	157,439	162,162	4,723	3.0%
Auxiliary Enterprises	676,822	710,663	33,841	5.0%	Other	<u>1,335,093</u>	<u>1,365,731</u>	<u>30,638</u>	2.3%
Provisions for Allocation	43,279	39,498	(3,781)	-8.7%					
University Opportunity Fund and Special Programs	198,709	202,391	3,682	1.9%	Total Restricted Funds	\$ <u>7,506,279</u>	\$ <u>8,022,645</u>	\$ <u>516,366</u>	6.9%
Program Maintenance: Fixed Costs, Economic Factors	<u>--</u>	<u>131,692</u>	<u>131,692</u>	--					
<b>TOTAL BUDGET FOR CURRENT OPERATIONS</b>	<u>\$ 10,771,378</u>	<u>\$ 11,413,963</u>	<u>\$ 642,585</u>	6.0%	<b>TOTAL BUDGET FOR CURRENT OPERATIONS</b>	<u>\$ 10,771,378</u>	<u>\$ 11,413,963</u>	<u>\$ 642,585</u>	6.0%
<u>EXTRAMURALLY FUNDED OPERATIONS</u>					<u>EXTRAMURALLY FUNDED OPERATIONS</u>				
Sponsored Research	\$ 2,468,107	\$ 2,531,402	\$ 63,295	2.6%	State of California	\$ 211,089	\$ 211,089	\$ 0	0.0%
Other Activities	<u>1,360,865</u>	<u>1,394,570</u>	<u>33,705</u>	2.5%	U.S. Government	2,114,436	2,156,725	42,289	2.0%
					Private Gifts, Contracts & Grants	960,715	999,144	38,429	4.0%
<b>TOTAL EXTRAMURALLY FUNDED OPERATIONS</b>	<u>\$ 3,828,972</u>	<u>\$ 3,925,972</u>	<u>\$ 97,000</u>	2.5%	Other	<u>542,732</u>	<u>559,014</u>	<u>16,282</u>	3.0%
					<b>TOTAL EXTRAMURALLY FUNDED OPERATIONS</b>	<u>\$ 3,828,972</u>	<u>\$ 3,925,972</u>	<u>\$ 97,000</u>	2.5%
<b>TOTAL OPERATIONS</b>	<u>\$ 14,600,350</u>	<u>\$ 15,339,935</u>	<u>\$ 739,585</u>	5.1%	<b>TOTAL OPERATIONS</b>	<u>\$ 14,600,350</u>	<u>\$ 15,339,935</u>	<u>\$ 739,585</u>	5.1%
<u>MAJOR DEPARTMENT OF ENERGY</u>					<u>MAJOR DEPARTMENT OF ENERGY</u>				
<u>LABORATORIES</u>	\$ 4,082,089	\$ 4,082,089	\$ 0	0.0%	<u>LABORATORIES</u>	\$ 4,082,089	\$ 4,082,089	\$ 0	0.0%

# INTRODUCTION TO THE 2005-06 BUDGET

## The Pursuit of Excellence

The University of California is internationally renowned for the quality of its academic programs and consistently ranks among the world's leading institutions in the number of faculty and researchers singled out for awards and distinctions, election to academic and scientific organizations, and other honors.

The UC faculty is well-represented in the memberships of a variety of prestigious organizations, such as the National Academy of Sciences, and among winners of the Nobel Prize and Guggenheim Fellowships. Forty-eight researchers affiliated with UC have been awarded Nobel Prizes, the pinnacle of achievement for groundbreaking research; 16 of the Nobel Prizes have been won since 1995. Most recently, UC Santa Barbara scientist David J. Gross was one of three recipients of the 2004 Nobel Prize for physics and UC Irvine scientist Irwin Rose was one of three recipients of the 2004 Nobel Prize for chemistry. 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 (the most recent year they were presented), 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 2004, the National Academy of Sciences announced the election of 72 new members and 18 foreign associates in recognition of their achievements in scientific and engineering research—16 of the new members are affiliated with the University of California. Membership in the Academy is considered one of the highest honors that can be accorded a scientist or engineer. Total active Academy membership is 1,949 – with this latest election, there are now 345 UC researchers who are members. The University of California has more active members than any other college or university.

In 2004, two UC faculty received one of the nation's most coveted honors, a MacArthur Foundation Fellowship, which are often referred to as "genius" grants. Since the first MacArthur Fellowships were bestowed in 1981, about

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

In 2004, 16 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.

**UNIVERSITY OF CALIFORNIA**  
**2005-06 BUDGET**  
**Overview and Policy Issues**

The University of California is more important to the state's economy and quality of life of its citizens than ever before. Through its instruction, research, and public service programs, the University educates the workforce needed by business, industry, education, and other sectors; conducts research that fuels the economy and creates jobs; offers state-of-the-art patient care; works with K-12 schools to improve educational opportunities; cooperates with industries such as agriculture and electronics to transfer knowledge learned from the University to broad applications in the field; and provides social, cultural, and economic benefits to the communities in which they reside.

The excellence of the University's 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 citizens in every part of the State of California.

The University's budget provides the resources needed to teach, conduct research, and perform those public services for which the institution is uniquely qualified. Adequate resources to perform these functions are critical to the University's ability to meet the high standards of quality that Californians have come to associate with UC.

The University's ability to sustain the contributions it makes to the economic and social welfare of the state is being strained to the limits following four years of reduced funding. Left unchecked, California's disinvestment in university research and advanced education will erode this state's competitive edge. Companies that tend to have a disproportionate number of better-paying professional jobs, higher exports, and lower impacts on the environment will locate where real estate costs are lower and transportation infrastructure is better, absent other compelling reasons such as the presence of a high quality research university.

The California business leaders on the UC President's Board of Science and Innovation, whose companies compete in an increasingly complex global economy, have defined California's challenge – global competitiveness requires continuous cycles of birth and maturation of strong knowledge-based companies which, in turn, depend critically upon the institutions that produce the essential steady stream of research innovations, the research and development leaders, and a highly educated workforce. For the California economy the outcomes are critical: strong companies attract increasing rounds of capital investment to the state, define entirely new technologies, products, and markets, and create high-wage jobs.

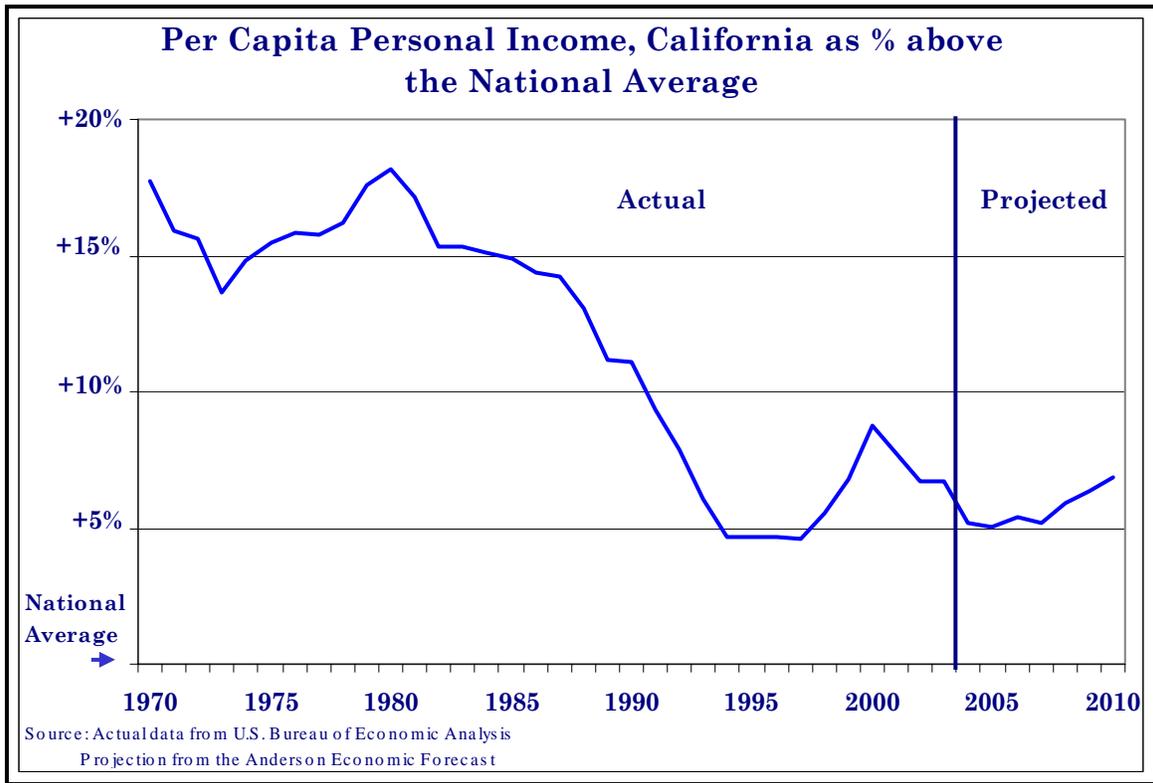
This *Overview* describes the critical role the University plays in the economic well-being of the State and the importance of adequate resources to enable the University to perform its tripartite missions of teaching, research, and public service. The *Overview* also provides a history of funding for the University and outlines the longer-term planning issues facing the University through the remainder of this decade. A detailed discussion of the University's budget plan for 2005-06 begins on page 46. Finally, information is provided on federal and private sources of funds that are critical to the overall support of the University's budget.

### **The Importance of Higher Education to the State of California**

This state has had a long record of strong economic performance with a history of successful companies and high-paying jobs. As shown in Display 1, per capita personal income in California was 15-to-20% above the national average in the 1970s. Above average income meant higher standards of living and a tax base that was able to support government, education, and a “safety net” of social services. However, there are signs that California is losing its comparative advantage.

Californians suffered more than those in most states during the long and deep recession of the early 1990s, as shown by the sharp drop in per capita personal income relative to the national average. While there was some recovery during the Internet boom period of the late 1990s, California, particularly Silicon Valley and the San Francisco area, was also hit

Display 1



particularly hard when the Internet bubble burst in the spring of 2000. Since then, California's unemployment rates have been above the national average and per capita personal income has been growing more slowly than the national average.

The respected UCLA Anderson Forecast recently took a long-term look at California's demography and economy. In its September 2004 report, the Forecast attributed California's relative drop in income to a growing "education gap" with the rest of the United States. *"Those with 4 years of college or more rose by 8 percentage points in the rest of the U.S. (between 1985 and 2003), from 18.6% to 26.8% of the population 25 years and older. Here in California, the proportion only rose by 5 percentage points, from 24.7% to 29.8%."* They concluded that a lack of investment in education and infrastructure will continue to erode the economic advantages that California has enjoyed and impact the quality of life in the state. California lost 200,000 jobs from 2001 to 2003. Employment has been slow to recover and many who were working do not appear in the unemployment statistics because they have given up searching for jobs. Governor Schwarzenegger has said that he is focused on an agenda of economic growth

and creation of jobs, and that he wants to regain California's competitive edge. Since his election he has been working with the Legislature to lower worker's compensation rates and other costs of doing business in this state. These are important improvements. At the same time, an effective long-term economic development strategy for creating high-wage jobs must center on two key factors: 1) strong companies creating more jobs, and 2) a workforce with the knowledge and skills to compete for those jobs.

In the 19<sup>th</sup> century, California's rich natural resources were the mainstay of the State's economy. In the mid-20<sup>th</sup> century, California benefited from strength in the aerospace and entertainment industries and from manufacturing. Then, the state's economy was transformed by new technologies and global competition at the end of the 20<sup>th</sup> century. Agriculture continues to be a critical part of the California economy with an annual economic impact of \$65 billion, but it is being transformed by research advances in our fundamental knowledge of genomics and the functions of the cell. Manufacturing industries are also important to the economy, but there are fewer jobs on assembly lines and most of a product's value is added *before* and *after* manufacturing by professionals in research and development (R&D), marketing, finance and others.

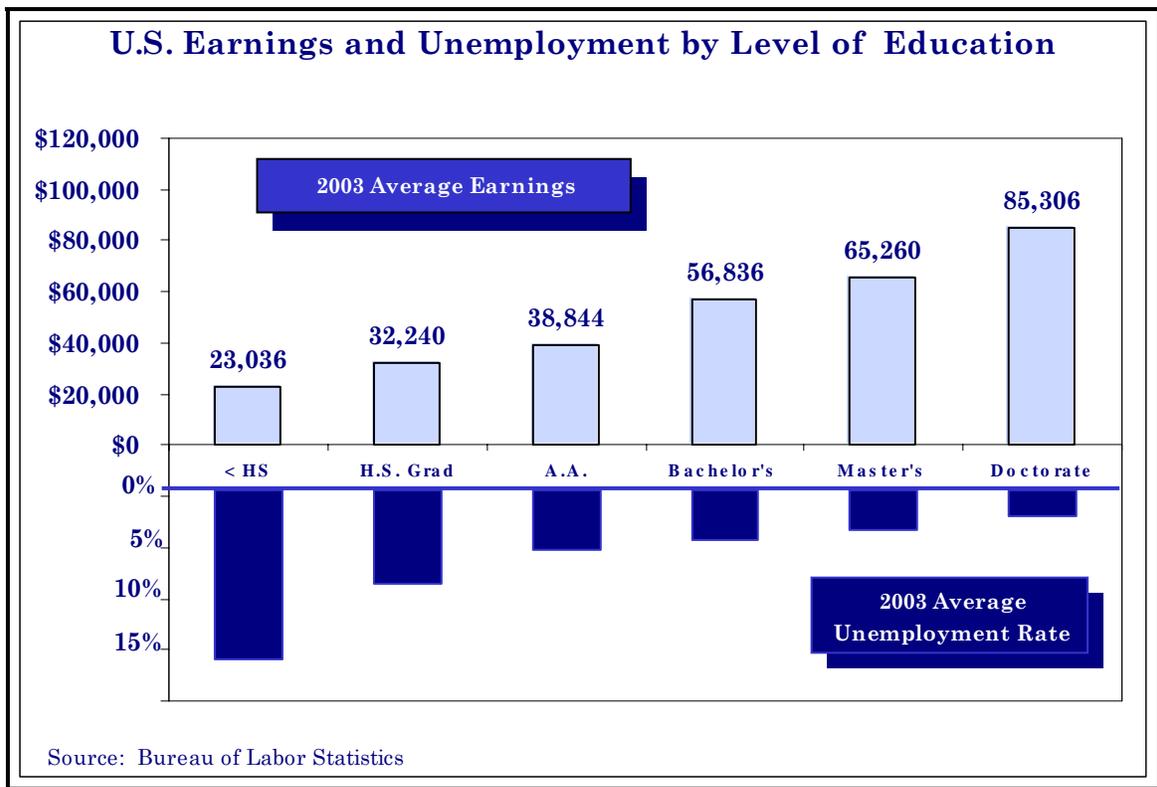
While natural resources and manufacturing are still important components of the economy in the 21<sup>st</sup> century, the industries that will be driving California's economic recovery in the short term and leading the way to longer-term competitiveness in the future will be knowledge-based industries.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

California became one of the world's leading economies in the second half of the 20<sup>th</sup> century in part because it had a greater number of excellent research universities and more venture capital than other states, which helped create and attract knowledge-based companies. For example, basic research at California's research universities created the biotechnology

industry and hundreds of biotech companies have been founded by UC faculty and former students. Knowledge-based companies depend upon discoveries and highly-educated employees from university research laboratories and technology transfer because they typically focus their own research and development spending on applied research and product development for the highest return on investment in the shortest period of time.

Knowledge-based industries cluster around universities because they want to be where new ideas are percolating and because they rely upon university graduates to fill their professional and managerial jobs. With the shift to more of a knowledge-based economy, individual income is linked to level of education. As shown in Display 2, average earnings are higher and unemployment rates are lower for those with more advanced levels of education.

Display 2



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

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

- The State contributed about \$15,000 to the cost of education for each UC general campus student in 1985, and now only contributes about \$9,000 per student per year (figures in constant dollars).
- Despite the increased need for employees with advanced degrees, UC graduate enrollment did not increase in the 1980s and 1990s.
- Even though basic research is critical to knowledge-based industries, State support for UC research has declined by \$74 million in the last 4 years.

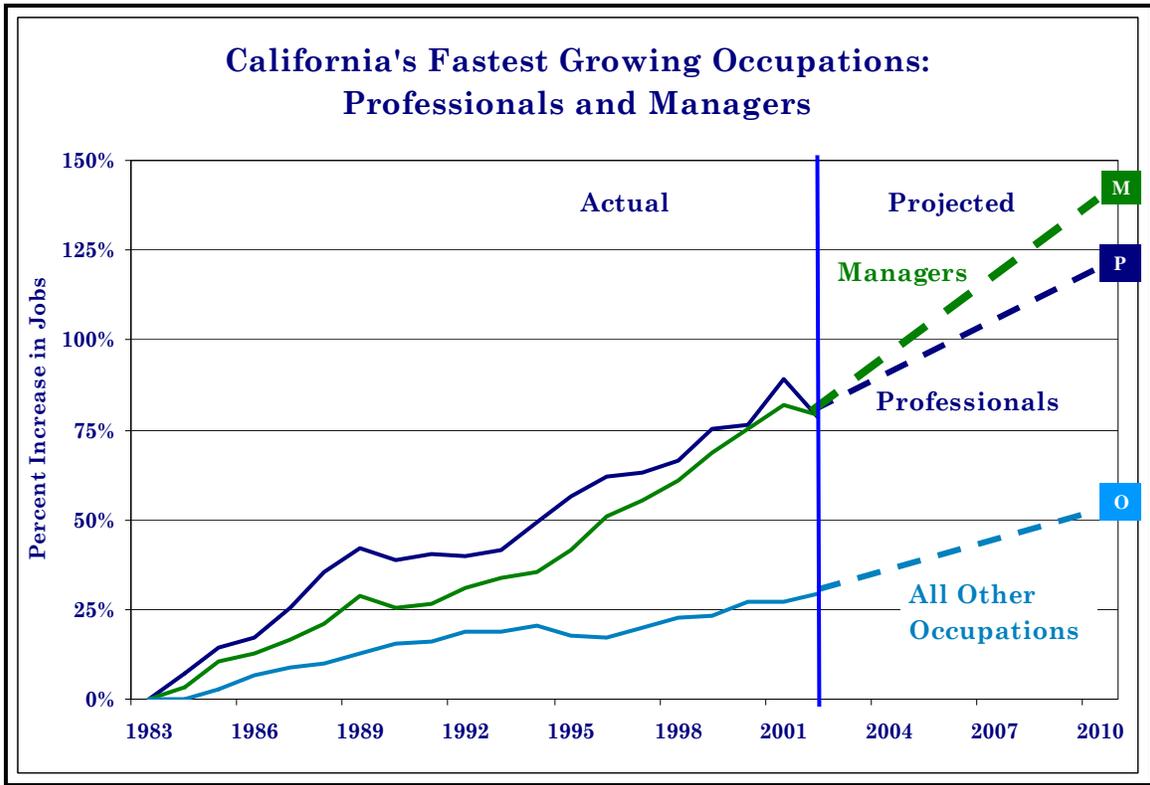
Companies typically say that one of the most important factors in their location decision is the quality of the workforce in the region. In this new age, the critical factor is the availability of “knowledge workers” – a term coined by Peter Drucker, the noted management consultant, more than four decades ago for those individuals with advanced formal and continuing education who can apply theoretical and analytical knowledge, create new product ideas, and add value through activities occurring before and after manufacturing. Knowledge workers are key to the success of brainpower industries because intellectual capital is a technology-generating company’s most important asset.

As Display 3 indicates, California’s fastest growing occupational categories are professional and managerial jobs. In the early 1980s, one-fourth of all jobs in California were held by professionals and managers. Today, that fraction has grown to one-third of all jobs in the state. Most of these new professional and managerial jobs require at least a Bachelor’s degree and often a Master’s or Doctorate.

Federal Reserve Board Chairman Alan Greenspan made the following statement in 1999: *"If we are to remain preeminent in transforming knowledge into economic value, America's system of higher education must remain the world's leader in generating scientific and technological breakthroughs and in meeting the challenge to educate workers."*

However, a study conducted by the Public Policy Institute of California in 2000 estimates that half of the college graduates in California filling new positions and replacing knowledge workers were educated in other states. California companies were willing to pay the extra price to recruit professionals and managers from out of state in the past, but they have other alternatives today, such as locating new plants out of state and moving jobs offshore.

Display 3



California's companies will be creating thousands of new professional and managerial jobs over the next ten years. The best way to keep these good jobs here in California is to have a workforce with the knowledge and skills to compete in the global marketplace. The CEOs of Intel, Hewlett-Packard, and Microsoft have all recently said that the best way to compete is to have a strong university system. Therefore, California must increase its investment in higher education and help ensure that enough highly-educated graduates are available to meet the workforce demands of a knowledge-based economy, if it wants to regain its competitive edge.

### **The California Master Plan for Higher Education**

The California Master Plan for Higher Education has been the blueprint for higher education in this state for four decades. It specifies the mission of each public higher education segment and defines the pool of high school graduates from which each segment will admit its undergraduate students. Consistent with the Master Plan, the University has a three-fold mission:

- ⇒ **Teaching**, which consists of undergraduate, professional, and graduate academic education through the doctoral degree. Students develop analytic and communication skills, gain exposure to a wide range of intellectual traditions and emerging concepts, and develop in-depth knowledge in a particular area of study, all of which help prepare them for an increasingly knowledge-based society. 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. In addition, in particular fields, UC is working cooperatively with the California State University to develop and expand joint doctoral programs.
- ⇒ **Research.** The Master Plan designates the University as the primary State-supported academic agency for research. As one of the world's preeminent research universities, UC provides an environment in which leading scholars, researchers, and students (undergraduate and graduate) work together to discover new knowledge and train California's future workforce in state-of-the-art technologies necessary to keep California on the cutting edge of economic, social, and cultural development. Teaching and research are inextricably tied together at the graduate level, and increasingly at the undergraduate level. This synergy helps to build the continuing and evolving critical thinking skills so important to successful professionals.
- ⇒ **Public Service.** The University's public service mission is to contribute to the well-being of the community, state, and nation. The University fulfills its public service mission by contributing to a broad range of activities important to the state. Student academic preparation programs are designed to bolster academic performance and improve a student's chance of success in pursuing higher education. Cooperative Extension programs benefit agriculture, consumers, and local communities by bringing them new technologies and the latest research findings. Health science programs, including UC's five major teaching hospitals and the outpatient clinical care programs they operate, provide state-of-the-art patient care. University Extension programs help retrain and expand learning for over 300,000 students a year. Public service programs allow state policy makers to draw on the expertise of UC's faculty and staff to address important public policy issues.

## Current Perspective

The Master Plan has produced the best system of public higher education in the world. Every year, visitors from many countries come to learn how to change their system of higher education to be more like California's. Adequate financial support for the University of California is essential if UC is to fulfill its missions under the California Master Plan for Higher Education, contributing to a higher standard of living and better quality of life for the citizens of the state.

The State has undergone fiscal crises in the beginning of each decade for at least the last 40 years. The early years of each decade have been characterized by funding shortfalls and budget cuts, and then economic recovery and progress have occurred in the rest of the decade. The University has weathered these fiscal crises and prospered during better economic times. Unfortunately, budget cuts during the early 1990s and again in the last four years have been very deep; better economic times in the late 1990s did not permit full recovery in the University's core operating budgets from the devastating effects of earlier major funding shortfalls.

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

Now, after four years of further devastating reductions, the latest fiscal crisis has again taken a heavy toll on the University's ability to perform

its missions under the Master Plan and contribute to the state's economic development. Including actions taken for 2004-05:

- base budget reductions have totaled about \$490 million over the last four-year period;
- in an unprecedented action, enrollments were reduced for 2004-05;
- another \$420 million in budget cuts have been offset by student fee increases; and
- another \$550 million represents unfunded costs that are associated with a normal workload budget, including salary and merit increases, employee health benefits, maintenance, energy costs, non-salary price increases, and other costs. Many of these costs are escalating dramatically, requiring the University to make even further internal cuts to keep pace with rising costs. Faculty salaries are estimated to lag the average of comparison institutions by approximately 8-10%—there is a similar problem with respect to staff salaries.

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

Governor Schwarzenegger, too, was concerned about the future of higher education in the state. Recognizing the importance of the University of California and the California State University systems to the economic and social well-being of the State, the Governor entered into a new long-term Compact with the four-year institutions.

The funding agreement is a comprehensive statement of the *minimum* resources needed for the University to accommodate enrollment growth and maintain the excellence of the institution to which students seek admission. In addition, the agreement is a statement of the State's expectations of the University in terms of accountability and performance, based on measures

that have historically been important to both the State and the University. The Compact provides a sensible budgetary framework from which to plan for the future.

The University had similar agreements with the last three Governors, and these agreements served both the University and the State well. Until the onset of the State's fiscal crisis in 2001-02, the State provided the resources necessary to adequately fund the University's missions, and in fact often exceeded the minimum level of funding in order to support initiatives of high priority to the Governor and the Legislature. For its part, the University met and often exceeded its goals under the accountability portion of these agreements.

The new Compact covers the six-year period 2005-06 through 2010-11. It is intended to provide fiscal stability and stop further erosion to the University's budget in the early years and allow the University to begin recovering lost ground in the later years. As with similar past accords, it is an agreement with the Governor for which the University and the Governor must seek the support of the Legislature through the normal budget process each year.

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

- **Block Allocation for Salaries, Employee Benefits, and Other Basic Support**—adjustments of 3% in 2005-06 and 2006-07, and adjustments of 4% for 2007-08 through 2010-11;
- **Core Academic Support Needs**—beginning in 2008-09 and continuing through 2010-11, an additional 1% adjustment to the base to be used to address chronic budgetary shortfalls in State funding for faculty and other instruction and research support for areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance;
- **Enrollment**—enrollment growth consistent with the Master Plan at the agreed-upon marginal cost of instruction. UC estimates enrollment will grow about 5,000 students a year through this decade;
- **Student Fees**—undergraduate fee increases of 14% in 2004-05 and 8% in both 2005-06 and 2006-07; graduate fee increases of 20% in 2004-05 and

10% in both 2005-06 and 2006-07. Beginning in 2007-08, the University will develop its budget plan each year based on the assumption that fees will be increased consistent with the Governor's proposed long-term student fee policy. That policy states that increases in student fees should be equivalent to the rise in California per capita personal income. However, in years in which the University determines that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, UC may decide that fee increases of up to 10% are necessary to provide sufficient funding for programs and preserve quality. The Compact also calls for the University to develop a long-term plan for increasing professional school fees. Revenue from student fees will remain with the University and will not be used to offset reductions in State support;

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

The specific provisions of the Compact are described in more detail later in this *Overview* beginning on page 29.

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

The agreement with the Governor staved off the possibility of further budget cuts beyond those originally proposed in the Governor's Budget for 2004-05 and will provide the University with a solid basis from which to plan in the next several years. This is vital, since it is anticipated the State will continue to experience financial constraints in 2005-06 and 2006-07. Estimates of the State's ongoing permanent deficit range from \$6 billion to \$8 billion. This can be mitigated in part on a one-year basis because there is \$3.8 billion in unspent deficit reduction bonds available to fund the 2005-06 budget. In addition, the Administration believes the economy will continue to improve, which, in combination with tight budget control, might be sufficient to get through 2005-06. A larger problem exists with respect to 2006-07. Not only will the deficit bonds be fully expended, but many of the agreements made to solve this year's budget involve major payouts beginning in 2006-07. Because of these fiscal constraints, it is unlikely that the University will be able to obtain more funding than called for in the basic provisions of the Compact through 2006-07.

Consistent with the Compact, the University's budget plan for 2005-06 includes the following:

- a 3% budget adjustment to the State General Fund base budget;
- enrollment growth of 5,000 FTE students funded at the agreed-upon marginal cost of instruction;
- an increase of 8% for mandatory systemwide student fees (Educational Fee and Registration Fee combined) paid by undergraduate students; an increase of 10% for mandatory systemwide student fees paid by graduate academic and professional school students; and a professional school fee increase of 3% to cover basic inflation and other cost increases, although professional schools will be given flexibility to increase fees further to help address financial aid and quality of education issues;
- modest growth in UC General Fund income (nonresident tuition for undergraduates is proposed to increase by 5% in 2005-06, as explained in more detail in the *2005-06 Budget Request* section of this chapter; there is only small growth projected in UC General Fund income related to contract and grant overhead because of constrained research budgets at the Federal level, discussed in more detail later in this *Overview*).

State General Funds and student fee revenue levels called for under the Compact for 2005-06 will be sufficient to stop the erosion in faculty and staff salaries and provide funding to help cover employee health benefit increases, maintenance of new space, and other non-salary cost increases. While this support provides no restoration of lost funding, it will halt the significant erosion to the University's budget that has occurred in recent years.

Funding under the Compact will also provide support to accommodate enrollment growth consistent with the University's most recent enrollment plan developed in 1999, which called for annual enrollment growth of about 5,000 students per year throughout this decade.

With the Compact in hand, the University can begin once again to move forward and rebuild its academic and programmatic infrastructure so that students have access to the high quality education Californians have come to expect from UC.

### **Historical Perspective**

Historically, the University's State-funded budget has reflected the cyclical nature of the State's economy. During times of recession, the State's revenues have declined and appropriations to the University either held constant or were reduced. When the State's economy has been strong, there have been efforts to "catch up." The last four decades have all begun with significant economic downturns followed by sustained periods of moderate, and sometimes extraordinary, economic growth.

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

The situation improved significantly in the mid-1980s when a period of rebuilding was initiated. Faculty and staff salaries were returned to

competitive levels; funds became available for basic needs such as instructional equipment replacement and building maintenance; and research efforts were expanded. The capital budget also improved dramatically. There was significant growth in private giving, and the University once again became highly competitive for federal research funds. By the late 1980s, however, the situation began to change. Fiscal problems at the State level led to a growing erosion of gains made during the mid-1980s. By 1989-90, UC was struggling with the early stages of a fiscal problem that subsequently turned into a major crisis.

### ***The Budget Crisis in the Early 1990s***

The University experienced dramatic shortfalls in State funding during the first four years of the 1990s. Although State funding increased in 1990-91, it was below the level needed to maintain the base budget and fund a normal workload budget. Over the next three years, State funding for the University dropped by \$341 million. At the same time, the University had to cope with inflation, fixed cost increases, and workload growth. Consequently, the University made budget cuts totaling \$433 million, equivalent to roughly 20% of its State General Fund budget in 1989-90, as depicted in Display 4.

**Display 4**

<b>Permanent Cuts to Campus and Office of the President Budgets 1990-91 through 1994-95 (\$ in Millions)</b>		
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
<b>TOTAL</b>		<b>\$ 433</b>

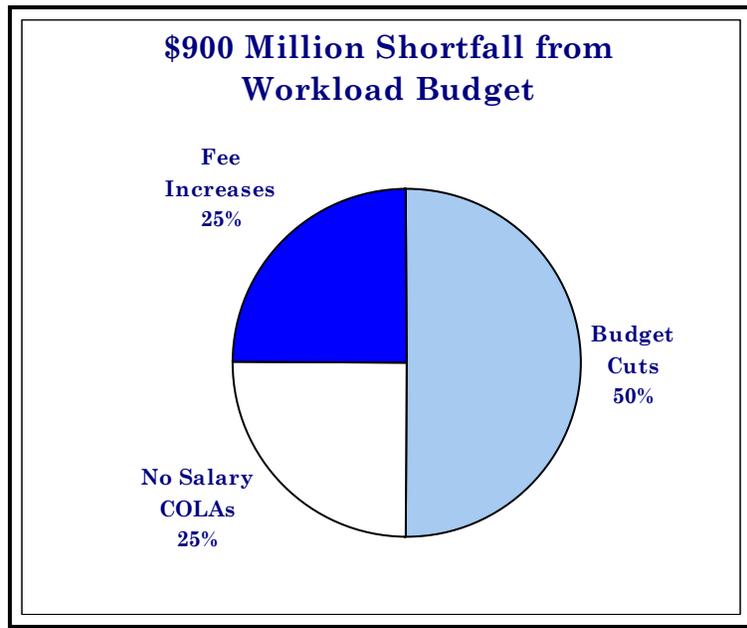
In addition, employees received no general cost-of-living increases for three years and salaries were reduced on a one-year basis. Student fees were raised, though significant increases in financial aid helped to mitigate the impact on financially needy low- and middle-income students.

The enormity of the budgetary losses during the early 1990s is difficult to grasp. One way to convey the magnitude of the problem is to consider that the University's 1993-94 State General Fund budget was less than it was in

1987-88, even though in the interim there had been inflation, other cost increases, and enrollment growth of 6,200 students (4.3% increase) between the years 1987-88 and 1993-94. Another way is to consider that the University's budget would have been about \$900 million greater if the State had maintained the base and funded normal cost increases and workload growth over the four years from 1990-91 through 1993-94. The University coped with this shortfall in ways that reflected the limited nature of its options in the short term.

As illustrated in Display 5, 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.

**Display 5**



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—an approach preferred to layoffs—the result was that the University had many fewer staff available to handle the same workload. The instructional program was protected to the extent possible by making deeper cuts in other areas such as administration, research, public service, student services, and facilities maintenance. Administration, especially, was assigned deep cuts both on the campuses and in the Office of the President. In addition, the purchase of scholarly journals for the libraries was severely curtailed, the backlog of deferred maintenance projects continued to grow, and the budget for instructional equipment replacement declined to only about half of the amount needed. Although instructional resources were eroded by the budget cuts, the University honored the Master Plan by continuing to offer a place to all eligible California resident students who sought admission at the undergraduate level and providing students with the classes they needed to graduate in a timely manner.

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

While the 1994-95 budget represented a substantial improvement over previous years, the University nonetheless remained in precarious financial condition. The University's share of the State General Fund budget had declined to 4.3% (before the 1990s fiscal crisis began, the University's share was 5.3%). Faculty salaries lagged the average of the University's comparison institutions by 7%, the workforce had been reduced by 5,000 FTE without a corresponding decline in workload, and the budget was severely underfunded in several core areas that have a direct relationship to the quality of instructional programs—building maintenance, instructional equipment, instructional technology, and libraries, for example.

## ***Funding During the Second Half of the 1990s: 1995-96 through 1999-2000***

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

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

Translating this perspective into action and signaling a very welcome message about the priority of higher education, the Governor's Budget for 1995-96 included a Compact with Higher Education which ultimately was operational through 1999-2000. Its goal was to provide fiscal stability after years of budget cuts and allow for enrollment growth through a combination of State General Funds and student fee revenue.

The Compact included provision of State General Fund budget increases averaging 4% per year over the four-year period. The Compact also anticipated general student fee increases averaging about 10% a year as well as additional fee increases for students in selected professional schools. At least one-third of new student fee revenue was to be earmarked for financial aid, with the remainder used to help fund the University's budget. Additional financial aid was to be provided through the State's Cal Grant Program. The Compact also provided additional funds to cover debt service related to capital outlay projects and deferred maintenance. Based on the premise that there was a continuing need for efficiencies in order to maintain student access and program quality within available resources, the Compact included a \$10 million budget reduction each year for four years, reflecting \$40 million in savings to be achieved through productivity improvements. For the capital budget, the Compact provided \$150 million a year, with priority given to seismic and life-safety projects, infrastructure, and educational technology.

The funding provided under the Compact was to be sufficient to prevent a loss of further financial ground as the University entered into a time of moderate enrollment growth (1% per year). It did not 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 1999-2000, the State funding under the Compact allowed the University to maintain the quality, accessibility, and affordability that are the hallmarks of California's system of public higher education. The University enrolled more students than the Compact anticipated, and the State provided funding to support them. Faculty salaries were restored to competitive levels, allowing the University to once again recruit the nation's best faculty. Declining budgets were stabilized and further deterioration of the University's budget was halted.

In fact, the Legislature and the Governor not only honored the funding principles of the Compact, but also provided funding above the levels envisioned in the Compact. This additional funding eliminated the necessity for increases in student fees, allowed for reductions in student fees for California resident students, helped restore UC faculty salaries to competitive levels more quickly, provided \$35 million for a number of high priority research efforts (including the Industry-University Cooperative Research Program, the UC San Diego Supercomputer Center, and a variety of other legislative research initiatives), and increased funding for K-14 and graduate outreach by \$38.5 million to expand existing programs and develop new ones. In all, the State provided nearly \$170 million in funding above the level envisioned in the Compact for high priority programs. In addition, general obligation bonds and/or lease revenue bonds were provided each year for high priority capital projects.

### ***A New Partnership Agreement with Governor Davis***

Governor Davis entered office in January 1999 with a commitment to improve California public education at all levels. For UC, his commitment manifested itself in a new Partnership Agreement, the funding principles of which were developed in time to guide development of the 2000-01 budget. The Partnership Agreement was a comprehensive statement of the minimum resources needed for the University to maintain quality and accommodate enrollment growth projected throughout the decade, accompanied by the expectation that the University would manage these resources in such a way as to achieve certain outcomes outlined in very specific accountability principles.

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

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

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

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

In addition to this basic funding, support above the Partnership level was provided for other high priority needs, including funding to: replace foregone revenue related to a second fee reduction of 5% for resident undergraduate students and a 5% fee reduction for resident graduate academic students; provide salary increases beyond normal cost-of-living and merit increases, primarily for lower paid staff; augment several outreach programs and significantly expand K-12 teacher professional development programs; support research initiatives (in the areas of Industry-University Cooperative Research, AIDS, alcohol and substance abuse, brain injury, neurological disorders, engineering and computer science, UC-Mexico collaboration,

Internet2, Lupus, spinal cord injury, and labor policy); expand the California Digital Library; augment Cooperative Extension; initiate the Teacher Scholars, Principal Leaders programs, and the California State Summer School for Math and Science; begin planning for a regional center in the Santa Clara Valley; implement development of K-12 Internet connections; and reduce summer term fees to a level equivalent to what students pay during the regular academic year.

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

Augmentations over this period totaled \$476 million in permanent and \$108 million in one-time funds. The total State General Fund Budget in 2000-01, before the State's fiscal crisis began, was \$3.2 billion.

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

### ***Funding During the Initial Years of the Current State Fiscal Crisis – 2001-02 through 2003-04***

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

The final 2001-02 budget was the first budget in seven years that did not provide full funding of the Partnership Agreement (or the preceding

Compact). Partnership funds totaling \$90 million were eliminated from the University's proposed budget, thereby significantly reducing the funding available for compensation and other fixed costs and eliminating the additional 1% (\$30 million) originally proposed for core needs. However, the budget did provide an increase of \$131 million, including partial funding of the Partnership as well as funding above the Partnership for initiatives representing high priorities for the Governor and the Legislature. This funding allowed the University to fund merit and COLA salary increases for faculty and staff, employee health benefit costs, and funding for maintenance of new space that came on line during the budget year. Funds for strengthening the quality of undergraduate education were not provided and UC funding available for debt financing for deferred maintenance projects was reduced from \$6 million to \$4 million to help fund compensation increases. Enrollment growth of 7,100 FTE was also funded (including an additional 1,400 FTE proposed in the May Revise). Cost adjustments to student-fee-funded programs were provided, avoiding student fee increases for the seventh consecutive year, and funding was provided to convert summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses to State-support.

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

The final budget also reduced funding for the California Professional Development Institutes and redirected \$5 million from K-12 School-University Partnership Programs to increase funds for the Mathematics, Engineering, and Science Achievement Program (MESA), Puente, and Early Academic Outreach programs, provide funds for student-initiated outreach, and to help fund campus costs associated with the implementation of comprehensive review of admissions applications. The University's State General Fund budget for 2001-02 totaled \$3.3 billion.

By the time development of the 2002-03 budget began, the State's fiscal situation had deteriorated markedly, necessitating the unusual action on the part of the Governor and the Legislature to adopt mid-year budget reductions

for UC of \$40.8 million for the 2001-02 budget. One-time funds provided for energy costs were reduced, and support for the California Professional Development Institutes and the Digital California Project (K-12 Internet) was reduced. An unallocated reduction of \$5 million was also included in the mid-year reductions. The State's budget deficit for 2002-03 eventually grew to \$23.5 billion.

The final budget act for the University's 2002-03 budget provided funding for a 1.5% increase to the basic budget—instead of the 4% called for in the Partnership Agreement—to fund compensation, benefits, and other increases. It also included funding for enrollment growth of 7,700 new FTE students and State support for summer instruction at the Davis campus. Increases to UC's State General Fund budget totaled \$149 million.

While the increases to the budget were welcome, the budget also included base budget reductions totaling \$322 million, including a 10% across-the-board cut to research programs; elimination of the "bonus" that was provided to financial aid in 1998-99 and 1999-2000, when student fees were reduced without a corresponding reduction in financial aid; reductions to the California Subject Matter Projects, K-12 Internet connectivity, and outreach programs; elimination of all State General Funds for the California Professional Development Institutes; and a one-time reduction of \$29 million for core needs, including deferred maintenance, libraries, instructional equipment, and instructional technology. State General Funds provided to the University in the 2002-03 Budget Act totaled \$3.2 billion.

Under the authority granted to the Department of Finance in Control Section 3.90 and with the ultimate approval of the Legislature in March 2003, mid-year cuts were instituted in December, 2002, that included \$70.9 million in further base budget cuts for the University. These cuts were targeted at AP online courses program (UC College Preparatory Initiative); savings from prior years related to several research programs that had received large augmentations in the late 1990s; public service programs; K-12 Internet program; Academic and Institutional Support; and Student Services. In addition to cuts targeted at specific programs, \$19 million was designated as an unallocated reduction, which the University offset by instituting an increase in mandatory systemwide student fees of \$135 approved by the Board of Regents in December effective with the Spring 2003 term. When annualized, this fee increase totaled \$405.

By the time the mid-year budget cuts were being approved for 2002-03, the State was facing a deficit for 2003-04 that was unprecedented in magnitude. With the release of the May Revision, the Governor estimated the deficit to total \$38.2 billion. The final budget for 2003-04 addressed the State's shortfall through a combination of actions, including borrowing, assumptions about increased federal funding, an increase in the vehicle license fee, fund shifts, and spending reductions and savings.

For the University, cuts proposed by the Governor in January totaling \$373.3 million were all approved in the final budget act. These reductions affected nearly every area of the budget and included another 10% cut to research as well as targeted reductions to the University of California College Preparatory program (on-line courses to K-12 students), outreach, the California Subject Matter Projects, K-12 Internet, other public service programs, academic and institutional support, and student services. Also included in the total reduction to the University's budget was \$179 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. The Regents adopted an increase in mandatory systemwide student fees of \$713, or 30%, to offset this reduction in 2003-04. Also, \$34.8 million of the total cut which was to be targeted at increasing the University's student-faculty ratio was instead taken by the University as an unallocated reduction.

In addition to cuts proposed by the Governor, the Legislature proposed \$98.5 million in unallocated cuts that ultimately were included in the final budget. Of the total, \$80.5 million was designated as one-time and \$18 million was designated as permanent.

The final budget did include some funding increases as well, including one-time start-up funds for Merced, funding for 13,000 additional FTE students at the agreed-upon marginal cost of instruction, funding for health benefits for annuitants and debt service, and other routine one-time budget adjustments. However, most of the Partnership was not funded, including funding for the 4% annual adjustment to the base budget, funding for core needs (including instructional equipment, instructional technology, maintenance, and libraries), and restoration of the \$29 million reduction in 2002-03 to core areas of the budget that had previously been specified as a one-time cut. The 2003-04 State General Fund budget approved in the budget act for the University was \$2.87 billion, \$282 million less than the State General Fund budget for 2002-03 adopted in September, 2002.

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

### ***A New Compact with the Governor***

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

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

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

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

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

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

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

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

### ***The 2004-05 Budget***

While the Compact will stem the tide of budget reductions and eventually allow the University to begin to recover some of its earlier losses, the reductions for 2004-05 remained significant. State General Funds for 2004-05 total \$2.721 billion, which is \$177 million less than the funding level provided in the 2003-04 final budget act.

The following sections describe the elements in the University's 2004-05 final State General Fund budget.

**Reductions Offset by Student Fees.** In his January budget, the Governor proposed student fee increases of 10% for undergraduates and 40% for graduate academic students. Broad consultation with Regents, Chancellors, faculty, and other campus leadership, indicated there was wide agreement within the University that an increase of 40% in student fees for graduate academic students could not be supported. The University has been striving in recent years to become more competitive in attracting top quality graduate students from across the nation and throughout the world to California. The Regents established a Commission on the Growth and Support of Graduate Education to look at ways to improve support for graduate students. Yet the dramatic increase in fees proposed in the Governor's Budget would have made it more difficult to develop the financial support packages necessary to attract these students.

In response to the University's concerns, the Governor agreed to a three-year plan for student fee increases requiring undergraduate students to pay a slightly higher fee increase in 2004-05 in order to help moderate the fee increase for graduate students. Thus, in 2004-05, undergraduate fees increased by \$700, a 14% increase over 2003-04 rather than the 10% proposed in January, and graduate fees increased by \$1,050, an increase of 20% rather than the 40% proposed in January. These figures reflect the action taken by the Board at the May meeting to approve student fee increases for 2004-05, consistent with the Governor's May Revision.

The undergraduate increase is about \$200 more than the increase proposed by the Governor in January and the graduate student increase is about \$1,040 less. In the second and third year of this plan, undergraduate students will pay increases of 8% per year in order to achieve an average increase over the three-year period of 10% per year, and graduate fees will rise by 10% per year. These increases are specified in the new Compact.

The 2004-05 budget also includes an average increase of 30% for most professional school students (at the request of the Governor, Nursing professional school fees did not increase in 2004-05). A longer term plan for increases in these fees is discussed later in this *Overview* as part of the discussion of the 2005-06 budget request.

The budget also includes a 20% increase in nonresident tuition. It should be noted that these students actually pay significantly more than the cost of their education. In addition to nonresident tuition, students pay mandatory systemwide student fees and campus-based fees. Thus, caution should be exercised in designating increased nonresident tuition as a reliable revenue stream.

**Enrollments.** For the first time in recent history, the University was asked to reduce enrollment in 2004-05 to help meet budget reductions. The Governor's January Budget proposed a 10%, or 3,200 FTE, reduction in University enrollments and called for the University to redirect these students to the California Community Colleges for their first two years of study. Upon completion of their lower division work, these students would enroll for their upper division work at the UC campus that originally accepted and redirected them.

The University implemented the Governor's proposal in the spring and called the redirection program the Guaranteed Transfer Option, or GTO. The University initially offered GTO to 7,600 eligible freshman applicants.

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

Following the compromise, the University immediately sent offers for freshman admission to all eligible students who had not yet received a UC freshman offer. Among the roughly 7,600 applicants initially offered GTO and later offered freshman admission, approximately 1,610 decided to attend UC during 2004-05. Another 330 decided to remain as GTO students and will later transfer to the University as upper division students.

However, the State did not provide new State General Funds for this purpose. Instead, the enrollment issue was tied to funding for student academic preparation programs (formerly referred to as outreach) in the following way.

Under the new Compact, UC agreed to provide \$12 million from existing resources to continue funding for student academic preparation programs. Under the final budget, the University will use that \$12 million instead to fund enrollment, allowing the University to offer freshman admission to all students who received a GTO offer in the spring. As part of this same agreement, the Governor and the Legislature agreed to provide \$29.3 million in additional State General Funds for UC's student academic preparation programs, the same level of *State* funds as had been provided in the 2003-04 budget.

For 2005-06 and beyond, the Compact recently negotiated with Governor Schwarzenegger calls for funding of normal enrollment growth each year and the University believes this will be strongly supported by the Legislature. Thus, we believe there will be no further question of the State's commitment to the Master Plan and the University can once again ensure that its doors will be open to eligible students who wish to attend.

**Other Budget Cuts.** In January, the Governor proposed increasing the student-faculty ratio from 19.7:1 to 20.7:1 for 2004-05 and assumed State General Fund savings of \$35.3 million associated with this proposal. However, the Board of Regents has designated preservation of the student-faculty ratio as among its highest priorities. Therefore, this reduction will be addressed as an unallocated reduction.

Another unallocated reduction relates to an expected \$5 million shortfall in professional school fee revenue. The Governor's proposal assumed \$42 million in cuts would be offset by increases in professional fees. However, the University decided the fee increases necessary to produce that amount of revenue would be too steep to accomplish all in one year. Therefore, the Board approved professional school fee increases in May that will yield only \$37 million in revenue, requiring the campuses to absorb an unallocated reduction of \$5 million on a temporary basis until fees can be raised further in the following year.

A third unallocated reduction reflects the fact that the University is developing a plan for instituting an excess units fee for students entering in 2005-06 and beyond. Until the \$1.1 million in revenue expected by the Governor's budget from that fund source is realized, the University will absorb another unallocated reduction to the budget.

A fourth unallocated reduction of \$4 million reflects the negotiated agreement on funding for enrollment and student academic preparation programs described on the previous page. The Governor's January budget had proposed elimination of all State and University funds for student academic preparation programs for 2004-05. As part of the negotiations on the Compact with Governor Schwarzenegger, the University and the Administration agreed that \$12 million of existing University resources would be redirected to support high priority, effective student academic preparation programs. As noted earlier, the Governor and the Legislature have agreed to use the \$12 million in existing University resources instead to fund additional enrollment for 2004-05 and included \$29.3 million in additional State General Funds to restore State support for these programs. The total provided is \$4 million less than the \$33.3 million in total State and University sources budgeted for these programs in 2003-04. The Office of the President is working with the campuses to develop a new spending plan for student academic preparation programs for 2004-05.

The final budget includes another reduction to academic and institutional support budgets of 7.5%, or \$45.4 million. These programs provide administrative and operational support services and are the core infrastructure for the University's academic programs. Campuses have expressed significant concern over further reductions to these programs. Budget cuts in the early 1990s were severe in these areas and have never been recouped. Furthermore, regulatory requirements have intensified. To the extent possible, the University will achieve these savings through efficiencies and cost saving measures, some of which may require negotiating changes to State reporting and regulatory requirements in order to reduce costs. The President is working with State government officials to determine all possible savings that can be achieved while maintaining basic operations without further erosion to needed academic infrastructure.

The budget also includes another cut of 5%, or \$11.6 million, to research, on top of the reduction of 20% in research funding that occurred during the State's current budget crisis. This reduction will be allocated to specific research programs rather than across-the-board to all programs as much as possible. Core research programs, such as agricultural research, the Scripps Institution of Oceanography, and others cannot sustain further cuts and continue to maintain the quality of their programs. These research programs received disproportionate cuts in the early 1990s and never recovered those funds. Furthermore, most of these core research programs

already will be contending with large cuts in 2004-05 because of the need to cover the significant fee increases proposed for graduate students. It is the University's intention to allocate the \$11.6 million in cuts proposed for 2004-05 to research programs that received large increases in the 1990s as well as those that do not have large numbers of graduate students and therefore will not be coping with the added problem of providing graduate student support to cover the proposed fee increases for next year.

The Governor's January budget proposed elimination of all State funds (\$4 million) for the Institute for Labor and Employment, a multi-campus research unit housed on the Berkeley and Los Angeles campuses. As part of the final budget package, the Governor and the Legislature agreed to restore \$3.8 million of these funds, leaving the Institute with a \$200,000 reduction, similar to the level of reduction to the overall research budget. The Office of the President is working with the Berkeley and Los Angeles campuses to develop a new structure for the program that will place greater emphasis on faculty research of labor and employment issues, including development of a competitive grants program that will allow University faculty from all campuses to participate in this important research.

The final budget eliminated all remaining funding for the Digital California Project (K-12 Internet) from the University's budget. Instead, the State budget included a total of \$21 million in Proposition 98 funding specifically designated for schools to contract with providers for access to the high-speed Internet. The Digital California Project is in the process of negotiating contracts with individual counties and/or school districts to continue providing the services they have already established.

**Other Budget Adjustments and One-Time Actions.** The 2003-04 Budget Act included an additional one-time reduction of \$80.5 million, with language designating this reduction clearly as one-time. The University addressed this cut in part by borrowing \$47.5 million; the remainder was accommodated along with other reductions to the University's budget through fee increases and base budget reductions. The 2004-05 budget restores this funding to the University. A total of \$47.5 million will be used to replace funds borrowed in the current year. The remaining \$33 million will be used to help cover budget deficits for unfunded cost increases that far exceed this amount, such as faculty merit salary increases, price increases related to the non-salary portion of the budget, employee health benefits, and maintenance of new

space-totaling about \$100 million in real costs—all of which must be funded despite the lack of State support provided for them.

Consistent with the last several years, the 2004-05 budget again provides one-time funding to allow the Merced campus to continue its preparations to open the campus by Fall 2005. These funds are needed for faculty start-up costs and to help establish the systems and core infrastructure needed to ready the campus for its opening in one year. The \$2.7 million provided for this purpose increases the amount of one-time funds to \$10 million. The campus will open with approximately 1,000 students in 2005-06.

The budget also provides normal budget adjustments for annuitant health care benefits and lease revenue bond payments, consistent with past years.

The University did not receive funding for increases to salaries, employee health benefits, maintenance, energy, inflation, core needs, and other cost increases. It is estimated that faculty salaries are about 8-10% behind the average of other comparison institutions—there is a similar problem with respect to staff salaries. Employee benefit costs are skyrocketing, energy costs are increasing significantly, new space is coming on line with no funds to support maintenance, and funding for core needs that provide the infrastructure to support the academic program, such as libraries, instructional equipment, and instructional technology, is falling further behind.

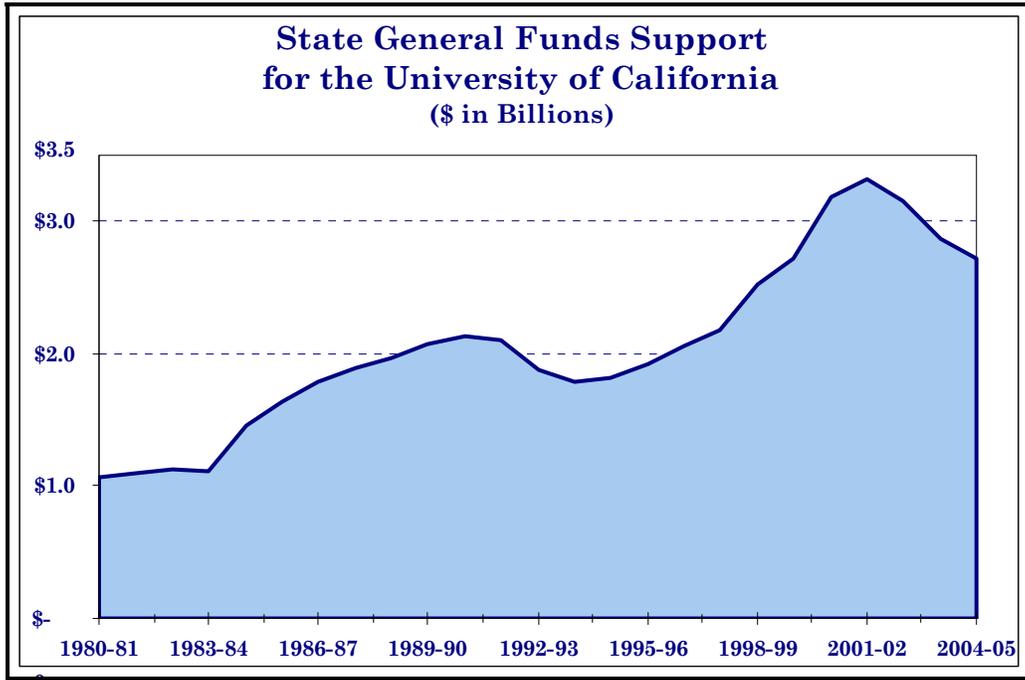
As a result of the State's fiscal crisis, the University's State General Fund budget is nearly \$1.5 billion below what it would have been if a normal workload budget had been funded for the last four years. A little more than 1/3 of this shortfall has been accommodated through base budget cuts to existing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

### ***State Funding for UC Depicted Over Time***

Beginning with the first year of the first Compact with Governor Wilson (1995-96) through 2001-02 (including the first two years of the Partnership), the State provided increased funding for the University's budget every year,

as Display 6 shows. The “ups and downs” shown in Display 6 have largely coincided with the State’s economy. The upward trend from 1995-96 through 2000-01 reflects the high priority the State placed on funding for the University during that period.

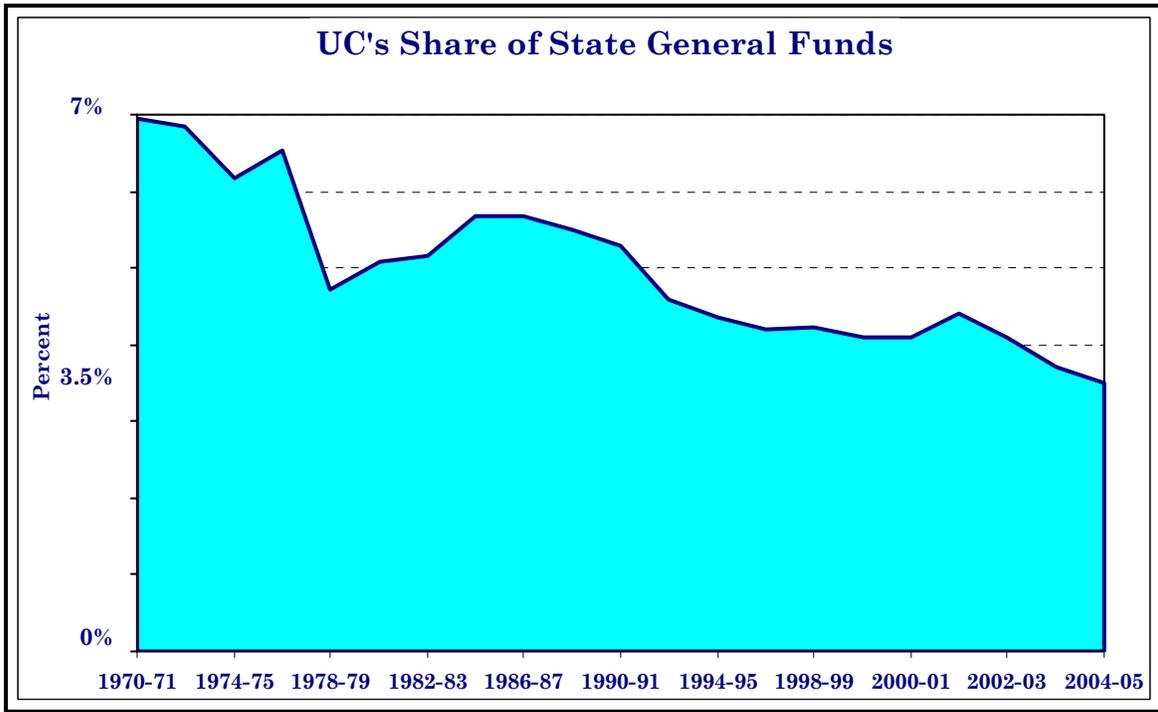
Display 6



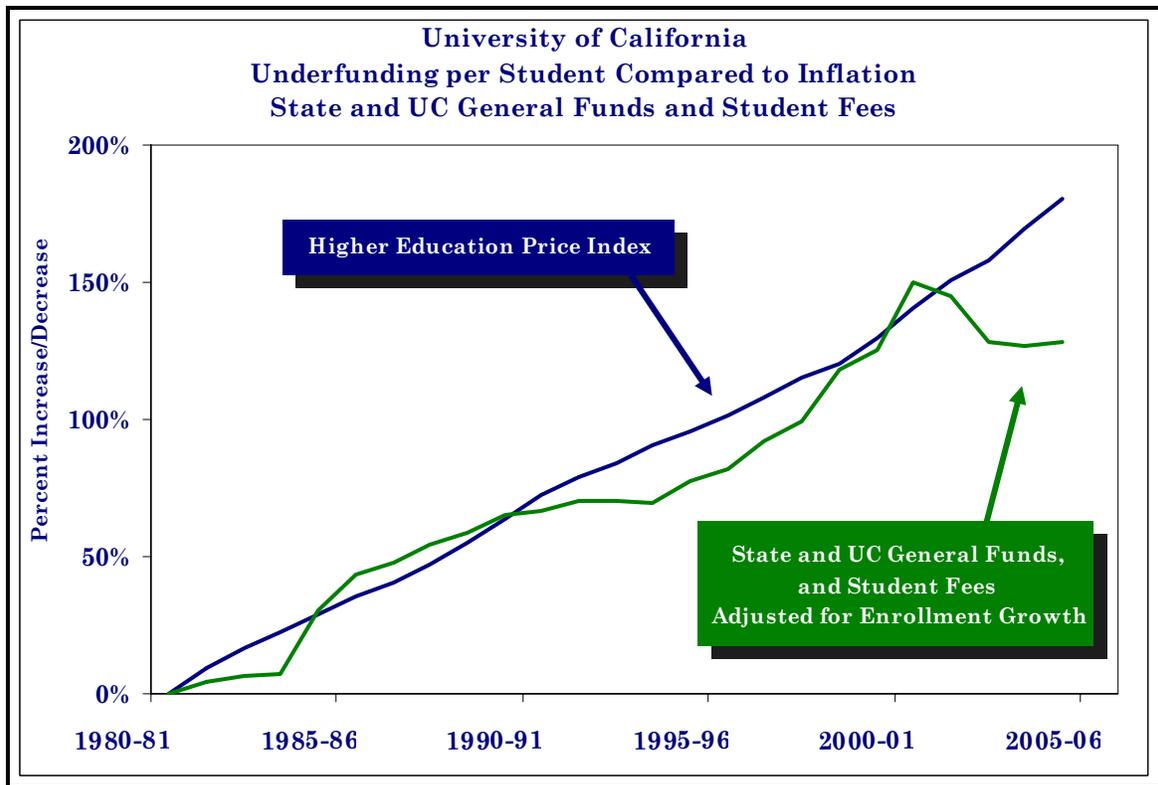
Display 7 shows the University’s share of the State General Fund budget over time. Thirty years ago, the University’s share was 7%. It has declined markedly over the last three decades and is currently at a low point of 3.5%. Declines and increases track closely with the State’s economic cycles.

Another way to look at the University’s budget over time is shown in Display 8, which shows the underfunding of the University’s budget on a per student basis relative to inflation as gauged by the Higher Education Price Index. It reflects the primary sources of funds used to support the University’s basic operations—State and UC General Funds and student fee revenue. The graph shows that the University has fared better in some years and worse in others, when compared to inflation, but has remained relatively steady in terms of funding per student. After 2000-01, the graph shows a precipitous decline over several years in funding per student when compared to the price index. While this decline has leveled off in the last two years, the gap between funding per student and the increase in inflation has widened considerably. The University is deeply concerned about this trend and hopes

Display 7



Display 8



the new Compact with the Governor will help to reverse this trend over the next several years. The importance of having sufficient funds to maintain quality cannot be overstated. The erosion of the University's resources must be halted if the educational quality of the University is to be preserved.

## **Planning for the Longer Term**

### ***Enrollment Projections***

Provisions of the Master Plan related to student access call for UC to offer a place to any eligible student within the top 12.5% of graduating California high school seniors as well as to any eligible California Community College transfer student who wishes to attend. The Master Plan also calls for the State to provide adequate resources to accommodate this enrollment. The University remains committed to the Master Plan and believes it is the underpinning for one of the finest higher education systems in the world. The interests of the State, its citizens, and the higher education segments in California have been well served by the Master Plan for over 40 years. Legislative reviews of the Master Plan in 1989 and 2002 have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students.

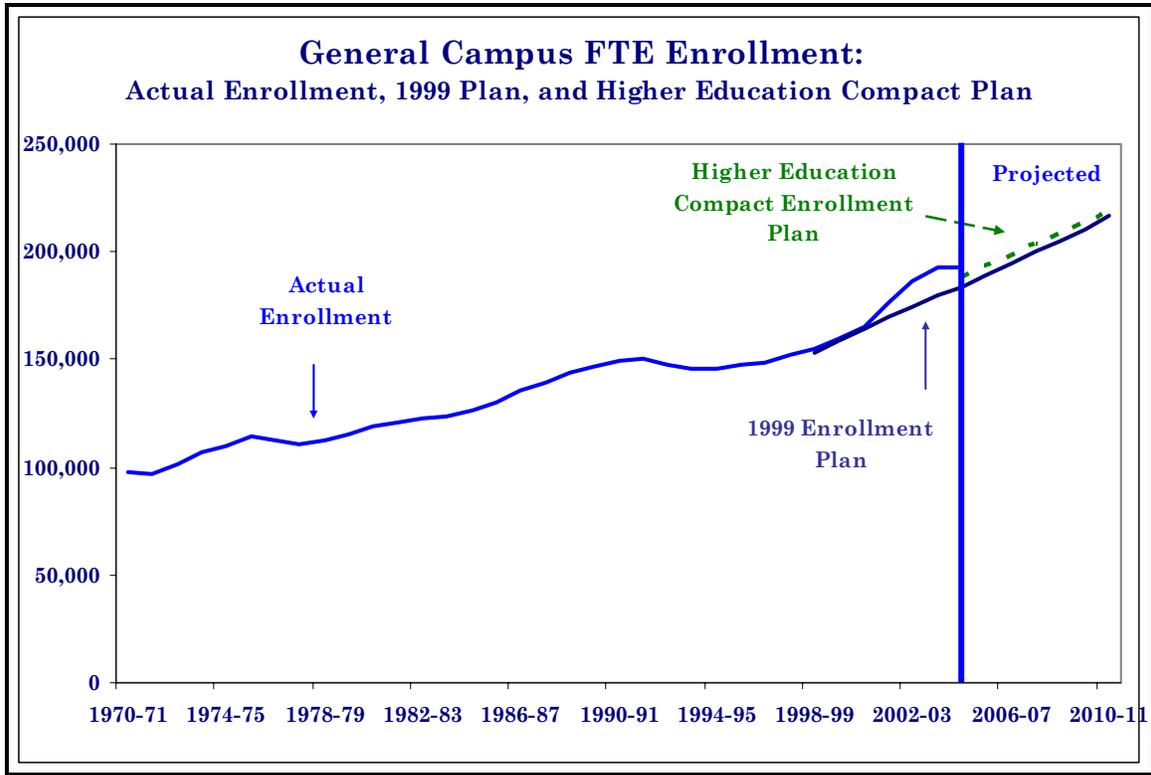
UC's long-term enrollment projections for general campus programs are based on consideration of four primary factors:

- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class, but generally about 7.8% actually enroll);
- assumptions about community college transfer rates, consistent with the University's commitment to continue to improve these rates; and
- increases in graduate and professional enrollment needed to meet workforce needs in academia, industry, and other areas.

The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 FTE over this decade; by 2010-11, the University would reach its planned target of 216,500 FTE.

As shown in Display 9, the University has experienced far more rapid enrollment growth than the 1999 plan projected, averaging closer to 8,000 FTE student growth per year in recent years rather than the 5,000 FTE growth projected earlier. Now, total enrollment is currently approximately 6,000 FTE over the level envisioned in the 1999 plan for 2004-05.

Display 9



The Compact recently negotiated with Governor Schwarzenegger calls for UC to return to its earlier estimates of annual enrollment growth of 5,000 FTE students.

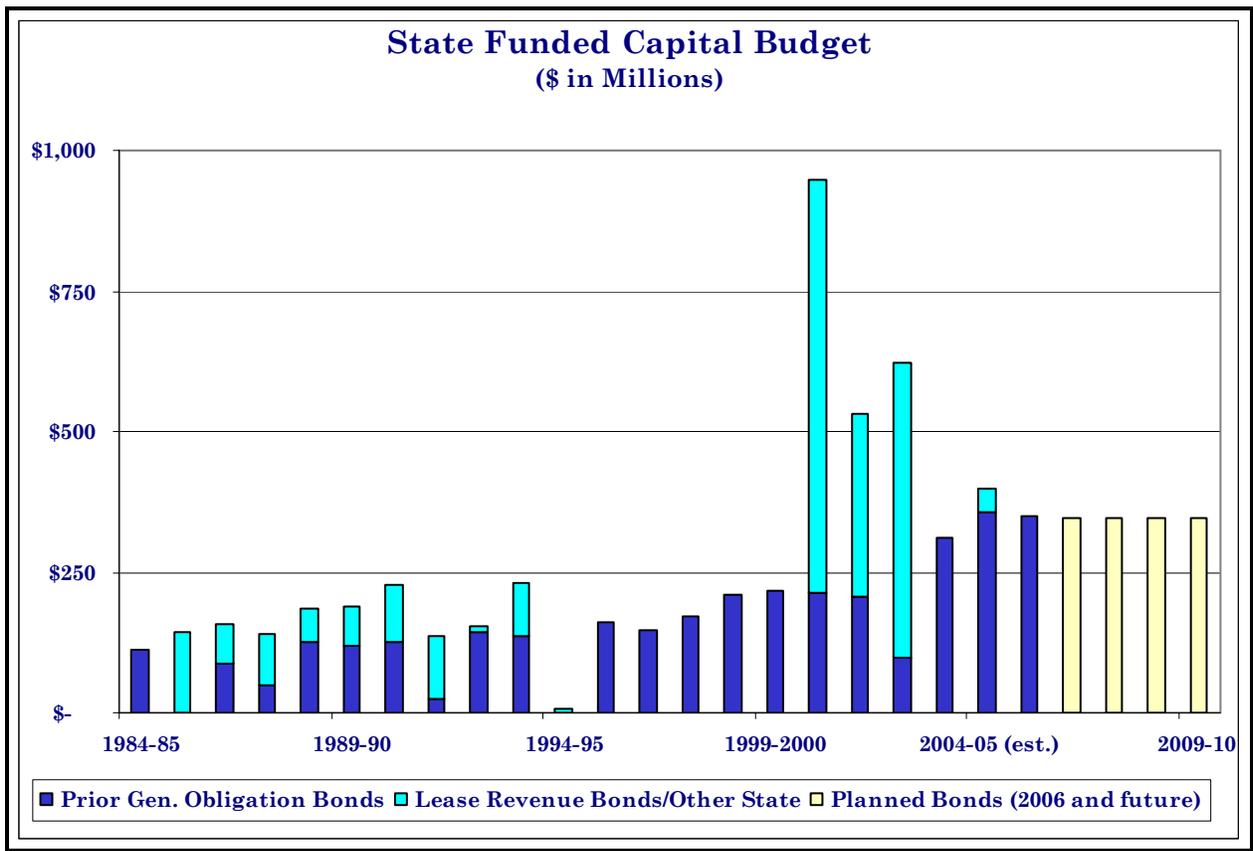
Therefore, the 2005-06 budget request will include workload funding at the agreed-upon marginal cost for 5,000 students. The Merced campus will open its doors officially for the 2005-06 academic year. Thus, 1,000 of this growth in enrollment will be directed to the Merced campus. Funding for another 2,000 FTE will be used to complete conversion of summer instruction at the four campuses still not funded for the summer. This constitutes about one-half of their existing summer enrollment; the final phase-in for these campuses will occur as part of the enrollment growth

funded in 2006-07. The remaining growth of 2,000 FTE will be assigned to the campuses through the normal budgeting process.

***Facilities Needs to Accommodate 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 10 indicates, the State provided funding for capital outlay within the range of \$100 million to \$250 million per year for more than a decade from the mid-1980s to the late 1990s. Since then, the level of capital outlay funding has fluctuated significantly.

Display 10



In November 1998, voters overwhelmingly approved Proposition 1A, which provided higher education with \$2.5 billion in general obligation bonds over four years through 2001-02. The University’s share was about \$210 million per year.

In Spring of 2002, the Legislature and the Governor agreed on a new general obligation bond package for education, embodied in Assembly Bill 16 (Chapter 33, Statutes of 2002). This package proposed two public education facilities bond measures, one for 2002 and one for 2004, authorizing a total of \$27 billion in general obligation bond funds over four years to help fund K-12 and higher education facility needs. Proposition 47, the 2002 bond measure, was approved in November 2002 and authorized more than \$13 billion for K-12 and \$1.65 billion for higher education. UC received \$90.2 million in Proposition 47 funds in 2002-03 and \$307.5 million in 2003-04. The second bond measure, approved by voters in March 2004, authorized \$10 billion for K-12 and \$2.3 billion for higher education for the two-year period 2004-05 and 2005-06.

The University also received capital funds from other State sources in recent years. In 2000-01, UC received \$75 million in State General Funds for the California Institutes for Science and Innovation, more than \$650 million in lease revenue bonds for hospital seismic projects required by SB 1953, \$50 million in State General Funds for hospital infrastructure, and approximately \$205.6 million of "Garamendi financing" authorized for four research projects pursuant to Government Code Section 15820.21. (In 1990, the State approved legislation [SB 1308, Garamendi] authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, ongoing maintenance, financing, and related infrastructure of certain research facilities.)

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 and \$4.9 million in State General Funds 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. The State also provided \$95 million in State General Funds for the California Institutes for Science and Innovation; however, most of the State's General Funds were later replaced with lease revenue bonds.

In 2002-03, the State 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 at other campuses that originally were scheduled for funding from the 2002 general obligation bonds. This acceleration allowed the campuses to move more quickly toward construction on projects originally scheduled for construction

funding in 2003-04. The State also authorized \$3 million from the water bond approved by the voters in March 2000 for a UC Davis watershed project and \$308.5 million in lease revenue bonds for the California Institutes for Science and Innovation to replace \$90 million of State General Funds previously appropriated and to provide the balance of funding needed for construction of the Institutes. Another \$11 million of General Funds previously appropriated for the Institutes was replaced with lease revenue bonds in 2003-04. 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 (it should be noted that State funds were matched on a 2:1 basis by non-State funds for this program).

The University's 2005-06 capital budget request totaling \$355.5 million is discussed in more detail at the end of this *Overview* and in a companion document, *2005-06 Budget for Capital Improvements*.

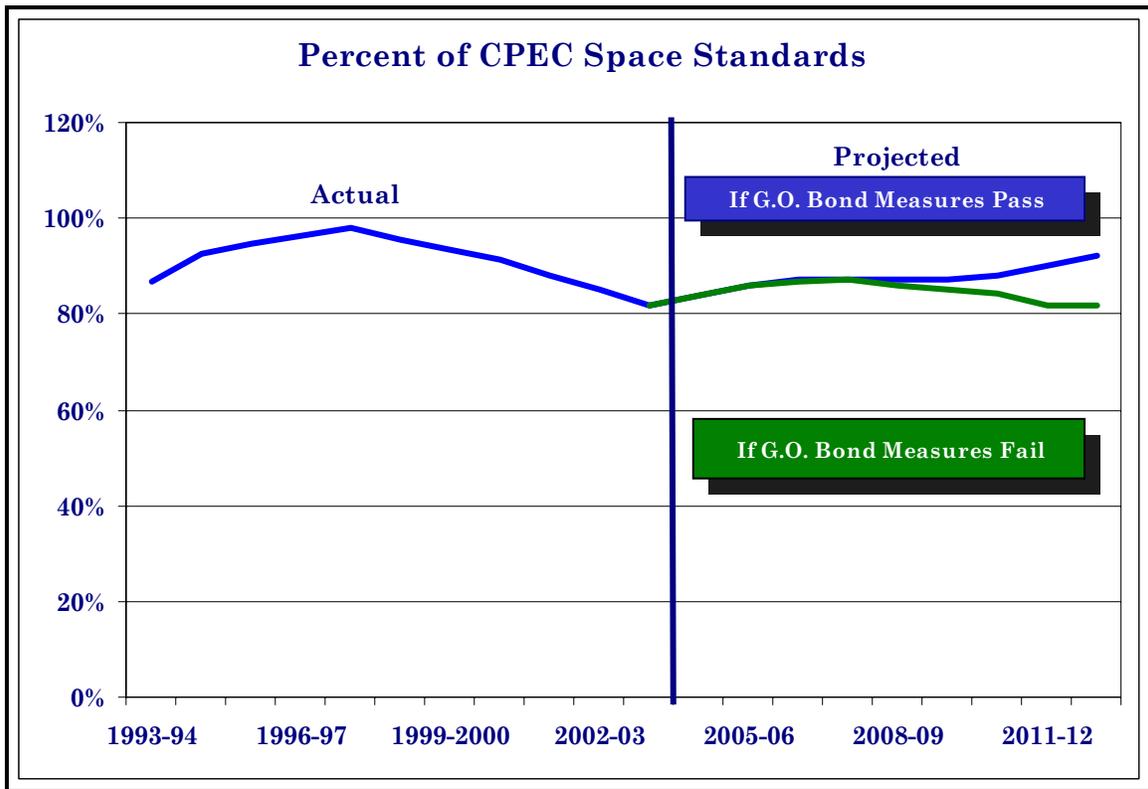
Future funding for capital outlay continues to be a major issue facing the University. Continued enrollment growth over the next decade presents significant challenges. However, even without enrollment growth, the University has significant capital needs related to seismic and life-safety requirements, modernization of out-of-date facilities that no longer serve the academic programs they house, new infrastructure for growing campuses, and renewal of infrastructure and other facility systems that are worn out and cannot accommodate even present needs. Therefore, the University prepares each year 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 called for in the new Compact. The State-funded program includes the projects and budget proposed for approval in 2005-06, along with future State funding requirements by campus for the next four years, 2006-07 to 2009-10. The State-funded 2005-06 Budget for Capital Improvements will be presented to the Board for approval at the November Regents meeting, consistent with usual practice.

The University estimates that it will require more than \$650 million per year over the next decade to address its most pressing facilities needs for core academic and support space traditionally funded by the State. Recognizing the State's difficulty in funding the full annual State-supportable capital outlay need, the University has committed to meeting a portion of this annual

need through significant efforts in private fundraising and devoting a portion of the increase in UC General Funds to pay for debt service on long-term financing for capital renewal and deferred maintenance. In addition, there are other urgent needs in areas traditionally not supported by the State, such as student and faculty housing, parking, and other facilities that serve public as well as University needs.

While State funding does not meet all the University’s needs, the \$345 million that represents the University share 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. If that level of funding continues each year, the University estimates it will construct sufficient space to achieve 90% of the standards for instruction and research space set by the California Postsecondary Education Commission (CPEC space standards) by 2010-11. If the next two bond issues envisioned in the University’s five-year plan are not approved and other State funding is not provided, the percentage drops to 84%, as depicted in Display 11

Display 11



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

## **2005-06 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. Over half of the University's research expenditures and nearly one-third of the net operating revenue of the teaching hospitals is from federal funds. In addition, federal funds represent an estimated 21% of grant aid received by UC students in 2004-05. The three Department of Energy Laboratories, for which the University has management responsibility, are entirely supported by federal funds.

State funds that support the University's core operations make it possible to attract funds from other sources. In recent years, the University has done very well in terms of attracting more 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. In fact, current projections indicate much more modest growth in the next several years, probably not exceeding the rate of inflation. Federal and private funds are discussed more fully at the end of this *Overview*.

With one exception since the Compact with Governor Wilson was developed in 1995-96, it has been the practice of the University to premise its annual budget request on the basis of the funding agreement with the Governor. The sole exception occurred in the last fiscal year when the considerable uncertainty surrounding the State's fiscal situation prevented the University from submitting a budget request. Now, with a new Compact agreement in place with Governor Schwarzenegger, the University is once again basing its request for 2005-06 on such an agreement.

This section discusses general support for the University's budget, including State General Funds, UC General Fund income, and student fee revenue based on the Compact Agreement with the Governor. A more complete discussion of the existing base budget, other fund sources, and associated policy issues within the major functional areas of the budget is contained in the following chapters of this document.

Display 12 (next page) identifies the components of the 2005-06 budget plan, with increases totaling \$268.7 million. This total includes:

- \$115 million in State General Funds;
- \$101 million in student fee income related to proposed increases in mandatory systemwide student fees of 8% for undergraduates and 10% for graduate academic and professional school students;
- \$9 million associated with an increase in professional school fees of 3% as well as the addition of new schools to the list of those subject to the professional school fee;
- \$29 million in student fee income related to enrollment growth; and
- \$15 million in UC General Funds, including a 5% increase in undergraduate nonresident tuition.

Consistent with the Compact Agreement with the Governor, the \$115 million increase in State General Funds comprises:

- \$77 million, representing a 3% increase to the prior year's State General Fund budget, excluding debt service and one-time funds. These funds will be used to provide normal cost-of-living and merit salary increases for faculty and staff, help pay for cost increases in health benefits and non-salary portions of the budget, and support the additional maintenance needed for new space coming on line in the budget year. The University estimates that faculty salaries already lag the average of the comparison institutions by 8-10% and that there is a similar lag with respect to staff salaries. This funding will be sufficient only to prevent any significant increase in these lags. It will not provide support for closing the existing lag; and

Display 12

University of California  
2005-06 Budget Request  
(\$ in millions)

**2004-05 Operating Budget**

Estimated State General Funds (excluding one-time funds and lease revenue payments)	\$ 2,567.6
Estimated State and UC General Funds plus student fee income (excluding one-time funds and lease revenue payments)	4,367.6

***PROPOSED INCREASES IN EXPENDITURES***

(Based on the Compact)

**Fixed Costs**

Merit increases for faculty and staff (1.78% faculty; 1.5% staff)	46.8
Funding equivalent to an average 1.5% cost-of-living salary adjustment for faculty and staff	40.6
Funds to support health benefit costs plus parity and equity compensation for faculty and staff	23.7
Price increase for nonsalary budgets (2.25%)	20.6
Restoration of shortfall related to 2004-05 Professional School Fee Increase	5.0

**Workload and Program Growth**

Enrollment growth (5,000 FTE students)	
State funds	38.0
Student fee funds	29.0
Financial aid related to fee increases	30.1
Professional school funding	8.9
Maintenance of new space	16.0
Restoration of unallocated cuts related to Governor's proposed increase to the student-faculty ratio	10.0
<b><i>Total Increase Under the Compact</i></b>	<b>\$ 268.7</b>
<i>% increase in State and UC General Funds, and Student Fee Income</i>	<i>6.2%</i>

***PROPOSED INCREASES IN INCOME***

State General Funds (3% increase to the base, excludes debt service for capital outlay)	77.0
State General Funds for enrollment growth (marginal cost rate)	38.0
Revenue from an increase in mandatory systemwide student fees	100.8
Revenue from an increase in professional school student fees	8.9
Increase in fee income related to increase in enrollment	29.0
UC General Funds income (including 5.0% increase in undergraduate nonresident tuition)	15.0
<b><i>Total Increase in State and UC General Funds, and Student Fee Income</i></b>	<b>\$ 268.7</b>

- \$38 million to fund enrollment growth of 5,000 FTE students (about a 2.5% increase) at the agreed-upon marginal cost.

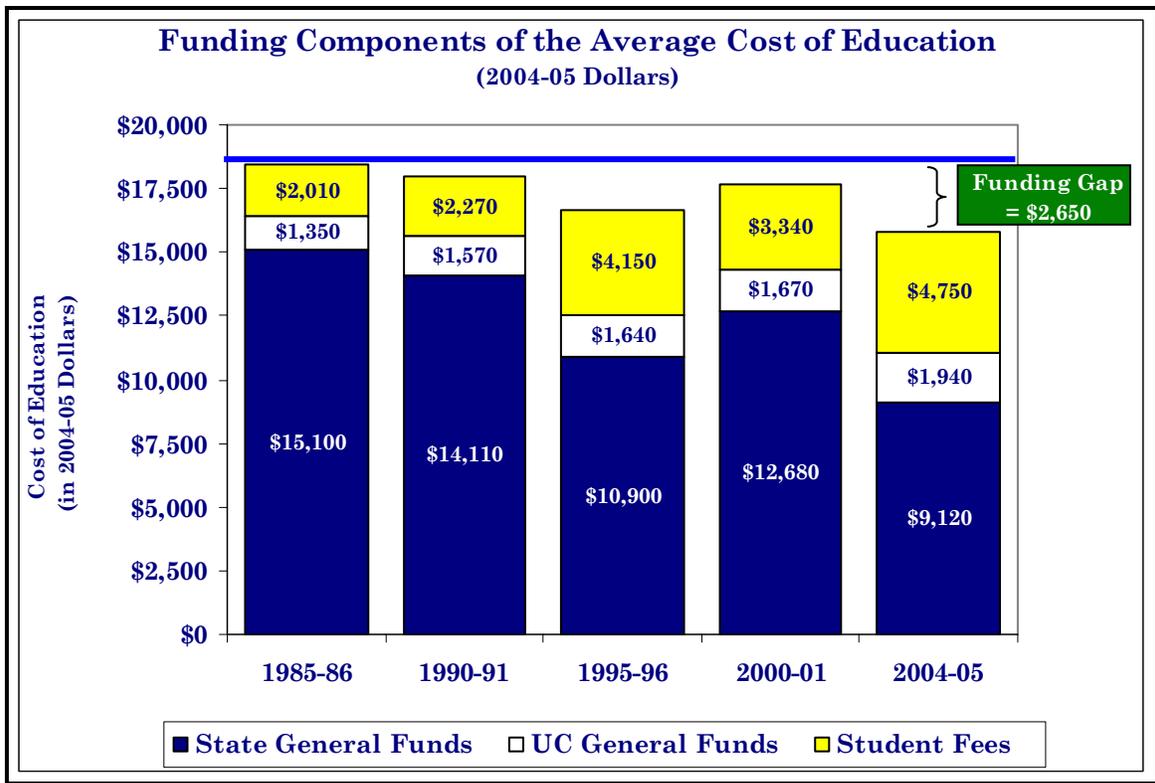
The \$268.7 million increase from all sources to support the general budget is an increase of about 6.2%, when calculated on a base that includes programs funded from State and UC General Funds and student fees (Educational Fee, University Registration Fee, and the Fee for Selected Professional School Students). Each component of the University’s budget request is described in more detail below.

### ***Student Fees and Financial Aid***

Historically, the State has heavily subsidized the cost of education. However, as with all public universities, student fees have tended to increase as the State’s subsidy has declined. UC has maintained affordability for lower-income students by maintaining a strong financial aid program.

Display 13 shows the funding components of the average cost of a UC education from 1985-86 through 2004-05 (in 2004-05 dollars) and the

Display 13



funding gap that has developed between the cost of a UC education in 1985-86 and the resources available in 2004-05.

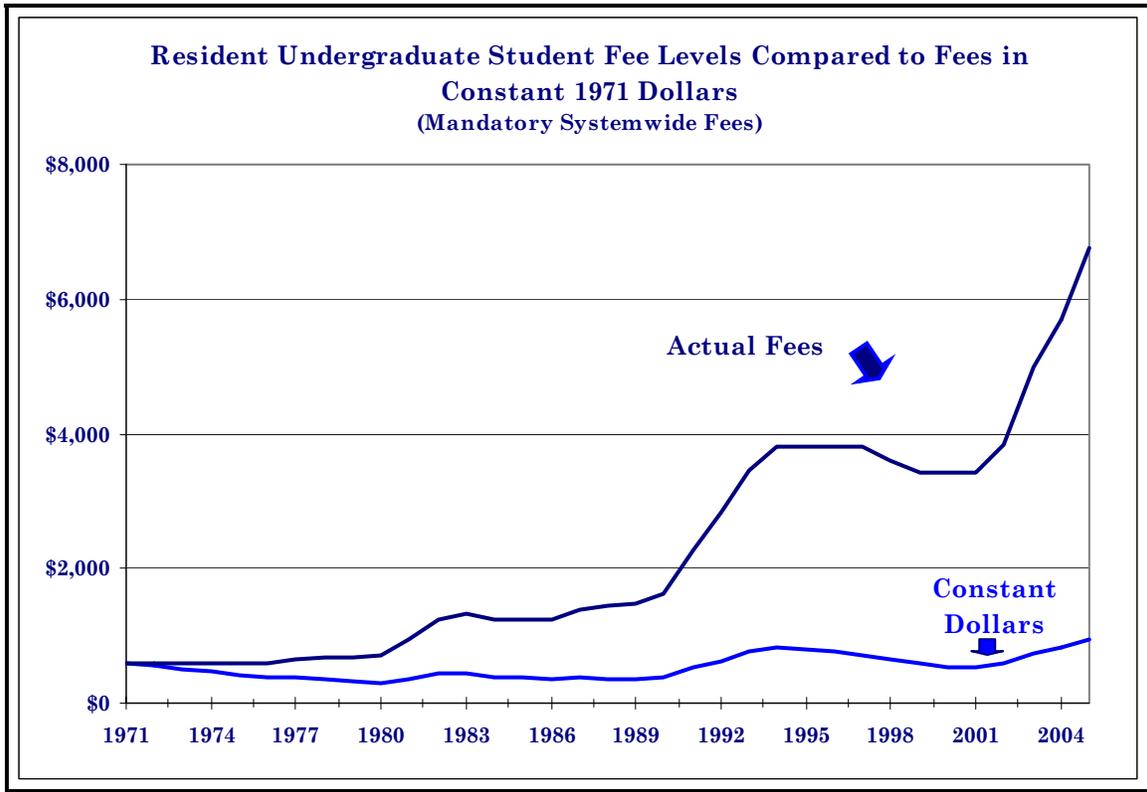
Display 13 makes several points. First, contrary to recent news coverage nationally about the skyrocketing costs in higher education, the average expenditure for a UC education has declined. In 1985-86, the cost to educate a UC student was approximately \$18,460 in 2004-05 dollars. Over 19 years, funding per student in inflation adjusted dollars declined by 14.4%, from \$18,460 in 1985-86 to \$15,810 in 2004-05, resulting in a funding gap of \$2,650 per student. Second, the State subsidy toward a UC education has declined significantly—by 40% over a 19-year period. In 1985-86, the State contributed \$15,100 per student—82% of the total cost. By 2004-05, the State share declined to \$9,120, just 58%. Third, as the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening now. While in 1985-86 students contributed 11% toward their education, they currently pay 30% of the cost of their education. Student fee increases have helped maintain quality during times of fiscal crisis, but have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low. While fees have increased, the University has provided significant increases in financial aid to help ensure access for low-income students.

Display 14 presents the history of student fees. The wide fluctuation in student fees tracks fairly closely with changes in the State's economy. In good years, fees were held steady or reduced. In years of fiscal crisis, student fees increased dramatically. The display also shows that fee levels, when adjusted to reflect 1971-72 constant dollars, are about the same as they were in 1994-95; overall, they have increased from approximately \$500 to \$1,000 over the 34-year period (in constant 1971-72 dollars).

### **Student Fees for Undergraduate and Graduate Academic Students.**

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

Display 14



The State's fiscal situation began to deteriorate in 2001-02. However, it was not until mid-year cuts were instituted in 2002-03 that student fees were increased. As part of the University's effort to offset cuts that otherwise would have been targeted at instructional programs, systemwide student fees were raised by about 11% in 2002-03 (\$135 effective Spring term 2003, which when annualized totaled \$405) and another 30% (\$1,150 for resident undergraduates) for 2003-04. Professional school, graduate, and nonresident student fees also rose significantly. Again in 2004-05, student fees were raised to offset cuts that otherwise would have been directed at instruction: undergraduate fees rose by \$700 (14%), graduate fees rose by \$1,050 (20%), and professional school fees rose by an average of 30%, with increases varying by school. Nonresident students also paid an additional 20% in nonresident tuition (a \$2,746 increase for undergraduates).

These increases in student fees have been regrettable; however, they have been necessary to address the dramatic decreases in State funding for the University's educational programs. The University remains deeply committed to ensuring that access is provided to needy students through a strong financial aid program, as discussed in the next section.

Display 15 compares UC fee levels with the average of four public salary comparison institutions for 2004-05 and estimates fee levels for 2005-06, assuming an 8% student fee increase is instituted for undergraduates and a 10% increase is instituted for graduate students, consistent with the new Compact with the Governor. As Display 15 shows, the University's average fees for undergraduate resident students are approximately \$1,000 less than the average fees charged at the University's four public comparison institutions. In addition, University fees for resident graduate students continue to be well below (about \$2,200) the average fees charged at the University's four public salary comparison institutions. Currently, only one of the four public comparison institutions charges lower fees to resident undergraduate students; UC charges the lowest fees for resident graduate students of any of the public comparison institutions.

Display 15

<b>University of California and Public Salary Comparison Institutions Student Fees</b>				
<b>Public Salary Comparison Institutions 2004-05 Fees</b>	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
University of Illinois	\$ 7,944	\$ 20,864	\$ 8,310	\$ 20,310
University of Michigan	\$ 8,722	\$ 26,941	\$ 13,585	\$ 27,311
State University of New York	\$ 5,907	\$ 12,167	\$ 9,455	\$ 13,265
University of Virginia	\$ 6,790	\$ 22,890	\$ 9,200	\$ 20,200
2004-05 Average Fees of Comparison Institutions	\$ 7,341	\$ 20,716	\$ 10,138	\$ 20,272
<i>2004-05 Average UC Fees</i>	<i>\$ 6,312</i>	<i>\$ 23,268</i>	<i>\$ 7,928</i>	<i>\$ 22,867</i>
<b><i>2005-06 Estimated Average Fees for Public Salary Comparison Institutions</i></b>	<b>7,781</b>	<b>21,958</b>	<b>10,847</b>	<b>21,082</b>
<b><i>2005-06 Estimated Average UC Fees assuming increases in systemwide fees consistent with the Compact*</i></b>	<b><i>\$ 6,769</i></b>	<b><i>\$ 24,589</i></b>	<b><i>\$ 8,556</i></b>	<b><i>\$ 23,517</i></b>

\*Increases of 8% for undergraduate students and 10% for graduate students in systemwide fees; and 5% in nonresident tuition for undergraduates.

However, the comparisons for nonresident students are a different matter. In the past, the University's fees were among the lowest charges, for both nonresident undergraduates and graduate students, of any of the University's

public comparison institutions. With the increases in mandatory systemwide fees and nonresident tuition approved by The Regents for 2004-05, the University's fees for nonresident undergraduate and graduate students are now higher than the average fees for the comparison institutions by more than \$2,500. As a result, the University's tuition and fees for nonresident students now rank second highest among these institutions behind the University of Michigan.

For 2005-06, it is estimated that UC resident undergraduate fees will continue to be about \$1,000 below the average of public comparison institutions and graduate fees will be about \$2,300 below.

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

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

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

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

**Fees for Professional School Students.** In 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. The policy provides that the fee for each selected professional program is to be phased in so that total student charges at UC are approximately the average of fees charged for that program by comparable high quality institutions across the nation. However, in some professional degree programs, total student charges at UC are now higher than the average at comparison institutions.

After implementation of this policy, fee increases were instituted for three years. 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. These fees did not increase again until the 2002-03 budget year. In the two years following, professional fees have increased and the revenue has been used to offset base budget cuts for the University that otherwise would have been targeted to instruction.

The 2004-05 Governor's Budget presented in January assumed the University would develop a plan for achieving \$42.2 million in new revenue from increases in professional school fees, again to avoid further reductions to instruction. In order to achieve that revenue target, fees would need to have increased by about \$5,000 per student. The University was asked to exempt Nursing from these increases and to implement a smaller-than-average increase for students in the schools of Medicine. A few of the schools—such as Optometry, Pharmacy, and Theater, Film, & TV—could not sustain increases of \$5,000 and still attract sufficient numbers of highly qualified students.

After review of the options available, and considering the short notice to students, The Regents approved increases in these fees at the May 2004 meeting averaging approximately 30% for 2004-05. These increases will generate \$37 million in income, falling \$5 million short of the revenue proposed by the Governor. The campuses were asked to absorb the \$5 million shortfall on a temporary basis through cuts to other programs.

One issue of major concern was that the Governor's proposal did not assume any return-to-aid from the increase in professional school fees. Moreover, the professional schools affected have been very concerned about their ability to maintain the quality of their programs and to be competitive with other professional schools, particularly if students will be paying significantly more to attend these schools. To address the academic quality and financial aid issues associated with this proposal, The Regents delegated authority to the President to raise the fee at any of the professional schools in 2004-05 by an additional amount not to exceed 10% of total fees paid by professional school students (i.e., Educational Fee, Registration Fee, and professional school Fee), if it was determined that a higher fee was needed to provide sufficient financial aid and/or to maintain quality of the academic program. The following schools exercised this option in amounts ranging from \$1,000 to \$1,932: Law and Business at Berkeley and Los Angeles; Dentistry at Los Angeles and San Francisco; Pharmacy at San Diego and San Francisco. The remaining professional schools did not increase fees further. A report on professional school fee increases receiving Presidential approval for 2004-05 was submitted to The Regents in September 2004.

The Compact calls for the University to develop long-term plans for increasing Fees for Selected Professional School Students. These plans are to include consideration of the following factors: average fees at other public comparison institutions, market factors, average cost of instruction, average cost of attendance, the need to preserve and enhance the quality of the professional programs, the State's need for more graduates in a particular discipline, and financial aid requirements of professional school students.

Consistent with the Compact, the Office of the President and the campuses have developed a multi-year plan for increasing fees in professional schools over the next several years. The plan assumes that professional school fees will be adjusted annually and that campuses will retain the revenue from professional fees to cover salary and other cost increases. To cover cost increases in programs funded from professional school fee revenue, it is anticipated that professional school fees will increase by the same cost adjustment factor used to determine the base budget adjustment for State General Funds under the Compact. For 2005-06, that cost adjustment factor will be 3%.

The \$5 million shortfall from budgeted revenue related to professional school fee increases in 2004-05 will be permanently accommodated through an

annual \$628 increase in the mandatory systemwide fees (Educational and Registration Fees) paid by professional school students, beginning in 2005-06.

In addition, recognizing that both quality and affordability are essential elements of all fee decisions, the plan includes a proposal to continue to provide a defined level of discretion to increase professional school fees above the fee increases approved by The Regents to maintain the quality of the academic program, provide financial aid, and assist programs in attracting and enrolling students. Building on the flexibility provided in 2004-05 to increase these fees by an additional 10% as noted above, for 2005-06 it is proposed that the President be delegated authority to approve additional increases in professional school fees not to exceed 15% of the combined total of mandatory systemwide fees (Educational Fee and University Registration Fee) and professional fees.

Continuing the flexibility provided in 2004-05 and to be provided in 2005-06, for the following two years the plan anticipates that that total fees could be increased by an additional 20% above the base fee levels approved in 2006-07 and by an additional 25% in 2007-08. The plan calls for a re-evaluation of fees for these students at the end of this four-year period. The inevitable differences among campuses in professional fees resulting from the additional fee increases will be minimized to the extent possible.

Page 250 in the *Student Fees* chapter of this document includes a display showing proposed fee levels approved for 2004-05 and how they compare with the average of other public institutions. The display also shows projected professional school fees for 2005-06.

**Nonresident Tuition.** An increase in nonresident tuition of 5% for undergraduate students is also proposed for 2005-06. As a result of this increase, nonresident undergraduate students will be charged an additional \$828. With these increases, total fees and tuition charged to nonresident undergraduate students at the University are estimated to be about \$2,600 above the projected tuition and fees at the public higher education institutions that are used by the University for faculty salary comparison purposes.

The University is concerned about future increases in nonresident tuition. A dramatic decline has occurred in the number of undergraduate nonresidents applying to the University—nearly 25% over the last three years. Thus, the

5% increase proposed for undergraduate students in 2005-06 is only a modest increase compared to recent years. While regrettable, this level of increase for undergraduates is necessary in order to avoid further nonresident tuition increases for graduate students. As noted above and in considerable detail in the *General Campus Instruction* chapter of this document, the inadequacy of graduate student support is a serious issue for the University. Therefore, nonresident tuition for graduate students will not be increased in order to maintain the quality of the University's graduate programs and avoid exacerbating an already difficult problem.

When determining increases for future years, it will be important to consider the effects of recent tuition increases on nonresident enrollment. It should be noted that nonresident students actually pay significantly more than the cost of their education.

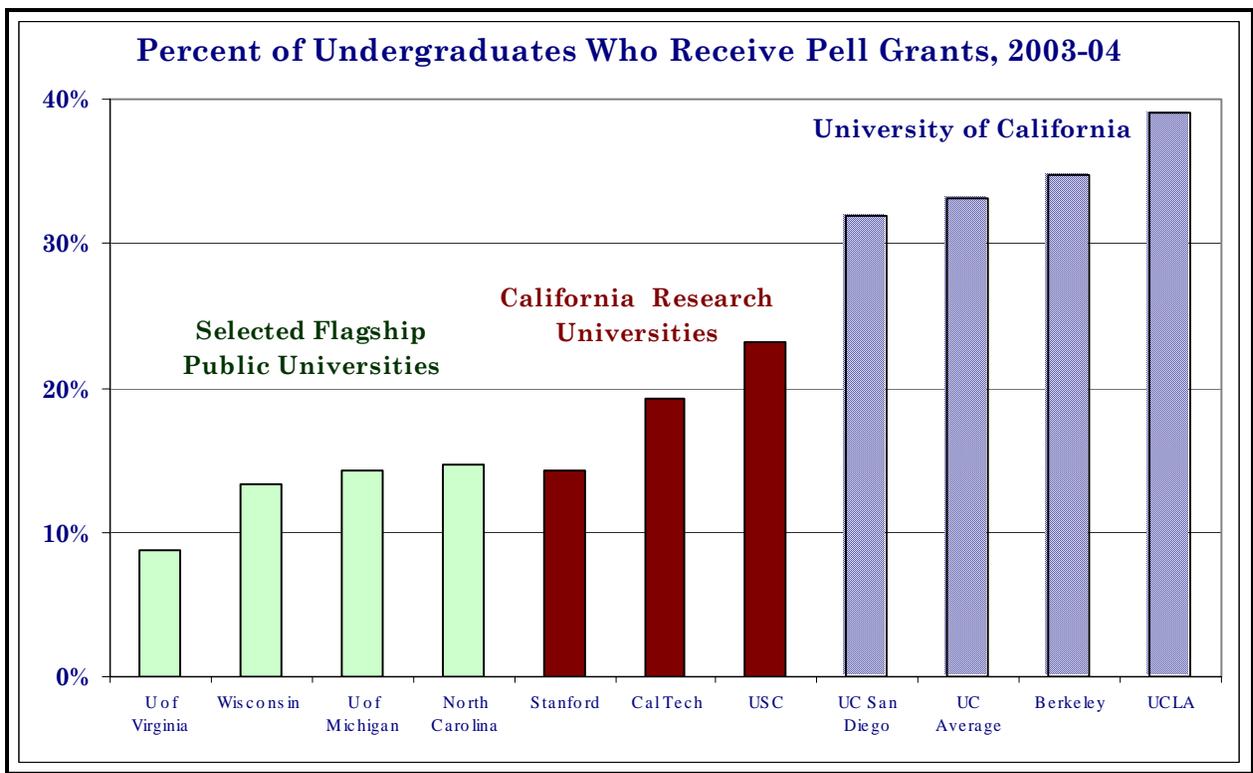
There have been suggestions that nonresident enrollment could be increased significantly to create more revenue for the University. However, given the limited capacity of the campuses, dramatic increases in nonresident enrollment would have the negative impact of displacing California residents, an outcome most policymakers in the University and externally would seek to avoid.

**Student Financial Aid.** In 1994, the Regents adopted a financial aid policy that established the guiding principles of the University's undergraduate and graduate financial aid programs. At the undergraduate level, the University's policy "is guided by the goal of maintaining the affordability of the University" for all students so that "financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree." At the graduate level, the policy calls upon the University to "attract a diverse pool of highly qualified students" by providing an appropriate level of support relative to the cost of attending the University, informed by a periodic "assessment of the competitiveness of University support levels with those at comparable universities."

The success of the University's financial aid program in helping to ensure access for needy students was illustrated in a study by the James Irvine Foundation published in March 2002. This study examined enrollment of low-income students at the nation's top 40 public and private universities (as designated by U.S. News & World Report 2001 College Guide). It showed that UCLA, UC Berkeley, and UC San Diego ranked first, second, and third

among top universities in terms of enrolling low-income students. Display 16 shows more recent data (from 2003-04), indicating that UCLA still ranked first with 39% of its student body identified as low-income; UC Berkeley again ranked second with 35% low-income students; and UC San Diego, with 32% low-income students, ranked third. The three UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (9%), the University of Wisconsin (13%), the University of Michigan (14%), and the University of North Carolina (15%). As a system, the University enrolled a higher percentage of low-income students (over 33%) than any other institution on the list, public or private.

Display 16



Nearly 50% of UC undergraduates receive grant/scholarship aid averaging approximately \$6,300 per student; about 61% of graduate students receive such aid averaging about \$10,000 per student.

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

Funding for graduate student support increased significantly in recent years. Aggregate grant/fellowship funding for all graduate students increased by \$67.9 million (35%) between 1998-99 and 2002-03; per capita support increased by \$1,026 (22%). Nevertheless, surveys conducted in 2001 and 2004 of students admitted to the University's academic doctoral programs indicated that the University's support of graduate students was not fully competitive with the support offered by the institutions with which the University competes.

To mitigate the impact of fee increases over the last three years, as well as increases in other educational expenses, the University used the equivalent of one-third of the fee revenue generated by the combined 2002-03 and 2003-04 fee increases and enrollment growth for financial aid. As shown in Display 17, these funds, in combination with an estimated \$80.3 million increase in Cal Grant funds awarded to UC undergraduates and an estimated \$60.4 million increase in other scholarship, fellowship and grant funds, raised the total estimated amount of gift aid for UC students over the three-year period by \$298.6 million, from \$729.9 million in 2001-02 prior to the fee increases to \$1,028.5 billion in 2004-05.

Display 17

<b>University of California</b>				
<b>Scholarships, Grants, and Fellowships</b>				
<b>by Fund Source, 2001-02 to 2004-05</b>				
(\$ in Millions)				
	2001-02	2002-03	2003-04	2004-05
<b><u>UC Funds</u></b>				
Student Fees and State				
General Funds	\$ 256.4	\$ 262.7	\$ 380.4	\$ 414.3
Other University Funds	111.7	125.4	128.8	131.6
Subtotal	<u>\$ 368.1</u>	<u>\$ 388.1</u>	<u>\$ 509.2</u>	<u>\$ 545.9</u>
<b><u>Other Funds</u></b>				
Student Aid Commission	\$ 133.4	\$ 148.7	\$ 195.6	\$ 213.7
Federal	185.3	203.2	212.1	216.7
Private Funds	43.2	49.6	51.2	52.3
<b>Total</b>	<u>\$ 729.9</u>	<u>\$ 789.7</u>	<u>\$ 968.1</u>	<u>\$ 1,028.5</u>

Note: Numbers for 2003-04 and 2004-05 are estimates; Student Fees and State General Funds are based on budgeted amounts.

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

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

The University's review of financial aid needs indicates that it will be necessary to increase the proportion of additional fee revenue returned to aid above the 2004-05 level of 20%. Placing student support needs in the context of all of the University's competing budget priorities, the University is proposing a 25% return-to-aid to provide support for low-income undergraduate students and a 50% return-to-aid for graduate academic students for 2005-06. The 25% undergraduate return-to-aid, together with funding provided through Cal Grants, is sufficient to cover the proposed fee increase as well as provide some assistance for other costs of attendance. The 50% return-to-aid for graduate students is sufficient only to cover mandatory systemwide student fee increases, including increases for those categories of students who receive waivers of their student fees, such as teaching assistants. The University will continue to monitor the effectiveness of its financial support both at the undergraduate and graduate level to evaluate its success in adhering to the principles, articulated by the Regents, of affordability at the undergraduate level and competitiveness at the graduate level.

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

### ***Fixed Costs and Economic Factors***

The area of greatest concern as a result of years of underfunding of the University's budget is the growing lag in faculty and staff salaries compared to the market. 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, COLAs, and market and equity adjustments—to keep UC faculty salaries at the average of the salaries provided at the eight comparison institutions, and to provide salary increases for other employees that, on average, at least keep pace with inflation and the marketplace.

As part of the State's actions to reduce the University's Partnership budget in 2001-02 and 2002-03, the University lost funding that had been targeted for COLA 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% in 2001-02 and merit increases of 1.5% in 2002-03 for faculty and staff. No State funding was provided in 2003-04 or 2004-05 for either COLA or merit increases.

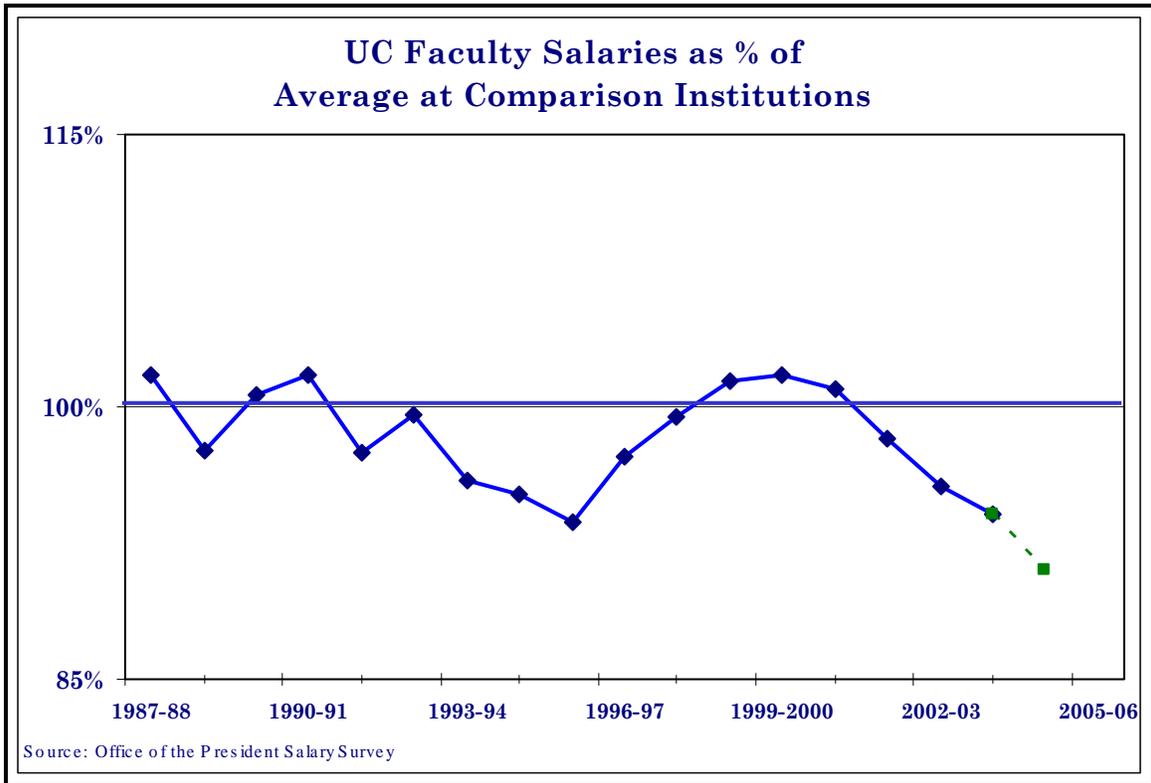
The University instituted additional internal budget cuts in order to fund faculty merit increases for 2003-04 and 2004-05, but no employees received a general COLA and staff employees received no merit increases. As a result, faculty salaries currently lag the average of UC's comparison institutions by an estimated 8-10%, based on the CPEC methodology for calculating this average. It is estimated that a similar problem exists with respect to staff salaries.

It is impossible to overstate the critical nature of the problems created by salary lags. Paying competitive salaries is a key component in the University's ability to recruit and retain the best faculty. The University needs to recruit 7,000 faculty during this decade to accommodate increases in enrollment and replace faculty who retire or leave for other reasons. Additional staff will also be needed. It is difficult to recruit such a significant number of faculty and staff even if there are no fiscal challenges. However, with a persistent inability to pay competitive salaries, the impact on the University's recruitment and retention efforts has been severe. In addition, the lag in competitive salaries is exacerbated by the high cost of housing in many of the University's campus communities.

Display 18 (next page) shows how faculty salaries compare to the average salaries at the University's faculty salary comparison institutions over time, and points out the gap that has occurred in recent years.

A lag in faculty salaries sends a negative message about the University across the nation. Nothing is more certain to undermine quality than a persistent inability to offer competitive salaries. The University must be able to compete for and retain the best faculty if its 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.

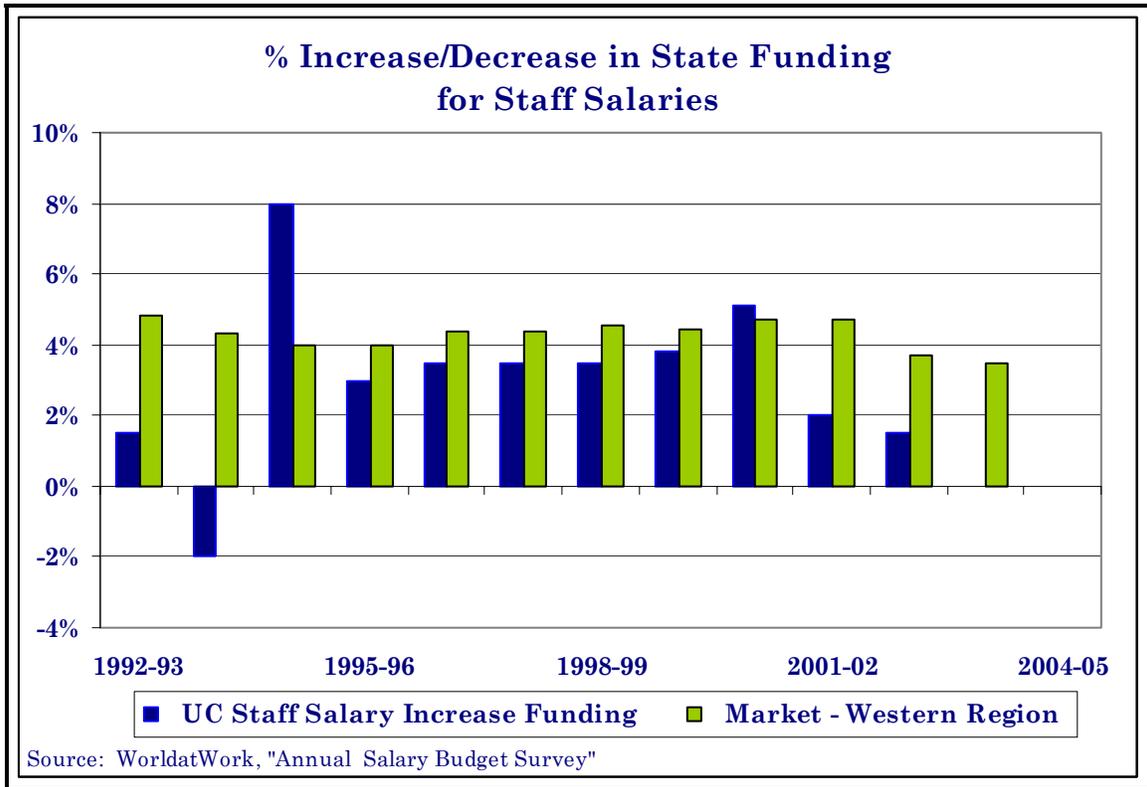
Display 18



As noted above, the gap with respect to staff salaries presents a similar problem for the University. Display 19 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 funding for UC staff salary increases have not kept pace, both in the early 1990s and currently, as the State's fiscal crisis has prevented full funding of a normal workload budget.

The University received no funding for COLAs for three years in the early 1990s; before 2000-01, the University's salaries were about 6% behind what they would have been if employees had received 2% COLAs annually in the early 1990s. The 2000-01 Budget Act provided an additional \$19 million in recognition of this historical imbalance, which was distributed in a manner that provided lower-paid employees earning \$40,000 or less with an additional salary increase of 2%, while employees earning between \$40,000 and \$80,000 received an additional 1% increase. These increases were over and above the regular merit increases and COLAs provided to University employees.

Display 19



The \$19 million provided in 2000-01 was intended to be the first part of a multi-year plan to make up for the lack of salary increases in the early 1990s and provide more competitive salaries to University staff employees in the coming years. With the additional \$19 million increase in 2000-01, the gap between what University employees would have received with normal increases throughout the decade and what they did receive was reduced to about 4%. Unfortunately, because of the underfunding of normal workload budgets that has occurred since the State's fiscal crisis began, salaries have not kept up with inflation or the market, so further ground has been lost.

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

**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 once every two-to-three years following extensive review of individual achievements. Staff merit salary increases may be awarded annually to eligible individuals on the basis of performance. The 2005-06 budget plan includes \$46.8 million for merit increases for faculty and staff, based upon 1.78% of the academic salary base for faculty merit increases and 1.5% of the staff salary base for staff merit increases.

**Cost-of-Living-Adjustment (COLA) Salary Increase.** For 2005-06, the University is proposing to use \$40.6 million in funding provided within the Compact for COLA salary increases averaging 1.5% for eligible faculty and staff employees. As indicated in the next subsection, the University is also requesting funding in addition to the 1.5% COLA salary increase to address essential market- and equity-related compensation needs.

**Market Parity and Equity Compensation Increases and Academic and Staff Employee Benefits.** The University is proposing to use \$23.7 million in funding provided under the Compact for market parity and equity compensation adjustments, and for increases in funding for health and welfare benefits for UC employees.

Funding provided in 2005-06 for merit and COLA adjustments proposed under the Compact will not be sufficient to close market lags, but will at least help keep salaries from falling much further behind the competitive marketplace. In addition, there will be the need to address serious market lags and issues of equity where newly-hired faculty and staff are paid significantly more than individuals with similar experience, skills, and knowledge who have been employed at the University during the extended periods of low, or no, salary increases.

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 significantly again next year. On the other hand, in

comparing UC health benefits with other institutions' health benefit plans, the University's plans historically have been very competitive.

There is insufficient funding within the Compact to cover the entire cost increase expected in employee health benefits for 2005-06. Therefore, the University will use funding not used for salary increases to help defray the cost of increases in health benefits for employees; however, it is expected that some of the increases in cost will continue to be borne by employees themselves. The University will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market. In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical plan premiums on lower-paid employees. While UC continues to pay the greater portion of monthly medical premiums for all employees, UC covers an even larger portion of the premium for those earning less.

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).

**Price Increases.** In order to offset the impact of inflation on the non-salary budget and maintain the University's purchasing power, \$20.6 million in funding within the Partnership is proposed to cover non-salary price increases averaging 2.25%. During the State's recent budget crisis, funds provided for this purpose have fallen significantly short of what was needed. Consequently, the University estimates a shortfall of over \$50 million in this area of the budget for 2004-05. Funding provided in 2005-06 will not restore any of this lost ground, but rather will prevent further deterioration in the University's purchasing power.

### ***Workload and Other Budget Adjustments***

**Funding for Enrollment Growth of 5,000 FTE Students.** The new Compact calls for UC to return to its earlier estimates of 5,000 student FTE growth per year. Therefore, the University is seeking \$38 million in State funds to support an increase of 5,000 FTE students, representing a 2.5% increase over 2004-05 budgeted enrollments.

Of the total, approximately \$490,000 will be used to support 20 FTE students in the new PRogram In Medical Education for the Latino Community (PRIME LC) at the Irvine medical school, a program designed to provide intensive, specialized training in health care for Latino communities. This is the first of a series of proposals to help meet the state's shortages in medically underserved areas.

The remainder of the funds will be used to support undergraduate and graduate enrollment growth based on the marginal cost of instruction, which is \$7,528 per student for 2005-06. 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.

The Merced campus will open officially for the 2005-06 academic year. Therefore, 1,000 FTE of the growth in enrollment will be directed to the Merced campus. Funding for another 2,000 FTE will be directed to continue phasing in State support for summer instruction at the four campuses still not funded for the summer (Irvine, Riverside, San Diego, and Santa Cruz). This constitutes about one-half of their existing summer enrollment; the final phase-in for these students will occur as part of the enrollment growth funded in 2006-07. The remaining 2,000 FTE will be assigned to the campuses through the normal budgeting process.

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 through the end of the decade. The University's last enrollment plan (issued in 1999) indicated that UC would need to accommodate an additional 63,000 FTE by 2010-11 to meet the needs of the State. The expansion of campus capacity during the regular academic year and the opening of UC Merced will accommodate about two-thirds of this growth. However, due to campus long-range development capacity constraints, the University will not be able to achieve its 2010-11 enrollment target without funding for expanded summer enrollments. Expansion of summer enrollments makes more efficient use of facilities and accelerates time to degree for undergraduates, thereby making room for more students during the regular year. In addition, without the State funding, the four

remaining campuses cannot afford to offer the breadth of courses, student support, and financial aid available during the summer to students at the funded campuses, placing students at these campuses at a severe disadvantage.

**New Space to Be Maintained.** The University's proposed budget plan for 2005-06 includes \$16 million in funding under the Compact to support basic maintenance of new space placed in service during the three-year period 2003-04 to 2005-06 for core instruction and research, and the California Institutes for Science and Innovation. State funding has not been provided for this purpose since 2002-03. The \$16 million requested will be combined with \$7 million already redirected from existing University resources to address the University's maintenance needs for new space.

**Funding to Restore Unallocated Reductions to Instructional Budgets.**

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

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

Consistent with the high priority placed on maintaining quality in the instructional program and preventing further deterioration in the student-faculty ratio, the University's 2005-06 budget request includes \$10 million as a modest first step toward a multi-year effort to recover some of the ground lost in the instructional program during the State's fiscal crisis. The funding proposed for 2005-06 will be used to bolster the student-faculty ratio, improve instructional support, and acquire instructional technology. Improvement in student-faculty ratios would permit the University to offer both smaller class sizes and a wider range of courses, allowing students to

complete requirements and graduate more quickly. Sufficient faculty per student also increases opportunities for contact outside the classroom, through improved advising and undergraduate participation in research.

Preserving the student-faculty ratio at the University is among the highest priorities of The Regents. In response to those who contend that budget cuts could be offset, at least in part, by having faculty teach additional classes, the University argues strongly that it is critical for the quality of UC to maintain current faculty instructional workload policies. UC policies are similar to those at comparison institutions. (A report comparing faculty instructional workload policies at UC and comparable universities is forthcoming.) Having comparable policies helps the University stay competitive in its efforts to recruit and retain the highest quality of faculty. The future of California is dependent on the ability of the University to remain competitive with the best universities in the nation – if the University of California becomes just another university, California may become just another state.

Providing assistance for instructional support programs and instructional technology is also key to maintaining quality. Instructional support is the backbone of the academic departments and must be restored if the instructional program is to function properly. Teaching and learning technologies continue to evolve to enhance the learning environment. Funding for instructional technology must keep pace with the rapid advances that occur in this field if UC students are to have access to the learning tools provided through technology and be able to graduate with the technological skills needed by industry.

### **Keeping California Competitive: Science and Mathematics and California's Workforce Development**

The Higher Education Compact with Governor Schwarzenegger identifies a critical shortfall in the number and quality of K-12 teachers in science and math in California. As the State's premier science and technology research institution, with highly regarded graduate and undergraduate science and math programs, UC is uniquely positioned to work in partnership with the State, K-12, and the business community to help reverse this trend. The Compact calls on the University to develop, in collaboration with the California State University, a major initiative to improve the supply and

quality of science and math teachers in the State of California and thus help provide the skilled workforce that California will require if it is to remain an economic leader in an increasingly competitive global economy.

California's educational system is not producing the science and engineering (S&E) graduates needed to meet industry's growing requirement for skilled workers. Despite the fact that California has over 16% of the nation's high-tech jobs, it grants less than 9% of the nation's science and engineering baccalaureate degrees, the degree required by more than 50% of California S&E jobs, according to a 2004 Milken Institute Report. Collectively California universities produce about 20,000 S&E baccalaureate degrees annually, resulting in a shortfall of more than 14,000 workers with S&E degrees, according to a 2002 report by the California Council on Science and Technology.

The challenges faced by California's education system are daunting in terms of producing enough students with the knowledge of science and mathematics and the critical thinking and communication skills that are required by today's high-tech industries. In the most recent NSF Science and Engineering Indicators (2004), California 8<sup>th</sup> graders scored at the bottom of all states compared in sciences, and they scored 7<sup>th</sup> from the bottom in mathematics. Of all California ninth-graders, only 4% go on to complete an S&E baccalaureate degree and only 1.2% of Californians age 25-34 are enrolled in science and engineering graduate programs.

Another key problem facing California is the shortage of highly trained science and mathematics teachers in California schools. Studies over the last quarter of a century increasingly point to a strong correlation between student achievement in K-12 science and mathematics and the quality of teachers in these subject areas. In California, approximately 26% of mathematics teachers are not technically qualified to be teaching mathematics and 38% of science teachers are not qualified to be teaching science. In 2002-03, nearly 1,500 mathematics classes in California high schools and more than 800 science classes were taught by non-credentialed teachers. This does not include the many classes that are taught in science and mathematics by teachers who have credentials outside of these fields.

The State's current supply of baccalaureate S&E graduates cannot fill the gap in the need for qualified science and mathematics teachers as only a handful of these go into K-12 teaching. Currently, relatively few S&E students from

UC, CSU, and the independent colleges go on to receive a credential and to teach in California schools. In 2002-03, fewer than 250 UC students who earned a bachelor's degree in science or math also completed a single subject teaching credential. All segments of California higher education collectively awarded mathematics degrees to 1,389 students, 823 of whom were also awarded math teaching credentials. However, the total need for new math teachers was 2,131. The situation will become even more acute as large numbers of California teachers of the baby-boomer generation begin to retire.

### ***Meeting California's Workforce Needs***

If California is to meet its S&E workforce needs, all stakeholders, including business and industry partners, policy makers, and educators must work together to achieve two goals:

- Increase the number of high-quality K-12 science and mathematics teachers in order to provide highly-qualified science and mathematics teachers to all California children.
- Increase the number of students who receive S&E baccalaureate degrees and provide them with the knowledge and skills required of California high-tech employers;

The University has begun studying issues and identifying objectives to help the State achieve these goals, and during the course of the next year, the University intends to develop a more fully-defined set of proposals. In the short run, the University is focused on two objectives: removing obstacles to teacher credential achievement and expanding participation in teaching internships.

A very large obstacle to many students who might want to become K-12 science and mathematics teachers is the fifth-year credential program that historically has been at the heart of teacher training in California. Science and mathematics baccalaureate students frequently have employment opportunities immediately upon graduation that pay more than teaching. Students find these opportunities more attractive than paying for another year of education. CSU has approached this problem by developing “blended majors” that provide students with the subject knowledge and pedagogical preparation to go into K-12 teaching upon graduation. In addition, both the UC Los Angeles and San Diego campuses have very successful accelerated programs that provide students with both a science

or mathematics major and a teaching credential in four years. Over the course of the next year, the University will examine the efficacy of accelerated credentialing programs for K-12 science and mathematics teachers and, if these programs are found to meet the needs of UC students and K-12 education, establish guidelines to develop additional programs.

In addition, the University will develop plans to expand participation in teaching internships. From studies of other successful teacher induction programs, it is clear that one of the most important components of successful science and mathematics programs that prepare K-12 teachers are internships where students experience, as early as their first undergraduate year, what it might be like to pursue a career in teaching.

Another avenue for increasing the number of students who pursue science and mathematics teaching credentials is to develop financial incentives. One option would be to enhance the Assumption Program for Loans for Education (APLE), which provides loan assumption benefits to California students who intend to pursue a career in teaching in California. At present, APLE provides slightly greater benefits for teaching service provided in the subject areas of math, science, and special education. The value of this added incentive could be increased in order to attract more students to those areas.

Additionally, the University will make a significant effort to increase the number of students who pursue major in science and mathematics to help meet California industry's workforce needs.

UC will take the lead role in working with its intersegmental partners (CSU, Community Colleges, and independent universities), K-12 schools, and with business and industry partners, to develop and implement programs that will encourage more of California's children to become the scientists and engineers needed to help California sustain its global economic preeminence, and to become the quality science and mathematics teachers that California's children deserve.

### **One-Time Funding for Merced**

UC Merced will formally open in Fall 2005. The campus will offer six initial undergraduate majors in the social sciences-humanities-arts, engineering, and natural sciences, along with the requisite general education courses.

The undergraduate majors planned for Fall 2005 are: Computer Science and Engineering, Environmental Engineering, Biological Science, Earth Systems Science, World Cultures and History, and Social and Behavioral Sciences. At the graduate level, the initial programs include: Molecular Science and Engineering (Chemistry and Materials Science), Quantitative and Systems Biology, Environmental Systems, Computer and Information Systems, World Cultures and History, and Social, Behavioral and Cognitive Sciences. Additional programs are under consideration for Fall 2005, and a school of management, enabled by a major gift, is under development.

UC Merced has hired 30 faculty, who are now actively developing courses, curricula, and degree requirements for the academic programs, as well as conducting research and instructing 11 graduate students already on the campus. The faculty are also planning the configurations and equipment for instructional space (teaching labs and classrooms) and are involved in library acquisitions. Another 45 faculty (30 ladder-rank faculty and 15 lecturers) will be recruited in 2004-05 in time to open the campus in Fall 2005 for the regular academic year.

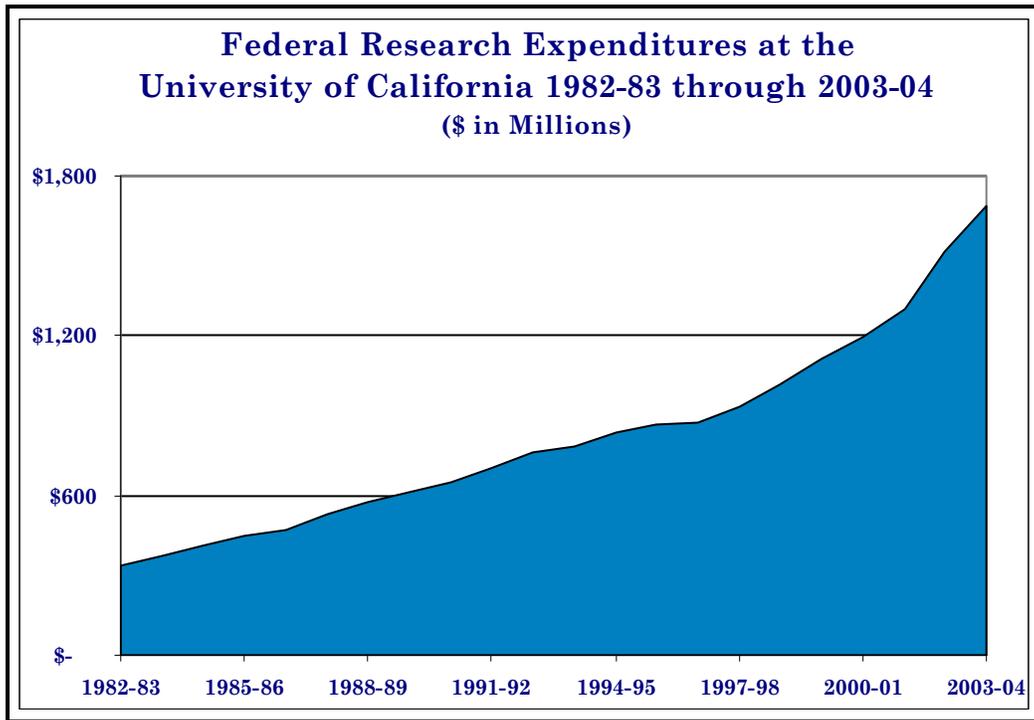
One-time funding has been provided in the last four budgets, including \$10 million in 2004-05, for faculty hiring and other start-up costs. Supplemental funds are required in 2005-06 for faculty salaries and recruitment costs, as well as instructional technology, library materials, student services and expanded general support needed to fully operate the campus. As specified in the new Compact, the State will continue to support one-time funds needed for initial development of the UC Merced campus, until the campus reaches a level of enrollment (5,000 FTE students) sufficient to generate an adequate level of workload funding, anticipated to be in 2010-11.

## **Federal Funds**

Federal funding is a major source of financial support for the University. The federal government funds almost 57% of University research expenditures, almost all of the student loan and work-study funds, about 21% 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 entirely supported by federal funds.

State funds that support the University's core operations make it possible to attract funds from the federal government for research. The University remains highly competitive in terms of attracting federal research dollars, with fluctuations in the University's funding closely paralleling trends in the budgets of federal research granting agencies. Over the last four years, federal research funding has increased on an annual basis by an average of 10% per year. Display 20 shows how federal funding for research has increased since 1982-83.

Display 20



In the late 1990s, a dramatic economic turnaround occurred in federal spending due in large part to the sustained strength of the national economy. By 1998, the government recorded a surplus for the first time in three decades. Progress toward achieving a balanced budget and continued administrative and congressional support for investments in research resulted in gains for federal research programs, including a commitment to double the research and development (R&D) budget of the National Institutes of Health (NIH). The largest single sponsor of basic and applied research, NIH experienced record increases averaging 15% over the next five years. This was especially significant for UC. Health and Human Services (HHS), of which NIH is a part, provided 61% of the total grants to UC in FY2003. The large increases in the NIH budgets undoubtedly

contributed to the recent large increases in UC's federal research expenditures.

With the FY2003 appropriations, however, the Congress and the President finished their 5-year commitment to double the NIH budget, making large increases in federal and UC research funding less likely without the driving force of the 15% increases to the NIH budget each year. NIH budget growth slows considerably in FY2004; most NIH institutes are receiving increases of about 3%. Even within NIH, however, most of the R&D increase is directed to biodefense research related to homeland security. NSF is among other agencies with a funding increase in FY2004, but NSF's 4.7% increase is short of what would be required to complete another year of a proposed plan to double the NSF budget over a five-year period.

Over the next few years, it is unlikely that federal research funding will grow as quickly for a number of reasons. First, the Congressional Budget Office is forecasting that the budget deficit is likely to hover in the \$400 - 500 billion range. Second, both presidential candidates have pledged to reduce the budget deficit in half in their first term; this will put enormous pressure on the amount of resources available to the government. Third, it appears that the Congress may again adopt the budgetary procedures that helped keep discretionary spending under control through FY2002— specifically limits on increases in overall domestic discretionary spending, the source of most of UC's federal research funding.

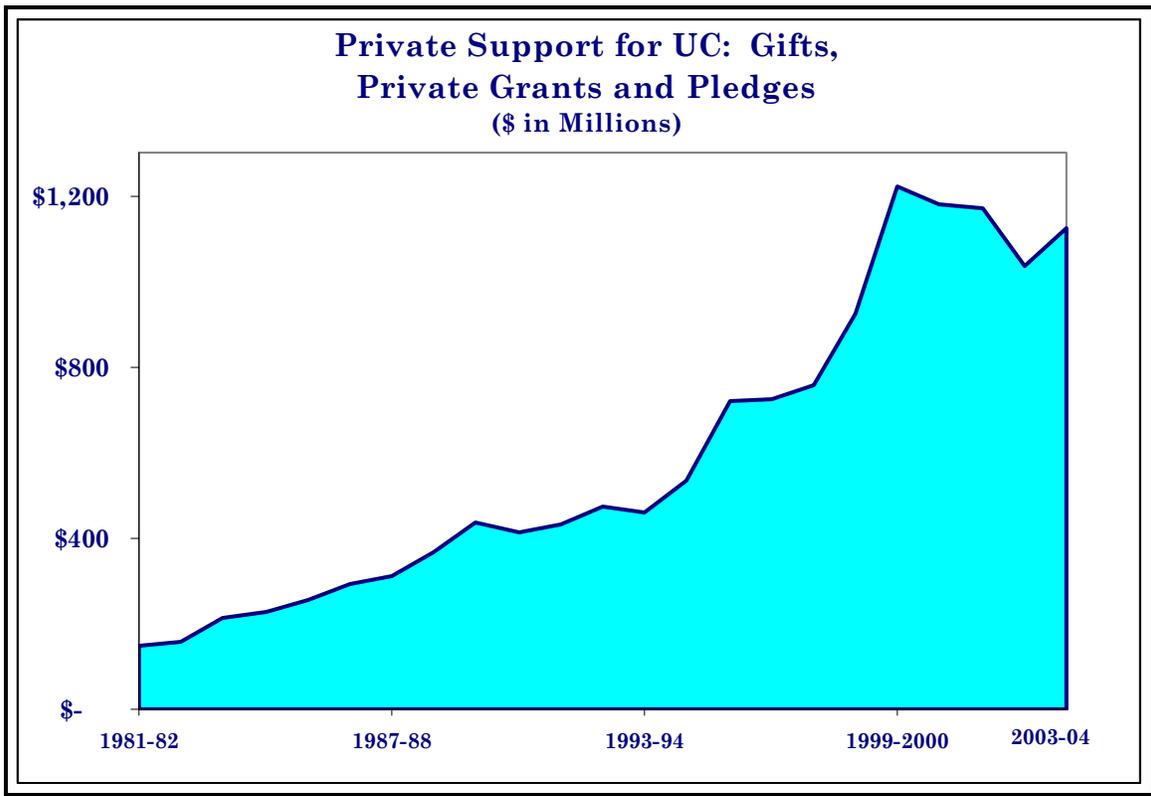
More details on the federal budget are included in the *Research* chapter of this document. Also, information on the outcome of the federal budget negotiations will be provided at future Regents meetings.

## **Private Funds**

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 2005-06, expenditures from gifts and private contracts and grants to the University are estimated to be \$999.1 million, an increase of 4% over projected 2004-05 expenditures. Expenditures from private gifts and grants have increased by over 145% in the ten-year period between 1994-95 to 2004-05.

The University continues to aggressively seek and develop non-State revenue sources, particularly private funds. Over the last two decades, the University has experienced large, steady increases in private funds received. More recently, in the last five years, the University has exceeded \$1 billion a year in total donations, even with the recent economic downturn. Pledges did decline somewhat from 2000-01 to 2002-03, but increased again in 2003-04. As shown in Display 21, in 2003-04, alumni and other supporters committed just over \$1.1 billion in gifts, grants, and pledges to the University.

Display 21



Donors in 2003-04 directed \$646.0 million (57.5%) of support to the University operations; \$225.4 million (20.1%) to campus improvement; and \$229.8 million (20.5%) to endowments. Of the total donations in 2003-04, \$523.0 million (46.6%) was specified for use in the health sciences. Just over 98% of the private support was restricted by the donors as to purpose.

Private support for the University is derived from a number of sources. In 2003-04 gifts and grants from non-alumni individuals totaled \$284.6 million; from private foundations \$398.7 million; corporations, \$204.7 million; alumni, \$130.4 million; and campus organizations and other sources, \$104.5 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 a slight improvement in the changes in the economy and financial markets.

## **Capital Improvements**

The University's 2005-06 request for State funds for capital improvements is presented in more detail in a companion document titled, *2005-06 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.

The University's request for \$355.5 million from general obligation bonds for the 2005-06 State capital budget includes funding to equip 6 buildings previously approved for construction and for design and/or construction of 19 major capital projects. Funds are requested to support construction or complete design and undertake construction for 12 projects, and to begin or continue design on 7 projects.

Of the 19 major capital projects, 2 address serious seismic and other life-safety hazards; 14 projects involve new buildings or renovation of existing space to expand instruction, research, and support facilities to accommodate enrollment growth; and facility infrastructure renewal or modernization is the focus of 3 projects.

## GENERAL CAMPUS INSTRUCTION

### 2004-05 BUDGET

<b>Total Funds</b>	<b>\$ 2,023,417,000</b>
General Funds	1,422,335,000
Restricted Funds	601,082,000

### 2005-06 INCREASE

General Funds	38,000,000
Restricted Funds	33,521,000

Consistent with the California Master Plan for Higher Education, the University provides undergraduate, professional, and graduate academic education through the doctoral degree level and serves as the primary State-supported academic agency for research. This combination of educational opportunity and the discovery of new knowledge has helped build the economic diversity that keeps California one of the largest economies in the world. A fundamental mission of the University is to educate students at all levels, from undergraduate to the most advanced graduate level, and to offer motivated students the opportunity to realize their full potential. The University accommodates all qualified undergraduates and also provides 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 University's 2005-06 budget plan is based on the Higher Education Compact with Governor Schwarzenegger. The Compact provides a long-term resource plan for UC that addresses base budget allocations, enrollment, student fees, and other key program elements for 2005-06 through 2010-11. In exchange for this long-term stability, UC commits to focusing resources to address long-term accountability goals for enrollment, student fees, financial aid, and program quality.

The key provision of the Compact related to general campus instruction is support for enrollment growth of approximately 2.5% per year through the end of the decade. This growth rate represents an increase of 5,000 full-time equivalent (FTE) students annually at UC. The State will provide funding for this enrollment growth at the agreed-upon marginal cost of instruction as adjusted annually. This rate of growth will allow UC to achieve enrollment levels consistent with earlier projections. For 2005-06, the University's budget plan includes \$38 million to support a budgeted enrollment increase of 5,000 FTE.

Included in the University's enrollment plan for 2005-06 is the opening of the University of California at Merced, which will serve 1,000 students in its inaugural year, including freshmen, transfers, and graduate students. Development of UC Merced is part of the University's strategy to increase statewide enrollment capacity, enhance access to students in the San Joaquin Valley, and provide the benefits of an additional research university to all Californians.

A portion of enrollment funding (2,000 FTE) in 2005-06 will also be used to implement State support for existing summer enrollment on campuses not currently receiving State support for summer instruction. As a key strategy for accommodating projected enrollment demand, in 2000-01 the University began converting summer instruction from a self-supporting to a State-supported program. Four campuses are fully converted; the University will complete conversion of summer instruction at the remaining campuses during the next two years, committing \$15.5 million during 2005-06.

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

## **Instructional Program Overview**

The general campus Instruction and Research (I&R) budget includes direct instructional resources associated with schools and colleges located on the nine UC general campuses. The San Francisco campus offers health sciences programs exclusively. Health science programs are discussed in the *Health*

*Science Instruction* chapter of this document. This chapter focuses on general campus instruction.

The general campus Instruction and Research base budget totals \$2 billion in 2004-05, of which \$1.4 billion is UC and State General Funds. The major budget elements and their proportions of the general campus I&R base budget are: faculty and teaching assistant salaries and benefits, 57%; instructional support, 38%, which includes salaries and benefits of 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, as well as many emerging interdisciplinary fields. 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 that will prepare them for meaningful employment in the California labor market.

The purpose of graduate programs is to inspire independence and originality of thought in the pursuit of knowledge. These programs also provide the core of individuals trained in California who constitute a significant part of the State's intellectual resources. Graduate degrees fall into two broad categories. Professional master's and doctoral degrees are awarded to students embarking on careers in such fields as education, business,

engineering, architecture, public policy, social work, law, and the health sciences. Academic master's and doctoral degrees are awarded in recognition of a student's ability to advance knowledge in a given field of study, often in preparation for careers as high school teachers or faculty in higher education, or as scholars who further the State's cultural, social, and economic development through discovery and innovation.

Under the California Master Plan for Higher Education, the University has primary responsibility among publicly-supported institutions to prepare professional and doctoral students to help meet California's and the nation's workforce needs. In addition to the University's full-time master's and doctoral degree programs in the liberal arts and professions, the University offers a number of self-supporting, alternatively scheduled programs in business administration, dentistry, education, law, and public health, and the Master of Advanced Study (MAS), which offers working adults an additional, convenient set of options for attaining an advanced degree congruent with their professional and personal interests in a manner that accommodates their schedules.

### **Enrollment Growth in 2005-06 (\$38,000,000 Increase)**

The Higher Education Compact with Governor Schwarzenegger includes the commitment to provide UC with funding for enrollment growth consistent with access under the Master Plan for Higher Education at an agreed-upon rate per FTE student, the "marginal cost of instruction." The University's budget plan includes a request for \$38 million to support budgeted enrollment growth of 5,000 FTE students in 2005-06. Funding for enrollment growth provides the resources necessary to recruit excellent faculty, which in turn affects the quality of instructional programs. Thus, funding for enrollment remains among the University's highest priorities.

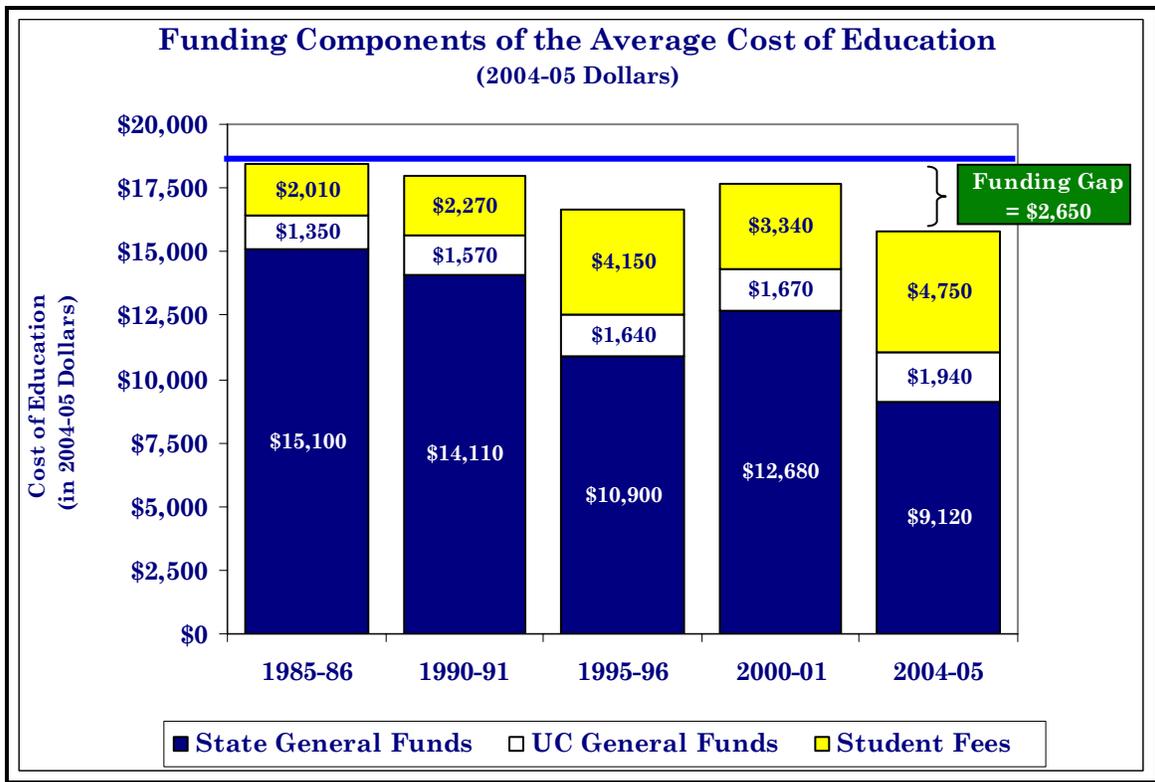
### ***State Support for Enrollment Growth***

The State provides funding for each additional full-time equivalent (FTE) student added to the University's current budgeted enrollment level based on the methodology developed and agreed to by UC, CSU, the State Department of Finance, and the Legislative Analyst's Office (the marginal cost of instruction). The calculation reflects the State subsidy provided toward the cost of education as well as the portion of this cost that is paid from student fees. Based on the current budgeted student-faculty ratio of

18.7:1, marginal cost funding provides salary and benefits for additional FTE faculty positions, salary for teaching assistant positions, and additional funds for instructional equipment, instructional support, institutional support, libraries, and student services. As a result of recent cuts in State funding and increases in student fees, the State's share of the marginal cost decreased from about \$9,000 per FTE for 2003-04 to \$7,528 for 2005-06, even though the total cost (State funds and student fees combined) decreased only slightly.

Historically, the State has heavily subsidized the cost of education, but in recent years, the State share has declined while the share paid by students has increased significantly. Display 1 shows the funding components of the average cost of a UC education from 1985-86 through 2004-05 (in 2004-05 dollars) and the funding gap that has developed between the cost of a UC education in 1985-86 and the resources available in 2004-05. Display 1 makes several points. First, contrary to recent news coverage nationally about the skyrocketing costs in higher education, the average expenditure for a UC education has declined. In 1985-86, the cost to educate a UC student was approximately \$18,460 in 2004-05 dollars. Over 19 years,

Display 1



funding per student in inflation adjusted dollars declined by 14.4%, from \$18,460 in 1985-86 to \$15,810 in 2004-05, resulting in a funding gap of \$2,650 per student. Second, the State subsidy toward a UC education has declined significantly—by 40% over a 19-year period. In 1985-86, the State contributed \$15,100 per student—82% of the total cost. By 2004-05, the State share declined to \$9,120, just 58%. Third, as the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening now. While in 1985-86 students contributed 11% toward their educations, they currently pay 30% of the cost of their educations. Student fee increases have helped maintain quality during times of fiscal crisis, but have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low. While fees have increased, the University has provided significant increases in financial aid to help ensure access for low-income students.

### ***Accommodating Enrollment Growth***

The California Master Plan for Higher Education calls for UC to admit all eligible applicants in the top 12.5% of the statewide public high school graduating class. University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class and to guarantee admission to all students who meet the eligibility requirements. In addition, the Master Plan calls for UC to guarantee a place for all California Community College transfer applicants who meet eligibility requirements. The Master Plan also calls for the State to provide adequate resources to accommodate this enrollment.

The University remains committed to the Master Plan and believes it is the underpinning for one of the finest higher education systems in the world. The interests of the State, its citizens, and the higher education segments in California have been well-served by the Master Plan for over 40 years. Legislative reviews of the Master Plan in 1989 and 2002 have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students.

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

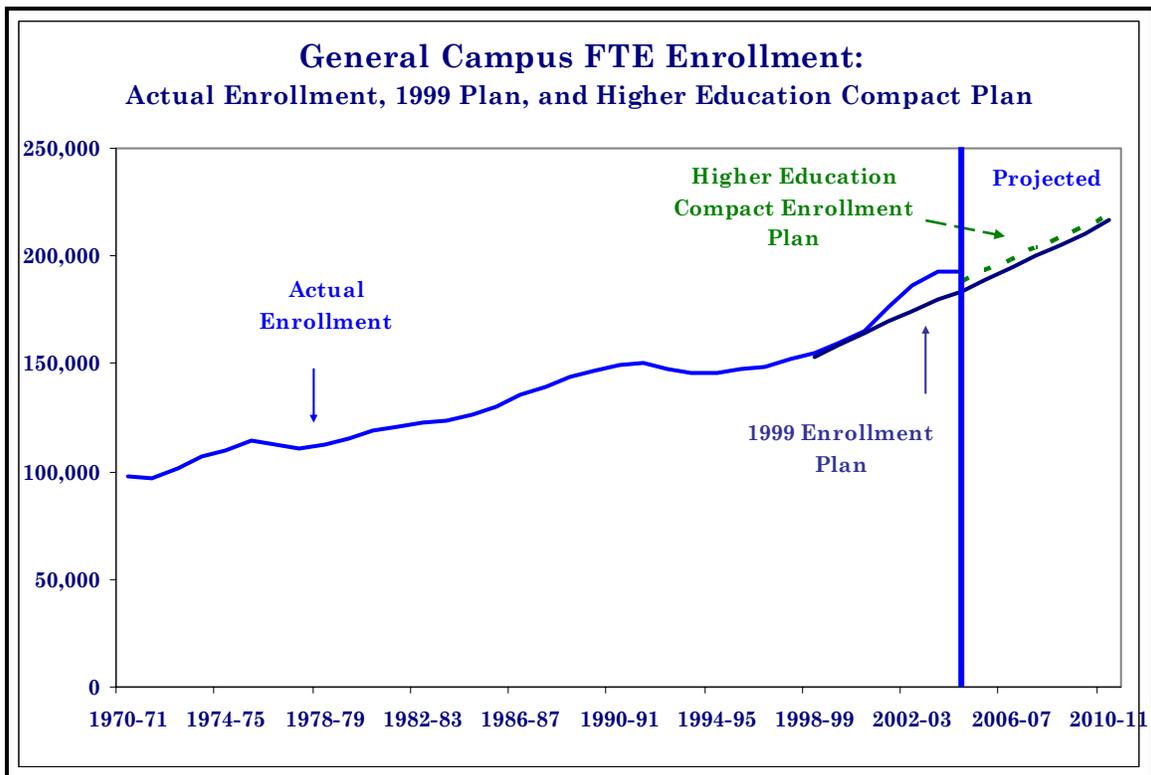
- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually

enroll in the University (University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class, but generally about 7.8% actually enroll);

- assumptions about community college transfer rates, consistent with the University's commitment to continue to improve these rates; and
- increases in graduate enrollment needed to meet workforce needs in academia, industry, and other areas.

The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of about 5,000 FTE over this decade; by 2010-11, the University would reach its planned target of 216,500 FTE. As indicated in Display 2, between 2000-01 and 2003-04 the University experienced far more rapid enrollment growth than projected in the 1999 plan, averaging closer to 8,000 FTE per year in recent years rather than the 5,000 FTE enrollment growth projected earlier.

Display 2



During 2004-05, the State did not provide sufficient resources to fund all eligible students wishing to attend. Legislative intent language adopted as part of the 2003-04 budget package requested the Department of Finance to

develop the 2004-05 budget assuming no funding for enrollment growth. In the 2004-05 budget, the Governor proposed reducing the number of entering freshmen by 10%, redirecting these students to the California Community Colleges, and reducing UC enrollment. The final budget agreement allowed UC to offer admission to all eligible freshman applicants who were originally redirected to the CCCs and maintain its commitment to the access provisions of the Master Plan.

Now, despite the budgeted enrollment decrease in 2004-05, total enrollment remains more than 6,000 FTE over the level envisioned in the 1999 plan for 2004-05. The Compact recently negotiated with Governor Schwarzenegger calls for UC to return to its earlier estimates of 5,000 FTE enrollment growth per year, which will allow the University to return to enrollment levels near those envisioned in the 1999 plan.

Displays 3 and 4 show the headcount of general campus and health science students enrolled at the University in Fall 1980 and, more than two decades later, in Fall 2003, the latest year available.

## **The University of California, Merced**

Development of UC Merced is part of the University's strategy to increase enrollment capacity that will serve the entire state, enhance access to students in the San Joaquin Valley, and provide the benefits of an additional research university to all Californians. Additionally, the campus will make valuable contributions to the region as a powerful economic engine and a leader in environmental sustainability practices.

### ***Educational Access***

UC Merced will open in Fall 2005 to 1,000 students—a mixture of freshmen, community college transfer students, and graduate students. Enrollment is scheduled to increase by 800 students per year thereafter, a necessary growth rate to maintain educational access—the Central Valley is projected to be the fastest growing region in California. UC Merced will fulfill an important role in providing access to a University of California education in a previously underserved region, ensuring the University maintains its statewide commitment to access as specified in the Master Plan for Higher Education, and continuing the University's recent successes in expanding college participation in the Central Valley region.

Display 3

<b>Domestic Undergraduate Headcount</b>				
Fall 1980 - 2003				
	1980	2003	Change	Percent Change
African-American	3,474	4,846	1,372	39%
American-Indian	483	908	425	88%
Chicano	3,816	16,234	12,418	325%
Latino	<u>1,539</u>	<u>5,400</u>	<u>3,861</u>	<u>251%</u>
Subtotal	9,312	27,388	18,076	194%
Asian	10,700	45,401	34,701	324%
Filipino	1,304	7,515	6,211	476%
White/Other	68,200	64,643	(3,557)	-5%
Decline to State	<u>5,362</u>	<u>10,820</u>	<u>5,458</u>	<u>102%</u>
Subtotal	85,566	128,379	42,813	50%
TOTAL	94,878	155,767	60,889	64%

Display 4

<b>Domestic Graduate Headcount</b>				
Fall 1980 - 2003				
	1980	2003	Change	Percent Change
African-American	996	1,257	261	26%
American-Indian	132	324	192	145%
Chicano	900	1,786	886	98%
Latino	<u>579</u>	<u>1,351</u>	<u>772</u>	<u>133%</u>
Subtotal	2,607	4,718	2,111	81%
Asian	2,145	6,887	4,742	221%
Filipino	117	717	600	513%
White/Other	20,394	24,898	4,504	22%
Decline to State	<u>5,354</u>	<u>3,696</u>	<u>(1,658)</u>	<u>-31%</u>
Subtotal	28,010	36,198	8,188	29%
TOTAL	30,617	40,916	10,299	34%

## *Academic Innovation and Excellence*

As the first new research university of the 21st century, UC Merced will provide its faculty and students with innovative programs in education and research. A learning environment will be established that fosters excellence in teaching, research and public service in the great tradition of the University of California system. In these months leading up to the official opening of the campus, the faculty are focused on developing new and innovative ways of delivering instruction that also incorporate an unprecedented level of interdisciplinary collaboration.

More than 30 faculty members are on staff in 2004-05, but a total of 75 instructors (60 permanent faculty and 15 lecturers) is needed to carry out instruction in all of the subjects that comprise the major fields of study. Efforts will continue throughout the year to recruit the remaining faculty needed for campus opening.

The University's core academic programs will be offered through three schools: Engineering, Natural Sciences, and Social Sciences, Humanities and Arts. The initial six undergraduate degree programs are: Computer Science and Engineering, Environmental Engineering, Biological Science, Earth Systems Science, World Cultures and History, and Social and Behavioral Sciences. At the graduate level, the initial programs include: Molecular Science and Engineering (Chemistry and Materials Science), Quantitative and Systems Biology, Environmental Systems (sciences), Computer and Information Systems, World Cultures and History, and Social, Behavioral and Cognitive Sciences. Further programs are under consideration for Fall 2005, and a school of management, enabled by a private gift, is under development.

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

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

### ***Economic Development***

UC Merced already serves the San Joaquin Valley as an economic engine, and it will continue to gain importance in this role. As a major employer and user of services, it continues to be a significant and growing contributor to the regional economy. Over the last four years, UC Merced has contracted for \$12 million in business services and products with Central Valley companies. The capital projects at UC Merced total \$280 million, much of which is in construction; about 1,500 workers, 75% of whom are Central Valley residents, are participating in the construction of the campus site. For its general operations, UC Merced directly employs more than 300 people. Federal research dollars which would otherwise not come to the Central Valley are currently \$10 million and expected to grow. Through its public service programs, such as its lead role in the region's Small Business Development Centers, UC Merced advances and supports employment growth and business expansion. Most important, as an academic institution, the campus will produce an educated workforce that will benefit the region and the State of California for years to come. In all of the nine regions currently hosting a UC campus, the economic benefits are profound and it is clear that will also be the case in the Central Valley and Merced.

### ***Facilities***

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

Phase I development of the campus includes several facilities to support the academic and residential life of its students. The campus infrastructure is

substantially complete, and the first buildings that support core operating systems (the Central Plant building and the Telecommunications building) will be occupied by the end of this calendar year. The first student housing units (600 beds) and dining commons are nearly complete and will be open to potential students for tours in Spring 2005. Three academic buildings are in construction—the Classroom and Office Building, the Library and Information Technology Center, and the Science and Engineering Building—and will be complete in 2005-06. Offices and laboratories at the Castle facility are currently housing the initial faculty and will provide ongoing continuous use space to the campus. The Recreation and Wellness Center and a central operations facility (Logistical Services/Support Facility) are in planning and scheduled for completion in 2006. An Early Care and Education Center is being planned in collaboration with the County Office of Education in Merced. The final buildings in Phase I are the Social Science and Management building and a second science and engineering building, to be completed within the next five years. A second student housing project to be built by 2007 is in planning.

### ***Supplemental One-Time Funding***

Supplemental funds are required in 2005-06 for faculty salaries and recruitment costs, as well as instructional technology, library materials, student services and expanded general support needed to fully operate the campus. As specified in the new Higher Education Compact with Governor Schwarzenegger, the State will continue to support one-time funds needed for initial development of the UC Merced campus, until the campus reaches a level of enrollment (5,000 FTE students) sufficient to generate an adequate level of workload funding, anticipated to be in 2010-11.

### **State Support for Summer Instruction**

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

summer enrollments both makes more efficient use of facilities and accelerates time to degree for undergraduates, thereby making room for more students during the regular year.

Historically the State has provided funding for students enrolling in the fall, winter, and spring terms, but not summer. Through Summer 2000, summer sessions were supported from student course and registration fees set by each UC campus. The University began converting summer instruction from a self-supporting to a State-supported program in Summer 2001.

With full funding for summer programs on all UC general campuses, by 2010-11 UC plans to accommodate growth of about 17,000 FTE students during the summer in addition to the summer enrollment prior to 2001-02, for a total of 24,000 FTE, or 120,000 headcount students enrolled at current course load levels. This level of summer enrollment reflects the University's goal of achieving enrollment in summer and in off-campus programs that is 40% of the enrollment in a regular term.

To help begin the conversion from self-supporting to State-supported summer programs, the State provided \$13.8 million in 2000-01 to reduce the Summer Sessions fees charged to UC students. As a result, student summer fees became equivalent (on a per-unit basis) to those charged during the regular academic year at all UC campuses. For 2001-02, the State also provided summer 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 summer workload funding of \$7.4 million, adding the Davis campus to the list of campuses fully State-supported in the summer, and provided \$1 million to buy down fees for the increased number of students at non-State-supported campuses since fees were first reduced in 2000-01.

In the four years from Summer 2000 to 2004, the University expanded its summer enrollments by 5,900 FTE students (an increase of about 27,000 summer headcount students) to 12,730 FTE, as shown in Display 5 (next page). Summer enrollments at the four campuses that were fully funded by the State grew about 97%, or nearly 4,200 FTE students, achieving total enrollment of 8,450 FTE (40,400 headcount enrollment). Summer enrollments at the remaining four campuses (Irvine, Riverside, San Diego,

Display 5

Full-time Equivalent Summer Enrollment (UC-Matriculated)						
	2000	2001	2002	2003	2004	% Increase 2000 to 2004
<i>State-Funded</i>						
Berkeley	1,390	1,925	2,126	2,282	2,155	55%
Davis	824	933	1,533	1,885	1,876	128%
Los Angeles	1,222	2,099	2,515	2,608	2,610	114%
Santa Barbara	854	1,446	1,689	1,793	1,812	112%
<i>Subtotal</i>	4,290	6,403	7,863	8,568	8,453	97%
<i>Non-State Funded (Fee-Reduction Only)</i>						
Irvine	971	1,240	1,482	1,803	1,577	62%
Riverside	430	636	829	963	913	112%
San Diego	775	906	1,085	1,159	1,162	50%
Santa Cruz	351	502	584	643	628	79%
<i>Subtotal</i>	2,527	3,284	3,980	4,568	4,280	69%
<b>TOTAL</b>	<b>6,817</b>	<b>9,687</b>	<b>11,843</b>	<b>13,136</b>	<b>12,733</b>	<b>87%</b>

and Santa Cruz) have also grown significantly since 2000. Between Summer 2000 and Summer 2004, enrollments grew 69%, achieving total enrollment of 4,300 FTE (23,300 headcount enrollment).

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, along with essential student support services, access to libraries, and student financial aid. Compared to funded campuses, the four campuses that do not yet receive State funding for summer instruction provide minimal financial aid, have less funding available for student services, and hire fewer regular-rank faculty to teach in the summer. In addition, without State funding, these campuses cannot afford to offer the breadth of courses available during the summer to students at the funded campuses, preventing campuses from maximizing efficiency and student progress toward the degree. These funding discrepancies also create inequities for students across the system. State funds are necessary to ensure equivalence to the regular academic year, and across all campuses. In order to fully-fund summer instruction, the University will commit enrollment growth funds in the 2005-06 and 2006-07 budgets toward summer instruction at the four unfunded campuses.

## Improving Instruction

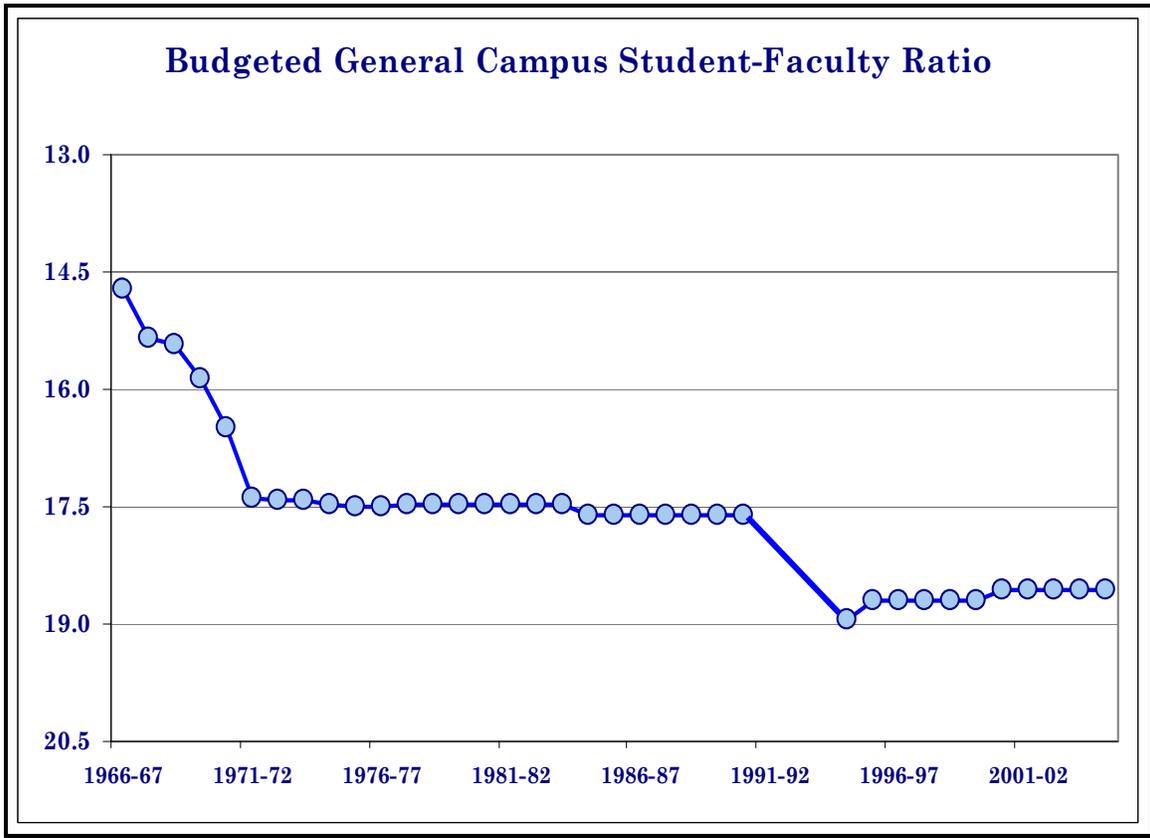
During the State's fiscal crisis over the last several years, the University has taken a series of budget cuts in academic programs. In 2002-03, funding for core needs (instructional equipment, instructional technology, libraries, and operation and maintenance of plant) was reduced \$29 million. In 2003-04, the Governor's Budget included a \$34.8 million reduction in State funds targeted at increasing the University's student-faculty ratio; however, this cut was instead taken by the University as an unallocated reduction. In 2004-05, the Governor proposed a further 5% increase in the student-faculty ratio accompanied by a budget cut of \$35.3 million. Again, this cut was taken as an unallocated reduction. Such budget reductions make it difficult for campuses to maintain levels of instructional support necessary to provide a high quality education.

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

Improvement in student-faculty ratios would permit the University to offer both smaller class sizes and a wider range of courses, allowing students to complete requirements and graduate more quickly. Sufficient faculty per student also increases opportunities for contact outside the classroom, through improved advising and undergraduate participation in research.

With funding provided in 2005-06 as part of the Compact, the University will commit \$10 million toward restoring instructional resources. These funds will be used to bolster the student-faculty ratio, improve instructional support, and acquire instructional technology. It is the goal of the University

Display 6



to restore funds cut from the instruction budget in recent years and to achieve a long-term student-faculty ratio of 17.6:1.

In response to those who contend that budget cuts could be offset, at least in part, by having faculty teach additional classes, the University argues strongly that it is critical for the quality of UC to maintain current faculty instructional workload policies. UC policies are similar to those at comparison institutions. (A report comparing faculty instructional workload policies at UC and comparable universities is forthcoming.) Having comparable policies helps the University stay competitive in its efforts to recruit and retain the highest quality faculty. The future of California is dependent on the ability of the University to remain competitive with the best universities in the nation – if the University of California becomes just another university, California may become just another state.

## **Keeping California Competitive: Science and Mathematics and California's Workforce Development**

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

### ***The Need for More Science and Math Teachers***

For nearly two decades, California's remarkable economic growth has been fueled by the rapid expansion of its high-tech industries. The "California Technology Miracle" continues to promise new products and high-paying, environmentally compatible jobs in fields such as agriculture, aerospace and defense, electronics, computers, software and telecommunication, biotechnology and pharmaceuticals, medical devices and the entertainment industries of movie production and computer gaming. In California, more than 10% of all jobs are in these high-tech industries, and these jobs generally provide about twice the mean salary of all other private, non-farm industries in California.

The ability of the state to sustain the "California Technology Miracle" is now at risk. California's educational system is not producing the science and engineering graduates needed to meet industry's growing requirement for skilled workers. Despite the fact that California has over 16% of the nation's high-tech jobs, it grants less than 9% of the nation's science and engineering (S&E) baccalaureate degrees, the degree required by more than 50% of California S&E jobs, according to a 2004 Milken Institute Report. Collectively California universities produce about 20,000 S&E baccalaureate degrees annually, resulting in a shortfall of more than 14,000 workers with S&E degrees, according to a 2002 report by the California Council on Science and Technology.

California's S&E workforce gap has been partially filled by the import of highly skilled S&E workers from other states and countries, but changes in immigration policies in recent years have decreased the number of foreign workers and S&E students coming to California. Even more important is the global competition for science and engineering talent that is intensifying as nations invest billions of dollars to educate their workforce and launch their own "technology miracles."

The increases in California's reliance on foreign-born S&E workers underscore the difficulty faced by California's education system in producing enough students with the knowledge of science and mathematics and the critical thinking and communication skills that are required by today's high-tech industries. In the most recent NSF Science and Engineering Indicators (2004), California 8<sup>th</sup> graders scored at the bottom of all states compared in sciences, and they scored 7<sup>th</sup> from the bottom in mathematics. Of all California ninth-graders, only 4% go on to complete an S&E baccalaureate degree and only 1.2% of Californians age 25-34 are enrolled in science and engineering graduate programs.

Another key problem facing California is the shortage of highly-trained science and mathematics teachers in California schools. Studies over the last quarter century increasingly point to a strong correlation between student achievement in K-12 science and mathematics and the quality of teachers in these subject areas. In California, approximately 26% of mathematics teachers are not technically qualified to be teaching mathematics and 38% of science teachers are not qualified to be teaching science. In 2002-03, nearly 1,500 mathematics classes and more than 800 science classes in California high schools were taught by non-credentialed teachers. This does not include the many classes that are taught in science and mathematics by teachers who have credentials outside of these fields.

Quality teachers are not uniformly distributed across California. Students from poor, largely urban, low Academic Performance Index schools from largely minority communities are far more likely to be assigned to unqualified teachers of mathematics and physical sciences than their peers in other communities.

The State's current supply of baccalaureate S&E graduates cannot fill the gap in the need for qualified science and mathematics teachers as only a handful of these go into K-12 teaching. Currently, relatively few S&E

students from UC, CSU, and the independent colleges go on to receive a credential and to teach in California schools. In 2002-03, fewer than 250 UC students who earned a bachelor's degree in science or math also completed a single subject teaching credential. All segments of California higher education collectively awarded mathematics degrees to 1,389 students, 823 of whom were also awarded math teaching credentials. However, the total need for new math teachers was 2,131. The situation will become even more acute as large numbers of California teachers of the baby-boomer generation begin to retire.

### ***Meeting California's Workforce Needs***

If California is to meet its S&E workforce needs, all stakeholders, including business and industry partners, policy makers, and educators must work together to achieve two goals:

- Increase the number of high-quality K-12 science and mathematics teachers in order to provide highly-qualified science and mathematics teachers to all California children.
- Increase the number of students who receive S&E baccalaureate degrees and provide them with the knowledge and skills required of California high-tech employers;

The University has begun studying issues and identifying objectives to help the State achieve these goals, and during the course of the next year, the University intends to develop a more fully-defined set of proposals. In the short run, the University is focused on two objectives: removing obstacles to teacher credential achievement and expanding participation in teaching internships.

A very large obstacle to many students who might want to become K-12 science and mathematics teachers is the fifth-year credential program that historically has been at the heart of teacher training in California. Science and mathematics baccalaureate students frequently have employment opportunities immediately upon graduation that pay more than teaching. Students find these opportunities more attractive than paying for another year of education. CSU has approached this problem by developing “blended majors” that provide students with the subject knowledge and pedagogical preparation to go into K-12 teaching upon graduation. In addition, both the UC Los Angeles and San Diego campuses have very

successful accelerated programs that provide students with both a science or mathematics major and a teaching credential in four years. Over the course of the next year, the University will examine the efficacy of accelerated credentialing programs for K-12 science and mathematics teachers and, if these programs are found to meet the needs of UC students and K-12 education, establish guidelines to develop additional programs.

In addition, the University will develop plans to expand participation in teaching internships. From studies of other successful teacher induction programs, it is clear that among the most important components of successful science and mathematics programs that prepare K-12 teachers are internships where students experience, as early as their first undergraduate year, what it might be like to pursue a career in teaching.

Another avenue for increasing the number of students who pursue science and mathematics teaching credentials is to develop financial incentives. One option would be to enhance the Assumption Program for Loans for Education (APLE), which provides loan assumption benefits to California students who intend to pursue a career in teaching in California. At present, APLE provides slightly greater benefits for teaching service provided in the subject areas of math, science, and special education. The value of this added incentive could be increased in order to attract more students to those areas.

Although a major goal of UC is to increase significantly its contribution to preparing science and mathematics K-12 teachers to meet the needs of the state, without increasing the pool of S&E students, recruitment of students into science and mathematics teaching would directly compete with the need for S&E baccalaureate students to meet other workforce needs of the state. Accordingly, the University will make a significant effort to increase this pool from which to draw students into careers of K-12 science and mathematics teaching and meet other workforce needs.

In response to the shortage of science graduates, and to address workforce needs, particularly in the areas of engineering and computer sciences, 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, four years ahead of the original plan. In 2004-05, the University estimates enrollment in these fields will exceed 26,800 FTE. This is highly encouraging and has helped meet

workforce needs in these areas. But much remains to be done to increase the number of students in other areas, particularly physical sciences and mathematics.

The University of California will take a lead role in working with its intersegmental partners (CSU, Community Colleges, Independent universities), K-12 schools, and with business and industry partners, to develop and implement programs that will encourage more of California's children to become the scientists and engineers needed to help California sustain its global economic preeminence, and to become the quality science and mathematics teachers that California's children deserve.

### **Maintaining Freshman Student Access**

The University is maintaining its commitment to the Master Plan for Higher Education to provide a place on one of the UC campuses for all eligible California applicants who wish to attend. Campuses received applications for Fall 2004 admission from more than 63,000 California high school seniors, and the University expects more than 31,000 new California freshmen to enroll during 2004-05.

#### ***Eligibility Policies***

Consistent with the Master Plan for Higher Education, UC's policy is to provide access to students in the top one-eighth (12.5%) of the state's graduating class who wish to attend, although a student may not be offered a place at the campus or within the major of first choice. Currently, the University offers three paths to eligibility as a freshman:

- Eligibility in the statewide context is achieved if a student completes 15 units of work in specified academic courses, commonly referred to as the "a-g" requirements, and meets or exceeds a minimum score on an eligibility index, which includes a combination of high school grade point average (calculated on academic units), and a combination of the ACT or SAT I test scores and three SAT II scores.
- Alternatively, students may achieve eligibility based 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 implemented for the first time for students entering in Fall 2001. Students who complete the required "a-g" courses and standardized tests and who rank within the top 4% of their class (based on GPA earned in "a-g" courses) are UC-eligible under this path.

It should be noted that the current ACT and SAT 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 more closely to curriculum content and also will reflect a student's writing ability. In a parallel effort, ACT, Inc. has committed to augment its current test with a writing examination.

On an annual basis, the University monitors key demographic and financial indicators, as well as policy changes that affect enrollment. In May 2004, the California Postsecondary Education Commission (CPEC) completed a new high school eligibility study, based on 2003 high school seniors, which indicated that 14.4% of California public high school graduates were eligible for the University. In order to keep the pool of UC-eligible students consistent with the target set in the Master Plan, the University has tightened two of its rules for determining whether students are eligible for freshman admission, effective for applicants for Fall 2005:

- UC will calculate a student's grade point average (GPA) based on all UC-required "a-g" courses taken in the 10th and 11th grades. Currently, if students take more than the minimum number of required "a-g" courses, their GPA for eligibility purposes includes only the best grades earned in the required subjects. This change will make the GPA used to determine eligibility consistent with the GPA campuses use when they are selecting students and with the GPA students are advised to calculate themselves when they estimate their eligibility.
- UC will require ELC students to complete all course and testing requirements in order to be considered eligible. Students are notified at the beginning of their senior year that they are in the top 4% of their

high school's graduating class and are therefore eligible for admission to UC, but they must complete the required "a-g" courses and standardized tests before they graduate from high school and enroll at UC.

In addition, at the September 2004 Board meeting, The Regents approved a further eligibility adjustment, requiring a higher minimum GPA. The action of the Board raises the minimum GPA required for all eligible freshmen applicants to 3.0, to be effective for students entering in Fall 2007. The President and the Board agreed that, once data on the new standardized tests become available in 2006, BOARS will conduct additional analysis and return with further recommendations, if needed, to align the size of UC's eligibility pool to a figure consistent with the Master Plan.

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

### ***Admissions Policies***

The University continues to be committed to offering a place to all eligible California high school graduates and eligible California Community College transfer students who apply for admission. However, this commitment does not extend necessarily to the student's choice of campus or major. At campuses where the number of UC-eligible students exceeds the number of spaces available, admission selection guidelines are employed to select the entering class.

In November 2001, The Regents of the University of California approved a modified selection process for freshman admissions that leads to a more thorough and complete review of the qualifications a student presents when applying to one of UC's undergraduate campuses. Called "comprehensive review," the process ensures the admission of highly-qualified students by allowing UC campuses to consider the broad variety of academic and supplemental qualifications that all students present on the application. The comprehensive review process, 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 significant contributions to the University community and to the larger society beyond. This policy sends a strong signal that UC is looking for students who have achieved at high levels and, in doing so, have challenged themselves to the greatest extent possible.

### ***2004-05 Admissions and the Guaranteed Transfer Option***

As mentioned earlier, the Governor's January budget proposal called for a 3,200 student reduction in the entering freshman class during 2004-05. The Governor proposed that the University redirect these eligible freshman applicants to the California Community Colleges for their first two years of study. Upon completion of their lower division work, these students would enroll for their upper division work at the UC campus that originally accepted and redirected them.

The University implemented the Governor's proposal in the spring and called the redirection program the Guaranteed Transfer Option, or GTO. The University initially offered GTO to 7,600 eligible freshman applicants.

As part of the actions taken on the final budget for 2004-05, the Governor and the Legislature reached a compromise that allowed the University to offer freshman admission to all students who originally received the GTO offer. Because the offers were made very late in the admissions process, many students had already made other plans. Nevertheless, the actions taken by the Governor and the Legislature on enrollments are important for preserving the Master Plan guarantee of access for all eligible students.

Following the compromise, the University immediately sent offers for freshman admission to all eligible students who had not yet received a UC freshman offer. Among the roughly 7,600 applicants initially offered GTO and later offered freshman admission, 1,610 decided to

attend UC during 2004-05. Another 330 decided to remain as GTO students and will later transfer to the University as upper division students.

For 2005-06 and beyond, the Compact recently negotiated with Governor Schwarzenegger calls for funding of normal enrollment growth each year and the University believes this will be strongly supported by the Legislature. Thus, the University believes there will be no further question of the State's commitment to the undergraduate admission component of the Master Plan and the University can once again ensure that its doors will be open to eligible students who wish to attend.

### **Transfer from California Community Colleges to UC**

The Master Plan for Higher Education designates the missions for all three public higher education segments and affirms the principle that educational opportunities should be available to all students to help them meet their full potential. For those students not eligible for, or unable to, attend a four-year university, the ability to transfer from a California Community College (CCC) to a four-year institution for their upper division coursework maintains that commitment to educational opportunity for all, whatever their individual circumstances may be. Therefore, the Master Plan calls for UC to accommodate all eligible CCC transfer students, and specifies that the University maintain a ratio of 60% upper division to 40% lower division within its undergraduate class. The University has exceeded this goal in recent years because of its strong commitment to improve and enhance the transfer function and maintain its commitment to the Master Plan. Over the last five years, full-year transfer enrollment growth has grown 24%. In 2003-04, UC enrolled 12,580 new CCC transfer students. While the number of new transfer students declined slightly in 2003-04, the upper division-lower division ratio stands at 62.6:37.4.

Key elements for a successful transfer function include clearly-defined eligibility and selection criteria, availability of academic and financial aid counseling and advice from both CCC counselors and UC transfer advisors, and complete, accurate, timely, and available course articulation information identifying which California Community College courses are transferable to UC and how individual courses will advance students to a baccalaureate degree. The University continues to make efforts in all three of these areas to help promote transfer student access to UC.

## ***Transfer Eligibility***

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

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

## ***Admission as a Transfer***

All UC campuses are open to new transfer students for each fall term. Campus capacity for transfer students entering in the winter and spring terms varies from year to year. While some campuses may be open to all transfer applicants, others may be limited to a select number of majors, or have no capacity at all in later terms.

CCC transfer applicants who have met UC's eligibility requirements and lower division major requirements are given top priority in admission at all campuses. As with freshman applicants, campuses use comprehensive review criteria for transfer applicants to select students for admission to majors and campuses (as discussed earlier in this chapter). Campuses consider a set of eight criteria, including both academic factors and additional evidence of such qualities as motivation, leadership, intellectual curiosity

and initiative. Academic criteria, especially preparation in the student's intended major, are weighted most heavily in the process, but all eight of the criteria are considered in the review.

### ***Transfer Advising***

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

### ***Articulation***

Transfer students must know how the courses they take at a community college will apply toward a degree at a particular UC campus. "Course articulation" refers to agreements between educational institutions that specify 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). 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. Course articulation at UC falls into two categories:

- **Universitywide Articulation.** The curriculum of each California Community College is reviewed by the UC Office of the President annually to determine those courses transferable as elective credit to all campuses of the University. The resulting Transfer Course Agreements designate which courses can be transferred for credit to meet University admissions, general education, and graduation requirements. While transferable as elective credit, these courses may or may not be transferable for credit toward a particular major at a particular campus. That determination is made at the campus level.
- **Major Preparation Articulation.** 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 as transfer credit toward the requirements to graduate in a particular major. Articulation of courses needed for the major is critically important for students planning to transfer to UC. 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 fourth year, this five-year program is designed to facilitate discussion among UC, CSU, and CCC faculty about major preparation requirements. In regional and statewide conferences, particular focus is given to the discussion of course requirements for high demand majors. IMPAC has conducted discussions regarding major preparation for the physical sciences, mathematics, biological sciences, and social sciences. Future conferences will focus on humanities and fine arts majors.

In recent years, UC has increased the breadth of articulation agreements with California Community Colleges. 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). In addition, five UC campuses have articulation agreements with virtually every community college in the state. All UC campuses (except Merced) 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. The agreements are made available to students via ASSIST, a web-based database of student-transfer information.

The new Higher Education Compact with Governor Schwarzenegger calls for each UC campus to articulate all high demand majors with all 109 California Community Colleges by 2005, and the University expects to meet that goal. Display 7 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).

Display 7

<b>Major Articulation Agreements</b>			
<i>Campus</i>	<i>Coverage in Campus Service Area</i>	<i>Number of CCCs with Agreements</i>	<i>Number of Majors per Agreement (average)</i>
Berkeley	Complete	108	98
Davis	Complete	109	131
Irvine	Complete	91	65
Los Angeles	Complete	87	46
Merced	Complete	13	8
Riverside	Complete	109	80
San Diego	Complete	103	132
Santa Barbara	Complete	108	93
Santa Cruz	Complete	108	71

In accordance with recent legislation (Senate Bill 1415, Brulte, 2004), the University is studying the issue of common course numbering. During 2004-05, UC faculty and administrators will assess and build upon existing articulation programs in order to achieve the goals of SB 1415. Faculty will develop a plan to present information to students that better helps prospective transfer students prepare for admission to multiple UC campuses. Three primary activities include: (1) identifying common requirements across majors at UC campuses; (2) identifying gaps in existing articulation for those common requirements; and (3) identifying potential articulation to fill those gaps based on articulation established by other UC campuses.

### **Graduate Student Enrollment**

While the University intends to meet its commitment to accommodate all eligible California undergraduates who choose to attend, increasing graduate enrollments is also among the University's highest priorities. Graduate enrollments in high quality programs are essential to the state's economic vitality, as well as its social and cultural development. In addition, UC graduate students play a vital role as future faculty in higher education in California.

In the coming years, California's knowledge-based global economy will need many more highly-educated workers—engineers, scientists, business entrepreneurs, and others whose innovations will drive California's prosperity. Charged with the responsibility to prepare professional

and doctoral students to help meet California's and the nation's workforce needs under the California Master Plan for Higher Education, the University will play a key role in helping to meet this need for these technically and analytically sophisticated workers.

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

In addition to the needs of a technologically-based economy, California and the U.S. face many social challenges that require highly-educated individuals to analyze and solve problems as they shape California's future. UC graduate programs continue to serve these needs.

- Professional and managerial jobs are California's fastest growth occupations, creating thousands of jobs for financial managers, marketing executives, computer scientists, engineers, consultants, nurses, and many other professionals. These professional and managerial jobs typically require at least a bachelor's degree and often a master's or doctorate.
- UC prepares highly-skilled and creative architects, doctors, lawyers, school administrators, public health and public policy analysts, social workers, urban planners, and other professionals who contribute to the state's economic and social well-being. California's entertainment and digital media industries are thriving precisely because of the many writers, musicians, visual artists, and actors the University trains.

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

- Both UC and CSU depend heavily on the graduates of UC's Ph.D. programs: more than one in five UC and CSU faculty members have

a UC doctoral degree. California colleges and universities will need to hire thousands of new faculty in the coming years to teach the growing numbers of undergraduates and to replace retiring faculty. Because many doctoral institutions in other states are not planning graduate enrollment increases, even more of these new college faculty than in the past must come from UC's graduate programs—perhaps as many as one-third of faculty who will teach in California's public and private four-year institutions.

- While teaching assistants help meet UC's overall instructional needs, their primary importance lies in the ways they complement faculty roles: leading small discussion groups and laboratory sections, offering a wider range of perspectives and delivery modes, and serving as mentors and role models for undergraduates. Graduate students also work as research assistants at UC, key to supporting the discovery and innovation enterprise.

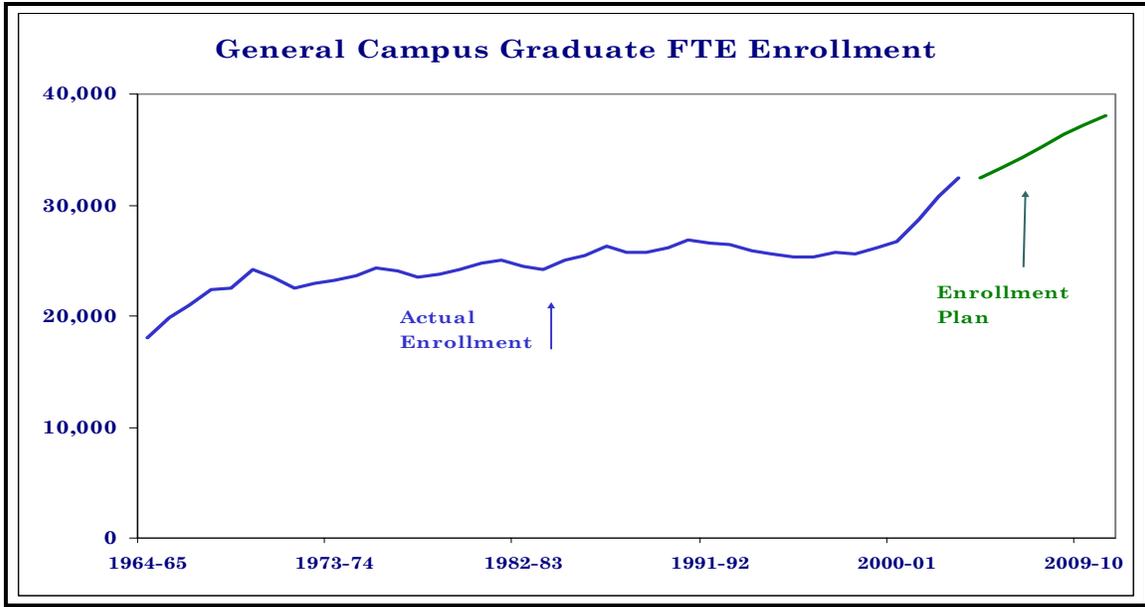
Growth in graduate enrollments will be necessary to maintain the University's excellence in instruction and in research, distinctly part of UC's mission. New faculty members are attracted to UC in part because of the high caliber of graduate students with whom they can work. It is critical to the University's success to attract the best graduate students and to provide competitive financial aid.

California has been under-investing in graduate education, ranking 34th in the United States in the number of graduate degrees awarded per population age 25-44, below the national average. California ranks 22nd in the U.S. in the number of doctoral degrees awarded per population age 25-44, and compared to other high-technology and science-oriented states, California is 7th out of 10 in number of doctoral degrees awarded.

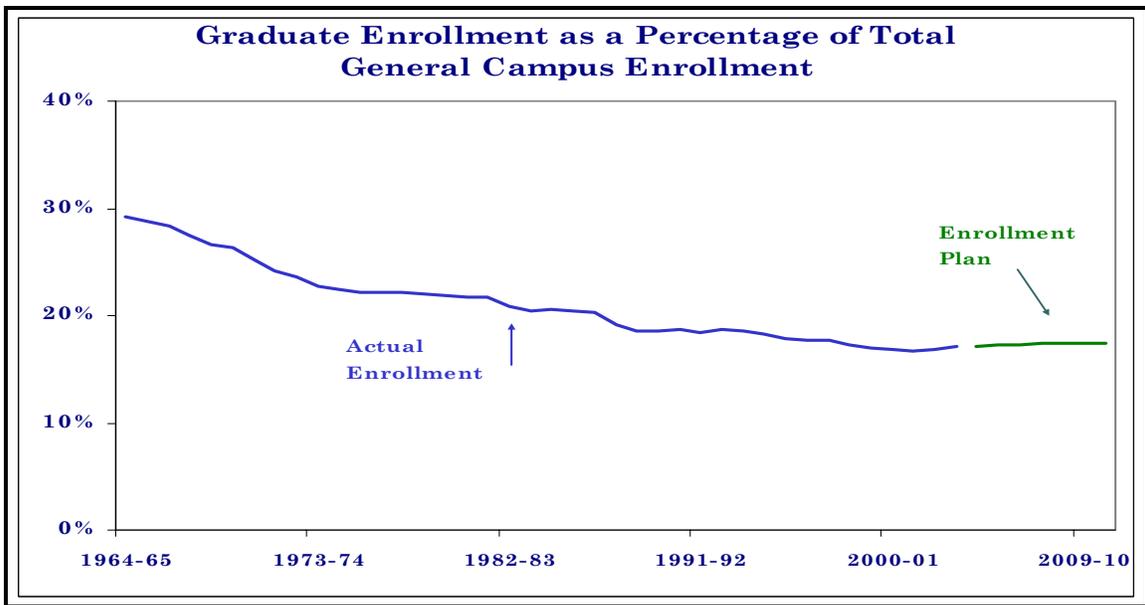
During the 1990s, UC undergraduate enrollments grew 13% while graduate enrollments declined slightly. As a consequence, the proportion of graduate students decreased. By 1999-2000, just 16.8% of the FTE students on UC general campuses were enrolled at the graduate level, down from nearly 30% during the 1960s and 20% during the mid-1980s. In recent years, however, the proportion of graduate students has improved slightly. UC's graduate enrollments began to grow again in 1999-2000, keeping pace with undergraduate growth. The University's current enrollment plan calls for graduate enrollments to continue to grow along with undergraduate

enrollments over the next six years, by 5,600 FTE, raising the proportion of graduate students to 17.5%, still well below the proportion in the 1980s and early 1990s. Display 8 shows actual and planned general campus FTE enrollments, while Display 9 shows graduate students as a percentage of total general campus enrollments (excluding health sciences and self-supporting program enrollments).

Display 8



Display 9



UC's graduate enrollment as a percentage of total campus enrollment is significantly lower than the percentages at UC's four public comparison universities and UC's four private comparison universities, as shown in Display 10. In fact, UC's graduate percentages are the lowest. In Fall 2003, 22% of total UC enrollment was graduate and first professional students (including health sciences and self-supporting enrollments), compared to 34% at public comparison universities and 59% at private comparison universities. Increasing the percentage of graduate students at UC is important for attracting high-quality faculty to UC, meeting the instructional needs of UC's undergraduate population, and keeping California competitive.

**Display 10**

<b>Graduate Enrollments as a Percentage of Total Campus Enrollments*</b> (Fall 2003 Headcount)			
<i>Campus</i>	<i>University of California</i>	<i>Public Comparison Institutions</i>	<i>Private Comparison Institutions</i>
Graduate	18.6%	28.8%	51.6%
First Professional	3.4%	5.5%	7.7%
Total	22.0%	34.2%	59.3%

\* UC and comparison institution percentages include health sciences and self-supporting programs.

UC has fallen behind in graduate enrollments for several reasons. Most importantly, because of State budget constraints in the 1990s, graduate growth was held down to ensure access to all eligible undergraduates who choose to attend UC. But graduate enrollment growth has also been slowed, in many cases, by the inability of graduate students or departments to secure adequate and competitive student financial support. Securing adequate support for graduate students was identified by The Regents as one of their highest priorities, following the release of a report from the Commission on the Growth and Support of Graduate Education. The issue of graduate student support is discussed further in the *Student Financial Aid* chapter of this document.

## **Engineering and Computer and Information Sciences Initiative**

The University is well-recognized for its role in California's economic growth and competitiveness. A significant component of this role is helping to meet

the State's need for a highly-trained workforce. Although the high-tech sector has recently suffered an economic slowdown, the demand for engineers and computer scientists is projected to continue in the long term. 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. 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. The University also has responsibility for graduate training for future instructors of engineers for all higher education in the state.

In response to this need, in 1997-98, the University embarked on an 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, four years ahead of the original plan. In 2004-05, the University estimates enrollment in these fields will exceed 26,800 FTE. Because of demand from industry, UC intends to continue growing in engineering and computer and information sciences. The University is also developing additional programs in the areas of biotechnology, information technology, and nanotechnology which are expected to lead to the next wave of discovery and innovation.

### **Initiative to Expand Education Credential and Leadership Programs**

The University is committed to increasing its role in the training and preparation of K-12 teachers. In response to the State's need for more teachers, UC more than doubled its education credential enrollment, from 1,000 FTE students in 1998-99. The University expects to enroll 2,150 FTE students in education credential programs during 2004-05. This growth comprises graduate students who are concurrently pursuing their master's degrees in education and their teaching credentials.

In addition to increasing the number of qualified teachers graduating from UC, the University of California recognizes the state's need for more and better-qualified individuals to assume leadership positions in K-12 and the community colleges and is committed to taking a prominent and active role in meeting those needs. 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. To ensure that the Ed.D. degree is available throughout the state and that the programs are offered in a manner that makes them accessible to working professionals, in 2001 UC and CSU established a Joint Ed.D. Board to oversee the development of joint CSU/UC Ed.D. programs. As of 2004-05, three new programs have completed the first year of operation and three are in latter stages of approval. The programs in operation involve eight CSU campuses and three UC campuses; those at advanced stages of approval involve six CSU campuses and three additional UC campuses. Additional programs are in various stages of planning. Initial enrollments totaled 37 in the three programs that have been implemented and in the future, total enrollments are expected to be 350-400 once all programs are operating with multiple cohorts.

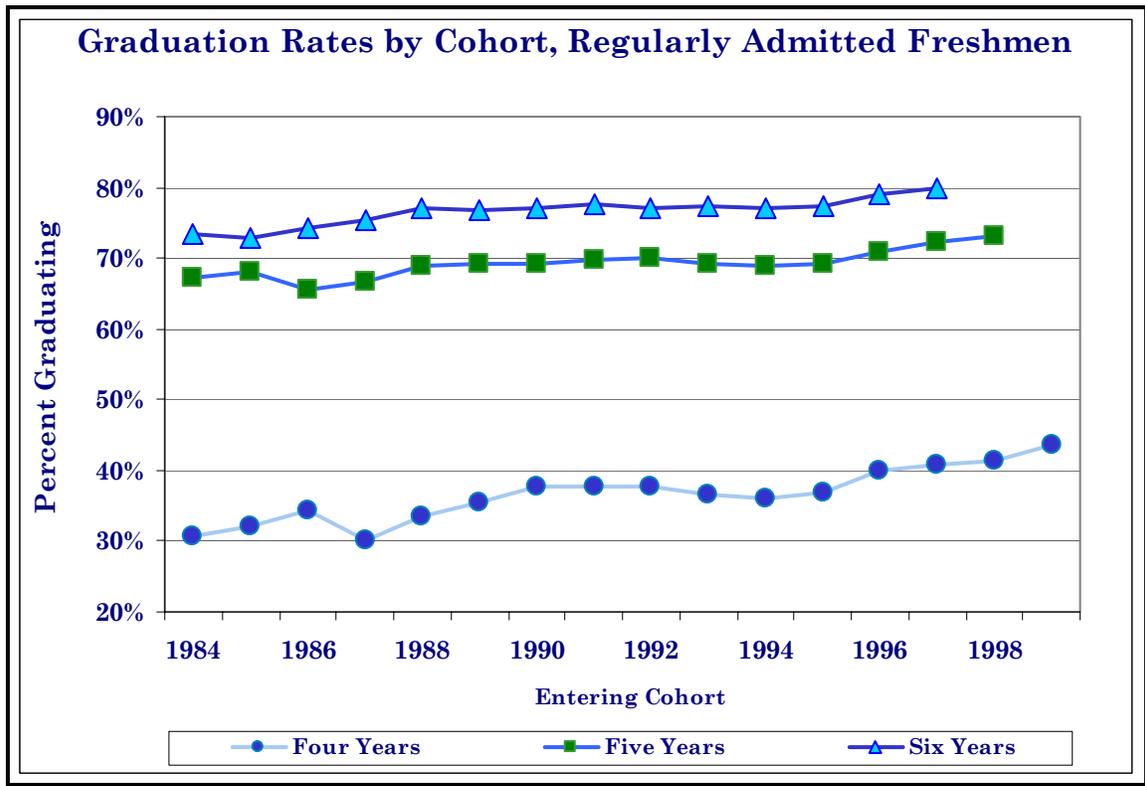
### **Timely Graduation**

The University remains committed to maintaining its excellent record and improving graduation rates and reducing time to degree among all students. The University has decreased the amount of time it takes a student to complete an undergraduate program. One way to measure time to degree is by counting terms enrolled. The number of terms enrolled has dropped from 13.4 enrolled quarters (where a four-year degree equals 12 quarters) for the 1984 regularly-admitted freshman class to 12.9 for the 1996 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, often because they are working part-time. By increasing the average number of units taken during a term and reducing excess units taken over a student's career, more students could graduate in four years, making room for others.

In the 1950s, only half of the University’s new freshmen graduated within six calendar years following matriculation. Thirty years later, among freshmen regularly admitted in 1984, 31% graduated in 4 years, 67% in five years, and 73% in six years. Graduation rates continue to rise among more recent cohorts, as shown in Display 11. Among freshmen who were regularly admitted in 1997, 41% graduated in 4 years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 72% of the 1997 entering freshmen received a baccalaureate degree within five years and 80% within six years.

Display 11



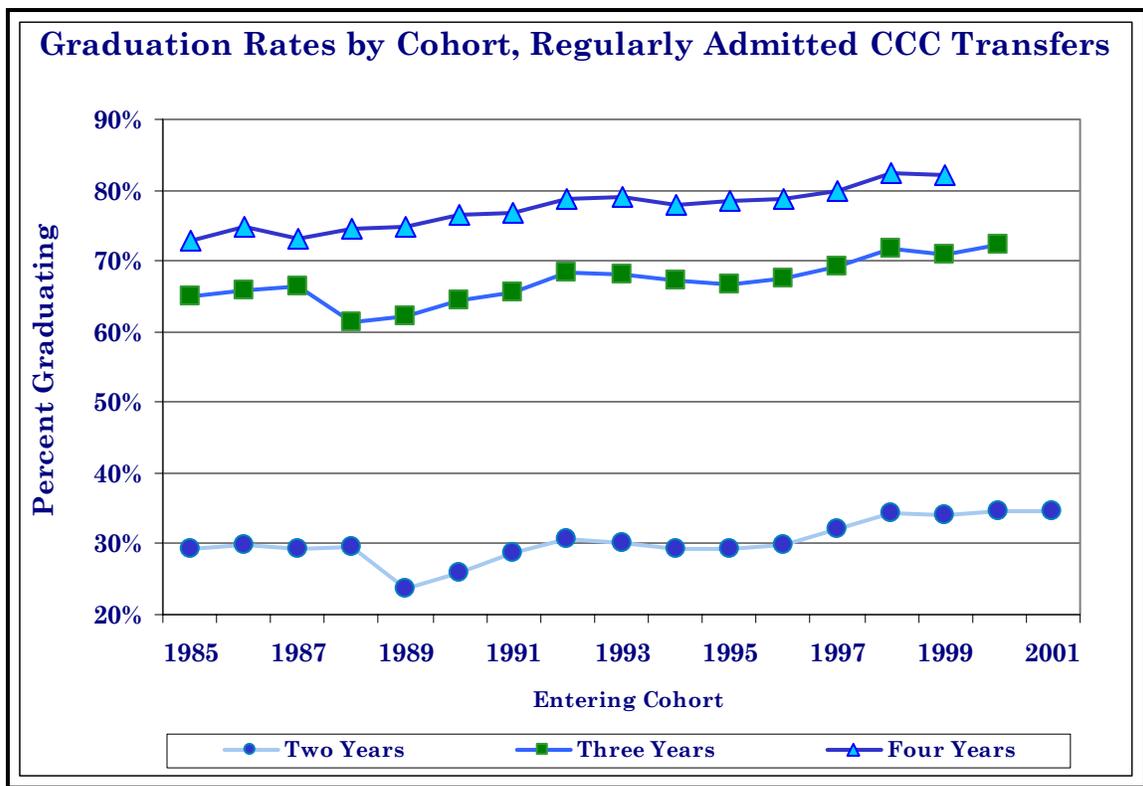
Persistence rates—the proportion of an entering class of students who return to enroll in their second and subsequent years—also have shown gains over the past decade. The proportion of freshmen who returned to enroll in their second year increased from about 88% of the 1984 cohort to nearly 93% of the 2001 cohort. Two-year persistence increased from 76% of those entering in Fall 1984 to 84% of those entering in Fall 2001 (the most recent data available).

All UC general campuses are committed to ensuring that undergraduate students are able to complete their degrees in four years. Accordingly, the

campuses have developed advising and administrative initiatives to facilitate four-year degree completion. Campuses continue to ensure course availability by sustaining increases in faculty teaching effort, creatively managing the curriculum and its delivery, recalling retired faculty, and making better use of technology.

Students beginning their higher education at a community college campus have historically done very well after transferring to UC: more than a third of CCC transfer students graduate within two years, and more than 80% earn a UC degree after four years, as shown in Display 12. More than 90% of CCC transfer students persist to a second year, and on 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.

Display 12



In response to interest from the Governor, the University is studying the issue of excess units. A small number of UC students graduate with significantly more units than needed for their degree. The University is currently developing a policy to address this problem and will establish a

fee, to be phased in, to be charged to undergraduates who exceed the number of units needed to graduate by more than 10%.

## **Silicon Valley Center**

The UCSC Silicon Valley Center Initiative, led by the Santa Cruz campus 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 Initiative (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 student demand; develop collaborative relationships with the California State University (CSU) and the California Community Colleges (CCC); and expand student academic preparation programs with K-12 schools and students.

Silicon Valley Center Initiative programs will address several significant statewide and regional needs. The demand for this Center is driven by: (1) a significant research and public service agenda of mutual interest to Silicon Valley, the University of California, and the State of California; (2) growth in enrollment; (3) the growing and increasingly diverse high school student body in the Santa Clara Valley region; (4) the growing gap between the State's workforce needs and the educational attainment of the population; and (5) the 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.

In 2002-03 and 2003-04, the Santa Cruz campus concentrated much of its efforts on defining its role in carrying out a research agenda for the Silicon Valley. The campus successfully competed for a major contract with NASA Ames to conduct research in nanotechnology, biotechnology, information sciences, aerospace operations, and fundamental space biology. Under this 10-year \$330 million contract, the Santa Cruz campus has established a University Affiliated Research Center (UARC) that will conduct collaborative research at NASA Ames, as well as on campuses. This is the largest competitively bid contract in UC history, and creates the opportunity for the University to engage in research projects that are directly relevant to NASA's space missions. This intensive collaboration, combined with discretionary

research funding made available to UC under the contract, will spur both research and economic activity through the exploration and development of new technologies.

The UARC is the starting point to significantly expand UC-research in Silicon Valley. The University is currently working with private industry and government to develop the Bio-Info-Nano Research and Development Institute (BIN-RDI), an exciting proposal that is expected to generate significant private and public investment in research.

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

Physical planning for the NASA Research Park location of the Silicon Valley Center will also continue in 2004-05, focusing on development that can be supported by existing physical infrastructure as well as the research and teaching space that will be needed to support academic programs.

## **Instructional Technology**

Teaching and learning technologies continue to evolve to meet faculty and student needs for systems and tools to enhance the learning environment. Technology-enhanced teaching and learning requires continued investment in new technologies, and recurring expenditures for maintenance and support. In 1997, the University developed a preliminary quantitative model to estimate costs of instructional technology at UC. Based on this model, the cost to the University for instructional technology in 1996-97 was estimated to be approximately \$136 million, funded by a combination of sources,

including State funds, UC funds (through internal budgetary reallocations), one-time extramural grants, gifts, and miscellaneous sources. According to the model, a minimum increase of \$50 million over the 1996-97 base would be required to provide a modest upgrade in instructional technology, based on then-current planning, enrollment, and cost levels. In 1997-98, the State began to fund this need, but recent budget cuts have resulted in a \$33 million gap in permanent funding as of 2004-05.

This funding gap inhibits the University from making available the broad range of current technologies to enhance the teaching and learning environment on our campuses. These include ubiquitous connectivity via wireless and other secure networks; support for use of laptop computers and other portable devices in the learning environment; development of Web portals through which information (e.g. course catalogues and syllabi) and services are made available to students, faculty and staff; learning management tools to track degree progress, support advising and enhance faculty-student interactions; digital audio and video technologies to enhance the classroom experience, and a variety of other activities. Increasing the use of instructional technology is a critical element of the University's commitment to maintain the quality of its teaching and research programs. Campuses must have current technology in order for students to receive a state-of-the-art educational experience that will prepare them for the best jobs in today's high-technology marketplace. Continuing investments are required not only in infrastructure but also in technical support for faculty, staff, and students so that these new systems can be used effectively.

The State's fiscal situation prohibits reducing this gap at this time. However, the new Higher Education Compact with Governor Schwarzenegger includes provisions for 1% budget increases in 2008-09, 2009-10, and 2010-11 to address budgetary shortfalls in State funding for core areas of the budget critical to maintaining the quality of academic programs, including instructional technology.

### **Instructional Equipment Replacement**

Obsolete equipment ranges from equipment that is functional but lacks the required capability and efficiency of current technology, to devices that are of limited use because replacement parts are not readily available or the equipment is costly to operate and maintain. Using an agreed-upon

methodology for calculating need, the State began partially funding the IER program in 1976-77, and provided full funding beginning in 1984-85 through 1989-90. Since 1990-91, funding for IER has been inconsistent, with annual permanent funding often falling short of each year's IER need, but some one-time funding has been provided to help address the growing shortfall. As of 2004-05, the cumulative shortfall since 1990-91 is \$178 million.

Instructional equipment is essential to maintain the high quality of UC's instructional programs, and the continuing funding shortfall prevents the University from offering the ideal learning environment for its students. New equipment is needed in student computer labs and for classroom use as an aid in teaching presentations. New equipment is also needed in science laboratories to help students learn how to operate the equipment itself and for use by students who are working independently or with faculty on research as part of their academic training. The need for equipment in engineering, the sciences, and digital media disciplines that are expected to grow significantly this decade is especially crucial because laboratory sciences require more instructional equipment, the equipment is more expensive, and technological advances occur more rapidly, which results in a need to upgrade as well as replace existing equipment. Campuses must have current instructional equipment in order for students to receive a cutting-edge educational experience that will prepare them for the best jobs in today's high-technology marketplace. A persistent inability to keep up with equipment needs will weaken the University's instructional programs and reduce the University's ability to provide the highly-skilled personnel needed for California's high technology industries.

The State's fiscal situation prohibits reducing this shortfall at this time. However, the new Higher Education Compact with Governor Schwarzenegger includes provisions for 1% budget increases in 2008-09, 2009-10, and 2010-11 to address budgetary shortfalls in State funding for core areas of the budget critical to maintaining the quality of academic programs, including instructional equipment replacement.

## HEALTH SCIENCE INSTRUCTION

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 763,094,000</b>
General Funds	333,242,000
Restricted Funds	429,852,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	6,969,000

The University of California operates the largest health sciences education and training program in the nation. The UC health sciences system also serves as a major provider of health care for Californians, providing more than 120,000 inpatient admissions and 3.3 million outpatient visits annually. The UC Davis School of Veterinary Medicine is ranked nationally as the premier training program for veterinarians and provides a range of professional services from primary and preventive care for farm, laboratory, domestic, and wild animals, and a range of other activities. The ultimate goal of all UC health sciences programs is to train knowledgeable, skilled, and compassionate health care professionals who deliver outstanding services to California.

UC provides an unparalleled integration of research and education with patient care. Its health sciences system touches all Californians in numerous ways. Among the most significant is through research leading to innovations in the diagnosis treatment and prevention of disease and strategies for staying healthy. The benefits of these findings to the health of Californians are obvious, but more subtle is the impact of UC's health sciences accomplishments on the economic welfare of the state. Besides the significant level of federal dollars invested in the state through research grants, advances in the treatment and prevention of chronic medical conditions such as cardiovascular disease, cancer, and diabetes can help to save billions in medical and lost productivity costs.

In Summer 2004, two new studies of the California physician workforce were issued indicating that the state is likely to face an overall shortage of physicians by the year 2015, and that regions such as the Inland Empire and Central Valley will face even greater needs. These findings, together with the aging of the existing physician workforce and retirement rates that significantly exceed the rate at which new physicians are entering the workforce, underscore the need to plan now to avoid serious shortfalls. A universitywide review of these issues is now underway and will help guide discussions regarding proposed growth in UC health sciences programs where state needs are significant.

The instructional program in the health sciences is based primarily in fifteen health sciences schools that provide education and training to students preparing for careers in clinical care, teaching, and research. These 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 pharmacy (San Diego and San Francisco), two schools of public health (Berkeley and Los Angeles), one school of optometry (Berkeley), 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 are also enrolled. The physical, biological, and behavioral science programs of the general campuses are important complements to these programs.

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

The 2004-05 instructional budget for the Health Sciences is \$763 million, of which \$333 million is UC and State General Funds. Faculty salary and benefit costs constitute over half of the total expenditures for the health science instructional program. Instructional support costs represent

approximately 42% of the budget. These costs include salary and benefits for non-faculty personnel, partial support of stipends paid to interns and residents, and supplies and equipment. The remaining 7% of the program's expenditures are for other expenses such as a portion of malpractice insurance premiums.

By the 2004-05 fiscal year, the University will have sustained about \$520 million in base budget reductions, another \$420 million in cuts will have been offset with student fee increases, and about \$550 million reflects the absence of funding for cost-of-living adjustments, non-salary price increases, energy costs, employee health benefit costs, and maintenance. These base budget reductions occurred throughout the University, including in instruction, research, public service, academic and administrative support, and student service programs. Health sciences students, along with all other students in the University, share in the student fee increases necessary to offset reductions in the State support for all instructional programs.

Health Sciences instructional programs are high cost programs and while the State subsidy for these programs is significant, revenues from Fees for Selected Professional School Students also are increasingly important. The Professional School Fee was charged to first-time students in Fall 1994 and became a permanent charge for all subsequent classes in medicine, dentistry and veterinary medicine. Since fall 1996, a similar fee has been charged to students in nursing, optometry and pharmacy. In charging the fee, the University reconfirmed its commitment to maintaining academic quality and enrollment in these programs. The revenue is used for financial aid and to sustain and enhance the quality of academic programs and student services. As a result of the recent increase in professional fees, UC resident fees for health sciences students have moved from well below the average of the fees charged to students in the same programs at UC's public comparison universities to at or above the average for all programs except Medicine and Nursing. The University is concerned about the impact of the fee increases on efforts to ensure that Health Sciences professional school enrollments are more representative of the diversity of the State's population, and will evaluate this as data becomes available. Professional schools must weigh a variety of factors as they determine the level of fees needed to maintain their programs and provide sufficient financial aid for their students in the coming years. The Fee for Selected Professional School Students is discussed in more detail in the *Student Fees* chapter of this document.

In addition to the resources provided in the instructional budget, the costs of clinical training traditionally have been supplemented by physician and other professional fee income and by revenues generated by the medical centers. It is important to recognize, however, that financial support for medical education and clinical training has declined substantially as a result of both significant decreases in hospital revenues caused by growth of managed care and declining federal reimbursements from Medicare and Medicaid due to efforts to balance the federal budget.

Among the funding principles of UC's new Compact Agreement with Governor Schwarzenegger are funding for UC's basic budget and enrollment growth, beginning in the 2005-06 fiscal year, in exchange for UC's commitment to accountability goals in specified areas. The agreement extends through the 2010-11 fiscal year. The agreement calls for base budget funding as well as funding for enrollment growth of 5,000 FTE students per year.

As part of the 2005-06 enrollment funding request, the University is requesting support of an important new medical student educational initiative at the UC Irvine College of Medicine. This effort is designed as the first in a series of programs to address critical health care needs throughout California. This request is also responsive to supplemental language to the 2003 Budget Act, in which the Legislature stated its intent that the University consider creating programs at UC schools of medicine that provide specialized curriculum, training, and support to medical school students to address the health care needs and health disparities of California's medically underserved populations.

### **Medical Student Enrollment: Focus on California's Medically Underserved Communities and Regions (\$490,000 Increase)**

California is by far the most diverse and populous state in the nation with more than 35 million residents. The population is growing, aging, and increasing in diversity, with an increase of more than 7 million residents projected by 2015. By 2015, nearly 37% of the population will be of Hispanic/Latino origin and nearly 14% will be of Asian or Pacific Islander heritage. By 2025, the Hispanic/Latino population is expected to increase to 41%, at which time Latinos will be the largest group in the state. From the perspective of public health need, there are compelling reasons to launch new

educational efforts focused on the needs of this growing, yet underserved population.

The new Program In Medical Education - for the Latino Community (PRIME- LC) at the UC Irvine College of Medicine, focuses specifically on Latino health needs, including those of migrant agricultural workers. In view of the approximate 10-year timeline from medical admission to independent clinical practice, the University obtained grant funding from The California Endowment to help enroll its first class of 8 medical students in July 2004. This growth marks the first increase in UC medical student enrollment in more than 25 years. The need to plan additional growth in health sciences programs to ensure educational opportunities for California's expanding population and to ensure an adequate future health care workforce is discussed in the *Comparative Educational Opportunities* section below.

### ***PRIME-LC Curriculum***

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

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

## ***PRIME-LC Funding Request***

Although a generous grant from The California Endowment enabled the University to launch PRIME-LC in Summer 2004, continuation of the program and accommodation of the planned increase to a total enrollment of 12 students per year is contingent upon securing permanent State support beginning in 2005-06. Support is requested at the MD marginal cost of instruction for four years of medical school training and at the general campus graduate academic marginal cost of instruction for a fifth masters year. The University is requesting \$490,000 for 2005-06 for continuing support of the eight students admitted this year and 12 additional students to be admitted for 2005-06. At steady state, State funding will increase to \$1.3 million (current dollars) supporting 60 students and will be supplemented by \$921,000 in student and professional fee funds.

### **Next Steps: Planning for New Programs**

Over the past 18 months the University has been actively engaged in a comprehensive health sciences planning initiative, which encompasses the comprehensive review of all UC health professions programs within the context of California health care needs. As part of the University's assessment for each profession, a systemwide committee has examined state and national health care needs, workforce issues linked to supply and projected demand for services, and review of the University's role in meeting these needs for the state. For each profession, a set of findings and recommendations regarding the steps UC might take in meeting state needs is developed. To date, final reports have been issued for nursing, pharmacy, public health, dentistry, and optometry. Work is nearing completion for medicine and veterinary medicine, with a final overarching health sciences report, encompassing all professions, to be issued this fall.

A central theme in the findings and recommendations of the various reports is the need to train a health professions workforce that meets the needs of all Californians. The reports highlight the need to expand programs directed toward reducing health disparities and meeting the needs of medically underserved communities and populations throughout the state. Increased diversity of the workforce and improved cultural and linguistic competency of providers are essential strategies for improving the health status of millions of Californians who suffer disproportionate disease burdens or

who lack access to quality care. To develop effective interventions, health professionals must study and understand the biological, social, behavioral, and cultural causes of widening health disparities within the population.

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

California, which already lags significantly behind other states in terms of medical education capacity per 100,000 population, is growing at a faster pace than it is training doctors and other health care professionals. With 10 million new residents projected in the next decade, building a workforce of physicians, nurses and other health professionals is critical for maintaining or improving the health of Californians. With the exception of the new School of Pharmacy, which admitted its first class of students in fall 2000, enrollment in the University's health professions programs has not grown in nearly 25 years. This lack of growth, together with the increased aging, diversity, and overall growth of the population, underscore the need to comprehensively address health sciences education with the UC system.

The PRIME-LC program at UC Irvine is the first new medical student education program specifically developed to address the health needs and disparities of California's underserved groups and communities. The University's planning and forthcoming report calls for development of additional new programs and select growth in other professions where need is well documented.

In pursuing these efforts, the University recognizes that the morbidity and mortality resulting from disparities in health status and access to care are substantial. The University is prepared to help meet these needs and to collaborate with others to better meet the health needs of all Californians.

## **Health Science Enrollments Within UC**

The University's long-range academic planning for the health sciences is influenced by a variety of factors, including the state's need for health professionals, federal and State policies for funding health science education, access to and reimbursement for health services, and the overall state and federal economy. These and other factors provided broad parameters for the internal, decentralized planning process through which campuses initiate proposals to address programmatic concerns.

### ***Comparative Educational Opportunities***

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 findings are particularly relevant to California:

- For a state of its size and population, California has limited opportunities for medical education and a residency training system ranking in the bottom third nationally in both categories.
- The state has maintained 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 allopathic medical school (MD degree) enrollment remained flat. The net impact was an 8% decrease in the ratio of medical students per 100,000 population.

### ***Health Science Enrollments in the University***

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

Display 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, 1990-91, 2000-01 and 2004-05.

**Display 1**

<b>Health Science Year-Average Headcount Enrollments: Total</b>					
Enrollment And First-Year Class Size for Selected Programs					
	<b>1970-71</b>	<b>1981-82</b>	<b>1990-91</b>	<b>2000-01</b>	<b>2004-05</b>
	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>
Total Enrollment	7,015	12,750	12,022	12,186 (a)	12,292
First Year Class Size:					
Medicine	429	652	622	622	622
Dentistry	175	216	176	168	168
Veterinary Medicine	83	129	122	131 (a)	131
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.

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 FTE, including 412 health science students. 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.

In recent years, enrollment growth in the University's health sciences has been limited to: 1) an increase of nine students per year for each of the four years of the Doctor of Veterinary Medicine (DVM) program, for a total of 36 students, and an increase of 30 students in the veterinary residency program; 2) increases in graduate academic enrollments in the health sciences at the San Francisco (146) and San Diego (80) campuses for programs in select areas where strong academic and economic demand exists, such as medical information science and bioengineering; and 3) the establishment of a School of Pharmacy at the San Diego campus. 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. 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 graduate academic students, and

30 residents. For 2005-06, the University is requesting support for 12 first-year and 8 second-year MD students, the first 20 of 60 students related to the PRIME-LC program discussed above.

As the University plans for the 21<sup>st</sup> century, continuing efforts will be focused on supporting and sustaining high quality programs in health science education, research, and patient care. Important educational initiatives at all schools will continue to address the health needs of Californians. Other policy initiatives will focus on the critical need to develop stable long-term financing mechanisms to provide support for medical, veterinary medicine, and other health professions programs in a wide array of clinical settings and regional locations.

## SUMMER SESSIONS

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 11,682,000</b>
General Funds	--
Restricted Funds	11,682,000

<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	--

In addition to the University's course offerings during the regular academic year, both UC and non-UC students may enroll in courses during summer session on all nine general campuses. Historically the State has provided funding for UC students enrolling in the fall, winter, and spring terms, but not summer. Through Summer 2000, summer sessions were supported from student course and registration fees set by each UC campus. The University began converting summer instruction for UC students from a self-supporting to a State-supported program in Summer 2001. For UC-matriculated enrollments, funding for summer has been shifted to the general campus instructional budget. Further discussion of State-supported summer instruction may be found in the *General Campus Instruction* chapter beginning on page 88.

Funding for non-UC students remains in the Summer Sessions budget. In 2004-05, the base budget for Summer Sessions is \$11.7 million, all of which is non-State Funds. In Summer 2004, approximately 8,500 non-UC students registered for UC summer sessions. Many of these students are regularly enrolled at the California State University, California Community Colleges, and other institutions. Non-UC students pay fees that support the full cost of their education.

## UNIVERSITY EXTENSION

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 200,905,000</b>
General Funds	--
Restricted Funds	200,905,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	6,027,000

University Extension is the largest continuing education program in the nation, providing courses to nearly 300,000 registrants who are typically employed adult learners with a bachelor's degree. UC Extension is a self-supporting operation and its offerings are dependent upon user demand. In 2004-05, the base budget for University Extension is \$235.5 million in non-State funds.

The University offered its first Extension courses to students beyond the immediate campus community more than 100 years ago. Today, Extension divisions at each of UC's nine general campuses offer more than 18,000 different courses, programs, seminars, conferences, and field studies throughout California and in a number of foreign countries. Almost 60% of Extension's offerings are designed to serve the continuing educational needs of professionals. More than 400 certificate programs are offered in such areas as computing and information technology, environmental management, graphics and digital arts, and health and behavioral sciences. UC Extension offers a wide variety of online courses to students in California, the nation and around the world ranging from undergraduate courses carrying UC academic credit to professional-level courses in subjects such as project management, computer programming, and technical writing. These courses extend the instructional resources of the University to the world community.

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

## RESEARCH

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 490,268,000</b>
General Funds	261,181,000
Restricted Funds	229,087,000

<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	10,370,000

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.

One of the University of California's most important economic contributions is training well-educated, skilled graduates across a wide spectrum of disciplines. Improving the quality of human resources is critical to economic innovation and productivity, especially in a global, knowledge-based economy. UC graduates provide an important source of the highly skilled workers that power California's knowledge-based economy. Students supported through UC research across the system number in the thousands. Organized research provides a long-standing and essential source of financial support and real-world training to graduate and professional students.

The University of California has always played a key role as a center of innovation and technology development. By attracting research funds, enhancing employment and productivity, and producing business spin-offs, UC has been instrumental in the success of some of the most dynamic regional economies in the world, from Silicon Valley and Bay Area biotechnology to telecommunications in Southern California. It is no coincidence that the excellence of UC's research and academic programs occurs in the same places where private-sector growth and innovation appear strongest. 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.

A series of State and University research initiatives have escalated the potential for the University to have a beneficial impact upon the State's economy.

The Industry-University Cooperative Research Program (IUCRP), established in 1996-97, modeled on the earlier MICRO Program, has emerged as an important mechanism for using State funds to leverage private funds for support of research of strategic importance to the California economy. The IUCRP and 387 California R&D firms have jointly invested \$275 million (including private sector contributions of \$164 million) in 1,378 competitive grants for research performed at UC. These programs are an important source of support for young faculty and undergraduate and graduate students. Studies of the IUCRP's impact on California's economy indicate that young participating companies created 5,000 net new high wage jobs in California, and that IUCRP-supported students went on to create at least sixteen new companies in the state.

The California Institutes for Science and Innovation (Cal ISI) is a partnership among the State, California industry, and the University of California initiated in December 2000. The Institutes focus research on complex problems requiring the kind of scope, scale, duration, world-class scientists and outstanding students that the University can provide. Already in their first four years of existence these Institutes have generated nearly a billion dollars in matching support from the federal government, industry and foundations. The Institutes are expected to increase the state's capacity for creating the new knowledge and highly skilled workforce that will drive entrepreneurial business growth and expand the California economy into new industries and markets.

High quality research/scholarship in all fields, such as physics, chemistry, geology, sociology, philosophy, arts and literature, is central to the excellence of the University of California, and contributes to the education of all students. In addition to research with economic benefits, the research of UC scholars is creating new understanding of our society, its origins and development. In a state as diverse as California, it is critical that we better understand how our multi-ethnic and multi-cultural society operates, how it can be governed, and how all its people can best reach their full potential. Research in the humanities, arts, and social science explores these important questions and helps inform the creation and operation of state policy and programs.

While federal and private funding have helped to sustain the research program over the recent period of reduced state support, State funds leverage federal and private funds and the reductions in State support threaten UC's capability to carry out its research mission. State funds provide the infrastructure and core support necessary to place the University in a strong position to compete for federal and private foundation grants. Without this support, UC faculty loses the leverage that enables them to successfully compete with peer institutions in winning large grants from federal agencies. In addition, through competitive, matching grant programs between UC and the private sector, State funds are used to generate at least an equivalent and usually much more, in private sector support for the research program. Without State support for the research program, UC's ability to recruit and retain top young faculty and the best and brightest graduate students will be further hampered.

Given the reality of the State's fiscal situation, difficult choices must be made, but choices made in the near term should 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 and the creation of jobs for Californians; 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 and graduate students.

The University's budget request for 2005-06 is based on the new Compact with Governor Schwarzenegger, which states that, depending on the State's fiscal situation, there may be initiatives mutually agreed upon by the segments, the Governor, and the Legislature that may be funded in addition to the basic budget funds provided in the Compact in order to meet high priority needs of the University and the State. It is clear the State's fiscal crisis is not over—all indications point to possibly two more difficult years for the State. Given this outlook, the University is making no request for new initiatives for 2005-06. However, because of the critical role University research can play in reinvigorating the State's economy, the University is developing a major initiative that will help address the State's need to strengthen California's economic competitiveness by infusing industry with new knowledge and discoveries that will create new ideas and products and lead to more jobs. The University's research initiative will include support for graduate students and will build on the foundation already laid by the IUCRP and the Cal ISI, discussed in more detail below.

### **State Funding for Research**

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

By 2002-03, the economy had deteriorated markedly and the State was once again headed into recession. UC's State funded research budget absorbed major cuts and shouldered its share of the painful budget reductions suffered by all State-supported entities during the budget crisis. In 2002-03, all University research programs were cut across-the-board by 10%, for a total of \$32 million. As the State's fiscal situation continued to deteriorate,

mid-year cuts became necessary. In December 2002, several University research programs were targeted for additional one-time cuts totaling \$18 million. In 2003-04, University research programs were reduced by another 10%, or \$28 million, and absorbed \$3.5 million of a \$30 million one-time, mid-year cut to the University's budget.

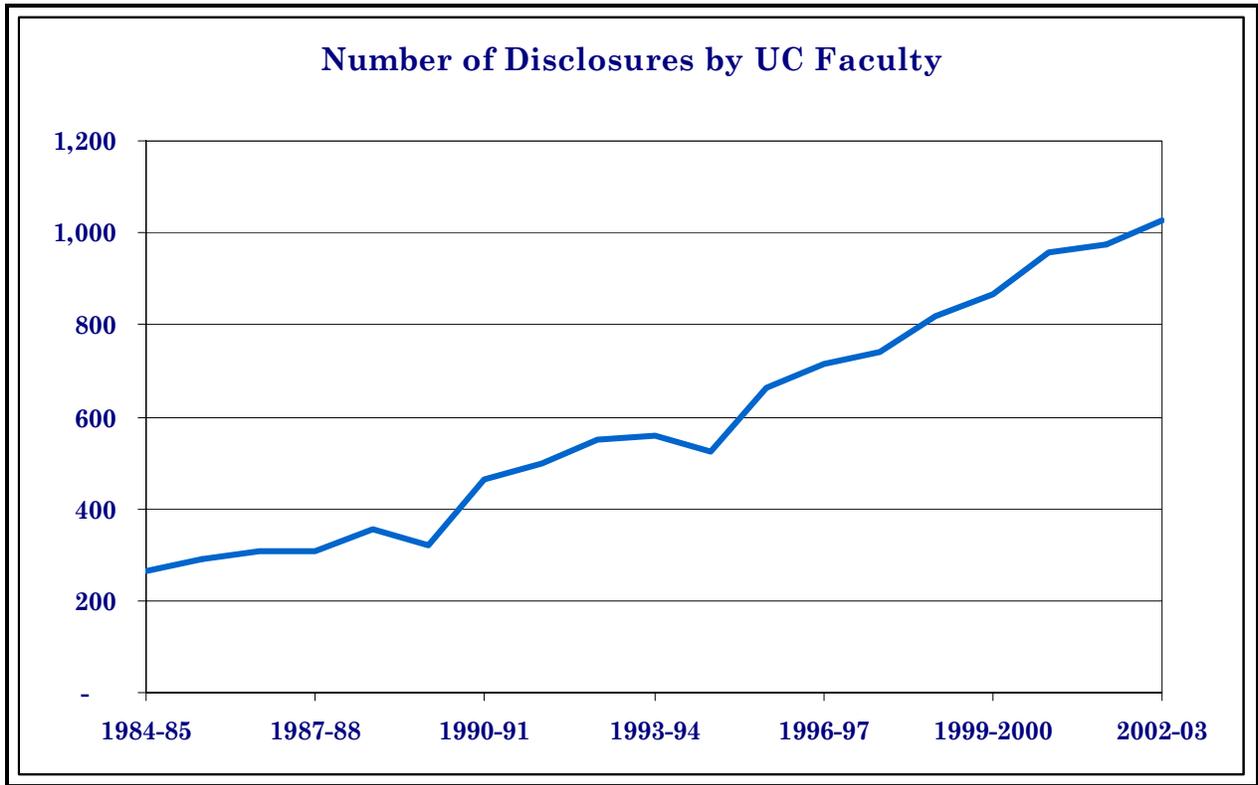
For 2004-05, University research programs were reduced by another 5%, or \$11.6 million, and will share in an undesignated cut to the University's budget of \$35.3 million. It is the University's intention to target these cuts to specific research programs as much as possible. Core research programs, such as agricultural research, Scripps Institution of Oceanography, the Humanities Research Institutes, and many others, cannot sustain further cuts and continue to maintain the quality of their programs. They received disproportionate cuts in the early 1990's and never recovered those funds. Furthermore, most of these core research programs already will be contending with large cuts next year because of the need to cover the significant fee increases proposed for graduate students. It would be the University's intention to allocate the \$11.6 million in cuts proposed for 2004-05 to programs that received large increases in the 1990's as well as those that do not have large numbers of graduate students, and therefore will not be coping with the added problem of providing graduate student support to cover the proposed fee increases for next year.

### **Importance of University Research**

Economists attribute at least 50% of this nation's economic growth since World War II to innovation resulting from research and development, with university research playing a key role. Many similarly believe that California's recovery from the recession of the early 1990s was due, in large part, to the commercial impacts of research and training conducted by major institutions like the University of California.

UC is an important generator of ideas and technologies, which can be measured in part by the reporting of inventions created by UC researchers with university resources. Display 1 (next page) shows the increase in the annual number of new technologies by UC faculty disclosed to the University since 1984-85. During the 12-month period ending June 30, 2003, faculty and researchers at the nine UC campuses disclosed a total of 1,027 inventions.

Display 2



This represents a 6% increase when compared with the 973 new inventions reported the prior year. An analysis of disclosures per \$10 million of research expenditures by UC Office of Technology Transfer indicates that UC is on par with the average for the University's comparison eight universities. (The University's comparison eight universities include Illinois, Michigan, Virginia, the State University of New York, Harvard, MIT, Stanford and Yale.) At the end of 2002-03, there were 2,753 U.S. and 2,364 foreign patents in the university-wide portfolio. The University of California has received more patents than any other university in the world. As the foundation for start-up firms, many technologies developed in the UC system also serve as an important engine for economic growth. More than 160 companies have been founded on the basis of UC technology licensing agreements. An estimated 65% of these firms are in fields directly related to biotechnology, genomics, pharmaceuticals and drug development.

A Committee on the University's Technology Transfer Program was appointed on October 6, 2003 to assess the objectives and structure of the systemwide technology transfer program and to recommend specific actions to improve its effectiveness. The committee's deliberations were prompted

by specific recommendations for improvement that had been made in a report of the Vice Chancellors for Research and in a report of the Technology, Trade and Commerce Agency of the State of California. At the operational level the committee discussions recognized the need to achieve an appropriate balance between sustaining the benefits of being a large multi-campus system while at the same time developing greater flexibility and a higher level of faculty service through local management of intellectual property. The Committee prepared a draft report recommending ways to more effectively accelerate the transfer of technology and its commercialization by giving local technology transfer offices more autonomy. An overriding theme in the recommendations of the report is the need for each campus to be more actively engaged in meaningful research-based partnerships with industry.

### ***California Institutes of Science and Innovation***

The California Institutes for Science and Innovation (Cal ISI) is a three-way partnership for the California economy between the State, California Industry, and the University of California. Taken together, the four institutes that constitute Cal ISI (described below) represent a billion-dollar, multidisciplinary effort that focuses public/private resources and expertise simultaneously on research areas critical to sustaining California's economic growth and its competitiveness in the global marketplace.

Through the Cal ISI initiative, UC is leading the world in defining the most effective and high impact approaches to science and engineering, and particularly to how those fields can be creatively coupled with a growing spectrum of other fields, including the social sciences and humanities, that are increasingly aligned with technology, innovation, and related societal implications. The Cal ISI initiative is increasing the state's capacity for creating new knowledge and the highly skilled workforce that drives entrepreneurial business growth and expands California's economy into new industries and global markets. These institutes will open the doors to new understanding, new applications, and new products through essential research in biomedicine, bioengineering, nanosystems, telecommunications, and information technology.

Consisting of four, multi-campus Institutes created through a competitive, peer-review process, the initial funding was provided through enabling legislation (Assembly Bill 2883, Villaraigosa, Chapter 79, 2000), which provided \$100 million per Institute for planning, design, and construction, with up to 5% allowable for operational costs. The legislation included a

provision specifying that \$2 from non-State sources be provided for every \$1 of State funds devoted to the Institutes.

The first increment of State funding for construction, equipment, and limited temporary operating expenditures at each Institute was provided from General Funds and the subsequent three increments were provided from State Public Works Board (SPWB) Lease Revenue Bonds. Four buildings are at or near completion and four others are scheduled to open over the next three years.

The University has met the requirements on time: raising and exceeding the \$2 to \$1 match; launching new research and education programs; engaging California companies; and advancing planning and construction of new state-of-the-art research facilities.

The state, industry, and private donors have provided equipment and facilities. Competitive grants from federal agencies, foundations, and industry, coupled with gifts, are fueling innovative programs and new multi-disciplinary paradigms for research and education. Excitement about the Cal ISI initiative has drawn to UC new faculty recruits, and UC students are being prepared for leadership roles in the knowledge-driven research and development (R&D) economy.

State funds for operating expenditures support essential core activities, including advanced technology infrastructure personnel, research administration. These funds also provide seed money for building new research teams across disciplines and campuses, new educational programs, and mounting large scale extramural contracts and grants. As Institute buildings open, however, needs for operating funds grow sharply.

When the State's fiscal situation improves, the University will put forward a request for permanent operating budget funds for the Cal ISI initiative to enable the four Institutes to continue to develop and expand their important contributions to the State's R&D enterprise and economy.

**The Four Institutes:** All four Institutes began operations even while facilities planning and construction has been underway. 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.
- ***California NanoSystems Institute (CNSI)***: UCLA leads a partnership with UC Santa Barbara. CNSI is creating laboratories for research, education and technology development in the emerging field of nanoscience –the study and design of materials and functional machines at the level of individual molecules and atoms.
- ***California Institute for Telecommunications and Information Technology (Cal(IT)<sup>2</sup>)***: UC San Diego leads a partnership with UC Irvine that has built effective intercampus collaborations and new paradigms for performing multi-disciplinary research and education. Cal(IT)<sup>2</sup> is defining worldwide and community-based networking scenarios to serve a broad spectrum of research, R&D, and social needs.
- ***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. CITRIS research and education programs are changing the way researchers collect, share, and utilize data, and will transform decision-making in government and commerce by delivering new kinds of vital data for rapid analyses that are essential for saving lives and dollars. The original focus of this research center on six societal-scale applications of information technology – energy efficiency, transportation, earthquake preparedness, environmental monitoring, health care and education – but was recently expanded to include special initiatives in Homeland Defense and Cultural Research.

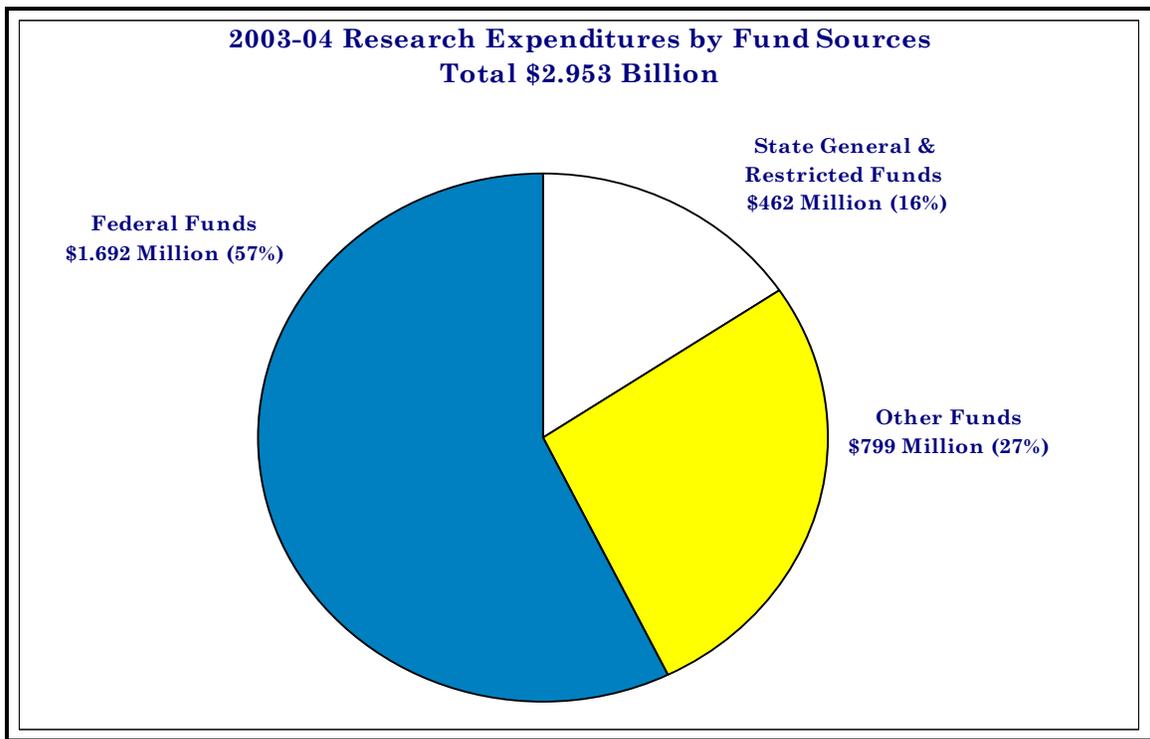
### ***Multicampus and Organized Research at UC***

For many University research programs, State funds are the core that attracts extramural funds necessary to support major research projects. The University's research expenditures in 2003-04 included about \$2.5 billion in non-State funds and \$461 million in State General and restricted funds, a ratio of over five 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 2 shows actual research expenditures by fund source for 2003-04.

Display 2



That year, research expenditures totaled \$2.953 billion, an increase of \$174 million, or 6.3%, over the prior year. Overall expenditures increased despite a nearly 10 percent reduction in State support because of increases in federal and private support. In 2004-05, State funds for research again were reduced, but with projected increases in other sources, resources will increase to over \$3 billion. This includes \$2.5 billion from extramural sources (i.e., federal government, private individuals, foundations, industry), \$132 million from Regents' funds, \$261 million from State and UC General Funds, and \$229 million from restricted funds (State and non-State funds).

The \$229 million in restricted funds includes special State funds to support a coordinated statewide program of tobacco-related disease research administered by the University (\$14.3 million for 2004-05). Another tobacco tax provides support for the Breast Cancer Research Program (\$14.9 million). The Breast Cancer Research Program also receives special State funds from the California Breast Cancer Research Fund (\$927,000), which derives from the State personal income tax check-off.

Of the \$261 million in State General Funds, approximately 30% is allocated to Agriculture; 17% to ORUs; and 31% to a combination of MRUs and systemwide programs to support research on AIDS, microelectronics, the Industry-University Cooperative Research Program, biotechnology, and toxic substances research. The remaining 22% is related to permanent and one-time funding for other research activities not formally constituted as MRUs, including, among others, Internet2, universitywide programs in substance and alcohol abuse prevention, neurodevelopmental disorders, spinal injury research, and individual faculty research.

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

students to move into leadership roles in public policy and resource management.

Despite the projected increase in federal and private contracts and grants, the decrease in State support for research can have serious consequences. 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**

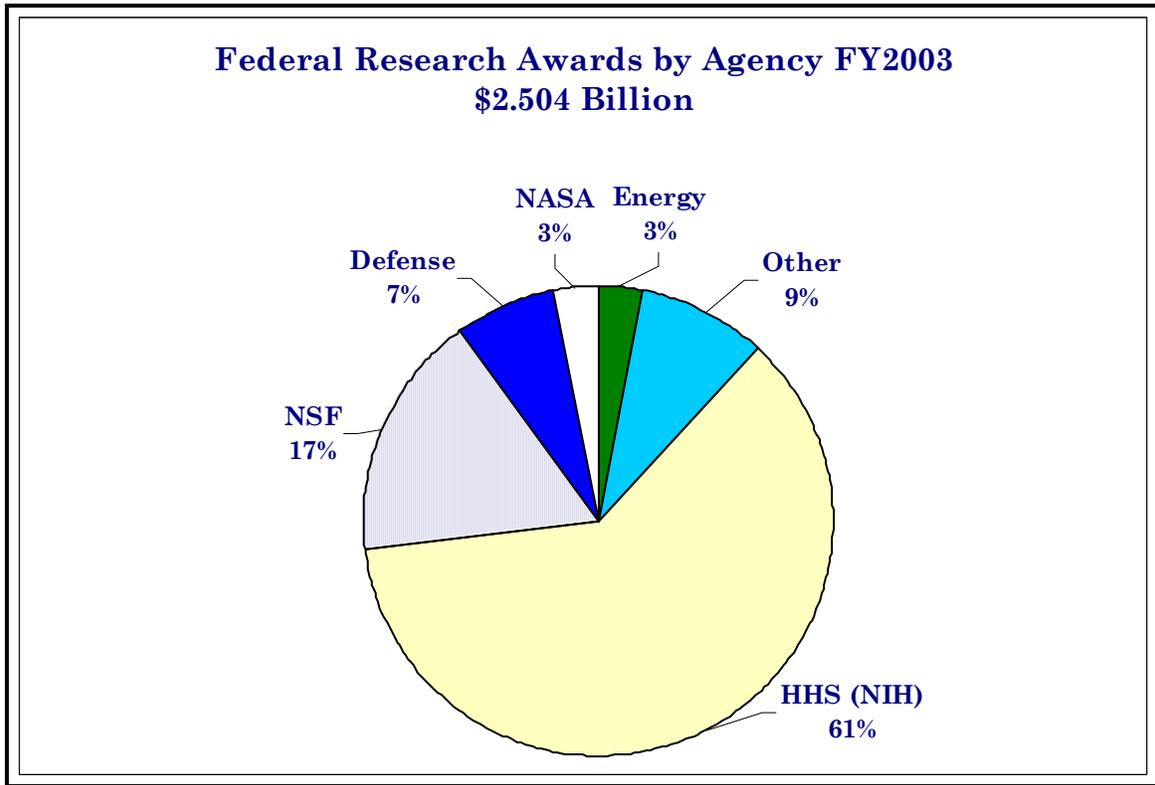
Federal funds are the University's single largest source of support for research, accounting for approximately 57% of all University research expenditures in 2003-04.

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 \$4.1 billion in 2003-04, the Labs conduct research important to the State and the nation, including research on bioterrorism, nuclear nonproliferation, and energy efficiency and new energy resources. While the Laboratories are separate entities, research at the Labs has direct and indirect benefit to University faculty and students.

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.

As shown in Display 3, about 78% of the University's federal research awards in FY2003 (the most recent year for which data are available) came from just two federal agencies, Health and Human Services (HHS), primarily through the National Institutes of Health (NIH), and the National Science Foundation

Display 3



(NSF). Other agencies that figure prominently in the University's awards are the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Department of Energy (DOE).

Beginning in 1998, as the federal budget went into its first surplus in more than 30 years, federal research and development (R&D) funding experienced rapid increases. A push to double the NIH budget resulted in five years of increases averaging 15%. And, as a result of the terrorist attacks of September 11, 2001, and the subsequent wars in Afghanistan and Iraq, the FY2002, FY2003, and FY2004 appropriations for federal R&D resulted in record increases, with an emphasis on counter terrorism R&D and other defense-related research.

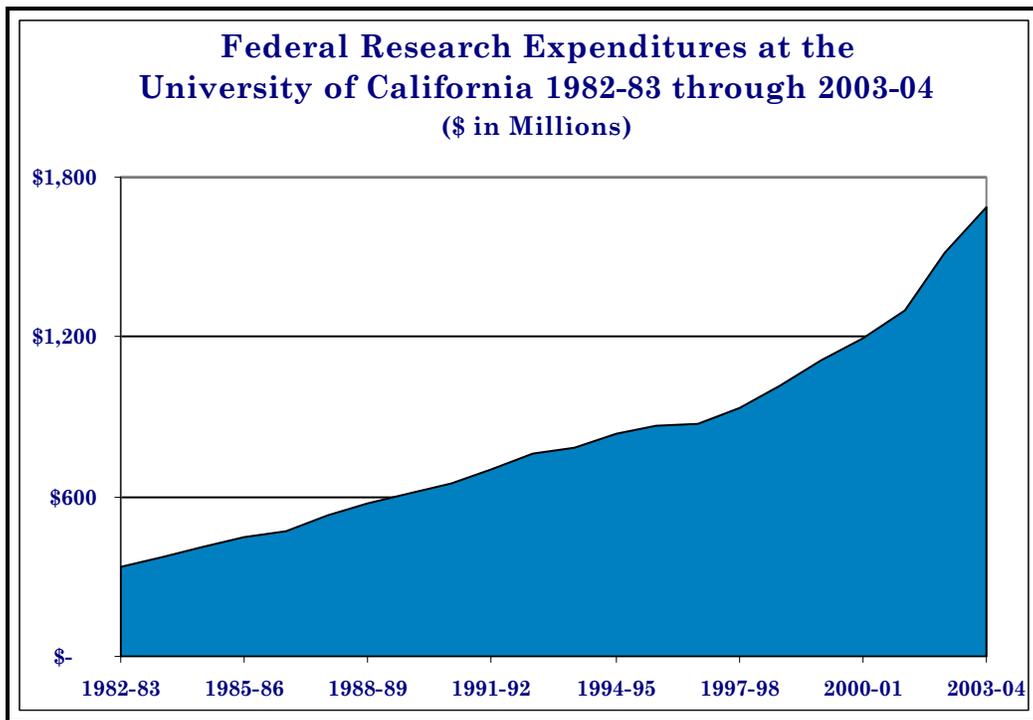
Over the next few years, it is unlikely that federal research funding will grow as quickly for a number of reasons. First, the Congressional Budget Office is forecasting that the budget deficit is likely to hover in the \$400-500 billion range, given the policies to which both Presidential candidates have subscribed. Among other things, this includes: the higher costs associated with Iraq, Afghanistan, and the rest of the defense establishment; tax cuts

enacted and likely to be continued; the cost of the new Medicare drug prescription program; and the increasing costs of Homeland Security. Second, both candidates have pledged to reduce the budget deficit in half in their first term; this will put enormous pressure on the amount of discretionary resources available to the government. This will only change if government receipts are significantly higher, or entitlements spending significantly lower, than now expected. Third, it appears that the Congress may again adopt the budgetary procedures that helped keep discretionary spending under control through FY2002 – specifically, limits on increases in overall domestic discretionary spending, the source of most of UC’s federal research funding.

### ***Historical Trends in University Federal Research Funding***

Display 4 illustrates trends in federal research funding for the University over the eighteen-year period between 1982-83 and 2003-04. In the decade between 1982-83 and 1992-93 and again from 1997-98 through 2003-04, federal support for research at the University grew dramatically. With a commitment to research established as a national priority by both the President and the Congress, annual federal research expenditures at the University increased by an average of almost 10% during this period.

Display 4



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; since 1997-98, the University's federal research expenditures have increased by: 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-00, 8% in 2000-01, 8.5% in 2001-02, 16.3% in 2002-03, and 11.8% in 2004-05. 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. 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.)

Progress toward the balanced budget and continued administrative and congressional support for investments in research again resulted in gains for federal research programs, including a commitment to double the R&D budget of the NIH, which is the largest single sponsor of basic and applied research; NIH experienced record increases averaging 15% over the next five years. This was especially significant for UC. Health and Human Services (HHS), of which NIH is a part, provided 61% of the total grants to UC in

2003. The large increases in the NIH budgets undoubtedly contributed to the recent large increases in UC's federal research expenditures.

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

### ***Outlook for FY2005 and Beyond***

The FY2004 budget again includes record-breaking totals for federal R&D, but with the increases going almost entirely to defense, health and homeland security, leaving all other R&D missions with stagnant funding. Of the \$9.5 billion, or 8.1%, increase over FY2003, 80% went just to the Department of Defense's (DOD) R&D. Within DOD, weapons systems development accounts for nearly all of the increase. After five years of annual 15% increases, the NIH budget growth slowed considerably in FY2004. NIH institutes received increases of about 3%. Even within NIH R&D, however, most of the increase is going to biodefense research related to homeland security. NSF is among other agencies with FY2004 increases, but its 4.7% increase is short of what would be required to complete another year of a proposed plan to double the NSF budget over a five-year period.

For the fiscal year that began on October 1, only four of the thirteen appropriations bills that constitute the FY2005 federal budget have been acted upon by both houses of the congress and signed into law by the President. On August 5, the President signed the Defense appropriations bill into law with record-breaking increases for R&D in the DOD, up 7.1%. The others signed into law are Homeland Security, Military Construction and the District of Columbia bills.

As the House Appropriations Committee versions of the remaining bills currently stand, federal funding for nondefense, non-homeland security R&D would remain flat next year. Excluding a modest increase for biomedical research, nondefense R&D would decline under the latest House plans. R&D for NSF, NASA, and EPA would decrease, with the NSF budget falling 1%, NASA 6.2%, and EPA 4.3%. The House version of the budget for NIH, consistent with the Administration's request, provides a proposed increase of 2.6%. Because the largest increases would go to weapons development, federal investments in basic and applied research would increase only slightly

under the House plan, and even then only because of large increases in defense and homeland security research.

Although the Senate Appropriations subcommittees have completed drafts of 12 out of the 13 bills (all but DOE), the Senate adjourned without completing action on most of them. The Senate has been generally more generous to R&D programs than the House, in large part because it has been willing to exceed the aggregate spending ceilings previously agreed to with the House. The current versions of the Senate bills propose a 3.9% increase for NIH and a 2.9% increase for NSF. Whether the Congress agrees to these higher program funding levels will depend on the willingness of the House to adopt the higher spending limits used by the Senate.

Final action on all remaining bills will not occur until after the November election. In the meantime, Congress enacted a continuing resolution extending funding for the remaining appropriations bills at the FY2004 level through November 20, to be revisited in a lame-duck session of Congress. And depending on the outcome of the election, it is possible that the Congress would enact another continuing resolution through February when the next Congress could address these issues.

## **Benefits of Research**

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

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

than any other public or private research university or laboratory during the periods studied.

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

### ***Economic Impact***

In terms of a direct impact on the California economy, University research programs attract large amounts of extramural funds for expenditure within the state. In 2003-04, the University spent nearly \$2.5 billion dollars received from the federal government and private sources for research—five 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 Corporation of Emeryville, and Amgen, Inc. of Thousand Oaks. California biotechnology companies collectively account for nearly half of the biotech industry's annual sales in the U.S. and employ more than 40,000 people in California.

UC's museums, performing arts venues, and nationally ranked arts and humanities programs are key components in making California a leader in the arts and culture industries. A 2004 report by the California Arts Council concluded that the total annual impact of the California arts and culture sector totaled \$5.4 billion, up 152% from \$2.15 billion in 1994. The study

demonstrated that arts and culture generate billions annually, support a workforce of more than 160,000 and produce nearly \$300 million in state and local taxes. Education, cultural tourism, and California's creative industries contribute significantly to State's economic well-being and status as one of the world's largest economies, and the University is an important contributor to these efforts.

### ***Partnerships with Industry***

The Industry-University Cooperative Research Program (IUCRP), 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 pioneered using research partnerships to enhance economic development. In 1998, the MICRO Program was merged into the IUCRP where it continues to play an important role in nurturing the development of California's world class microelectronics and computer industries.

The IUCRP competitive matching grant programs across five fields—biotechnology, communications and networking, digital media, information technology for life and health sciences, and electronics manufacturing—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.

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. Since its inception, the IUCRP and 387 California R&D firms have jointly invested \$275 million (including private sector contributions of \$164 million) in 1,378 competitive grants for research performed at UC.

The IUCRP has cast a broad net, aiming to engage ever widening circles of UC researchers and California companies in productive partnerships that bring more of UC's intellectual resources into service for the economy and

society. Roughly 50% of participating companies are small businesses and 20% are startups, for which research partnerships with UC's world class faculty and students can dramatically enhance early stage R&D programs. The IUCRP also engages a wide spectrum of more mature California companies who are looking for solutions to defined technology problems or for new product candidates. Results of an IUCRP Economic Research Team survey of participating companies found the following: 93% of respondents reported participation enabled them to engage in work they could not have undertaken in-house; 42% had not previously participated in UC research; and 30% reported that participation in the IUCRP helped them raise capital investments. In a related study, the Economic Research Team found that a subset of the young firms raised more than \$1.4 billion in the period immediately following their first IUCRP research project. The reports include other meaningful measures of the IUCRP's impact on California's economy. For example, young participating companies created 5,000 net new high wage jobs in California. IUCRP-supported students went on to create at least sixteen new companies in the state.

Working with industry, the Program has already supported 643 researchers in 240 different departments across the UC system and created a unique educational experience for 1,447 undergraduate, graduate, and postdoctoral students. One in six participating faculty members is an entry level, assistant professor. Along with other State funded research programs, the IUCRP suffered a series of two permanent 10% cuts in fiscal years 2002-03 and 2003-04, and additional reductions are scheduled in 2004-05 (temporary and permanent). At the same time, the cost of each research grant has substantially grown because of a series of graduate fee increases.

### ***Agriculture***

California farmers and ranchers produced more than half of the nation's fruits, nuts and vegetables, and generated \$32.5 billion in gross cash receipts in 2003. A major employer and revenue generator in the state, agriculture accounts for over one million jobs and more than \$60 billion in personal income. California is the nation's leader in agricultural exports, shipping 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, delivery and adoption of new technologies and innovative farming practices. A few examples include:

- new varieties of strawberries, walnuts, citrus, and many other fruits, nuts, field and vegetable crops have been developed at UC enabling California to be the leading producer of agricultural produce in the nation;
- basic principles of biological control and integrated pest management have been discovered leading to the control of a myriad of insect pests found in agricultural, urban and natural systems, reduced pesticide use and improved environmental quality;

Improved land reclamation, irrigation (including drip systems), and drainage techniques have made California agriculture more productive while conserving natural resources.

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

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

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

### ***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 inner-ear implant that enables the deaf to recognize tones and thus understand language; a simple, inexpensive blood test to determine the risk for having a Down's syndrome baby; and a wide variety of other important advances.

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

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

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

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

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

## ***Other Research Areas***

In 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 longer-lasting, easy-care contact lenses. UC researchers forging ahead in new areas such as roadway technologies, alternative fuels, and truck safety are addressing California's changing transportation needs.

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

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

## PUBLIC SERVICE

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	\$ 180,796,000
General Funds	82,623,000
Restricted Funds	98,173,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	4,114,000

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

Student Academic Preparation and Educational Partnerships (formerly outreach) work collaboratively with schools and other partners to help educationally disadvantaged students meet rigorous standards of academic preparation needed to be successful in higher education and the world of work.

Cooperative Extension, the largest State-funded public service program, provides applied research and educational programs in agriculture and natural resources, family and consumer sciences,

community resource development, and 4-H youth development for Californians. The Charles R. Drew University of Medicine and Science, jointly operated with the Los Angeles campus, is a program of clinical health science education, research, and public service.

Each of these major programs is discussed in more detail below.

## **Student Academic Preparation and Educational Partnerships**

The economic and social future of California will be shaped by the extent to which children from all sectors of society are educated to compete in a global, knowledge-based economy. The University of California is committed to working in collaboration with other higher education segments, K-12 colleagues, and business and government leaders to help maintain California's competitive edge through education of its citizenry.

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

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

### ***History***

The current generation of student academic preparation programs took shape in the 1960's, when the Civil Rights Movement drew attention to issues of access to the University. During this period, The Regents addressed access issues primarily through aggressive and innovative admissions policies, as excess demand was not a constraint as it is today.

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

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

In the 1980's, soon-to-be UC President David Gardner chaired the commission that produced the report, *A Nation at Risk*. This groundbreaking report on the state of elementary and secondary education in the United States identified the major problems facing the nation's schools and made sweeping recommendations for addressing them. The University responded to *A Nation at Risk* with the expansion of teacher-centered initiatives, including the Bay Area Writing Project and the Mathematics and Science Subject Matter Projects, which were soon followed by the Literature Project (now the California Reading Project) and the Foreign Language and History/Social Science Projects. In 1988, the Legislature authorized funding for nine California Subject Matter Projects, described later in this chapter.

Enrollment demand increased substantially in the latter part of the 1990's, resulting in thousands of applicants being denied admission to the most over-subscribed UC campuses. In July 1995, Resolution SP-1 was adopted by the Board of Regents, eliminating consideration of race, ethnicity, and gender in UC admissions and called on the President to appoint the Outreach Task Force (OTF) to identify ways in which

outreach programs could help to ensure that the University remain accessible to students from educationally disadvantaged backgrounds. Coupled with the passage by California voters of Proposition 209 in fall 1996, these events elevated outreach to become the University's most critical tool for promoting access to the University for educationally disadvantaged students in California.

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

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

To manage this expanded enterprise, the UC Office of the President established a new department, Educational Outreach, with overall responsibility for implementing the OTF recommendations and administering K-12 student- and school-centered programs as well as community college and graduate and professional school outreach. Similarly, educational partnership centers were formed on the campuses to oversee campus-based student academic preparation programs and work with the schools.

By the end of the decade, the University's outreach programs were the strongest in their history. Nearly 100,000 students were being served

and the University had developed robust partnerships with more than 250 low-performing schools. Through these partnerships, University faculty provided subject matter and content expertise to teachers and leadership development programs for principals in strengthening curricular offerings and building college-going cultures in their schools. In addition, with a new infusion of resources from then-Governor Davis, the University provided administrative oversight to a vastly expanded set of teacher professional development programs, the California Professional Development Institutes (CPDIs), largely focused on enhancing reading and mathematics competency of elementary school teachers. The impact of this expansion was particularly evident in the dramatic increases over a four-year period in reading and mathematics test scores of students in large urban districts where teachers received the additional training. Unfortunately, funding for the CPDI's was completely eliminated from the University's budget in 2002-03 as a result of the State's fiscal crisis. K-12 professional development programs are discussed further later in this chapter.

Despite tremendous fluctuations in funding, the University was making steady progress toward achieving the five-year goals set forth by the OTF in 1997 to increase by 100% and 50%, respectively, the eligibility and competitive eligibility of its program participants. By the end of the fourth year, UC eligibility of program participants had climbed from 4,200 in 1998-99 to over 7,200 in 2002-03. Data for 2003-04 are still being compiled. Most significantly, the recent eligibility study (based on 2003 high school seniors) by the California Postsecondary Education Commission (CPEC) shows that 6.2% of African American students were eligible for UC, compared to just 2.8% in 1996. For Chicano/Latino students, eligibility gains were equally strong, with 6.5% eligible in 2003 compared with only 3.8% in 1996. In 2002-03, participants in UC's student academic preparation programs accounted for 36% of African American UC freshmen and 47% of Latino UC freshmen. In 2002-03, these programs served over 100,000 K-12 students at a cost of approximately \$200 per student.

Although \$15 million in State funding for the University's school partnerships was significantly reduced in 2001-02 and completely eliminated in 2002-03, the University continued these efforts with

\$3 million of its own resources. Testament to the value of the State's original investment and to the strong collaborative relationships that have been established between the University and K-12 schools, UC Partnership schools showed impressive gains in student academic preparation over the period 1998-99 and 2002-03.

### ***Academic Preparation in a New Millennium***

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

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

**Name Change.** The SRP as well as other stakeholders noted that “the term outreach . . . has unintended negative connotations that may inhibit the formation of partnerships with K-12 and the community colleges.” Others have suggested its many possible meanings may give the false impression that “outreach” is “recruitment”.

To address these concerns, the University is adopting the SRP recommendation to change the name of these efforts to Student Academic Preparation and Educational Partnerships and the name of the department that oversees this work in UC's Office of the President to Educational Partnerships.

**Revised Mission Statement.** The SRP recommended the outreach mission statement be broadened to reflect the University’s commitment to work collaboratively with its partners to close opportunity and achievement gaps in California schools.

“The University of California is committed to excellence and equity in education for California’s students to secure the social well-being and economic prosperity of the individual and the state. The University affirms that a key part of its mission is to promote the academic achievement of educationally disadvantaged students underrepresented in California higher education institutions. Toward these ends, the University seeks to increase the educational capacity of California’s schools and to increase the diversity of students enrolling in higher education. To meet these public needs, the University works in collaboration with public and private sector organizations that share this responsibility; in particular California schools, community colleges and universities, business and community-based organizations. These values are vital to the University’s teaching, research and public service missions and its status as a land grant institution.”

**Scope of Responsibilities.** Focusing principally on state and federal policy development in collaboration with the University’s State and Federal Governmental Relations offices and building statewide alliances with other education segments, business and community partners, the Educational Partnerships department will play a key liaison role with state and federal education agencies, including the State Board of Education, Federal and State Department of Education, Secretary of Education, State Teacher Credentialing, and various professional education associations.

The Educational Partnerships department will provide leadership and administrative oversight for the following student academic preparation and educational partnership programs:

- Intersegmental Student Academic Preparation Programs—MESA, Puente, ASSIST, and the federally-funded statewide GEAR-UP Program for which the University serves as the administrative and fiduciary agent on behalf of the state; and

- UC Programs—Early Academic Outreach Program (EAOP)—a name change is currently under review for EAOP to reflect the University’s new strategic direction and faculty- and student-led service learning initiatives focused on student academic preparation in K-12. In addition, the department will provide statewide leadership for university efforts, in collaboration with the education segments, community and business partners, to improve the capacity of California’s schools for raising the achievement of all students including: P-20 (Preschool – University) Regional Intersegmental Alliances, K-14 district and school leadership development, K-14 teacher education and professional development, and K-14 access to learning resources through enabling technologies. Finally, the department will provide oversight for collaborative efforts with the community colleges to increase the academic preparation of students seeking to transfer to four-year institutions and enhance the preparation of educationally disadvantaged undergraduates seeking to enroll in graduate and professional school.

**Strategic Focus.** The SRP recommended that the University recalibrate the focus of its student academic preparation and educational partnership programs. In its recommendation, the SRP noted the rapidly growing number of disadvantaged students in California, the continuing gap in achievement among groups, and the limited new funding available for the University’s work in improving student achievement. Without a strong set of partners and cooperative work, the University can make little progress against a steadily increasing student achievement gap.

The SRP recommended that the University continue support for its successful programs, but that it also form a series of regional and local partnerships with groups and agencies that share the UC goals for higher student achievement. By setting common goals and then sharing information and directing resources in a commonly shared strategic plan, greater overall gains in an area can be achieved. Campuses engaging in regional collaborations will encourage a broad set of strategies and provider organizations to address the area’s achievement gap. Clearly, the University will bring particular strengths and programs to these partnerships, but it will be only one of

a number of agencies working closely together. University strengths include student academic preparation programs with proven records of success, special capacity for gathering, organizing, and analyzing data, and, most especially, research expertise on the part of UC faculty that can be brought to bear in understanding problems and devising solutions.

The University has already begun the process of building these new regional alliances, which will incorporate and coordinate the work of existing UC programs. One example is College Options, a K-16 education partnership in Shasta and Siskiyou Counties. Partners working on an equal basis, and all contributing funding to the alliance, include two county offices of education, eight colleges and universities, the California Education Round Table Intersegmental Coordinating Committee, and the McConnell Foundation of Redding, California. Leadership of College Options is the responsibility of a governing board, a collaborative group consisting of presidents of higher education institutions, higher education and school senior managers, and county superintendents. The group is in the process now of adding to the board members of the local business community.

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

### ***Accountability***

The University's student academic preparation and educational partnership programs are designed to improve students' opportunity to learn and to help compensate for economic and/or educational disadvantages at earlier levels in the educational pipeline. The University's student academic preparation and educational partnership programs are committed to rigorous standards of assessment and to an accountability system that reports progress on a regular basis.

Each March, the University prepares an annual Legislative Report on Student Academic Preparation and Educational Partnerships. That report will continue to provide detail on individual programs, including goals and accountability data demonstrating program scope and effectiveness. Beginning with the March 2005 report, the University will begin new procedures in which an annual contract will be drawn with an independent third party to conduct summative assessments of a select subset of programs to help ensure confidence in the integrity of reported program outcomes. Given the costs of such assessments, programs will be evaluated on a rotational basis; the timing and scope will depend on available funding.

In addition, the University is working to implement a new tool, called the Transcript Evaluation Service, which will provide dramatic new capacity to measure statewide, school-by-school, and individual-by-individual, California students' levels of preparation for college. The Transcript Evaluation Service will provide the technological capacity to give schools and others annual reports describing the "a-g" course enrollment and completion patterns for individual students and student cohorts. This information will allow the University to establish a research baseline for longitudinal study; it can be further used by student academic preparation and educational partnership programs to enhance the quality of services provided to students and their families. Programs working in the primary grades and middle school will be assessed based on a variety of leading indicators predictive of student success in later years, including achievement on state-administered tests as well as measures of their attitudes towards learning and postsecondary awareness. The University and its partners are currently in the process of refining appropriate benchmarks for community college and graduate and professional school academic preparation programs.

### ***Funding***

The University faces many challenges in carrying out this work, not the least of which is the effect of the State's fiscal crisis on funding for these efforts. In 2004-05, several programs have been consolidated and some have been eliminated, due to fiscal constraints. The total budget for 2004-05 represents a \$4 million decrease from the level of funding in 2003-04.

In 1997-98, after the adoption of SP-1 and Proposition 209, the University's budget for traditional student academic preparation programs was \$17.9 million. The total grew to a high of \$85 million in 2000-01, but was reduced by \$55.7 million over the next several years, bringing the total budget to \$29.3 million in 2004-05. Display 1 shows the changes in State and UC funds for Student Academic Preparation and Educational Partnerships from 1996-97 to 2004-05. The totals in Display 1 do not include cost increases or other budget adjustments.

**Display 1**

<b>Student Academic Preparation and Educational Partnerships Changes in State and University Funds (\$ in Millions)</b>			
	<u>State Funds</u>	<u>University Funds</u>	<u>Total</u>
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	(11.9)	4.3	(7.6)
2003-04	(37.8)	-	(37.8)
2004-05	<u>-</u>	<u>(4.0)</u>	<u>(4.0)</u>
Total	\$ (3.2)	\$ 11.5	\$ 8.3

The Governor's January budget had proposed elimination of all State and University funds for Student Academic Preparation and Educational Partnerships for 2004-05. As part of the negotiations on the new Compact with Governor Schwarzenegger, the University and the Administration agreed that \$12 million of existing University resources would be redirected to support high priority, effective student academic preparation and educational partnership programs. However, negotiations on the final budget for 2004-05 changed this commitment. Instead, the final budget assumes that the \$12 million in existing University resources will be used to fund additional enrollment for 2004-05 and includes \$29.3 million in additional State General Funds to restore State support for student academic preparation and educational partnership programs. Also, rather than the usual

line-item budgeting of much of these funds, as has been the practice of the Legislature for the last several years, the final 2004-05 budget includes budget bill language specifying that the funds are to be used for programs identified in the prior year budget act with no line item amounts specified.

As noted earlier, the total provided is \$4 million less than the \$33.3 million in State and University resources budgeted for these programs in 2003-04. The Office of the President is working with the campuses to develop a new spending plan for Student Academic Preparation and Educational Partnerships for 2004-05.

### ***Program Descriptions***

The following are descriptions of the major programs within Student Academic Preparation and Educational Partnerships:

- *Intersegmental Programs.* The Mathematics, Engineering, Science Achievement (MESA) program helps prepare middle school, high school, and community college students to obtain four-year college degrees in engineering, the sciences, computer science, business, or mathematics. Funding for MESA's K-12 and community college programs in 2004-05 is about \$5.2 million in State General Funds, \$4.4 million from other education segments, and \$3.3 million from private and federal sources. Puente helps to prepare high school and community college students for four-year colleges and universities through rigorous academic instruction, intensive college-preparatory counseling, and mentoring from successful members of the community. Funding for Puente's K-12 and community college programs in 2004-05 is about \$1.5 million in State General Funds, \$2.9 million from other education segments, and \$222,000 in private funds. Both MESA and Puente are intersegmental programs with sites on UC, CSU, and private university campuses. UC is the responsible fiscal agent for both programs.

Another intersegmental program, the Articulation System Stimulating Inter-Institutional Student Transfer (ASSIST), is California's official statewide repository for course articulation and transfer information which provides counselors and students with detailed course transfer and articulation information to help

facilitate a seamless transfer process. Funding for ASSIST in 2004-05 is about \$430,000 in State General Funds and \$589,000 from the California Community Colleges.

The University also administers the \$5 million grant for Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), 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 Early Academic Outreach Program (EAOP)* provides tutoring, skills building, mentoring, test preparation, and other services to individual disadvantaged students so that they may complete a rigorous college preparatory curriculum in high school and enroll in college. The University is also working in close collaboration with other higher education segments to implement college-going and student academic preparation initiatives in rural and remote counties of California. A name change for EAOP is being considered. Funding for EAOP in 2004-05 is about \$8.9 million in State General Funds.
- *The Preuss School* on the San Diego campus is a charter school which prepares students from low-income and educationally disadvantaged backgrounds to be competitively eligible for UC and other selective four-year institutions. Funding for the Preuss School in 2004-05 is \$1 million.
- *Community College Transfer Programs* help facilitate the transfer of students from the California Community Colleges to the University through academic advising, individual and group counseling sessions, and complete and accurate course articulation programs. Funding for community college transfer programs in 2004-05 is approximately \$1.9 million
- *Graduate and professional school programs* help to enhance the academic preparation of undergraduates from educationally disadvantaged communities to encourage them to pursue graduate and professional level training. UC LEADS (Leadership Excellence through Advanced Degrees Program) places educationally disadvantaged juniors and seniors in two-year intensive research experiences with faculty mentors.

Summer research internship programs provide similar preparation. UC Law Fellows introduces educationally disadvantaged undergraduates to the study of law through case study and workshops conducted by law faculty, academic preparation, skills building, test preparation in Saturday academies, and through mentorships with practicing attorneys. Medical schools conduct a variety of successful programs, including post-baccalaureate reapplicant and applicant programs that support students who need to improve their competitiveness as applicants, undergraduate medical school preparation programs, and liaisons with local community colleges that focus on academic preparation for medical school. Funding for graduate and professional school programs in 2004-05 totals about \$2.2 million in State General Funds and \$502,000 in University matching funds.

- *P-20 (Preschool – University) Regional Intersegmental Alliances* contribute to improvement in the school conditions that shape students' opportunity to learn by providing the necessary infrastructure support to develop alliances with other educational segments, businesses, and community organizations. This effort is described in more detail above under Strategic Focus. Funding for P-20 Regional Intersegmental Alliances in 2004-05 is about \$1.4 million.
- *UC College Preparatory Initiative (online courses)* provides online Advanced Placement, honors, and other college preparatory courses to students attending high schools that offer few or no such courses. The program also provides test preparation courses and online tutorial services. Funding for UC College Preparatory Initiative in 2004-05 is about \$3.1 million.
- *UC ACCORD* is the research arm of the University's student academic preparation and educational partnership programs, which studies the causes and potential solutions to California's gaps in student achievement and college-going. Funding for UC ACCORD in 2004-05 is about \$360,000.

## California Subject Matter Projects

In 1988, the California Legislature authorized funding for nine Subject Matter Projects based on the Bay Area Writing Project, which began in 1974. The California Subject Matter Projects (CSMPs) provide intensive training institutes which engage K-12 teachers with subject area leaders and faculty from the University of California, California State University, and K-12 schools in the latest advances in content knowledge, based on State standards, in the nine subject areas taught in K-12 schools as well as the UC and CSU course content, i.e. the “a-g” requirements. From 2001-02 to 2002-03, almost 70,000 teachers attended CSMP workshops.

The CSMPs were reauthorized in 2002 (AB 2950, Strom Martin, Chapter 463). In 2003, new legislation (SB 611, Ducheny, Chapter 857) recognizes that seven of the nine projects currently operate with content and skill standards approved by the State Board of Education and authorizes the continuation of State funding support for those programs, including: reading and literature, writing, mathematics, science, history/social science, world history/international studies, and the arts. SB 611 recognizes that the foreign languages and physical education/health projects are awaiting content and skill standards approval from the State Board of Education and authorizes maintenance level funding for those programs. SB 611 also authorizes the CSMPs to integrate instructional strategies for working with English learners into their professional development training.

Funding for the CSMPs was reduced from a high of \$35.5 million in 2000-01, to \$20 million in 2002-03, and then to \$5 million in 2003-04 where it remains for 2004-05; an additional \$4.4 million from the federal No Child Left Behind program brings the total CSMP funding to \$9.4 million. These severe reductions have resulted in the dismantling of the statewide infrastructure that supported the training of teachers in mathematics and science through the California Professional Development Institutes. There are fewer CSMP sites funded and funds have been reduced at continuing sites, resulting in the elimination of services to many districts, schools, and teachers in some regions of the state and significantly reducing efforts in other areas. This has occurred while expectations for student learning remain high and teacher qualifications (especially in mathematics

and science) remain below par, particularly in urban and rural districts serving large numbers of low-income children. Research shows that professional development for teachers is critical to improving student achievement. CSMP remains a vital part of the state's capacity to develop California's teacher workforce. The University will continue to seek private and federal funding to continue to provide professional development programs for K-12 teachers.

## **Cooperative Extension**

The University of California, through the Division of Agriculture and Natural Resources (ANR), is uniquely positioned to contribute significantly to solutions to complex problems and challenges facing Californians. The University has an "on the ground" presence in every county through UC Cooperative Extension, the Agricultural Experiment Station and other ANR programs.

California farmers and ranchers have achieved a steady record of economic growth over the past half century, while implementing new management and production practices that make their operations the most environmentally compatible and natural resource conscious in the nation. Much of this economic success can be traced to the impact and influence of the University of California's research and extension programs.

About 240 county-based Cooperative Extension advisors team with campus-based specialists and scientists to deliver the latest research-based information and technological advances to users across the state. Cooperative Extension advisors also conduct applied research in the field and adapt new technologies from campus labs to meet local and regional needs. Cooperative Extension represents a unique funding and educational partnership involving federal, state, and local entities, and is a key component in the fulfillment of the University's commitment as California's Land Grant University.

The Division also operates nine research and extension centers. The centers, representing different climates, landscapes, and cropping systems, are located from the Oregon to the Mexican borders and serve as outdoor laboratories for UC scientists conducting applied research

and field tests. They also provide regional venues for Cooperative Extension advisors and specialists, and Agricultural Experiment Station scientists to conduct educational meetings for clientele, host field days, and demonstrate the latest research findings.

For 2004-05, budgeted funding for Cooperative Extension totals \$58.7 million, of which \$39.4 million is State General Funds. In 2002-03 and 2003-04, State funding for Cooperative Extension was reduced by an unprecedented 25% (\$12 million). The 2004 Budget Act contains no new specific cuts for Cooperative Extension, but a Universitywide undesignated cut of \$35.3 million will require additional reductions throughout the University. These recent cuts to UC Cooperative Extension are in addition to a 20% reduction to the program's state funding during the difficult fiscal years of the early 1990s.

The budget reductions taken over the past two years have resulted in the loss of positions on the campuses, at research and extension centers, and in county offices throughout the state. In addition to the loss of academic and staff positions, ANR has closed programs, consolidated others, and suspended work on many research grants. The top priority for Cooperative Extension, under the new fiscal realities, is to maintain programs that directly serve local communities and local needs, but given the magnitude of the budget cuts, every program and unit has been affected. For example, the leading agricultural commodity in California is milk and cheese. Cooperative Extension had nine advisors delivering research-based information and educational materials to the state's \$4.1 billion dairy industry. Three of those positions – or one-third of the total – have been lost because of recent budget cuts. California also produces more than 50% of the nation's fresh fruits, nuts, and vegetables; Cooperative Extension has already lost 8 advisors in this critical area. Over the past several decades, UC research and Extension have been instrumental in the prominence achieved by the California wine industry. The loss of several campus-based specialist positions puts into jeopardy UC's ability to meet the emerging viticulture and enology needs of that industry.

The reductions in State funding have had an immediate as well as long-term impact. A new pest or disease appears in California every

60 days, with Sudden Oak Death, Exotic Newcastle Disease, and West Nile Virus being in the news lately. Another recent example is the introduction of the glassy-winged sharpshooter, which now threatens to spread the devastation of Pierce's Disease to the state's \$3 billion wine, raisin, and table grape industries. The Division has taken a leadership role with the U.S. Department of Agriculture, California Department of Food and Agriculture, the National Academy of Sciences, and the wine and grape industries to garner federal, state, and industry funds, leverage additional resources, and assemble research and extension teams to address both stop-gap responses and long-term research solutions. The tremendous successes that University researchers and other experts have had in the past in addressing this formidable pest and disease problem was possible, in large part, because an existing workforce could be rapidly mobilized. With the cuts already taken, such a timely response today would be difficult – further cuts would place in serious jeopardy the University's ability to respond. The state of California cannot afford to let eroding budgets halt this type of work, which enhances both the economic and environmental welfare of the state.

The cuts to UC Cooperative Extension and agricultural research programs are of deep concern, given their direct impact on the economy and quality of life in this state. California farmers and ranchers generated more than \$32.5 billion in gross cash receipts in 2003, and much of this success is the result of new technologies, better crop varieties, and environmentally-friendly farming practices developed and delivered by UC. A major employer and revenue generator in the state, agriculture accounts for over one million jobs and more than \$60 billion in personal income. California is the nation's leader in agricultural exports, shipping more than \$6.5 billion in food and agricultural products around the world. Among the more than 350 commodities produced in California, milk and cream, grapes, nursery products, cattle and calves, lettuce and almonds all grossed more than \$1 billion in 2003. In addition to bringing science-based solutions from the University to bear on "real world" agricultural, human, environmental and natural resources-related problems level, Cooperative Extension has nearly 30,000 4-H Youth Development and Master Gardener volunteers from across California. With their assistance, more than 140,000 youth (ages 5-19) participate in Cooperative Extension-sponsored 4-H Club and after school

activities in California's cities and rural areas, and thousands of homeowners have access to reliable, science-based information on gardening, water conservation, and ways to reduce pesticide use.

## **Charles R. Drew University of Medicine and Science**

The Charles R. Drew University of Medicine and Science is a private, nonprofit corporation with its own Board of Trustees. Drew University conducts educational and research programs in south central Los Angeles in collaboration with Martin Luther King, Jr. County Hospital, also known as King-Drew Medical Center. Since 1973, the State has appropriated funds to the University to support a program of clinical health science education, research and public service operated by the Los Angeles campus in conjunction with the Charles R. Drew University of Medicine and Science. State General Funds are provided to Drew under two separate contracts, 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. Drew University receives State funds for the training of 24 third-year and 24 fourth-year medical students, and for 170 of its 317 residents. The State support for the resident training program is provided through the University of California's budget for Medical Education. The County of Los Angeles pays the salaries of all the residents (State-supported and non-State supported) and contributes to faculty salary support.

Over the last decade, Drew University has experienced financial problems, and more recently, serious difficulties involving the accreditation of its graduate medical education (or residency) programs. There have been equally serious, and at times related, problems with accreditation standards, policies, and procedures at Los Angeles County's Martin Luther King Jr. General Hospital, which is the principle teaching site for medical students enrolled in the Drew program.

In response to these matters, the California Legislature passed Assembly Concurrent Resolution 139 (Dymally, 2003), which requested that the University join with leadership at Drew and Los Angeles County to address several accreditation concerns concerning Drew residency training programs. In response to this resolution, the University has been actively involved in a variety of efforts in this regard and much has been accomplished as a result. A Graduate Medical Education (GME) Advisory Group, chaired by the University's Vice President for Health Affairs and including the senior leadership of Drew, Los Angeles County, and the UCLA campus, has met on multiple occasions to address specific issues identified by the Accreditation Council for Graduate Medical Education (ACGME). Faculty experts from throughout the University have been called upon to consult with Drew officials and to assist in reviewing program-specific problems and developing focused corrective action plans. At the urging of the GME Advisory Group, the national Association of Academic Health Centers (AHC) and the ACGME sponsored a two-day national conference in July 2004 focusing on "safety net" hospitals and the challenges they face in developing, financing, and sustaining high quality medical education and training programs. This collaboration resulted in a national network that will share best practices regarding residency training and strategies for achieving cost-effective compliance with accreditation standards.

Notwithstanding these efforts, significant challenges involving residency education and accreditation remain. Although thirteen Drew residency programs are fully accredited (including Emergency Medicine, OB/GYN, Pediatrics, Psychiatry, and others), five others are on probation or have some type of ACGME warning in effect. Two programs (General Surgery and Radiology) were closed effective July 1, 2004. The GME Advisory Committee, with active participation and support from UC, continues to work with the Drew administration and faculty to identify appropriate actions and timetables for addressing these matters.

With respect to Drew's finances, State budget augmentations and administrative assistance from the UCLA administration have enabled Drew's financial situation to improve. The University has provided strong support to Drew despite the significant reductions to the University's State funded budget during the State's budget crisis.

While other UC programs have been cut 10-50% (and in some instances, whole programs have been eliminated), the total cuts to Drew throughout this fiscal crisis have been minimal—about \$200,000. For 2004-05, the total support for Drew will be maintained at the \$10.8 million level. Drew medical students, however, along with every other student in the University, will share in the student fee increases necessary to offset reductions in the State support for all instructional programs.

The State support provided to Drew in the 2004 Budget Act for both the instructional and public service programs is \$8.7 million. Of this amount, \$500,000 is contingent upon the University continuing to provide \$500,000 in matching funds from funds available to UC through the State's Medi-Cal Medical Education program, which provides funding from the federal government to help support the cost of providing a medical education. The University also provides cost-of-living adjustments from the General Fund, support from University funds, and medical student professional fee revenue to support the program. As noted above, the total from all University sources available to Drew for 2004-05 is \$10.8 million.

## ACADEMIC SUPPORT—LIBRARIES

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 243,525,000</b>
General Funds	184,391,000
Restricted Funds	59,134,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	2,182,000

### Overview

Great universities have great libraries, for two reasons. First, information resources are at the foundation of effective research, teaching, and learning, and libraries provide students with access to those information resources. Second, the collections are invaluable resources for a wider community, serving as repositories of knowledge, art, and expression, and functioning as key components of the cultural memory of society.

For over a century, the quality of the University of California's teaching and research programs have been supported by libraries at each UC campus that build and manage distinctive collections and provide leading-edge information services tailored to the needs of the campus academic program and its faculty and students. The State's investment in the UC libraries has helped to create an information resource unmatched by any other in the country. This resource is essential to support the University's teaching and research, and benefits students and faculty of other California colleges, universities, and public schools, business and industry, and the general public, both directly and through cooperative programs with other California libraries.

Until recently, providing access to information meant physical possession of information, and library planning and budgeting have focused on acquiring

materials for the library collections of each campus, building and maintaining space to house those growing collections, and providing the staff services required to process materials and facilitate their use. In the face of spiraling increases in the prices of books and journals, continuing expansion in the number of academic programs offered by the University, and burgeoning enrollment, the University has sought to sustain and supplement strong campus-based collections and services through innovations that leverage the investment in library collections by enabling campus libraries to cost-effectively share their materials.

Over the last decade, rapid advances in the development and use of new technologies to create, publish, store, search for, and deliver information have begun to transform libraries, making it increasingly possible for each campus to provide reliable and effective access to information without having to physically possess and store it. New digital capabilities will permit UC to continue to pursue opportunities for increased efficiencies in management of its print collections, and simultaneously extend systemwide leverage to the development and operation of digital collections and services.

At the same time, these developments promise even greater benefits for the people of California. UC's digital information repositories are becoming more readily accessible to students and teachers in the public schools, other institutions of higher education, government, business and industry, and all California residents at the click of a mouse. In addition, the online tools that provide the building blocks for UC's digital library services are capable of being shared with others, enabling schools, businesses, and government agencies to cost-effectively build their own digital repositories, develop their own access services, and begin linking these diverse information resources to build an interconnected web of high-quality information throughout the State, stimulating and supporting lifelong learning, economic development, and cultural growth.

## **The Library Budget**

The University's library budget is divided into four categories that are described below.

- acquisitions-processing, which represents 57% of the budget, includes campus-based expenditures for library materials in all formats, and all

- operational activities related to acquiring library materials and preparing them for use, such as ordering, receiving, and cataloging.
- reference-circulation, which represents 38% of the library budget, includes providing users with information and materials, managing circulation of materials, shelving and re-shelving books, maintaining collections, providing reference services, instructing students and faculty in the use of the library and its printed and electronic information resources, and creating and operating digital services that provide library users with effective access to information in all formats.
- the systemwide Library Automation unit, which provides universitywide 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 provides leadership, coordination and administrative and financial support for the development or acquisition of systemwide digital collections, for tools and services that facilitate maintenance of and access to information resources, and for services that support innovations in and provide access to UC scholarly publishing, represents 3% of the total budget.

Over the last 25 years, the State has provided substantial support for the University's strategy to leverage library development on a systemwide basis. The University's 1977 library plan recommended that the State provide additional resources both to build campus collections and also to support strategic use of emerging technology (the Melvyl online union catalog, support for automation of campus circulation and cataloging operations) and shared physical infrastructure (two Regional Library Facilities) that leveraged systemwide capabilities to share collections in the most cost-effective manner. Between 1977 and the late 1980s, the State provided most of the operating and capital resources called for in the library plan. Over the last decade, however, the State has been unable to provide full funding to meet the impact of extraordinary rates of inflation in the cost of library materials. The result is a permanent budget shortfall that was estimated at \$33 million in 1999-2000.

The Partnership agreement with former Governor Davis included a commitment to support a 1% annual increase to UC's General Fund base to address shortfalls in four core areas of the budget, including library materials. This provision would have provided about two-thirds of the

funding needed to address the historic \$33 million library budget shortfall over a four-year period, with the remainder to be funded through a redirection of resources at the campus level. Between 1998-99 and 2000-01, consistent with provisions of the Partnership, the State provided an additional \$8.7 million for library materials and expanded sharing of library collections that began to address the permanent budget shortfall, supplemented by \$14 million in one-time funds. In addition, the State provided \$7 million to support the development and expansion of the California Digital Library.

However, as a result of the State's current fiscal crisis, the provision for a 1% increase to address core needs, including libraries, has not been funded since 2000-01. The 2002-03 budget included a one-time reduction of \$29 million for core needs, including funding for libraries, a cut that was made permanent in the 2003-04 budget. Also in 2002-03, the Governor imposed on the University a mid-year cut of \$20 million in general administration, academic administration, and libraries. In the 2003-04 budget, the permanent cut grew to \$36.5 million in general administration, academic administration, and libraries, and the 2004-05 budget included an additional \$45.4 million permanent cut for general administration, academic administration, and libraries.

As a result of these targeted reductions in State operating support, the budgetary gains made between 1998-99 and 2000-01 have been largely reversed. Under the provisions of the new Compact, funds to address the permanent shortfall in the library collections budget and other core needs would once again become available beginning in 2008-09. When the State's fiscal situation improves, additional investment of State funds to support development of new digital collections, tools and services could accelerate the diffusion of these leading-edge resources and capabilities throughout California. As a result, no new State funds to support library programs are being requested in 2005-06.

## **The Library Program**

### ***The 20th Century Library: Building and Sharing Print Collections***

In print-based libraries, access to information has meant physical possession of information. For hundreds of years, libraries could not guarantee access to

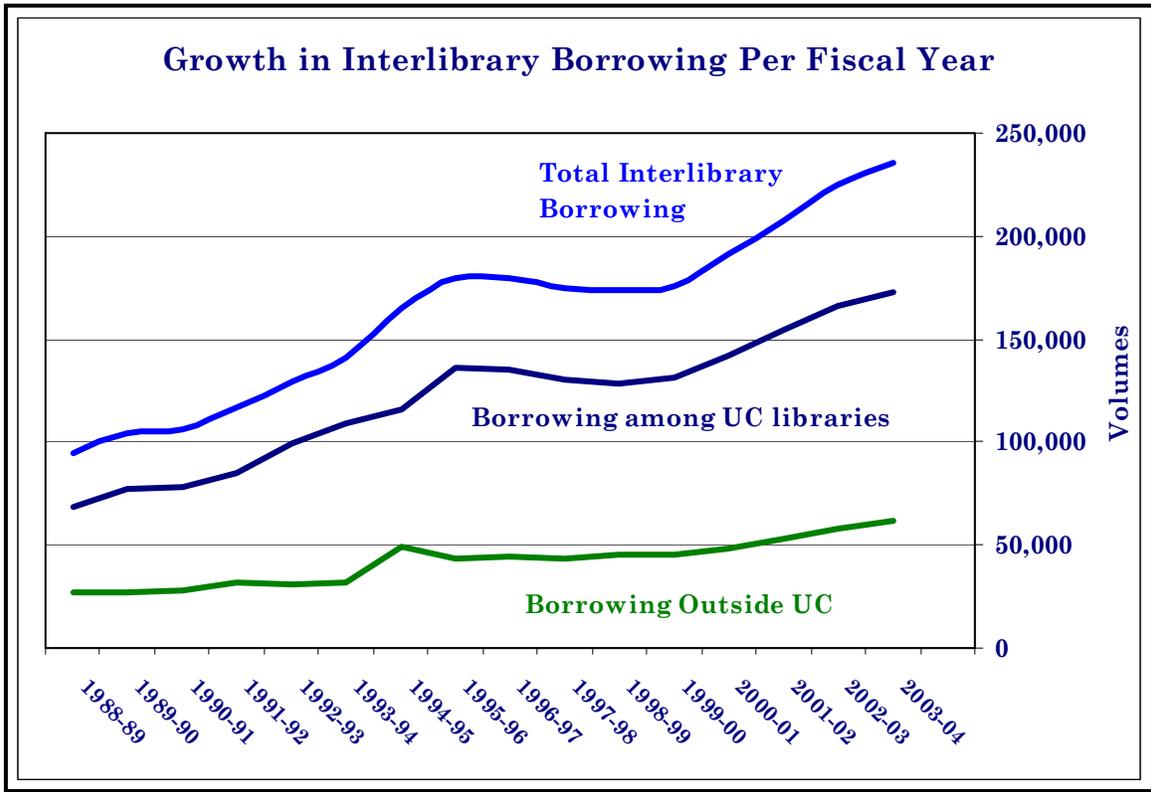
material that they did not own, and the holdings of one library could not be known in detail by any other library. Thus, academic libraries were each compelled to acquire all the books, journals, and other materials needed to support their institution's teaching and research programs. As a result, throughout most of the University of California's 136-year history the cardinal issues in library planning and budgeting have been acquiring books, journals, and other printed materials for the library collections of each campus, building and maintaining space to house those growing collections, and providing the staff services required to acquire and process the collections, to circulate and reshelve them, and to provide assistance to students and faculty in using them. The budgeting challenges associated with this traditional library model have involved securing sufficient resources to support these functions in the face of spiraling increases in the prices of books and journals, rapid and continuing expansion in the number of academic programs offered by the University (each of which has a literature that must be acquired on an ongoing basis to support undergraduate teaching, graduate instruction, and advanced research in the field), and burgeoning enrollment, which must be accommodated through expanded collections, additional services, and additional library space.

The libraries have met these challenges through a Universitywide strategic approach to development of library collections and services that emphasizes multi-campus collaboration and application of new technology to facilitate and expand sharing of the materials within UC library collections. Over the last two decades, the University has created a multicampus library system with capabilities for coordination, collaboration, and sharing of resources that are unequalled by the research libraries of any similar university system, and UC faculty and students have enjoyed increasingly faster and more convenient access through their campus libraries to a broader universe of information in a wider variety of formats, even in the face of rising costs and constrained budgets.

This strategy has been remarkably successful. As shown in Display 1, interlibrary borrowing among UC's libraries (which accounts for about 75% of all items borrowed from other libraries) has increased by 154% since 1988-89, while borrowing from libraries outside UC increased by 133%.

In addition to sharing collections, the University has avoided costs through effective use of shared physical facilities. The two Regional Library Facilities (RLFs) at Richmond (for northern campuses) and Los Angeles (for southern

Display 1



campuses) began operation in the early 1980s, and currently provide low-cost space for about 11 million volumes deposited by campus libraries. In 2001-02, about 200,000 items were borrowed or photocopied from the RLF collections, about four times more than the number of items borrowed by the UC libraries from all other libraries nationwide on interlibrary loan during the same period.

The costs avoided by these strategies are substantial. For example, by depositing materials in the regional library facilities, the campuses avoid capital costs of about \$11 million per year, on an annualized basis, that would have to be incurred to build on-campus library facilities to house these collections. If the 11 million volumes in the RLFs had been discarded, the University would incur operating costs of nearly \$1.2 million per year to borrow them from other libraries, assuming that they could in fact be found elsewhere. In addition, if the campus libraries had been compelled to purchase and add to their own collections the items they were able to borrow from each other via interlibrary loan in 2002-03, the total purchase cost would have been \$31 million.

## ***The 21st Century Library: Leveraging Technology to Improve Services and Contain Costs***

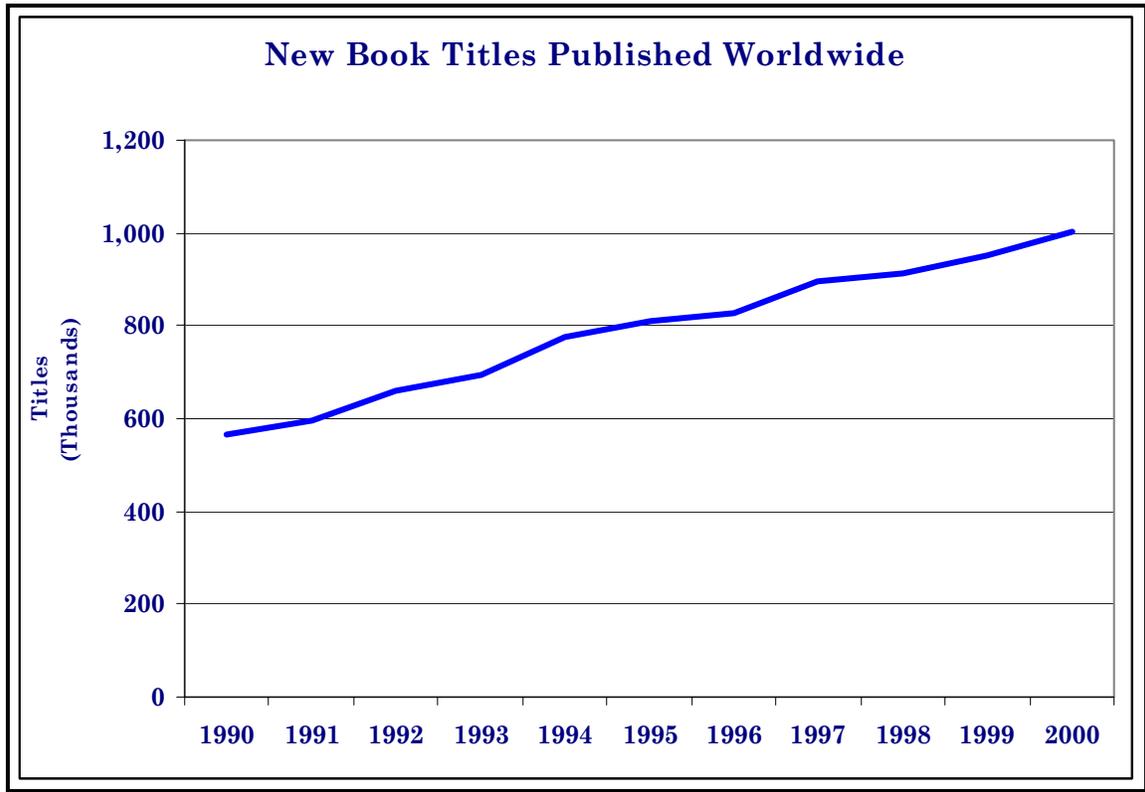
Information technologies make it increasingly possible for libraries to provide reliable and effective access to information without having to physically possess and store it. It is now conceivable to plan in terms of:

- shared repositories of digital information, developed and managed collectively by the UC libraries, other institutions, or the private sector, that can be accessed and used by students and faculty at all UC campuses;
- standards-based network services that allow the libraries to develop tools and services collaboratively, leveraging investment and avoiding duplication of effort;
- online tools and services that enable students and faculty to efficiently search these diverse repositories to find and access the information they need, and allow campus libraries to provide services tailored to each campus' academic program and community needs, while still enjoying the benefits of reduced cost and increased efficiency that derive from systemwide development;
- applying these capabilities to gain further efficiencies in the shared development, management and use of the University's print collections, which remain essential to teaching and research and will continue to grow.

Books and other print material remain central to the services of the 21st century library, and as shown in Display 2, the growth in the output of published books remains unabated, notwithstanding the growth of digital publishing. However, the information resources needed and used by campus communities for teaching, learning, and research have grown to include: licensed digital versions of traditional scholarly journals and books; digital content created internally by UC or converted into digital form from existing UC collections, such as manuscripts, maps, visual images, and sound files; other UC digital assets, such as datasets, other primary research materials, and teaching materials created in digital form by the UC community; and the information resources (of highly varying quality and persistence) available on the World Wide Web.

The beginning of the strategic transition to new forms of library service at UC was marked by the launch of the University's groundbreaking California Digital Library (CDL) in 1997. The CDL has served as the engine for a number of systemwide initiatives that have continuously improved the

Display 2



University's capability to share campus print collections, but its primary innovation was a shared Universitywide collection of high-quality digital content that complemented and extended campus-based materials.

The CDL now makes it possible for UC's libraries to make available to faculty, students and staff from all UC campuses about 10,000 journal titles, 250 reference databases, and over 7,000 finding aids that provide access to unique special collections resources. In 2002-03, nearly 11 million digital journal articles were used, ten times the 1998-99 level. These shared digital collections not only provide the UC community with access to a wealth of material that individual campuses might not have been able to afford independently, but also make information equally accessible to all UC students and faculty at any time of the day or night, regardless of location. In addition, the libraries are creating collections of high-quality material that are newly and solely available in digital form.

These collaborative accomplishments of the UC Libraries not only support the University's library strategy through more cost-effective provision of library service, but also benefit all Californians. Through systemwide

library services available to the public, California citizens can, for example, search the libraries' collections using the Melvyl catalog, gain access to more than 7,000 separate inventories of material in California's archives, libraries, and museums through the Online Archive of California (OAC), and view the 120,000 digital images and 50,000 pages of documents, letters and oral histories in the OAC collections, search for and display information, facts, and data about the Golden State through Counting California, explore the latest research findings of UC scholars and scientists through the eScholarship Repository, view online many of the premier publications of the University of California Press, and delve into a large virtual collection – gathered from some of the world's leading libraries – about the social and ecological diversity of the American West, and make use of tools developed especially to support integration of this material with online teaching environments.

These and many other services available to the general public have recently been brought together in an experimental website specially designed to serve as the public's portal to hundreds of collections and exhibits created or maintained by the California Digital Library and by the libraries, museums, academic departments, and research units of the University of California (see: <http://californiadigitallibrary.org/>).

As the nature of research library collections has changed, so too have the academic community's needs and expectations for library service. The current generation of library users has grown up with computers, multimedia, wireless communication, the Internet, Amazon, and Google. For them, the expectation is that the information they need will be easy to discover and immediately available online, from any convenient computer, at any time of day or night. In response, the expertise of library staff has changed to meet the needs of capturing and curating digital collections and creating digital tools to access them. As a result, libraries are becoming centers of know-how for the production, discovery, and use of digital information of all kinds. By most reports, more people come to the libraries than ever before, and it is increasingly evident that libraries continue to serve a critically important function even in a world of remote access to digital information.

### ***Resource Sharing and Cost Avoidance Strategies***

For the foreseeable future, then, campus libraries will remain the focal point for the delivery of UC library services. However, it is not possible for each campus library acting independently and within the constraints of local

budgetary resources to cope successfully with the challenges of expanding collection formats, changing service demands, and the imperatives of ever-evolving technologies while also grappling with ongoing and unfunded inflation in the cost of library materials and the effects of rapidly growing enrollment. By adapting the University's library resource sharing strategies to the opportunities of the digital age, UC continues to find cost avoidances that help to offset the unfunded growth in both the amount of information and its cost. For example, if campus libraries were independently to negotiate for, license, and catalog the 10,000 journal titles and 250 databases in the systemwide digital collection, they would have to spend an additional \$34 million per year. In addition, UC research shows that faculty and students prefer digital versions of journals to their print equivalents, although print continues to be needed in the event that the digital becomes unavailable. Through the development of a single shared print journal collection for those titles to which the University subscribes in both formats, the libraries may avoid subscription costs for print journals of up to \$3.1 million per year, plus additional savings in on-campus shelf space to house those journals, while being assured that at least one print copy of each title will continue to be available if needed.

The emerging digital capabilities of the 21st century library will allow the UC libraries to continue to enhance services while containing costs, in several ways.

**Reducing cost while enhancing the quality and responsiveness of service for each campus.** Advances in technology offer the potential for each UC library to develop flexible, innovative and customized services that simplify and improve service to library users without sacrificing the economies that are traditionally associated with centralized services. Because many campuses will be interested in offering similar services, there are opportunities to develop them jointly; the resulting services effectively meet local needs while allowing development costs to be spread across a wider base.

**Supporting expanding enrollment at manageable additional cost.** The capabilities afforded by shared collections and services are particularly significant as a means to provide high-quality service to students and faculty in the face of unprecedented levels of enrollment growth, at manageable cost and with minimum impact on existing library facilities, collections, and services. These benefits are most evident in the case of UC Merced (UCM).

Although the new UCM library will, like the other campuses, require funding to build the local collections and services needed to support campus academic programs and to contribute a fair share to the cost of shared collections and services, the cost of this enterprise will be reduced by the leverage available to UCM as part of the UC library system. Of more importance, on opening day UCM students and faculty will find available to them a rich digital collection of thousands of journals, hundreds of online books, and uncounted digital resources of other kinds, as well as ready and rapid access to the information resources of the entire UC system through systemwide interlibrary lending services. Indeed, the founding faculty and research programs at UCM are already making heavy use of these capabilities.

**Rethinking the management of print collections and library facilities.** The UC libraries, building upon the University's successful experience with the shared digital collection, have recently launched an initiative to develop shared print collections. The shared print collection of titles to which the University subscribes in digital format, discussed above, is one example. Unlike traditional interlibrary loan, which facilitates systemwide access to collections acquired and managed by the campus libraries, shared collections will be planned, acquired and managed collaboratively for the direct and immediate benefit of all campuses. This initiative will give campus libraries greater flexibility to manage their collections, allowing them to free up financial and space resources so they can acquire new materials to meet local needs, while leveraging shared assets and reducing unnecessary duplication.

The University's two Regional Library Facilities, at Richmond (for northern campuses) and at UCLA (for southern campuses), play a critical role in the shared print strategy. Originally conceived in UC's 1977 library plan as providing low-cost off-campus storage for infrequently-used materials of enduring research value deposited from campus-based collections, the RLFs are ideally situated to host the new shared print collections. This new role for the RLFs is one of many that may evolve for them in support of the expanding collaborative strategies of the UC libraries.

In addition, the growing availability of digital collections and the concomitant ability to more effectively manage print collections invites consideration of new roles and planning principles for campus library facilities. It will be important both to understand the new functions of libraries on campus, and to begin to adapt physical facilities and capital programs to address these

needs. The McHenry Addition and Renovation project currently underway at UC Santa Cruz provides an example of a flexible design that creatively blends library, instructional, research, and student life functions in a way that takes effective advantage of new digital capabilities.

**Creating and managing new kinds of digital collections of enduring value.** The 33-million volume print collection of the UC libraries is available today as an unequalled information resource for the University and the State because the libraries have accepted the responsibility for its ongoing stewardship for more than a century. The California Recall Election Project is an example of a new kind of library collection, systematically gathered from otherwise ephemeral Web sites, organized, prepared for use and preserved, but consisting of digital, rather than print resources. Collections of this kind, thoughtfully assembled and conserved for future use, will over time come to have the same enduring value as the University's accumulated print collections, as resources for research and archives of the intellectual and cultural record.

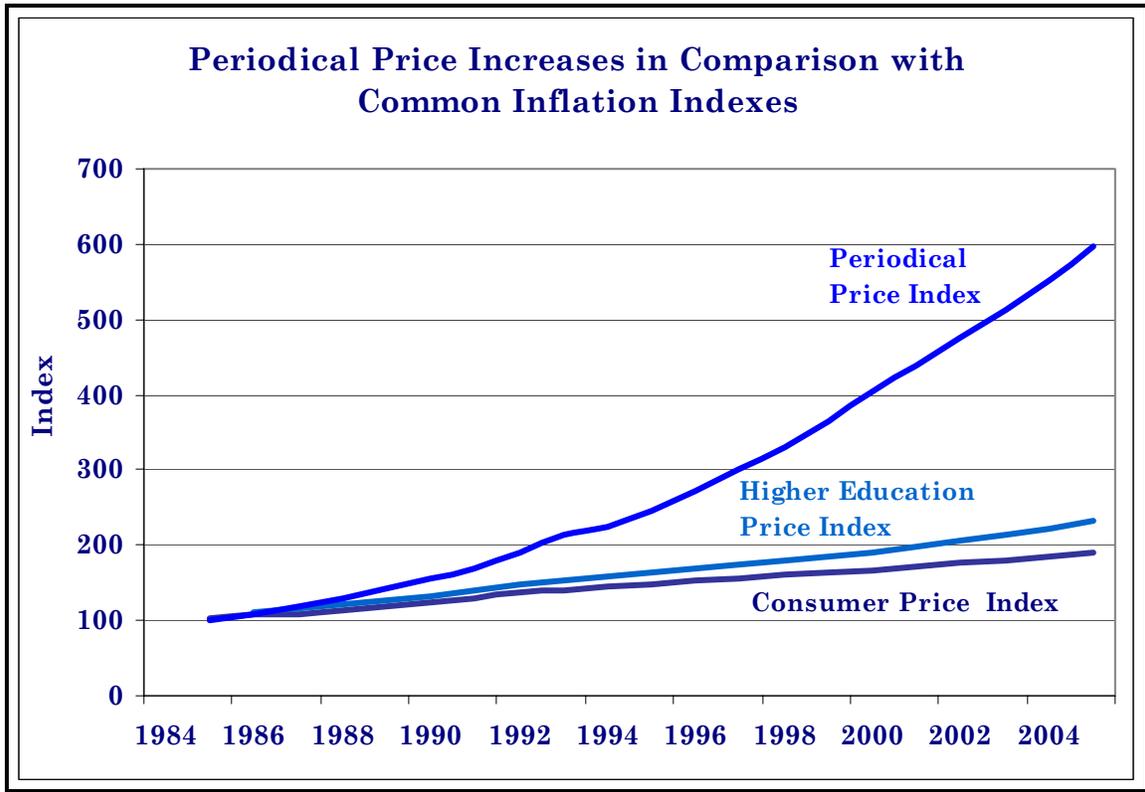
**Using scalable, reusable tools and services to extend benefits throughout the State and beyond.** The same suites of flexible, reusable, standards-based tools and services that will allow the UC libraries affordably to build and maintain digital repositories and develop effective user services can be extended to libraries, museums, government agencies, and other information organizations throughout the State with modest additional cost. For example, many public libraries, historical societies, museums, and other cultural organizations are scanning the materials in their unique local collections in order to make these valuable resources more accessible. Those organizations could adopt these tools to build and manage their digital repositories and develop access services, avoiding the considerable cost of local development. In addition, Recommendation G45 of the Governor's California Performance Review pointed out that "public access to California state government information erodes as thousands of digital documents vanish each year," and recommended that the State "identify and implement processes to collect and protect state government's digital records." UC's repository-building tools would allow widely-distributed government agencies to easily capture, store, and manage their essential digital records at low cost, and with the assurance that the resulting information repositories would be accessible to the public throughout California.

There are potential benefits for California's schools, colleges and businesses as well. Public schools could leverage the State's investment in network connectivity by easily building portals that allow teachers and students not only to gain access to the rich repositories of information available from publishers, universities, State agencies, and the public Web, but to target these portals on the information resources that are most relevant to a particular curriculum or the needs of particular groups of students. California businesses could increase staff productivity by adapting these tools in order to effectively integrate locally-managed information with the wealth of material available in public information repositories, a capability that would be especially valuable for the State's growing number of knowledge-based enterprises. Finally, the rich digital academic resources being created by the University of California, and the infrastructure to manage and provide access to these assets, could be extended to and built upon by the other segments of California higher education quickly and at minimal additional cost.

**Influencing the methods and costs of producing and distributing scholarly information.** While effective sharing of collections and systemwide collections and services can help mitigate the effect of inflation on the buying power of the library budget, this strategy alone is not sufficient to overcome the effects of persistent price increases for library materials that consistently outpace the rate of inflation, as shown in Display 3. The libraries' extensive systemwide collections and services also provide the foundation by which the University and its faculty may address the structural problems in the system of scholarly publishing that drive these price increases. Through the eScholarship initiative, the UC libraries stimulate and facilitate innovation in scholarly communication in support of research and teaching; this includes creation, production, peer review, management, and dissemination of scholarly output.

More recently, the UC libraries, in close collaboration with the Academic Senate, have launched a new initiative that will provide UC faculty with more information about the scholarly publishing system and the costs of their publication choices, as well as tools to support their use of cost-effective

Display 3



publication options. This initiative will also position the University, its libraries, and the UC Press to provide more extensive support for publishing innovations and to support more effective advocacy for scholarly interests and priorities in the publishing marketplace. Given the continuously spiraling rate of increases for library materials, it is critical that these efforts are continued and expanded.

### Looking to the Future

In anticipating the budgetary demands associated with the transition of the UC libraries to the 21st century model, the following issues will require close attention.

- Support for continued development of print collections and new models for their management. Notwithstanding the rapid emergence of digital information resources, a development that has driven the transition to the 21st century library, the production of essential scholarly information in printed form continues unabated (see Display 2 above). It is a high

priority for the University to restore the funding that has been provided in the past for core needs, including libraries, and to continue the process of closing the historical funding gap for library collections, as envisioned in the new Compact with the Governor beginning in 2008-09. At the same time, new and more cost-effective methods for managing and housing these collections call for creative approaches to the planning of library facilities, including the Regional Library Facilities.

- Support for new methods of producing and distributing information. The solutions to the problem of persistent inflation that produced the funding gap do not lie solely in seeking further library operating efficiencies – these steps defer the problem without addressing its sources – but also in the opportunities afforded by technology to provide new, more effective and efficient methods of scholarly publishing and communication. Exploiting these opportunities will require both ongoing collaboration with faculty and publishers, and investments in experimentation with new techniques and business models as well as the innovative technologies to support them. Investments in this area will not only address the sustainability of the University’s library program, but contribute to making digital information more affordable and available throughout the marketplace.
- Support for development and deployment of network-based tools and services that can be used both inside and outside the University. The flexible, re-usable building blocks discussed above promise to avoid substantial operating costs for digital library services, but the development of such tools is often more expensive, as they must be designed to operate with each other and with a host of different information sources. Making these tools available for use outside the University may also entail development of programs to build relationships with and ensure effective distribution and support services for third-party adopters. Investments in this area will accelerate the opportunities to avoid operating costs, not only for UC, but also for other libraries and information providers throughout the State.

Investments in new approaches to collection management, new methods of scholarly communication, and new tools for managing and accessing digital information will allow the University to continue its 25-year record of

successfully leveraging systemwide resources and capabilities to avoid costs while enhancing service. UC's students will have more effective access to information, better integrated with their instructional programs, and opportunities to learn the leading-edge information skills that they will need in their careers. Institutions, agencies, businesses and individuals throughout the State will gain not only improved access to UC's rich knowledge resources, but also an opportunity to adopt tools that can help them more effectively and efficiently manage the information resources that they control and need, while at the same time helping to create an infrastructure that can seamlessly bring together the vast and diverse information resources available throughout California. Through these investments, California can once again demonstrate its leadership by innovatively applying the tools of leading-edge technology to the cost-effective provision of information access for all.

## ACADEMIC SUPPORT—OTHER

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 453,445,000</b>
General Funds	167,198,000
Restricted Funds	286,247,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	9,168,000

Included in the category Academic Support—Other are various support activities that are operated and administered in conjunction with schools and departments. It includes core infrastructure and support services for the University's primary missions of teaching, research and public service. Also included are partially self-supporting activities that 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 the clinical activities.

Among the clinical facilities that support health sciences programs are: outpatient clinics operated by the five academic medical centers at Davis, Irvine, Los Angeles, San Diego, and San Francisco; two dental clinics (Los Angeles and San Francisco) with off-campus community dental clinics; occupational health centers in the north and in the south; the veterinary medicine clinical teaching facilities at Davis and in the San Joaquin Valley with a satellite site in San Diego; an optometry clinic at Berkeley; and two neuropsychiatric institutes (Los Angeles and San Francisco). In addition, a demonstration school, vivaria, and other activities provide academic support to health sciences and general campus programs. Most of these facilities provide experience for students as well as valuable community services. Their financial support is derived from a combination of State funds, patient income, and other revenue.

The University's clinics are largely self-supporting through patient fees. State funds for Clinical Teaching Support (CTS) are appropriated to the University for the hospitals, neuropsychiatric institutes, and the dental clinics, in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes. The funds are generally used to provide financial support for patients who are essential for the teaching program, but who are unable to pay the full cost of their care.

The State's ongoing fiscal crisis has resulted in significant budget reductions throughout the University's budget. Academic and Institutional Support was cut by \$36.5 million in 2003-04 and another \$45.4 million in 2004-05. In addition to targeted base budget cuts, the University has over \$100 million a year in unavoidable costs related to paying faculty merits, employee health benefits, energy cost increases, and maintenance of new space. Because these costs have not been funded by the State for two years, it has been necessary to redirect resources from Academic and Institutional Support and other parts of the budget. Along with academic administration and the clinical and other academic support activities affected, other programs include libraries and administrative support services central to the operations of the University. These reductions are discussed in more detail in the *Academic Support-Libraries* and the *Institutional Support* chapters of this document. Given the importance of these services to the operation of the University, this is a cause for serious concern. In future years, when the State's fiscal situation improves and more resources are available, it will be a priority for the University to begin to rebuild budgets for Academic and Institutional Support.

## **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.

The demonstration school at UCLA serves as a teaching laboratory for experimentation, research, and teacher training in the field of education. The schools educate children and contribute to the advancement of education through research efforts and application of results. Vivaria are centralized facilities for the ordering, receiving, and care of all animals essential to instruction and research. Other activities under Academic Support—Other include support for the arts and specialized physical sciences and engineering projects.

## TEACHING HOSPITALS

### 2004-05 BUDGET

<b>Total Funds</b>	<b>\$ 3,707,346,000</b>
General Funds	49,769,000
Restricted Funds	3,657,577,000

### 2005-06 INCREASE

General Funds	--
Restricted Funds	301,750,000

### The Role of the University Teaching Hospitals

The University of California owns and operates five academic medical centers—Davis, Irvine, Los Angeles, San Diego, and San Francisco that are comprised of eight licensed acute care hospitals and two licensed psychiatric hospitals. Their primary mission is to support the clinical teaching programs of the five schools of medicine and the educational programs in the University's other health sciences schools (e.g., dentistry, nursing, and pharmacy). In addition to supporting the clinical teaching programs, the academic medical centers provide a full range of health care services at all levels of care from primary to quaternary in their communities and are sites for the development and testing of new diagnostic and therapeutic techniques. The University of California's academic medical centers are a major resource for California and the nation as they perform their tripartite mission of teaching, research, and public service.

The core clinical experiences for health science students occur at the five academic medical centers and at a variety of affiliated teaching sites. The medical centers support a broad range of educational programs for medical students, postgraduate physicians (interns and residents), practicing physicians in the community, nurses, and allied healthcare professionals, preparing them for current and future healthcare needs.

The medical centers sponsor more than 250 residency training programs in all recognized specialties and subspecialties of medicine and surgery. In response to changes in the financing and delivery of health care, and as the result of the University's efforts to expand training opportunities in primary care, the medical centers have developed more outpatient clinical training sites and primary care networks.

The UC medical centers conduct basic biomedical and clinical research, which are essential to continued advancement in the understanding and treatment of diseases and the improvement in the health status of the population. Research projects include clinical trials of investigational drugs, devices, and medical procedures, as well as epidemiological studies that contribute substantially to the general public's well-being and to the education and patient care missions.

The University's academic medical centers comprise one of the largest health care systems in California and are among the largest Medi-Cal providers in the State. Three of the UC Medical Centers (Davis, Irvine and San Diego) were former county hospitals and continue to function as safety net providers in their respective counties. The UC medical centers operate Level I trauma centers in four of their five regions and provide the physician staff to San Francisco County's General Hospital, including its Level I trauma center.

In 2004-05, the University medical centers will have a combined licensed capacity of 3,352 beds and are expected to generate more than 811,000 patient days on roughly 135,000 admissions, and more than 3.7 million outpatient visits.

Prior to the 1960s, the University had two medical schools, one at San Francisco and one at Los Angeles. The University owned and operated teaching hospitals on both campuses in fulfillment of its mission to educate medical students and residents in a clinical setting. Both medical schools also had affiliation arrangements with county, Veterans Affairs, and other hospitals to provide educational experiences for the campus' medical students and residents.

In the 1960s, the decision was made to develop three new medical schools at the Davis, Irvine, and San Diego campuses. The University's plan was to repeat the San Francisco and Los Angeles models with on-campus teaching hospitals and affiliations with county, Veterans Affairs, and other hospitals.

However, while supporting the University's education and research efforts, the Legislature wanted the University to give a higher priority to providing medical care for the poor. Therefore, the State provided resources to purchase three existing county hospitals and initiated capital projects to renovate the facilities to make them more suitable for the University's education, research, and patient care missions.

### **Financial Issues Facing the Teaching Hospitals**

While the University's medical centers face financial challenges similar to other hospitals trying to survive in a price-sensitive managed care competitive environment, they have added responsibilities related to their function as academic institutions. The costs associated with new technologies, biomedical research that has the potential to improve lives, the education and training of health care professionals, and provision of care for a disproportionate share of medically underserved Californians make it difficult for the UC medical centers to compete with providers that have no teaching or research responsibilities. While academic medical centers receive some compensation for teaching costs from government payors, including Medicare and Medi-Cal, it does not cover actual costs. Also, the level of compensation does not include teaching costs incurred in outpatient settings. No other payors (i.e., commercial, contract, county, etc.) recognize the added costs of teaching in their payment to academic medical centers. Therefore, one of the University's highest priorities is to ensure that the medical centers have a dedicated and sustained source of funding to support graduate medical education.

The financial viability of UC medical centers directly affects the quality of the instructional programs at the University's Schools of Medicine. Schools of Medicine are heavily dependent upon revenues generated from patient care by the medical centers and faculty practice plans. Financial support from the academic medical centers enables the Schools of Medicine to recruit and retain excellent faculty, expand existing and create new academic programs, and support primary care initiatives. The medical centers must therefore generate sufficient funds for their operational and capital needs, as well as for their respective Schools of Medicine and primary care networks. In 2003-04, the medical centers provided millions of dollars in support of their respective Schools of Medicine.

Since managed care has become the primary system for delivering and financing health services, the University has experienced a shift in the delivery of care, with the major growth occurring in outpatient settings. Market forces have required that UC medical centers accept negotiated rates from private and some public payors that do not recognize educational costs. Like all hospitals, the University's academic medical centers were affected by both federal and state legislation that either reduced reimbursement (e.g., the Balanced Budget Act of 1997) or required unfunded mandates (e.g., the Health Insurance Portability Act of 1996 and Assembly Bill 394, which established a nurse-to-patient ratio).

Over time, UC medical centers have pursued with the State both short-term and long-range solutions to address fiscal challenges and avert significant losses. State-funded capital and operating subsidies were provided to the three former county hospitals in the mid-1980s to assist them in reaching a broader patient base. Special supplemental funding is being provided by the State to 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. Initiated in 1997, the University was successful in seeking the Governor's and the Legislature's approval to extend the Medi-Cal Medical Education Program to June 30, 2004 and SB 1103, a trailer bill to the 2003-04 budget, extended the Medi-Cal Medical Education program indefinitely. In the 2000-01 budget, the State provided one-time funds for equipment (\$25 million) and infrastructure (\$50 million), and authorized lease revenue bonds for seismic needs (\$600 million). In the 2001-02 budget, the State provided a one-time augmentation for Clinical Teaching Support (CTS) of \$5 million that was shared among medical centers, the neuropsychiatric institutes and the dental clinics. This augmentation was provided in recognition of CTS budget cuts in the early 1990s. Throughout the history of UC's teaching hospitals, State assistance has been vital to their financial stability and has had a beneficial impact on the hospitals' ability to conduct their teaching mission and provide patient care. Unfortunately, most of this assistance has been one-time funding and not a sustainable source of funds.

The medical centers have taken steps to remain competitive in their respective markets by holding down costs and by expanding their presence

in the market through affiliation with physician groups or the addition of hospital sites. As part of their strategy to capture greater market share and to improve their patient mix, three UC medical centers expanded their patient care by adding hospitals at different locations. In 1990, Mount Zion Health Systems integrated with UCSF Medical Center; in 1993, UCSD built the Thornton Hospital on the La Jolla campus; and the UCLA Medical Center acquired the Santa Monica Hospital in 1995.

Most hospitals are currently facing a variety of issues, such as: 1) increasing demand for services, 2) a shortage of nurses, resulting in a sharp increase in labor costs, 3) rising costs of pharmaceuticals and medical supplies, and 4) compliance with government regulations, i.e., AB 394 which established licensed nurse to patient ratio requirements, effective January 1, 2004. In spite of these economic issues, the UC medical centers must generate sufficient funds to meet their teaching mission and be able to provide funds to their Schools of Medicine. Therefore, financial viability of UC medical centers depends upon dedicated and sustained funding to support medical education and care for the poor, as well as payment strategies that recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment, and invest in infrastructure and program expansion. Another major concern about fiscal viability is compliance with SB 1953, the Hospital Seismic Safety Act, which requires acute care hospitals to ensure that their facilities can maintain uninterrupted operations following a major earthquake. The medical centers will have to expend hundreds of millions of dollars to comply with SB 1953. State lease revenue bond funds will provide \$600 million, with the balance of the funding coming from medical center reserves, gifts, debt and FEMA funds at UCLA Medical Center.

A recent issue facing the UC medical centers and other hospitals in California is the states' proposal for restructuring the financing for Disproportionate Share Hospitals by replacing the current inter-governmental transfers with certified public expenditure, effective July 1, 2005. Current supplemental Medi-Cal funds, i.e., SB 855, SB 1255 and Medical Education, would be incorporated into the certified public expenditure proposal. The University is working with the State Department of Health Services to ensure that funding under the new proposal not be less than what could be received in the future under the current arrangement.

The remainder of this chapter reviews the major sources of funding for patient care, teaching and indigent care, as well as considers changes in

the financing and delivery of health care that have occurred over the past decade, and examines the challenges that lie ahead.

## **Funding for Patient Care**

The University's medical centers are paid for services provided to patients. The major source of patient revenue is government-sponsored health care programs, i.e., Medicare, Medi-Cal and the County Health Indigent Program (CHIP). Non-government sources of funds are commercial insurance companies (i.e., managed care contracts and private insurance) and self-pay patients. Several government-sponsored programs provide supplemental payments to the UC medical centers in recognition of their teaching mission and because they provide a disproportionate share of care to the state's indigent population. Non-government insurance programs do not recognize the costs associated with teaching and treating the indigent.

### ***Government Sponsored Programs***

**Medicare.** The federal Medicare program (Title XVIII of the Social Security Act) is a third-party payor managed by the Social Security Administration that underwrites the medical costs of persons 65 years of age and older, and persons under 65 who are disabled or have end-stage renal disease. Medicare reimburses hospitals for inpatient care on a prospectively determined rate per discharge. These rates vary according to a patient classification system (Diagnosis Related Groups – DRGs) that is based on clinical, diagnostic and other factors. Outpatient services are reimbursed under a prospective payment system (Ambulatory Payment Classification – APC). Medicare reimbursement includes payments for direct and indirect cost for graduate medical education, disproportionate share of indigent patients, certain capital costs, and outlier payments for cases with unusually high costs of care.

In 2003-04, the number of Medicare days were 212,653, representing 26% of total patient days. The Medicare program generated \$790.3 million of net operating revenue, accounting for 23.5% of the total net patient revenue of the UC medical centers. The Medicare population is an important segment of the patient mix seen at UC medical centers. Aging of the population is probably the most important of the demographic factors that will increase health care demand in coming years. The “baby boom” is just entering the 55-65 age group with concomitant sharp increases in utilization of health

services, in particular diagnostics and procedures, (for example, coronary artery bypass surgery and hip replacements).

Because of increasing demands and higher costs, the federal government has been taking steps to slow the growth of Medicare reimbursement. Support of graduate medical education through the Medicare program has come under fire in recent years, thus diminishing financial support for teaching programs.

**Medi-Cal.** Medicaid, known as Medi-Cal in California, is a State-administered 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 2003-04, the number of Medi-Cal days was 189,439, representing 23.9% of total patient days. The Medi-Cal program generated \$574.6 million of net patient revenue, accounting for approximately 17.1% of the total net patient revenue of the UC medical centers.

**Supplemental Medi-Cal Payments.** California has a long history of keeping Medi-Cal provider rates low. The state ranks 51st nationwide in total Medi-Cal expenditures per beneficiary. Hospitals that contract with

the State to provide inpatient services to Medi-Cal beneficiaries have received no or minimal increases in their base rate for a number of years.

In addition to the prospectively determined negotiated per-diem rates paid under the Medi-Cal Selective Provider Contracting Program, supplemental Medi-Cal payments are provided to hospitals that provide a disproportionate share of care to Medi-Cal and low-income patients. In lieu of State increases to a hospital's base rate, SB 1255 and SB 855 funds, described below, are provided to disproportionate share hospitals.

- **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 distribution amounts result from negotiations between the University and CMAC.

From June 1990 to June 2004, the University received about \$379.1 million in new federal funds from this program. In 2003-04, the University's eligible medical centers (Davis, Irvine and San Diego) received \$47.6 million of SB 1255 funds, accounting for 2.9% of their total net patient revenue and 12.1% of their total net Medi-Cal patient revenue. 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, the review of federal waiver of the Medi-Cal Selective Provider Contracting Program, and government (state and federal) proposals to reform the Medicaid program. Elimination of the SB 1255 program would mean the loss of about \$48 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 2003-04, the University received approximately \$68 million in SB 855 funds, accounting for about 4.1% of the total net patient revenue and 17.3% of total net Medi-Cal patient

revenue at the Davis, Irvine and San Diego Medical Centers. From 1991-92 through 2003-04, the University received about \$689 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 based on the previous year's data regarding the number of Medi-Cal days and the percentage of other low-income beneficiaries served, 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. 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 funds are factored into 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 of SB 855 funds 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. California and the UC medical centers lost more Medicaid disproportionate share (DSH) funds in October 2002 when more federal cuts to the Medicaid program, referred to as the "DSH Cliff", were implemented.

Another supplemental payment received from Medi-Cal, the Medi-Cal Graduate Medical Education Program, is discussed later in this chapter under the heading "Funding for Teaching".

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 Governor's increase in the administrative fee for the SB 855 program from \$25 million to \$85 million.

**Funding from Counties.** Counties in the State of California reimburse hospitals for certain indigent patients covered under the county contract. The Davis, Irvine and San Diego Medical Centers, former county hospitals, currently have contracts with their respective counties to provide care to the uninsured.

Counties use local tax dollars from their general fund to subsidize health care for the indigent. Some spending is required in order to receive the state matching funds, but many counties appropriate additional discretionary funds to cover the costs of serving the uninsured. However, a decade of property tax shifts has severely constrained the ability of local governments to adequately fund health care services to the uninsured. Although there have been measures enacted to mitigate the impacts, i.e., Tobacco Tax (Proposition 99), these efforts have not provided full relief.

**Tobacco Tax Funds.** In November 1988, voters approved Proposition 99, the Tobacco Tax and Health Protection Act, which imposed an additional tax on cigarettes and other tobacco products. The proceeds are allocated to six separate accounts for activities designed to meet the stated goals of the proposition, including indigent care, the prevention and cessation of tobacco use, and the prevention and treatment of tobacco-related diseases. In 1989, the State approved a plan (AB 75) specifying how Proposition 99 funds were to be distributed. Funds from the "Hospital Services and Unallocated Accounts", which are distributed to the counties, are available for payment to public and private hospitals for treatment of patients who cannot afford to pay and for whom payment will not be made through private coverage or by any program funded in whole or in part by the federal government.

In 2003-04, the University medical centers received a total of \$2.1 million in Proposition 99 funds as compared to \$14.6 million in 1989-90. The amount of Proposition 99 funds in 2004-05 is projected to decrease to \$1.1 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.

### ***Non-Government Sponsors***

Commercial or private insurance companies reimburse hospitals for reasonable and customary charges. These commercial plans are often referred to as fee-for-service or cost-based reimbursement. Although this type of insurance provides the best coverage for its beneficiaries with the greatest flexibility in choosing a doctor, it is falling out of favor because of exorbitant premiums.

Managed care contracts such as those with Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) reimburse hospitals at contracted or per-diem rates, which are usually less than full charges.

Capitated contracts with health plans reimburse hospitals on a per-member-per-month basis, whether or not services are actually rendered. Hospitals take on a certain amount of financial risk as the contract requires hospitals to treat a patient for all covered services.

As noted earlier, non-government sponsors do not provide funding specifically for medical education.

## **Changes in Health Care Financing**

Rising health care costs in the 1980s, demographic changes, and changing economic conditions caused the State, the Congress, and the private sector to initiate fundamental changes in the financing of health care services.

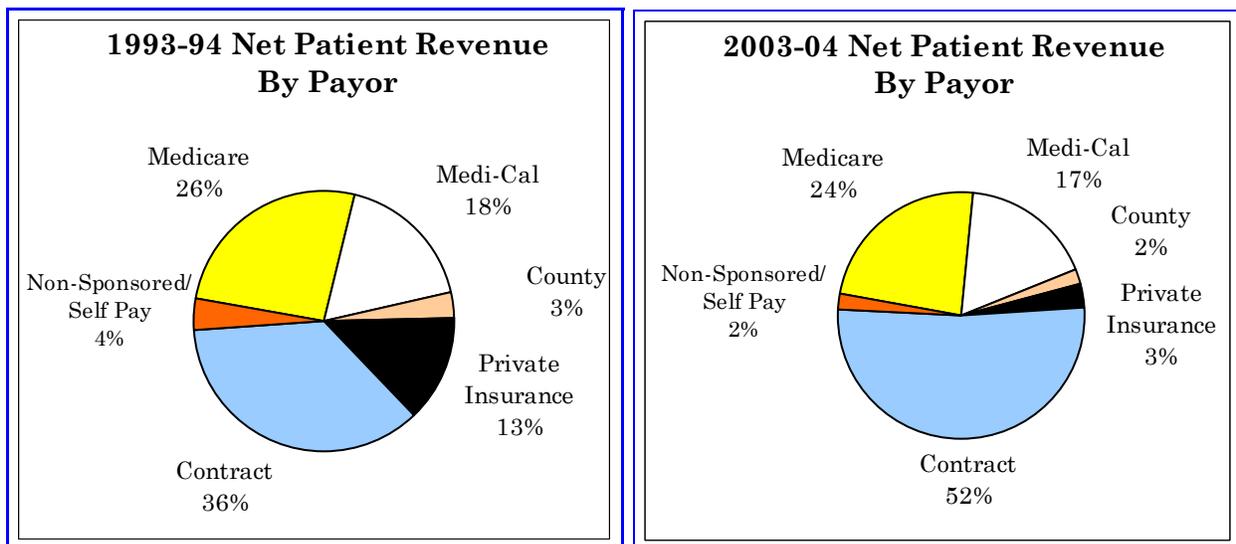
The traditional fee-for-service reimbursement system has been almost completely replaced by competitively established fixed-price payments (i.e., capitated, per-diem, or global rates by diagnosis). As a result, costs unique to academic settings (e.g., treating sicker patients, providing services to a

disproportionate number of uninsured or under-insured patients, and providing medical education in a clinical setting) are not fully reimbursed.

In addition, the loss of fee-for-service or cost-based reimbursement in the private sector has eliminated the opportunity to cover some of these costs through cross-subsidization.

Over a ten-year period, 1993-94 through 2003-04, the percentage of net patient revenue from patients covered by fee-for-service (i.e., private payors) decreased from 13% to 3%, while net patient revenue from patients covered by contractual or capitated arrangements increased from 36% to 52%, as shown in Display 1.

Display 1



Changes in health care financing that have negatively affected the medical centers began in 1982. Reforms of the State Medi-Cal program instituted selective hospital contracting for inpatient services at flat per-diem pricing, stricter eligibility requirements, and the transfer of responsibility for the medically indigent adults (MIAs) from the State to the counties (funding for the MIAs was provided at less than the 70% of projected State expenditures for the base year 1982-83). The transfer of the MIA patients directly affected the three former county hospitals—Davis, Irvine, and San Diego—because the local tax dollars used to subsidize hospitals operated by local government were not available to University-operated medical centers. Also in 1982, legislation provided private health care insurers with the same ability as the State to contract selectively with health care providers on behalf of their 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. In 2000, outpatient care provided to Medicare patients was changed from cost-based reimbursement to a prospective payment system, which uses the ambulatory payment classification system.

In the early 1990s, DHS was given authority to hasten the transition of Medi-Cal from a fee-for-service to a managed care system for approximately 2.5 million Aid to Families with Dependent Children beneficiaries. Under these managed care programs, the provider agrees to treat Medi-Cal enrollees for a fixed rate-per-member-per-month. The provider is therefore at risk and is liable for any expenses incurred beyond the monthly capitation payments. The University's medical centers are at increased financial risk for managing the care of patients covered under these programs. The type and the size of the Medi-Cal managed care programs vary among counties.

### ***Special Subsidies for the Three Former County Hospitals***

The 1985 Budget Act authorized the Legislative Analyst to contract for a study of the effectiveness of the management of the three former county hospitals operated by the Davis, Irvine, and San Diego Medical Centers. In April 1986, the consultant reported that management of the three hospitals was effective and that their operating losses were fundamentally attributable to the environment in which they operate. The consultant also emphasized that the fiscal survival of these hospitals would depend upon a State-funded operating subsidy to help cover their significant volume of uncompensated and under-compensated patient care. As a result, in 1985-86, the State provided \$86 million to fund cost-saving and revenue-enhancing capital outlay projects and equipment purchases, and \$28.6 million to mitigate operating losses. The UC Irvine Medical Center received all of the \$28.6 million operating subsidy because it was the only UC medical center that incurred losses prior to receiving the subsidy.

### ***Meeting the State and University Budget Shortfalls***

In the early 1990s, in recognition of the fact that the State provided more than \$80 million of assistance by funding needed capital improvements at the three former county hospitals during the 1980s, the University and the State turned to the medical centers to help alleviate some of the University's

budgetary problems. At that time, the University was experiencing unprecedented cuts in its operating budget and the academic medical centers were experiencing modest gains.

In 1992-93, the medical centers funded a \$43 million shortfall in the University's operating budget. In 1993-94 and 1994-95, the State redirected \$237 million in SB 855 transfer funds from all transferring entities when they would otherwise have been used to capture matching federal Medicaid dollars. This redirection of dollars by the State reduced the total amount of SB 855 funds available for distribution. In addition, the University's share of SB 855 funds was reduced by \$15 million on a one-time basis by the Legislature.

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

In 1994-95, the University and the State reached agreement to shift \$18 million of State support from the medical centers on a one-time basis to help meet needs in critically underfunded areas in the general operating budget, (i.e., libraries, instructional equipment, and deferred maintenance). The shift recognized actual and estimated operating gains at the medical centers during 1992-93 and 1993-94, which were above the 5% recommended by the Legislative Analyst and supported by the Legislature.

In response to this action, the University undertook a study to look at the medical centers' needs for working capital, capital outlay, and equipment, as well as maintaining a prudent reserve. The study concluded that future actions by the Legislature to limit the medical centers' ability to accumulate adequate reserves would make it even more difficult to compete in price-sensitive markets. Notwithstanding this finding, the 1995 State Budget Act redirected \$5.5 million, a portion of the medical centers' net gain above 5%, from CTS funds to help fund the University's deferred maintenance budget on a one-time basis. The medical centers only achieved a 2.8% operation margin in 1995-96, and the \$5.5 million of CTS funds were restored to the medical centers in 1996-97.

Beginning in 2001-02, the state entered into a financial crisis that led to dramatic cuts in State funding for the University over a four year period. Despite the continuing financial struggles they must face, the UC medical

centers were not totally exempt from a share of these cuts -- \$5.5 million reduction in CTS funds was included in the mid-year budget cuts in 2003-04.

## **Funding For Teaching**

Traditionally, funds supporting medical education in a clinical setting have been generated from patient care revenues. A number of significant changes in both the delivery of and payments for patient care have occurred that place these sources at risk. As noted earlier, as price has become a major factor in the medical centers' ability to compete, the medical centers have accepted negotiated rates that do not recognize medical education costs. This has occurred at the same time that patient care revenues have declined and through the Balanced Budget Act, the federal Medicare program has reduced reimbursement for indirect costs associated with medical education provided for graduate medical education. In addition, more care is being provided in ambulatory care centers for which the reimbursement rates do not recognize teaching costs. The following is a brief summary of the major sources of revenue that currently do support teaching.

### ***Graduate Medical Education Funds***

Medicare provides teaching hospitals with Graduate Medical Education (GME) payments to help pay for the direct medical costs (DME) of providing a medical education and for the direct programmatic costs allowable under Medicare, such as salary and benefits for full-time-equivalent residents.

Medicare Indirect Medical Education (IME) payments are provided to teaching hospitals for some of the indirect costs associated with medical education, such as the extra demands placed on the medical center staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents.

The combined DME and IME payments in 2003-04 were \$116.1 million, approximately 16.3% of Medicare reimbursement to the five medical centers.

### ***Clinical Teaching Support***

State General Funds, called Clinical Teaching Support (CTS), are appropriated to the University in recognition of the need to maintain a sufficiently large and diverse patient population at the medical centers

for teaching purposes. These funds are generally used to provide financial support for patients who are essential for the teaching program, but who are unable to pay the full cost of their care.

The 2003-04 budget included about \$54.6 million in CTS funds for the five UC medical centers. While CTS funds represent about 1.6% of the total operating revenue for the medical centers, they continue to be important to the quality of the clinical teaching programs and to the financial stability of the medical centers. CTS funds allow the medical centers to serve a diverse pool of patients in order to achieve their teaching mission. The State budget for 2001-02 provided a \$5 million one-time CTS augmentation, of which \$2 million was distributed among the five medical centers with the balance going to the neuropsychiatric hospitals and dental clinics. However, as noted earlier, in 2003-04, the State implemented a mid-year budget cut which reduced CTS funds to the medical centers by \$5.5 million.

### ***Medi-Cal Medical Education Funds***

In 1996-97, the Legislature adopted supplemental language asking the University to develop options for dealing with the costs of providing medical education in a clinical setting.

The University reviewed many alternatives, and successfully pursued an option to help fund graduate medical education costs through the Medi-Cal program by securing federal matching funds. In 1996-97, the University, working with the California Medical Assistance Commission (CMAC), the Department of Finance (DOF), and the Department of Health Services (DHS), developed a program specifically for the University's five medical centers that allowed the University to obtain an additional \$50 million in matching federal Medicaid funds to support educational costs incurred in the treatment of Medi-Cal inpatients.

The State approved legislation (SB 391) to continue the program through 1998-99 and to expand it by creating two supplemental payment funds that are financed through voluntary intergovernmental transfers and then matched with federal Medicaid funds. The supplemental payment funds are the Medi-Cal Medical Education Supplemental Payment Fund, and the Medi-Cal Large Teaching Emphasis Hospital and Children's Hospital Medical Education Supplemental Payment Fund. Medi-Cal contracting hospitals that meet the definition of the university teaching hospitals (e.g., UC medical centers) or major (non-university) teaching hospitals are eligible

to negotiate for funding from CMAC to cover the medical education costs associated with Medi-Cal inpatient care.

In 1997, the State approved legislation (SB 1130) which expressed legislative intent that the University take the lead in pursuing a more comprehensive approach to health professionals education funding and report to the Governor and Legislature regarding progress toward a long-term solution. The University submitted two progress reports, one in December 1998 and the other in March 2000. In January 2002, the University provided a report that proposed options for long-term funding of GME. In addition to the reports, the University has worked with CMAC, DHS, DOF, and other stakeholders to develop a proposal for long-term funding of graduate medical and health professions education.

In 1996-97, the University's five medical centers received \$50 million in new federal dollars through this program to help support medical education in a clinical setting. From the inception of this program in 1996-97 to 2001-02, the UC medical centers received \$399.3 million of new federal funds, an average of \$50 million per year. While these funds are critical for the teaching mission of the medical centers, the amount provided is insufficient to fund the total costs of medical education in an inpatient setting; and no funding is provided to cover costs in an outpatient setting. This program was scheduled to sunset on June 30, 2000. Working with the Legislature and the Administration, the University secured adoption of a trailer bill to the 2000 State Budget that extended authorization for the program to June 30, 2002. In the State Budget Act of 2002, the Medi-Cal Medical Education program was extended for another two years to June 30, 2004. SB 1103, a trailer bill to the 2004-05 budget extended the Medi-Cal Medical Education program indefinitely.

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.

## ***Capital Funds for Medi-Cal Disproportionate Share Hospitals (SB 1732)***

The SB 1732 program, the Construction and Renovation Reimbursement Program, provides supplemental Medi-Cal reimbursement to disproportionate share hospitals for debt service costs (i.e., principal and interest) of approved capital construction. Both the Davis and San Diego Medical Centers received approval (Davis in 1998-99 and San Diego in 1999-00) from DHS for annual supplemental funding over the life of the debt service. In 2003-04, the Davis and San Diego Medical Centers received \$7.2 million and \$2 million, respectively. These funds are for the following projects: the Tower II, the Ambulatory Care Center, Inpatient Radiology Renovations, and the Central Plant at the Davis Medical Center, and Thornton Hospital at the San Diego Medical Center. UC Irvine, also a disproportionate share hospital, had no projects that qualified.

## **Current Issues**

### ***Medicare and Medicaid Budgets***

The 1997 BBA contained some of the most sweeping and significant changes to Medicare and Medicaid since the inception of these programs. These changes were expected to reduce Medicare spending by \$116 billion by 2002. Over the same time, federal Medicaid spending would have been reduced by \$10.4 billion.

The BBA proposed to reduce the IME factors from 7.7% in 1997 to 5.5% in 2002. This reduction was predicted to achieve \$4.2 billion in savings over five years. Another \$3.4 billion in savings over the same period would have been achieved through changes in DME payments. On average, the impact to the UC Medical Centers was estimated to range from \$6 million in 1997 to over \$20 million in 2002, for a total of \$70 million over five years.

The BBA was also expected to cut Medicaid spending by \$10.4 billion, primarily from reductions in payments for disproportionate share hospitals. These reductions would have greatly affected the UC medical centers because 17% of net patient revenue comes from Medi-Cal and about 25% of Medi-Cal payments UC medical centers receive comes from disproportionate share funds, (i.e., SB 855 and SB 1255 funds).

As a result of major efforts of the UC medical centers and other similarly affected health care providers, legislation passed in 1999 and 2000 delayed the implementation of the BBA cuts. On September 30, 2002 that legislation sunsetted and most of the reductions in Medicare reimbursement proposed by BBA were enacted. One such reduction proposed by the BBA reduced Medicaid DSH funding to states by 20%. This reduction to the Medicaid Disproportionate Share Hospital (DSH) program is referred to as the “DSH Cliff”. The impact to the three UC medical centers that are Medi-Cal disproportionate share hospitals will be about \$12.5 million, annually.

There are two additional federal actions which had significant impacts on the UC medical centers were: the Health Insurance Portability and Accountability Act (HIPAA) - Privacy Standards, and the Medicaid Upper Payment Limits.

The HIPAA privacy standards empower the patient to request, amend, and obtain certain information. This is of concern to the University because academic medical centers, given the many arenas in which they interact with protected health information, are more likely than their community hospital counterparts to be the subject of an extensive number of patient requests. The cost to comply with a potentially extraordinary number of requests is an unfunded mandate with significant financial consequences. Health care providers, including the UC medical centers, were required to comply with the “Privacy Rule” under HIPAA by April 2003.

In January 2002, the Health Care Financing Administration (HCFA), now called the Center for Medicare and Medicaid Services (CMS), finalized the regulation that revised Medicaid’s “Upper Payment Limit” rules, ending certain accounting techniques that allow states to inappropriately inflate their share of federal Medicaid matching funds. The new regulation became effective in April 2002. 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 was provided to the UC medical centers. For the UC medical centers, which were classified as state government owned hospitals, the change from 150% to 100% of cost was effective immediately in 2002-03 but the financial impact was minimal.

As stated earlier, both the federal and state governments are proposing changes that will reform the Medicaid program. These changes are expected to contain cost, maximize efficiencies, and replace the current intergovernmental transfers used to provide supplemental funding to disproportionate share hospitals with a mechanism called “certified public expenditures” (CPE). Under CPE, federal funds would be matched with unreimbursed costs incurred by hospitals for treating Medi-Cal and low income patients. As part of the proposed reform, the state Department of Health Services is proposing to shift Medi-Cal aged, blind and disabled (ABD) beneficiaries from the current fee-for-service system into managed care.

### ***Impacts of Managed Care***

Academic medical centers are profoundly affected by changes in the delivery and financing of health services. These changes are the direct or indirect result of an increase in the percentage of the population enrolling in “managed care plans” for health care coverage. When reimbursement was provided on a fee-for-service basis, the medical centers were able to generate the patient volume and dollars needed to support teaching and research. Patients were attracted to the cutting-edge quality of the specialized treatments for complicated health problems offered by academic medical centers.

Managed care seeks to reduce costs in two primary ways. First, managed care emphasizes prevention and primary care intervention in order to reduce the need for more costly hospitalization and specialist services later on. Primary care physicians serve as “gatekeepers,” coordinating care and controlling referrals to more costly specialized services, including inpatient care. Some services that have traditionally been provided on an inpatient basis are now provided in outpatient facilities as efforts are made to reduce costs. Improvements in procedures and new technologies will continue to allow more services to be performed in outpatient settings.

As a result of these trends, the UC medical centers have experienced a shift from inpatient to outpatient settings, a shift that threatens volume of patients seen in an inpatient setting and reduces revenues.

While there is pressure from accrediting bodies and other policy makers to shift the locus of medical training from inpatient to outpatient care sites, the costs of medical training in outpatient settings are generally higher than in inpatient settings. Further financial challenges have been created by this

change, given that medical education costs for outpatient services are not directly reimbursed by Medicare or Medi-Cal. The University is working with the State to identify the costs of medical education in outpatient settings, with the hope that this leads to adjustments in reimbursement by the State and federal governments. In 2002, the State approved legislation AB 915, the Public Hospital Outpatient Services Supplemental Reimbursement Program, which provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment, which was approved for implementation on September 12, 2003, covers only Medi-Cal fee-for-service outpatient services, beginning July 1, 2002. The supplemental payment is based on each eligible hospital's certified public expenditures (CPE), which are matched with federal Medicaid funds. The UC medical centers are anticipating \$30.5 million for the two years of covered services, i.e., July 1, 2002 through June 30, 2004.

The second way in which managed care seeks to control costs is by contracting with a network of preferred providers to deliver services at negotiated (discounted) rates and to assume risk for a defined population. To compete successfully for these contracts, physicians are joining with hospitals and other providers to form integrated delivery systems that provide the full range of care, from outpatient and lab services to inpatient and skilled nursing care. Integrated delivery systems offer a continuum of care and derive competitive advantages from economies of scale that can result in lower prices; data collection capabilities that can monitor outcomes over time, which can be an advantage in attracting patients; and convenience for insurers, who can negotiate with many doctors and multiple services as a group rather than on a one-on-one basis. Providers who remain outside these networks face a reduced market for their services, as more of the population uses managed health care on either a voluntary or mandatory basis.

As major purchasers of services on behalf of Medi-Cal and Medicare beneficiaries, the State and federal governments are encouraging the development of contractual arrangements with selected providers for these populations. Unless the negotiated rates recognize the legitimate costs incurred by academic medical centers and provide the necessary funding, the University's medical centers will not be able to recover full costs for providing the services.

## ***Seismic Safety and Other Capital Outlay Issues***

SB 1953, the Hospital Seismic Safety Act was enacted in late 1994. This legislation requires general acute-care inpatient hospitals to meet standards designed to prevent collapse in a major earthquake by 2008, even though the hospital may not remain operational after the earthquake. By 2030, hospitals would be required to meet higher building standards that would increase the probability of remaining operational following a major earthquake. No provisions for funding were included in the legislation.

Compliance with SB 1953 will affect the state's hospital industry and the delivery of health care, as well as the teaching and research activities conducted at the UC medical centers. The University estimates that costs to the teaching hospitals for compliance with SB 1953 through the year 2008 will be significant, at least \$600 million.

A trailer bill to the 2000 State Budget Act authorized the State Public Works Board (SPWB) to issue up to \$600 million in State lease revenue bonds for seismic correction of the University's acute care hospital facilities required by SB 1953. As with previous SPWB funding for other University projects since the mid-1980s, the asset for the financing will be either the new hospital facility or—if the project involves renovation of an existing facility where prior hospital debt poses a constraint—another acceptable existing facility will be designated as the asset for financing. If a new hospital building is involved and will serve as the asset for the bond, the site is leased to the SPWB by the University, the University signs agreements to act as agent for the SPWB in construction of the new facility, and then leases the completed facility from the SPWB for operation. If an existing facility serves as the asset (termed “asset transfer”), the existing facility will be leased to the SPWB, the University will act as SPWB agent for the alterations, and then will lease the resulting upgraded facility from the SPWB for operation. The SPWB retains ownership of the leased facility until full repayment of the State lease revenue bonds used for the project, after which ownership is returned to the University. Negotiations between the University and the Department of Finance will determine the repayment arrangements on the debt service.

In anticipation of the sale of the \$600 million of state lease revenue bonds, The Regents approved the following allocations at their meeting in November 2000: Davis - \$120 million, Irvine - \$235 million, Los Angeles - \$180 million, San Diego - \$40 million, and San Francisco - \$25 million.

In addition, the medical centers have other significant capital needs, such as upgrades necessary for programmatic changes, which cannot be addressed with the State's lease revenue bonds. Therefore, the UC medical centers will be required to use hospital reserves and conduct significant funding campaigns to supplement available funds. The Los Angeles Medical Center has significant funding provided from insurance and from the Federal Emergency Management Agency (FEMA) as a result of damage done by the Northridge earthquake in January 1994.

The 2000 Budget Act also provided \$25 million in one-time funds for medical center equipment in recognition of financial projections which indicated that the medical centers would not have a sufficient operating margin at the end of 1999-2000 to allow for normal capital and equipment costs. The State funds were used for equipment in 2000-01. As a condition for receiving these funds, the Legislature required the University to prepare a report that explained how the funds would be used and demonstrated that the funds did not supplant other funds that would have otherwise been used for equipment in 2000-01. Each medical center was allocated \$5 million. The required report was submitted in February 2001.

The 2000 Budget Act also provided \$50 million in State General Funds for infrastructure projects that were non-seismic capital improvements at the medical centers. This funding was appropriated in recognition of the millions of dollars required for improvement apart from the seismic problems to address deficiencies and remain competitive in today's managed care market. Needs include a broad range of high-priority projects, such as the upgrade of operating rooms, 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 following (all of which have been described in earlier sections of this chapter):

- 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 recent years will be available in the near or distant future.

The medical centers have adapted to the managed care environment by expanding their outpatient and primary care services to complement their existing inpatient services. This has enabled the centers to compete more successfully for commercial contracts, and to provide students with more exposure and training in primary care. The expanded primary care patient base has also resulted in more referrals to the University's own inpatient and specialty services.

The University's academic medical centers are also responding by reducing costs through restructuring and improved efficiencies. The centers are developing stronger links with other providers, especially community hospitals and physicians in larger networks.

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. 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.

Demand is driven in part by increased pressure from uninsured and under-funded patients who have few other options for health care in the region. UC Davis Medical Center is the dominant provider of indigent care in the Sacramento region. With only 13% of the total market share, but more than 43% of the indigent care, UC Davis Medical Center demonstrates a commitment to public service unequaled by any other hospital in the region.

Sacramento County, like others throughout the state, is experiencing significant budget shortfalls, which have led to cuts in County-sponsored health care. With county clinics cutting back their hours of operation and tightening their eligibility standards – and with fewer private physicians willing to provide care to unfunded patients – UC Davis is feeling the impact. Its already overcrowded emergency department is increasingly forced to go on diversion status, threatening the availability of emergency and trauma care for the entire region.

Sustaining the medical center's 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 that is designed to maintain a stable, if modest, bottom line.

Aligning limited resources with unmet community needs has required difficult decisions. As just one example: the elimination of the hospital's long-standing LifeFlight helicopter program. With helicopter transport now provided by numerous well-qualified private services, UC Davis must instead devote its resources to the expansion of unique pediatric and neonatal services that are not offered elsewhere.

With an emphasis on collaboration, UCDMC 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 UC Davis 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, the Veterans’ Administration, the USDA Western Human Nutrition Center, and many others, has strengthened UC Davis’ basic and applied research programs. As just one example, UC Davis Cancer Center has more than 200 scientists working on cancer research, one of the most robust clinical trial programs in the nation, and jointly-operated treatment centers with community hospitals in Merced and Marysville.

Another collaborative program – the M.I.N.D Institute (Medical Investigation of Neurodevelopment Disorders) – opened a unique facility at UCDCMC last year. The only one of its kind in the world, the center fosters collaboration among scientists, clinicians, educators, and parents of children with autism and other neurodevelopmental disorders, leading to unique approaches to understanding these vexing medical mysteries.

In a major initiative to improve both patient safety and operational efficiency, UC Davis Medical Center is investing in an electronic medical record system (EMR), with the implementation process well underway. The EMR is moving 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.

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*

During fiscal year 2004-05 UCI Medical Center will have the continuing challenge of generating the required operating income to fund capital equipment and facility improvements, support to the College of Medicine's education, research and clinical programs, and maintain at least the minimum level of cash reserves required to issue bonds for the new hospital construction project.

In 1998-99 the Medical Center and College of Medicine jointly created a five-year clinical services business plan to improve the financial health of both units. This plan required the recruitment of new faculty in key specialties such as oncology, neurosciences, cardiovascular disease, diabetes, digestive diseases, senior health, women's health, urology/minimally invasive surgery, trauma and burn. During the first three years of the plan, most of the faculty physicians have been recruited and the programs have met or exceeded their targeted performance.

Growth in patient volumes has resulted in intensive care units, medical surgical beds, and operating rooms that are running at or near capacity. While a new hospital is being constructed pursuant to SB 1953 - the Hospital Facilities Seismic Safety Act, as discussed below, a number of initiatives are underway to help manage this growth during the next four years until the new hospital building comes on line. Among these are a new fifteen bed 23-hour "short stay unit", a new eight bed emergency department extended evaluation unit, and the possible relocation of our rehabilitation service to an underutilized unit in our neuro-psychiatric hospital. The Medical Center is also working with Orange County and the locally managed Medi-Cal program to shift less acutely ill patients to community facilities which will free up capacity for more complex referral patients from throughout the region.

Another major focus for fiscal year 2004-05 will be the start of construction for UCI's replacement hospital, expected to be completed in 2009. This project grew out of the need to comply with new state seismic regulations and will replace the original county hospital building.

There are several major concerns that challenge the Medical Center's ability to generate operating funds. First, the State is in the midst of a major reform of the Medi-Cal program and the traditional disproportionate share program. As Orange County's major safety net hospital, UCI Medical Center will likely be impacted by these reforms. Other areas of concern include the continued

introduction of new high cost drugs and treatments that are not reimbursed by third party payors, and the unfunded legislated mandates to increase nurse staffing, particularly in a region with chronic nursing shortages.

Because Orange County has no county hospital, UCI continues to be challenged by the growth in under-funded and unfunded patients. UCI is working with a local coalition to address the county's problem of providing access for these patients throughout the county. The Medical Center and faculty will continue to provide more than UCI's proportionate share of care to the region's unfunded patients, but must limit the care to a level that allows for the strategic vision and research and educational missions to be met.

UCI is a remarkably transformed Medical Center from the early 1990s. Patient care activity has grown dramatically and the hospital is at or near capacity. In 2004, a leading national patient safety survey by the Leapfrog Group found UCI to be leading the way in California in adopting national patient safety practices. Patient satisfaction is improving and the community increasingly sees the UCI facility and the Medical Center as a high quality provider of specialized medical services. Employee morale is at an all time high, with all indicators for employee satisfaction scoring above the national average for health care services. In July 2003, UCI Medical Center became only the third hospital in the State of California to achieve "Magnet" designation for nursing excellence, a significant milestone to becoming Orange County's healthcare employer of choice. With these successes, the UCI Medical Center will continue to meet its mission and provide the College of Medicine with the ideal environment for education and clinical research.

### ***UCLA Medical Center***

The evolving and difficult southern California healthcare market remains a challenge to the UCLA Medical Center. Some of the major market challenges confronting the Medical center include the following:

1. *HMO dominance by a handful of major health plans.* In 2003, 55% of the 9.9 million Los Angeles County residents were enrolled in an HMO. When the County's uninsured residents are taken into consideration, HMO enrollment accounted for 70% of all insured county residents. Five health plans control 81% of the Los Angeles County market – Kaiser, Blue Cross (WellPoint), HealthNet, PacifiCare, and Blue Shield. Kaiser Foundation, the largest California commercial HMO,

has 1.5 million enrollees in Los Angeles County. It is vital for UCLA to maintain positive working relationships with these major payors. Because Kaiser has its own healthcare provider system, these potential patients do not have access to non-Kaiser providers like UCLA, unless through selected contracted services. WellPoint, which is owned by Blue Cross has a combined statewide HMO and PPO enrollment of nearly seven million enrollees, with nearly one million HMO enrollees in Los Angeles County alone. It is unclear what the impact on the UCLA Medical Center will be, if any, of WellPoint's pending sale to Indianapolis-based Anthem, Inc., which would establish the nation's largest for-profit managed care company.

2. *Shrinking acute care hospital and emergency room capacity.* Within the past fourteen months, six Los Angeles County hospitals have closed, most recently the oldest San Fernando Valley Hospital, Northridge Hospital Medical Center – Sherman Way Campus. The resulting hospital closures have not only reduced the County's acute care bed capacity, but also reduced emergency room capacity by 75,000 patients annually. The closing of these hospitals will burden the remaining Los Angeles County hospitals with additional demand for acute care stays and emergency room visits. For UCLA, this is problematic since its Westwood facility is running at capacity in both average daily census and emergency room utilization. Another concern that may impact both acute care bed capacity and emergency room access within UCLA's immediate service area is the operational restructuring by investor-owned Tenet Healthcare. In January 2004, Tenet Healthcare announced the sale of twenty-seven of its hospitals, including nineteen located in California. Of the nineteen in California, six are located in or adjacent to UCLA Medical Center's primary service area. Of these six, one has been sold to a surgical group corporation, which intends to re-open the facility for mainly surgical procedures. Three of the other Westside Tenet facilities have been sold to the current CEOs and physician investors, backed by a venture capital company. Buyers for the other Westside Tenet facilities have yet to be identified. It is unknown whether sellers will be found for these remaining Tenet facilities or whether the new owners of the former Tenet hospitals will be able to maintain financial viability over the long-term. In general, future hospital closures may be forthcoming as a result of financially-stressed facilities that are unable to meet the financial demands placed upon them to: 1) address the State's SB 1953 seismic building

requirements; and 2) meet the registered nurse-to-bed staffing ratios that have been recently mandated.

3. *Large uninsured population and a fragile Los Angeles County Health System.* UCLA Center of Health Policy Research estimated that 25.7%, or more than 2.1 million of Los Angeles County residents under the age of 65 were uninsured in 2001. Historically, most of this uninsured population has obtained care from the Los Angeles County health system, the provider of last resort. The County has been able to avoid collapse of its health system by: 1) successfully lobbying for the passage of Measure B, which contributes \$150 million annually to county and private trauma emergency room; 2) receiving \$150 million over a two-year period from the Bush administration; 3) converting of one of its acute care hospitals into an ambulatory clinic, and 4) closing of sixteen community clinics. However, despite these successes, the County will be facing another deficit scenario by 2008, and again will be in a financial crisis. Recently, the County has begun restricting the number of uninsured transfers from private hospitals, increasing the uncompensated care burden on non-County hospitals.

Despite these external challenges, the UCLA Medical Center continues to experience high acute care utilization and has managed to generate a positive bottom line during fiscal year 2003-04. In fiscal year 2003-2004, UCLA Medical Center reported a total average daily census (ADA) of 682 for the three hospitals, compared with an ADA of 701 for the prior fiscal year. The high census poses an internal challenge of successfully transitioning to the Westwood and Santa Monica replacement hospitals, new facilities being constructed as a result of damage to the existing facility in the 1994 Northridge earthquake. These facilities are slated to open in the spring of 2005 (Westwood) and the fall of 2006 (Santa Monica). Both new facilities have smaller bed complements, which will barely handle UCLA Medical Center's current average daily census. Matters are further complicated because the completion and opening of the replacement hospitals will be in tandem. Another major challenge will be to ensure that patient quality and service are maintained as certain Westwood clinical programs are relocated to the Santa Monica campus. During 2004-05 the UCLA Medical Center will again be faced with generating sufficient funds to continue implementation of these building programs at the Westwood and Santa Monica campuses, while continuing to provide support to its school of medicine.

For the 15<sup>th</sup> consecutive year UCLA Medical Center – Westwood was identified as one of the top hospitals in the United States by the *U.S. News and World Report*. In 2004, UCLA was ranked number five in the nation, and excelling in fourteen specialties.

On another positive note, UCLA Medical Center – Westwood underwent its tri-annual accreditation survey by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) this past spring. The Westwood campus facility received the equivalent of a perfect score, with no Type I recommendations – a very rare event.

During the upcoming 2004-05 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 on efforts to reduce out-of-network costs and other significant controllable costs (e.g., prostheses, pharmaceuticals, and other supply expenses), increase work productivity, maintain or enhance current payor mix, 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***

The UCSD Medical Center's two site strategy, initiated in the early 1990's with the opening of the Thornton hospital, has generated increased patient volumes at both sites, provided a more favorable payor mix, and contributed to a profit margin exceeding its 6% target for the past seven years. Maintaining a healthy margin is key to UCSD achieving its missions of teaching, research, patient care, and community service. UCSD continues to face the challenges of maximizing revenue, managing costs, and funding its facilities needs to serve the needs of its patient population.

Revenue maximizing strategies focus on contracting efforts to obtain general price increases, retain stop-loss provisions, and provide for reimbursement of costs for implants while charge-master review has ensured that UCSD's charges for services are competitive. In addition, during fiscal year 2003-04 UCSD initiated a performance improvement project to ensure complete documentation of clinical conditions to more accurately reflect the complexity of its inpatients and the care provided. These efforts have contributed to steady growth in patient service revenues. In addition, UCSD management continues to be actively involved in efforts to maintain funding for its indigent care and teaching programs.

Challenges to managing costs include the nursing shortage, passage of AB 394 which established licensed nurse-to-patient ratio requirements, increasing costs for employee healthcare and workers' compensation, continued inflation of costs for medical supplies and pharmaceuticals, and the increased usage of high cost implants and chemotherapy drugs. UCSD, with the assistance of outside consultants, is currently undertaking a supply chain management initiative targeted at identifying opportunities to improve the contracting, ordering, delivery, and utilization of medical materials and supplies throughout the organization, with the expectation that significant cost savings will be realized. In addition, to improve operating efficiency and patient safety, UCSD has launched a major initiative to implement an electronic medical record (EMR), beginning with its ambulatory care services. The project will move UCSD to a paperless medical record where a patient's medical record, including results of tests and procedures, are available to care givers electronically. The EMR will be operational at several sites by the end of fiscal year 2004-05 and fully implemented in all ambulatory settings by mid-2006-07.

Maintaining a strong cash position and preserving UCSD's bond rating are critical to the overall success of its operating and capital strategies. Generating sufficient margin and debt capacity to fund facilities needs continues to be a high priority as UCSD seeks to meet the seismic safety and infrastructure needs of its primary teaching facility in Hillcrest, address the capacity needs at the Thornton Hospital, and consolidate nearly all of the outpatient clinical activity of its oncology program with the research activities of the School of Medicine into the new John and Rebecca Moores Cancer Center on the La Jolla campus, projected to open in Spring 2005.

In an effort to relieve the immediate capacity pressures at the Thornton Hospital, grow patient volumes, remain competitive in the region, and serve

the needs of the growing and aging population in San Diego County, UCSD is doing preliminary planning for an expansion of Thornton Hospital and construction of a contiguous cardiovascular center. The proposed expansion of Thornton Hospital will add ICU beds, procedure and operating rooms, and expand the Emergency Department. The proposed cardiovascular center will consolidate and expand cardiovascular services.

The financial success of the UCSD Medical Center and its future ability to fund its programmatic and facilities needs has been achieved through management's commitment to these strategic initiatives combined with its ongoing efforts to maximize revenue and manage costs.

### ***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 tied for 6th in the nation, up from 7th in 2003 and 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, rheumatology and cancer. UCSF Medical School and Medical Center also rank among the top 20 programs in pediatrics, ophthalmology, kidney disease, geriatrics, psychiatry, orthopedics, gynecology, urology and ear, nose and throat.

Patient activity continues to grow. Inpatient occupancy is over 80% and the acuity (case mix index) of the patients seen is among the highest in the University of California system. During fiscal 2003-04, the Medical Center admitted 25,931 patients, recording 162,034 patient days. Outpatient activity is also growing, with over 696,000 visits.

For fiscal year 2003-04, the UCSF Medical Center reported net income in excess of \$50 million, well ahead of budget and better than the previous year's results. In addition, cash increased \$29 million during the year after having increased \$36 million the previous year.

The Medical Center has 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 expanding surgical services in neurosciences, cardiovascular, and transplant areas.

The Mothers' and Children's Hospital will also continue to be a focus for UCSF, with an expanded marketing plan, attainment of California Children's Services certification, and increasing referrals for tertiary business. UCSF plans to further enhance the patient satisfaction/customer service program by establishing department-specific training and promoting "best practices" within the organization. Concierge and greeter programs have been implemented to assist patients and visitors.

Operating and financial performance improvements will include several revenue cycle initiatives, significant supply chain savings and improvements, and operational improvements in perioperative services. The Medical Center is also continuing to commit significant funds to the development of a Clinical Information System to be installed over the next four to six years.

The Workforce Development plan will address results of an employee satisfaction survey, reduce employee turnover, reduce workers' compensation loss days, 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. 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 2004-05. Fiscal year 2003-04 continued 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. These issues and concerns come during difficult economic times at all levels of government:

- compliance with SB 1953;
- increasing salary costs;
- the costs of compliance with HIPAA;
- proposals to reform the Medicaid program;
- cost of compliance with AB 394 (nurse staffing ratio);
- sustainable support for the schools of medicine;
- the high cost of medical supplies, especially pharmaceuticals; and
- terrorism preparedness.

# STUDENT FEES

## Overview

There are two mandatory systemwide fees currently assessed to all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support a share of the University's operating costs, including instruction-related costs, student financial aid, and student services programs. All students also must pay mandatory campus fees, called miscellaneous campus fees, which cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government, and construction, renovation, and repair of sports and recreational facilities. In addition to all mandatory systemwide and campus fees, some students pay other fees as follows:

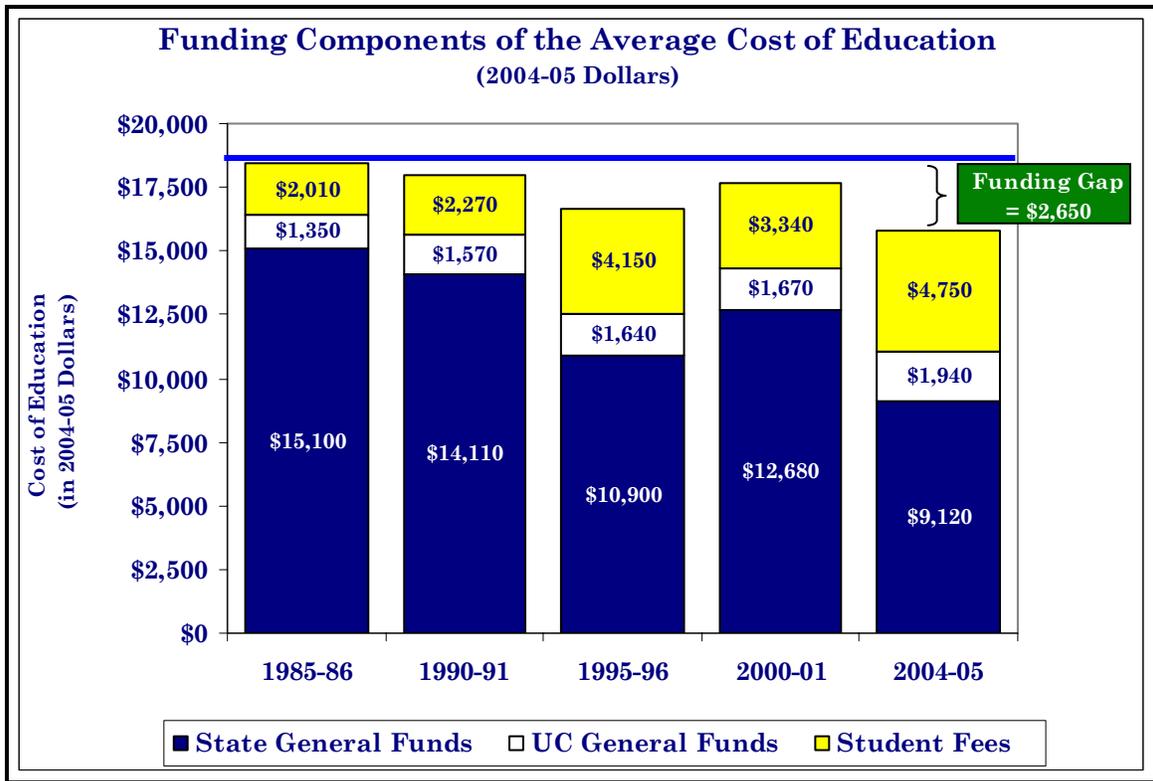
- All students seeking specified degrees in medicine, dentistry, veterinary medicine, law, business/management, pharmacy, optometry, nursing, and theater/film/television (at the Los Angeles campus only) are required to pay a professional school fee, as provided in Regental policy.
- Nonresident students must pay nonresident tuition as well as mandatory fees and any applicable professional school fees.

Historically, the State has heavily subsidized the cost of education, but in recent years, the State share has declined while the share paid by students has increased significantly. Display 1 (next page) shows the funding components of the average cost of a UC education from 1985-86 through 2004-05 (in 2004-05 dollars).

Display 1 makes several points. First, contrary to recent news coverage nationally about the skyrocketing costs in higher education, the average expenditure for a UC education has declined. In 1985-86, the cost to educate a UC student was approximately \$18,460 in 2004-05 dollars. Over 19 years, funding per student in inflation-adjusted dollars declined by 14.4%, from \$18,460 in 1985-86 to \$15,810 in 2004-05, resulting in a funding gap of \$2,650 per student. Second, the State's subsidy toward that cost has declined significantly—by 40% over the 19-year period. In 1985-86,

the State contributed \$15,100 per student—82% of the total cost. By 2004-05, the State share declined to \$9,120, just 58%. Third, as the State subsidy has declined, the price students must pay has tended to rise. This happened in the early 1990s and is happening now. While in 1985-86 students contributed 11% toward their educations, they currently pay 30% of the cost of their educations. Under better circumstances, if the State subsidy had not declined, student fees would have remained low. While fees have increased, the University has provided significant increases in financial aid to help ensure access for low income students. A detailed discussion regarding changes in student fees over time is found in the next section of this chapter, titled, “History of Student Fees.”

Display 1



Even with the increases in mandatory systemwide fees approved by The Regents, the University’s average fees for undergraduate resident students (excluding health insurance fees) are \$1,029 less than the average fees charged at the University’s four public salary comparison institutions, as shown in Display 2. In addition, University fees for resident graduate students continue to be well below (\$2,210) the average fees charged at the University’s four public salary comparison institutions.

Display 2

<b>University of California and Public Salary Comparison Institutions Student Fees</b>				
<b>Public Salary Comparison Institutions 2004-05 Fees</b>	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
University of Illinois	\$ 7,944	\$ 20,864	\$ 8,310	\$ 20,310
University of Michigan	\$ 8,722	\$ 26,941	\$ 13,585	\$ 27,311
State University of New York	\$ 5,907	\$ 12,167	\$ 9,455	\$ 13,265
University of Virginia	\$ 6,790	\$ 22,890	\$ 9,200	\$ 20,200
2004-05 Average Fees of Comparison Institutions	\$ 7,341	\$ 20,716	\$ 10,138	\$ 20,272
<i>2004-05 Average UC Fees</i>	<i>\$ 6,312</i>	<i>\$ 23,268</i>	<i>\$ 7,928</i>	<i>\$ 22,867</i>
<b><i>2005-06 Estimated Average Fees for Public Salary Comparison Institutions</i></b>	<b>7,781</b>	<b>21,958</b>	<b>10,847</b>	<b>21,082</b>
<b><i>2005-06 Estimated Average UC Fees assuming increases in systemwide fees consistent with the Compact*</i></b>	<b><i>\$ 6,769</i></b>	<b><i>\$ 24,589</i></b>	<b><i>\$ 8,556</i></b>	<b><i>\$ 23,517</i></b>

\*Increases of 8% for undergraduate students and 10% for graduate students in systemwide fees; and 5% in nonresident tuition for undergraduates.

However, the comparisons for nonresident students are a different matter. In the past, the University's fees were among the lowest charges, for both nonresident undergraduate and graduate students, of any of the University's public comparison institutions. With the increases in mandatory systemwide fees and nonresident tuition approved by The Regents for 2004-05, the University's fees for nonresident undergraduate and graduate students are now more than \$2,500 higher than the average fees for the comparison institutions. As a result, the University's tuition and fees for nonresident students now rank second highest among these institutions behind the University of Michigan.

### 2004-05 Budget Plan—Student Fees

Consistent with the Compact Agreement with the Governor, it is proposed that mandatory systemwide fees be increased by 8% for undergraduate students and 10% for graduate students. In addition, it is proposed that professional school fees be increased to cover cost increases in programs

funded from professional school fee revenue by 3%, the same cost adjustment factor used for 2005-06 to determine the base budget adjustment for State General Funds under the Compact. It is also proposed that campuses continue to have a defined level of discretion to increase professional school fees above the fee increases approved by The Regents to ensure that program quality can be maintained and to provide additional funds for financial aid. Finally, it is proposed that the Nonresident Tuition Fee be increased for undergraduate students only by 5% in 2005-06, raising the nonresident tuition level from \$16,476 to \$17,304. Nonresident tuition would remain at \$14,694 for graduate academic students and \$12,245 for professional students. Taken together with mandatory systemwide fees and campus fees, total nonresident student charges in 2005-06 are estimated to be \$24,589 for undergraduate students and \$23,517 for graduate academic students.

The fee increases associated with the budget plan for 2005-06 are summarized below:

- Increases in the Educational Fee as follows:
  - \$435 for resident undergraduate students, increasing the fee from \$4,971 to \$5,406
  - \$471 for nonresident undergraduate students, increasing the fee from \$5,451 to 5,922
  - \$606 for resident graduate academic students, increasing the fee from \$5,556 to \$6,162
  - \$628 for nonresident graduate academic students, raising the fee from \$5,801 to \$6,429
  - \$606 for all professional students, raising the fee from \$4,751 to \$5,357
- \$22 in the University Registration Fee, increasing the fee from \$713 to \$735. (When combined with the increases in the Educational Fee, the total increase in mandatory systemwide fees is 8% for undergraduate students and 10% for graduate students.)
- \$828 (5%) in the Nonresident Tuition Fee for undergraduate students only, raising the fee from \$16,476 to \$17,304.
- 3% increases in professional school fee ranging from \$88 in Nursing to \$416 in Business.

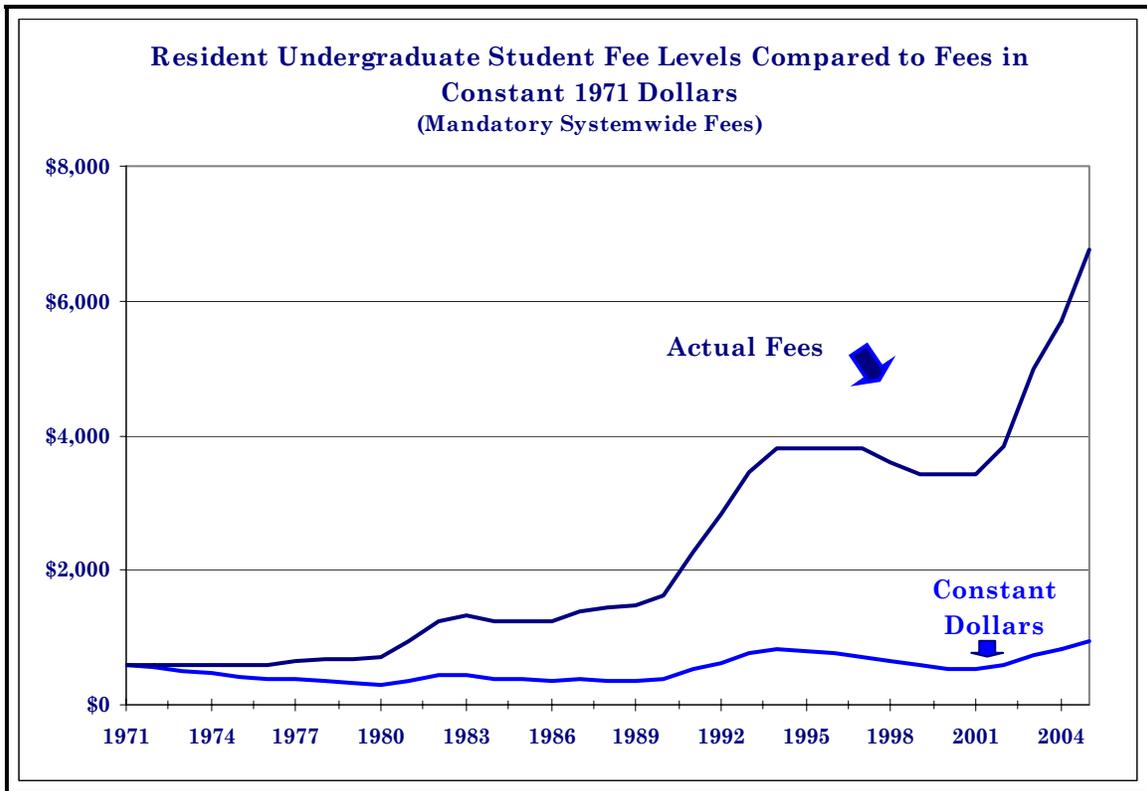
The new Compact with the Governor provides that an amount equivalent to no less than 20% and no more than 33% of the revenue generated from student fee increases is to be used to provide aid to needy undergraduate students who qualify for financial aid, based on the federal methodology for determining need. Consistent with the University's past practice of setting aside a portion of the revenue generated by the fee increase to mitigate the impact of the fee increase on financially needy students, it is proposed that, for 2005-06, an amount equivalent to 25% of the new fee revenue from the undergraduate fee increases be used for financial aid for needy students, and an amount equivalent to 50% of the new fee revenue generated from graduate academic students be used for financial aid purposes. Financial aid from increases in fees for professional students is discussed in the section on Fees for Selected Professional School Students, which begins on page 244 of this chapter).

In addition to showing comparisons for 2004-05, Display 2, previously shown on page 233, compares proposed UC fee levels with the projected average of the comparison institutions for 2005-06. UC fees are estimated to be below the tuition and fees charged at the University's four public comparison institutions by about \$1,000 for resident undergraduates and nearly \$2,300 for resident graduate students in 2005-06. When the proposed increases in tuition and fees for nonresident students are taken into account, it is anticipated that tuition and fees for nonresident undergraduates would be about \$2,600 more than the projected average of tuition and fees at the comparison institutions while tuition and fees for nonresident graduate students would be about \$2,400 higher than the average charges at the comparison institutions.

From 1995-96 to 2001-02, the State provided additional funding to the University to avoid increases in mandatory student fees during those years. In addition, the State provided funding to reduce mandatory systemwide fees by 10% for resident undergraduate students and 5% for resident graduate students. Instead, if the University had adjusted mandatory systemwide fees by 4% annually since 1995-96, total undergraduate fees would be \$6,476—about \$290 less than the estimated actual of \$6,769 for 2005-06—and about \$1,300 less than the estimated average of total tuition and fees (\$7,781) at the comparison institutions.

The history of student fees is shown in the top line of Display 3. The wide fluctuation in student fees tracks fairly closely with changes in the State's economy. In good years, fees were held steady or were reduced. In years of fiscal crisis, student fees increased dramatically. The display also shows that fee levels, when adjusted to reflect 1971-72 constant dollars, are about the same as they were in 1994-95; overall, they have increased from approximately \$500 to \$1,000 over the 34-year period.

**Display 3**



### History of Student Fees

Display 4 shows fee levels for resident undergraduate and graduate students from 1978-79 through 2005-06 as proposed in the budget plan.

In the early 1980s, fees increased by \$596 from \$719 in 1980-81 to \$1,315 in 1983-84 to offset losses in State funds. However, in 1984-85, as the State's economic situation began to improve, student fees were lowered by \$70; after that, fees were frozen through 1986-87. Fees increased moderately over the next three years, until the onset of the State's fiscal crisis in the early 1990s

Display 4

UNIVERSITY OF CALIFORNIA STUDENT FEE LEVELS 1978-79 to 2005-06													
Average Annual Fees per Resident Undergraduate Student						Average Annual Fees per Resident Graduate Student							
Reg. Fee	Ed. Fee	Total Fee	Ed/Reg Fees Combined			Misc. Fees (a)	Total Fees *	Reg. Fee	Ed. Fee	Total Fee	Ed/Reg Fees Combined		
			Total	% Change	%						Total	% Change	%
\$ 371	\$ 300	\$ 671	\$ 49			\$ 49	\$371	\$ 360	\$ 731	\$ 38			
1978-79													
1979-80	385	300	685	(2.1%)	51	51	385	360	745	(2.1%)	39	784	
1980-81	419	300	719	(5.0%)	57	57	419	360	779	(5.0%)	45	824	
1981-82	463	475	938	(30.5%)	60	60	463	535	998	(30.5%)	45	1,043	
1982-83	510	725	1,235	(31.7%)	65	65	510	785	1,295	(31.7%)	51	1,346	
1983-84	523	792	1,315	(6.5%)	72	72	523	852	1,375	(6.5%)	58	1,433	
1984-85	523	722	1,245	(-5.3%)	79	79	523	782	1,305	(-5.3%)	63	1,368	
1985-86	523	722	1,245	(0.0%)	81	81	523	782	1,305	(0.0%)	64	1,369	
1986-87	523	722	1,245	(0.0%)	100	100	523	782	1,305	(0.0%)	82	1,387	
1987-88	570	804	1,374	(10.4%)	118	118	570	804	1,374	(10.4%)	100	1,474	
1988-89	594	840	1,434	(4.4%)	120	120	594	840	1,434	(4.4%)	125	1,559	
1989-90	612	864	1,476	(2.9%)	158	158	612	864	1,476	(2.9%)	222	1,698	
1990-91	673	951	1,624	(10.0%)	196	196	673	951	1,624	(10.0%)	482	2,106	
1991-92	693	1,581	2,274	(40.0%)	212	212	693	1,581	2,274	(40.0%)	557	2,831	
1992-93	693	2,131	2,824	(24.2%)	220	220	693	2,131	2,824	(24.2%)	608	3,432	
1993-94	693	2,761	3,454	(22.3%)	273	273	693	2,761	3,454	(22.3%)	703	4,157	
1994-95	713	3,086	3,799	(10.0%)	312	312	713	3,086	3,799	(10.0%)	786	4,585	
1995-96	713	3,086	3,799	(0.0%)	340	340	713	3,086	3,799	(0.0%)	836	4,635	
1996-97	713	3,086	3,799	(0.0%)	367	367	713	3,086	3,799	(0.0%)	868	4,667	
1997-98	713	3,086	3,799	(0.0%)	413	413	713	3,086	3,799	(0.0%)	923	4,722	
1998-99	713	2,896	3,609	(-5.0%)	428	428	713	3,086	3,799	(0.0%)	839	4,638	
1999-2000	713	2,716	3,429	(-5.0%)	474	474	713	2,896	3,609	(-5.0%)	969	4,578	
2000-01	713	2,716	3,429	(0.0%)	535	535	713	2,896	3,609	(0.0%)	1,138	4,747	
2001-02	713	2,716	3,429	(0.0%)	430	430	713	2,896	3,609	(0.0%)	1,305	4,914	
2002-03 (g)	713	3,121	3,834	(11.8%)	453	453	713	3,301	4,014	(11.2%)	1,327	5,341	
2003-04	713	4,271	4,984	(30.0%)	546	546	713	4,506	5,219	(30.0%)	1,624	6,843	
2004-05	713	4,971	5,684	(14.0%)	628	628	713	5,556	6,269	(20.0%)	1,606	7,875	
<b>2005-06 (estimated)</b>	<b>735</b>	<b>5,406</b>	<b>6,141</b>	<b>(8.0%)</b>	<b>628</b>	<b>(d), (f)</b>	<b>735</b>	<b>6,162</b>	<b>6,897</b>	<b>(10.0%)</b>	<b>1,659</b>	<b>(d)</b>	<b>8,556</b>

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) From 1998-99 through 2000-01, Miscellaneous Student Fees included fee charged for undergraduate student health insurance established through student referendum at Berkeley and Santa Cruz.  
 (f) Does not include student health insurance fees which may be waived by demonstrating insurance coverage.  
 (g) Includes the full fee increase of \$405 approved in 2002-03. However, only 1/3 (\$135) of the increase was implemented in Spring 2003, with the full amount implemented in 2003-04.  
 \* Total fees are the sum of the Ed/Reg Fees combined and estimated campus miscellaneous fees, which are higher for graduate students.

when the State's severe fiscal difficulties resulted in a 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 affordability of a UC education.

### ***Student Fees 1995-96 through 2004-05***

In the 1995-96 Governor's Budget, the Wilson administration 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 reduce mandatory systemwide student fees by 5% for resident undergraduate students, consistent with AB 1318. This legislation, among its provisions, specified a two-year freeze on fees for California residents.

By 1999-2000, the Partnership Agreement with Governor Davis was in full effect. It recognized that fee-funded programs should receive cost increases similar to those provided to State-funded programs. Consequently, the Partnership Agreement called for increased 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, to be funded either through student fee increases or revenue from the State.

In 1999-2000, the State provided sufficient funds to avoid a 4.1% student fee increase and for the second consecutive year, to reduce mandatory systemwide fees by another 5% for resident undergraduates. With this fee reduction, undergraduate fees were lowered by a total of 10% over a two-year period. The State also provided sufficient funds to reduce fees for resident graduate academic students by 5%.

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 anticipated that the State would again provide funding to avoid fee increases in both mandatory systemwide student fees and in professional school fees. However, by 2002-03, the State's fiscal situation began to deteriorate markedly. The Budget Act adopted for 2002-03 included \$160 million in base budget cuts, although student fees were not increased at that point. However, by December of that year, the continuing deterioration of the State's fiscal situation necessitated additional mid-year cuts of \$70.9 million for the University. To offset \$19 million of the mid-year cuts that otherwise would have been targeted at instruction, The Regents adopted a mandatory systemwide fee increase of \$135 for all students, effective Spring term 2003 which, when calculated over a full year, was equal to \$405; professional fees were increased as well.

Unfortunately, the State's fiscal condition continued to worsen, and the final Budget Act for 2003-04 included additional base budget cuts of over \$400 million for the University. To offset a portion of cuts that otherwise would have been targeted at instructional programs, mandatory systemwide

fees were increased by 30%, or a total of \$1,150 for resident undergraduates; for graduate, professional, and nonresident students the increase was slightly higher. Professional school fees also increased by 30%.

In May 2004, the University negotiated a new Compact with Governor Schwarzenegger. The new Compact includes an agreement about student fee increases over its six-year term. The Compact assumed that student fees would increase in 2004-05 by 14% for undergraduates and 20% for graduate students, with 20% of new fee revenue to be used for student financial aid. For the next two years, 2005-06 and 2006-07, undergraduate fees are expected to increase by 8% per year and graduate student fees by 10% per year. At the end of the three-year period, fees for undergraduates will have averaged 10% per year. For the period after 2006-07, the Administration has proposed a long-term student fee policy that calls for increases in student fees based on the annual increase in California per capita personal income. However, in years in which The Regents determine that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, UC may decide, after consultation with the Governor, that fee increases of up to 10% are necessary to provide sufficient funding for programs and preserve quality. This fee policy is contingent on the provision of resources for the basic budget at the level called for in the Compact, and it assumes that revenue from student fees will remain with the University, rather than being used as an offset to reductions in State support.

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

As fees have increased over time, the percentage of additional fee income dedicated to financial aid also has increased from 16% sixteen years ago to 33% from 1993-94 to 2003-04. In 2004-05, the proportion of additional fee revenue dedicated to financial aid was limited in the final State budget package to 20%. In addition to fee revenue, other sources help cover fee increases and meet other costs, including funds provided from Cal Grants,

the Federal government, and private sources. Funding for financial aid from grants and scholarships is expected to exceed \$1 billion in 2004-05. The *Student Financial Aid* chapter of this document provides a full discussion of financial aid, including State, federal, private, and University sources.

## **Policy on Adjustment of Student Fee Levels**

In 1985, the State adopted a long-term student fee policy which provided for gradual and moderate fee increases and established guidelines for fee increase calculations, financial aid, notification to students of fee increases, and consultation with students. In addition, the policy provided for fee increases of up to 10% when expenditures were projected to exceed available State revenues. Although The Regents adopted the policy in 1985, it was routinely suspended beginning with the 1991-92 budget. The policy was not reauthorized by the Legislature and is no longer in effect.

In the context of reduced State financial support for the University and an anticipated dramatic increase in student demand through 2010-11, in January 1994, based on extensive discussions with the State and within the University community, The Regents approved a Student Fee and Financial Aid Policy that applies to the Educational Fee and University Registration Fee. The policy recognizes that the commitment to low fees 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 affordability of 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.

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. The work group, which met through the summer and fall of 2002, was 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. Among the recommendations in the CPEC report (issued December 2002) were the following:

- Changes in resident student fees should be, to the extent possible, gradual, moderate, and predictable, and any changes should take into consideration and be balanced with available State General Fund revenues to ensure that the access, quality, and affordability of the State's public universities are not adversely affected.
- Changes in resident student fees should take into consideration both the total cost of educating a student as well as public indices reflecting families' ability to pay.
- Efforts should be employed to mitigate any negative impact of changes in resident student fees on financially needy students.

These CPEC recommendations are consistent with the University's own preference for a fee policy that anticipates student fees would increase annually consistent with an economic measure, such as per capita personal income. Such a policy would be contingent upon the State being able to provide adequate support for the University's basic needs to maintain quality and access. If the State can afford basic support for the University, student fee increases should occur gradually, moderately, and predictably.

The Governor's long-term student fee policy as expressed in the Compact (described earlier in this chapter) preserves the concept of predictable, moderate, and graduate student fee increases, as envisioned in Regental policy and proposed in past years by CPEC. Importantly, it also recognizes the need to provide adequate funding for cost increases for student fee-funded programs and preserving the quality of the University.

## **Educational Fee**

The University's 2005-06 budget plan includes an increase in mandatory systemwide fees of 8% for undergraduates. The plan also includes an increase of 10% for graduate students and a similar increase in mandatory systemwide fees for professional students. An amount equivalent to 25% of the revenue generated by the fee increases from undergraduate students and professional students and 50% of the revenue generated by graduate academic students would be used to mitigate the impact of the fee increases on financially needy students. The increases would generate about \$66 million in new Educational Fee revenue, net of financial aid, and an additional \$16.6 million in revenue, net of financial aid, will be generated from new enrollments.

The Educational Fee was established in 1970. Use of revenue from the Educational Fee initially was designated primarily for capital outlay purposes; in subsequent years, an increasing proportion of the Fee was allocated for student financial aid. In 1976, The Regents adopted a policy that Educational Fee income was to be used exclusively for support of student financial aid and related programs. The Regents modified that policy in 1981, and again in 1994, following reductions in State General Fund support. As a result, the Educational Fee currently provides general support for the University's operating budget, including costs related to instruction, and funds student financial aid and related programs, counseling and career guidance, academic advising, tutorial assistance, social and cultural activities, and overhead associated with student services activities (i.e., operation and maintenance of plant and general administration). As discussed earlier, the policy also established a methodology for setting annual Educational Fee levels.

## **University Registration Fee**

It is proposed that the University Registration Fee be raised to cover cost increases in programs funded from Registration Fee revenue by about 3%, the same cost adjustment factor used for 2005-06 to determine the base budget adjustment for State General Funds under the Compact. The Registration Fee was last increased in 1994-95. The cost adjustment would result in an increase of \$22, raising the Registration Fee from \$713 to \$735 for 2005-06. When combined with the proposed increases in the Educational Fee, the total increases in mandatory systemwide fees would be 8% for undergraduate students and 10% for graduate students. The increase would generate approximately \$4.5 million in new Registration Fee revenue, and an additional \$3.6 million in new revenue would be generated from new enrollments.

The Student Fee and Financial Aid Policy approved by The Regents in January 1994 permits the Registration Fee to vary within a range 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 student health services, child care services, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students. Chancellors are authorized to determine specific allocations of Registration Fee income on their campuses, within appropriate University policies and guidelines. Each campus has a Registration Fee Committee, which includes a majority of student members, to advise the Chancellor on pertinent issues.

## **Fee for Selected Professional School Students**

The 2005-06 budget plan includes a 3% increase in professional school fees to cover cost increases in programs funded from professional school fee revenue. This factor is the same cost adjustment factor used for 2005-06 to determine the base budget adjustment for State General Funds under the Compact. The budget plan also includes extending professional fees beginning in 2005-06 to the following additional professional degree programs: the Master of Public Health, the Master of Public Policy, and the Master of Pacific International Affairs program (at the San Diego campus). These increases would generate nearly \$8.9 million in new fee revenue, and an

amount equivalent to 25% of the total revenue would be used for financial aid for professional students. An amount equivalent to 25% of the revenue from the mandatory systemwide fee increases generated from students subject to the professional fees would be set aside for financial aid for those students.

In addition, it is proposed that campuses continue to have a defined level of discretion to increase professional school fees above the fee increases approved by The Regents to maintain the quality of the academic program, to provide financial aid, and to assist programs in attracting and enrolling students. Such flexibility was provided in 2004-05 when The Regents delegated to the President authority, in consultation with the Chancellors, to approve additional increases in professional school fees not to exceed 10% of the total of mandatory systemwide fees (Educational Fee and University Registration Fee) and professional fees. Accordingly, for 2005-06, it is proposed that the President be delegated authority to approve additional increases in professional school fees not to exceed 15% of the combined total of mandatory systemwide fees (Educational Fee and University Registration Fee) and professional fees.

A \$5 million shortfall from budgeted revenue related to professional school fee increases in 2004-05 will be permanently accommodated through a \$628 increase in the mandatory systemwide fees (Educational and Registration Fees) paid by professional school students, beginning in 2005-06. The \$5 million shortfall is described in detail on page 247 of this chapter.

Display 5 (next page) shows the fee levels previously approved by The Regents, as well as fee levels proposed for 2005-06, assuming a 3% increase to cover cost increases in programs funded from professional school fee revenue.

### ***History of Professional School Fees***

Pursuant to the provisions of the 1990 State Budget Act, a Special Fee for Law School and Medical School Students of \$376 per year was implemented, effective as of 1990-91.

In January 1994, The Regents approved a Fee Policy for Selected Professional School Students, authorizing fees for students in selected professional degree programs that are required in addition to mandatory systemwide fees and miscellaneous campus-based fees and, when appropriate, nonresident tuition. In approving the new fee policy, the

**Display 5**

<b>Fees for Selected Professional School Students Annual Fee Levels by Year of First Enrollment</b>									
	<b>Fees Previously Approved by The Regents</b>							<b>Proposed</b>	<b>New Fee</b>
	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>	<b>1997-98</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>3% Increase</b>	<b>Level</b>
								<b>2005-06</b>	
<b>Medicine</b>	\$ 2,376	\$ 3,376	\$ 4,376	\$ 5,376	\$ 5,776	\$ 8,549	\$ 13,049	\$ 391	\$ 13,440
<b>Dentistry</b>	2,000	3,000	4,000	5,000	5,400	8,060	12,560 *	377	12,937
<b>Veterinary Medicine</b>	2,000	3,000	4,000	4,000	4,350	6,565	10,565	317	10,882
<b>Law</b>	2,376	4,376	6,376	6,376	6,776	9,849	13,649 *	409	14,058
<b>Business</b>	2,000	4,000	6,000	6,000	6,400	9,360	13,860 *	416	14,276
Riverside	2,000	3,000	4,000	5,000	5,400	9,360	13,860	416	14,276
<b>Optometry</b>			2,000	3,000	3,250	4,875	8,675	260	8,935
<b>Pharmacy</b>			2,000	3,000	3,250	4,875	8,675 *	260	8,935
<b>Nursing</b>			1,500	1,800	1,950	2,925	2,925	88	3,013
<b>Theater, Film, &amp; TV</b>			2,000	2,000	2,150	3,185	5,785	174	5,959

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

\* Consistent with Regents delegation, the President approved additional fee increases of up to 10% for these professional degree programs at selected campuses.

Those added amounts are not included in these figures.

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 financially as well as benefiting the state. While the policy provides that the fee for each selected professional program is to be phased in so that total student charges at UC are approximately the average of fees charged for that program by comparable high quality institutions across the nation, in some cases, total student charges at UC now are higher than the average at comparison institutions.

In 1997, AB 1318 (Chapter 853) was enacted, which, among its provisions, specified a two-year freeze on fees for California residents, including those enrolled in graduate academic or professional school programs. Thus, the planned professional school fee increases for 1998-99 that were previously reviewed by The Regents were not implemented. Not only were professional school program fees frozen at 1997-98 levels through 1999-2000, but the University also received no funds for cost increases associated with programs supported from these fees. The State Budget Acts of 2000 and 2001 recognized this disparity and included \$1.4 million and \$1.5 million respectively to provide cost increases for programs funded from Fees for Selected Professional School Students. These fees did not increase again until the 2002-03 budget year when mid-year cuts resulted in fee increases in mandatory systemwide fees and professional school fees. In 2003-04, professional fees were increased by about 30% and the revenue was used to offset base budget cuts for the University that otherwise would have been targeted at instruction.

The 2004-05 Governor's Budget presented in January 2004 assumed the University would develop a plan for achieving \$42.2 million in new revenue from increases in professional school fees to be used to offset base budget cuts that otherwise would have again been targeted at instruction. To achieve that revenue target, fees would need to have increased by about \$5,000 per student. The University was asked to exempt Nursing from these increases and to implement a smaller than average increase for students in the schools of Medicine. However, a few of the schools—such as Optometry, Pharmacy, and Theater, Film, & TV—could not sustain increases of \$5,000 and continue to attract sufficient numbers of highly qualified students.

After review of the options available, and considering the short notice to students, The Regents approved increases in these fees at the May meeting averaging approximately 30% for 2004-05. These increases will generate approximately \$37 million in income, falling approximately \$5 million short of the revenue proposed by the Governor. The campuses were asked to absorb the \$5 million shortfall on a temporary basis through cuts to other programs. As noted previously, to cover this shortfall permanently, mandatory systemwide fees charged to professional school students will increase in 2005-06 by \$628, the same amount of increase proposed for graduate academic students.

One issue of major concern was that the Governor's proposal did not assume any return-to-aid from the increase in professional school fees. Moreover, the professional schools affected have been very concerned about their ability to maintain the quality of their programs and to be competitive with other professional schools, particularly if students will be paying significantly more to attend these schools. To address the academic quality and financial aid issues associated with this proposal, The Regents delegated authority to the President to raise the fee at any of the professional schools in 2004-05 by an additional amount not to exceed 10% of total systemwide fees paid by professional school students (i.e. Educational Fee, Registration Fee, and Professional School Fee), if it was determined that a higher fee was needed to provide sufficient financial aid, and/or maintain quality of the academic program. The following schools exercised this option in amounts ranging from \$1,000 to \$1,932:

Law and Business at Berkeley and Los Angeles  
Dentistry at Los Angeles and San Francisco  
Pharmacy at San Diego and San Francisco

The remaining professional schools did not increase fees further. A report on professional school fee increases receiving Presidential approval for 2004-05 was submitted to The Regents in September.

### ***Multi-Year Plan for Professional School Fees***

The Compact calls for the University to develop long-term plans for increasing fees for selected professional school students. These plans will address professional school fees over the next five years and will include consideration of the following factors: average fees at other public comparison institutions, market factors, average cost of instruction, average cost of attendance, the need to preserve and enhance the quality of the professional programs, the State's need for more graduates in a particular discipline, and financial aid requirements of professional school students. Professional schools are expected to weigh all the factors identified in Regents Policy and the Compact as they determine the level of fees needed to maintain their programs and provide sufficient financial aid for their students in the coming years.

Consistent with the Compact, the Office of the President and the campuses have developed a multi-year plan for increasing fees in professional schools over the next several years. The plan assumes that professional school fees will be adjusted annually and that campuses will retain the revenue from professional fees to cover salary and other cost increases. To cover cost increases in programs funded from professional school fee revenue, it is anticipated that professional school fees will increase by the same cost adjustment factor used to determine the base budget adjustment for State General Funds under the Compact.

Recognizing that both quality and affordability are essential elements of all fee decisions, the plan proposes that flexibility to increase fees further in order to provide for financial aid and maintain quality be continued. Building on the flexibility provided in 2004-05 and proposed in the 2005-06 budget plan, it is anticipated that authority would be delegated to the President in 2006-07 to approve proposals from individual schools to increase the total fees paid by professional school students (i.e., Educational Fee, Registration Fee, and professional school fees) by an amount not to exceed 20% of the combined total of mandatory systemwide fees (Educational Fee and University Registration Fee) and professional fees. Further, the plan anticipates that total fees could be increased by an additional 25% above the base fee levels approved 2007-08. Fee increases for these students will be

re-evaluated at the end of this four-year period. The inevitable differences among campuses in professional fees resulting from the additional fee increases will be minimized to the extent possible.

Finally, the plan reaffirms the University's commitment to provide access to its professional schools by expecting that an amount equivalent to 25% of new fee revenue will be set aside for financial aid for professional students.

Display 6 ( next page) shows 2004-05 professional school fees at the University of California in relation to the University's four public salary comparison institutions.

Additional public institutions are used for fee comparison purposes where the University's four public salary comparison institutions do not offer comparable degree programs or where the University's programs use other peer institutions for fee comparison purposes. While they are not used for fee comparison purposes, the table also shows the 2004-05 tuition and fees at the University's four private salary comparison institutions. The private comparison institutions do not offer all of the professional degree programs that UC offers; therefore the comparisons focus on medicine, law, and business administration.

Fees for resident students enrolled in Law, Business, and Optometry are now approximately the same as the average of the tuition and fees charged by comparable public institutions for 2004-05. Fees remain well below the average of tuition and fees at comparison institutions for resident students enrolled in Medicine (\$1,929) and Nursing (\$2,524). However, UC fees are now higher than tuition and fees charged at comparable public institutions in Veterinary Medicine (\$3,988), Dentistry (\$2,814), Pharmacy (\$2,763) and Theater, Film and Television at UCLA (\$2,138). Currently, fees in Public Health, Public Policy, and International Relations and Pacific Studies (UCSD) are well below those at 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 students enrolled in professional degree programs.

Display 6

UNIVERSITY OF CALIFORNIA FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS											
	Medicine	Dentistry	Veterinary Medicine	Law	Business Admin.	Optometry	Pharmacy	Nursing	Theater, Film & TV	Public Health	IRPS/ Public Policy
<b>University of California</b>											
<b>2004-05 Resident Fees</b>											
Total Average Fees --	\$ 21,388	\$ 20,233	\$ 20,131	\$ 20,826	\$ 21,979	\$ 15,327	\$ 15,889	\$ 9,933	\$ 12,459	\$ 7,468	\$ 7,601
Base Fee Levels		\$ 22,290		\$ 22,123	\$ 23,516		\$ 17,456				
Maximum Fee Levels ( up to 10% above)											
<b>Comparison Institution Fees</b>											
<b>2004-05 Resident Fees</b>											
<i>Public Salary Comparison Institutions</i>											
University of Illinois (Champ/Urbana)			\$ 14,858	\$ 15,926	\$ 17,218		\$ 13,782	\$ 16,710	\$ 8,770	\$ 9,470	\$ 8,316
University of Illinois (Chicago)	\$ 24,572	\$ 18,558					\$ 14,991	\$ 14,007	\$ 13,849	\$ 14,797	\$ 15,375
University of Michigan	\$ 21,355	\$ 21,581		\$ 29,357	\$ 31,687		\$ 14,847	\$ 6,655	\$ 9,455		
State University of New York	\$ 21,267	\$ 17,522		\$ 14,577	\$ 9,735						
University of Virginia	\$ 26,074			\$ 26,100	\$ 30,200						
<i>Additional Fee Comparison Institutions</i>											
<i>for Selected Programs</i>											
University of Alabama						\$ 12,642 *					
Cornell University (statutory college)			\$ 18,032								
University of Maryland			\$ 14,800								\$ 14,797
Michigan State University			\$ 17,142								
University of Minnesota											
University of Missouri						\$ 17,280				\$ 5,508	
University of North Carolina											
Ohio State University											
University of Wisconsin			\$ 15,882							\$ 7,866	\$ 7,866
University of Washington											
Public Comparison Institution											
Average Resident Fees for 2004-05	\$ 23,317	\$ 19,220	\$ 16,143	\$ 21,490	\$ 22,210	\$ 14,764	\$ 14,540	\$ 12,457	\$ 10,321	\$ 9,410	\$ 11,113
<i>Private Salary Comparison Institutions, 2004-05</i>											
Harvard University	\$ 34,776			\$ 36,110	\$ 41,812						
Massachusetts Institute of Technology	\$ 37,947			\$ 35,502	\$ 39,630						
Stanford University	\$ 37,315			\$ 36,490	\$ 37,652						
Yale University											
<b>UNIVERSITY OF CALIFORNIA</b>											
<b>Estimated 2005-06 Resident Fees</b>											
Total Average Fees --	\$ 22,407	\$ 21,238	\$ 21,076	\$ 21,863	\$ 22,323	\$ 16,215	\$ 16,777	\$ 10,649	\$ 13,261	\$ 11,291	\$ 11,424
Base Fee Levels											
<b>Comparison Institution Fees</b>											
<b>Estimated 2005-06 Resident Fees</b>											
(an average increase of 8%)	\$ 25,182	\$ 20,758	\$ 17,434	\$ 23,209	\$ 23,987	\$ 15,945	\$ 15,703	\$ 13,454	\$ 11,147	\$ 10,163	\$ 12,002

\*does not include health insurance fees

## Nonresident Tuition

The 2005-06 budget plan includes a 5% increase in the Nonresident Tuition Fee for undergraduate students only, raising the fee by \$828 from \$16,476 to \$17,304 in 2005-06. This increase is expected to generate about \$5.9 million in new revenue.

Nonresident students also pay mandatory systemwide fees and miscellaneous fees, bringing the average total charges paid by nonresident students to \$24,589 for undergraduate students and \$23,517 for graduate students in 2005-06. The average total charges for nonresident professional students will vary by discipline; for example, the average of total tuition and fees is estimated to be \$34,108 for nonresident law students and \$34,568 for nonresident M.B.A. students for 2005-06.

As noted previously, there is deep concern about the University's ability to remain competitive in recruiting graduate and professional degree students. Accordingly, given the considerable funding shortfall that already exists with respect to graduate student support, the budget plan proposes that the Nonresident Tuition Fee remain at the current level of \$14,694 for graduate academic students and \$12,245 for professional students.

The University is concerned about future increases in nonresident tuition. A dramatic decline has occurred in the number of undergraduate nonresidents applying to the University—nearly 25% over the last three years. Thus, the 5% increase proposed for undergraduate students in 2005-06 is only a modest increase compared to recent years. While regrettable, this level of increase for undergraduates is necessary in order to avoid further nonresident tuition increases for graduate students. As noted above and in considerable detail in the *General Campus Instruction* chapter of this document, the inadequacy of graduate student support is a serious issue for the University. Therefore, nonresident tuition for graduate students will not be increased in order to maintain the quality of the University's graduate programs and avoid exacerbating an already difficult problem.

University of California students who do not qualify as California residents under Section 110.2, Matters Relating to Residency, of the *Standing Orders of The Regents*, are required to pay nonresident tuition. In addition to paying nonresident tuition, out-of-state students must also pay the Educational Fee,

the Registration Fee, miscellaneous campus fees and, if applicable, the Fee for Students in Selected Professional Schools.

In May 1992, The Regents adopted stricter requirements for establishing residency for tuition purposes. This action allowed the University to be consistent with the federal definition of "financial independence" at that time and to give full weight to this factor in assessing whether undergraduate and graduate students should be classified as residents for tuition purposes. Effective Fall 1993, students seeking classification as residents are considered financially independent if they are at least one of the following: at least 24 years old; a veteran of the U.S. Armed Services; married or a member of a domestic partnership; a ward of the court; both parents are deceased; have legal dependents other than a spouse; a graduate student and 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 University's *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. As a result, the Nonresident Tuition Fee, for undergraduate students only, was increased by \$1,776 (16%); however, \$471 of that total

was deferred for implementation in 2003-04. The Nonresident Tuition Fee increase for graduate students was held to 10% to assist the campuses in remaining competitive in the recruitment and enrollment of these students. For 2003-04, the Nonresident Tuition Fee was increased by 10% for all nonresident students.

Display 7 shows the total tuition and fee charges for nonresident undergraduate students since 1978.

**Display 7**

UNIVERSITY OF CALIFORNIA						
TOTAL TUITION AND FEE CHARGES						
FOR NONRESIDENT UNDERGRADUATE STUDENTS						
1978-79 through 2005-06						
Year	Mandatory Systemwide Fees	Average Campus Fees	Nonresident Tuition	Total Fees & Tuition	Total % Increase in Tuition and Fees	
1978-79	\$ 671	\$ 49	\$ 1,905	\$ 2,625	--	
1979-80	685	51	2,400	3,136	19.5%	
1980-81	719	57	2,400	3,176	1.3%	
1981-82	938	60	2,880	3,878	22.1%	
1982-83	1,235	65	3,150	4,450	14.7%	
1983-84	1,315	72	3,360	4,747	6.7%	
1984-85	1,245	79	3,564	4,888	3.0%	
1985-86	1,245	81	3,816	5,142	5.2%	
1986-87	1,245	100	4,086	5,431	5.6%	
1987-88	1,374	118	4,290	5,782	6.5%	
1988-89	1,434	120	4,956	6,510	12.6%	
1989-90	1,476	158	5,799	7,433	14.2%	
1990-91	1,624	196	6,416	8,236	10.8%	
1991-92	2,274	212	7,699	10,185	23.7%	
1992-93	2,824	220	7,699	10,743	5.5%	
1993-94	3,454	273	7,699	11,426	6.4%	
1994-95	3,799	312	7,699	11,810	3.4%	
1995-96	3,799	340	7,699	11,838	0.2%	
1996-97	3,799	367	8,394	12,560	6.1%	
1997-98	3,799	413	8,984	13,196	5.1%	
1998-99	3,799	428	9,384	13,611	3.1%	
1999-2000	3,799	474	9,804	14,077	3.4%	
2000-01	3,799	535	10,244	14,578	3.6%	
2001-02	(1) 3,799	430	10,704	14,933	2.4%	
2002-03 (Annualized)	(1) 4,204	453	12,480	17,137	14.8%	
2003-04	(1) 5,464	546	13,730	19,740	15.2%	
2004-05	(1) 6,164	628	16,476	23,268	17.9%	
2005-06 (estimated)	(1) 6,657	628	17,304	24,589	5.7%	

(1) Does not include undergraduate student health insurance fees which may be waived by demonstrating insurance coverage.

Because mandatory systemwide fees did not increase between 1994-95 and 2001-02, increases in the total tuition and fees charged to nonresident undergraduate students were modest during that period, averaging about 3.4% annually. However, the increase in total nonresident tuition and fees for undergraduates has averaged about 16% over the past three years.

### **Excess Units Fee**

The University remains committed to maintaining its excellent record of improving graduation rates and reducing time to degree among all students. All UC general campuses are committed to ensuring that undergraduate students are able to complete their degrees in four years. Accordingly, the campuses have developed advising and administrative initiatives to facilitate four-year degree completion. Campuses continue to ensure course availability by sustaining increases in faculty teaching effort, creatively managing the curriculum and its delivery, recalling retired faculty, and making better use of technology.

The new Compact specifies that State funding will not be provided to support an undergraduate student whose credit units within the system exceed a specified threshold above the minimum necessary to complete the degree program, consistent with a policy to be established by the University. A small number of UC students graduate with significantly more units than needed for their degree. The University is currently developing a policy to address this problem and will establish a fee, to be phased in effective for undergraduate students entering in 2005-06 who exceed the number of units needed to graduate by more than 10%.

### **Miscellaneous Campus Fees**

Other campus mandatory fees, also called miscellaneous fees, cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government and construction, renovation, and repair of sports and recreational facilities. The level of miscellaneous fees varies from campus to campus and between graduate and undergraduate students. Generally, students must vote to establish or increase campus miscellaneous fees. Display 4 (on page 237 of this chapter) shows miscellaneous campus fees over time.

Miscellaneous campus fees also include student health insurance fees. Between 1989-1990 and 1990-1991, graduate students at all UC campuses voted to establish a mandatory student health insurance fee. Beginning with Fall 2001, The Regents require all undergraduate students to have health insurance. Students can purchase a health insurance plan from their campus or they can demonstrate they have such insurance from other sources and opt out of the campus health insurance plan. The coverage provided in the health insurance plans and the fees to cover the cost of the premium are determined by each individual campus and, as a result, these fees are considered miscellaneous campus fees.

### **Self-Supporting Programs**

In addition to the fees charged for regular degree programs, the University also charges fees for courses and programs in University Extension, and Self-Supporting Graduate and Professional Degree Programs. These programs are not supported by State funds and varying fees are charged to cover the full costs of offering those courses and programs.

## STUDENT SERVICES

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 413,962,000</b>
General Funds	--
Restricted Funds	413,962,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	5,065,000

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 supported entirely from non-State funds with a majority of the funds from student fee income. The total budget for student services in 2004-05 is \$414 million.

Student services programs were adversely affected by severe budget cuts during the early 1990s when the University was forced to make reductions due to the State's fiscal crisis; those cuts have not been restored. In 2002-03, student services programs were again reduced by a mid-year reduction of \$6.3 million, which grew to \$25.3 million in 2003-04—equivalent to a 20% reduction in Registration Fee-funded programs. The strain on student services budgets has been exacerbated over time by the increasing demand for services to students with disabilities, many of which are very expensive and cause limited student services funds to be even more scarce.

Student Services include a variety of programs:

- Counseling is provided to assist students with scholastic performance, choice of major, personal concerns, assessing interests and aptitudes, or exploring long-range career opportunities.
- Academic support services offer individual and group tutorial services in writing, mathematics, study skills, and preparation for graduate and professional school exams.
- A wide range of cultural and social activities is provided 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 provide primary care and other services to keep students healthy, including general outpatient medical care, specialty medical care, and health education.
- 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.
- 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.
- Services provided to students with disabilities 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.

## STUDENT FINANCIAL AID

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 469,339,000</b>
General Funds	60,339,000
Restricted Funds	409,000,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	38,910,000

### Current Perspective

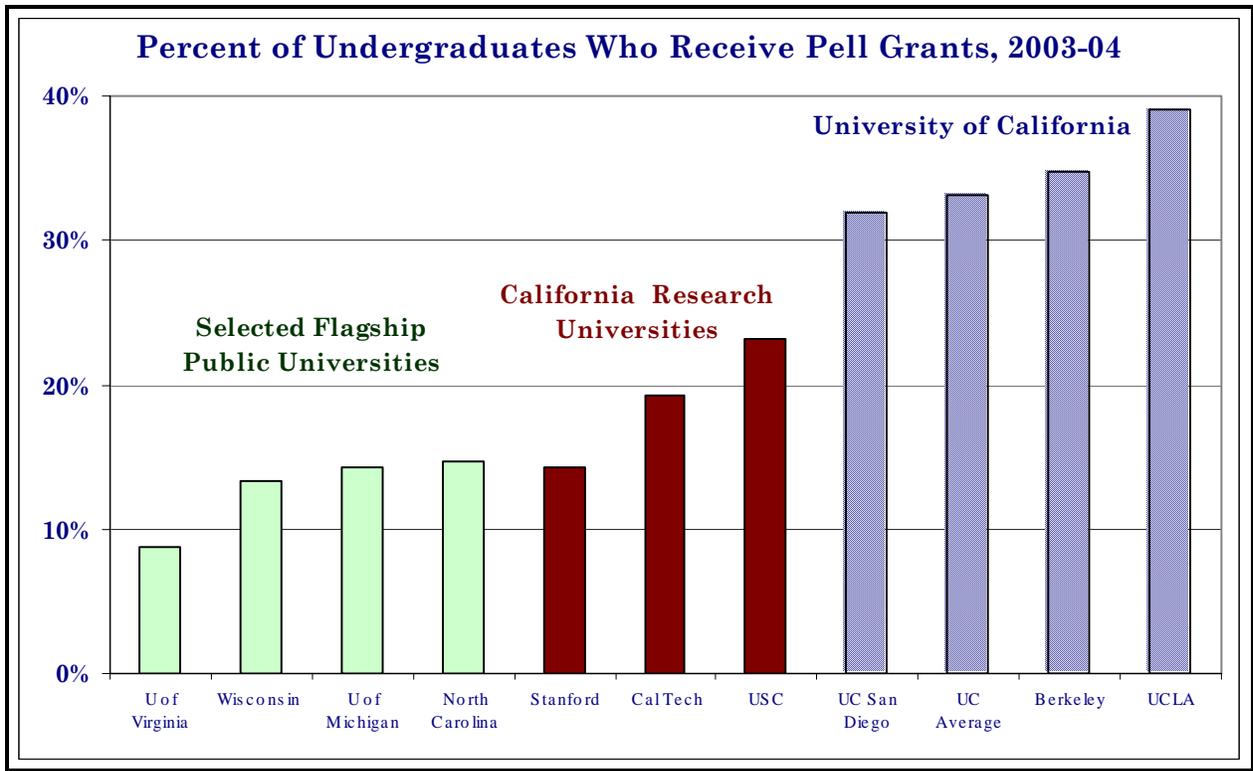
In 1994, the Regents adopted a financial aid policy that established the guiding principles of the University's financial aid programs. At the undergraduate level, the University's policy "is guided by the goal of maintaining the affordability of the University" for all students so that "financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree." At the graduate level, the policy calls upon the University to "attract a diverse pool of highly qualified students" by providing an appropriate level of support relative to the cost of attending the University, informed by a periodic "assessment of the competitiveness of University support levels with those at comparable universities."

The University's financial aid policy supports the University's mission, under the California Master Plan for Higher Education, both to provide instruction to eligible students and to serve as the principal resource for research and innovation for the State of California. In doing so, the University contributes to the competitiveness of California industry and to the resilience of the California economy.

The success of the University's financial aid program in helping to ensure access for needy students was illustrated in a study by the James Irvine

Foundation published in March 2002. This study examined enrollment of low-income undergraduate students at the nation's top 40 public and private universities (as designated by U.S. News & World Report 2001 College Guide). It showed that UCLA, UC Berkeley, and UC San Diego ranked first, second, and third among top universities in terms of enrolling low-income undergraduate students. Display 1 shows more recent data, indicating that UCLA still ranked first with 39% of its student body identified as low-income; UC Berkeley again ranked second with 35% low-income students; and UC San Diego, with 32% low-income students, ranked third. The three UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (9%), the University of Wisconsin (13%), the University of Michigan (14%), and the University of North Carolina (15%). As a system, the University enrolled a higher percentage of low-income students (over 33%) than any other institution on the list, public or private.

Display 1



At the graduate level, the University's financial aid program plays an important role in the University's ability to compete with public and private universities for the most talented students. As research assistants, graduate students contribute to the University's research agenda and to the

University's ability to attract and retain faculty members. As teaching assistants, they greatly enhance the undergraduate experience. Upon graduation, these students make a vital collective contribution to California's economic and intellectual capital.

The current challenge is to maintain UC's affordability and, at the graduate level, UC's competitiveness, in the face of significant cost increases. The State's recent fiscal crisis has resulted in a significant reduction in the State's subsidy for educational costs and a shift of some of these costs to students and their parents. As a result, fees for resident undergraduates have increased \$2,255 since 2001-02, including a \$700 increase in 2004-05. During this same period, nonresident tuition for undergraduate students increased by \$4,702, or 40%.

Fees for graduate students increased even more. In-state fees for academic graduate students increased by \$1,050 in 2004-05, contributing to a total increase of \$2,660 since 2001-02. Nonresident tuition and professional school fees also increased significantly in recent years.

To mitigate the impact of these recent fee increases as well as increases in other educational expenses, the University used the equivalent of one-third of the fee revenue generated by the combined 2002-03 and 2003-04 fee increases and enrollment growth for financial aid. In the 2004-05 budget, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with the Governor's financial aid proposal.

As shown in Display 2 (next page), these funds, in combination with an estimated \$80.3 million increase in Cal Grant funds awarded to UC undergraduates and an estimated \$60.3 million increase in other scholarship, fellowship, and grant funds, raised the total estimated amount of gift aid for UC students over the three-year period by \$298.6 million, from \$729.9 million in 2001-02 prior to the fee increases to \$1,028.5 million in 2004-05.

The University's new Compact with Governor Schwarzenegger provides the University with flexibility, within a specified range, in determining how much new fee revenue to devote to financial aid. The University's review of financial aid needs indicates that it will be necessary to increase the proportion of additional fee revenue returned to aid above the 20% level provided in 2004-05. Placing student support needs in the context of all of

the University's competing budget priorities, the University is proposing a 25% return-to-aid to provide support for low-income undergraduate students and a 50% return-to-aid for graduate academic students for 2005-06.

Display 2

University of California Scholarships, Grants, and Fellowships by Fund Source, 2001-02 to 2004-05 (\$ in Millions)				
	2001-02	2002-03	2003-04	2004-05
<b><u>UC Funds</u></b>				
Student Fees and State General Funds	\$ 256.4	\$ 262.7	\$ 380.4	\$ 414.3
Other University Funds	111.7	125.4	128.8	131.6
Subtotal	<u>\$ 368.1</u>	<u>\$ 388.1</u>	<u>\$ 509.2</u>	<u>\$ 545.9</u>
<b><u>Other Funds</u></b>				
Student Aid Commission	\$ 133.4	\$ 148.7	\$ 195.6	\$ 213.7
Federal	185.3	203.2	212.1	216.7
Private Funds	43.2	49.6	51.2	52.3
<b>Total</b>	<u>\$ 729.9</u>	<u>\$ 789.7</u>	<u>\$ 968.1</u>	<u>\$ 1,028.5</u>

Note: Numbers for 2003-04 and 2004-05 are estimates; Student Fees and State General Funds are based on budgeted amounts.

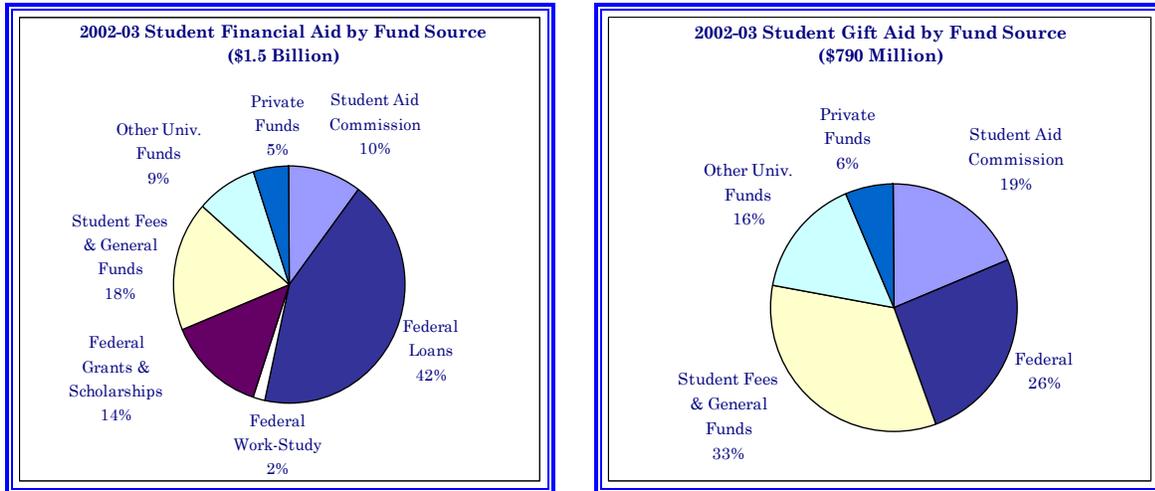
The 25% return-to-aid, together with funding provided through Cal Grants, is sufficient to cover the proposed fee increase as well as provide some assistance for other costs of attendance. The 50% return-to-aid for graduate students is sufficient only to cover student fee increases, including increases for those categories of students exempt from paying student fees, such as teaching assistants. The University will continue to monitor the effectiveness of its financial support both at the undergraduate and graduate level to evaluate its success in adhering to the principles, articulated by the Regents, of affordability at the undergraduate level and competitiveness at the graduate level.

## Overview

UC students receive scholarships, fellowships, grants, loans, and work-study jobs to assist them in meeting the educational costs of attending the University, such as fees, living expenses, books and supplies, and transportation. Financial assistance comes from four sources: the federal government; University funds, including student fees, State General Funds,

endowments, and other non-State funds; the State’s Cal Grant programs; and private agencies. In 2002-03 (the most recent year for which final data are available), University students received almost \$1.5 billion in student aid, including \$790 million (53%) in gift assistance. Display 3 shows in 2002-03 the proportion each fund source contributed to both the total amount of financial support provided to UC students and the total amount of gift assistance received by UC students.

**Display 3**



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% sixteen years ago to 33% as of 1994-95. From 1994-95 through 2003-04, the University continued to set aside an amount equivalent to at least one-third of all new student fee revenue for financial aid. This practice was consistent with agreements in the four-year Compact with the Wilson administration and continued in the Partnership Agreement with the Davis administration. In the 2004-05 budget, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with Governor Schwarzenegger’s budget proposal for financial aid. The University entered into a new multi-year Compact with Governor Schwarzenegger that provides the University with flexibility in establishing, within a specified range, an appropriate return-to-aid for financial support.

Between 1994-95 and 2001-02, resident fees paid by UC students did not increase. In addition, resident student fees were reduced twice. Both times fees were reduced, the State agreed that the University should retain

financial aid at existing levels despite the fact that fees had decreased. This "bonus" totaled \$8 million in 1998-99 and \$17 million annually thereafter, and was used to provide additional grant assistance and reduce the need for recipients to contribute to the cost of their education through work or borrowing.

In 2001-02, the State began to feel the effects of the downturn in the economy, and by 2002-03, base budget cuts began to take their toll on the University. As a result, the \$17 million "bonus" for financial aid was eliminated from the University's 2002-03 budget. In addition, the University instituted increases in mandatory systemwide student fees for the first time in seven years and professional school fees for the first time in four years. Further increases in undergraduate fees, graduate academic fees, and professional school fees occurred in 2003-04 and 2004-05. (These are discussed more fully in the *Student Fees* chapter of this document.) An amount equivalent to one-third of the fee revenue generated from these fee increases was used to provide grant aid for financially needy students.

In addition to setting aside at least one-third of new fee revenue for financial aid purposes, the University has provided financial aid from other University fund sources. University funds, almost all of which are awarded in the form of grants, scholarships, and fellowships, increased by nearly 140% over the past ten years (from 1992-93 to 2002-03).

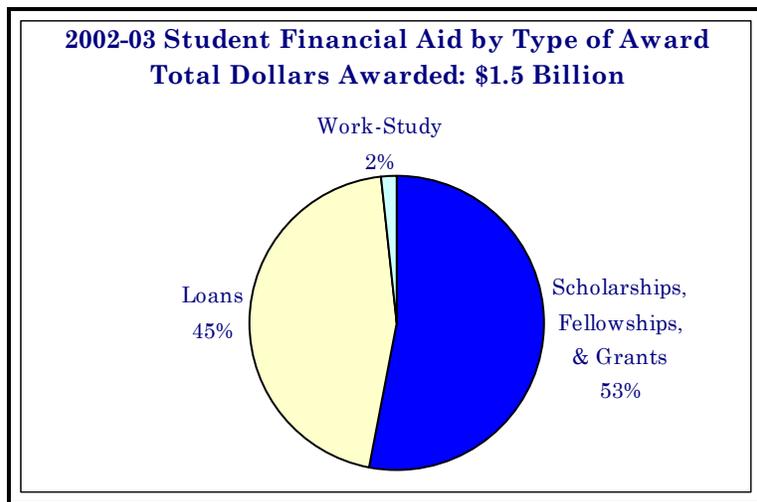
Display 4 shows total financial aid expenditures for 2002-03 by type of financial award and source of funds for each. The amount of financial aid provided in 2002-03 represented an increase of about \$146 million, or 10.8%, over the amount received in 2001-02. Included in that increase was \$60 million in the form of additional grants, scholarships, and fellowships. Display 5 shows the proportion of total financial aid used for loans, work-study, and scholarships, grants, and fellowships.

In 2002-03, for the third year in a row, financial aid totals included aid administered for a State-supported summer term at UC. At the four campuses receiving State support for summer instruction (Berkeley, Davis, Los Angeles, and Santa Barbara), new University financial aid funds have been provided for summer awards that are generally comparable to University financial support levels for the regular academic year. UC will extend this practice to the remaining campuses as they phase in to full State support for their summer programs under the new Compact agreement.

Display 4

University of California 2002-03 Student Financial Aid by Type of Award and Fund Source (\$ in Millions)						
Program	Student Aid Commission	Federal	University Funds			Total
			Student Fees and State General Funds	Other University Funds	Private Funds	
<b>Scholarships, Grants, Fellowships</b>						
Pell Grants	\$ -	\$ 141.1	\$ -	\$ -	\$ -	\$ 141.1
Cal Grant A	57.3	-	-	-	-	57.3
Cal Grant B	80.7	-	-	-	-	80.7
Other	10.7	62.1	262.7	125.4	49.6	510.5
<b>Subtotal</b>	148.7	203.2	262.7	125.4	49.6	789.7
<b>Loans</b>						
Perkins Loans	-	52.1	-	-	-	52.1
FFELP/FDSLPL	-	586.2	-	-	-	586.2
Other	-	5.5	2.3	1.1	25.0	33.9
<b>Subtotal</b>	-	643.8	2.3	1.1	25.0	672.3
<b>Work-Study</b>						
Federal	-	23.8	-	-	-	23.8
State	2.3	-	-	-	-	2.3
University	-	-	0.1	0.1	-	0.2
<b>Subtotal</b>	2.3	23.8	0.1	0.1	-	26.3
<b>Total</b>	\$ 151.0	\$ 870.9	\$ 265.2	\$ 126.6	\$ 74.6	\$ 1,488.3

Display 5



Currently, federal policy restricts the University from offering federal grant assistance at an equivalent level for year-round students. UC continues to advocate for changes to the federal Higher Education Act that will provide for higher annual award maximums for Pell Grants and federal loans for students enrolled year round.

## **Undergraduate Student Aid**

The percentage of undergraduate students receiving some type of financial aid in 2002-03 was 61%. Half (50%) of all undergraduates received gift aid (scholarships, fellowships, and grants) averaging approximately \$6,300 per recipient. Gift aid represented 53% of all undergraduate aid, with self-help aid (loans and work-study) comprising the remainder. About 71% of all undergraduate aid was awarded on the basis of financial need in 2002-03, 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 29% of aid to undergraduates. The majority (72%) of non-need-based support is awarded in the form of loans, with scholarships comprising the remainder.

Consistent with the financial aid policy adopted by the Regents in January 1994, the University developed the Education Financing Model, which is used to determine undergraduate student aid funding needs, to allocate undergraduate aid funds among the campuses, and to guide the awarding of aid funds to undergraduate students. The Model is based on the following principles:

- the total cost of attendance (fees, living and personal expenses, books and supplies, and transportation) is considered in assessing funding needs, allocating aid funding among campuses, and awarding funds to students;
- meeting the costs of attending the University requires a partnership among students, their parents, federal and state governments, and the University;
- students should be expected to make some contribution toward their cost of attendance through work and/or borrowing;

- students should have flexibility in deciding how to meet their expected contribution; and
- campuses should have flexibility in implementing the Model to serve their particular student bodies and are encouraged to supplement centrally distributed financial aid funds with their own resources.

The formula for determining the amount of grant aid needed is shown in Display 6.

Display 6

<b>Education Financing Model</b>	
<u>Start with Student Expense Budget:</u>	
<b>Less</b>	Reasonable Contribution from Parents
<b>Less</b>	Manageable Student Contribution from Working
<b>Less</b>	Manageable Student Contribution from Borrowing
<b>Less</b>	Federal and State Grant Aid
<b>Equals</b>	<b>University Grant Aid Needed</b>

### ***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. The method recognizes regional variations in costs and in student spending patterns.

### ***Contribution from Parents***

Parents are expected to help pay for the costs of attending the University if their children are considered financially dependent. The amount of the parental contribution is determined by a federally mandated formula for determining need, which takes into account parental income and assets

(other than home equity), the size of the family, the number of family members in college, and non-discretionary expenses. Particularly low-income parents have an expected contribution of zero.

### ***Contribution from Work and Borrowing***

Students are expected to make a contribution to their educational expenses from earnings and borrowing. The expected contribution should be manageable so students are able to make steady progress toward completion of the baccalaureate degree and to meet loan repayment obligations after graduation. The Model includes ranges for loan and work expectations based on the University's estimate of the minimum and maximum manageable loan/work levels, adjusted annually for inflation and periodically for market changes in student wages and expected post-graduation earnings.

### ***Contribution from Federal, State, and University Grant Aid***

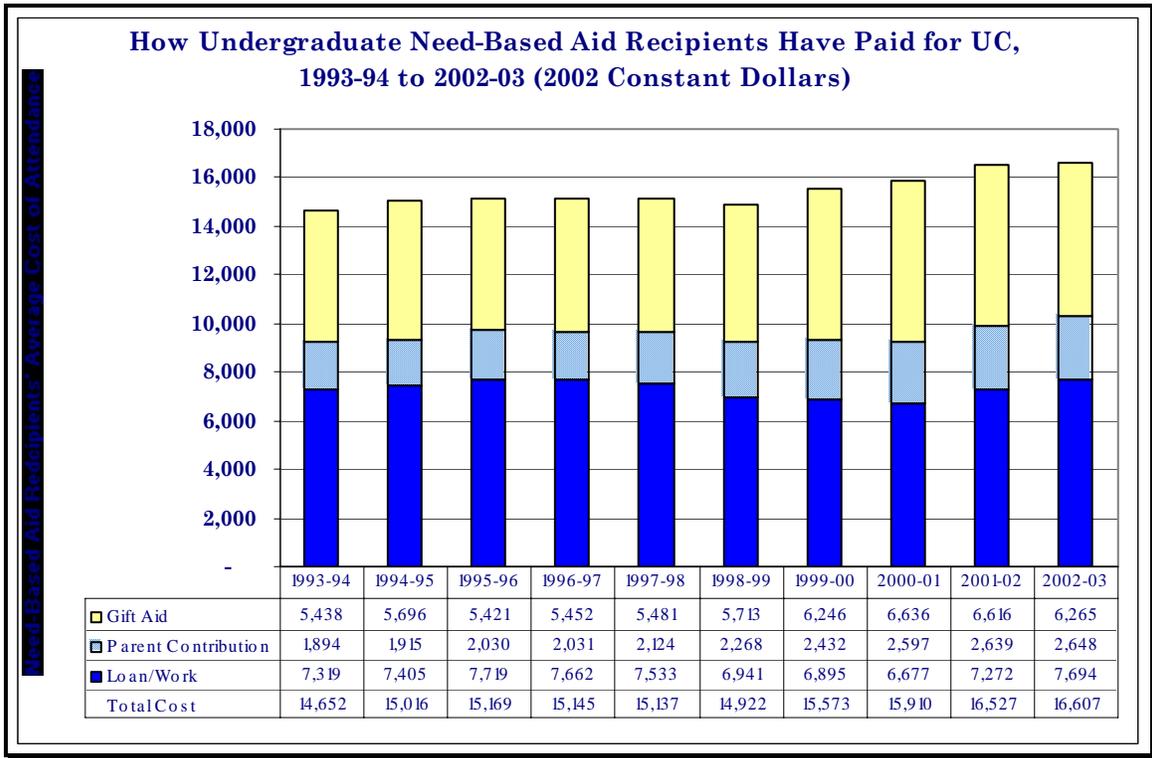
The University's goal is to provide grant support to needy students to cover the gap between the student's expense budget and the expected contributions from parents, student borrowing, and student work. Available federal and State need-based grants are applied toward a student's grant eligibility. Campus-based scholarships and grants from gifts, endowments, campus discretionary funds, the Regents' Scholarship Program, and scholarships and grants from outside agencies are excluded from the framework of the Education Financing Model. These funds generally are used to reduce the loan and work expectations of students.

Display 7 illustrates how undergraduate need-based aid recipients at UC have financed their cost of attendance from 1993-94 through 2002-03, based upon the categories described above: the students' parent contribution, the student's expected contribution from loan and work, and gift aid (grants and scholarships).

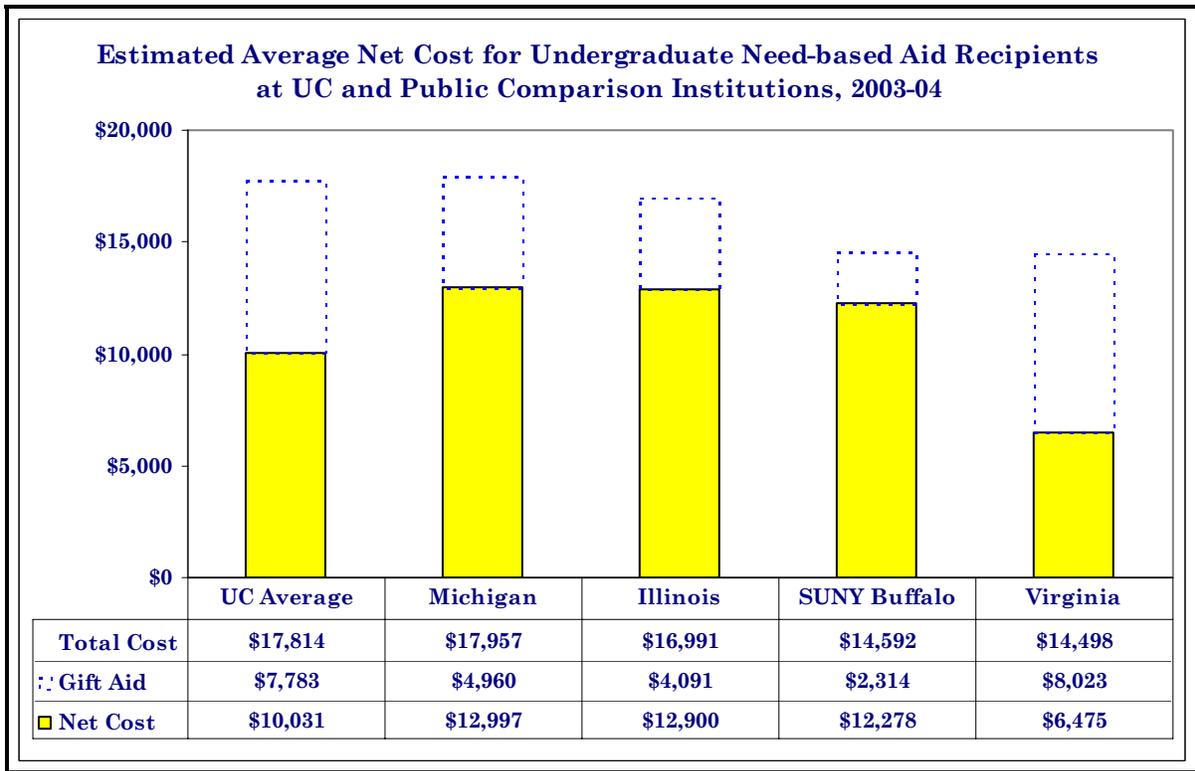
### ***Outcomes of the University's Undergraduate Aid Program***

As noted earlier, the University has received national attention for its remarkable success at enrolling a high percentage of low-income undergraduate students. Another measure of the University's affordability is its average net cost of attendance for need-based aid recipients. The net cost represents the actual cost for these students after taking into account their gift aid (grants and scholarships). As shown in Display 8, in 2003-04, as in previous years, the University's average net cost of attendance for resident

Display 7



Display 8



need-based aid recipients was lower than the estimated net cost at three of the University's four public comparison institutions. This pattern is not expected to change in 2004-05.

To date, there is no evidence that the University's success in enrolling low-income students was affected by fee increases in 2002-03 and 2003-04, or by increases in non-fee costs that also occurred during those years. The long-term impact of the 2004-05 fee increase and the reduced portion of fee revenue returned to aid on the University's ability to serve low-income students is not yet known. For 2004-05, it is estimated that UC grant recipients will be expected to work or borrow, on average, \$9,172 to finance their education, an increase of \$610 over 2003-04 levels.

For 2005-06, the University proposes a return-to-aid level of 25% for undergraduate students. It is expected that this increase, in conjunction with an estimated \$14.7 million increase in Cal Grant funding over 2004-05 levels, will be sufficient to offset the 2005-06 fee increase anticipated in the Compact and to offset a portion of the increase in non-fee expenses for the University's neediest students. Nevertheless, UC grant recipients will be expected to contribute an estimated \$9,557 in 2005-06 through work and borrowing, or \$385 more than they did in 2004-05. This increase will require students to work more hours per week, to dedicate more of their postgraduate earnings to loan repayment, or both. (For example, this estimate assumes a work component of 14 hours per week, one hour more than in 2004-05. By comparison, a survey of undergraduates in 2001 indicated that among the 64% of undergraduates with jobs, the average work commitment was 16.4 hours per week.)

The University regularly monitors various indicators of the manageability of the work and borrowing that it expects from students, including the impact of student employment on academic progress and estimates of the percentage of students' postgraduate earnings that will be required to repay their debt upon graduation. These indicators suggest that UC grant recipients' expected contribution from work and borrowing will remain within a manageable range in 2005-06 – although it will be higher, within that range, than at any time in the past.

## **Graduate Student Aid**

While undergraduate financial aid is intended primarily to promote access, graduate financial aid is used largely as a recruitment tool. In order to support its research mission and fulfill its responsibility to meet California's professional workforce needs, the University needs to attract top graduate students. To do this, it must offer financial assistance packages that can compete with those offered by other institutions recruiting the same prospective graduate students.

In 2002-03, 72% of UC's graduate students received some form of financial aid. That year, 61% of all graduate students received gift assistance averaging \$10,023 per recipient.

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University. In January 2001, the Chairman of the Board of Regents and the President of the University appointed a Commission on the Growth and Support of Graduate Education ("the Graduate Commission") to explore in depth the issues related to providing adequate graduate student support in a competitive market.

Because the competitive markets for graduate academic and graduate professional students differ substantially, so do the types of financial support provided to these two types of graduate students. These differences are discussed below.

### ***Graduate Academic Student Aid***

In September 2001, the Graduate Commission noted that UC's support of graduate students was not competitive with the support offered by other institutions. This conclusion was supported by a Fall 2001 survey in which students admitted to University academic doctoral programs were asked about the financial support offered by UC and by their top-choice non-UC institution. The survey found that, overall, UC financial support offers made to these students were not fully comparable to offers from UC's competitors. (This survey was conducted again in Fall 2004; preliminary results are similar to those from the earlier survey.) The Commission also identified the need for additional graduate student support associated with graduate enrollment growth.

The Commission's report was released during a time of relative prosperity for the State of California and for the University. Between 1998-99 and 2002-03, graduate research assistantships increased 42%, reflecting UC faculty's success at securing research grants. Funding for teaching assistantships during this period increased 25%, due to increases in undergraduate enrollment (which outpaced the increase in graduate enrollment during this period). In addition, funding from extramural fellowships or research grants increased 27%, due both to the strength of UC's students and departments, and to increased federal support for science and engineering graduate student funding. During this same period, student fees did not increase and nonresident tuition increased only modestly.

As a result of increases in RA, TA, and extramural support, limited fee and tuition increases, and little enrollment growth, academic graduate students' per capita net stipend – their financial support from fellowships and assistantships in excess of fees and tuition – increased by over \$900 in constant dollars between 1998-99 and 2002-03.

The relatively favorable circumstances that led to improved graduate student support ended with the onset of the State's budget crisis. The University was forced to increase graduate fees by 45% between 2001-02 and 2003-04. Other costs, including campus fees and graduate health insurance premiums, increased as well. In addition, the current outlook for graduate student support from State, federal, and private funding sources is less positive than it was a few years ago.

Consequently, the University faces a growing imbalance between the demand and supply for graduate student support that, if left unchecked, will further compromise the University's ability to compete successfully for talented students. Demands driven by the University's need to offer competitive graduate support, by contractual obligations, and by policy commitments are increasing faster than the funds available to cover them. For example:

- As fees and tuition increase, so does the University's need to cover fee and tuition increases for a large fraction of enrolled students. These students include students receiving UC fellowships that cover all or some of their fees (31.4% of academic graduate students), teaching assistants for whom UC is contractually obligated to cover fee increases (25.7%); and research assistants covered by UC-funded research grants who may receive fee coverage (7.8%) and nonresident tuition coverage.

- The University is also obligated to cover increases in other costs for many students, including students' health insurance premiums and campus-based fees. In cases where the University does not cover these cost increases, the net value of a student's financial support – and, hence, the competitiveness of the University's financial support relative to other institutions – will erode.

For 2003-04, steps were taken at systemwide, campus, and program levels to ameliorate the problem. At the systemwide level, the traditional one-third return-to-aid from graduate fee revenue was supplemented on a temporary basis with other funds and campuses were given additional flexibility in the use of the funding (particularly to cover mandated fee remissions for TAs). In 2004-05, further large fee and nonresident tuition increases coupled with a reduced return-to-aid from fee revenue will likely exacerbate this problem. In addition, external funding sources are expected to remain soft.

For 2005-06, covering *only* the anticipated fee increase for UC fellowship recipients and teaching assistants would require a return-to-aid of 44.4% – far more than the return-to-aid of 20% that was implemented in 2004-05. An added 7.8% of new fee revenue would be required to cover fee increases for UC-funded research assistants if faculty research grants are unable to meet this need. (State-funded research grants have also suffered as a result of the State's budget crisis.) These estimates do not include additional funding that would be required to offset slower-than-expected growth in other sources of graduate student support; to preserve the constant-dollar value of UC fellowships net of fees; or to improve the University's competitive position relative to other institutions.

In response to these pressures on graduate student support, the University proposes increasing the return-to-aid from graduate student fees from 20% in 2004-05 to 50% in 2005-06. Such an increase, coupled with the University's proposal to forego an increase in graduate nonresident tuition, should be sufficient to prevent further erosion in the University's competitiveness due to anticipated fee increases in 2005-06, provided that other sources of graduate student support (notably extramural fellowships and research grants) also increase.

Additional measures will be required to improve the University's ability to compete for graduate students. Possible components of a comprehensive strategy might include new fundraising campaigns for graduate student

fellowships (similar to a recently launched campaign at UCLA that seeks to raise \$150 million for graduate and undergraduate fellowships over five years), efforts to increase federal and State support of graduate student fellowships and research grants, a new statewide research initiative that would include funding for research assistantships, and other activities recommended by the Commission on the Growth and Support of Graduate Education in its 2001 report to the Regents.

### ***Professional School Student Aid***

In 1994, The Regents approved a Fee Policy for Selected Professional School Students, which was implemented beginning with the fall 1994 academic term. While some campuses have set aside more, the policy provided that an amount of funding equivalent to at least one-third of the total revenue from the fee be used for financial aid. The majority of the funds is used for grant and fellowship awards with some funds set aside for loan repayment assistance programs.

About two-thirds of aid awarded to graduate professional students is in the form of loans, rather than fellowships or grants. The differences in support patterns for graduate academic and graduate professional students reflect the contrasting approaches to graduate student support at UC and competing institutions. Fellowship, grant, and assistantship support are viewed as more successful and loans less successful for recruiting and retaining doctoral students whose academic programs are lengthy and whose future income prospects are relatively low. In contrast, student loans are viewed as more appropriate for students pursuing professional degrees. These programs are relatively shorter and students' incomes have the potential to be substantially higher.

In 2002-03, graduate professional school students received, on average, fellowship/grant support of \$4,507 per student. This figure represents a 10% increase since 1998-99. During this same period, the average amount that these students borrowed increased at a faster rate (17%), from \$9,942 in 1998-99 to \$11,618 in 2002-03.

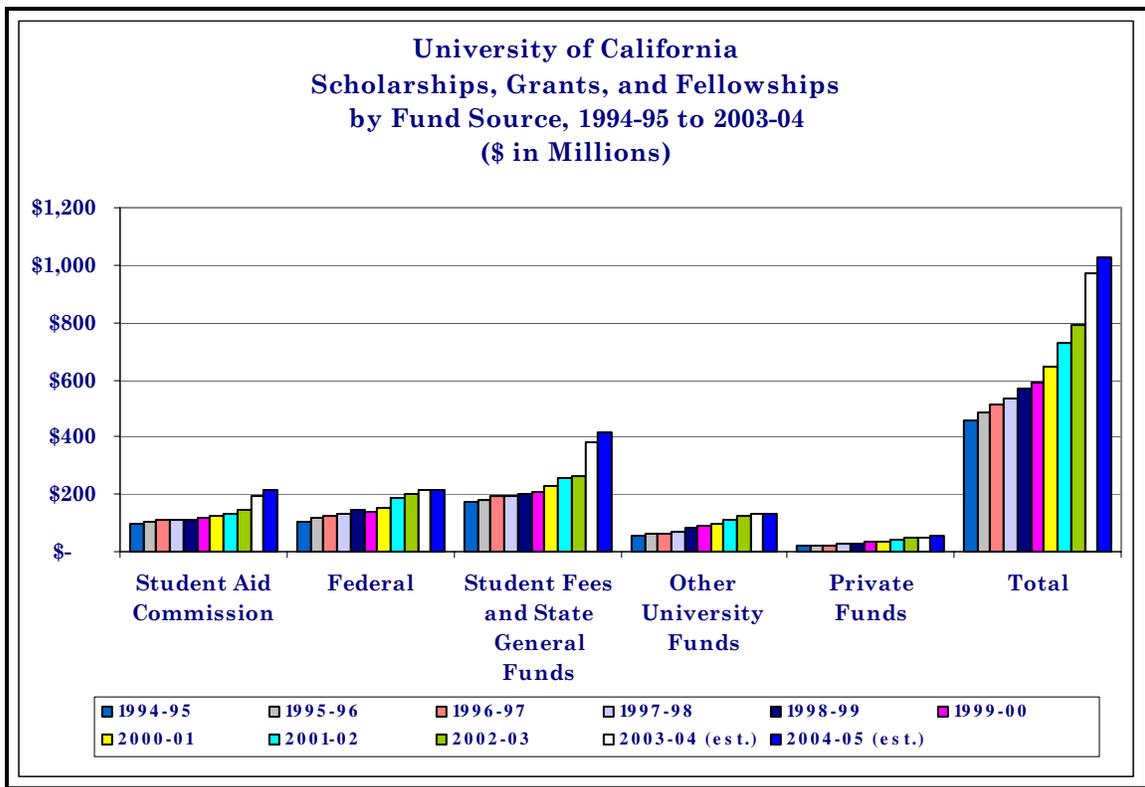
The University is concerned about the long-term effect of cost increases on the competitiveness of the University's professional school programs and on the types of students that the University is able to enroll. Each year, these programs graduate a cadre of trained professionals in medicine, business, law, and other disciplines, many of who remain in California and make

valuable contributions to their professions and to the state. The University recognizes the importance of enrolling talented students from diverse socioeconomic backgrounds into these programs, for the betterment of the communities, institutions, and individuals that these professionals will ultimately serve.

### Fund Sources for Financial Aid

Display 9 shows the dramatic increase in fellowship, scholarship, and grant expenditures from all fund sources over a eleven-year period.

Display 9



### University Student Fees and State General Funds

Approximately 36% of enrolled undergraduates and 54% of enrolled graduate students received some form of financial assistance funded from institutional aid programs in 2002-03. UC institutional aid programs funded from student fee revenue and State General Funds function as one piece of the total support received by UC students. For undergraduates, campuses combine University aid programs with awards from federal, State, and private sources

to build a financial aid package that is composed of individual aid components awarded in accordance with the intent and requirements of each particular funding agency, but that as a combined whole meets the University's financial aid goals.

### ***Federal Aid***

In 2002-03, UC students received \$870.9 million in federal financial aid, which represented approximately 59% of all support awarded during that year. The vast majority of federal aid was in the form of loans.

Overall, UC students received about 12% more federally funded aid in 2002-03 than they received the previous year. Federal student loan programs comprised three-quarters of all federally funded aid and 42% of total financial support received by University students in 2002-03.

As of this writing, federal support for student aid programs remains uncertain for 2005-06. However, given the nation's economic slow-down and the growing federal deficit, it appears unlikely that there will be funding available to expand support for federal student aid programs. Thus, any changes in programs and funding levels are anticipated to be small.

### ***State Aid Programs***

California university and college students receive financial support from a number of State programs. These programs, administered on behalf of the State by the California Student Aid Commission, include the Cal Grant A, B, and C programs. These programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. In 2002-03, University of California students were awarded \$148.7 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 has increased in recent years as UC's fees have increased. Further increases in 2004-05 and 2005-06 are anticipated,

provided that the State continues its longstanding commitment to covering systemwide fees for Cal Grant recipients.

### ***Other University Aid***

In addition to the universitywide programs described above, University financial aid is also provided through various campus-based programs funded by endowment income, current gifts, repayments from University loans, and campus discretionary funds. In 2002-03, \$126.6 million in University aid from these sources was awarded to students, of which nearly all (\$125.4 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 included in this category along with traineeships and fellowships from private companies (e.g., Hewlett Packard and IBM) and associations and foundations (e.g., the National Merit Scholarship Foundation and the American Cancer Society). Nearly all funds in this category are awarded to students in the form of grant support. In 2002-03, more than \$74 million was awarded to UC students from private agency programs, which represented 5% of the financial support students received during that year.

### ***Other Sources of Financial Assistance***

In addition to the types of assistance described above, the federal government and the State provide a number of vehicles to help students and their families finance their education. A selection of these are described below.

- **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.

- **Scholarshare Trust College Savings Program.** In 1999, the State established the “Scholarship Trust College Savings Program,” a tax-exempt college savings fund administered by the California State Treasurer, to encourage families to save for their children’s college expenses. The Scholarshare Trust manages individual accounts, which are pooled and invested in a number of different financial instruments by the State or its agent. Earnings from the investments are not taxed at either the federal or State level, provided that they are used to cover qualified education expenses.
- **Penalty-Free IRA Withdrawals.** Taxpayers may withdraw funds penalty-free from either a traditional Individual Retirement Account (IRA) or a Roth IRA for postsecondary education expenses. This provision is intended to assist middle-income students and their families.
- **Coverdell Education Savings Account.** The Economic Growth and Tax Relief Reconciliation Act of 2001 established the Coverdell Education Savings Account (ESA) to replace the Education IRA. Although contributions are not tax deductible, earnings on the ESA are tax-free and no taxes will be due upon withdrawal if used for qualified higher education expenses. This program is intended to assist middle-income students and their families.
- **Student Loan Interest Deduction.** Taxpaying borrowers may take a tax deduction for interest paid on student loans (available even if the taxpayer does not itemize other deductions). Because eligibility for the deduction is phased out for taxpayers with higher incomes, middle-income and lower-middle-income borrowers with high debt levels are the primary beneficiaries of this deduction.
- **U.S. Savings Bonds.** The interest on U.S. savings bonds is, in certain circumstances, tax-free when bond proceeds are used to cover eligible education expenses. Eligibility for tax-free withdrawals is a function of income level when the bond is redeemed and is intended to assist middle-income students and their families.

## INSTITUTIONAL SUPPORT

2004-05 BUDGET	
<b>Total Funds</b>	<b>\$ 458,861,000</b>
General Funds	304,800,000
Restricted Funds	154,061,000

2005-06 INCREASE	
General Funds	--
Restricted Funds	3,681,000

Institutional Support includes numerous campus and systemwide activities under five sub-programs. The sub-programs and examples of activities included in this function are:

- **Executive Management**—offices of the President, Vice Presidents, Chancellors, and Vice Chancellors; planning and budget offices;
- **Fiscal Operations**—accounting, 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, the costs of new State and federal mandates, and additionally, general inflation due to a lack of State funds to cover price increases. New expenditures in Institutional Support have been mandated as a result of a growing body of State and federal laws and regulations covering areas such

as environmental health and safety, collective bargaining, accommodation of disabled employees, fair employment practices, and increased accountability requirements.

Institutional Support budgets are often one of the first areas of the budget to be reduced in difficult economic times, and the University's Institutional Support budget has been no exception to this practice over the last two decades. As a result, including all fund sources, Institutional Support expenditures declined from 12% of total expenditures in 1971-72 to less than 9% by 2003-04.

In the early 1990s, already constrained by historical underfunding, Institutional Support budgets were deeply impacted by the State of California's fiscal problems. At that time, University budgets were cut by \$433 million, or about 20% of the 1989-90 State-funded budget. Due to legislative intent language, and the shared desire of the University and the State to protect core academic programs, Institutional Support was targeted for additional cuts, along with Research and Public Service programs. 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 current fiscal crisis has resulted in significant further reductions to Institutional Support: a mid-year cut of \$20 million to Academic and Institutional Support budgets grew to \$36.5 million in 2003-04. In 2004-05 the Academic and Institutional Support budgets were reduced by an additional \$45.4 million.

Aside from the base budget cuts targeted at Institutional Support by the State, the University had over \$100 million in unavoidable costs related to paying faculty merits, employee health benefits, energy cost increases, and maintenance of new space in 2003-04 and again in 2004-05, most of which was funded by redirecting resources from Institutional Support and other parts of the budget.

Budgets cuts in this area are particularly of concern since the workload demand in Institutional Support is increasing, not decreasing. Federal regulatory burdens, enrollment growth, and State laws are creating

significant pressure on Institutional Support budgets. Campuses strongly believe these budgets have been seriously underfunded for years.

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 to reduce costs by sharing resources; and using electronic tools to increase dissemination of information, ranging from news releases to job postings.

Nevertheless, in recognition of the continuing fiscal crisis in the State, the University is reviewing administrative activities across a wide range of programs to identify additional efficiencies where possible. This review includes examination of purchasing and procurement practices as well as regulatory relief the University should seek to help reduce administrative costs.

## OPERATION AND MAINTENANCE OF PLANT

### 2004-05 BUDGET

<b>Total Funds</b>	<b>\$ 435,928,000</b>
General Funds	374,714,000
Restricted Funds	61,214,000

### 2005-06 INCREASE

General Funds	16,000,000
Restricted Funds	1,394,000

### Overview

The University maintains more than 103 million gross square feet of space in more than 5,200 buildings at the ten campuses and the agricultural field stations. Over 51 million square feet, or 50%, is maintained with State funds. Three basic types of funding are required to operate, maintain, preserve and upgrade University buildings and infrastructure: 1) annual support for operations and maintenance (OMP), including building maintenance and purchased utilities; 2) deferred maintenance, and 3) capital renewal.

The University's proposed budget plan for 2005-06 includes \$16 million in funding under the Compact to support basic maintenance of new space placed in service during the three-year period 2003-04 to 2005-06 for core instruction and research and the California Institutes for Science and Innovation. State funding has not been provided for this purpose since 2002-03. The \$16 million requested, when combined with \$7 million already redirected from existing University resources, will address the maintenance needs of new core instruction and research space.

As have all energy users in the State, the University has experienced steep increases in its purchased utility costs since the statewide energy crisis of 2000-01. In 2001-02, the State provided \$50 million in one-time funding to

offset ongoing shortfalls for that year. The University continues to face shortfalls in its purchased utilities budget even though it has negotiated a competitive energy service contract to replace its Enron contract, which expired in March 2002, and has continued to implement an aggressive energy conservation program. The University has managed to absorb the continuing shortfalls in funding for purchased utilities by cutting costs in other areas of its facilities operations. Additional funding shortfalls for purchased utilities are expected in 2005-06.

The University continues to be challenged by the long-term underfunding of OMP. This long-term underfunding of basic maintenance needs shortens the useful life of building and infrastructure systems and thus contributes to the University's growing deferred maintenance backlog.

The University's deferred maintenance backlog, now estimated at \$600 million for top priority projects, is the result not only of underfunding of OMP but, more particularly, of the lack of capital renewal funding that supports the systematic and cyclical replacement of building systems and infrastructure. The University projects that, on average, at least \$200 million will be required annually over the next 50 years to meet the University's capital renewal needs for buildings and infrastructure. Without adequate capital renewal funding, the University's deferred maintenance backlog will continue to grow.

As the State's fiscal condition improves, the University will likely seek State support to reduce longstanding underfunding of OMP, particularly in the area of ongoing building maintenance, and to address neglected capital renewal needs and the University's substantial deferred maintenance backlog.

### **OMP Support for New Space (\$16,000,000 Increase)**

For both 2003-04 and 2004-05, the State's fiscal constraints did not permit an annual increase for funding of new OMP workload. In response, the University cut funding to other areas and redirected \$7 million of its existing budget to cover increased costs for purchased utilities and basic maintenance costs. Without redirection of these funds, it would not have been possible for new core instruction and research facilities and the California Institutes for Science and Innovation to open and operate.

For 2005-06, the University is proposing an increase of \$16 million in funding under the Compact to support the unavoidable purchased utilities and maintenance costs associated with increased new space that will have come on line during the three-year period 2003-04 to 2005-06. This funding will support the operation and maintenance needs of new core instruction and research space.

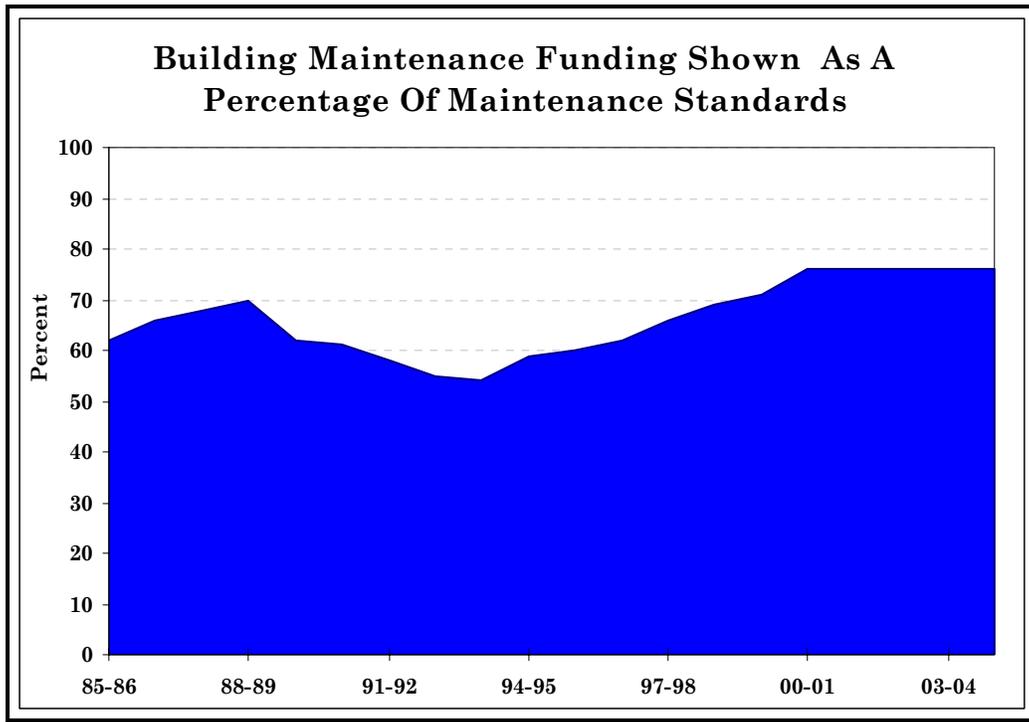
### **Ongoing Building Maintenance**

Ongoing building maintenance is one component of OMP support for University facilities. In the 1980s, the University worked with the California State University, the Department of Finance, and the Legislative Analyst's Office to develop workload standards to be used as the basis for determining the appropriate level of funding for the maintenance of the physical plant. The established standards indicate that current levels of State support for OMP do not adequately fund most of the OMP functional areas. Support for janitorial services at the University is at about 65% of the recommended standard; support for utilities maintenance and operations is at about 70% of the standard; and support for grounds maintenance is at about 60% of the standard.

Annual ongoing building maintenance has been chronically underfunded, as reflected in Display 1. In an attempt to provide a solution to this problem, the Legislature proposed a plan in the late 1990s to eliminate the annual funding shortfall for ongoing building maintenance over a period of four years. The Legislature 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 would use State funds from within the Compact with then Governor Wilson to increase the budget for building maintenance by \$7.5 million and match this amount each year with University funds. By the end of four years, this plan would have resulted in a total increase of \$60 million for ongoing building maintenance.

However, Governor Wilson 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 provided an increase of \$7.5 million for building maintenance in 1997-98 and an additional \$6 million in 1998-99.

Display 1



Beginning in 1999-2000, the funding principles of the Partnership Agreement with Governor Davis called for annual increases for OMP to be funded 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 for building maintenance (between 1999-2000 and 2002-03), at which point the State would have funded two-thirds of the projected annual shortfall in this area. The remainder of the shortfall would have been funded from a redirection of existing University resources at the campus level.

Consistent with the Partnership funding principles, an increase of \$4 million for OMP was provided in 1999-2000 and another \$4.5 million in 2000-01 from Partnership funds. However, due to the State's deteriorating fiscal situation, in the following two years, \$11 million in Partnership funds to improve OMP funding originally proposed in the University's budget for 2001-02 and \$13 million proposed for 2002-03 were not included in the final State budget.

In 2003-04, in accordance with the Partnership Agreement, the University proposed an additional \$10 million for ongoing building maintenance. Once again, given the State's fiscal situation, this request could not be

accommodated. Recognizing the severe budget constraints facing the State in 2004-05, the University did not request the increase in OMP funding called for in the Partnership Agreement.

At the time the Partnership was established (1999-2000), the University estimated the chronic annual shortfall in funding for ongoing maintenance to be \$60 million. In the first two years of the Partnership, State OMP funding for existing facilities was increased for a total of \$8.5 million, leaving an estimated annual shortfall of at least \$51.5 million.

The chronic funding shortfall of ongoing maintenance support must be addressed to ensure that buildings and infrastructure systems continue to operate for their full useful lives and that growth of the University's already substantial deferred maintenance backlog is not accelerated.

### **Purchased Utilities**

For the last two decades, the campuses have implemented increasingly stringent energy conservation measures, have undertaken capital projects to reduce consumption, and have taken measures to lower utility rates in anticipation of increasing energy costs. These efforts 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. As funding permits, the University will continue to support energy conservation projects.

Despite significant conservation efforts, however, the University experienced steep increases in purchased utility costs in 2000-01 and 2001-02 as a result of the statewide energy crisis. While the UC/Enron "direct access" contract protected several UC campuses from the volatility of statewide electricity rates until March 2002, the University paid increasingly higher rates for natural gas throughout 2000-01 and 2001-02.

The State provided the University with \$75 million in 2000-01 and 2001-02 to help offset the increases in purchased utility costs. Of this amount, \$20 million was intended to be a permanent allocation. However, the mid-year budget cuts in 2001-02 eliminated \$25 million of the total, including all of the permanent allocation, leaving only \$50 million of one-time funds to address the ongoing shortfall in the University's purchased utility budget.

The University continues to identify ways to mitigate this ongoing shortfall. To replace the Enron contract, which expired in March 2002, the University negotiated another “direct-access” contract with Arizona Public Service Energy Services (APSES). This contract is effective through June 2005. Although the APSES rates are competitive, the funding shortfall for the purchased utilities budget continues. The University has accommodated increased costs in this essential area by cutting other elements of the maintenance budget. Projections for 2005-06 indicate that the University will need to continue to reallocate resources to cover purchased utilities funding shortfalls.

### **Capital Renewal and Deferred Maintenance**

The University estimates that at least \$600 million in one-time funding is needed to address the current backlog of the highest priority deferred maintenance projects. Without adequate funding for the systematic renewal and replacement of building systems and infrastructure to extend their useful life, the University’s deferred maintenance backlog will continue to grow. The University estimates that on average at least \$200 million is required annually over the next 50 years to meet the capital renewal needs of both building and infrastructure systems. This funding could be budgeted as either an operating expense or in the capital improvement budget. This projection assumes that ongoing building maintenance is funded sufficiently to ensure building and infrastructure systems perform throughout the duration of their expected useful life. Continued underfunding of ongoing building maintenance will exacerbate the University’s deferred maintenance problem by reducing the useful life of critical building and infrastructure systems.

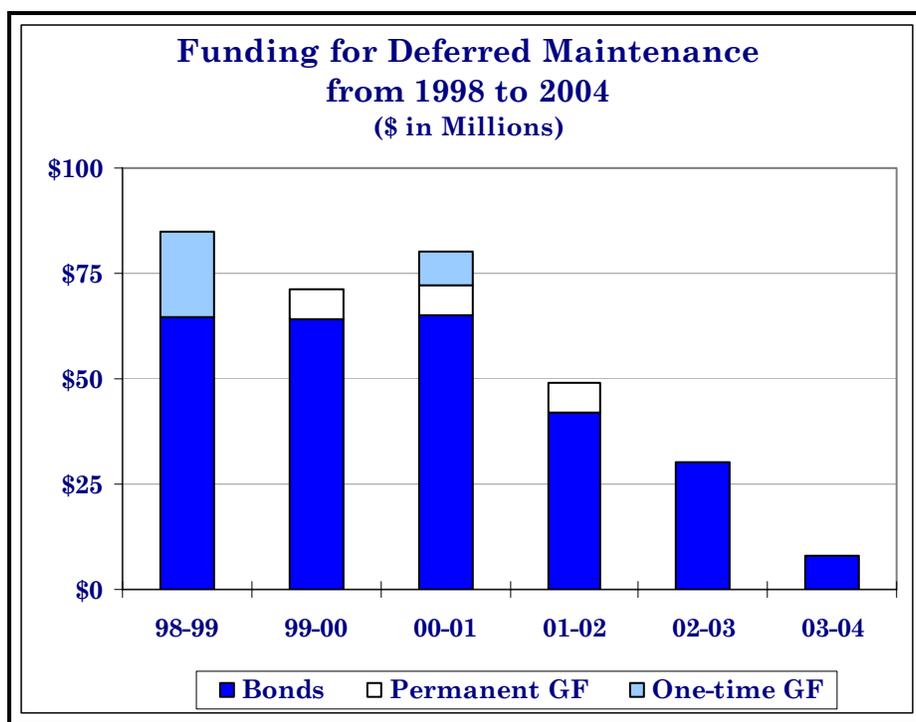
Funding for deferred maintenance has been unpredictable over the last decade. Before 1994-95, the State provided the University with nearly \$20 million a year in permanent deferred maintenance funding. While not sufficient to meet the University’s deferred maintenance needs, it was a reliable and predictable source of funding. In 1994-95 and 1995-96, this permanent funding was redirected to help limit student fee increases. The State instead authorized the University to use \$25 million each year in long-term financing to pay for high priority deferred maintenance projects. In 1996-97, the University received \$5 million in general obligation bond funding and used \$19 million of one-time University funds and UC General

Funds for deferred maintenance. In 1997-98, the University used \$7.9 million in UC General Funds for deferred maintenance.

In 1998, The Regents approved a new funding approach for deferred maintenance that provided significant levels of funding for several years. It emphasized a “systems renewal” rather than a “repair” approach to addressing this issue. Funding was provided by issuing 15-year bonds, to be repaid by using a portion of the increase each year in UC General Funds. Bond funding was provided for four years, supplemented by permanent and one-time General Fund allocations.

As shown in Display 2, between 1998-99 and 2001-02, approximately \$289 million was provided on a systemwide basis to address the most urgent deferred maintenance problems and capital renewal problems.

Display 2



The systemwide long-term debt financing program generated approximately \$65 million a year for three years; in 2001-02, bond funding was decreased to \$45.5 million due to underfunding of the Partnership, and no one-time funds were provided from the State. In 2002-03, the systemwide long-term debt financing program for deferred maintenance and capital renewal was suspended. In addition, the final Budget Act for 2002-03 included a one-time

cut of \$29 million related to core needs, including a cut of \$7.1 million for deferred maintenance.

In 2003-04, the State was unable to accommodate the University's requests for an annual \$6 million increase to resume the long-term debt financing program or to restore the \$7.1 million in permanent deferred maintenance funding. Because of the State budget crisis, the University did not request deferred maintenance funding in 2004-05.

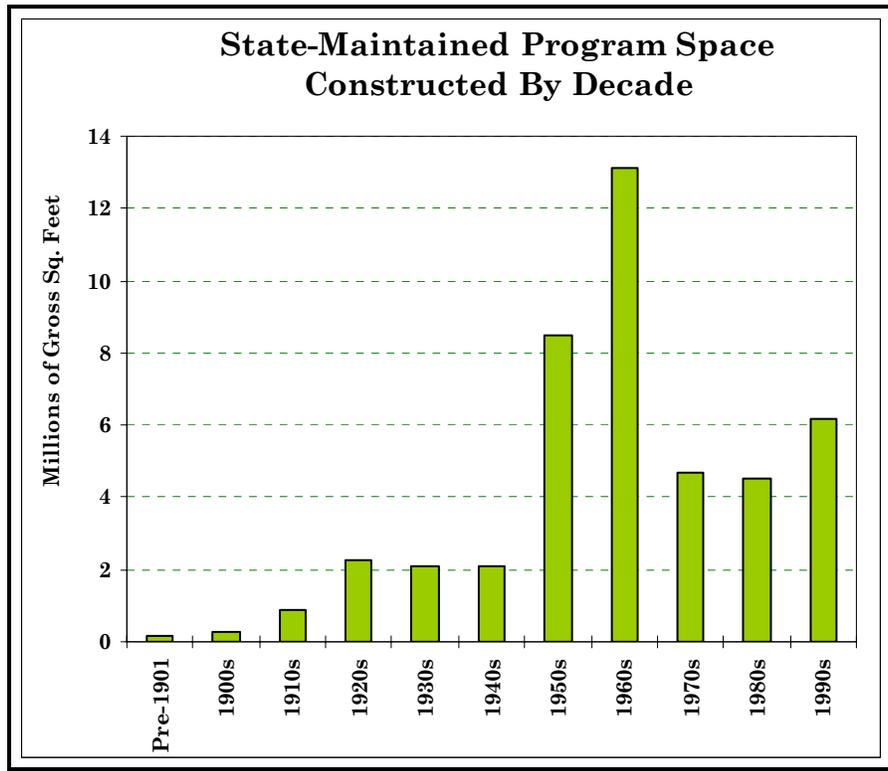
In 2002-03 and 2003-04, four campuses pledged a portion of their UC General Fund income to finance long-term debt to fund urgent deferred maintenance work, generating \$38 million in bond funds for this purpose over the two-year period. The campuses will continue this program as feasible in the current year.

Between 1998-99 and 2001-02, funding from the systemwide long-term debt financing program and other sources allowed the University to address over 1,200 high priority deferred maintenance projects. However, the cumulative impact of long-term underfunding of both OMP and capital renewal has left the University with a vast inventory of buildings and infrastructure that have systems at or near the end of their useful life, and therefore the deferred maintenance problem keeps growing.

Another way of understanding the University's deferred maintenance problem is to look at the age of UC facilities. As Display 3 shows (next page), nearly 50% of the University's core instructional and research space was built in the 1950s and 1960s. Another 15% of the University's space was built before 1950.

The major mechanical, electrical and other building systems in these facilities have useful lives that range from 25 to 50 years. Many building and utility systems have already reached the end of their useful life; in the next decade, many more systems in buildings constructed in the 1960s and 1970s will require renewal or replacement. Without funding for systematic renewal or replacement of building and utility systems, the University's deferred maintenance backlog will continue to grow over the next decade at an accelerating rate. Moreover, costs to repair and maintain these systems even at reduced levels of performance will increase as they reach and pass the end of their useful life. As the performance of these systems decreases, the University's instructional and research programs will be negatively impacted.

Display 3



The University continues to dedicate significant capital resources to new building projects, and it is critical that these investments are protected by providing adequate funding to maintain facilities in a condition that will ensure program needs are met. It is also important to invest in the renewal of existing building and infrastructure systems to maintain the functionality of these facilities.

The University's deferred maintenance problem cannot be eliminated until ongoing building maintenance is adequately supported and the University secures predictable ongoing funding to address the capital renewal needs of its buildings and infrastructure systems.

## AUXILIARY ENTERPRISES

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 676,822,000</b>
General Funds	--
Restricted Funds	676,822,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	33,841,000

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 2004-05, revenue from auxiliary enterprises will be expended as follows: 50% for residence and dining services; 10% for parking operations; 8% for intercollegiate athletics; 27% for bookstores; and 5% for other expenditures.

### **Student, Faculty, and Staff Housing**

The largest program in Auxiliary Enterprises is student housing, comprising approximately 47,744 residence hall and single student apartment bed-spaces and 4,782 student family apartments, for a total of 52,526 spaces.

Affordable student housing is an important component of the University's ability to offer a high-quality education. Rapid enrollment growth has presented the University with many challenges; creating affordable, accessible student housing to accommodate this growth is high among those challenges.

In accommodating demand, campuses identified guaranteed housing for freshmen as one of their highest priorities. Planning and providing for additional housing opportunities for transfer and graduate students is also a top priority for all campuses.

While the University was better prepared in Fall 2004-05 to meet the housing demand of students than in previous years, most campus residence halls continued to be occupied at over 100% design capacity (systemwide occupancy of residence halls was 108%). Campuses accommodate this by converting doubles to triples as well as modifying study areas into temporary quarters. All campuses housed freshmen that met enrollment and housing deadlines. However, none of the campuses was able to accommodate all of the continuing students and few were able to satisfy all transfer students who sought housing.

By the fall 2012 term, if construction proceeds as planned, the University will add 28,649 new bed-spaces. Approximately 8,449 of these new spaces are planned to be constructed through third-party development agreements. Those projects that do not yet have approvals will be subjected to a complete financial feasibility review.

The California housing market is a continuing deterrent to faculty recruitment efforts, particularly for junior faculty. Various programs to alleviate this problem have been implemented since 1978. One of these programs provides rental housing to faculty. The units are self-supporting without subsidy from student rental income, and are made available to newly appointed faculty on the basis of criteria established by each campus. There are currently 697 units available at seven campuses: Berkeley, Irvine, Los Angeles, San Diego, San Francisco, Santa Barbara, and Santa Cruz.

Home loan programs have provided mortgage loans with favorable interest rates and/or down payment requirements to 4,125 faculty members and other designated employees. In addition, the Salary Differential Housing Allowance Program has provided 2,397 faculty members with housing

assistance during their first years of employment with the University, and the Mortgage Credit Certificate Program has furnished a federal tax credit for 51 faculty who were first-time homebuyers.

The University continues to explore other faculty housing alternatives. Six campuses, in coordination with the Office of the President, have developed for-sale housing on land owned by the University. The land is leased to the purchaser of a unit built by a private developer. Resale restrictions control prices and determine eligibility for new buyers. The Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz campuses have projects underway and/or completed which will provide over 1,000 units, including townhouses, condominiums, and single-family structures. No State funds are provided for faculty housing programs.

### **Parking**

Another major auxiliary enterprise is the parking program, with approximately 107,503 spaces for students, faculty, staff, and visitors. Recognizing the serious need for parking on each of the campuses, in 2003-04 and 2004-05 the University approved parking projects that will yield approximately 2,900 new spaces.

## PROVISIONS FOR ALLOCATION

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 43,279,000</b>
General Funds	24,507,000
Restricted Funds	18,772,000
<b>2005-06 INCREASE</b>	
General Funds	-3,781,000
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 2005-06 are discussed in the *Program Maintenance: Fixed Costs and Economic Factors* chapter of this document.

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 2004-05, \$138.2 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 2005-06 budget continues this level of funding.

## PROGRAM MAINTENANCE: FIXED COSTS AND ECONOMIC FACTORS

<b>2005-06 INCREASE</b>	
General Funds	76,000,000
Restricted Funds	55,692,000

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.

### 2005-06 Budget Request

The University's request for a 2005-06 budget increase was calculated on a budget base of \$4.41 billion, which includes programs funded from State and University General Funds and student fees (Educational and Registration Fees). The methodology for determining the base is substantially consistent with that used for preparation of the University's past ten budgets and the method used for review by the Department of Finance and the Legislature. Program maintenance cost increases for professional schools will be funded from fee increases. Funds required for program maintenance in 2005-06 are summarized in Display 1.

**Display 1**

<b>Funds Required for Program Maintenance in 2005-06</b>	
<b><i>Requested within the Compact:</i></b>	
Merit salary increases for eligible employees	\$ 46,828,000
Cost-of-living salary increase averaging 1.5% for employees	\$ 40,552,000
Funding for market parity and equity salary increases and employee health and welfare benefit increases	\$ 23,684,000
Price increase of 2.25%	\$ 20,628,000

### ***Merit Salary Increases (\$46,828,000 Increase)***

Funding for merit salary increases, which are increases within existing salary ranges, 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 only once every two-to-three years on the basis of each individual's academic attainment, experience, and performance in teaching, research and creative work, professional competence and activity, and University and public service. The additional funding required to finance 2005-06 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 COLAs with those provided for merit increases. In 2005-06, the University will require an amount equal to 1.50% of the staff salary base to fund merits.

With the addition of related employee benefits, a total of \$46.8 million in State funds will be required to pay for merit increases in 2005-06.

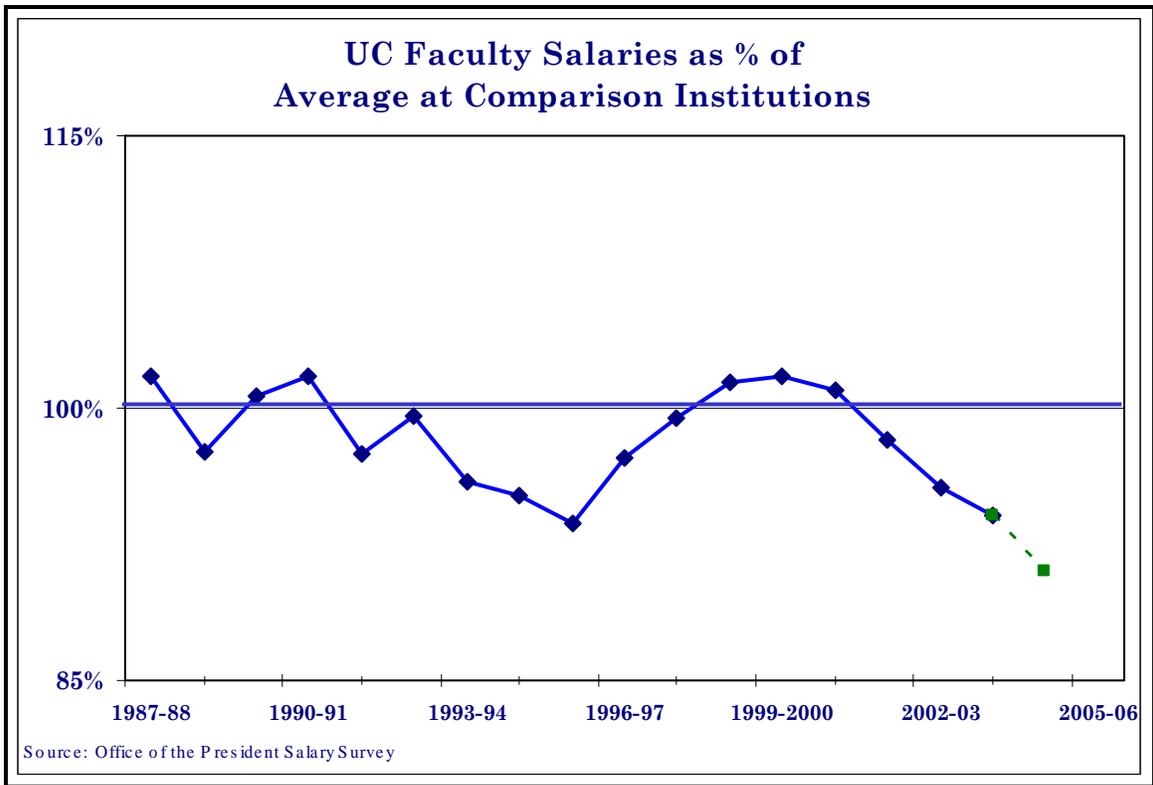
### ***Cost-of-Living-Adjustment Salary Increase (\$40,552,000 Increase)***

The area of deepest concern as a result of years of underfunding of the University's budget is the growing lag in faculty and staff salaries compared to market. The University continues its goal of maintaining market-based competitive salaries for its employees. This means providing sufficient funds, through a combination of merits, COLAs, and market and equity adjustments to keep UC faculty salaries at the average of the salaries provided at the eight comparison institutions, and to provide salary increases for other employees that, on average, at least keep pace with inflation and the marketplace.

As part of the State's actions to reduce the University's Partnership budget in 2001-02 and 2002-03, the University lost funding that had been targeted for COLA 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% in 2001-02 and merit increases of 1.5% in 2002-03 for faculty and staff. No State funding was provided in 2003-04 or 2004-05 for either COLA or merit increases.

The University instituted additional internal budget cuts in order to fund faculty merit increases for 2003-04 and 2004-05, but no employees received a general COLA and staff employees received no merit increases. As shown in Display 2, actual faculty salaries are projected to lag the average of UC's comparison institutions by 8-10% in 2004-05. It is estimated that a similar problem exists with respect to staff salaries.

Display 2



The University is requesting funding for COLA salary increases averaging 1.5% for eligible faculty and staff employees. The cost of this increase, including related employee benefits, is \$40.6 million. As indicated below, the

University is also requesting funding in addition to the 1.5% COLA salary increase to address essential market and equity related compensation needs.

***Employee Benefits and Market Parity and Equity Compensation Increases for Academic and Staff Employees (\$23,684,000 Increase).***

The University is proposing to use \$23.7 million in funding provided under the Compact for market parity and equity compensation adjustments and for increases in funding for health and welfare benefits for UC employees.

Funding provided in 2005-06 for merit and COLA adjustments proposed under the Compact will not be sufficient to close market lags, but will at least help keep salaries from falling much further behind in the competitive marketplace.

Notwithstanding the success of the University in reducing the cost of health benefits in the past, and a continuing commitment to controlling costs, the University is impacted by California and nationwide trends of dramatically increasing health benefit costs in recent years; they are expected to increase significantly again in 2005-06. On the other hand, in comparing UC health benefits with other institutions' health benefit plans, the University's benefit package has historically been very competitive.

There is insufficient funding within the Compact to cover the entire cost increase expected in employee health benefits for 2005-06. However, the University will use funding not used for salary increases to help defray the cost of increases in health benefits for employees; this means it is likely that some of the increases in costs will continue to be borne by employees themselves. The University will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market. In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical plan premiums on lower paid employees. While UC continues to pay the greater portion of monthly medical premiums for all employees, UC covers an even larger portion of the premium for those earning less.

In addition, there will be the need to address serious market lags and issues of equity where newly hired faculty and staff are paid

significantly more than individuals with similar experience, skills and knowledge who have been employed at the University during the extended period of low or no salary increases.

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

For annuitant benefits, the University is requesting funding that is equivalent to the funding provided for the State's annuitants. The Department of Finance traditionally calculates these costs based on the most recent available data and, consistent with the principles of the Compact, provides the funding separately. Thus, estimates of the rise in costs related to annuitant benefits are not included in the Regents' Budget at this time.

### ***Provision for Price Increases (\$20,628,000 Increase)***

The University is requesting \$20.6 million, a 2.25% increase, to offset the impact of inflation on non-salary budgets and maintain the University's purchasing power. Although the University purchases many commodities whose expected cost increases exceed current inflation estimates, the request for funding is limited to a 2.25% increase to stay within funding available under the Compact. Recent economic forecasts are projecting an overall inflation rate of about this level.

Increases significantly greater than 2.25% are anticipated for several major commodities. Based on an annual report from campus libraries and industry sources, the University anticipates increases of about 5.1% for subscriptions and 4.8% for serial services. This means that the average annual increase in the costs of library materials will be approximately 5% in 2005-06. 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 categories each year. The University will also experience higher cost increases for other commodities, such as fuel, paper based products, laboratory and agricultural chemicals, equipment, 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 Compact, 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. 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 to reduce costs by sharing resources; and using electronic tools to increase dissemination of information, ranging from news releases to job postings. In recognition of the continuing fiscal crisis in the State, the University is reviewing administrative activities across a wide range of programs to identify additional efficiencies where possible.

## UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS

<b>2004-05 BUDGET</b>	
<b>Total Funds</b>	<b>\$ 198,709,000</b>
General Funds	--
Restricted Funds	198,709,000
<b>2005-06 INCREASE</b>	
General Funds	--
Restricted Funds	3,682,000

The following section discusses three fund sources derived from contracts with the federal government that are used to help fund the University's operating budget: the University Opportunity Fund, the Off-the-Top Overhead Fund, and the Department of Energy (DOE) Laboratory Management Fee. The Management Fee is the annual compensation provided to the University for management and oversight of the DOE Laboratories at Berkeley, Livermore and Los Alamos and is discussed at the end of this chapter.

### **Federal Reimbursement**

All federal contract and grant activity generates costs which are divided into two basic categories—direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting a specific contract or grant. These costs are charged directly to individual contracts or grants. Indirect costs are those expenses which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement later provided by the federal government. The basis for this reimbursement is arrived at through a series

of complex negotiations between the University and the federal government that result in indirect cost rates that are then applied against contract and grant activity.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity in areas such as campus contract and grant offices, academic departments, and Organized Research Units (ORUs). This is the source of the University's Off-the-Top Overhead Fund. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University General Funds and is used, along with State General Funds, to help fund the University's basic budget, consistent with the budget plan described each year in this document. The remaining 45% is the source of the University Opportunity Fund. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated.

In 1990, the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities, and related infrastructure. Under the provisions of the legislation, the University is authorized to use 100% of the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintain the facility. Any reimbursement received in excess of what is needed to finance and maintain the facility is allocated as previously described. Of the 21 projects approved by the Legislature to be financed in this manner, 14 have been completed, 1 received gift funding and was removed from the program, and 6 are in the planning and construction stages. Included in the 21 projects are 6 of the 7 California Institutes for Science and Innovation facilities, which received partial funding from the Garamendi funding mechanism. Of those 6 projects, 1 has been completed and 5 are in the planning and construction stages.

### **University Opportunity Fund**

Allocations to campuses from the University Opportunity Fund are based on the amount of indirect cost reimbursement generated by the campus. This

approach represents a reinvestment in research and an incentive to further develop the University's research capacity. Each campus has discretion as to the use of University Opportunity Funds. The following is a programmatic description of functional areas in which campuses expend these funds.

### ***Research***

Campuses often use their University Opportunity Fund allocations to enhance their faculty recruitment efforts by providing support for such research needs as laboratory alterations, equipment, research assistants, fieldwork, and debt service for new buildings. The adequacy of funding for these and other basic research needs has a substantial impact on the success of efforts to recruit and retain high-caliber faculty. The level of research support that can be offered is often a pivotal factor in the recruitment of promising junior faculty members. The University must be in a position to offer a level of research support that is competitive with other institutions. In the physical and natural sciences, it is not unusual for the University to provide several hundred thousand dollars in research support in the recruitment of a faculty member.

Research support is also critical 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, and recruitment of a replacement can be very costly. The quality of the University's academic programs is defined in large part by the excellence of its faculty. The use of the University Opportunity Fund for the recruitment and retention of distinguished faculty members helps to secure the University's excellence.

Since 1970, The Regents have used University Opportunity Funds to provide core support for high priority systemwide research programs not adequately funded from other sources. Such programs include the Keck Observatory, the Energy Institute, and the Institute for Mexico and the United States. Some campuses use a portion of the University Opportunity Fund allocation as seed money for a continued and selective expansion of their research programs. They also use University Opportunity Funds in combination with State and other University funds to address the special needs encountered by individual faculty members in the conduct of research, such as funding for equipment and supplies, text preparation, research assistants, fieldwork, and travel.

## ***Instruction***

Allocations for instruction are designed to provide continuing incentives to explore new instructional approaches and programs. Innovative instructional activities are essential for maintaining dynamic, high quality academic programs. The Education Abroad Program is typical of those funded. This program furthers students' academic progress and enhances their communication skills, cultural enrichment, and understanding of the contemporary world through intensive involvement in a different culture. University Opportunity Funds help to support guest students on University campuses who are here as a result of reciprocal arrangements with foreign institutions that are hosting University of California students. This is an essential part of the operation of the Education Abroad Program, and is not supported by State funds.

Some campuses use University Opportunity Funds to provide support for programs designed to give special recognition to excellence of undergraduate instruction or to support course evaluations to give faculty the feedback needed to improve teaching.

## ***Institutional Support***

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 University's 2005-06 budget year involves a period of transition for the University's relationship with the three DOE national laboratories. Unless they are extended, the LBNL contract expires on January 31, 2005, and the LLNL and LANL contracts expire on September 30, of that year. DOE has publicly stated that it would like to extend the LLNL contract to permit orderly competition of the laboratory contracts. The University is awaiting a formal proposal from DOE on a contract extension. Due to the uncertainty associated with this period of transition, the University is assuming funding levels for the contracts unchanged from the prior year's actual numbers.

Under the existing contracts, compensation for 2005-06 would be as follows:

1. reimbursement of actual costs for support of the Office of the Vice President for Laboratory Management, in an amount not to exceed \$7.4 million;
2. reimbursement of indirect costs associated with management of the Laboratories that are incurred by the University. The amount for fiscal year 2005 is expected to be approximately \$11 million. Annual contract indirect payments are distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. These funds are budgeted as UC General Fund income and help to support the University's operating budget;
3. payment of performance management fees of up to \$17.4 million, dependent on the Department of Energy's evaluation of performance at the three Laboratories. Contract compensation will also be used to cover costs related to audit disallowances at the Laboratories, other federally-unreimbursed costs incurred in the course of contract performance, and to support scientific research collaborations between the University and the three UC-managed DOE laboratories. In anticipation of new contracts for managing the three laboratories, scientific research collaborations previously supported by the Complementary and Beneficial Activities (CBA) Fund and UC Directed Research and Development (UCDRD) will be merged into a single program co-managed by UCOP and the Laboratories beginning in 2005.

Funds received during the University's 2005-06 budget year will be a pro-  
ration of the amounts described above for whatever portion of time any of  
those contracts are in force during the budget year. If The Regents authorize  
the University to compete for successor contracts at one or more of the three  
DOE national laboratories and the successor contracts start during the  
University's 2005-06 budget year, the contract compensation received will  
reflect any proposal authorized by The Regents to be made by the University  
and subsequently accepted by the federal government. Although the Regents  
have not yet authorized the University to compete for the new contracts at  
Los Alamos, Lawrence Berkeley, and Lawrence Livermore, they have  
authorized the use of a portion of the performance management fee to  
cover the costs for contract competition planning.

## **INCOME AND FUNDS AVAILABLE**

### **General Fund Income and Funds Available**

The programs described in this budget document will require General Fund resources in 2005-06 of \$3.4 billion, including \$2.8 billion in State General Funds, and \$555 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 \$256.8 million in University General Fund income. This income estimate is based on the 2005-06 nonresident tuition level proposed in this budget and on the number of students expected. In addition, the application fee and a number of smaller fees will produce University General Fund income totaling \$22.6 million.

Overhead on State agency agreements totaling \$10 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 \$102.1 million will be provided from this source in 2005-06.

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 \$226.5 million will be provided from this source in 2005-06. The remaining 45% is the source of the University Opportunity Fund, estimated to be \$185 million in 2005-06. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated. Expenditures from the University Opportunity Fund are discussed more fully in the *University Opportunity Fund and Special Programs* chapter of this document.

In addition, in 1990 the State approved legislation (SB 1308, Garamendi) authorizing the use of reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities and the related infrastructure. Under the provisions of the legislation, the University is authorized to use 100% of the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintain the facility. Any reimbursement received in excess of what is needed to finance and maintain the facility is allocated as discussed above.

Contracts for University management and oversight of the Department of Energy National Laboratories at Berkeley (LBNL), Livermore (LLNL), and Los Alamos (LANL) provide compensation to the University for its management of the Laboratories.

The University's 2005-06 budget year involves a period of transition for the University's relationship with the three DOE national laboratories. Unless they are extended, the LBNL contract expires on January 31, 2005, and the LLNL and LANL contracts expire on September 30 of that year. DOE has publicly stated that it would like to extend the LLNL contract to permit orderly competition of the laboratory contracts. The University is awaiting a formal proposal from DOE on a contract extension. Due to the uncertainty

associated with this period of transition, the University is assuming funding levels for the contracts unchanged from the prior year's actual numbers. Under the existing contracts, the compensation for 2005-06 would be as follows:

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3. payment of performance management fees of up to \$17.4 million, dependent on the Department of Energy's evaluation of performance at the three Laboratories. Contract compensation will also be used to cover costs related to audit disallowances at the Laboratories, other federally-unreimbursed costs incurred in the course of contract performance, and to support scientific research collaborations between the University and the three UC-managed DOE laboratories. In anticipation of new contracts for managing the three laboratories, scientific research collaborations previously supported by the Complementary and Beneficial Activities (CBA) Fund and UC Directed Research and Development (UCDRD) will be merged into a single program co-managed by UCOP and the Laboratories beginning in 2005.

Funds received during the University's 2005-06 budget year will be a pro-ration of the amounts described above for whatever portion of time any of those contracts are in force during the budget year. If The Regents authorize the University to compete for successor contracts at one or more of the three DOE national laboratories and the successor contracts start during the University's 2005-06 budget year, the contract compensation received will reflect any proposal authorized by The Regents to be made by the University and subsequently accepted by the federal government. Although the Regents have not yet authorized the University to compete for the new contracts at Los Alamos, Lawrence Berkeley, and Lawrence Livermore, they have

authorized the use of a portion of the performance management fee to cover the costs for contract competition planning.

## **Restricted Fund Income and Funds Available**

### ***Other State Funds***

In addition to State General Fund support, the University's budget for current operations includes \$59.4 million in appropriations from State special funds including, for example, \$24 million from the California State Lottery Education Fund, \$14.3 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program, and \$14.9 million for the Breast Cancer Research Program, also funded from the Cigarette and Tobacco Products Surtax Fund. Also included in State special funds is \$927,000 for the Breast Cancer Research Program appropriated from the Breast Cancer Research Fund, which derives revenue from the personal income tax check-off.

### ***Student Fees***

Consistent with the Compact Agreement with the Governor, the 2005-06 budget plan assumes increases in mandatory systemwide fees of 8% for undergraduate students and 10% for graduate academic and professional students to provide for salaries, benefits, and cost adjustments to portions of the budget funded by student fee revenue. An amount equal to 25% of the revenue generated by the fee increases from undergraduate and professional students, and 50% of the revenue generated by graduate academic students, will be used to mitigate the impact of the fee increases on needy students. Based on the number of students expected to enroll, income from mandatory universitywide fees (Educational Fee and University Registration Fee) is currently projected to be \$1.273 billion in 2005-06.

Income from the Educational Fee is used to support student services, student financial aid, and a share of the University's operating costs, including instruction, libraries, operation and maintenance of plant, and institutional support. Income from the University Registration Fee is used to support counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students.

In addition, the University's 2005-06 budget plan includes an increase of 3% in professional school fees to cover cost increases in programs funded from professional school fee revenue. This is the same cost adjustment factor used for 2005-06 to determine the base budget adjustment for State General Funds under the Compact. These increases will range from \$252 for nursing students to \$580 for business students. In 2005-06, income from the professional school fees will be approximately \$121.8 million, based on the number of students expected to enroll and the fee increase included in the 2005-06 budget plan. An amount equivalent to 25% of the revenue will be used for financial aid for professional students. 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. In addition, it is proposed that the President be delegated authority to approve additional increases in professional school fees not to exceed 15% of the combined total of mandatory systemwide fees (Educational Fee and University Registration Fee) and professional fees. The revenue from these additional increases is to be used to maintain the quality of the academic program, to provide financial aid, and to aid programs in attracting and enrolling students. University student fees are discussed in detail in the *Student Fees* chapter of this document.

Income from University Extension fees paid by nearly 400,000 registrants supports the largest continuing education program in the nation. Extension is entirely self-supporting and its programs are dependent upon user demand.

### ***Teaching Hospitals***

The University's academic medical centers generally receive three types of revenue: (1) patient service revenue, (2) other operating revenue, and (3) non-operating revenue.

- Patient service revenues are charges for services rendered to patients at a medical center's established rates, including rates charged for inpatient care, outpatient care, and ancillary services. Major sources of patient service revenue are government-sponsored health care programs (i.e., Medicare, Medi-Cal and the California Healthcare for Indigents Program), commercial insurance companies, contracts (e.g., managed care contracts), and self-pay patients. The rate of growth in revenues

has slowed significantly in recent years due to fiscal constraints in government programs and the expansion of managed care.

- Other operating revenues are derived from the daily operations of the medical centers as a result of non-patient care activities. The major source is Clinical Teaching Support, provided by the State to help pay for the costs of the teaching programs at the medical centers. Additional sources of other operating revenue are cafeteria sales, parking fees, and the Tiverton House at UCLA, which is a 100-room guest hotel for patients and their families.
- Non-operating revenues result from activities other than normal operations of the medical centers, such as interest income and salvage value from disposal of a capital asset.

Medical center revenues are used for the following expenses: salaries and benefits, supplies and services, depreciation and amortization, malpractice and workers' compensation insurance, interest expense, and bad debts. Remaining revenues are used to meet a medical center's working capital needs, fund capital improvements, and provide an adequate reserve for unanticipated downturns. The *Teaching Hospitals* chapter of this document discusses the history of the financial problems confronting the medical centers and how those problems have been, and will continue to be, addressed.

In 2005-06, expenditures of hospital income for current operations are projected to increase by \$301.8 million, about 8%. The main reasons for the increase are: 1) an increase in patient activity, 2) growth in labor costs, especially due to new labor contracts, and 3) costs incurred related to compliance with new regulations, e.g., Health Insurance, Portability and Accountability Act (HIPAA) – Privacy Standards, and AB 394 which established a ratio of licensed nurses to patients.

### ***Sales and Services***

Income from sales and services of educational and support activities is projected to total \$784 million in 2005-06. This includes income from the health sciences faculty compensation plans and a number of other sources, such as neuropsychiatric hospitals, the veterinary medical teaching hospital, dental clinics, fine arts productions, publication sales, and athletic facilities users.

## ***Endowment***

The Treasurer of The Regents invests endowment and similar funds. The vast majority of these funds participate in the General Endowment Pool (GEP) or in the High-Income Pool (HIP). The GEP portfolio is designed to promote capital growth in line with or in excess of the rate of inflation, along with steady increases in income. The HIP portfolio is designed to produce a relatively high and stable level of current income.

In 1998-99, The Regents changed the methodology for calculating the amount available for expenditure from funds invested in the GEP. From 1958 through 1997-98, the procedure had been to generate payments to the endowed activities based only on income received. At that time “income” was defined as dividends, interest, rents, and royalties. In 1998-99, The Regents approved a payout rate based on the total return of the GEP over the previous 60 months. The long-term target rate was set at 4.75%. The initial rate was set at 4.35% for expenditures in 1999-2000, which was then revised to 4.45% in 2003-04 and 4.60% in 2004-05.

The amounts shown in the Endowment category on the Income and Funds Available display at the end of this chapter represent the expenditure of the payout distributed on endowments and similar funds. Endowments require that the principal be invested in perpetuity with the income or approved payout used in accordance with terms stipulated by donors or determined by The Regents.

In the ten-year period between 1993-94 and 2003-04, actual expenditures from endowments increased by approximately 154%. The University is projecting expenditures of \$162.2 million in 2005-06.

## ***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 \$676.8 million in 2004-05 to an estimated \$710.7 million in 2005-06.

## **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 2005-06, extramural research funding is projected to be \$2.53 billion, including \$1.75 billion of federal funds. Federal funds are the University's single most important source of support for research, accounting for approximately 57% of all University research expenditures in 2003-04. 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 78% of the University's federal research contract and grant awards in 2002-03.

In the decade between 1982-83 and 1992-93, federal support for research at the University grew dramatically; increasing by an annual average of almost 10% during this period. After 1992-93, however, the focus of the federal government was on deficit reduction. While research expenditures continued to increase, the rate of growth slowed. Between 1992-93 and 1995-96 federal research expenditures at the University increased by an average of about 4% per year, and in 1996-97 there was no increase over the previous year. However, progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in continuing gains for federal research programs. Beginning in 1997-98, the University's federal research expenditures increased as follows: 7% in 1997-98, nearly 9% in 1998-99, 9.5% in 1999-2000, 8% in 2000-01, 8.4% in 2001-02, 16.3% in 2002-03, and 11.8% in 2003-04.

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 2005-06, this support is projected to be approximately \$4.08 billion, unchanged from the prior year's actual numbers due to the uncertainty with regard to upcoming expiring contracts.

## ***Student Financial Aid***

In 2002-03, UC students received \$870.9 million in federal financial aid, including \$203.2 million in gift aid and the remainder in the form of loans and work-study. Overall, UC students received about 12% more in federally-funded aid in 2002-03 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 nearly three-quarters (74%) of all federally funded aid and 42% of the total financial support received by UC students in 2002-03. 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 15% increase in Pell Grant dollars going to UC students was fueled largely by a \$250 increase in the maximum Pell grant in 2002-03. Graduate students receive fellowships from a number of federal agencies such as the National Science Foundation and the National Institutes of Health.

The *Student Financial Aid* chapter of this document discusses these and other financial aid programs.

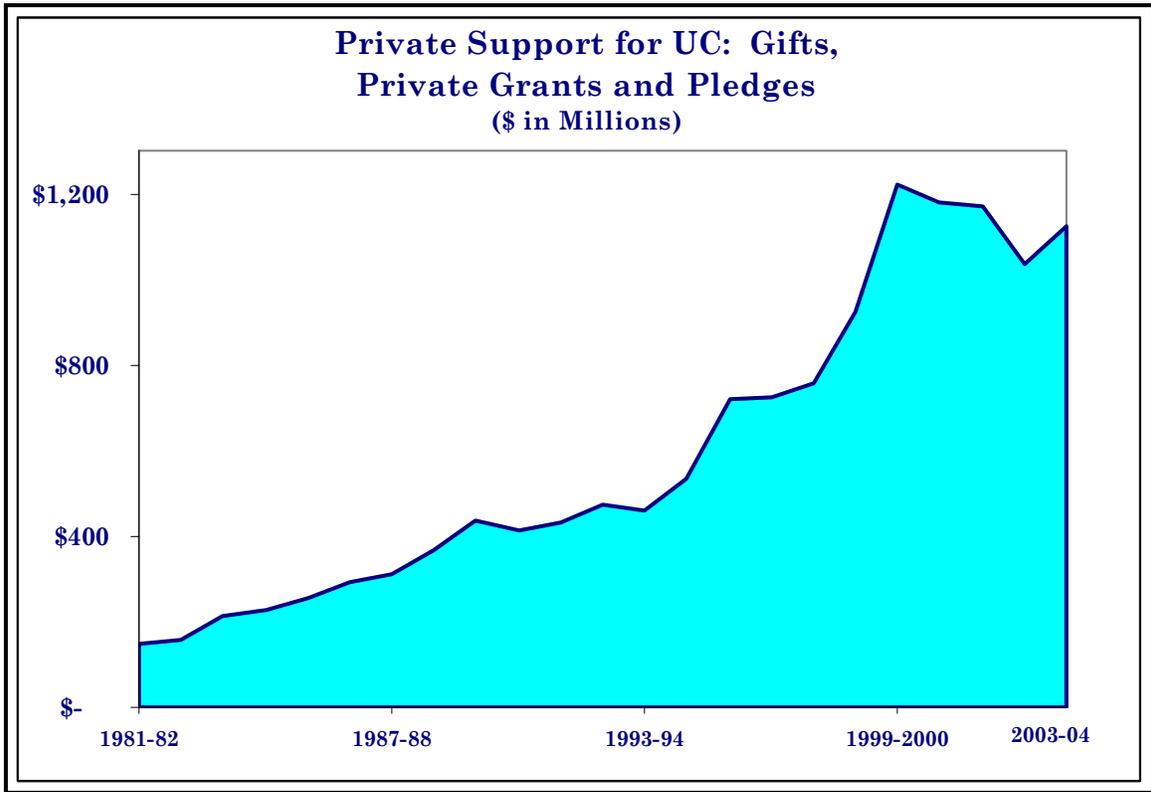
## **Private Funds**

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 2005-06, expenditures from gifts and private contracts and grants to the University are estimated to be \$999.1 million, an increase of 4% over projected 2004-05 expenditures. Expenditures have increased by over 145% in the ten-year period between 1994-95 to 2004-05.

The University continues to aggressively seek and develop non-State revenue sources, particularly private funds. Over the last two decades, the University has experienced large, steady increases in private funds received. More recently, in the last five years, the University has exceeded \$1 billion a year in total donations, even with the recent economic downturn. Pledges did decline somewhat from 2000-01 to 2002-03, but increased again in 2003-04. As shown in Display 1, in 2003-04, alumni and other supporters committed just over \$1.1 billion in gifts, grants, and pledges to the University.

Donors in 2003-04 directed \$646.0 million (57.5%) of support to University operations; \$225.4 million (20.1%) to campus improvement; and \$229.8 million (20.5%) to endowments. Of the total donations in 2003-04, \$523.0 million (46.6%) was specified for use in the health sciences. Just over 98% of the private support was restricted by the donors as to purpose.

Display 1



Private support for the University is derived from a number of sources. In 2003-04, gifts and grants from non-alumni individuals totaled \$284.6 million; from private foundations \$398.7 million; corporations, \$204.7 million; alumni, \$130.4 million; and campus organizations and other sources, \$104.5 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 a slight improvement in the changes in the economy and financial markets.

**INCOME AND FUNDS AVAILABLE**  
**(\$000s)**

	<u>Estimated</u> <u>2004-05</u>	<u>Proposed</u> <u>2005-06</u>	<u>Proposed</u> <u>Changes</u>
<b>STATE APPROPRIATIONS</b>			
General Fund	\$ 2,720,841	\$ 2,835,841	\$ 115,000
Special Funds	<u>62,597</u>	<u>59,360</u>	<u>(3,237)</u>
<b>TOTAL, STATE APPROPRIATIONS</b>	<b>\$ <u>2,783,438</u></b>	<b>\$ <u>2,895,201</u></b>	<b>\$ <u>111,763</u></b>
<b>UNIVERSITY SOURCES</b>			
General Funds Income			
Student Fees			
Nonresident Tuition	\$ 250,900	\$ 256,800	\$ 5,900
Application for Admission and Other Fees	20,500	22,600	2,100
Interest on General Fund Balances	20,500	22,500	2,000
Federal Contract & Grant Overhead	221,977	226,477	4,500
DOE Allowance for O/H & Management	11,000	11,000	--
Overhead on State Agency Agreements	10,000	10,000	--
Other	5,600	6,100	500
Subtotal	<u>\$ 540,477</u>	<u>\$ 555,477</u>	<u>\$ 15,000</u>
Prior Year's Income Balance	3,781	--	(3,781)
Total UC General Fund Income	<u>\$ 544,258</u>	<u>\$ 555,477</u>	<u>\$ 11,219</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	1,001,739	1,123,477	121,738
Registration Fee	141,055	149,106	8,051
Special Law/Medical Fee	1,820	1,820	--
Professional School Fees	111,131	119,999	8,868
University Extension Fees	200,905	206,932	6,027
Summer Session Fees	11,682	11,682	--
Other Fees	131,419	135,386	3,967
Sales & Services - Teaching Hospitals	3,657,577	3,959,327	301,750
Sales & Services - Educational Activities	547,679	564,109	16,430
Sales & Services - Support Activities	215,533	219,844	4,311
Endowments	157,439	162,162	4,723
Auxiliary Enterprises	676,822	710,663	33,841
Contract and Grant Off-the-Top Overhead	100,099	102,131	2,032
DOE Management Fee	17,400	17,400	--
University Opportunity Fund	181,309	184,991	3,682
Other	209,157	213,340	4,183
Total Special Funds	<u>\$ 7,443,682</u>	<u>\$ 7,963,285</u>	<u>\$ 519,603</u>
<b>TOTAL, UNIVERSITY SOURCES</b>	<b>\$ <u>7,987,940</u></b>	<b>\$ <u>8,518,762</u></b>	<b>\$ <u>530,822</u></b>
<b>TOTAL INCOME AND FUNDS AVAILABLE</b>	<b>\$ <u>10,771,378</u></b>	<b>\$ <u>11,413,963</u></b>	<b>\$ <u>642,585</u></b>

**BUDGET FOR CURRENT OPERATIONS  
EXPENDITURES BY PROGRAM AND FUND TYPE  
(\$000s)**

	2004-05 Budget			2005-06 Proposed			Proposed Increases		
	STATE & UC GENERAL FUNDS <sup>1)</sup>	RESTRICTED FUNDS	TOTAL FUNDS	STATE & UC GENERAL FUNDS <sup>1)</sup>	RESTRICTED FUNDS	TOTAL FUNDS	STATE & UC GENERAL FUNDS <sup>1)</sup>	RESTRICTED FUNDS	TOTAL FUNDS
	INSTRUCTION								
General Campus	\$ 1,422,335	\$ 601,082	\$ 2,023,417	\$ 1,460,335	\$ 634,603	\$ 2,094,938	\$ 38,000	\$ 33,521	\$ 71,521
Health Sciences	333,242	429,852	763,094	333,242	436,821	770,063	--	6,969	6,969
Summer Session	--	11,682	11,682	0	11,682	11,682	--	--	0
University Extension	--	200,905	200,905	--	206,932	206,932	--	6,027	6,027
RESEARCH	261,181	229,087	490,268	261,181	239,457	500,638	--	10,370	10,370
PUBLIC SERVICE									
Campus Public Service	43,268	78,797	122,065	43,268	82,461	125,729	--	3,664	3,664
Cooperative Extension	39,355	19,376	58,731	39,355	19,826	59,181	--	450	450
ACADEMIC SUPPORT									
Libraries	184,391	59,134	243,525	184,391	61,316	245,707	--	2,182	2,182
Organized Activities	167,198	286,247	453,445	167,198	295,415	462,613	--	9,168	9,168
TEACHING HOSPITALS	49,769	3,657,577	3,707,346	49,769	3,959,327	4,009,096	--	301,750	301,750
STUDENT SERVICES	--	413,962	413,962	--	419,027	419,027	--	5,065	5,065
INSTITUTIONAL SUPPORT	304,800	154,061	458,861	304,800	157,742	462,542	--	3,681	3,681
OPERATION AND MAINTENANCE OF PLANT	374,714	61,214	435,928	390,714	62,608	453,322	16,000	1,394	17,394
STUDENT FINANCIAL AID	60,339	409,000	469,339	60,339	447,910	508,249	--	38,910	38,910
AUXILIARY ENTERPRISES	--	676,822	676,822	--	710,663	710,663	--	33,841	33,841
PROVISIONS FOR ALLOCATION	24,507	18,772	43,279	20,726	18,772	39,498	(3,781)	--	(3,781)
UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS	--	198,709	198,709	--	202,391	202,391	--	3,682	3,682
<b>SUBTOTAL</b>	<b>\$ 3,265,099</b>	<b>\$ 7,506,279</b>	<b>\$ 10,771,378</b>	<b>\$ 3,315,318</b>	<b>\$ 7,966,953</b>	<b>\$ 11,282,271</b>	<b>\$ 50,219</b>	<b>\$ 460,674</b>	<b>\$ 510,893</b>
PROGRAM MAINTENANCE									
Fixed Costs, Economic Factors	--	--	--	76,000	55,692	131,692	76,000	55,692	131,692
<b>TOTAL UNIVERSITY</b>	<b>\$ 3,265,099</b>	<b>\$ 7,506,279</b>	<b>\$ 10,771,378</b>	<b>\$ 3,391,318</b>	<b>\$ 8,022,645</b>	<b>\$ 11,413,963</b>	<b>\$ 126,219</b>	<b>\$ 516,366</b>	<b>\$ 642,585</b>

<sup>1)</sup> General Funds include both the State General Fund and UC General Funds. UC General Funds do not support Teaching Hospitals. For all other budgeted programs, UC General Funds represent about 17% of the General Fund Budget. The State General Fund represent the remaining 83%.

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