2008-2009
BUDGET FOR
CURRENT OPERATIONS — Detail

JUNE 2008
OFFICE OF THE PRESIDENT

Teaching

Research

Public Service

UNIVERSITY OF CALIFORNIA

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT
November, 2007

True to its roots deep in the land-grant mission of its founding, the University of California faces a fundamental and critical question: *How can it better serve the future needs of the people of California?*

Through a continuing long-range planning process by members of the Board of Regents, chancellors, faculty and staff, the University has begun the process of answering that question — and with it, to develop a new vision for its future.

Budgets should serve as roadmaps for turning vision into action. This proposed budget is no exception. It recognizes the following:

- California has huge and growing needs; it is the University's role, as a public trust, to develop initiatives for meeting those needs.

- The State of California is facing significant fiscal constraints, which may limit its ability to meet all of the University's current budgetary needs.

- The University accepts its responsibility to fund critical needs through cost-saving reforms identified as part of an ambitious and sweeping multi-year restructuring initiative.

This represents, in short, the first steps in a long and continuous process of institutional commitment in each of several critical areas:

First, the University is building and maintaining the quality of its teaching and research core by planning for and investing in the people, programs, and facilities that ensure our continued academic and economic competitiveness on the world stage. This ranges from increasing faculty and staff salaries to supporting California's graduate education needs, as well as ensuring that UC admits students who accurately reflect the socioeconomic demographics of the state it serves and that it remains affordable both to low- and middle-income Californians.

Second, the University is proposing to reinvigorate its relationship with California by bringing its research and educational capacities to bear in health care, research, and K-12 education. Most urgent is the latter challenge, for unequal educational attainment represents the greatest threat of all to the future vitality of California and its economy.

Third, the University is restructuring the way it does business so that it may achieve the nimbleness and agility modern organizations require if they are to meet the rapidly changing needs of society and better serve the people of California.

It reflects a reaffirmation of the land-grant mission on which this University was founded — one based on service, first and foremost, to California. Service to California is our legacy, but also our future, and is possible only with the continuing support of the Governor, the Legislature and the citizens of California.

Katherine N. Lapp
Executive Vice President

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 two Department of Energy Laboratories and is a partner in a limited liability corporation that oversees a third Department of Energy Laboratory.

Organization of the Regents' Budget

The next chapter, *Overview*, provides an overall perspective on the major policy issues, specific objectives, and priorities for 2008-09. The following chapter, *Summary of the University's 2008-09 Budget Request*, outlines the University's budget plan for 2008-09. Subsequent chapters discuss programs in more detail and provide fuller justification of requests for funding increases. 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
2008-09 BUDGET FOR CURRENT OPERATIONS AND EXTRAMURALLY FUNDED OPERATIONS

EXPENDITURES

	2007-08 Budget ($000s)	2008-09 Proposed ($000s)	Change Amount ($000s)	%
BUDGET FOR CURRENT OPERATIONS				
Instruction:				
General Campus	$ 2,407,023	$ 2,497,694	$ 90,671	3.8%
Health Sciences	918,845	933,584	14,739	1.6%
Summer Session	13,421	13,421	0	0.0%
University Extension	202,071	208,133	6,062	3.0%
Research	602,042	623,594	21,552	3.6%
Public Service	222,650	231,650	9,000	4.0%
Academic Support:				
Libraries	278,158	285,965	7,807	2.8%
Other	665,368	690,368	25,000	3.8%
Teaching Hospitals	4,316,962	4,572,766	255,804	5.9%
Student Services	490,197	517,410	27,213	5.6%
Institutional Support	651,421	666,303	14,882	2.3%
Operation and Maintenance of Plant	562,520	593,545	31,025	5.5%
Student Financial Aid	618,270	657,814	39,544	6.4%
Auxiliary Enterprises	816,579	857,408	40,829	5.0%
Provisions for Allocation	99,940	95,418	(4,522)	-4.5%
University Opportunity Fund and Special Programs	204,545	210,100	5,555	2.7%
Program Maintenance: Fixed Costs, Economic Factors	--	176,714	176,714	--
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 13,070,012	$ 13,831,887	$ 761,875	5.8%
EXTRAMURALLY FUNDED OPERATIONS				
Sponsored Research	$ 2,771,274	$ 2,864,003	$ 92,729	3.3%
Other Activities	1,588,662	1,651,138	62,476	3.9%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 4,359,936	$ 4,515,141	$ 155,205	3.6%
TOTAL OPERATIONS	$ 17,429,948	$ 18,347,028	$ 917,080	5.3%
MAJOR DEPARTMENT OF ENERGY LABORATORIES	$ 653,638	$ 653,638	$ 0	0.0%

INCOME

	2007-08 Budget ($000s)	2008-09 Proposed ($000s)	Change Amount ($000s)	%
BUDGET FOR CURRENT OPERATIONS				
General Fund				
State of California	$ 3,273,916	$ 3,501,758	$ 227,842	7.0%
State of California / Possible Std Fee Incr	--	70,476	70,476	--
UC Sources	577,299	596,777	19,478	3.4%
Total General Funds	$ 3,851,215	$ 4,169,011	$ 317,796	8.3%
Restricted Funds				
State of California	$ 72,933	$ 69,485	$ (3,448)	-4.7%
U. S. Government Appropriations	17,000	17,000	0	0.0%
Student Fees:				
Educational, Registration & Professional School Fees	1,574,221	1,630,116	55,895	3.6%
Extension, Summer Session & Other Fees	460,642	476,510	15,868	3.4%
Teaching Hospitals	4,263,424	4,519,228	255,804	6.0%
Auxiliary Enterprises	816,579	857,408	40,829	5.0%
Endowments	201,853	215,983	14,130	7.0%
Other	1,812,145	1,877,146	65,001	3.6%
Total Restricted Funds	$ 9,218,797	$ 9,662,876	$ 444,079	4.8%
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 13,070,012	$ 13,831,887	$ 761,875	5.8%
EXTRAMURALLY FUNDED OPERATIONS				
State of California	$ 263,837	$ 271,752	$ 7,915	3.0%
U.S. Government	2,300,605	2,358,120	57,515	2.5%
Private Gifts, Contracts & Grants	1,169,895	1,228,390	58,495	5.0%
Other	625,599	656,879	31,280	5.0%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 4,359,936	$ 4,515,141	$ 155,205	3.6%
TOTAL OPERATIONS	$ 17,429,948	$ 18,347,028	$ 917,080	5.3%
MAJOR DEPARTMENT OF ENERGY LABORATORIES	$ 653,638	$ 653,638	$ 0	0.0%

INTRODUCTION TO THE 2008-09 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. Fifty faculty and scientists affiliated with UC have been awarded Nobel Prizes, the pinnacle of achievement for groundbreaking research; 18 of the Nobel Prizes have been won since 1995. In 2007, scientists throughout UC and its affiliated national laboratories contributed to the work of the U.N. climate change panel that shared the Nobel Peace Prize with Al Gore. No public university has won more Nobel Prizes than UC.

In 2005, President Bush named three University of California researchers recipients of the National Medal of Science, the nation's highest award recognizing scientists whose pioneering research in the areas of physical, biological, mathematical, engineering, behavioral or social sciences has led to a better understanding of our world. UC-affiliated researchers have received 56 Medals of Science — more than 10% of the medals presented — since Congress created the award in 1959. In 2007, 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 — six 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 2,025 — with this latest election, there are now more than 350 UC researchers who are members. The University of California has more active members than any other U.S. college or university.

In 2007, three researchers affiliated with UC received one of the nation's most coveted honors, a MacArthur Foundation Fellowship, which is often referred to as a "genius" grant. Since the first MacArthur Fellowships were bestowed in 1981, about 60 faculty, researchers, and others affiliated with UC have been awarded these prestigious no-strings-attached $500,000 grants. This year's fellows include Cheryl Hayashi, an associate professor of biology at UC Riverside; My Hang Huynh, a chemist at Los Alamos National Laboratory; and Claire Kremen, an assistant professor of environmental science, policy and management at UC Berkeley.

In 2007, 13 UC faculty were named Guggenheim Fellows by the New York-based John Simon Guggenheim Memorial Foundation. More Guggenheim fellowships have been awarded to UC

faculty than to any other university or college. There have been approximately 1,450 Guggenheim fellows from UC since 1930, according to the Guggenheim Foundation. 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 No. 1 and Santa Barbara No. 2, 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 more than 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.

In September 2006, a study of biotech-knowledge transfer by universities and colleges worldwide found that the University of California system averaged the highest level of licensing income annually — almost $100 million — from its research discoveries in biotechnology. The study, commissioned by the Milken Institute of Santa Monica, called the UC system the most successful university in licensing income from its biotech discoveries and inventions from 1997 to 2003. It also found that UC ranked first for numbers of U.S. biotech patents issued; 723 patents were issued between 2000 and 2004; and that one out of every five nanotech patents came from the UC system.

All of these distinctions are evidence of the University's pre-eminence 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.

OVERVIEW OF THE 2008-09 BUDGET

The University of California makes a vital contribution to the state's economy and the quality of life of its citizens. Through its instruction, research, and public service programs, the University provides a wide range of benefits to the people of California:

- UC educates the workforce needed by high-tech business, agriculture, health care, education, and other sectors of the economy.

- UC conducts research that fuels the economy, creates jobs, and increases productivity, leading to higher standards of living.

- UC provides an unmatched combination of state-of-the-art patient care facilities and path-breaking research programs, which are integrated with medical education programs to improve the health of Californians.

- UC works with K-12 schools to improve the quality of instruction and expand educational opportunities.

- UC is a key source of innovation and entrepreneurs, which are essential to the industries that will be driving California's competitiveness.

- UC provides social, cultural, and economic benefits to the communities in which its campuses reside.

The excellence of the University's programs attracts the best faculty and students, leverages billions of dollars in federal and private funding, and promotes the discovery and dissemination of new knowledge that fuels economic growth. These benefits accrue not only to the University's students, faculty, and staff, but also to citizens in every part of the state and to the country as well. The University does more than educate over 220,000 students each year; it touches the lives of every Californian.

In 2003, the University commissioned ICF Consulting to quantify the University's impact on the state's economy, on the health of its residents, and on the vitality of its communities. In the resulting report entitled "California's Future: It Starts Here", the international management consulting and strategic analysis firm concluded, *"Considering UC's contributions across the board, it is no exaggeration to say that perhaps no other institution in the state benefits the quality of life of more Californians in every sphere of their daily life — learning, working, playing, living — than the University of California."*

In September 2006 the *Washington Monthly* published a new version of college rankings that focused on indicators of how much an institution benefits the country. Specifically, the magazine explored how well a college performs as an engine of social mobility, fosters scientific and humanistic research, and promotes an ethic of service to the country. Based on these criteria, UC Berkeley was ranked as the top public university in the nation (and second in the overall rankings), UCLA ranked fourth, UC San Diego ranked sixth, and UC Davis ranked tenth. The Irvine, Riverside, Santa Barbara and Santa Cruz campuses were also included in the top 75 ranked campuses.

As the University of California has thrived, so has the State of California. Economic prosperity, social mobility and cultural opportunity — all have been fueled by far-sighted investments in higher education. But to maintain California's leadership role and to meet the changing needs of future generations, California must continue to invest, including in supporting the core budget of its world-class research university system.

The operating budget, totaling more than $18.1 billion, funds the University's core mission responsibilities of teaching, research and public service, as well as a wide range of activities in support of these responsibilities, including teaching hospitals, the National Laboratories, University Extension, housing and dining services, and other functions.

In recent years other fund sources have helped to make up for declines in State support for UC. These other sources include 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.

Yet State General Funds remain extremely critical, for they support the core instructional mission and make it possible to attract funds from other sources. For example, for every State dollar specifically invested in research, UC leverages nearly $5 more from the federal government and other non-State sources. State funds also help attract significant private funding, with one example being the California Institutes for Science and Innovation, a unique funding partnership between the State, industry, and the University.

Increased funding for the University is vital if it is to meet its obligations to the people of California. This was the central focus and premise of the charge of the Long Range Guidance Team, which recently released its report, "*UC 2025: The Promise and Power of 10".* The report, which is now helping to inform the work of the new Regents' Committee on Long Range Planning, underscored two fundamental points:

> *First, it is impossible to separate California's challenges from those facing the University. UC, in many respects, is an agent of change and transformation. But it, simultaneously, is subject to change occurring within and without the institution.*
>
> *Second, four needs loom larger than all others, and are central in addressing the other challenges facing California. These include:*

- *California's changing demographics;*
- *The crisis in K-12 education;*
- *California's place in an increasingly global society;*
- *The growing financial challenges facing California in general and higher education in particular.*

Planning for the University's 2008-09 budget is proceeding in this context and in light of the State's ongoing structural deficit, estimated to be at least $14.5 billion by the Department of Finance. The University further recognizes that it has an obligation to identify and capture savings from its ongoing operations and efficiencies review to fund additional UC aspirations and obligations.

UC Contributes to the Economic Development of the State

This state has had a long record of strong economic performance with a history of successful companies and high-paying jobs. If California were a country, its economy would be among the top 10 in the world. In comparison to other states, salaries in California have been well above the national average for the last three decades. However, there are signs that California is losing its comparative advantage.

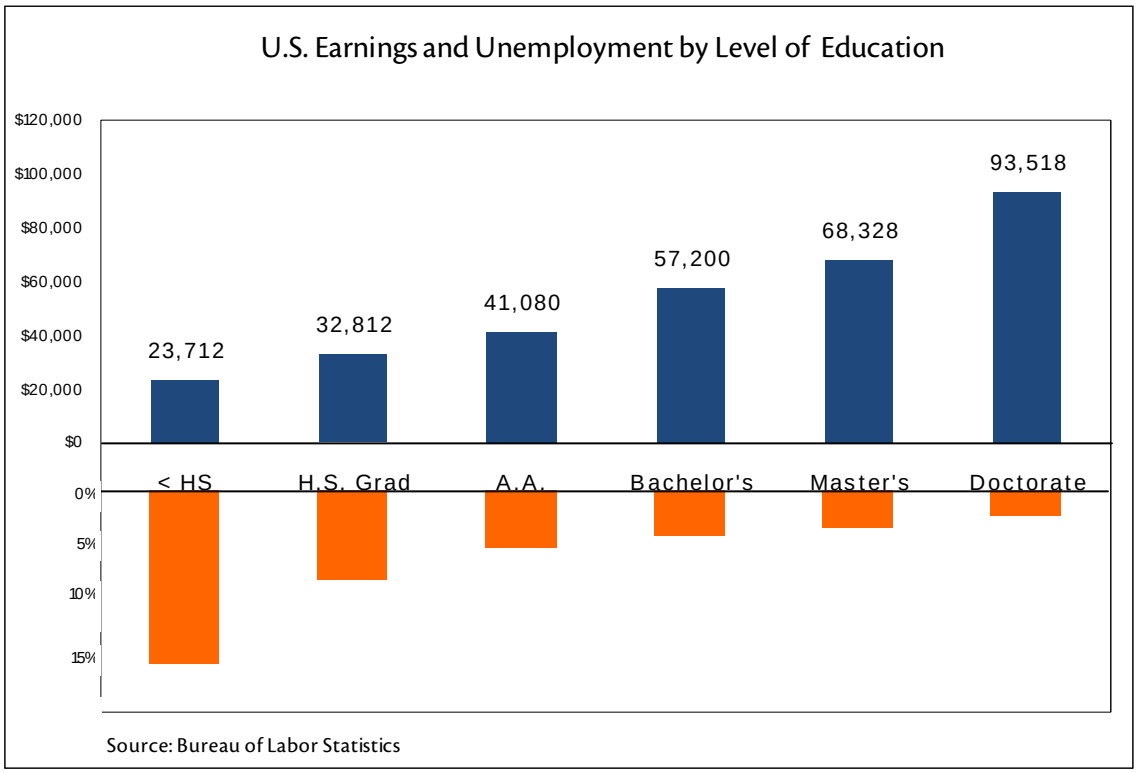
The April 2006 report entitled, "Keeping California's Edge: The Growing Demand for Highly Educated Workforce," (prepared for the California Business Roundtable and the Campaign for College Opportunity by the Applied Research Center at the California State University, Sacramento) looks at whether California can maintain its current high share of the U.S. economic activity in future decades. California's share of U.S. employment is gradually declining, peaking at 11.8% of U.S. employment in 1990 and declining to 11.3% of U.S. employment by 2000. In addition, California's per capita personal income, relative to the U.S. average, declined continuously over the period from 1980 to 2000, from 118.2% of the U.S. average per capital personal income in 1980 to 108.8% of the U.S. average by 2000. According to the report:

> *"In recent history, California's education pipeline has always assured that the next cohort to enter the labor force would be better educated than current and previous cohorts. Employers could anticipate the ever-improving educational attainment of the labor force. Now, for the first time, projections of California's education pipeline indicate declining labor force quality compared to previous cohorts, which raises questions about our ability to supply the higher-educated labor force of the future.*
>
> *California is struggling with low completion rates at all levels of education, including both secondary and postsecondary levels. This trend is just beginning to affect the quality of the workforce, causing alarm at shortages — both continuing and emerging — of skilled labor in key highly-educated occupations and in industry's struggle to replace retiring employees. To make matters worse, we are seeing increasing business operating and housing costs beginning to affect our ability to attract highly skilled workers and firms from elsewhere."*

This report projects that occupations in California requiring a higher education degree (associates degree or higher) will grow by more than 46% between 2002 and 2022, while occupations not requiring higher education will grow by only 33.5% during this same period.

With the shift to a knowledge-based economy, individual income is more closely linked to level of education. As shown in Display 1, average earnings are higher and unemployment rates are lower for those with more advanced levels of education.

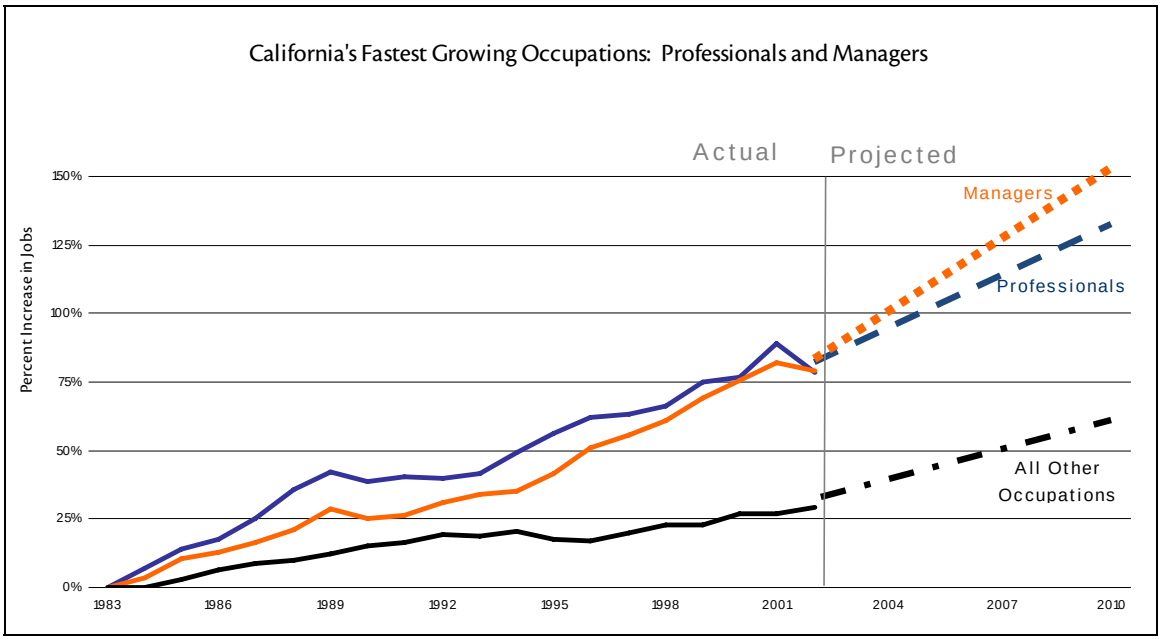
Display 1



The industries that will be driving California's economic longer-term competitiveness 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, the entertainment and interactive media industries in the corridor from San Diego to 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 a high quality of life.

As Display 2 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.

Display 2



The State's investment in higher education will impact the future of knowledge-based industries in California. The respected UCLA Anderson Forecast looked long-term 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.

According to the 2006 report, "Measuring Up — The State Report Card of Higher Education" produced by The National Center for Public Policy and Higher Education, a fairly low percentage of higher education students in California complete certificates and degrees relative to the number of students enrolled, largely due to the huge numbers of students enrolled in community colleges. For California, the measure is 14 certificates, degrees, and diplomas awarded per 100 undergraduate students enrolled at all colleges and universities; this compares to 20 per 100 for the top-performing states. When compared internationally, California ranks very low on this measure — behind such low-performing nations as the Czech Republic, Hungary, and Spain.

California has been under-investing in higher education in recent years, as evidenced by these facts about the State's funding of the University of California.

- The University's share of the State budget has decreased from 7% to 3.1% over the last 35 years.

- The State contributed about $15,830 to the cost of education for each UC general campus student in 1990, and now contributes only about $10,370 per student per year, a reduction of nearly 35% over a 17-year period (figures in 2007-08 constant dollars).

- Enrollment in the University grew by 19% from 2000-01 to 2004-05 while State support declined by 15%.

- Despite the need for more health care professionals to meet the needs of a growing and aging population, there has been almost no increase in UC health sciences enrollments in nearly 30 years.

- The University's graduate and professional programs have not been keeping pace with California employers' workforce needs. UC graduate enrollment did not increase proportionately with undergraduate growth in the 1980s and early 1990s.

- Even though basic research is critical to knowledge-based industries, State support for UC research declined by $73 million (25%) during the State budget crisis at the beginning of this decade.

A renewed commitment to funding for higher education in California is essential to meeting future economic challenges and improving the quality of life for the citizens of California. The quality of the University of California must be protected while it increases both the production of new knowledge and the number of students it graduates, if it is to continue to be an engine of economic growth for the State.

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 more than 45 years. 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. Under the Master Plan, UC has sole responsibility in public higher education for doctoral education and for professional education in law, medicine, veterinary medicine, and dentistry, with the exception that CSU can offer a specific Ed.D. in educational leadership as well as joint doctoral degree programs with UC or independent institutions.

⇒ **Research.** The Master Plan designates UC 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. University research also provides a vital link for the private sector to the development of new knowledge and the innovations that lead to new industries and the creation of more jobs.

⇒ **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 providing a broad range of services 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. UC Agricultural Extension and 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 nearly 325,000 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 they can change their system of higher education to be more like California's. The past investment in UC's development into a world-renowned institution must be continued to preserve the University's excellence in the future. Continued 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 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 early 2000's were very deep; better economic times in the late 1990s resulted in improved budgets, but did not permit full recovery from the devastating effects of earlier major funding shortfalls in the University's core operating budgets.

By 2000-01, 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 had 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, but much of the funding was for special initiatives rather than for restoring earlier budget cuts in many core functions, and thus could not adequately sustain the University's infrastructure that is the foundation of academic quality.

Four years of further major reductions as part of the State's response to the latest fiscal crisis again took a heavy toll on the University's ability to perform its missions under the Master Plan and contribute to the state's economic development:

- base budget reductions totaled about $490 million during the four-year period covering 2001-02 through 2004-05;

- another $420 million in budget cuts were offset by student fee increases;

- another $550 million represents unfunded costs associated with a normal workload budget, including salary and merit increases, employee health and welfare benefits, facilities maintenance, energy costs, non-salary price increases, and other costs. Many of these costs have been escalating dramatically, requiring the University to make even further internal cuts to keep pace with rising costs.

In the midst of the State fiscal crisis during the early part of this decade, 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, in May of 2004 the Governor entered into a new long-term Compact with the four-year institutions for the six-year period 2005-06 through 2010-11.

The funding agreement is a comprehensive statement of the *minimum* resources needed for the University to accommodate enrollment growth and sustain 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 budget agreement with the Governor, 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. Moreover, the University brought economic development and enhanced prosperity to the State, with significant resources provided for research by the federal government and other non-state sources, as well as industry growth spurred by University research.

The Compact was intended to provide fiscal stability and stop further erosion of 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 necessary resources for base budget adjustments to help fund salary, health benefit, and non-salary price increases; enrollment growth consistent with the Master Plan at the agreed-upon marginal cost of instruction; beginning in 2008-09 and continuing through 2010-11, funding to address chronic budgetary shortfalls in State funding for core areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance; and continued support for bond financing of at least $345 million annually to meet capital outlay needs. The Compact also specified fee increases for undergraduates and graduate academic students for 2004-05 through 2006-07. Following that period, the Compact envisions fee increases equivalent to the annual increase in California per capita personal income or more — up to 10% per year — if fiscal circumstances require increases that exceed the rate of growth in per capita personal income 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.

In addition to the financial provisions specified above, the Compact includes accountability measures relating to issues that are 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, enhancing community college transfer and articulation, improving graduation rates and time-to-degree, helping the State address the shortage in science and math K-12 teachers, returning to paying competitive salaries, 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 provided a report to the Administration and the Legislature on its progress in these areas in November last year and has provided an updated report again this 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 provided the basis for the University's budget plan for 2005-06 and beyond. The Compact was fully funded through

2007-08, despite continuing constraints on the State budget. For example, the University's increase in State funding under the Compact was 6.4% in 2007-08 while the overall State budget increased by only 0.5%.

Unfortunately, the State has continued to experience financial constraints — estimates of the State's two-year deficit are in the $14 billion dollar range. The Governor called a special legislative session to try to address the fiscal crisis, which resulted in $7 billion of budget actions (reductions, deferrals, elimination of one-time funds) effective for 2007-08. For 2008-09, the Governor's January budget proposal included 10% "across the board" funding reductions for all state programs and services. While the University's budget was not among those slated by the Governor for mid-year cuts for 2007-08, the 10% reduction proposed in the January Governor's budget for the University for 2008-09 amounts to a reduction of $332 million (however, the cut was taken on a base level that first accounts for full funding of the Compact, rather than a cut to the previous year's base budget).

Because of the severe constraints on the State's budget as well as other fund sources, the University's budget plan for 2008-09, as approved by the Regents at the November 2007 meeting, was modest. It called for sufficient increases in revenue from State funds, student fee revenue, and non-State revenue to fund compensation increases for faculty and staff, enrollment growth, additional support for graduate students, continued restoration of instructional budgets, increases for student mental health, and new support for research and public service initiatives in line with the University's land grant mission. The proposed budget plan as approved in November is described in more detail in the next chapter of this document, "Summary of the 2008-09 Budget Request." This plan is being re-evaluated in light of the proposals in the Governor's Budget. A discussion of options for addressing proposed cuts is taking place throughout the spring with Regents, University leadership, faculty, students, staff, State governmental leadership, and other interested stakeholders. An action to raise the Educational Fee by 7% and the Registration Fee by 10% for all students was approved at the May board meeting. Actions approving professional school fee increases ranging between 7% and 19% for 2008-09 were taken at the September 2007 Board meeting and are detailed in the Student Fees chapter of this document.

This document describes the elements of the budget plan approved in November by the Board of Regents. It has not been updated to reflect changes that may occur as a result of proposed budget cuts.

SUMMARY OF THE UNIVERSITY'S 2008-09 BUDGET REQUEST

The University developed its budget plan for 2008-09 in the fall of 2007 and the Board approved it at the November 2007 meeting, six weeks before the Governor released his January budget proposal indicating the State was facing a $14.5 billion two-year deficit and proposing 10% across-the-board reductions to every program in the state budget. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor and then proposed a 10% reduction (totaling $323 million) to that higher budget to address the State's fiscal situation. Thus, several items from the University's 2008-09 budget request were first "funded" and then that funding was subsequently eliminated. The Governor's May revision proposes to restore $98.5 million of the cut proposed in January. While under the proposed May Revise budget the net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $10 million, the University faces mandatory costs it must fund despite receiving no new State support, leaving the University short of what it needs by up to $240 million. Because of the severity of this shortfall, the University is re-evaluating its November budget plan. A discussion of options for addressing major reductions is taking place throughout the spring with Regents, University leadership, faculty, students, staff, State governmental leadership, and other interested stakeholders. There are significant challenges to be faced and very difficult choices ahead. While many decisions will be made once more is known about the Legislature's reaction to the Governor's proposed budget, one decision already made was to continue to offer admission in fall 2008 to all undergraduate applicants who meet the University's eligibility requirements, despite the proposed budget cuts. In addition, an action to raise the Educational Fee by 7% and the Registration Fee by 10% for all students was approved at the May board meeting. Actions approving professional school fee increases ranging between 7% and 19% for 2008-09 were taken at the September 2007 Board meeting and are detailed in the Student Fees chapter of this document.

This document describes the elements of the budget plan approved in November by The Regents; it has not been updated to reflect changes that may occur as a result of proposed budget cuts.

While State funding provides essential core support, the University's overall operating 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 19% of grant aid received by UC students in 2005-06.

State funds that support the University's core operations, including hiring permanent faculty who, through their enterprise, attract funds from other sources. The University has done very well in terms of attracting more private and federal funds for research, capital outlay, and other support. Many of the funds leveraged from other sources are restricted in nature, but such sources provide the means for faculty and students to create and disseminate new knowledge, meet workforce needs of the state, and help fuel economic prosperity. The University remains optimistic that there are continued opportunities for raising private funds. For federal funds, however, projections for the next several years show very little growth, if any. In fact, current projections indicate increases will only be sufficient to cover inflation, if that. Federal funds are discussed more fully in the *Research* chapter of this document, starting on page 110, and private funds are discussed more fully in the *Income and Funds Available* chapter, starting on page 232.

This *Summary* discusses general support for the University's operating budget, including State General Funds, UC General Fund income, and student fee revenue. 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.

In addition, this chapter includes a discussion of the University's needs for restoration of its fiscal health, once the State's financial circumstances permit. Years of devastating cuts have reduced the University's competitiveness and have destabilized the quality of the academic program. The historic investment the State has made to develop one of the finest public university systems in the world must be preserved if the University is to continue to provide the State with the economic and social benefits that derive from a great institution of research and learning. Restoration of funds for high priority needs will be a critical step in preserving and nurturing the State's investment for the future.

2008-09 Budget Priorities

Based on the University's Long Range Guidance Team's recent report, "UC 2025: The Promise and Power of 10," the following represents the University's long term priorities:

To reinvigorate its relationship with California, the University is proposing to:

- expand access by continuing to find a place for all eligible California students through enrollment growth;
- enhance support for graduate students who are a critical element in the research enterprise, an enterprise that often leads to groundbreaking discovery and innovation;
- maintain quality in professional schools to develop California leadership in fields as diverse as health sciences, business and law;
- support development of the new campus at Merced to expand undergraduate access, especially for the underserved San Joaquin Valley, and support unique student-centered learning*;*
- partner with K-12, CSU, Community Colleges, and others to address the achievement gap related to the education of California students;
- respond to state research needs on the effects of climate change on agriculture and the environment.

To build and maintain the quality of its teaching and research core, the University is proposing to:

- restore competitive compensation to attract and retain quality faculty and staff;
- strengthen core academic support by investing in up-to-date instructional technology, equipment, libraries, and ongoing maintenance;
- restore instructional budgets and attain adequate student-faculty ratios;
- improve student mental health programs;
- keep pace with inflation;
- address the deferred maintenance and capital renewal needs to ensure that quality infrastructure is available to support quality teaching and research.

Display 1 identifies the components of the 2008-09 budget plan, approved by The Regents at the November 2007 meeting, with proposed increases totaling $378.2 million. In order to meet

Display 1

PROPOSED NEW EXPENDITURES FOR 2008-09 TOTAL $378.2 MILLION[1]

2007-08 OPERATING BUDGET			
State General Funds			$ 3,081
State and UC General Funds plus Student Fee Revenue			5,232
PROPOSED INCREASES IN REVENUE		**PROPOSED INCREASES IN EXPENDITURES**	
State General Funds		**Compensation**	
4% Base Budget Adjustment	$ 123.2	Faculty and Staff Salary and Benefit Increases (5%)	$ 168.8
Additional 1% for Core Academic Support	30.8	Accelerated Faculty Salary Increases	20.0
Enrollment Growth (5,408 students)	62.8	**Program Growth**	
Research Initiative	10.0	Enrollment Growth	
Educational Imperative Initiative	5.0	Instructional Costs	74.0
UC General Funds		Student Services	4.3
Undergraduate Nonresident Tuition	6.0	Maintenance of New Space	9.7
Indirect Cost Recovery	12.0	Student Financial Support	14.1
Other	2.0	Core Academic Support	30.8
Student Fee Revenue		Graduate Student Support	10.0
Enrollment Growth	39.3	Restoration of Instructional Budgets	10.0
Professional Fee Increases	16.6	Student Mental Health Services	8.0
Additional State Funding or Equivalent Increase in Student Fees	70.5	Nonsalary Budget Cost Increases (2.25%)	25.0
		Professional School Programs	
		Instructional Cost Increases and Initiatives	11.1
		Student Financial Support	5.5
		Educational Imperative Initiative	5.0
		Research Initiative	10.0
		Redirection of initial savings from University efficiencies	(28.1)
TOTAL INCREASE IN REVENUE	***$ 378.2***	***TOTAL INCREASE IN EXPENDITURES***	***$ 378.2***
% Increase	7.2%		

[1] Excludes one-time funds and lease revenue payments.

The Regents' highest priorities, the University proposed to achieve sufficient increases in revenue from State funds and non-State revenue to fund the following:

- a compensation package of 5% that will be used to fund cost-of-living increases, merit salary increases, market-based and equity salary increases, and cost increases in health and welfare

benefits and non-salary budgets. This will help continue to close the salary gap of approximately 10%;

- an enrollment increase of 2.5%, or 5,408 FTE, at the revised marginal cost level. This rate of growth is consistent with the Master Plan goal of accommodating eligible students, and is sufficient to allow for planned increases in the health sciences, including increases in medical school and nursing enrollments;
- an additional 1% base budget adjustment for increased funding for core academic needs, such as instructional equipment, instructional technology, libraries, and building maintenance;
- an increase for graduate academic student support, necessary to regain the University's competitive position to attract the best graduate academic students;
- the 4th increment of funding targeted at restoring cuts that occurred in instructional budgets during the State's fiscal crisis at the beginning of this decade;
- a second increment of funding for enhancing student mental health services;
- funding for normal cost increases in non-salary budgets;
- increased funding provided through student fee increases to enhance the quality of our professional schools;
- increased funding to re-dedicate the University's teaching, research, and public service resources, in partnership with K-12 and others, to help meet the State's crisis in K-12 education; and
- new funding for research to successfully address environmental and agricultural issues arising from climate change.

The budget plan also assumes continuation of one-time funding for Merced needed for start-up costs as the campus continues to ramp up enrollments, although the one-time funding is being reduced from $14 million in the current year to $10 million in the budget year, in accordance with a phase-out plan for these funds by 2010-011. In addition, the University had intended to request one-time funding for deferred maintenance and capital renewal; however, with the State's ongoing fiscal constraints the University's budget request remained modest. The Compact says that as the State's fiscal situation permits and one-time funds become available, the University may request one-time funds to address high priority infrastructure needs, including deferred maintenance and capital renewal. No State funding has been provided for deferred maintenance since 2002-03. The University's deferred maintenance backlog for high priority projects now exceeds $800 million, reflecting the lack of predictable and adequate capital renewal funding to replace building and infrastructure systems that have reached the end of their useful life. This is a critical unmet need that must be addressed in future years.

The University's plan called for funding these initiatives by achieving sufficient increases in revenue from State funds and non-State revenue totaling $378.2 million, and redirecting savings to be realized from restructuring and other efficiencies that are occurring as part of a major review of the Office of the President and campus functions. These revenue sources are discussed briefly below:

State General Funds. In keeping with the Compact as follows, State General Funds are proposed as follows:

- a base budget adjustment of 4% to be used to fund increases for salaries, employee health and welfare benefits, and other costs;
- enrollment funding for growth of 2.5%, or 5,408 FTE students, at the agreed-upon marginal cost of instruction;
- an additional base budget adjustment of 1% for funding increases to core academic needs; and
- funding for new initiatives in research and public service.

UC General Funds. UC general funds are expected to increase primarily through growth in indirect cost recovery on research contracts and grants and a 5% increase ($953) in nonresident tuition for undergraduate students. Due to continuing concerns about the University's ability to recruit high quality graduate students and the need to ensure that the University's graduate student support packages are competitive with those of other institutions seeking the same high quality students, no increase in nonresident tuition for graduate students is proposed for the fourth year in a row.

Student fees. Aside from the proposed increase in undergraduate nonresident tuition, the University made no proposal to increase mandatory systemwide student fees (Educational and Registration Fees) or related student financial aid at this time. Instead, similar to last year, the University delayed action on student fees until more could be known after the Governor's proposed budget for 2008-09 was released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to buy out proposed student fee increases either partially or totally, the budget plan proposed for 2008-09 included an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the state. In the event student fee increases are implemented for the coming year, it would be the University's intention, as it has done in the past, to provide financial aid to cover the fee increases for needy students.

Savings from efficiencies. The University also intends to realize savings from efficiencies to be implemented stemming from the review of Office of the President and campus functions by the Monitor Group. Their first report was issued in September, 2007; a second report is due in the spring. Provost and Executive Vice President Wyatt R. Hume, in his capacity as chief operating officer, has formed five major work groups to develop recommendations for changes that can be implemented both in the short and long term to improve efficiency and reduce costs. More immediately, Provost Hume has directed an effort to identify and capture savings from this fiscal year and into 2008-09, including control on funding for current position vacancies.

The $378.2 million increase in revenue to support the budget from the sources described above is an increase of about 7.2%, 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).

The next sections provide an explanation of the specific expenditure components that make up the budget request, followed by a discussion of student fees and financial aid. At the end of this chapter, a brief summary of the proposed capital outlay budget is provided. Since the approval of the University's budget plan in November, however, the Governor's Budget released January 10 has proposed a 10%, or $332 million, reduction to the University's base budget for 2008-09 (after including new funding called for in the Compact). Options for addressing such a cut will be discussed with the Board of Regents at the January meeting. Thus, a further description of what was originally proposed is provided in the following sections with the understanding that the budget plan approved in November will be re-evaluated.

Expenditure Components of the 2008-09 Budget Plan

***Expanding Access through Enrollment Growth*—$102.1 million.** UC has long accepted its obligation, as a land-grant institution and in accordance with the Master Plan for Higher Education, to provide a quality education to all eligible undergraduate students who wish to attend. This commitment was most recently underscored as part of the Compact with the Governor.

In addition, the University is embarking on multi-year initiatives to re-balance the proportion of graduate and undergraduate students enrolled to better meet State workforce needs, particularly in the health science disciplines. To accomplish these goals, it is estimated that University enrollment will grow by about 2.5% per year, consistent with the Compact, through the end of the decade when growth in high school graduates will peak. The University is planning for continued growth in graduate and professional enrollments after 2010-11, when demographic projections indicate there will be a significantly slower rate of growth in undergraduates. For 2008-09, the University is seeking State funds to support an increase of 5,408 FTE students, representing a 2.5% increase over 2007-08 budgeted enrollments.

The majority of these funds will be used to support undergraduate and graduate enrollment growth based on a revised marginal cost of instruction, which is the level of support the State provides for each new budgeted FTE student, using a negotiated formula agreed to by the State. This formula was revised in 2006-07 to more appropriately recognize the actual salaries paid to hire faculty and to include funding for the cost of maintaining new space. The University estimated the marginal cost to be approximately $11,300 per FTE student for 2008-09. The Governor's Budget assumes a marginal cost of $11,100, reducing the amount proposed for enrollment compared to the amount requested. Enrollment workload 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; support for libraries and student services; and, as already mentioned, support for maintenance of new space, which for 2008-09 is estimated to be $9.7 million associated with 996,000 gross square feet of new space to be placed in service during 2008-09. It should be noted that as a system, the University is overenrolled by about 4,000 students in the current year.

The Merced campus opened for its third year of full operation in Fall 2007 with total enrollment of 1,940 students. For 2008-09, the campus plans to enroll a total of 2,700 FTE students. While enrollment during these initial years has been lower than planned, the campus has taken a variety of measures to step up recruitment and improve the curricular and physical environment to attract more students. In addition, planning estimates were revised a year ago to reflect a slightly slower annual growth than originally anticipated — approximately 675 students per year, down from 800 FTE annually as originally projected. By 2010-11, the campus expects to have more than 4,000 FTE and will plan to reach 5,000 students by 2012-13.

In addition, expansion of health sciences programs is planned in accordance with recommendations included in an April 2005 report issued by the University's universitywide Health Sciences Committee (HSC), "Workforce Needs and Enrollment Planning." This report is being used to guide future health sciences decision-making and help plan health sciences enrollment growth over the coming decade. Based on that study, enrollment increases in the health sciences were proposed in November as follows:

Medicine. A total of $1.8 million is needed to continue expansion of medical school enrollment through PRIME programs (PRograms In Medical Education), designed to attract and prepare more medical students to provide care to underserved populations in the state. In 2008-09, these programs will expand by 69 students, for a total of 147 students at all five campuses with medical schools — Davis, Irvine, Los Angeles, San Diego, and San Francisco.

Nursing. The University proposed to continue its four-year plan to increase the number of undergraduate and graduate nursing students by over 70% — from 823 enrolled students in 2005-06 to a total of roughly 1,440 by 2009-10 — to help the State address major shortages in nurses and nursing faculty. In addition to enrollment increases proposed in the four-year plan, further increases are now being planned for UC Davis and possibly other UC campuses. In 2008-09, the University had planned to enroll an additional 100 undergraduate, 22 graduate academic, and 82 graduate professional nursing students, which would have required a total of $2.6 million of State enrollment growth funding will be dedicated to nursing enrollment. The Governor's Budget did not provide sufficient funding for the graduate portion of the growth proposed (graduate health science programs have a richer student-faculty ratio and thus require funding above the normal general campus marginal cost level, which was not included in the Governor's Budget), so the 82 graduate professional nursing student enrollment increase will be deferred until a later date when we can achieve a higher level of funding for these students.

Public Health. Beginning in 2008-09, the University proposed to initiate a multi-year plan to expand enrollment in public health programs to address increasing demand due to new and emerging public health threats and demographic trends. In 2008-09, the plan had been to increase enrollments in the Berkeley and Los Angeles public health programs and begin new programs at Davis and Irvine for a total of 126 new professional degree students. State funding totaling $1.86 million is needed to support this new enrollment. However, again, the Budget did not provide sufficient funding for the graduate portion of the growth proposed (as noted above, graduate health science programs have a richer student-faculty ratio and thus require funding above the normal general campus marginal cost level, which was not included in the Governor's Budget), so the 126 graduate professional public health student enrollment increase will be deferred until a later date when we can achieve a higher level of funding for these students.

***Restoring Competitive Compensation for Academic and Staff Employees*—$188.8 million**. Attracting and retaining quality faculty and staff to the University of California are critical to achieving its goal of building its teaching and research core. Earlier cuts to the University's budget have resulted in significant disparities in faculty and staff salaries as compared to the market. UC faculty salaries currently lag the market by about 9.6% and there is a similar problem with respect to staff salaries.

To achieve its goal of maintaining a market-based competitive compensation program for its employees, the University's budget plan for 2008-09 includes a compensation package of 5% for faculty and staff funded from State and UC General Funds and student fee income. Consistent with past practice, compensation increases for employees supported from other fund sources, including teaching hospital income, auxiliary enterprises, federal funds, and other sources, must be funded from those sources and must conform to the University's established systemwide salary programs for State-funded employees.

The 5% compensation package proposed for 2008-09 includes the following elements:

- continuation costs for salaries and health and welfare benefits that were provided in the previous year, but effective for only part of the year;
- funding for merit salary increases for eligible employees;
- a cost-of-living-adjustment (COLA) effective October 1 for eligible employees;
- market-based and equity salary increases; and
- health and welfare benefit cost increases.

It is difficult to recruit a significant number of high quality faculty and staff even if there are no fiscal challenges. However, a persistent inability to pay competitive salaries has had an impact on the University's recruitment and retention efforts. In addition, the lag in competitive salaries is exacerbated by the high cost of housing in many of the University's campus communities. To the extent that new recruits are compensated at higher market rates, an inequity is created among those who have worked at the University for many years while little or no salary adjustments have been made to bring existing salaries to market competitive rates. The disparity in salaries among similarly-situated faculty and staff causes significant retention issues and has become an urgent issue for the University to address.

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 market lags for faculty and staff. These lags make it difficult to attract and retain faculty, staff and senior leadership in the University, which is particularly important during this period of significant enrollment growth.

At the same time, the University has acknowledged the importance of ensuring its compensation policies and practices are transparent and that the institution is fully accountable for decisions made in recruiting and retaining all staff, but particularly those in senior management. The University is in the process of adopting new oversight and reporting mechanisms intended to reform and strengthen compliance with University policy. These reforms include revising

policies that clarify the approval requirements for exceptions to policy; requiring public disclosure of compensation for University senior management; the developing of new guidelines for reporting compensation information; the undertaking of a comprehensive policy review; strengthening oversight of travel and entertainment expenditures; and improvements in its information systems in order to better track, manage, and report compensation data.

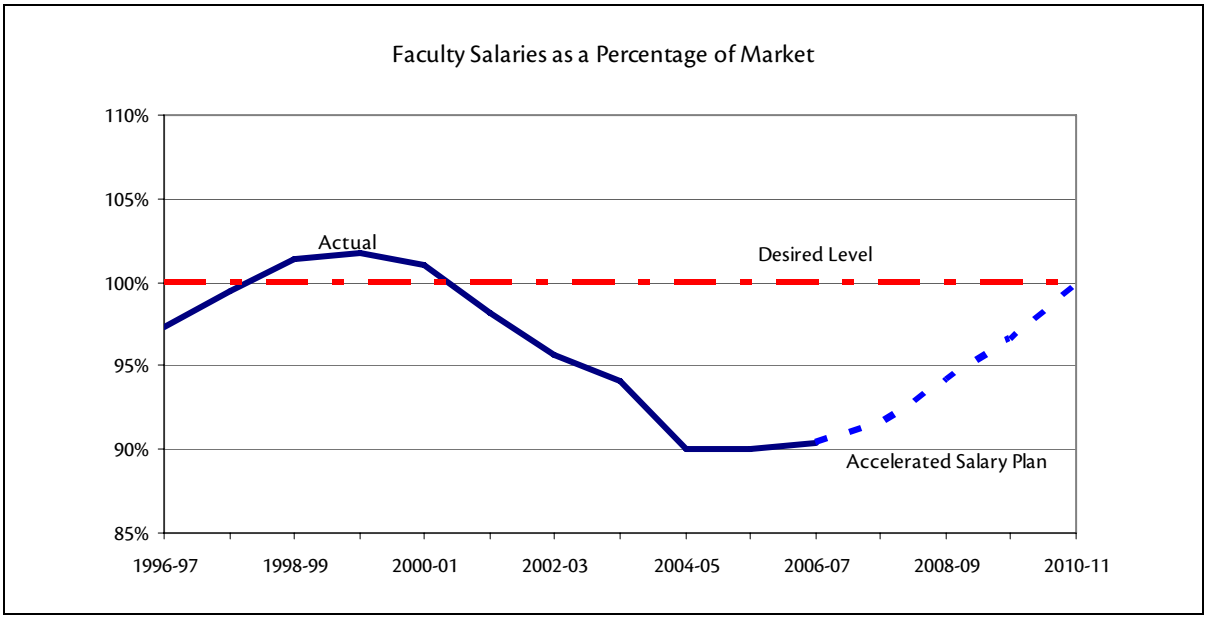
Three years ago, The Regents commissioned a study to review the University's total compensation program. The results of the study indicate that in general, salaries are significantly below that of the market median average. At present, however, the total compensation package, including salaries, health and welfare benefits for active employees and annuitants, and retirement system benefits, is close to the market. The fact that employees have not had to contribute to the retirement system since the early 1990s, because of the fiscal strength of the University of California Retirement Program (UCRP), has helped keep total compensation packages competitive. However, it is anticipated that the employer-provided value of the benefit package will decrease in the next few years as employer and employee contributions to the retirement system are phased-in, as required, to ensure the solvency of the retirement program. In addition, funding over the next several years likely will not be adequate to match the inflationary cost increases in health and welfare benefits, requiring that employees pick up an increased share of their medical insurance premiums. Although the benefits provided by the University are an important component of the packaged offered to candidates, the salary component itself must be competitive to attract and retain quality employees if the University is to retain its stature.

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).

***Closing the Faculty Salary Gap*.** In 2007-08, to better reflect the market, the University began implementing changes to raise faculty salary scales to be phased in over four years. Corresponding actual salaries for faculty who previously have been on-scale and therefore not market competitive are also being increased. In addition, all faculty will receive general range adjustments each year. These salary adjustments are expected to close the faculty salary gap by 2010-11. The four-year cost of implementing this plan is estimated to be $263 million. A portion of the funding ($195 million) for the plan will come from the 5% compensation package funded within the normal budget plan each year. The remainder will be funded through a redirection from existing resources, including savings identified as part of the current restructuring and efficiency effort.

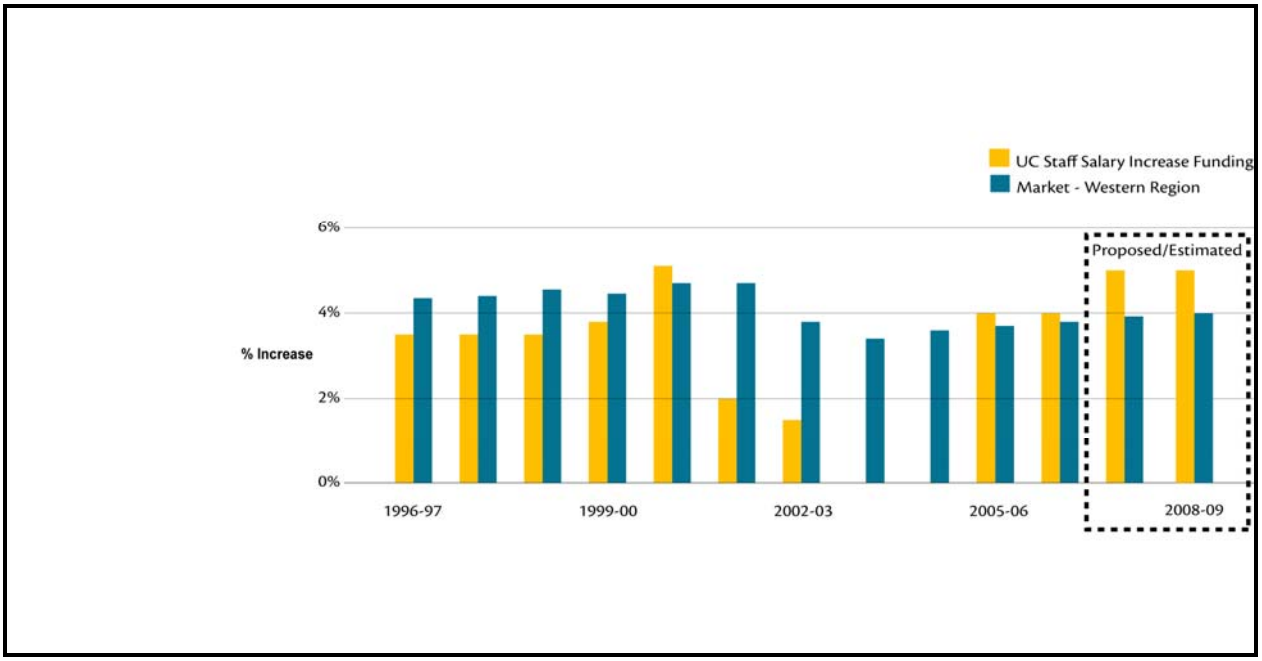
Display 2 (next page) shows how faculty salaries compare to the average salaries at the University's faculty salary comparison institutions over time, and points out the gap that has occurred in recent years.

Display 2



Staff Salary Plan. The funding gap with respect to staff salaries presents a similar problem for the University. Display 3 compares the annual State 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 over the period have been increasing at approximately 4% per year, but funding for UC staff salary increases have not kept pace. As in the early 1990s, the State's recent fiscal crisis prevented full funding of a normal workload budget for several years. In Fall 2005, The Regents adopted a plan calling for annual increases of 5% - 5.5% in staff salaries over a period of 10 years to close the gap.

Display 3



However, the University recognizes that while this amount will keep pace with market increases, it is not sufficient to address all salary inequities. For now, market and equity funding will only address the most serious market and retention situations.

Benefit Costs. While the 2008-09 compensation package includes support for health and welfare benefits cost increases, it is expected that some of the increases in cost will continue to be borne by employees themselves. In order to maintain the quality of its programs, the University is determined to remain competitive in the market, but it cannot continue to accommodate all students wishing to attend and maintain its program excellence unless sufficient resources are provided for faculty and staff salaries. 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. Although UC continues to pay approximately 87% of monthly medical premiums for employees on an aggregate basis, UC has made a strategic decision to cover an even larger portion of the premium for those in the lower salary brackets.

***Strengthening Core Academic Support*—$30.8 million.** With an additional 1% base budget adjustment called for by the Compact with the Governor, the University proposes to dedicate $30.8 million to renew efforts to address the chronic shortfalls that exist in core areas of the budget that directly impact the quality of the instructional program. Recruitment and retention of the best faculty and students require that the University make investments in these crucial areas. Core areas include instructional technology, instructional equipment, ongoing building maintenance, and libraries. Each of these categories is critical to the quality of UC's academic programs. Funding provided beginning in 2008-09 will be used to upgrade services provided in each area to the direct benefit of students and faculty.

***Enhancing Graduate Student Support*—$10.0 million.** Graduate education and research at the University of California have long fueled California's innovation and economic development, helping establish California as one of the ten largest economies in the world. This was acknowledged in the California Master Plan for Higher Education, which charged the University with the responsibility to prepare graduate academic and professional students to help meet California's and the nation's workforce needs. However, over the last forty years, graduate enrollment has not kept pace with industry demands.

A key problem inhibiting growth in graduate enrollments is the availability of financial support for graduate students — to attract the best graduate students, the University must provide competitive financial support. The Regents have identified securing adequate support for graduate students as one of their highest priorities. Over the last two years, the University has added $30 million to graduate student support programs from within Compact and other funds. An additional $10 million is proposed for 2008-09.

***Restoring Instructional Budgets*—$10.0 million.** The Governor's Budgets for both 2003-04 and 2004-05 proposed increases in the budgeted student-faculty ratio as part of the targeted budget 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, and 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 from that of the 1980s, the University's budgets between 2005-06 and 2007-08 included increments of $10 million each toward a multi-year effort to recover some of the ground lost in the instructional program during the State's fiscal crisis. The University proposes once again to include $10 million in the 2008-09 budget plan to continue to address this critical shortfall. With the funding provided in 2008-09, the University will have restored $40 million of the $70 million cut from the budget related to instructional programs.

***Improving Student Mental Health*—$8.0 million.** The growing number of students in distress and at risk makes enhancement of student mental health services an urgent University priority. Additional funds are needed to restore critical mental health services to fully respond to student needs, to implement targeted interventions through education, and take a comprehensive institutional approach to creating healthier learning environments. The University proposes to increase funding for student mental health services by an additional $8 million in 2008-09, for an increase over two years of $12.0 million.

***Keeping Pace with Inflation*—$25.0 million.** To offset the impact of inflation on the non-salary budget and maintain the University's purchasing power, $25 million in funding within the Compact is proposed to cover non-salary price increases averaging 2.25%, although the Higher Education Price Index (HEPI), an index which reports changes in cost for the goods and services employed for education, is a more accurate indicator for colleges and universities than the Consumer Price Index (CPI) and is expected to again exceed the CPI in 2007-08. During the State's recent budget crisis, funds provided for this purpose fell significantly short of what was needed. Consequently, the University estimates a current shortfall of at least $40 million in this area of the budget. Funding provided in 2007-08 will not restore any of this lost ground, but rather will prevent further deterioration in the University's purchasing power.

***Maintaining Quality in Professional Schools*—$16.6 million.** The quality of the University's professional schools is critical to maintaining California's leadership role in fields as diverse as health sciences, business, and law. Increased funding is needed to offset rising salary and other professional school costs, as well as to maintain and enhance the schools' ability to compete for the best students and faculty. This is particularly critical after years of devastating cuts to professional school budgets. The budget plan assumes $16.6 million, including a minimum $5.5 million for financial aid, will be needed for these purposes in 2008-09. Increases in the professional degree fee for 2008-09 were approved by The Regents at the September, 2007 meeting.

***Partnering with K-12, CSU, and Others to Address Key Issues for California's K-12 Schools*—$5.0 million.** UC has long recognized its responsibility, as a public trust, to mobilize its teaching, research, and public service mission to respond to crises that, over the years, have confronted California's economic prosperity and the quality of life of its citizens.

The University's recent long-range planning efforts have resoundingly concluded that the University must now do the same to meet today's K-12 education crisis. The University is therefore committing to a coordinated institutional strategy to address the quality of California's K-12 education, building upon the University's existing programs that provide services to schools and teachers.

This new initiative, called the Educational Imperative, recognizes that fundamental and lasting change in educational attainment is only possible if addressed in *collaboration with public and private sector organizations that share responsibility with UC* — in particular, with California schools, community colleges, the CSU system, other universities, community organizations and students' families. By framing UC's ongoing K-12 efforts around the new initiative's research-based, technology-focused, policy-informing approaches, UC's existing programs will be enhanced, their reach broadened, and their coordinating mechanisms improved.

The major elements of the Educational Imperative include:

- ***Better information for schools and parents on student success.*** Beginning with an expansion of its Transcript Evaluation Service, UC will help schools and districts provide useful and timely information to key stakeholders (students, parents, school counselors, policy makers, and educators) on the educational progress of students, schools, and districts.
- ***Better capacity for schools to deliver rigorous academic content.*** UC can provide tools, innovative strategies, and training to help teachers, counselors, and administrators better deliver rigorous academic content and more effectively support student learning. UC will expand existing and create new K-20 intersegmental regional alliances focused on enhancing classroom capacity.
- ***More research and better linkages between researchers, practitioners, and policy makers.*** Additional research on best practices is needed to supplement existing research and better mechanisms are needed to translate that research into policy and practice. As part of this effort, UC will build a web portal to disseminate new research and best practices, and just as importantly, provide teachers and principals an opportunity to request UC assistance in addressing learning and school management issues.
- ***Improved statewide policy dialogue on K-12 education issues.*** With its size and with other educational partners, UC can foster non-partisan dialogues between practitioners and faculty experts that are informed by the latest research and policy studies with the goal of improving future policy and practice. A new Education Policy Services unit and grants program will be established through the UC Center, Sacramento to do this and to ensure policy-relevant research is pursued.

***Responding to State Research Needs - Addressing the Effects of Climate Change on Agriculture and the Environment*—$10.0 million.** Threatening both agriculture and the coastal and marine environment is climate change, with the potential to impact California's most precious and imperiled natural and agricultural resources. Successfully addressing these environmental and agricultural issues in a coordinated way — one that balances business, environmental and social needs — will require innovative strategies by the University and other

agencies throughout the State. UC can help lead that change. Key elements of the initiative include:

- ***Foster Engagement and Strategic Planning*** by convening scientists, state agencies, policy makers, natural resource managers, industry leaders, and the public to prioritize needs and facilitate collaborative efforts to quickly respond to emerging threats to California's agriculture, environment and economy.
- ***Focus on Training and Education*** by augmenting existing successful programs to train the next generation of California leaders to manage agricultural and environmental issues through partnerships among CSU, state agencies, UC campuses and UC Agriculture and Natural Resources' statewide programs.
- ***Leverage Funds for Targeted Research*** through the use of seed funds, with a 2:1 matching requirement, that would support cross-disciplinary and cross-institutional, innovative research in areas identified through the strategic planning activities, and provide additional support for graduate students.
- ***Establish an Expert Registry, Research Portal and Data Registry*** program by creating a comprehensive, up-to-date portal to access faculty and extension research expertise, promote collaboration and cooperation, and provide access to the vital research data and results to solve California's and the world's climate change challenges.
- ***Enhance Communications and Outreach*** by expanding and leveraging existing mechanisms such as the Cooperative Extension program, UC College Prep-online, and UCTV for collecting and disseminating information on climate change issues to K-12, policy makers, practitioners, the public, professionals and scientists.

Student Fees and Financial Aid

Student Fees

Revenue from student fees is a major source of funding for the University's core educational program, providing approximately $1.6 billion to help support the University's basic operations. Therefore, an understanding of this revenue source — and how it is also used to support financial aid — is essential in a discussion of the University's budget even though no increases in mandatory student fees are being proposed at this time.

In 2007-08, the University's average fees for California resident undergraduate and graduate students remain well below the average of tuition and fees at the University's four public comparison institutions. Even with recent fee increases, UC fees remain very competitive with those institutions for resident undergraduates and resident graduate academic students.

The Compact includes Governor Schwarzenegger's proposed long-term student fee policy that calls for increases in student fees to be based on the annual increase in California per capita personal income. However, the Compact provides that fiscal circumstances in some years will require greater increases to provide sufficient funding for programs and to preserve quality. In those years, UC may decide, after consultation with the Governor, to increase fees up to 10%.

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

Display 4 shows the comparison of total fees at UC for undergraduate and graduate students with those charged at four public comparison institutions. UC undergraduate fees for resident students are about $1,770 below the average of UC's comparison institutions while fees for graduate resident students are about $1,848 below the average.

Display 4

UNIVERSITY OF CALIFORNIA AND PUBLIC COMPARISON INSTITUTION FEES

2007-08 TOTAL STUDENT FEES *

The University's average fees for 2007-08 for California resident undergraduate and graduate academic students remain well below the average of tuition and fees at the University's four public comparison institutions. Even with recent fee increases, UC fees remain very competitive for resident undergraduates and resident graduate academic students.

	UNDERGRADUATE		GRADUATE	
	RESIDENT	NONRESIDENT	RESIDENT	NONRESIDENT
Public Comparison Institutions				
University at Buffalo (SUNY)	$6,217	$12,477	$8,289	$12,309
University of Illinois	$11,130	$25,216	$11,216	$24,056
University of Michigan	$11,111	$32,400	$15,747	$31,657
University of Virginia	$8,690	$27,940	$11,240	$21,240
Average	$9,287	$24,508	$11,623	$22,316
University of California	**$7,517**	**$27,137**	**$9,775**	**$24,763**

* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident UC students. Also includes a waivable health insurance fee for UC graduate students.

While increases in student fees have been regrettable, they have been necessary to address the dramatic decreases in State funding for the University's instructional programs. UC student fees were relatively low for many years because the State provided a sufficient subsidy to adequately fund the academic program. When the State was no longer able to provide the same level of subsidy because of the revenue deficits it faced, either student fees had to go up or quality had to decline — and in this recent fiscal crisis, both have occurred. Student fee increases have helped hold the line so that quality has not eroded beyond the point of no return, but quality in some areas has declined and we must be mindful that once lost, it is difficult to regain excellence.

Fees for Professional School Students. In general, UC professional schools have historically held a place of prominence in the nation, promising a top-quality education for a reasonable price. The funding cuts that have occurred, both in the early 1990s and during the more recent budget crisis, have decimated the resources available to the professional schools to such a degree that the schools are very concerned about their ability to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students — all of which are important components of excellence in these schools. The professional schools see this as a crisis of quality and believe significant steps, including raising student fees, must be taken to regain the program quality that recent budget cuts have threatened. Rebuilding the quality of the professional programs and providing more financial aid will require a multi-year effort.

Nonresident Tuition. While no increases in mandatory systemwide student fees are proposed at this time, the University's budget plan for 2007-08 does include an increase in nonresident tuition of 5% for undergraduate students, which will generate $6 million. Total fees and tuition charged to nonresident undergraduate students at the University are estimated to be a little over $2,600 above the average tuition and fees at the public higher education institutions that are used by the University for faculty salary comparison purposes, as presented in Display 4 (previous page).

However, as discussed in greater detail in the *Student Financial Aid* 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 avoid exacerbating an already difficult problem.

Earlier this year, members of the Academic Senate overwhelmingly supported a Memorial to eliminate nonresident tuition for academic graduate students, and an advisory committee to the Provost recommended that the University eliminate nonresident tuition for academic doctoral students or provide more graduate student support. State policy constrains the extent to which the University can reduce nonresident tuition levels.

Nevertheless, because of the high priority placed on enhancing the competitiveness of the University's graduate student support packages, the University is taking steps to address this issue. By foregoing any increase in graduate nonresident tuition as noted above, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

In addition, beginning in 2006-07, nonresident graduate academic students who have advanced to candidacy for their degree are not charged nonresident tuition. This benefit is available to eligible students for three years.

Lastly, in response to widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the University has embarked on a multi-year plan to

increase each year the funding provided for graduate student support. Another such increment is included in the budget plan for 2008-09, as outlined above.

Student fees are discussed in more detail in the *Student Fees* chapter of this document.

Student Financial Aid

The University of California has become nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students. This accomplishment reflects the success of the University's financial aid programs, which are guided by policy adopted by The Regents in 1994.

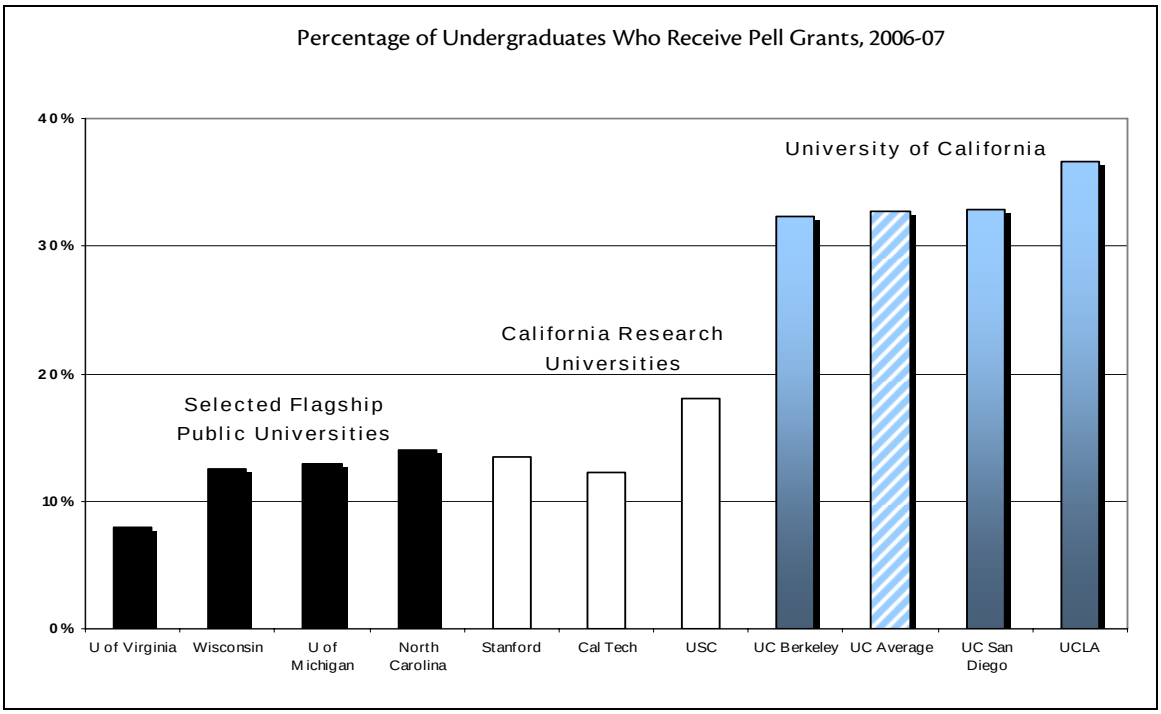
At the undergraduate level, the goal is to maintain the affordability of the University for all students so that financial considerations are not an obstacle to student decisions to seek and complete a University degree. At the graduate level, the policy calls upon the University to attract a diverse pool of highly qualified students by providing a competitive level of support relative to the cost of attending the University. This competitive context reflects the fact that graduate student enrollment is tied most directly to the University's research mission and helps the state meets its academic and professional workforce needs.

In 2006-07, over half (54%) of UC undergraduates received grant/scholarship aid averaging approximately $9,700 per student; 58% of graduate students received such aid averaging about $13,000 per student. The difference in average grant level is attributable primarily to the different purposes of undergraduate and graduate assistance: while undergraduate awards are sized to make the University accessible, graduate awards must be sized to make the University accessible and to be competitive with the awards that prospective students receive from other institutions.

To mitigate the impact of fee increases as well as increases in other educational expenses, the University has continued to use a portion of the revenue derived from student fee increases to support financial aid. Grant aid increased by 67% from nearly $800 million in 2002-03 to over $1.3 billion in 2007-08 with 44% of the growth funded from new fee revenue, an estimated 28% from the California Student Aid Commission programs, and the remaining in funds from federal, private, and other University sources.

Despite fee increases, the University has remained accessible to undergraduate students from all income groups. As shown in Display 5 (next page), enrollments of low-income students at other research institutions range from below 10% to nearly 20%. The average at UC is over 30%, more than any other comparably selective institution. At UCLA alone, nearly 40% of undergraduates are low-income students.

Display 5



The enrollment of students from middle-income families also has remained relatively stable. Over the past decade, despite fee increases, the percentage of middle-income students enrolled at the University has remained about 43%.

Financial aid also contributes greatly to the University's undergraduate diversity. African-American, Chicano/Latino, and Asian American students are disproportionately low income; 35%, 41%, and 34%, respectively, of these students have parent incomes less than $40,000. Collectively, these students receive 69% of all undergraduate gift assistance. For these reasons, maintaining a robust financial aid program for UC undergraduate and graduate students remains a top University budget priority.

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

Future Funding for High Priority Needs

From its founding, the University of California has propelled California's economy and quality of life. It has transformed desert to farmland, created new industries and economic prosperity, contributed to the defense and homeland security of the nation, driven social mobility, and discovered innovations that have improved the health, well-being, and welfare of people far beyond California's borders.

To achieve all this, the University has required continuous investments — investments that, in recent years, have been reduced because of dwindling state resources. The University, which still has not seen a restoration of cuts made in the early 1990s, faces the very real threat that it

will lose its competitive advantage among research universities, threatening the quality of its academic programs and impacting the California economy and the quality of life for all Californians.

The Compact with the Governor and the support of the Legislature for its funding principles represent important first steps in helping to stem the erosion in funding levels. The University's continuing long-range planning process, involving members of the Board of Regents, chancellors, faculty and staff, has identified a number of pressing long-term needs for California that require both an institutional commitment by the university and a long-term commitment of funding by the state.

Among the University priorities presented to the Regents' Long Range Planning Committee:

- **fully fund faculty salaries** to market within four years and **staff salaries** to market as soon as possible, but no longer than the original 10-year plan. *Total future cost:* $250-300 million in state funds both within and above the Compact plus anticipated student fee increases or equivalent additional state funding. This does not include additional costs for faculty and staff hired to address enrollment growth;

- **restore investment in the research enterprise** and provide **support for the graduate students** who help sustain it. These investments, which are leveraged with grant and other funding, will power California's economy, give rise to new industries, solve real and pressing problems of the environment, health access, and agriculture, to name just a few, and inform social public policy and its application. *Total future cost:* ongoing annual increments of $10 million for graduate student support as well as continued funding from the state for graduate student enrollment at the agreed-upon rate; and increments of $5-$15 million a year in support for new and cutting edge research, aligned with the state's evolving needs;

- **contribute lasting solutions to California's K-12 educational crisis.** *Total future cost:* up to $10 million a year including $5 million annually from the state and another $5 million annually sourced from efficiency gains and external (philanthropic, corporate) contributions;

- **meet California's health care needs**, including addressing the large and mounting shortfall of doctors, nurses, public health professionals, pharmacists, and veterinarians, particularly in California's medically underserved communities. *Total future cost:* to be determined;

- **restore funding to instructional budgets** and **improve the student-faculty ratio.** *Total future costs:* $40 million to restore instructional budget cuts in four $10 million annual increments from 2008-09 to 2011-12 followed by $10 million a year as needed to hire the additional faculty necessary to restore the student-faculty ratio to 17.6:1; and

- **upgrade essential infrastructure.** The following needs have been identified. Each is extensively documented elsewhere and reflects the extent and severity of inadequate investment and associated unmet needs:

- $800 million to $1 billion annually for state supportable capital projects including those necessary for seismic and life-safety improvements, accommodating enrollment growth including instructional (classroom) buildings, capital renewal, and building out essential infrastructure.
- $800 million to $1 billion annually for non-state projects to improve and extend research space, improve medical centers, and provide auxiliary structures such as parking and housing for students, faculty, and staff.
- $150 million for academic support including libraries, instructional technologies, and instructional equipment.
- $100 million annually to build out and maintain an IT infrastructure that is appropriate for effective management of this $20 billion knowledge organization and to manage a cyber-infrastructure capable of supporting high-end and increasingly computationally-based research.

Other critical investments will be needed to meet additional priorities, although total future costs have not been fully calculated:

- ***increase diversity***, through implementation of The Regents' policy adopted at the September 2007 Board meeting that includes recommendations to expand and coordinate successful student academic preparation programs as well as implement recruitment, fellowship and mentoring programs that encourage recruitment, retention, and successful advancement of diverse faculty and staff. Total future cost: to be determined;

- ***ensure access and affordability***, in keeping with the University's commitment under California's master plan for higher education. While the University is committed to continuing the practice of setting aside a minimum of 33% of the revenue raised from increases in student fees for financial aid (totaling some $40 million in 2007-08), it is also exploring initiatives to significantly increase the pool of funds that can be made available for financial aid, including aid for middle-income California students;

- ***retirement contributions.*** While employer and employee contributions to the UC retirement plan (UCRP) have not been required since the early 1990s due to the performance of its investments, independent actuarial reports have determined that the plan will become underfunded within the next several years unless contributions are resumed. The Regents have voted to resume employer and employee contributions, subject to the budget process, availability of funding, and collective bargaining. UC expects that State support will be consistent with the State's approach to contributions to CalPERS. While The Regents have not yet decided on the amount or timing of contributions, based on a current projected total ongoing cost for UCRP of approximately 16% of payroll, this could mean UC and its employees may ultimately pay approximately 11% and 5%, respectively, toward the cost of maintaining UCRP benefits. (For represented employees, the timing and level of the restart of contributions will also be subject to the collective bargaining process.); and

- ***retiree health.*** New accounting rules now require the University to report in its financial statements all post-employment benefits (OPEB) expense, such as retiree medical and dental costs, on an accrual basis over the employees' years of service, along with the related

liability, net of any plan assets. (Currently, retiree medical and dental costs are paid as they are incurred and the University does not recognize the liability in the financial statements.) The University is currently evaluating the effect on its financial statements, but it is expected that the annual OPEB expense, including normal cost, interest and amortization of unfunded liability, will range from $1.35 billion to $1.45 billion, based on current program design. If, over a period of years, The Regents gradually increased funding for retiree health costs up to the point where only the normal cost was funded, the incremental budgetary demand would reach approximately $325 million. The State's portion of this incremental amount would be approximately $60 million.

The University recognizes this is an ambitious agenda, but it is one appropriate for meeting the growing needs of California.

At the same time, the University also acknowledges it must do its part by undergoing a thorough operations and efficiencies review, with the goal of identifying and capturing sufficient savings to finance many critical initiatives. However, this cannot be a substitute for continued support from the state. On the contrary, state investments must be dramatically augmented as its fiscal situation improves. For only in partnership – with the state generously investing in its research university, and a university that, in turn, recognizes its public trust obligation to operate at maximum efficiency – can we ensure the University of California's continued place as the highest quality public research institution in the world.

Capital Outlay Budget for 2008-09

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.

Funding for the majority of the University's 2008-09 capital budget will require passage of a new General Obligation bond measure, Assembly Bill 100, which is currently being considered by the Legislature. The bill would provide the University with approximately $690 million for general capital outlay projects over a two-year period. This is consistent with the Compact which expresses the Governor's support for continued funding for capital outlay of about $345 million per year either through general obligation bonds or other bond financing.

The University is proposing that an additional $200 million in funding ($100 million per year), above the $690 million, be provided to help support a sustained expansion of health sciences enrollments. The funds would be used to finance the design and construction of instruction and research facilities for programs in medicine, nursing, public health, and other health disciplines.

Within this context, the University's 2008-09 capital budget proposal totals $489 million in State funds to expand and upgrade academic facilities to support enrollment growth

($204.5 million), maintain progress on seismic and other life-safety improvements ($102.5 million), and address essential infrastructure and building renewal needs ($81.9 million). The proposed budget includes $375 million to support 25 general campus capital projects, $14 million in equipment funding for five projects, and $100 million for health sciences expansion. Of the total proposal, $51.8 million would be funded from previously approved General Obligation bonds, $687,000 from State General Funds, and the remainder, $436.4 million, from a new General Obligation bond measure.

The University's 2008-09 request for State funds for capital improvements is presented in more detail in a companion document titled, *2008-2009 Budget for State Capital Improvements*.

GENERAL CAMPUS INSTRUCTION

The original plan for enrollment increases included as part of the University's budget plan for 2008-09 and as approved by the Regents at the November 2007 meeting is discussed in this section. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor and then proposed a 10% reduction (totaling $332 million) to that higher budget to address the State's fiscal situation. The net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $108 million. Thus, several items from the University's 2008-09 budget request were first "funded" and then that funding was subsequently eliminated. The Governor's May revision proposes to restore $98.5 million of the cut proposed in January. While under the proposed May Revise budget the net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $10 million, the University faces mandatory costs it must fund despite receiving no new State support, leaving the University short of what it needs by up to $240 million. Because of the severity of this shortfall, the University is re-evaluating its November budget plan. The items funded before the reduction was taken included funding for 5,000 FTE student enrollment growth, which is 408 FTE students lower than enrollment growth included in the original plan. The Governor's Budget included funding at a marginal cost of instruction that was slightly lower than the level included in the original plan. The University has made a decision to ask campuses, to the best of their ability, to implement those enrollment growth increases that had originally been included in the Governor's Budget before the 10% cut was taken. This enrollment growth, including growth planned in MD students in the PRIME programs, will be funded through an internal redirection of existing resources. Given uncertainties associated with accommodating unfunded enrollment growth at the campus level for 2008-09, the University is not yet able to project enrollment increases for 2008-09 at this time.

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 and delivery 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 increasingly must provide graduate academic and professional instruction in accordance with standards of excellence, the growing needs of California, one of the ten largest economies in the world, and in the face of restricted 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 2008-09 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 funding provision of the Compact related to general campus instruction is support for enrollment growth of 2.5% per year through the end of the decade. This growth rate represents an increase of more than 5,000 full-time equivalent (FTE) students annually at UC and will allow UC to achieve enrollment levels consistent with earlier projections. The State will provide funding for this enrollment growth at the agreed-upon marginal cost of instruction as adjusted annually. For 2008-09, the University's budget plan includes $62.8 million to support a budgeted enrollment increase of 5,408 FTE students, including health sciences enrollment growth.

Included in the University's enrollment plan for 2008-09 is the continued expansion of the University of California at Merced. The campus officially opened its doors in 2005-06 and is enrolling nearly 2,000 students during 2007-08. 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.

In addition to enrollment growth funding, the University proposes to use $10 million from within the Compact for restoring instruction funding following undesignated cuts in the earlier part of the decade. These funds will be used to restore instructional resources and strengthen the student-faculty ratio.

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 $2.4 billion in 2007-08, of which $1.7 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, 55%; instructional support, 40%, which includes salaries and benefits of instructional support staff such as laboratory assistants, supervisory, clerical, and technical personnel, and some academic administrators, and some costs of instructional department supplies; and funds for instructional equipment replacement and technology, 5%.

The University offers instructional programs spanning more than 150 disciplines from agriculture to zoology, as well as many emerging interdisciplinary fields. The Academic Senate of the University authorizes and supervises courses offered within instructional programs, and 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 successfully prepare a student for employment in the California labor market, graduate study, or other endeavors.

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. The purpose of graduate programs is to demonstrate 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 brain trust. Graduate degrees fall into two broad categories. Professional master's and doctoral degrees are awarded to students trained to embark 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 and the nation’s cultural, social, and economic development through discovery and innovation. In addition to the University's state-supported full-time master's and doctoral degree programs, 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 provides 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 2008-09 ($56,500,000 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 full-time equivalent (FTE) student, the "marginal cost of instruction." The University's budget plan includes a request for $62.8 million to support budgeted enrollment growth of 5,408 FTE students in 2008-09, including growth in the health sciences. Funding for enrollment growth provides the base resources necessary to recruit excellent faculty and maintain top quality instructional programs. Thus, funding for enrollment remains among the University's highest priorities.

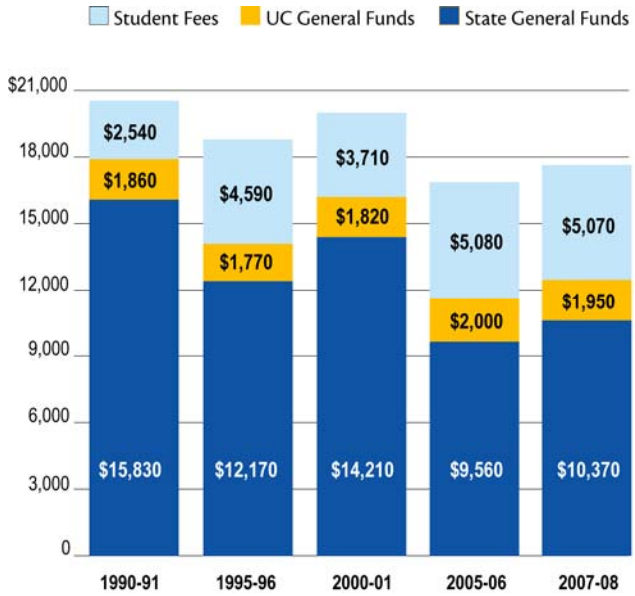
State Support for Enrollment Growth

The State provides funding for each additional FTE student added to the University's current budgeted enrollment level based on an amount known as 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.

In 2007-08, the Governor and the Legislature agreed to a State contribution of $10,586 per FTE student. The University developed its 2008-09 budget plan using a marginal cost estimate of $11,300 per FTE student for 2008-09. Enrollment workload funding totaling $45.6 million for general campuses will provide salary and benefits for additional faculty positions (based on the current budgeted student-faculty ratio of 18.7:1); 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. In addition, the State is expected to provide support for maintenance of new space, which for 2008-09 is estimated to be $9.7 million. The *Operation and Maintenance of Plant* chapter of this document provides further information about new funding in this area.

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. Display 1 shows the funding components of the average cost of a UC education from 1990-91 through 2007-08 (in 2007-08 dollars) and the funding gap that has developed between the cost of a UC education in 1990-91 and the resources available in 2007-08. Display 1 yields several findings.

Display 1



- The average expenditure per student for a UC education has declined. In 1990-91, the cost to educate a UC student was approximately $20,230 in 2007-08 dollars. Over 17 years, funding

per student in inflation adjusted dollars declined by 14%, from $20,230 in 1990-91 to $17,390 in 2007-08.

- The State subsidy per student for the cost of a UC education has declined significantly — by 35% over a 17-year period. In 1990-91, the State contributed $15,830 per student — 78% of the total cost. By 2007-08, the State share declined to $10,370, just 60%.

- As the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1990-91 students contributed 13% toward their education, they currently pay 29% of the cost of their education.

These findings raise several additional points. First, the funding gap that has developed since 1990-91 represents lost support totaling more than $500 million. Although the University has struggled to meet the challenge presented by this substantial decline in state funding, it must be recognized that certain elements of the educational, research, and public service functions have been steadily sacrificed in order to preserve the core missions of the University. It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. When the State's financial situation permits, the University will seek support to reduce this funding gap, as discussed in the *Summary of the 2008-09 Budget* chapter of this document.

Second, recent national news coverage about skyrocketing costs of college tuition masks what has really happened at UC. University expenditures per student have not increased, but rather have fallen (in constant dollars). Instead, fees paid by students have risen as funding from the State has declined. 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.

Third, despite rising fees for students, the University has striven to maintain student access and affordability. While fees have increased, the University has provided significant increases in financial aid to help ensure access for low-income students. UC has maintained affordability for lower-income students by sustaining a strong financial aid program.

Accommodating Enrollment Growth

The California Master Plan for Higher Education calls for UC to offer access to all eligible applicants in the top 12.5% of the state's public high school graduating class who choose to attend. 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 applicants who meet the eligibility requirements and apply on time, though not necessarily at the campus or in the major of first choice. In addition, the Master Plan calls for UC to guarantee a place for all California Community College transfer applicants who meet eligibility requirements. Framers of the Master Plan also envisioned maintaining or enhancing the proportion of graduate student enrollment at UC. To enable the University to fulfill these access provisions, the Master Plan 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 45 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.

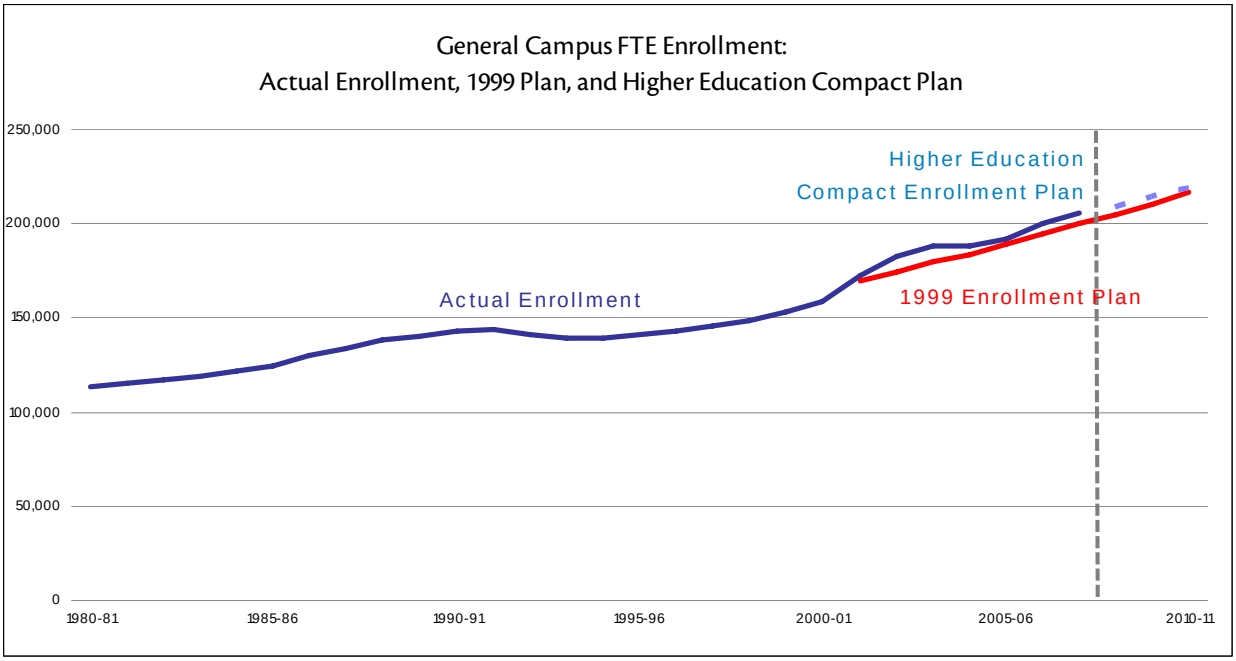
In addition, the University has embarked on a multi-year initiative to re-balance the proportion of graduate and undergraduate students enrolled to better meet State workforce needs. For several decades, a compelling State priority has been placed on providing undergraduate access for the rapidly growing high school graduate population. However, adherence to this priority has not been without some consequences for the overall academic balance of the University and its impact on the State's supply of highly-skilled workers needed in California's knowledge-based economy. Thus, while the University has expanded access for undergraduates, graduate and professional enrollments have not always kept pace, as was intended in the Master Plan. The University is planning for continued growth in undergraduate, graduate and professional enrollments through the remainder of this decade and continued growth in graduate and professional enrollments after 2010-11. In the next decade, demographic projections indicate there will be a significantly slower rate of growth in undergraduates, but the State's need for highly-skilled and specialized workers produced by UC graduate and professional programs will require continued enrollment growth at the graduate level.

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 public high school class, but in recent years about 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 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 rather than the 5,000 FTE enrollment growth projected earlier. Following a budgeted enrollment decrease in 2004-05, the Compact negotiated in 2004 with Governor Schwarzenegger called for UC to return to its earlier estimates of 2.5% enrollment growth per year, which has allowed the University to resume enrolling students at levels near those

Display 2



envisioned in the 1999 plan. This growth was included in the 2005-06, 2006-07, and 2007-08 budgets. However, in 2006-07, the University was significantly overenrolled on the general campuses, and this over-enrollment has again occurred in the current year (2007-08). For 2008-09, the University requests additional budgeted enrollment growth of 5,408 FTE students.

In addition to the tremendous enrollment growth experienced by the University over the last thirty years, the undergraduate student population has changed in dramatic ways.

- During the mid-1980s, women became the majority of UC undergraduate students.
- Since 1980, enrollment of Asian American and Chicano/Latino undergraduates has grown more than 300%, far exceeding the 68% growth in total undergraduate enrollment. Display 3 (next page) shows the headcount of undergraduate students enrolled at the University in Fall 1980 and, more than two decades later, in Fall 2006, the latest year available.
- More than half of entering undergraduates are immigrants to the United States or have at least one immigrant parent.
- More than one-third of freshmen are first-generation college students.
- Slightly more than two-thirds of entering undergraduates begin the University as freshmen. Among all UC undergraduates, 94% are California residents and only 2% are international students.
- Today's entering undergraduates are also better prepared for a University education and, as discussed later in this chapter, are more likely to graduate and do so at a faster pace.

Display 3

Domestic Undergraduate Headcount

Fall 1980 - 2006

	1980	2006	Change	Percent Change
African American	3,474	4,959	1,485	43%
American Indian	483	864	381	79%
Chicano	3,816	17,555	13,739	360%
Latino	1,539	5,917	4,378	284%
Subtotal	9,312	29,295	19,983	215%
Asian American	10,700	49,146	38,446	359%
Filipino American	1,304	7,491	6,187	474%
White/Other	68,200	64,412	(3,788)	-6%
Decline to State	5,362	9,087	3,725	69%
Subtotal	85,566	130,136	44,570	52%
TOTAL	94,878	159,431	64,553	68%

Display 4

Domestic Graduate Headcount

Fall 1980 - 2006

	1980	2006	Change	Percent Change
African American	996	1,322	326	33%
American Indian	132	332	200	152%
Chicano	900	1,949	1,049	117%
Latino	579	1,486	907	157%
Subtotal	2,607	5,089	2,482	95%
Asian American	2,145	7,433	5,288	247%
Filipino American	117	726	609	521%
White/Other	20,394	25,950	5,556	27%
Decline to State	5,354	4,200	(1,154)	-22%
Subtotal	28,010	38,309	10,299	37%
TOTAL	30,617	43,398	12,781	42%

Note: Includes general campus and health sciences enrollment.

Shifts have also occurred in the graduate student population.

- Men remain the majority of UC graduate students, but graduate enrollment of women rose steadily from 38.9% in 1980 to 47.6% in 2006.

- While graduate enrollment grew only 42% between 1980 and 2005, graduate enrollment of Chicano/Latino students grew by more than 130% while Asian American enrollment grew by 240%, as shown in Display 4.

- In recent years, about 17% of new graduate students have been international and 26% have been nonresidents from another U.S. state.

- Two-thirds of general campus graduate students are pursuing doctoral degrees, primarily in academic subjects. The other third are pursuing master's degrees, primarily in professional fields such as law (J.D.), business, public policy, and education.

- The annual number of academic doctoral degrees awarded by the University has risen 68% since 1980-81, while the number of master's degrees awarded has grown 51%. The number of first professional degrees awarded, such as the Juris Doctor and Doctor of Medicine, grew only 10% during the same period.

- Over a quarter of all UC doctoral students are in the physical and life sciences, and nearly another quarter are in engineering and computer sciences. In 2006-07, 62% of doctoral degrees were awarded in mathematics, sciences, and engineering.

The University of California, Merced

UC Merced was established as the 10th campus of the University of California to meet the needs of the significant and rapidly growing area of the State of California – the San Joaquin Valley. It was determined decades ago that the campus would be strategically sited in the San Joaquin Valley for several purposes: to increase the Valley's educational levels and the college-going rate of high school graduates; to enhance access to a research university education for students in the Valley; to provide additional opportunity for the diverse population of California; and to increase the economic viability of the San Joaquin Valley. The campus is already making valuable contributions to the region as a powerful economic engine. In addition to the influx of students, faculty, and staff, the San Joaquin Valley is already experiencing a surge in investment from knowledge industries attempting to tap into the intellectual resources brought by the 10th UC campus.

Educational Access

Student interest in UC Merced remains strong, as more than 9,500 students applied for admission in the third year of operation. UC Merced began with 13 graduate students in 2004, but officially opened its doors to 865 FTE students in 2005-06, enrolling pioneer freshmen, community college transfer students, and graduate students. In 2007-08, 1,940 FTE students

were enrolled. This increase in enrollment represents more than a 115% increase in the student population in two years. It is estimated that the campus will reach a population of over 4,000 FTE students by the academic year of 2010-11.

To ensure that enrollment continues to grow at a healthy pace, five new majors have been added for Fall 2007, and more are planned for Fall 2008. Last fall the campus opened the Joseph Edward Gallo Recreation & Wellness Center and students started a number of club sports programs. Dozens of student organizations have been created, and discussion is underway for community service groups and intercollegiate athletics. The campus has taken full advantage of its proximity to Yosemite National Park by offering programs that connect students, both academically and recreationally, with this national treasure.

Additional on-campus housing was completed for Fall 2007 to allow more than 750 students to live on campus, enabling the campus to provide housing for all incoming freshmen. By Fall 2008, on-campus residence halls will have a total capacity of approximately 1,000 beds.

These academic and student life enhancements should significantly help increase both the number of applicants and the yield from the pool of admitted students.

In addition to attracting new students, it is crucial to retain students for sustained enrollment growth. Nationally, about 79% of freshmen in public institutions return for the second year. UC Merced has experienced a second-year retention rate of 82%, which testifies to the tremendous commitment of the faculty and student services staff. Faculty actively participate in student recruitment activities, and the favorable student-faculty ratio provides opportunities for interaction that are not typical in larger universities. Undergraduate research is a priority for UC Merced students.

As a research university, UC Merced is particularly focused on increasing the number of students in California who complete advanced degrees. After two years of operation, the campus has graduated six master's students (one in May 2006 and five in May 2007). In addition to this success, the campus is expecting to graduate its first doctoral students in May 2008. In Fall 2007, the graduate student population on the campus grew from 76 to 130. Two new graduate majors have been added in Fall 2007, and more are planned for Fall 2008.

The UC system has enrolled more students than ever before, and UC Merced has helped ensure that every UC-eligible student in California is offered a place. The campus plays a major role in fulfilling the goal of the Regents and the State to raise the college-going rate in the San Joaquin Valley and beyond. Over one-third of the incoming undergraduate class in the third year of operation at UC Merced has come from the Central Valley region. Moreover, almost half of UC Merced's freshmen are first-generation college students, who will serve as role models for others and establish a college-going tradition in their families and communities.

UC Merced has a diverse student population, which includes students from many areas of California. Approximately 27% of the class entering in 2007 comes from the Bay Area, and another 31% comes from southern California. The incoming freshman class is 33% Hispanic,

7% African American, 20% White, 34% Asian American, and 1% American Indian (the remaining 5% indicated "other" or declined to provide their ethnic background).

Academic Innovation and Excellence

As the first new research university in the United States in the 21st century, UC Merced is in many ways an educational laboratory, with its faculty and students deeply engaged in innovative programs in both education and research. UC Merced has established a unique learning environment that fosters excellence in teaching, research and public service in the great tradition of the University of California, but allows for innovation in curriculum and in delivering instruction that incorporates an unprecedented level of interdisciplinary collaboration.

UC Merced's core academic programs are being offered through three schools: Engineering; Natural Sciences; and Social Sciences, Humanities and Arts. Two additional schools are under consideration, a School of Management with a large endowment from E&J Gallo and a School of Medicine to address California's severe physician shortage.

New faculty members have been drawn from all over the world and are helping the campus offer more fields of study. Nine broad-based majors were offered in the first year, with courses tailored to the inaugural class, mostly freshmen and some junior-level transfers and graduate students. For Fall 2007, students were able to choose from 20 majors and 16 minors, with the addition of courses in new fields as well as new courses for sophomores and seniors. Five additional majors approved for Fall 2007 include popular majors that are impacted throughout the UC system. Emphasis tracks within the majors allow students to delve deeper into areas such as air pollution, hydrology, or molecular biology. In addition, 10 minors that were offered in 2006-07 will become majors as more faculty members are hired. Students entering as freshmen can look forward to greatly expanded curricula as they move toward graduation.

The distinctive mark on research at UC Merced has begun in its signature organizations, the Sierra Nevada Research Institute, the Energy Center, and the Biomedical Sciences Research Institute. Topics currently under study include hydrology, solar power technologies, stem cell biology, infectious disease, biodiversity, air and water quality, and population health. As with the academic programs, UC Merced's research institutes will foster collaboration across disciplinary areas — the relationships among environmental science, human health, and environmental and health policy are obvious examples, issues that are particularly important for the San Joaquin Valley. Partnerships with other UC campuses and with entities such as Lawrence Livermore National Laboratory, Sequoia and Kings Canyon National Parks, and Yosemite National Park enhance education and research at UC Merced.

Economic Development

UC Merced has and will continue to serve the San Joaquin Valley as an economic engine. As a major employer and user of services, the campus continues to be a significant and growing contributor to the regional economy.

As of June 2007, UC Merced directly employed more than 670 FTE employees. Research dollars awarded to UC Merced, which would otherwise not come to the San Joaquin Valley, totaled over $12 million in new awards for 2006-2007 and UC Merced is on track to exceed that amount in the current year. Most important, 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 other nine regions currently hosting a UC campus, the economic benefits are profound and it is clear that will also be the case in the San Joaquin Valley and the community of Merced.

Supplemental One-Time Funding

Supplemental funds are required in 2008-09 for faculty salaries and recruitment costs, as well as instructional technology, library materials, and expanded general support needed to fully operate the Merced campus. As specified in the Higher Education Compact, the State will continue to support one-time funds needed for initial development of the UC Merced campus. For 2007-08, the State has provided $14 million in one-time funds. In addition, the Governor has agreed to $10 million in 2008-09, and this amount is scheduled to phase down over the next two years, consistent with the Higher Education Compact.

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. The remaining growth will be accommodated by expansion of summer enrollments, which 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 entirely from student course and registration fees set by each UC campus and enrollment was limited because these constrained resources allowed only a narrow range of course offerings and support services and only minimal financial aid. The University began converting summer instruction from a self-supporting to a State-supported program in Summer 2001. As of Summer 2006, the University has converted all summer instruction for UC-matriculated students to state support.

In the seven years from 2000 to 2007, the University doubled its summer enrollments, as shown in Display 5. Enrollment grew by 8,100 FTE students over this period. In 2007, more than 67,000 students participated in summer instruction, including 41% of undergraduates.

Display 5

Full-time Equivalent Summer Enrollment
(UC-Matriculated)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*% Increase 2000 to 2006*
Berkeley	1,390	1,925	2,126	2,282	2,155	1,966	1,964	2,127	53%
Davis	824	933	1,533	1,885	1,842	2,040	1,892	1,971	139%
Irvine	971	1,240	1,482	1,803	1,552	1,523	2,228	2,573	165%
Los Angeles	1,222	2,099	2,515	2,608	2,525	2,586	2,540	2,695	121%
Merced							17	70	
Riverside	430	636	829	963	913	994	1,145	1,208	181%
San Diego	775	906	1,085	1,159	1,219	1,227	1,310	1,556	101%
Santa Barbara	854	1,446	1,689	1,793	1,902	2,040	1,949	1,957	129%
Santa Cruz	351	502	584	643	638	679	734	766	118%
TOTAL	**6,817**	**9,687**	**11,843**	**13,136**	**12,746**	**13,055**	**13,779**	**14,923**	119%

The key to achieving significant enrollment growth in the summer is to offer students summer instruction that is critical to student progress, along with essential student support services, access to libraries, and student financial aid. State funding for summer instruction allows campuses to provide financial aid equivalent to support available during the regular academic year, fund adequate student services, and hire more regular-rank faculty to teach in the summer. In addition, with State funding, campuses can afford to offer greater breadth of courses during the summer to maximize efficiency and student progress toward the degree.

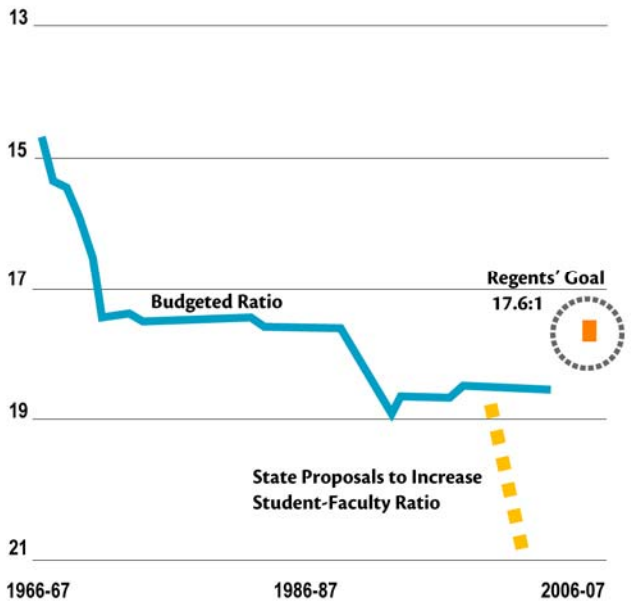
Improving Instruction

During the State's last fiscal crisis, the University took a series of budget cuts in academic programs. In 2002-03, funding for core needs (instructional equipment replacement, 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, but by necessity, these cuts meant campuses did not have adequate funds to hire sufficient numbers of faculty or to address continuously more critical areas of instructional and other core support needs. Such budget reductions made it difficult for campuses to maintain levels of instructional support necessary to provide a high quality education.

As noted above, in the last fiscal crisis, the University rejected proposals to increase further (e.g., degrade) 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. 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, continuing the erosion that has occurred over time.

Display 6



Improvement in student-faculty ratios would permit the University to offer both smaller class sizes in some subjects, thereby improving the quality of the educational experience, and a wider range of courses, which will help students complete requirements and graduate more quickly. A sufficient student-faculty ratio also increases opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service.

With funding provided as part of the Compact, during each of the last three years, the University committed $10 million annually toward restoring the $70 million that had been eliminated from the University's instruction budget in 2003-04 and 2004-05. In 2008-09, the University proposes to commit a fourth increment of $10 million toward restoring instructional funds, which together with the $30 million previously allocated will have restored $40 million of the $70 million reduction. Ultimately, it is the goal of the University to achieve a long-term student-faculty ratio of 17.6:1.

Faculty instructional workload policies at UC are similar to those at comparison institutions. It is critical for the quality of UC programs to maintain current workload policies to help 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. Over the last four years, the University has been reviewing its methodology for measuring faculty instructional effort. In early 2007, UC reported to the Legislature the results of a systemwide survey for 2004-05 using a new methodology to measure faculty teaching activities in a way that reflects the special features of a research university experience for UC students and the different modes of teaching in which UC faculty are engaged. The new approach uses two traditional process measures (the number of classes taught and the total number of student credit hours), but is based on a new, Universitywide taxonomy of instructional activity types that capture the instructional goals for the students who are enrolled. The three categories in the new classification system are:

- **Transmitting the Knowledge Base** — Faculty provide instruction designed to transmit the knowledge base, skills, methodologies, analytical approaches, and techniques associated with a discipline or field, ranging from the basic to the advanced level;

- **Initiating Intellectual Independence** — Faculty develop students' abilities to pursue creative/professional/scholarly work as required by the discipline or field; and

- **Emphasizing Independent Inquiry** — Faculty guide, mentor, and monitor advanced students who are undertaking independent creative/professional/ scholarly work, generally as a culmination to their degree program.

Results of the systemwide survey for 2004-05 using the new methodology show a 1.6% increase in the total number of classes offered to students when compared to 2003-04 despite a slight decrease in headcount and FTE enrollment. Over half (52%) of all classes taught were in the Transmitting the Knowledge Base category. Remaining classes were divided almost evenly between the Initiating Intellectual Independence (25%) and Emphasizing Independent Inquiry (24%) categories. This distribution of classes was unchanged from 2003-04. The number of average student credit hours per student increased slightly, from 42.5 in 2003-04 to 42.6 in 2004-05.

The new system counts all instructional activity as classes, and the result is a number of classes per FTE faculty member that is higher than the results obtained from using the old classification methodology, and more reflective of the actual workload of the faculty. Using the new methodology with instructional workload data for regular-rank faculty from 2004-05 results in calculations of 3.8 classes per FTE in the Transmitting the Knowledge Base category, 2.3 classes per FTE in the Initiating Intellectual Independence category, and 2.7 classes per FTE in the Emphasizing Independent Inquiry category.

Science and Math Initiative: California Teach

The California Council on Science and Technology (CCST) and the Center for the Future of Teaching and Learning (CFTL) recently analyzed data on the State's teacher workforce and found that more than 10% of all math and science teachers in California are underprepared. Due to retirements and other factors, one-third of California's students may find themselves in

classrooms without a qualified math/science teacher within the next five years. The University of California has stepped forward to enlist its very considerable strengths in mathematics, science, and education to address this issue. Because the University attracts the State's highest achieving students, and a very significant share of California's talent and skills in science and mathematics, it has the capacity to make a dramatic difference in this area.

In 2005 the University initiated Cal Teach/SMI, aiming to increase the number of UC students it trains to be science and math teachers from 250 per year to 1,000 per year. Perhaps more importantly, it also promised to establish a template for the redesign of teacher education programs by involving science and mathematics faculty much more extensively, along with education faculty who are experts in pedagogy and have traditionally worked more independently in structuring teacher preparation programs. The University is now in the third year of this effort and expects to see its first graduates in 2010.

What is the SMI?

The Science and Mathematics Initiative is a comprehensive program designed to create a robust set of pathways leading students to a credential in teaching mathematics or science. UC has a long and successful history of developing top quality mathematics and science teachers, but this is this first time that all UC general campuses have joined forces to create a coherent large-scale initiative for increasing the number and quality of math and science teachers.

Every UC campus has its unique contexts and strengths, so the specific programs on each campus differ in their structure and content, depending on the pre-existing base for teacher preparation as well as the science and mathematics programs the campus offers. Nonetheless, there is broad agreement about what is important in producing math and science teachers of the highest quality.

Program components of Cal Teach/SMI common to all UC campuses are:

- recruitment and specialized curriculum;
- field experiences beginning at freshman year;
- ongoing participation in professional conferences and community building;
- development of scientific research skills;
- collaboration among science, math, and education departments in developing curriculum and teaching courses;
- ongoing faculty participation in pioneering pedagogy specifically tailored to each area of science and math;
- Master Teacher oversight of students in practicums;
- rigorous data collection and program evaluation;
- partnership with community colleges; and
- financial incentives for student participation.

To date, 1,266 students have participated in Cal Teach/SMI, with participation being defined as successful completion of at least one of the Cal Teach Seminars connected with early field experiences. In addition, to date UC SMI students have worked with a total of 665 mentor teachers in 239 schools. SMI has also made extraordinary progress in its work with California

Community Colleges – work that has duplicated the course content of the signature SMI courses at all participating community colleges, provided equivalent transfer credit for participants, and provided stipends that fund student practicums in local K-12 schools. Data gathered as early indicators of success show that if community college transfer students are included, UC may reach as high as 96% of its target increase in well-prepared new teachers of science and mathematics by 2010-11.

The cost of operating the Cal Teach/SMI program in 2007-08 was roughly $5 million. Of that total, $1.1 million was provided by the State in the 2005-06 and 2006-07 budgets. The University has matched the State's contribution with another $1.1 million, with the difference made up from campus funds and private contributions.

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 2007 admission from more than 74,000 California high school seniors, a one-year increase of 4.9%. Admissions of California high school seniors grew 4.6%, and the University expects more than 36,000 new freshmen to enroll during 2007-08, including nonresident students.

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 public high school 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 at least 15 year-long courses in specified academic areas (commonly referred to as the "a-g" requirements) and meets or exceeds a minimum score on an eligibility index. The eligibility index includes high school grade point average (calculated on academic units for "a-g" courses) and a combination of scores on the ACT Assessment Plus Writing or the SAT Reasoning Test and two SAT Subject Tests (formerly SAT II: Subject Tests).

- **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.

- Alternatively, students may achieve **eligibility based on test scores alone**, although less than 1% of UC students become eligible solely through this path. To be eligible by examination alone, a student must achieve a total score of at least 3450 on the SAT Reasoning Test and two SAT Subject Tests, with a minimum score of 580 on each

individual exam. Students taking the ACT test must earn a minimum of 25 on each for the four ACT subparts as well as a minimum of 580 on each of the two SAT Subject Tests.

The requirements listed above reflect changes in the University's standardized testing policy that took effect for students applying for Fall 2006. Beginning in 2002, both the ACT and SAT national admissions examinations were reviewed and revised in response to questions raised by the University. The revised tests were offered for the first time in the spring of 2005 and, effective with the Fall 2006 admission cycle, UC accepts scores from the revised examinations only. Additionally, because material previously covered in the former SAT II: Subject Tests is now incorporated in the new tests, UC has reduced from three to two the number of required subject examinations and allows students to submit scores in their choice of two different discipline areas. UC intends to review the results of the new examinations over the course of the next several years to determine whether the new examinations are consistent with the recommendations for appropriate admissions tests made by UC's Board of Admissions and Relations with Schools (BOARS). Effective with the Fall 2007 cycle, UC has also introduced a new format for calculating total test scores to determine a student's eligibility. This new format, the "UC Score," is simply a new "look" for the eligibility index; it does not affect either the size or the composition of UC's eligibility pool.

On an annual basis, the University monitors key demographic and financial indicators, as well as policy changes that affect enrollment. In 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 2005, CPEC also completed an eligibility study for the graduating class of 2001, which showed that 14.2% of 2001 graduates were UC-eligible, essentially confirming the 2003 results. In order to keep the pool of UC-eligible students consistent with the target set in the Master Plan, effective for applicants for Fall 2005, the University tightened two of its rules for determining whether students are eligible for freshman admission. UC now calculates students' grade point averages (GPA) on all UC-required "a-g" courses taken in the 10th and 11th grades and requires ELC students to complete all course and testing requirements in order to be considered eligible. In addition, effective for students who entered in Fall 2007, students must achieve a GPA of at least 3.0 to qualify for eligibility in the statewide or local (ELC) context. Results of a new eligibility study are expected to be available in fall 2008.

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 all students in the top 12.5% of California's public high school graduating class.

Admission Policies

The University remains 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 took effect for the class applying for freshman admission for Fall 2002.

Applicants admitted under comprehensive review continue to be high-achieving students. 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.

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 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 in order to ensure spaces for CCC transfer students. The University has exceeded the upper division enrollment goal in recent years because of its strong commitment to improve and enhance the transfer function, and maintain its commitment to the Master Plan. Since 1998-99, full-year transfer enrollment has grown 30%. In 2006-07, UC enrolled 13,924 new CCC transfer students, and the upper division-lower division ratio stands at 63:37.

Key elements for a successful transfer function include clearly-defined eligibility and selection criteria; availability of academic and financial aid counseling 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 and completed the remaining eligibility requirements (including the Subject and Examination requirements) — are eligible to transfer if they have earned a 2.0 GPA in transferable CCC 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 CCC 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 specific 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 to only those applicants with transfer admission agreements, or may have no capacity at all in later terms. CCC transfer applicants who are California residents and 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). When the number of eligible transfer applicants exceeds the space available for new transfer students, campuses consider a set of eight criteria, including both academic factors and additional evidence of such qualities as motivation, leadership, intellectual curiosity and initiative, to select from among the applicants. Academic criteria, including preparation in the student's intended major, are weighted most heavily in the process, but selective campuses draw upon all eight criteria in their review.

Transfer Advising

In order to promote the transfer process, the University provides admission advisors who regularly travel to community colleges to meet with students and staff regarding transfer admission and lower division preparation requirements. Additionally, admission 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.

In 2006-07, State funds totaling $2 million were added to the funds already provided for community college transfer programs to identify, prepare, support, and enroll more CCC transfer students at UC campuses in pursuit of baccalaureate degrees. The focus of the effort is on community colleges with high numbers of educationally disadvantaged students, but historically low transfer rates to UC. The new funds provide more advisors at each of the campuses to facilitate transfer. Another key component of the initiative is the development of the UC Virtual Transfer Center website providing improved guidance.

Articulation

In order to plan for 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 how a course a student completes 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 students complete at a community college satisfies UC's general education, major preparation, and graduation requirements. 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 for unit 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 for unit credit, these courses may or may not satisfy lower division major degree requirements at a particular campus. That determination is made at the campus level.

- **Major Preparation Articulation.** Each UC campus then develops articulation agreements with each CCC campus that designate which courses at the community college are comparable to courses taught at the UC campus and, hence, will be accepted as transfer credit toward the requirements of a particular major. Articulation of courses needed for the major is critically important for students planning to transfer to UC.

Course articulation agreements are made available to students via ASSIST, a computerized student-transfer information system that can be accessed over the World Wide Web at www.assist.org. The ASSIST acronym stands for **A**rticulation **S**ystem **S**timulating **I**nterinstitutional **S**tudent **T**ransfer. ASSIST is the official repository of articulation for California's colleges and universities and therefore provides the single most authoritative, accurate, and up-to-date information available about student transfer in California. ASSIST

includes all official course articulation established among California Community College, California State University, and University of California campuses. During 2005-06, more than 880,000 different individuals used ASSIST to view more than 8 million course articulation reports.

In recent years, UC has increased the breadth of articulation agreements with California Community Colleges. The Higher Education Compact with Governor Schwarzenegger called for each UC campus to articulate all high demand majors with all 109 California Community Colleges by 2005, and the University has fully met that goal. All UC campuses are regularly updating articulation agreements with every CCC campus in the state, and all campuses (except Merced) have more than 60 majors articulated on average with all of the community colleges. Display 7 shows the number of community colleges with which UC campuses have established major articulation agreements (column 3) and the average number of majors articulated (column 4).

Display 7

Major Articulation Agreements

Campus	*Coverage in Campus Service Area*	*Number of CCCs with Agreements*	*Number of Majors per Agreement (average)*
Berkeley	Complete	110	102
Davis	Complete	110	131
Irvine	Complete	110	75
Los Angeles	Complete	110	163
Merced	Complete	109	8
Riverside	Complete	110	81
San Diego	Complete	110	132
Santa Barbara	Complete	109	96
Santa Cruz	Complete	110	68

While all UC campuses now maintain a nearly complete set of articulation agreements with the CCCs, 100% articulation of every possible course is a daunting task as college and university curricula are constantly evolving to match expanding knowledge. With 109 CCCs, 9 undergraduate UC campuses, and approximately 900 distinct undergraduate majors offered in the UC system, more than 880,000 separate and annually maintained major-preparation articulation agreements would be needed for UC to be fully articulated with the CCCs. In an effort to streamline articulation processes, in 2005 the University faculty adopted Academic Senate Resolution 477 establishing the principle that if four campuses articulate a course or lower division sequence of courses for major preparation, then the course or sequence of courses would automatically be articulated at all other UC campuses as well (unless a campus specifically opts out of the agreement). This regulation will reduce the burden on departments willing to accept the articulation agreements specifically worked out by departments at other UC campuses and ensures that no gaps in articulation exist for common requirements in similar majors, even if a campus has not specifically reviewed the community college class (provided the class had already been reviewed and approved by other UC campuses for the same major).

Faculty remain concerned about major preparation, however, since even with all course articulation in place, students still face the challenge of deciding on a major from among over 900 different baccalaureate majors across the 9 general UC campuses and understanding the similarities and differences in preparation for each.

Specialization of UC Majors and the UC Transfer Preparation Paths

As California's premier research institution, UC majors tend to be highly specialized, positioned at the cutting edge of advancing knowledge in disciplines across the curriculum. This hyper-specialization of UC majors reflects the cumulative and progressive nature of the advancement of knowledge, in particular scientific knowledge, in which new distinctions are being steadily established, as knowledge in a field increases. Despite this complexity, it is the University's challenge and responsibility to establish clear paths for students, leading from the more generalized, lower-division courses offered at the CCC system to more specialized courses defining UC majors.

Even though each University campus major may have its own unique academic focus, a key aspect of the SR 477 policy is that every year the University must identify all commonalities in similar majors across campuses. The University faculty are working to leverage this information by providing students and advisors with UC Transfer Preparation Paths for top University majors. The Transfer Preparation Paths establish a new framework to identify specific courses at every CCC that students can use to meet any of the lower division requirements. These UC Transfer Preparation Paths:

- provide students with general descriptions of each major;
- identify all lower division degree requirements that are common across UC campuses;
- identify all additional academic requirements at each UC campus;
- identify other, possibly unrelated, majors where the common preparation applies; and
- describe additional criteria (GPA, minimum grades, etc) that students must achieve to be selected for admission at each campus.

This information is being made available at the new www.UCTransfer.org web site in addition to all of the current, traditional major preparation articulation in ASSIST that the UC campuses maintain, covering all possible transfer options.

These Transfer Preparation Paths will greatly improve student advising, guidance, and course choice, allowing counselors and students to compare major requirements at each UC campus and quickly identify appropriate courses, both in terms of applicability to a variety of majors at a variety of campuses or to a narrow set, for students who feel certain about their academic interest and campus destination. This information will also help students understand which courses are broadly applicable to various majors and which apply only for certain majors at certain

campuses. It will also allow students and advisers to determine quickly and accurately the best options for rapid progress to degree completion.

Another benefit for students will be the ability to identify which University majors and campuses are available to them based on coursework they have already completed. Commonalities in preparation across unrelated majors will be highlighted. For example, completing the Intersegmental General Education Transfer Curriculum (IGETC), along with a few other courses, may adequately prepare a student for majors they had not previously considered. They can then complete additional transferable coursework to meet a total of 60 semester units and transfer directly into available UC campus baccalaureate degree programs sooner than they might have originally expected.

Students will be able to see where the new Science Intersegmental General Education Transfer Curriculum (SciGETC) pattern can be used to make completing lower-division general education requirements easier for high-unit science majors. They will also be able to compare commonalities across UC majors with commonalities across California State University majors established via the CSU Lower Division Transfer Path initiative. In addition, the Streamlining UC Articulation and UC Transfer Preparation Paths initiatives will satisfy provisions of SB 1415 (Brulte, 2004), requiring common course numbering, and SB 652 (Scott, 2006), requiring improvements in articulation agreements.

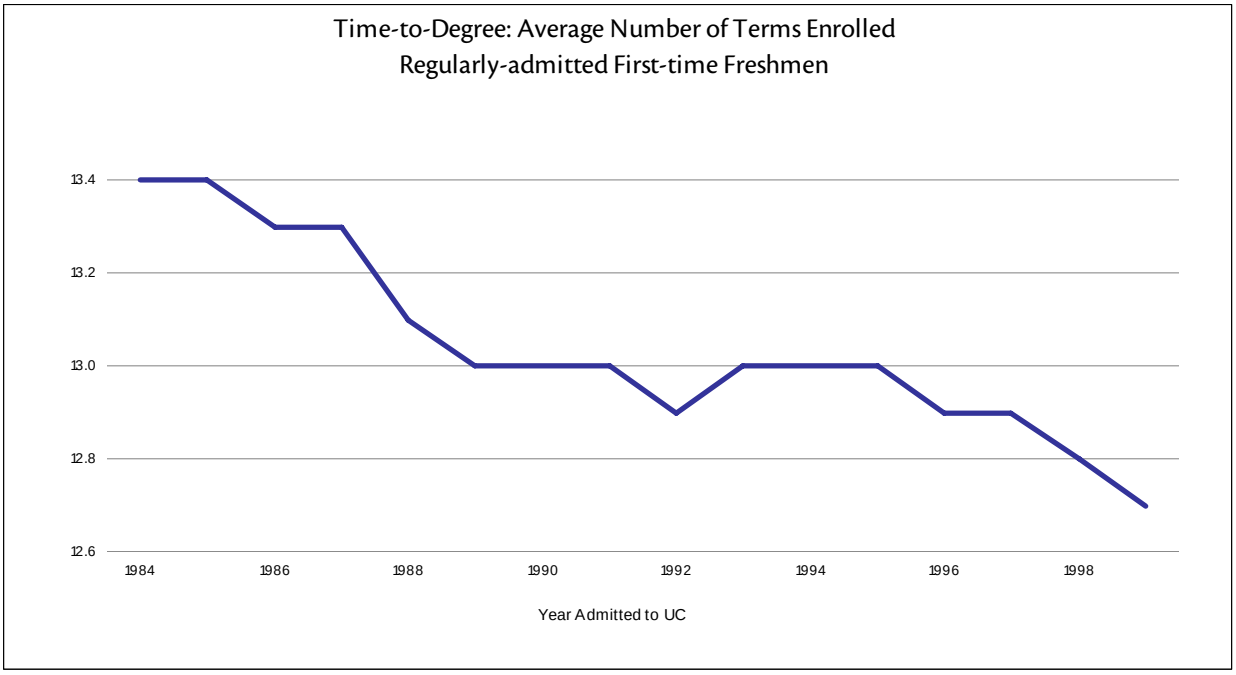
The new UC Transfer Preparation Paths combined with the extensive and comprehensive traditional major preparation articulation will be a powerful resource so that students can make the most effective use of California's robust community college system, attain baccalaureate degrees without accumulating unnecessary course units, and have the flexibility to move seamlessly through the transfer process if/when they change their interest in majors or University campuses.

Timely Graduation

The University remains committed to maintaining its excellent record of improving graduation rates and reducing time to degree among all students. For UC undergraduates, 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 12.7 for the 1999 cohort (the most recent data available), as shown in Display 8.

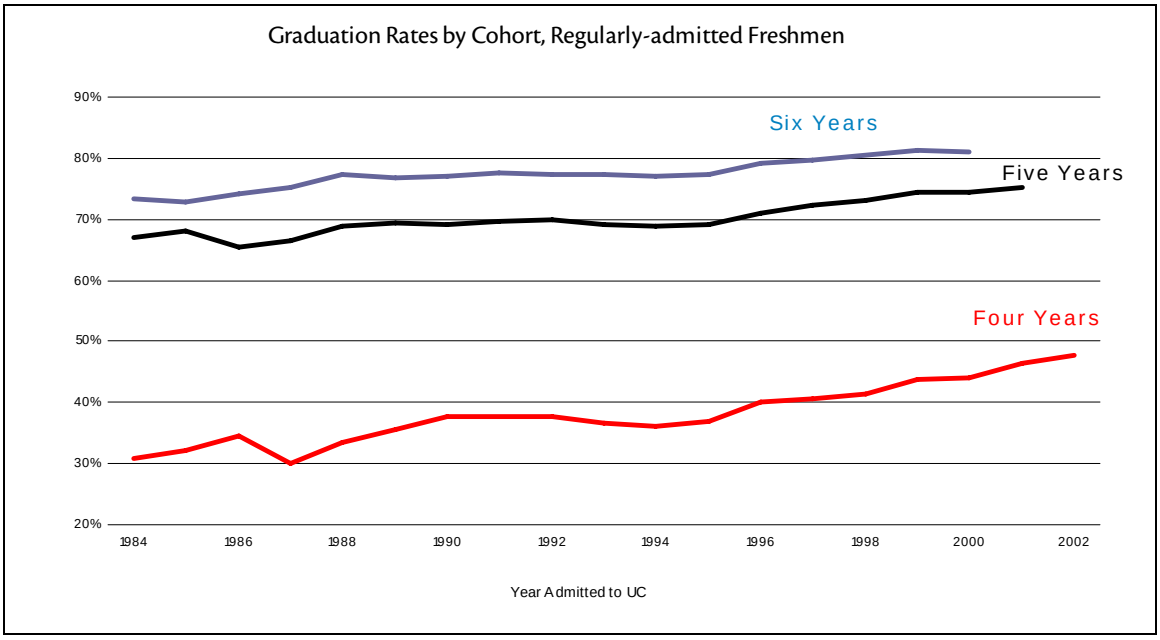
About half of the regularly-admitted, UC freshmen graduate in 12 or fewer registered quarters; they are able to do this by taking full academic loads each year and by not exceeding the 180 units required for graduation. Some students, however, do take more total units — for example, students with double majors, students who change majors after having already made substantial progress, and students in majors that require more units to graduate. In addition, some students take more time by taking lighter loads in some terms, often because they are working part-time. In recent years, campuses have worked to increase the average number of units taken during a term and reduce excess units taken over a student's career, enabling more students to graduate in four years and making room for other students.

Display 8



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 four years, 67% in five years, and 73% in six years. Graduation rates continue to rise among more recent cohorts, as shown in Display 9. Among freshmen who were regularly

Display 9



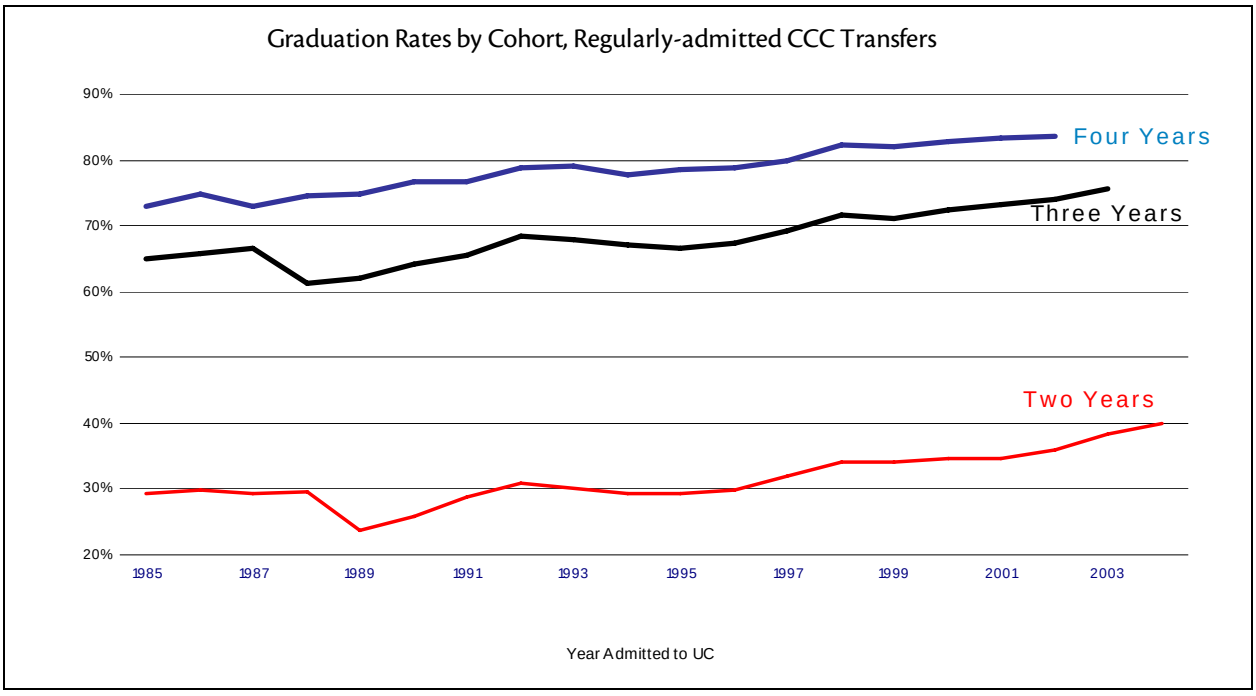
admitted in 2000, 44% graduated in four years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 74% of the 2000 entering freshmen earned a baccalaureate degree within five years and 81% within six years. UC graduation rates far exceed the national average: among first-time students entering four-year institutions nationwide, only 56% earn bachelor's degrees within six years.

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 92.5% among recent cohorts. Two-year persistence increased from 76% of those entering in Fall 1984 to 85% of those entering in Fall 2004 (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 (such as through expanded summer offerings and enrollment), recalling retired faculty, and making better use of instructional technology.

Students beginning their higher education at a community college have historically done very well after transferring to UC: more than a third of CCC transfer students graduate within two years, and 83% earn a UC degree within four years (equivalent to six years for a freshman entrant), as shown in Display 10. More than 90% of CCC transfer students persist to a second year and on average take 7.4 quarters at UC to complete their degree. Transfer students' UC grade point averages upon graduation are about the same as those of students who entered as freshmen.

Display 10



Silicon Valley Initiatives

The UCSC Silicon Valley Initiatives, led by the Santa Cruz campus on behalf of the University of California system, are important elements in the University's long range planning efforts to increase collaborative research with industry and with various agencies, including NASA; expand both undergraduate and graduate educational opportunities; and develop collaborative relationships other colleges and universities.

To date, the Santa Cruz campus has concentrated much of its efforts on building a research agenda for the Silicon Valley that will provide the foundation for other activities. All of this is occurring at its Silicon Valley Center located at the NASA Ames Research Center.

- Since September 2003, the campus has successfully managed the University Affiliated Research Center (UARC), a 10-year, $330 million contract with NASA Ames to conduct collaborative research in nanotechnology, biotechnology, information sciences, aerospace operations, and air traffic management.

- Under the UARC, the Systems Teaching Institute (STI), a collaboration with San José State University, is ensuring that education programs are successfully integrated with research programs.

- The UARC's Aligned Research Program (ARP) has generated over $2 million to date to support UC faculty and graduate students.

- The Advanced Studies Laboratory at NASA Ames is the location of a collaborative UCSC partnership with NASA. Extensive laboratory facilities in this building will be shared by NASA and UCSC scientists, along with industrial partners.

- The Santa Cruz campus is working together with private industry and government in its Bio-Info-Nano Research and Development Institute (BIN-RDI) now located in the Advanced Studies Laboratories. BIN-RDI is expected to play a key role in making possible the technological innovations that will drive future economic growth in the Silicon Valley, in the State of California, and across the nation.

- A $2 million National Science Foundation grant (Developing Effective Engineering Pathways, or DEEP) awarded to UCSC's Baskin School of Engineering provides funding for collaborative coursework, specialized counseling, summer bridge activities, online tutoring, mentoring, and distance learning opportunities.

- The Baskin School of Engineering is currently offering selected graduate courses at the SVC, which will enrich and strengthen the educational partnerships in the Silicon Valley. The Baskin School also has recruited faculty and is developing graduate courses in Technology and Information Management (TIM) that can be videocast from the Silicon Valley Center for students both on campus and at the Center. Initial courses were delivered in 2005-06 and an expanded set of course offerings are being given during 2007-08.

- UCSC, Foothill-DeAnza College, Santa Clara University, and Carnegie-Mellon University have signed a Letter of Intent in partnership with NASA to investigate the development of a new community on 70 acres in the NASA Research Park. This community would be devoted to the educational and research programs of the four educational institutions as well as providing space for corporate partners and residential housing.

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 instructional equipment replacement (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 2006-07, the annual shortfall is $56.5 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 adequate funding for equipment in engineering, the sciences, and digital media disciplines that are expected to grow significantly this decade is especially crucial because these disciplines 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. Employers expect graduates of the University to be expert in the equipment in their fields, and these expectations have never been greater. Graduates must be able to manage themselves in the information environment or run the risk of being obsolete themselves. With technology changing every 16 months to 3 years, it is imperative that the University replace obsolete equipment and offer students the most technologically-advanced education available. 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. As discussed in the *Summary of the 2007-08 Budget Request* chapter, additional funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) is one of the priorities for restoring UC academic quality. Of the $500 million total funding needed, $100 million would be designated toward restoring funding for core academic support.

HEALTH SCIENCE INSTRUCTION

The original plan for Health Sciences enrollment increases included as part of the University's budget plan for 2008-09 and as approved by the Regents at the November 2007 meeting is discussed in this section. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor and then proposed a 10% reduction(totaling $332 million) to that higher budget to address the State's fiscal situation. Thus, several items from the University's 2008-09 budget request were first "funded" and then that funding was subsequently eliminated. The Governor's May revision proposes to restore $98.5 million of the cut proposed in January, but the University faces mandatory costs it must fund despite receiving no new State support. Because of the severity of this shortfall, the University is re-evaluating its November budget plan. The items funded in the January budget before the reduction was taken included funding for MD students in the PRIME programs. It also included support for health sciences enrollment increases funded at the University usual marginal cost of instruction, such as undergraduate nursing, pharmacy professional (PharmD) students, and graduate academic health sciences enrollment growth. It did not include support for expanded graduate professional programs that required a supplement to the marginal cost of instruction, such as nursing or public health master's professional students. The University has made a decision to ask campuses, to the best of their ability, to implement those enrollment growth increases that had originally been included in the Governor's Budget before the 10% cut was taken. This enrollment growth, including growth planned in MD students in the PRIME programs, will be funded through an internal redirection of existing resources. It is unlikely the University will implement enrollment growth proposed in health sciences programs that was not included in the normal workload version of the Governor's Budget. Given uncertainties associated with accommodating unfunded enrollment growth at the campus level for 2008-09, the University is not yet able to project health sciences enrollment increases for 2008-09 at this time.

The University of California plays a critically important role in training health professionals, delivering essential healthcare services, and undertaking scientific research. UC operates the largest health sciences education and training program in the nation, training over 13,000 students and providing more than 140,000 inpatient admissions and 3.6 million outpatient visits annually. UC's schools of Dentistry, Medicine, Nursing, Optometry, Pharmacy, Public Health, and Veterinary Medicine are leaders in their fields. UC's research discoveries help prevent and cure diseases, and create new technologies for diagnosing and treating illness as well as new strategies for staying healthy. UC health sciences schools attract more research funding from the National Institutes of Health than their counterparts nationwide, a testament to their high levels of quality and productivity.

Beyond the millions of federal and philanthropic dollars invested in the state through UC's research grants, UC's advances in the prevention and treatment of chronic medical conditions such as cardiovascular disease, asthma, and diabetes help improve health outcomes, achieving savings in treatment and lost productivity costs. In addition, UC makes significant contributions to many community outreach programs, providing education, prevention, and early intervention services to thousands of Californians. 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 and the world. Importantly, however, UC provides an unparalleled integration of research and education with patient care, preparing clinical leaders as well as leaders in research and academia — the foundation of the University's health sciences programs.

Health Sciences Initiatives for 2007-08

For 2008-09, the University is requesting State support for the following:

- The fourth year class of the PRogram In Medical Education — for the Latino Community (PRIME- LC) at Irvine, the second year class for three PRIME programs at Davis, San Diego and San Francisco, and the first year class for a new PRIME program at UCLA;
- year three of the University's planned nursing enrollment expansion;
- additional enrollment for the pharmacy program at San Diego; and
- additional enrollment to expand and initiate new programs in public health

The proposed enrollments and associated State General Fund support is summarized in Display 1 and each is discussed in more detail later in this chapter after a brief discussion of workforce needs.

Display 1

Health Sciences Enrollment Increase and State-Fund Support, 2008-09

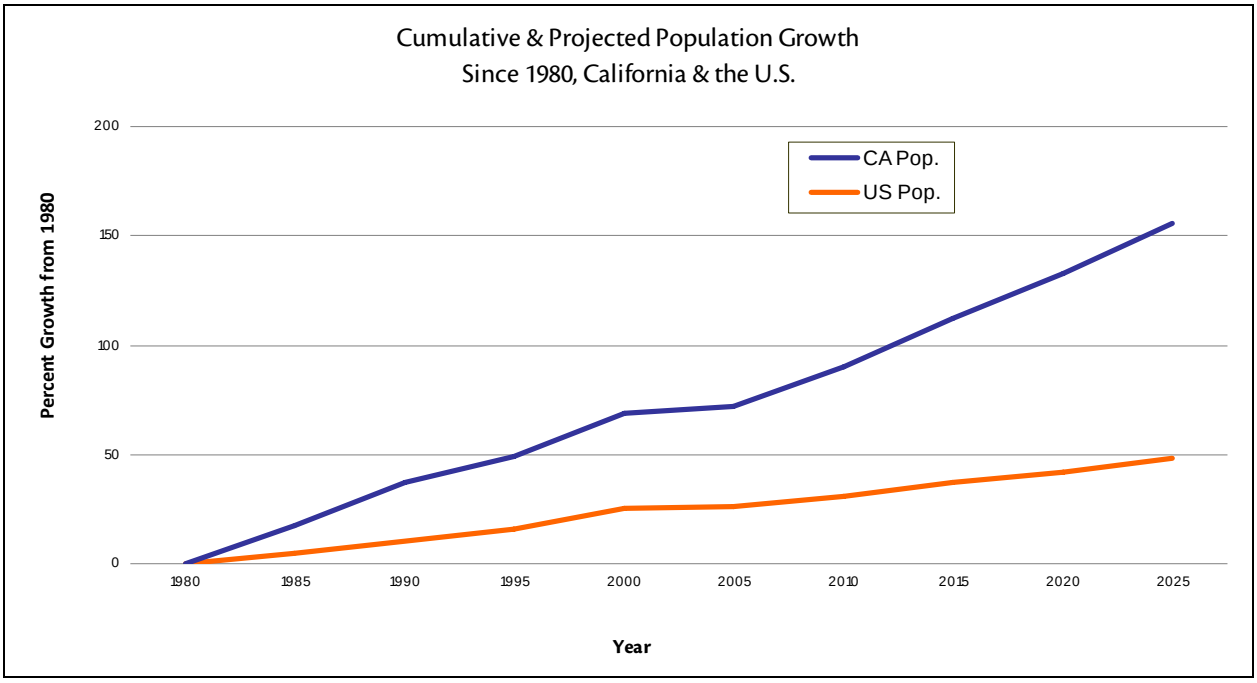
Program	Enrollment Increase	State Support
PRogram in Medical Education (PRIME)	69	$ 1,794,000
Nursing	204	2,589,000
Pharmacy	40	452,000
Public Health	185	2,527,000
TOTAL	498	$ 7,362,000

Underlying the Planning for Health Sciences Expansion: Assessment of State Needs

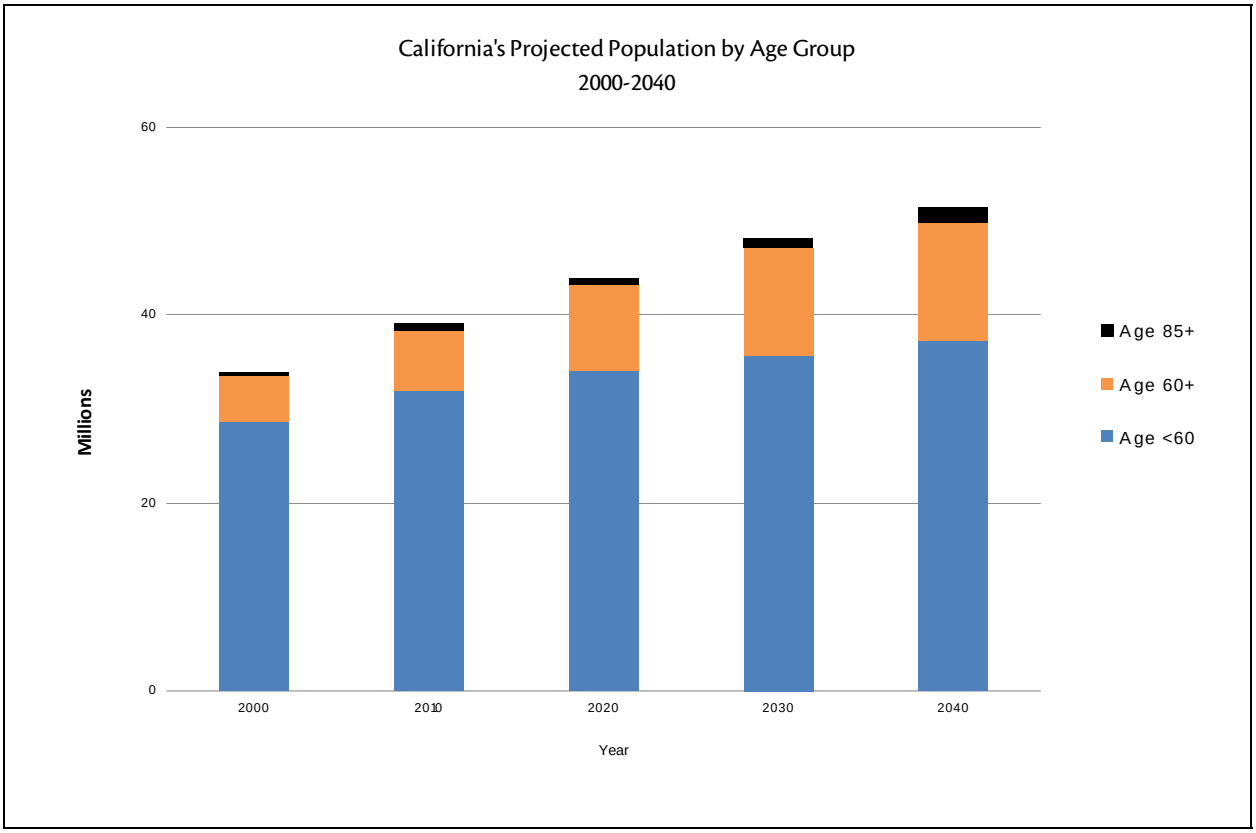
The University's long range academic planning for the health sciences is influenced by a variety of factors, including the state's need for health professionals, federal and State policies for funding health science education, access to and reimbursement for health services, and the overall state and federal economy. There is a continuing interest within the University in the broader aspects of health care, including public policy issues, allied health, and other emerging areas. The University is working to maintain California's leadership role in the health sciences across a wide range of disciplines and activities.

The organization, delivery, and financing of health services continue to evolve, while the state population is rapidly increasing in size, age, and diversity. Already the most populous state in the nation, California is expected to grow at nearly twice the national average through 2025 (Display 2); California's elderly population will grow at more than twice the rate of the state's total population within the same period (Display 3). California's population is racially and culturally more diverse than any other state in the nation, with more than 1 in 4 Californians born outside the U.S. — more than twice the national average of 1 in 10. Despite these changes, for nearly three decades, the University added virtually no new capacity in its health sciences programs until recently. These and other factors have provided broad parameters for the internal, centralized planning process through which campuses are initiating proposals to address programmatic priorities.

Display 2



Display 3



In June 2005, the Universitywide Health Sciences Committee (HCS) submitted the most comprehensive assessment of health workforce needs undertaken by UC in more than two decades. This report, University of California Health Sciences Education: Workforce Needs and Enrollment Planning, is part of a major strategic planning effort in the health sciences.

It provided an in-depth review of health workforce needs in dentistry, medicine, nursing, optometry, pharmacy, public health, and veterinary medicine. The report found shortages of health care professionals in most areas of the state and noted that gaps in access to care are widening

In response to these findings, in December 2005 President Dynes appointed the Advisory Council on Future Growth in the Health Professions (Council). The Council was asked to review the findings of the Health Sciences Committee and develop profession-specific enrollment plans with annual targets for growth through 2020.

Four criteria were considered particularly important in determining the extent to which UC enrollments should grow, and, if so, by how much. These included the evidence and magnitude of current or future workforce shortages; data indicating that California educational opportunities within a profession are not sufficient for meeting future needs; consideration of the University's responsibilities for doctoral level education as defined by California's Master Plan for Higher Education; and campus interests and priorities relative to future growth.

The Council also addressed the insufficient educational opportunities in the state for students who aspire to a career in the health sciences. Data indicate that California significantly lags national averages in the number of training opportunities per capita, while the number of qualified applicants continues to climb. UC medical schools annually receive between 4,000 and 5,500 applications to fill classes of 100 to 150 students. California is the leading exporter of students to other states for medical education. In 2005, in the face of a major nursing workforce crisis, more than 4,000 qualified applicants to California's nursing programs were turned away by UC, the California State University, and the California Community Colleges.

In response to its request for detailed information on campus growth from chancellors and health sciences deans, the Council received information about the extent to which student enrollments could grow within existing infrastructure, as well as the infrastructure needs of campuses wishing to increase enrollments beyond existing capacity. For professions where growth is recommended, the Council used information about campus capacity to assess the extent to which existing programs could be expanded to meet future needs. Where the Council found that workforce needs and enrollment recommendations exceed systemwide capacity, the Council recommended the development of new programs at new locations. The Council found compelling needs for enrollment growth in medicine, nursing, public health, pharmacy, and veterinary medicine, as well as evidence of a need to maintain existing enrollment levels in dentistry and optometry.

Approach to Future Growth

The Council's recommendations are summarized in Display 4. The Council recommended that growth in the health professions occur in a phased, stepwise manner, contingent upon adequate resource support, beginning with increases that can be accommodated within existing campus infrastructure. A second stage of growth should be pursued at those campuses where health professions programs or schools have a strong interest in further growth, but where some additional infrastructure investment will be required to accommodate new students. This shared approach represents a more expeditious (and cost-effective) means of addressing workforce needs, which is particularly important in professions such as medicine where the time from admission to practice requires seven to 10 years or longer.

Finally, because the magnitude of growth that will be needed in some professions exceeds that which can be accommodated by existing programs, even with new infrastructure, the Council recommended that planning for new programs at new locations begin immediately and that these be developed and phased in over time.

In recommending substantial enrollment increases in five professions, the Council stressed that future growth offers opportunities for innovation. New educational models involving interdisciplinary training and team-based approaches to patient care should be developed. Efforts to significantly increase the diversity of all UC health professions faculty and students should be vigorously pursued, with stable funding provided to support best practices and model programs. Innovative approaches to teaching, including telemedicine, distance learning, and use of new technologies should be encouraged and utilized. In identifying priorities for growth, campuses should demonstrate that proposed new programs meet the quality standards of the University,

Display 4

UC Advisory council on Future Growth in the Health Professions:
Enrollment Growth Recommendations to 2020

Profession	Degree or Program	2005-06 Total Budgeted Enrollment	Growth - Percents & Numbers					
			Percent Increase 2005-2010	Percent Increase 2010-2015	Percent Increase 2015-2020	Total Percent Increase	Total Addtional Students	Projected Budgeted Enrollment
Medicine	MD	2,564	10%	10%	10%	34%	865	3,429
	Residents	3,829	10%	10%	10%	33%	1,267	5,096
Nursing	Masters	773	50%	25%	25%	134%	1,039	1,812
	Doctoral	80	100%	75%	50%	425%	340	420
Pharmacy	PharmD	596	25%	25%	25%	95%	568	1,164
	Residents	54	25%	25%	25%	94%	51	105
Public Health	Masters	636	50%	50%	25%	181%	1,153	1,789
	Doctoral	279	50%	50%	25%	181%	506	785
Veterinary Medicine	DVM	524	25%	25%	25%	95%	499	1,023
	Residents	90	25%	50%	50%	181%	163	253
TOTALS		**9,425**				**63%**	**6,451**	**15,876**

Source: Report to the Regents: Summary of Finding and Recommendations of the President's Advisory Council on Future Growth in the Health Professions, November 14, 2006.

and that each adds new value for students, the people of California, and the professions themselves.

For the 2008-09 budget, UC is requesting new State support for enrollment growth in medicine, nursing, pharmacy and public health. Determinations regarding priorities for further growth based upon the Council's work will be actively considered as part of the University's ongoing planning and budget cycles.

PRograms In Medical Education (PRIME): Focus on California's Medically Underserved Communities and Regions, ($1,794,000 Increase)

California's physician workforce is vital to the health and well-being of the state's 35 million residents. As the most populous, and most ethnically and culturally diverse state in the nation, California faces unique challenges in improving access to care and health outcomes for its citizens.

In both urban and rural communities, challenges associated with inadequate access to care and resulting health disparities stem from multiple factors, including geographic maldistribution of clinicians, lack of insurance, low socioeconomic status, limited English proficiency, and low health literacy.

Without comprehensive strategies and focused teaching programs, current health disparities will persist and likely intensify in the years ahead as the state is facing a projected 15.9% shortfall of physicians (i.e., almost 17,000) by 2015.

To help improve health outcomes and better serve patients who face limited access to care, California's health providers must acquire improved understanding of research findings pertaining to health disparities and improved skills with respect to the needs of underserved groups and communities. Health sciences graduates must be prepared and better trained to consider the cultural and socioeconomic factors, health practices, and potential environmental hazards that affect health outcomes.

In their 2007 report, UC's President's Advisory Council on Future Growth in the Health Professions recommended significant increases in medical education. The Council also stated its belief that even with significant infrastructure support, unmet demand will warrant planning toward the future establishment of at least one new medical school, and possibly two.

UC medical schools are committed to developing new programs that will offer students new educational opportunities to better prepare them as future leaders and experts in caring for California's underserved and increasingly diverse populations. PRograms In Medical Education (PRIME) build upon research showing that students who enter medical school with an interest in caring for underserved communities as part of their future career are more likely than other students to practice in such communities.

Over an eight-year period, as shown in Display 5, the PRIME programs will expand MD enrollments by about 10%, or by 276 students, and add 67 master's degree students. This increase in enrollment will be accommodated within the 2.5% annual enrollment increase provided under the Compact with the Governor. Support is provided 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. For 2008-09, as the fourth phase of a planned ten-year expansion in the University's PRIME programs, the University is requesting an enrollment increase of 65 MD students and 4 master's degree students. The MD marginal cost of instruction is $26,900 per student, which generates $1,748,500 for 65 students. Support for four master's students will be provided at the general campus marginal cost of instruction rate of $11,300 for a total of $45,000. Additional support for the medical program comes from fee revenue from mandatory systemwide student fees paid by all students and from the professional fee charged to MD students.

Display 5

PRograms in Medical Education (PRIME) Enrollment Growth 2005-06 to 2012-13 Cumulative by Year								
Program (Campus)	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
PRIME- Latino Community (Irvine)								
Masters	0	0	8	12	12	12	12	12
MD Program	20	32	36	44	48	48	48	48
PRIME- Urban Underserved								
San Francisco								
Masters			0	0	0	6	11	11
MD Program			6	17	28	43	52	52
Berkeley								
Masters			0	0	4	4	4	4
MD Program (Clinical years at UCSF)			4	8	8	8	8	8
PRIME- Rural California (Davis)								
Masters			0	0	0	12	12	12
MD Program			12	24	36	36	48	48
PRIME- Health Equity (San Diego)								
Masters			0	0	0	12	12	12
MD Program			12	24	36	36	48	48
PRIME- (Los Angeles)								
Masters				0	0	0	18	18
MD Program				18	36	54	54	72
Total All Programs								
Masters	0	0	8	12	16	46	69	69
MD Program	20	32	70	135	192	225	258	276
TOTAL	20	32	78	147	208	271	327	345
Growth	*20*	*12*	*46*	*69*	*61*	*63*	*56*	*18*

The PRIME programs incorporate specific training and curriculum designed to prepare future practitioners to address disparities that exist in the provision of health care throughout the state, improving the quality of healthcare available for all Californians. The special training ranges from enhancing cultural sensitivities to the use of technology to overcome geographic barriers to quality care All students are selected through a competitive admissions process and must show a prior record of service and commitment to underserved communities.

The PRIME-Latino Community program at the Irvine campus is the first of several new medical student education programs specifically developed to address the health needs and disparities of California's underserved groups and communities. The University has initiated three additional programs at Davis, San Diego, and San Francisco-Berkeley, focusing on the special needs of

urban and rural communities for 2007-08. A fourth program at UCLA, in cooperation with Riverside and Drew University, will be added in the Fall of 2008. All five of the PRIME programs will include a component for improved training and delivery of care through expanded use of telemedicine. Each of the PRIME programs is described below, followed by a discussion of the telemedicine component.

UC Irvine PRIME-LC (Latino Community), launched in 2004, focuses on the needs of the Latino/Hispanic community in Southern California. Present enrollment is 44 students in 2007-08; 12 more students are anticipated to enroll in the entering class of 2008. The program will reach its full planned enrollment of 60 students in 2009-10.

PRIME-LC students are selected for admission to the program because of their academic achievement and demonstrated commitment to working with underserved Latino communities. The program provides its students with training in Spanish language and Latino culture, as well as providing structured clinical experiences and research activities in the classroom, hospital and community. PRIME-LC graduates will earn both a medical and a master's degree with an emphasis on Latino health care disparities, public health, or health care policy.

UC San Francisco PRIME-US (Urban Underserved) trains physicians who focus on the care of large, urban underserved populations. The curriculum builds on the expertise of UCSF, UC Berkeley, and UCSF-Fresno faculty who have been leaders in documenting the factors that contribute to health disparities in urban areas, and have been at the vanguard of analyzing issues and implementing programs to respond to the needs of the urban underserved. The PRIME-US Program includes students at the UCSF School of Medicine and the Joint Medical Program on the UC Berkeley campus. Enrollment for Fall 2008 will include 11 new students at San Francisco and 4 new students at Berkeley, increasing to 75 students in the combined program by 2011-12.

The PRIME-US curriculum is designed for students committed to improving all aspects of the health of the underserved, from primary to specialty care, and from direct patient contact to research in epidemiology and outcomes. Elements of the core curriculum include formal seminars, clinical preceptorships, Community engagement in service leaning activities, and mentoring experiences. The seminar series include interactive teaching sessions that explore public health and policy issues, as well as specific populations and communities. Experts on homelessness, immigrant health, the prison health system, and other related topics have participated. Students will have longitudinal experiences in a variety of settings that will enable them to become part of the health care team and develop relationships with patients and the community. Clinical experiences will be based at sites providing care for urban, underserved populations in San Francisco and the greater Bay Area, including regional safety-net clinics and hospitals. Students will care for diverse populations and learn more about systems-level disparities. All students will complete a longitudinal community health or social advocacy project.

UC Davis PRIME-RC (Rural California) trains physician leaders to serve medically underserved populations in the rural areas by building on UCD's strong history of providing primary care and

quality health services to suburban and Central Valley residents. Enrollment for Fall 2008 includes 12 new students, with total program enrollment increasing to 60 by 2011-12.

A key component to the Davis program is its award-winning model program in telemedicine (ranked in the top 10 in the nation) which allows the school to link rural primary care clinics to specialty clinics at UC Davis Medical Center, and also provides telemedicine training to rural and urban organizations throughout the State. The growing sophistication of medical technology and communication systems will permit consultation with experts in specific fields, long distance diagnosis of medical conditions, analysis of medical test results and diagnostic aids, and rapid communication of treatment methods and state-of-the-art approaches to curing disease.

The new PRIME program will enable UCD to implement a medical student teaching program that combines educational resources, telemedicine programs, primary care networks, and infrastructure to develop new courses focused on rural health policy, public health, language competency, and other topics relevant to rural health and health care delivery.

UC San Diego PRIME-HEq (Health Equity) trains physicians to serve immigrant and underserved populations in San Diego County. Enrollment for Fall 2007 is 12 students, increasing to 60 by 2011-12.

San Diego has one of the largest and most dynamic immigrant and migrant communities in the country. The city is in the top 15 metropolitan areas in terms of immigration rates, with almost 13,000 legal immigrants settling in the area in 2003. More refugees resettled in San Diego than any other metropolitan area in Southern California, and one-third of San Diego's households are now non-English speaking. San Diego County is also home to 18 Indian reservations — more than any other county in the U.S. PRIME-HEq is a medical education program that emphasizes a multicultural, multidisciplinary approach to patient care, medical research, and health care advocacy through culture and language studies and immersion experiences.

The program will offer students the flexibility to examine health equity in a particular area of interest that is consistent with one of the major objectives of the federal initiative "Healthy People 2010," which calls for the elimination of health disparities among all segments of the population.

UC Los Angeles is currently in the process of identifying options for its new PRIME program. The David Geffen School of Medicine at UCLA has a long history of training practitioners who provide care to the underserved. This is confirmed by the success of the UCLA/Drew Medical Education Program and its focus on caring for urban underserved populations and by the UC Riverside/UCLA Thomas Haider Program in Biomedical Sciences and its recent emphasis on rural health.

While building on the success of these programs, the UCLA PRIME initiative will educate future physicians prepared to address the health care needs of a wide range of diverse disadvantaged communities by delivering culturally competent clinical care, providing leadership for health care delivery systems in disadvantaged communities, conducting research on health care

disparities, and serving as community advocates for improved health care policies. Initial enrollment for Fall 2008 will be 18 students, increasing to 90 after five years.

Telemedicine. A key component to the University's PRIME programs is expansion of telemedicine capability. Telemedicine is defined as the practice of healthcare delivery, diagnosis, consultation, treatment, transfer of medical data, and education through use of telecommunications. Essentially, it is the provision of health care by the provider at a distant location from the patient. Within these broad parameters, campuses will have both flexibility and latitude in determining how best to structure individual proposals.

Improved technology is permitting access for underserved populations in remote areas to world-class physicians who can help in the diagnosis and treatment of disease previously unavailable to these geographic areas.

The growing sophistication of medical technology and communication systems will permit consultation with experts in specific fields, long distance diagnosis of medical conditions, analysis of medical test results and diagnostic aids, and rapid communication of treatment methods and state-of-the-art approaches to curing disease.

The Education General Obligation Bond approved in the November 2006 election included $200 million for UC to provide facilities and state-of-the-art equipment needed to expand enrollment in UC's PRIME programs. The first proposed phase of projects is discussed in a separate UC document, *the Budget for Capital Improvements for 2007-08*. In addition, in November, the Federal Communications Commission's Rural Health Care Pilot Program announced it would fund California's proposal (the second-largest grant among the 69 projects funded nationwide) to provide broadband connectivity to healthcare sites throughout California, with a special emphasis on rural California. A total of more than $30 million has already been committed toward this project, including funds from the FCC and other partners. The funding will enable the development of the California Telehealth Network, connecting over 300 rural clinics over three years.

The proposed new funding for telemedicine and expansion of medical education programs marks an exceptional and unique opportunity to address statewide objectives for increasing medical student enrollments, expanding access to clinical services and creating a new systemwide network that will enable UC medical school campuses to link together for educational and other University purposes.

Nursing Student Enrollment: Phase 3 of Planned Expansion to Meet Statewide Shortages ($2,589,000)

Virtually all Americans will require nursing care at some time in their lives. Whether this care involves maintenance of health, episodic care of a highly technical or less complex nature, care for a chronic condition or illness, or long-term supportive care, it is important to ensure that appropriate nursing care will be available. Therefore, continuing reports of a deepening nursing shortage raise serious concerns that must be addressed in California and nationwide.

California ranks 50th in the nation in the number of nurses per capita (589 vs. the U.S. average of 825 per 100,000). Causes of the nursing shortage include rapid population growth (especially of those over age 65); an aging nursing workforce (California nurses are 5 years older than the national average and half are over age 50); and increasing mean age of nursing faculty nearing retirement. New nurse staffing ratios proposed for California hospitals and new national accreditation standards limiting the number of hours medical residents can work have created further demand. Recent studies have shown that without intervention, California's nursing shortage will worsen significantly through 2030.

In their 2007 report, UC's President's Advisory Council on Future Growth in the Health Professions recommended significant increases in nursing education. The Council also stated its belief that even with significant infrastructure support, unmet demand will warrant planning toward the future establishment of additional nursing programs.

To help meet the State's future nursing needs, the University is expanding its traditional graduate role in nursing education, including preparation of new faculty for nursing programs and the education and training of advanced practice nurses, but it also is re-establishing and adding new undergraduate nursing programs. An overview of these proposed changes is shown in Display 6 and described in more detail below.

Display 6

Overview of UC's Nursing Schools and Programs

Campus	Type	Year established	Degrees offered
UC Davis	Nursing Science Program	2009*	BSN*, MSN, PhD
UC Irvine	Nursing Science Program	2005	BS, MS, DNP, PhD
UC Los Angeles	School of Nursing	1949	RN/BS/MSN, BS, MSN, PhD
UC San Francisco	School of Nursing	1907	MS, PhD

*UC Davis' BSN program to begin in 2010

*Proposed

- **Baccalaureate Nursing.** In Fall 2006, UC re-established the UCLA undergraduate bachelor's degree program and added a new undergraduate program at UC Irvine. College-bound high school graduates interested in nursing, but strongly committed to a UC undergraduate education, once again have the opportunity to do both.

- **Graduate Nursing.** The University also is expanding its graduate nursing programs and adding new ones. The State's capacity to increase enrollments in nursing programs is dependent on an adequate supply of qualified faculty, which in turn means a sufficient supply of nurses trained at the graduate level. Nurses with Ph.D.s are needed for nursing school faculty for BSN, MSN, and Ph.D. programs, while masters-prepared nurse educators are in great demand as faculty for the community college associate degree in nursing (ADN) programs.

UC's two existing Schools of Nursing (UCLA and UCSF) are ranked among the nation's top nursing schools in education, research and clinical practice, and play a central role in preparing future faculty for California nursing programs and in educating advanced practice nurses. Both schools are planning to expand at the graduate level, although the UCSF program is already UC's largest nursing program and has a more limited ability to expand in the short term. The University plans to add graduate nursing programs to the nursing education program at Irvine beginning in 2008-09.

- **New Initiatives.** In July 2007, the Gordon and Betty Moore Foundation announced $100 million in founding support to launch the Betty Irene Moore School of Nursing at UC Davis. The landmark Moore Foundation gift to UCD is the largest donation ever made to a nursing school. Pending necessary approvals, UCD anticipates admitting its first students in the master's and doctorate programs in the fall of 2008. The bachelor's of science in nursing program is expected to launch in 2010. When full enrollment is reach in all degree programs (both graduate and baccalaureate), the school is projected to serve 456 students. Other UC campuses are considering initiatives in nursing education in the future.

For 2008-09, as the third phase of a planned expansion in nursing enrollment, the University is proposing to add 82 graduate professional masters nursing students, 22 graduate academic students, and 100 undergraduate nursing students. Projected enrollments for this third phase are higher than initially anticipated because enrollment is now anticipated at the new UC Davis program and revised graduate student projections at UC Irvine. This increase in enrollment will be accommodated within the 2.5% annual enrollment growth called for under the Compact. The graduate nursing marginal cost of instruction is $14,762 per student, including an additional $3,462 per graduate professional masters student to fully fund the graduate professional nursing marginal cost of instruction consistent with past practice. For 2008-09, this will require $1,210,000 for 82 students. Support for 22 graduate academic students and 100 undergraduate students at the marginal cost of instruction or $11,300 equals a total of $1,379,000.

Additional support for the nursing program comes from fee revenue from mandatory systemwide student fees paid by all students, and for the graduate nursing program, from the professional fee charged to professional nursing degree students. Display 7 shows the planned *cumulative* enrollment growth for the University's nursing initiative through 2008-09.

Pharmacy: Enrollment Growth for the School at San Diego ($452,000)

Across the nation, the fact that people are living longer is attributable to healthier lifestyles, a well-trained health workforce, advances in science and understanding of human health and disease, and continuing discovery of new therapies for managing acute and chronic conditions. As the population ages, however, its interaction with the health care system increases. Larger patient populations in general, and increasing numbers with chronic diseases in particular, contribute to rapidly rising demands for health providers and facilities that must stretch to meet growing needs.

Display 7

NURSING ENROLLMENT GROWTH FROM 2006-07 TO 2008-09			
	2006-07	**2007-08**	**2008-09**
Graduate	**85**	**180**	**284**
Undergraduate	**108**	**216**	**316**
Total- All Levels	**193**	**396**	**600**
Growth	***108***	***203***	***204***
Projected tables for 2009-10 and beyond are being revised to include increases for Irvine and the new program at Davis.			

Within the pharmacy workforce, evidence of this demand is seen in the dramatic increase in prescriptions written and dispensed in the United States. During the 1990s alone, the number of retail prescriptions dispensed increased by 44%, from 1.9 billion in 1992 to almost 2.8 billion in 1999. By 2005, this number has increased to an estimated 3.7 billion prescriptions.

Among the factors fueling this growth are development of new medications and drug therapies, identification of new uses for existing medications, increased numbers of authorized prescribers, broader insurance coverage for some medications, and direct marketing to the public by pharmaceutical companies. Not surprisingly, this growth has generated a corresponding demand for pharmacists in hospitals and clinics, as well as in retail, government, and academic settings. Because growth of the workforce has not kept pace with the demand for services due in part to the lack of growth in educational opportunities, a nationwide pharmacist shortage has developed.

In California, this shortage is significant and well-documented in chain store pharmacies, hospital practices, and other clinical settings. The Aggregate Demand Index (ADI) Pharmacy Manpower Project ranks California, Minnesota, Wisconsin, Iowa, and Kentucky as the five states with greatest unmet demand. In 1998, 16,770 pharmacists and 16,600 pharmacy technicians and aides served approximately 32 million Californians. This ratio of 51.3 pharmacists and 51.0 pharmacy technicians per 100,000 population ranks California 48th and 41st, respectively, among all the states in the nation.

In their 2007 report, UC's President's Advisory Council on Future Growth in the Health Professions recommended significant increases in pharmacy education. Building upon a 25-year partnership with the UCSF School of Pharmacy, the San Diego campus established a second UC school of pharmacy with its first Doctor of Pharmacy class in the Fall of 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. This will represent a 53% increase in the number of Doctor of Pharmacy degrees conferred by UC annually. The San Diego program also offers the Ph.D. and a pharmacy residency program. For 2008-09, support is provided at the marginal cost of instruction rate

of $11,300 per student for an additional 40 students: 30 Doctor of Pharmacy (Pharm.D professional students); and 10 Ph.D. students. Additional support for the Pharmacy program comes from fee revenue from mandatory systemwide student fees paid by all students, and for the Doctor of Pharmacy program, from the professional fee charged to professional pharmacy degree students.

Public Health Enrollment: Expansion to Meet Statewide Public Health Needs ($2,527,000)

Public health has been defined as the science and art of promoting health, preventing disease, prolonging life, and improving quality of life for the general population. The principal areas of focus of the public health system are health surveillance, protection, and promotion; policy development, and regulation; and the organization, delivery, and evaluation of health services delivered to individuals and populations.

Public health professionals are educated in public health or a related discipline and are employed to improve health through an emphasis on prevention of disease. The workforce includes clinicians (physicians, nurses, dentists); occupational and environmental health specialists; epidemiologists and biostatisticians; health program administrators and health educators; and health economists, planners, and policy analysts.

In the face of increasing demand, due to new and emerging public health threats (e.g., SARS, West Nile Virus) and demographic trends, recent studies have found that the public health workforce — in California and nationally — is seriously deficient in training, preparation, and size. California significantly lags other states in public health educational capacity. The state's public health agencies cite particular shortages of epidemiologists, environmental health scientists, and health educators while the private sector is in need of professionals trained in health services administration and management. It is estimated that only 20% of California's public health workforce has received formal training in public health. Per capita, California has only 25 percent of the number of public health faculty and 25-50% of the number of public health students as comparable key states.

In their 2007 report, UC's President's Advisory Council on Future Growth in the Health Professions recommended significant increases in public health masters and doctoral student enrollments. The Council also stated its belief that even with significant infrastructure support, unmet demand will warrant planning toward the future establishment of at least one new School of Public Health.

For 2008-09, the University is proposing to add 126 Masters of Public Health (MPH) students, and 59 additional graduate students in public health programs, for a total increase of 185. This increase in enrollment will be accommodated within the 2.5% annual enrollment increase called for under the Compact. The MPH marginal cost of instruction is $14,762 per student, including an additional $3,462 per MPH student to fully fund the graduate professional public health cost of instruction. For 2008-09, this will require $1,860,000 for 126 students. Support for 59 graduate academic and non-MPH graduate professional students equals a total of $667,000.

Health Science Enrollments in the University

After peaking in 1981-82, budgeted enrollments in the health sciences 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 8 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 2006-07.

Display 8

Health Science Year-Average Headcount Enrollments: Total
Enrollment And First-Year Class Size for Selected Programs

	1970-71 Budget	1981-82 Budget	1990-91 Budget	2000-01 Budget	2006-07 Budget
Total Enrollment	7,015	12,750	12,022	12,186 (a)	12,749
First Year Class Size:					
Medicine	429	652	622	622	644
Dentistry	175	216	176	168	170
Veterinary Medicine	83	129	122	131 (a)	131
Pharmacy	93	120	117	117	177
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.

Economic 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 fund 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.

Before 2005-06, enrollment growth in the University's health sciences had 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, which at steady state will have an entering class of 60 and a total of 240 students in the Doctor of Pharmacy program, 60 graduate academic students, and 80 residents. As noted earlier, the University began further expansion of its health sciences programs in 2005-06 and will continue a multi-year expansion in medicine, nursing, pharmacy and public health, as resources permit.

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 2007-08 instructional budget for the Health Sciences is $919 million, of which $378 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. Health sciences instructional programs are high cost programs and while the State subsidy for these programs is significant, revenues from professional school fees also are increasingly important. Professional school fees were 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 professional graduate students in nursing, optometry, and pharmacy. For 2005-06, the Regents approved a new professional school fee for students enrolled in graduate professional degrees in public health. In charging the fee, the University reaffirmed 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.

During the State's recent fiscal crisis, State support for UC's professional schools declined significantly and professional school fees increased dramatically to offset lost State revenue. The University is concerned about the impact of the fee increases on efforts to ensure that professional school enrollments, including those in the health sciences, are more representative of the diversity of the State's population as well as the impact high fees may have on graduates' ability to work in medically underserved areas of the State. This will be evaluated as data becomes available. The professional school fees are 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. This financial support for medical education and clinical training is dependent upon federal reimbursements from Medicare and Medicaid, and adequate reimbursement rates from private insurers.

CROSS-CUTTING ISSUES

The original plans for graduate student support and core academic support increases included as part of the University's budget plan for 2008-09 and as approved by the Regents at the November 2007 meeting are discussed in this section. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor and then proposed a 10% reduction (totaling $332 million) to that higher budget to address the State's fiscal situation. The net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $108 million. Thus, several items from the University's 2008-09 budget request were first "funded" and then that funding was subsequently eliminated. The Governor's May revision proposes to restore $98.5 million of the cut proposed in January. While under the proposed May Revise budget the net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $10 million, the University faces mandatory costs it must fund despite receiving no new State support, leaving the University short of what it needs by up to $240 million. Because of the severity of this shortfall, the University is re-evaluating its November budget plan. The items funded before the reduction was taken included a one percent base budget adjustment for core academic support. It also included support for a $10 million increase in graduate student support funded through student fee increases. Given the base budget reduction, it is unlikely the University will implement the increases to core academic support proposed. Given uncertainties associated with accommodating unfunded enrollment growth at the campus level for 2008-09 as well as other cost increases they must fund despite budget cuts proposed by the State, a decision about continuing with planned increases in graduate student support for 2008-09 has not yet been made.

Traditionally, the Regents' Budget document has been organized in chapters according to historical breakdowns of the University's functions and activities. Several of the University's significant budget issues do not fall into a single functional area and instead cut across multiple areas. This chapter provides detailed information about several of these cross-cutting issues for 2008-09: graduate student enrollment and financial support, information technology, core academic support, and planning for the long term.

Graduate Student Enrollment and Financial Support

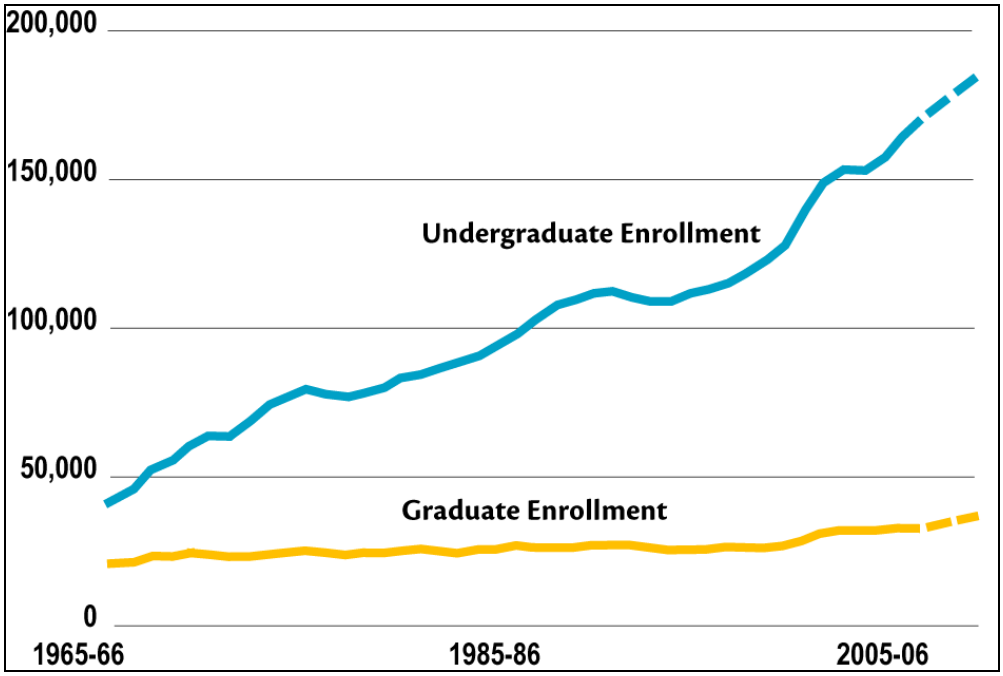
Graduate education and research at the University of California have long fueled California's innovation and development, helping establish California as one of the ten largest economies in

the world. Indeed, UC is charged by the California Master Plan for Higher Education with the responsibility to prepare professional and doctoral students to help meet California's and the nation's workforce needs. However, over the last forty years, while well-justified attention has been paid to the accommodation of undergraduate enrollment growth as a result of Tidal Waves I and II, inadequate attention has been paid to graduate growth. For many years, graduate enrollment planning has been largely derivative of plans for undergraduate enrollment.

Despite high-quality programs and many applicants, growth in graduate programs has been limited, creating an imbalance in University programs and failing to meet the State's need. As a result, the University has reached a critical point in graduate and professional education. Unless immediate action is taken to build and expand graduate and professional programs, California's educational, economic, technological, and public welfare needs will not be met.

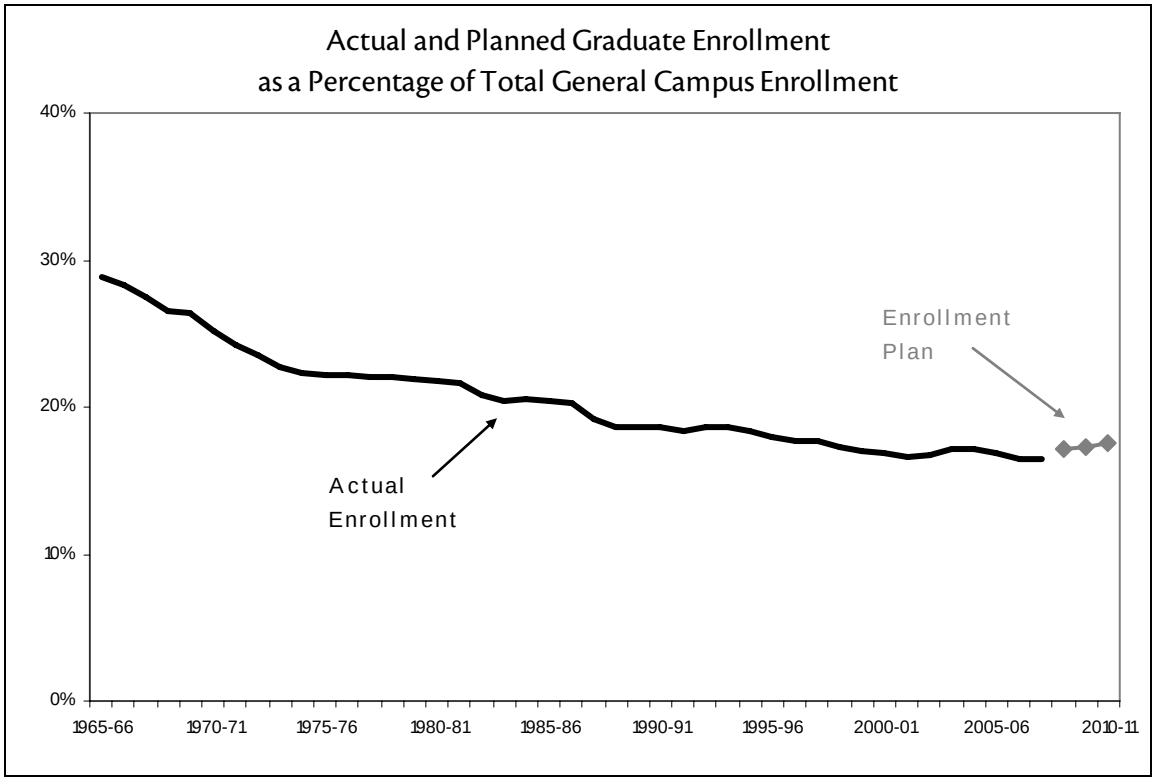
Since 1965-66, UC undergraduate enrollments have grown fairly steadily, from 49,000 FTE to 164,000 FTE, nearly 250% over forty years, to ensure undergraduate access for UC-eligible students, as shown in Display 1. General campus graduate enrollment has grown at a much slower rate, from 20,000 to 34,000 FTE, only 70%, during the same period. In fact, during the 1980s and early 1990s, graduate enrollment did not increase at all; much of this growth occurred during the last five years.

Display 1



As a consequence of this imbalance, the proportion of graduate students decreased from 28.8% of general campus enrollment in 1965-66 to 16.6% in 2001-02. Display 2 shows graduate students as a percentage of total general campus enrollments (excluding health sciences and self-supporting program enrollments). Although UC's graduate enrollments began to grow again in 1999-2000, by approximately 1,000 FTE students per year, they have largely kept pace with

Display 2



undergraduate growth, resulting in only a slight improvement in the graduate proportion. While the enrollment cut in 2004-05 and fee increases over several years prevented growth in graduate enrollments in 2004-05 and 2005-06, in 2006-07, graduate enrollments again began to grow. The budgeted proportion of general campus graduate students is 16.8% and the University's current enrollment plan calls for graduate enrollments to continue to grow along with undergraduate enrollments over the next four years, by a total of 3,900 FTE students, raising the proportion of graduate students to 17.5%, still well below the proportion in the 1980s. The University is expecting further increases in the graduate proportion during the next decade, as indicated in the University's recent long-range enrollment projections.

In Fall 2006, 22% of total UC enrollment was graduate students (including health sciences and self-supporting enrollments), compared to 33% at public comparison universities and 60% at private comparison universities. In fact, UC's total graduate percentage is lower than the percentages at all of the eight comparison institutions.

California's under-investment in graduate education can also be seen in degree production by state, especially compared to other populous, industrialized, and high tech states. Among the 15 largest U.S. states — those most like California and with which California competes for educated workers and industry, California ranked only eighth out of 15 in 2006, and it ranked only slightly above the national average of all 50 states.

UC has fallen behind in graduate enrollments for several reasons. Because of State budget constraints in the 1980s and 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. More recently, the University has not been able to respond to recommendations of the Commission on the Growth and Support of Graduate Education in 2001 due to the State's financial crisis. In fact, dramatic increases in graduate student fees in recent years have exacerbated the problems.

While the University intends to continue 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 critical to the state's continuing 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, as well as serving a key function in enhancing the quality of the instructional and research enterprise while enrolled at UC.

Graduate Education and the California Economy

UC graduate education and research have a long history of fueling economic development in California. Starting with UC's founding in the 1800s, research in agriculture and related areas was a primary way the University transferred its knowledge to the public and industry. For example, in 1920, the modern canning industry was born as a result of UC research leading to the discovery of the process for killing the organism that causes botulism. More recently, UC graduate education and research spawned the biotechnology industry and UC graduates have been major movers in the development of the electronics industry, particularly in semiconductors and communications technologies.

Agriculture, California's largest industrial sector, relies heavily on science and technology, and the state's growing knowledge-based global economy makes investment in intellectual development even more critical. In the coming years, all sectors of California's economy will need many more highly-educated workers — engineers, scientists, business entrepreneurs, and others whose innovations will drive California's prosperity. In keeping with its charge under the Master Plan, the University will play a key role in helping to meet the need for these technically and analytically sophisticated workers.

Currently, UC plays a major role in California's growing biotechnology and communications industries.

- 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.

- 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. UC attracts business: one in four U.S. biotechnology firms is within 35 miles of a UC campus.

California's future economy will depend even more on high-tech industries. Stem cell research, environmental research and innovation, global health care development and delivery, and energy research will have significant impacts on the health and economy of California and the world. These science- and technology-based industries will require even more highly skilled and trained workers. As the state's economy continues to shift toward jobs requiring advanced education, California will need to fill more than a million new positions requiring graduate degrees by 2025 — a 68% increase from 2005. In addition, the retirement of the large baby-boom generation of highly educated workers and the significant decline in in-migration of educated workers from other states and nations create significant challenges to our economy. Growth in UC graduate programs will help meet the need for more science and technology professionals. The University projects that more than a third of graduate enrollment growth through 2020-21 will be in science, math, engineering, and computer science fields.

Health care is another area in which UC contributes to state workforce needs. By 2015, California's population is expected to grow by more than 22%. The number of Californians aged 65 and older, who place much heavier demands on our health care system, will grow at more than twice the rate of the state's total population. The University conducted a comprehensive assessment of California's health care work force needs and concluded that California will face serious shortages of physicians, nurses, public health experts, and other health professionals. The University projects that more than a quarter of graduate enrollment growth will occur in the health professions.

UC's contribution toward fulfilling the state's need for intellectual resources is not limited to science, engineering, and health care. 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 in the arts, humanities, social sciences, and professional fields 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, 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, 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. (While CSU has recently been given authority to grant a specifically-defined doctorate in educational leadership independent of UC, the University remains committed to preparing educational leaders to serve the K-12 segment and higher education.)

- Recent reports show that the arts contribute $5.4 billion to California's economy. Alumni of UC's graduate programs are represented in every sector of the arts world, leading and building programs and creating new ideas. California's entertainment and digital media industries are thriving precisely because of the many writers, musicians, visual artists, and actors the University trains.

Graduate Student Role in California Higher Education

No less important is the crucial role UC graduate students play in higher education in California, both 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: nearly a quarter of UC and CSU tenure-track faculty members have a doctoral degree from UC. California's four-year colleges and universities will need to hire more than 25,000 new faculty between 2007 and 2020, including over 8,000 for UC alone and close to 12,000 for CSU, 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 may need to come from UC's graduate programs.

- Growth in graduate enrollments is necessary to maintain excellence in instruction and 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. 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 for undergraduates.

- Graduate students are also vital to UC's discovery and innovation enterprise. Especially in the sciences and engineering, the research process entails research *teams*, and graduate student researchers, as key members of these teams, have been central to the creative breakthroughs that have made UC one of the world's greatest universities. Graduate students further amplify UC's research contributions by enabling greater involvement of undergraduates in primary research; graduate students supervise and mentor undergraduates engaged in research projects.

In addition to meeting the needs of the state's economy and higher education and maintaining the quality of the University, graduate enrollments must increase in order to extend the access provisions of the Master Plan to education at the graduate level. In the 21st century, access to an undergraduate education is no longer sufficient. While recent increases in undergraduate enrollments have served to provide access for Tidal Wave II, members of this second wave will seek to further their education beyond the baccalaureate level in the coming years. Following the extraordinary growth in high school graduates during the current decade, the population age 25-34 in California will grow 17% between 2010 and 2020. As a result, demand for graduate education will increase substantially, particularly from the University's own baccalaureate graduates — 75% of UC undergraduates state a desire to earn a graduate or professional degree. The University has an obligation to provide Californians with the opportunity to achieve at the highest levels. This is particularly important because the state's underrepresented ethnic minorities, which have historically had much lower rates of graduate education, are projected to become the majority of California's population within the next 15 years. Unless more pursue graduate study, not only will their horizons be more limited, but the state will have even more difficulty in meeting its future workforce needs.

Graduate Academic Student Aid

The competitiveness of graduate student support for UC graduate academic students and its impact on the ability of the University to enroll top students from across the world has been a longstanding concern at the University. Several administrative and faculty groups and committees, including the 2001 Commission on the Growth and Support of Graduate Education, have taken up the issue and concluded that both the size and composition of UC's awards for graduate academic degree students are not fully comparable to the best offers UC students receive from competitor institutions. Recently, the longstanding concern about the competitiveness of UC's awards has been joined by concerns about the impact of cost increases — especially increases in nonresident tuition and systemwide fees — that were instituted in response to declining State support for the University's budget.

Concerns about the competitiveness of the University's awards were substantiated by surveys conducted in 2001, 2004, and 2007 of students admitted to UC's academic doctoral programs. These surveys showed variation in the competitiveness of UC's offers across academic disciplines and campuses but indicated that the average net stipend (fellowship and assistantship awards in excess of tuition and fees) associated with the offer from the student's top choice UC doctoral program was substantially less than the student's top choice non-UC offer. This shortfall was exacerbated by differences in the cost of living in the communities surrounding UC campuses and those of other institutions. (Academic master's students were not included in the surveys.)

The surveys also indicated that the competitive gap between UC's offers and those of students' top-choice non-UC institutions (excluding cost-of-living differences) did not increase in real terms between 2001 and 2004, and declined between 2004 and 2007.

Fee increases during these years were offset in part by new UC graduate student support funding generated by the fee increases themselves. A total of 33% of the revenue resulting from systemwide fee increases in 2002-03 and 2003-04 was set aside for graduate student support, and 20% of the additional revenue generated by the 2004-05 fee increase was set aside for graduate student support.

For the 2005-06 academic year, the University took several steps to address the gap between graduate student support demand and supply. First, the University increased the percentage of new fee revenue from graduate academic students to be set aside for graduate student support. The percentage was increased from 20% in 2004-05 to 50% in 2005-06 (less an amount used to partially restore the $5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04). This increase provided funds to cover the 2005-06 fee increase for students whose fees were already covered, in whole or in part, by University fellowships and teaching assistantships.

Second, the University did not increase graduate nonresident tuition levels in 2005-06. The foregone revenue was judged to be a worthwhile trade-off in order to avoid further demands on limited fellowship and research assistantship funding caused by a tuition increase.

The University also established an ad-hoc Graduate Student Support Advisory Committee (GSSAC) to advise the Provost and other senior University officials on matters related to graduate student support. The Committee's charge included establishing specific graduate support benchmarks, developing a short- and long-term strategy for enhancing graduate student support, and reviewing the methodology for allocating UC systemwide funding for graduate student support. The final report of the Committee included three principal findings:

- Anticipated increases in traditional funding levels for graduate student support will be inadequate to allow the University to achieve its twin goals of closing the competitive gap and meeting its enrollment growth targets. The Committee estimated that an additional $122 million of support would be necessary for the University to improve the competitiveness of its awards and to achieve its graduate academic enrollment goals by 2010-11.

- The cost of covering tuition for first-year nonresident students and for international students who have not yet advanced to candidacy limits the extent to which UC graduate programs can compete for and enroll the highest quality students.

- Research and training grants cannot be relied upon both to fully cover all future tuition and fee increases and help increase the University's competitiveness.

In 2006-07, the State buy-out of graduate fee increases eliminated fee increases as a source of additional pressure on graduate student support. In addition, the University continued to freeze non-resident tuition at 2004-05 levels, eliminated nonresident tuition for doctoral students who have advanced to candidacy (who, prior to 2006-07, paid 25% of nonresident tuition), and allocated to student support savings from General Fund-supported and student fee-supported programs attributed to the University's new Strategic Sourcing Initiative.

For 2007-08, the University again set aside 50% of new graduate academic fee revenue for financial aid, with 5% again being used to restore funds to undergraduate aid (as described above). The funds allowed campuses to cover cost increases associated with University-funded teaching assistantships, research assistantships, and fellowships that currently cover students' fees.

By continuing to hold nonresident tuition for graduate academic students at the 2004-05 level, the University also continued to reduce, in real terms, the costs associated with covering nonresident tuition for out-of-state and international students.

Finally, the University provided $10 million in matching funds to campuses that re-directed cost savings to graduate student support as a further incentive to improve their graduate student support programs. The proposal reflects a shared responsibility at the systemwide and campus level to address the widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition.

The University's proposals for 2008-09 would continue to address the most pressing concerns regarding graduate student support, namely, (1) mitigating the impact of any further fee increases on graduate student support, (2) ensuring that the University can compete successfully for the top students — including out-of-state and international students, and (3) providing additional funding so that the University can achieve its goals for graduate enrollment growth.

In the event of a fee increase in 2008-09, the University's expenditure plan proposed at the November Regents meeting included setting aside 50% of any new revenue (less the amount restored to undergraduate financial aid, as described above) so that campuses may cover the associated cost increases for University-funded teaching assistants, fellowships, and research assistantships. The University would also freeze nonresident tuition for graduate academic students for the fifth consecutive year, further reducing the real cost of nonresident tuition in each of the past few years.

Lastly, in response to continued concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the expenditure plan included an additional $10 million in funds for graduate academic student support in 2008-09. These funds would augment the $10 million provided to campuses on a matching basis in 2007-08. These funds would be used to help campuses compete for top students — including talented international students — and help campuses achieve their graduate enrollment goals.

Information Technology

Like all modern universities, information technology (IT) pervades the University of California. IT has become an overarching issue for the University, as every academic and administrative area and function of the University depends critically on information technology systems and services for communication, operations, analysis, and information storage and retrieval. Instruction increasingly relies on technology within classrooms and laboratories, but also to connect students, faculty, and instructional materials outside of these physical spaces. The research enterprise, having always relied on the most advanced technologies of the time, expands and innovates with the introduction of new technology. The University's public service mission has also been fundamentally reshaped by technology, as UC's libraries and student academic preparation programs now reach throughout the State electronically. Finally, the UC's business operations increasingly rely on advanced systems to support the institution's administrative responsibilities.

As the University pursues its mission in a world that increasingly depends on digital information and the systems supporting it, the University is working to identify strategic directions for IT investments that will enable UC campuses to meet their distinctive needs more effectively, leveraging IT investments for operational efficiencies and cost savings. In 2006, the Provost launched a highly consultative, two-year systemwide planning process under an IT Guidance Committee (ITGC) in order to identify investment strategies that promise efficiently and cost effectively to:

- ensure a robust technology infrastructure and the tools for access to and protection of our vast repositories of information assets,
- enable researchers to compete and lead on an international scale with the computing and network capabilities required for success,
- advance learning and instruction via tools for the 21st century,
- enable our students to work and live in a "wired" environment adapted to their lives and learning styles,
- support our academic and administrative operations to ensure effective stewardship, accountability, and transparency, and
- expand the virtual presence of the University in California in the national and international communities.

The purview of the IT Guidance Committee is wide ranging. It is looking at administrative and business as well as academic applications of information technology. The ITGC's goals are straightforward: to rationalize wherever possible development and maintenance of those essential IT services that are commonly required but not economically supplied by campuses, medical centers, or organized research units acting independently or in small groups. By realizing efficiencies in the supply of IT services, more support may be made available for local IT investments to support the distinctive and innovative work of campuses, departments, and individual scholars.

Infrastructure

While the University's missions and functions each involve specific IT needs, the need for infrastructure upgrades is cross-cutting. Among the critical components of an information technology infrastructure are the network services to accommodate the growing complexity and demands of the University's teaching, research, public service, and patient care missions. All UC campuses and facilities require access to a secure, highly configurable, high speed network in support of evolving needs for expanded services and connectivity for teaching faculty, greater bandwidth for researchers, and network-based services such as video-conferencing for the administrative community.

Instructional Technology and the Student Experience

Strategic investments in technology promise to enhance opportunities for instruction and enrich students' learning experience. Such investments are essential if the University is to compete effectively for the best undergraduate and graduate students and to prepare those students appropriately for employment in a global knowledge economy where facility with leading edge analysis, communication and collaboration tools is required. Investments will also support innovation in instruction, in academic preparation of California's K-14 students, and in the University's service to its graduates and more generally to the people of California. With such investments, strategically and judiciously made:

- faculty will be able to integrate into their courses perspective and expertise drawn in real time from across the system and from Universities around the world;

- classroom-based instruction will be augmented in ways that allow students to learn anywhere at anytime, and in ways that meet their individual lifetime learning needs;
- new networked technologies will enable students and faculty to build communities of interest around themes or assignments associated with a particular course, subjects taught in a particular department, program or discipline. Learning communities in UC need know no geographic boundaries;
- instructional materials developed for UC students, publications by UC faculty, and other information resources available from UC's libraries, museums, and archives will, where appropriate, be made available for use within California's schools, community colleges, and the CSU to help to prepare more students for entry into California higher education; and
- such materials will also be available to the University's graduates and to the citizens and enterprises of the State of California, encouraging continuing engagement with the University's rich cultural, civic, economic, and educational resources.

Information Technology and the Research Enterprise

UC researchers increasingly rely on information technology as new frontiers in scientific and engineering research require computer simulation and modeling to bridge from theory to experimentation. As our scientists focus on research involving critical problems in the biological and health sciences and issues of major international concern such as earthquake analysis, climate change, population growth and change, natural resources planning, and energy production and conservation, they are increasingly called upon to collaborate in multi-disciplinary, cross-institutional, often international teams. In order to succeed, even to participate in these efforts, University researchers require advanced computational and network services, and a range of data sharing and scholarly collaboration tools that reduce the barriers associated with distance, language, and time.

Strategic investments in information technology are also essential for UC to support researchers with innovative technologies and to bolster their ability to attract large-scale research funding from state, federal, philanthropic, and corporate entities. The ITGC is consulting broadly with the research community to advance strategic directions that promise efficient development of a research cyberinfrastruture that will keep the University, its campuses, and its researchers competitive.

Stewardship of Digital Information Resources

The vast collections maintained by the UC libraries provide an unequalled information resource that enables research and instruction at this University to achieve and maintain its world-class stature. Our scholars and students will continue to rely upon this ever-expanding resource, some of which exists exclusively in digital form, but is not formally published and is not yet systematically collected or maintained by our libraries or any other organization. This material includes, for example, scientific data, information culled from millions of websites, and digital entertainment products. Soon, the great universities will be those that are able to capture, organize, and support re-use of this vast and rapidly growing digital record of our society's science, culture, economy, and governance.

The challenge of digital stewardship is considerable: digital information is voluminous, heterogeneous, complex, and notoriously volatile. The IT Guidance Committee (ITGC) will continue to explore how different digital asset management needs can be met by a common infrastructure and associated services.

Institutional Support and Business Operations

The ITGC has paid particular attention to basic IT services that enable the University to operate as both a business and an academic entity. Investments in information technology continue to produce significant efficiencies and to deliver critical new services in University business administration and operations. However, in recent years of budget cuts and fiscal constraints, the University has significantly under-invested in some key areas of administrative computing and related infrastructure. This has had a negative impact on the University's ability to improve productivity and labor cost savings and has hampered efforts to address critical issues and opportunities in such areas as medical record systems, research administration, student systems, e-procurement and employee self-service applications. Recent refinements to the University's corporate financial systems, on the other hand, have produced more accurate and comprehensive financial reporting and analysis capabilities in an environment of tighter regulation and compliance.

Inadequate systems to collect and manage information about UC employees, both at the campus and systemwide levels, continue to be a significant liability to UC in light of growing demands for greater transparency and accountability. To address the University's human resources information systems needs, a thorough examination of our HR- related business processes and practices must result in greater standardization as a critical first step.

The ITGC has acknowledged the imperative to invest in effective administrative business processes and systems. As committed by the President's Implementation Team of the Task Force on UC Compensation, Accountability and Transparency, the University requires a new HR Information System environment that will build upon current systems investments, exploit new technologies, support more standardized business processes and improve the breadth and depth of employee-related data for reporting and analysis. A phased, multi-year project approach to these enhancements will ensure minimal disruption to the business environment, and a gradual deployment of new capabilities.

Funding Information Technology Advances

The 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 information technology. As discussed in the *Summary of the 2007-08 Budget Request* chapter, additional funding for core academic support (informational technology, instructional equipment replacement, building maintenance, and library resources) is one of the priorities for restoring UC academic quality.

Core Academic Support

Several areas of the budget are critical to maintaining academic quality and yet have been historically underfunded. These areas, collectively referred to as core academic support, require ongoing support and new investments to ensure that the University is able to recruit and retain the best faculty and students. Core academic support includes:

- instructional technology to enhance and enrich students' learning experiences and prepare them for employment in a global knowledge economy;
- instructional equipment replacement, providing up-to-date computing, laboratory, and classroom tools for teaching and research;
- library resources to build print and digital collections and to continue strategic investments in advanced cost-effective reference and circulation services; and
- ongoing building maintenance support the janitorial, groundskeeping and utility costs associated with maintaining State-supported facilities.

The Partnership Agreement with former Governor Davis recognized this shortfall and planned a 1% adjustment to the base each year to help address the gap. Funds were provided for this purpose for two years. Once the State's fiscal crisis began in the early part of this decade, however, not only were increases discontinued, but program cuts erased any of the progress that had been made from earlier funding increases. The shortage in these areas is estimated to be over $100 million.

The Compact Agreement with Governor Schwarzenegger again recognizes the critical nature of the shortfall in these budget areas and proposes a 1% annual adjustment in the base budget beginning in 2008-09 to help address the shortfall. However, even if that rate were continued through the Compact and beyond, it would be 2012-13 before this shortfall will have been funded. If the State's fiscal situation permits, the University will request additional funding in the near term to address this shortfall sooner.

For 2008-09, an additional 1% base budget adjustment from the State would provide $30.8 million in new funds. Campuses propose to dedicate these funds as follows:

- $6.0 million for instructional technology;
- $3.0 million for replacement of obsolete instructional equipment;
- $5.3 million for library acquisitions and shared resources, to help address rising costs of library materials and create new efficiencies in the library system;
- $15.8 million for operation and maintenance of plant, specifically to cover purchased utilities deficits caused in part by the State's energy crisis earlier in the decade and a large, growing deferred maintenance backlog; and
- $1.4 million for other academic support programs.

Planning for the Longer Term

Even while the ups and downs of the State's economy and its impact on UC has created considerable fiscal uncertainty in recent years, it is prudent that the University look beyond the annual budget cycle to take a longer view, looking at least twenty years into the future. The University must consider what the State of California will need from the University in the coming decades and identify the ways in which the University can contribute to meeting those needs. As part of this process, consideration should be given to, among other things, the changing nature of the state's economy and demographics, the balance of the University's missions and roles, and global competition for intellectual capital.

The knowledge-based economy means that higher education is more important than ever to economic competitiveness and the quality of life. Higher education is a pathway to upward social mobility for a changing population. More Californians will want and need a university education for tomorrow's jobs. Innovations that result from the University's research and the creative solutions and visionary thinking of its graduates lead to new products, better processes, new companies, and sometimes entirely new industries. Both access to the University and protection of its quality are imperative if this valuable public asset is to continue to keep California competitive.

Around the world, nations such as China, India, Singapore, Ireland, and Australia, are aggressively boosting their economic competitiveness. These countries are investing heavily in higher education. In California, it cannot be assumed that investments made 20 or 30 years ago will be sufficient in the future to maintain the quality of life and standard of living that Californians have enjoyed in the past. The investments that California makes over the next 10 years in California's competitiveness may well determine the state's economic fortunes for the next 40 or 50 years, just like the investments California made in the 1960s. To keep California competitive, the state must ensure that the University has the intellectual capital to stay competitive in a global economy.

In this context, the University is engaged in an ongoing long-range planning process, designed to create a vision of the University of California in twenty years and how it will best serve the State. Careful consideration is being given to what will be the intellectual capital and other needs of the State and how the University can help to meet those needs in 2025 and beyond. Recognizing the State's current financial difficulties, this budget, and those that will follow, will be consistent with the Compact with the Governor through 2010-11 and will be informed by the longer-term perspective as well.

The University is routinely engaged in a variety of planning efforts both on its campuses and through various systemwide bodies including The Board of Regents. Of note since 2006 has been the emphasis on a more integrated approach to planning — self-consciously developed to ensure greater coherence and alignment around strategic initiative, as well as better transparency in and accountability for decisions about both campus and systemwide goals and budget priorities. Fruits of this more integrated approach are already apparent:

- A long-range vision for the University has been established by the President's Long Range Guidance Team and embraced by The Board of Regents. Its very existence has stimulated thinking about the system's strategic goals and about the means, very openly of assessing progress in meeting them. It has also acted as a touchstone against which campuses can and do now plan their own developmental trajectories – in the full view of one another and of the system's goals and budget priorities.

- A long-range enrollment plan (to 2020) emerged recently from the process. It initiates a very open dialog amongst the UC campuses, and between the UC system and the State regarding UC's distinctive contributions to California — their costs and their benefits.

- A new budget process – for the system as well as for the Office of the President – engages the University community, The Board of Regents, and the general public, in an open dialogue about the University's budget needs and priorities.

- Online information resources make detailed information about the University's progress routinely available via the web. One example is the development of *Statfinder*, an online tool available to the public to understand more deeply, from actual data, the nature of UC admissions decisions.

- Focused or targeted planning efforts – the strategic plan of the University's IT Guidance Committee, or even the emerging plan to improve the efficiency and reduce the size of the Office of the President — mobilize actions behind initiatives that reflect university strategies.

Individual planning efforts are detailed below. Each is as significant in its own right as the synergies achieved through their coordination, synthesis, and integration.

The Long Range Guidance Team, assembled to advise the President on how UC will maintain its stature as the best public research university through 2025, created a framework of recommendations and direction. It articulated a vision for the University wherein:

- **The University of California of 2025** will be research intensive, with a marked increase in the multidisciplinary, cross-disciplinary, inter-campus, and global nature of our efforts.

- **The University of California of 2025** will be student centered in ways that better leverage the depth, breadth, and diversity of our faculty's expertise systemwide. UC will leverage unparalleled experimental and research facilities, libraries, research data, and other tools that foster scholarly collaboration on a worldwide scale to create distinctive educational experiences for our students.

- **The University of California of 2025** will be responsive to California and its increasingly diverse population, and will be broadly engaged in a myriad of ways with the people, businesses, governments, and the environmental, social, and health-care services of California and the global communities of which they are part. Our campuses will continue to develop as vital cultural centers serving the regions where they are

located with the highest-quality programming in the performing and visual arts, and in adult, continuing, and professional education.

- Drawing upon the ***power and promise of its ten campuses***, **The University of California of 2025** will, as its motto "Fiat Lux" demands, "illuminate":

    - Illuminate the faculty and graduate students as the prime drivers of our intellectual creativity,
    - Illuminate our undergraduate students, in all their diversity of talents and backgrounds, as the promise of the future for California,
    - Illuminate the depth and breadth of the resources of the UC system that must be harnessed to meet the changing needs of California's diverse population.

More recently, The Regents have created a Long Range Planning Committee which embraced the vision of the Long Range Guidance Team, and articulated the following high level goals which, along with long-standing Regental priorities, would drive the development of strategic priorities:

- *reinvigorating our relationship with California* by restoring credibility, bringing research and educational capacities to bear in ways that meet the state's evolving needs, and ensuring that all Californians have access to a UC education;

- *building and maintaining the quality of our teaching and research* by planning for and investing in the people, programs, and facilities that ensure our continued academic and economic competitiveness on the world stage;

- *restructuring the way we do business* to achieve the nimbleness and agility that modern organizations require to respond to rapidly changing needs and ensure that the lion's share of every dollar is spent helping to achieve academic and service goals.

Other focused planning activities address the long-term direction of the University. All are evolving processes, whose strategic goals will be incorporated into, as well as shape the larger goals of The Regents. Among these are:

- *the first phase of planning for long-range enrollment growth through 2020, reflecting campus aspirations for themselves within the context of their academic plans to serve the State and nation, and shaped by opportunities afforded by their locations within specific regions and serving specific populations of California;*

- *Universitywide planning for information technology, addressing the broad physical and virtual infrastructure for instructional, research and administrative computing needs;*

- *health science workforce analysis and enrollment planning, which is already informing this budget, to address expected shortfalls in key health professions;*

- *undergraduate education planning, which is addressing systemwide approaches to ensure the University's high quality undergraduate experience continues to be responsive to public interests and to an evolving world that will require different skills and knowledge;*

- *the Education Imperative, a universitywide effort to address the serious challenges to California's continued well-being as K-12 educational attainment falls below levels needed to sustain an increasingly complex economy requiring greater educational skills; and*

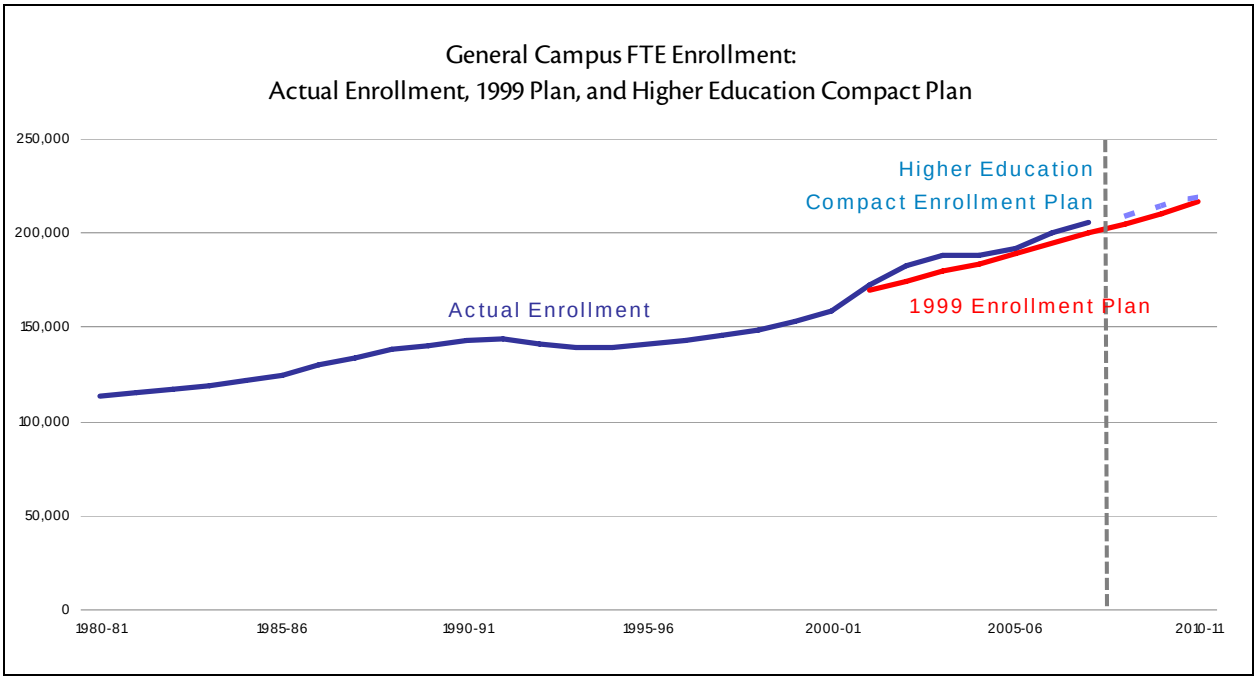
- *comprehensive planning for continued improvements in diverse representation among student, faculty and staff populations.*

In addition to these focused planning efforts, the University continues to find ways to make planning more open, more collaborative and more deliberately responsive to California's needs. Instead of planning in isolation from each other, campuses now share their academic plans and aspirations with each other. The enrollment plans are being developed collaboratively, with each campus fully aware of other campuses' plans. This information was posted last October on the academic planning website: http://www.ucop.edu/acadaff/swap/plans.html.

Long-Term Enrollment Projections

The University's long-term enrollment plan, last revised in 1999, called for annual enrollment growth of 2.5%, or 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 3, 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 student growth per year in recent years rather than the 5,000 FTE

Display 3



growth projected earlier. In the current year, total enrollment remains 6,000 FTE over the level envisioned in the 1999 plan for 2006-07. The Compact with Governor Schwarzenegger calls for UC to return to its earlier estimates of 2.5% enrollment growth per year.

As part of its ongoing academic planning efforts, the University recently developed a new set of long-term enrollment projections through 2020-21. While individual campus plans and programs are still evolving — and must remain flexible to respond to new and emerging opportunities and challenges that will face California — the University's overall direction is clear:

(1) UC will continue to grow, though more slowly than in recent years. The University proposes total enrollment in 2020-21 of 265,000, an increase of 48,000. Annual growth over the period from 2010-11 through 2020-21 will be roughly 1.1%, considerably lower than the 2.5% annual growth budgeted through the current planning period under the Governor's Compact that ends in 2010-11.

(2) Undergraduate growth will expand opportunity to populations historically underserved by higher education. UC will take advantage of slower growth among high school graduates to offer opportunity to a broader group of California students, including low-income students, those who are the first in their families to complete a four-year degree, students from underserved communities, and transfer students. Proposed undergraduate growth of 26,000 students through 2021 will increase the proportion of California public high school graduates enrolling at UC to an all-time high of 9.2%.

(3) Accelerated growth in graduate enrollments will fuel California's economy and provide social and economic mobility. To help the state remain competitive in a knowledge-based global economy, UC proposes to increase graduate enrollments by roughly 22,000 students by 2020-21. More than a third of proposed growth is expected to occur in life and physical sciences, engineering, and math and more than a quarter in professional programs to train doctors, public health professionals, nurses, veterinarians, and other critical health science professionals.

(4) Enrollment growth will enhance diversity. Growth is key to the University's ability to serve students from all of California's communities and we will expand in regions and in fields where underserved populations can most benefit. Undergraduate growth will be greatest in the Central Valley and Inland Empire — regions that lag the rest of the state in terms of college opportunity and that support diverse and growing populations. At the graduate level, our campuses are increasing enrollments and proposing new programs in areas that both attract and serve diverse populations, such as the PRIME programs that train doctors to serve underserved communities.

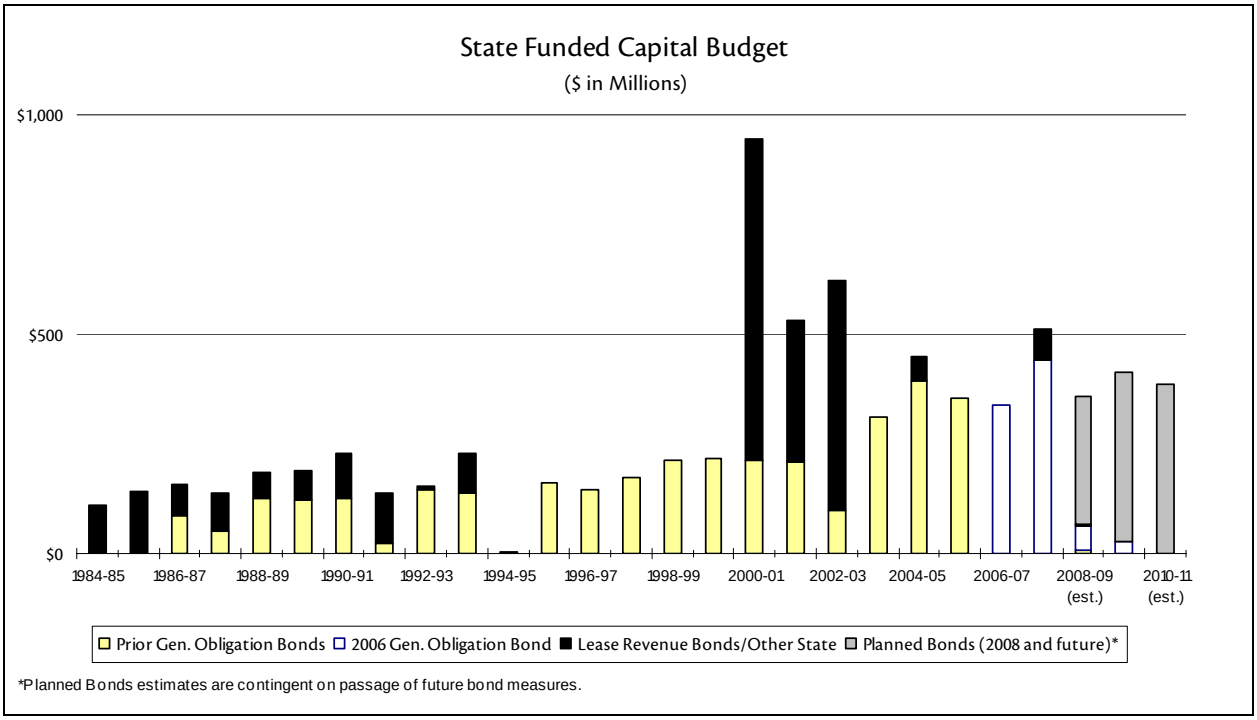
(5) Campus enrollment projections take into account the needs and concerns of neighboring communities. Many campuses are proposing new programs that respond specifically to regional needs (for example, in land use and environmental issues, immigration, and health policy). Campuses that are approaching enrollment levels on which a long-range

development plan is based will use a variety of strategies, including summer and off-campus enrollments, to minimize impacts on their local communities.

Facilities Needs to Accommodate Enrollment Growth and Maintain 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 4 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 4



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 two-year 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, with UC receiving approximately $345 million per year from the bonds.

The University also received capital funds from other State sources in recent years, including both State General Funds and lease revenue bonds. A total of $650 million in lease revenue bonds and State General Funds was provided for hospital seismic projects required by SB 1953 and hospital infrastructure needs; $261 million for planning and construction of the initial buildings for the Merced campus; $400 million for the California Institutes for Science and Innovation, which was matched at a rate of at least 2:1 by non-State funds (the Science and Innovation Institutes are discussed in more detail in the *Research* chapter of this document); $282 million for miscellaneous other projects that were high priorities for the Governor and the Legislature; 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.)

Funding for the University's 2008-09 capital budget will require passage of a new General Obligation bond measure, currently being debated in the Legislature. The Governor has proposed $388 million for projects related to enrollment growth, infrastructure, and life-safety needs, and modernization of obsolete facilities. The capital outlay budget is discussed in more detail in a companion document, *2008-2009 Budget for State Capital Improvements.*

Future funding for capital outlay continues to be a major issue facing the University. Continued enrollment growth 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 adequately 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.

The University's capital program is particularly challenged by recent changes in the construction market that have resulted in an extraordinary increase in building cost. Prices for certain materials, such as steel and cement, have increased dramatically. Further, California is experiencing a major increase in the volume of construction, resulting in fewer bidders and less competition for University contracts, much higher bid proposals, and great volatility in bids. In response, the University has dramatically increased its emphasis on management of cost and cost risk, and the importance of improving the way projects are implemented. That said, it is clear that with the current volatility in the construction market, the $345 million per year in State financing called for in the Compact does not support as many projects as originally envisioned, exacerbating the already difficult challenge of meeting projected enrollment growth, essential seismic correction, and renewal needs.

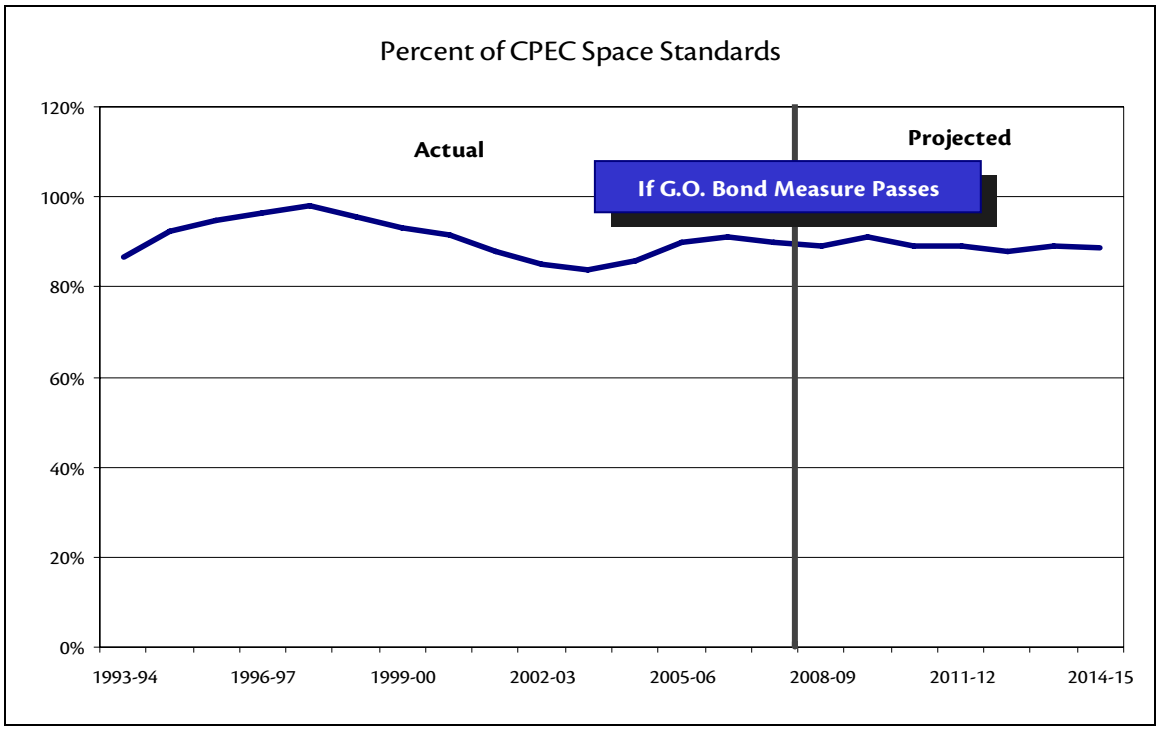
It is in this context that the University has prepared its annual five-year capital outlay plan that will address needs related to enrollment growth, seismic, and other life-safety requirements, and renovation of obsolete facilities and infrastructure based on the funding levels called for in the Compact. The State-funded program, which was approved at the November 2007 meeting of the

Board, includes the projects and budget proposed for 2008-09, along with future State funding requirements by campus for the next four years, 2008-09 through 2011-12. In addition, other documents, including both the five-year *State* and *non-State* capital plans, were presented for information and discussion in November.

The University estimates that it will require more than $1 billion per year (up from the estimate of $500 million per year included in the Compact in 2004-05) over the next five years 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. Unfortunately, the magnitude of these non-State funded facilities needs is creating significant pressure on the University's debt capacity. Moreover, the current financial context and a volatile construction cost market seriously constrain all fund sources available to the University, limiting what can be done.

While State funding does not meet all the University's needs, the $345 million per year proposed in the Compact 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 almost 92% of the standards for instruction and research space set by the California Postsecondary Education Commission (CPEC space standards) by 2012-13, as shown in Display 5. Passage of future

Display 5



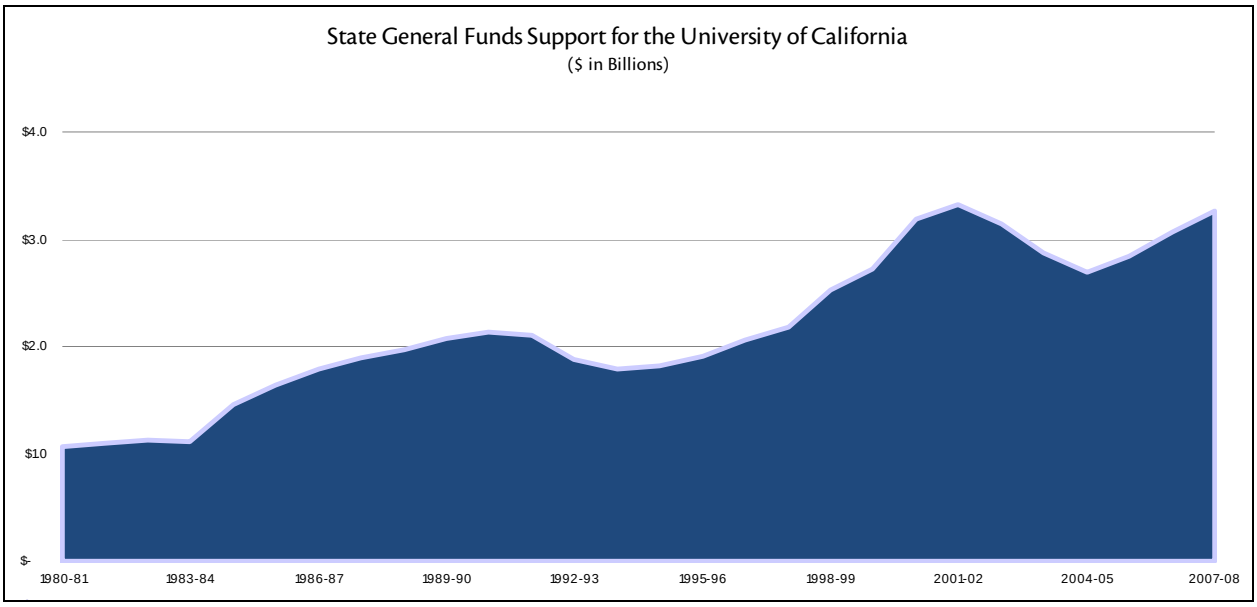
bond measures is key to the University's ability to accommodate enrollment and maintain adequate facilities.

The Compact states that, as the State's fiscal situation permits and one-time funds become available, the State may provide "one-time funds to address high priority infrastructure needs, such as capital renewal of facilities and deferred maintenance." The Compact goes on to state that "for UC, at least $200 million per year is needed for systematic capital renewal of existing facilities and utilities, and the deferred maintenance backlog for high-priority projects exceeds $500 million." These estimates are based on a sophisticated model developed by the University to project normal renewal costs for facilities. The model, which is updated annually, includes a detailed inventory of all State-maintained facilities at each campus and breaks down campus infrastructure and each building into subsystems with predicted life cycles of between 20 and 50 years. These systems include components such as roofs, fire alarm systems, heating and ventilation systems, central plant chillers, and underground utility cabling. The model assumes standard life cycles and costs for renewing each system, and from these elements develops a profile for each building or system, projecting the renewal date and cost for a 50-year period. The model also estimates the deferred maintenance backlog by tracking those systems that have deteriorated to the point that they currently need major repair, replacement, or renewal. The University welcomes the acknowledgement in the Compact of these serious deficiencies and as funds become available, will seek investments from the State in these critical areas of infrastructure.

State Funding for UC Depicted Over Time

The "ups and downs" shown in Display 6 have largely coincided with changes in the State's economy. In the 1980s, there were large increases in State funding due to the high priority

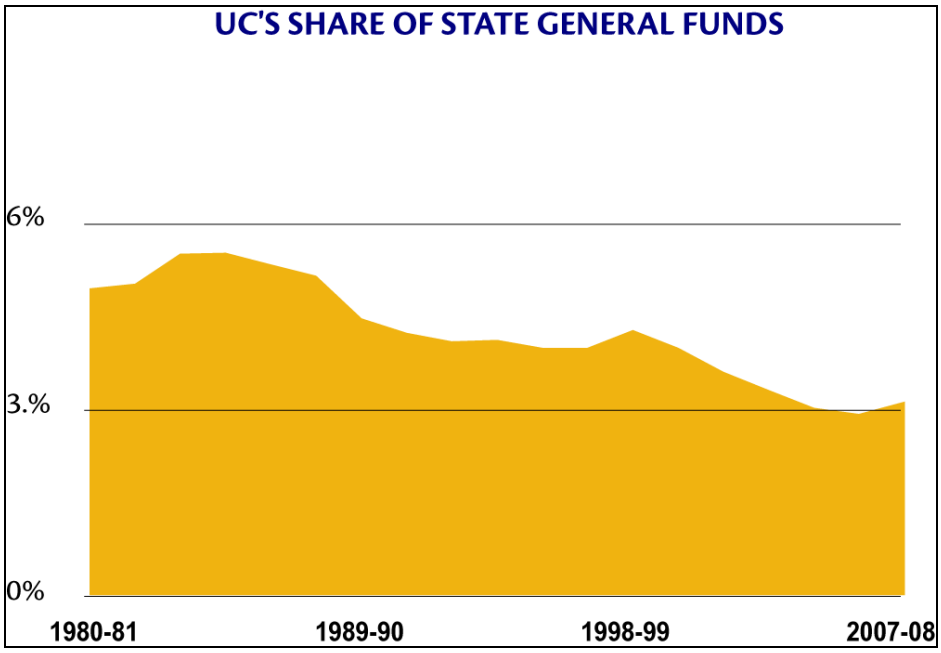
Display 6



placed on the University of California by Governor Deukmejian and the Legislature. During that time, State funding for UC essentially doubled. Declines occurred during recessionary years. 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 with Governor Davis), the State provided increased funding for the University's budget every year until the most recent fiscal crisis, again reflecting the high priority the State placed on funding for the University during that period.

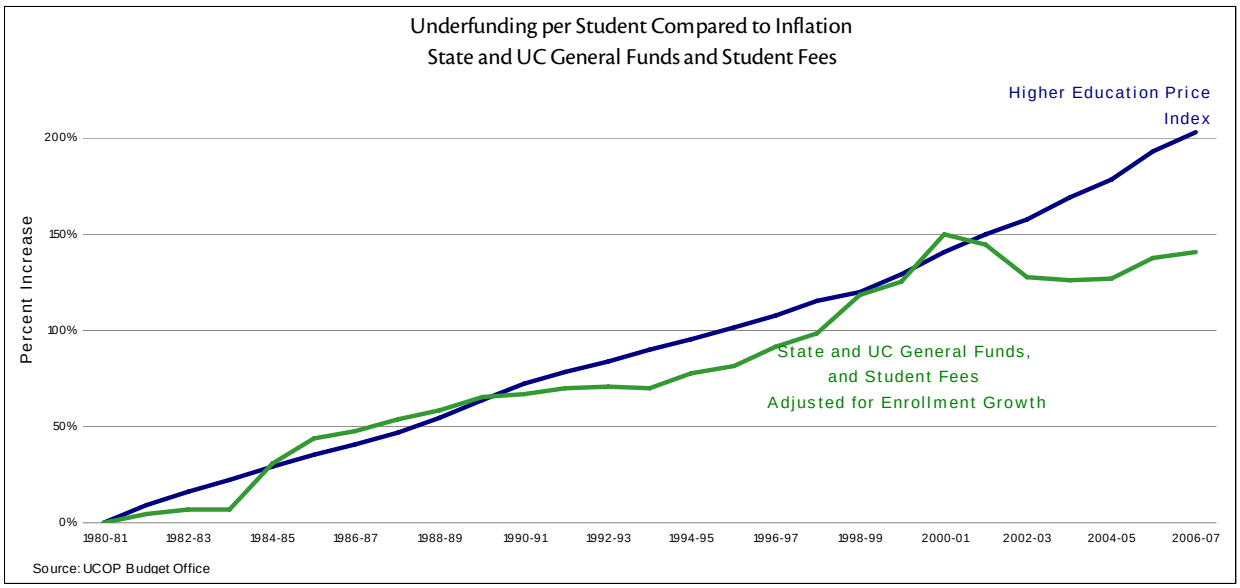
Looking at State support another way, Display 7 shows the University's share of the State General Fund budget over time. Thirty years ago, the University's share was 7%. It has declined markedly over the last three decades and is currently at a low point of 3.1%. Large decreases in support for UC, and higher education in general, coincided with the passage of Proposition 13 and the State's need to significantly increase support for K-12 and local government to replace lost property tax revenue.

Display 7



Yet another way to look at the University's budget over time is shown in Display 8 (next page), 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, until the last several years. 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 leveled off recently, the gap between funding per student and the increase in inflation has widened considerably. The importance of having sufficient funds to maintain quality cannot be

Display 8



overstated. The erosion of the University's resources must be halted if the educational quality of the University is to be preserved.

Fortunately, the Compact with Governor Schwarzenegger, reached in Spring 2004, recognized the importance of higher education in a knowledge-based economy and prevented further erosion of the University's research and advanced education programs. While the Compact stopped the decline in State funding, years of disinvestment have left academic support levels, the student-faculty ratio, and graduate and professional education significantly under-funded. Faculty and staff salaries, as well as graduate student financial support, are well below what competitor institutions provide. This budget document describes the resources needed to implement a multi-year plan to restore funding to competitive levels, based upon goals and priorities established by The Regents of the University of California in January 2004.

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 early 2000s were very deep; better economic times in the late 1990s resulted in improved budgets, but did not permit full recovery from the devastating effects of earlier major funding shortfalls in the University's core operating budgets.

By 2000-01, 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 had 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, and thus could not adequately sustain the University's infrastructure that is the foundation of academic quality.

Four years of further major reductions as part of the State's response to the latest fiscal crisis again took a heavy toll on the University's ability to perform its missions under the Master Plan and contribute to the state's economic development:

- base budget reductions totaled about $490 million during the four-year period covering 2001-02 through 2004-05;

- another $420 million in budget cuts were offset by student fee increases;

- another $550 million represents unfunded costs associated with a normal workload budget, including salary and merit increases, employee health and welfare benefits, facilities maintenance, energy costs, non-salary price increases, and other costs. Many of these costs have been 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 10% — there is a similar problem with respect to staff salaries.

Dramatic cuts during the early 1990s and again during the initial years of the 21st century have strained the University of California's ability to contribute to the economic and social welfare of the state. In times of stress, priorities must be set in order to make the best use of limited resources. The University has continuously addressed the State's highest priority for higher education — access for undergraduate students — by expanding as rapidly as possible to accommodate an exceptional increase in high school graduates, commonly called "Tidal Wave II." Other aspects of the University's mission, including research and public service, sustained disproportionate budget cuts; graduate and professional programs have not expanded rapidly enough to meet the state's growing needs. As a result, the University faces critical funding challenges that may well determine whether it remains an international center of academic excellence, with a deep impact on California's quality of life, or becomes just another university through gradual decline in quality over the coming years.

UNIVERSITY EXTENSION, SUMMER SESSIONS, AND OTHER SELF-SUPPORTING INSTRUCTIONAL PROGRAMS

University Extension

University Extension is the largest continuing education program in the nation, providing courses to nearly 325,000 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 2007-08, the base budget for University Extension is $202.1 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.

Summer Sessions

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 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 and completed the conversion of all general campuses in 2006-07. 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 of this document.

Funding for non-UC students remains in the Summer Sessions budget. In 2007-08, the base budget for Summer Sessions is $13.4 million, all of which is non-State Funds. In Summer 2007, 9,340 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.

Self-Supporting Programs

The University operates a number of self-supporting graduate degree programs. These programs, developed in accordance with the Regents' *Policy on Self-Supporting Part-Time Graduate Professional Degree Programs*, are intended to provide flexible part-time pathways to graduate professional degrees for academically qualified working adults who cannot be full-time students. Extending the opportunity to enroll part-time in professional master's graduate degree programs to those who need to continue their employment while studying is consistent with the University's mission in graduate professional education.

Self-supporting part-time graduate professional degree programs adhere to the same UC academic standards as do other graduate degree programs, but are not supported with State funds. Full program costs, including but not limited to faculty instructional costs, program support costs, student services costs, and overhead, are covered by student fees or other non-state funds.

The University currently operates more than 30 self-supporting graduate degree programs. The University's oldest and largest self-supporting programs are evening/weekend and executive MBA programs for employed professionals. More recently, programs have been established in a range of disciplines, and include on-line programs, off-site programs, joint programs with other institutions, and programs for foreign-trained students.

During 2007-08, enrollment in the University's self-supporting programs totaled more than 3,350 year-average headcount students (nearly 2,600 FTE students) and these programs generated more than $80 million in fee revenue.

RESEARCH

The Governor's Budget for 2008-09 did not include funding for the $10 million Climate Change initiative, discussed in this chapter, that was included as part of the University's budget plan for 2008-09 and approved by the Regents at the November 2007 meeting. The proposal to provide $5 million of State Transportation Fund for the Institute of Transportation Studies is still under consideration.

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. The University's research forms the basis for new knowledge and innovation that creates new products, new companies, new jobs, and entire new industries. University researchers are at 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 is one of the primary engines that power the state's economy and is critical to keeping California competitive in the global market. The quality of the University's research and the skilled, entrepreneurial workforce produced by its educational programs, along with an ability to transfer new knowledge from the laboratory to the marketplace, helped lead to California's dominance in knowledge-intensive industries. 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. Through its education, research and public service programs, 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.

Unfortunately, State and federal support for the University and its research programs is declining at a time when global competition is increasing, raising concerns about the nation's ability to maintain its competitive edge. The cost of doing cutting edge research in science and engineering is increasing, and more research connected to economic competitiveness requires large interdisciplinary research teams. Research is increasingly more infrastructure dependent and the costs of compliance with extramural contract and grant requirements have risen rapidly, yet core support for the University's administrative research staff and infrastructure have not kept pace with the amount of funded research. The key to the University's research success is its faculty and students, but reduced resources and increasing costs to recruit and establish new

faculty in all disciplines, as well as increases in graduate student fees and nonresident tuition and inadequate graduate student support packages, may undermine the University's success in attracting the best faculty and graduate students.

In its 2005 report, "The Knowledge Economy: Is the United States Losing its Competitive Edge?," the Task Force on the Future of American Innovation notes that:

> *"For more than half a century, the United States has led the world in scientific discovery and innovation. It has been a beacon drawing the best scientists to its educational institutions, industries and laboratories from around the globe. However, in today's rapidly evolving competitive world, the United States can no longer take its supremacy for granted. Nations from Europe to Eastern Asia are on a fast track to pass the United States in scientific excellence and technological innovation. Research, education, the technical workforces, scientific discovery, innovation and economic growth are intertwined. To remain competitive on the global stage, we must ensure that each remains vigorous and healthy. That requires sustained investments and informed policy."*

Yet, U.S. funding for universities and research has not kept pace and is projected to decrease in the future at a time when other countries are increasing their investment. While the federal government made a concerted effort to double research and development funding for the biological sciences, the Task Force report notes that federal funding of basic research in engineering and physical sciences has experienced little to no growth over the last thirty years and, as a percentage of Gross Domestic Product (GDP), funding for physical science research has been in a thirty-year decline. In the evolving research environment, health science fields are inextricably linked to engineering and physical sciences, and the imbalance in funding undermines the effectiveness of health sciences research. The President original proposal was supportive of the need for an increase in federal investment in physical sciences research, but his increases cut funding for other R&D research program's to fund the increases. In the final budget, because of a desire to keep overall spending down, the increases for physical sciences research did not materialize and overall increases for research are disappointing. This is discussed in the *Federal Funding for Research* section below.

One of the key sources of support for the University's core research is funding provided by the State of California. The State provides a substantial portion of the funds for building and maintaining facilities, laboratories, and equipment that supports teaching, workforce development and technology transfer. State funding also provides seed money for research projects vital to California, whether the subject is earthquake engineering or improved crop varieties. Once a research program is up and running, UC leverages the initial investment of State funds by attracting grants from federal and private sources. The quality of UC's research attracts billions of dollars annually in funding from the National Institutes of Health, the National Science Foundation, the Department of Energy and other federal and private sources. For every State dollar specifically invested in research, UC leverages nearly $5 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

The University's research mission is central to the foundation of the University's educational programs because new research programs lead to new knowledge, which in turn infuses educational programs with state-of-the-art information and technology at both the graduate and undergraduate levels.

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 program cuts. Once the State's economy began to recover, the State made research a priority by providing augmentations for specific research projects. UC received permanent budget augmentations of $91 million dollars as well as one-time augmentations of $79 million to the research budget over the period 1996-97 to 2000-01. To put the magnitude of these augmentations into perspective, in 1995-96 before the augmentations occurred, the total General Fund research base was $183 million dollars. Thus, the permanent augmentations represented a 43% increase to the 1995-96 base. However, the new State funding was tied to the creation of new units or to specific research areas and, therefore, did not result in restoration of the funding for core research programs that had been severely cut during the early 1990s.

By 2002-03, the economy had deteriorated markedly and the State was once again headed into recession. UC's State funded research budget again 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 shared in an undesignated cut to the University's budget of $35.3 million. After two years of across-the-board budget cuts to research, the University determined that the new reductions could not be accommodated in the same manner. Core research programs that received disproportionate cuts in the early 1990s and never recovered those funds during the period of State budget augmentations in the late 1990s could not sustain further cuts and continue to maintain the quality of their programs. Furthermore, most of these core research programs already were contending with diminished funding for actual research related to the need to cover the significant fee increases proposed for graduate student researchers. Instead, over a two-year period, the reduction was distributed to programs that received large augmentations in the late 1990s.

Fortunately, the Compact with the Governor and the support of the Legislature for the Compact's funding principles have helped to stem the erosion in the University's budget. However, halting the deterioration in the budget is not enough.

For 2007-08, the funding proposed in the Governor's budget included an additional $15 million to more adequately fund core operating support for the California Institutes of Science and Innovation (Cal ISI), but the additional funding was not part of the final budget act. The Cal ISIs were proposed in the year 2000 to ensure California's premier standing in knowledge-driven high tech and bioscience industries and to provide the technological underpinnings for the state's future economic growth. Initially, the State provided $100 million in capital for each Institute, with a required two-to-one match from non-State sources. The four Institutes have achieved and exceeded a required two-to-one match from non-State funds in order to build state-of-the-art facilities to house these programs. Nearly half a billion federal dollars have been brought to California by Institute teams in just five years. The 275 partner companies that have invested over $200 million in these Institutes come from all parts of the economy — entertainment, transportation, high tech, biotech, nanotech, aerospace, and more. While the facilities needs of the Institutes have been largely met, the core support for research in the Institutes is inadequately funded. Of the $100 million in capital funding provided for each Institute, UC was authorized to use $1.2 million per year per Institute to begin operations. The Cal ISI are in urgent need of operating funds to fulfill the original promise of the Institutes, and the University is in the process of reallocating funds internally in order to provide the core funding that federal agencies and industry partners look for when they provide funds to the Institutes.

The Compact states, "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 order to meet high priority needs of the University and the State." Because of the important role University research can play in ameliorating the looming threats to California's economic prosperity from environmental hazards and from increasing educational disparities within its population, for 2008-09 the University is requesting additional State core support for its research efforts on climate change, funding from the State Transportation Fund for the universitywide Institute of Transportation Studies Multi-campus Research Unit, and support for a cooperative effort with K-12, CSU and others to address key issues facing the K-12 schools. The Education Imperative K-12 Initiative is discussed in the *Cross Cutting Issues* chapter of this document. The Climate Change Initiative and the Institute of Transportation Studies Initiative are discussed below.

Climate Change; Preserving California's Competitive Advantage ($10,000,000)

The University is requesting $10 million in the 2008-09 budget to create a structure that will enable managers and policy makers to work with scientists and researchers to create solutions for California's greatest agricultural and environmental challenge — climate change.

The potential effects of such change on California and its people may be imminent and dramatic. The impacts include reductions in snow and water supply reliability, increased flooding, more

frequent wildfires, new patterns of disease in humans, animals and crops (including risks to food safety) and inability to meet demand for energy.

At stake is 1,100 miles of magnificent coastline across ten degrees of latitude; the future of the State's multi-billion dollar agricultural industry; the continued growth of the energy and tourism sectors; the survival of priceless ecosystems; and the physical health and financial well-being of California's population.

Successfully addressing these environmental and agricultural issues in a coordinated way — one that balances business, environmental and social needs, and harnesses the vibrant and entrepreneurial capabilities of California — will require a new way of doing business in the University of California (UC) and other institutions, public and private, throughout the State.

UC as a whole, working together in new forms of coordinated effort, can help lead that change, and we seek the State's support in both catalyzing and leveraging that new way of doing business. Key elements of the initiative include:

- ***Fostering engagement and strategic planning*** — creating a framework for a long-term, formal partnership between UC, CSU, state agencies and others in addressing ongoing environmental challenges associated with climate change and for prioritizing needs and facilitating collaborative efforts to quickly respond to emerging threats to California's agriculture, environment and economy
- ***Focused training and education*** — augmenting successful programs to train the next generation of California leaders to manage agricultural and environmental issues through partnership with CSU, state agencies and across UC campuses and ANR statewide programs
- ***Seed funds for targeted research*** — providing seed funds for cross-disciplinary and cross-institutional, innovative research in areas identified through the strategic planning described above
- ***Expert registry, research portal and data registry*** — creating a comprehensive, up-to-date portal to access faculty and extension research expertise, promote collaboration and cooperation, and provide access to the vital research data and results to solve California's climate change challenges
- ***Targeted communications and outreach*** — leveraging existing mechanisms, in particular the Cooperative Extension program in every county of California, to enable UC to seamlessly move the results of research into the hands of California's citizens, business leaders, teachers and policy makers.

BUDGET SUMMARY

Proposed Budget:	**2008-09**	**2009-10***
Engagement and Planning	$150,000	$150,000
Training and Education	$2,600,000	$2,600,000
Targeted Seed Research	$3,500,000	$5,750,000
Expert and Data Registry	$2,750,000	$500,000
Communications and Outreach	$1,000,000	$1,000,000
Total	**$10,000,000**	**$10,000,000**

* Amount dependent each year on measured performance and the continuing availability of state funds.

Institute of Transportation Studies Multi-campus Research Unit ($5,000,000)

The University of California requests $5,000,000 from the Public Transportation Account (PTA), State Transportation Fund, for its university-wide Institute of Transportation Studies (ITS) Multi-campus Research Unit. These funds will augment the 2007-08 funding level of $980,000 from the PTA fund and $250,000 from the General Fund. This funding will accelerate university activities to help implement the State's aggressive greenhouse gas (GHG) reduction targets under AB 32 (Nunez, 2006).

AB 32 aggressively seeks to monitor and reduce the level of greenhouse gases released into the environment in the state. Greenhouse gases contribute to global warming, which poses a serious threat to the economic well-being, public health, natural resources, and the environment of California. (The potential adverse impacts of global warming to the people and the economy of the state are discussed in the *Climate Change Initiative* above.) The ITS initiative aims to help the state to reduce GHG emissions from the transport sector, with a principal focus initially on reducing vehicle travel and managing land use. The ITS initiatives will be highly complementary of studies and human resources needed by the Legislature, and programs of the Air Resources Board, Caltrans and California Energy Commission, agencies charged with monitoring and enforcing the limits set in AB 32.

Transportation is the largest source of California's GHG emissions, contributing about 40%. AB 32 requires a large reduction in these emissions. Some rules and laws are being put in place to accomplish these but much more is possible, especially related to vehicle travel and land use. Political pressure is growing to address the entire realm of transportation emissions.

To address the needs of California, an increase in the PTA funds will allow the ITS to develop: 1) tools and techniques needed to implement and evaluate proposed and potential AB 32 measures; 2) key technologies and scientific knowledge to support the development of new transportation sector GHG reductions polices; and 3) curriculum to train a new generation of leaders, and transfer the core concepts of these new courses to today's government professionals. The ITS will bring innovation and science to the creation of a low-carbon transportation system in California.

The ITS is the premier center of university transportation research in the world. ITS faculty attract $30 million per year in extramural research funding. New funding of $6 million per year from the PTA (an increase of $5 million over the current level) will enable ITS to initiate new programs at the Berkeley, Davis, and Irvine campuses, and it will also seed and support the expansion of transportation research at other campuses, especially Santa Barbara, Riverside and UCLA. In addition, the new funding will support the development of large multi-campus interdisciplinary proposals — most notably to federal agencies such as NSF and the U.S. Department of Transportation.

Examples of the types of research programs include:

Reducing Vehicle Travel and Managing Land Use — The ITS will work with California businesses, local governments, metropolitan planning organizations, and state agencies to

develop new tools and methods to measure, evaluate, and manage emissions from vehicle travel and urban land use. The principal effort will be development of integrated land use and transportation models that can measure the impact of actions by local governments. These models would be developed for the entire state. They would build upon preliminary efforts now underway at the ITS with Caltrans support. They will use geographical information systems data that allow detailed measurement of actions such as approval of new subdivisions, building of new roads, and rezoning of land, as well as expanding mass transit, greening vehicle fleets, pricing vehicle usage, and other GHG-reducing actions.

Lifecycle Analysis Tools for Transportation and Related Activities — A fundamental concept virtually unknown in the policy world but which is critical to the implementation of AB 32 is lifecycle analysis of greenhouse gas emissions. There is an immediate and permanent need to refine and expand this technique for use in developing and implementing the LCFS and an expanding array of other AB 32 initiatives. The first effort will be to conduct the analysis and build the compliance tools for the LCFS.

Low-Carbon Travel Using Information Technologies — The dominance of cars and atrophying of transit has resulted in a transportation system that is extraordinarily expensive and energy inefficient, and increasingly dysfunctional. It hurts our economy and environment. It is arguably the least innovative sector in our society. The lack of non-car transport choices has a further effect of making it politically difficult (and undesirable) to adopt policies that reduce vehicle travel. Together with public and private partners, the ITS will advance new mobility services such as smart paratransit, smart car sharing, dynamic ridesharing, smart parking, and new telecommunications services, as well as more effective public mass transit.

Energy-Efficient and Alternative Fuel Vehicle Technology and Policy — The ITS will develop test procedures for electric, fuel cell and plug-in hybrid vehicles, and for improved tires and new technologies such as “cool paints.” It will also develop better tools for analyzing cost effectiveness and GHG impacts. An important new focus will be heavy duty vehicles.

Other Initiatives — The ITS will also advance important ongoing work that focuses on: greening California’s transportation infrastructure; advanced traffic control to reduce GHGs; development of a baseline GHG emissions model for the aviation and maritime sectors; train a new generation of transportation policy and planning leaders, and support new transportation systems for disadvantaged communities.

As a result of this increase in core funding, the ITS MRU will significantly expand the breadth and quantity of its research activities to meet statewide needs, enhance its ability to continue leveraging State funds for research and development at a very high ratio, and greatly improve the ability of UC to recruit, train and graduate increased numbers of transportation leaders in engineering, planning, environmental science and applied science for California.

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 number of inventions created by UC researchers with university resources. During the 12-month period ending June 30, 2005, faculty and researchers at the nine UC campuses disclosed a total of 1,304 inventions. This represents a 9% increase when compared with the 1,196 new inventions reported the prior year. 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, and pharmaceutical drug development.

The University is working to increase the effectiveness of its technology transfer operations by streamlining and making more effective the transfer of new knowledge through licensing, with the goal of increasing the public benefits of research through engagement with companies that can commercialize new products and technologies and create jobs. The University is giving local campus licensing offices more autonomy for managing industry relations and intellectual property portfolios while sustaining core University policy.

An example of streamlining is the negotiation process for creating clinical trials master agreements between the five University medical centers and private industry. Over the past 5 years, a concerted effort has been made to negotiate master agreements aligned with University of California policy and tailored to the requirements of individual pharmaceutical companies. Because a company's master agreement is developed cooperatively with all five medical centers rather than individually, the administration and negotiation processes are significantly streamlined, reducing the preparation of new clinical trial agreements to a matter of hours instead of the typical three to six months.

Multicampus and Organized Research at UC

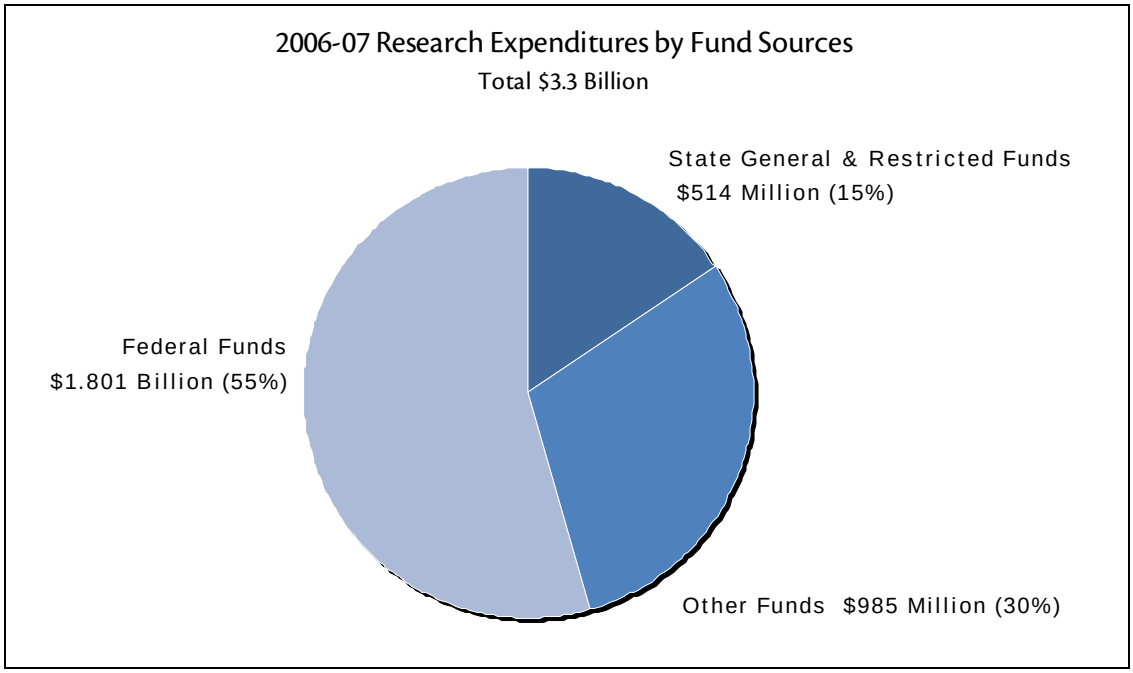
For many University research programs, State funds are the core that attracts extramural funds necessary to support major research projects. The University's research expenditures in 2006-07 included over $2.6 billion in non-State funds and $514 million in State General and restricted funds. Thus, for every State dollar specifically invested in research, UC leverages nearly $5 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

The University has maintained the vitality of its highly competitive research programs through effective management of the Organized Research base. The inherent difficulty the University

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

University research is supported from a variety of fund sources. Display 1 shows actual research expenditures by fund source for 2006-07. That year, research expenditures totaled $3.3 billion, an increase of $120 million, or 3.7%, over the prior year. Expenditures from State funds increased by 5.8% and the rate of growth in expenditures from private gifts and grants remained strong (9.1%); however, the increase in federal funds slowed (0.5%).

Display 1



In 2007-08, funds for research will increase to $3.5 billion, including $2.77 billion from extramural sources (i.e., federal government, private individuals, foundations, industry), $160 million from Regents' funds, $292 million from State and UC General Funds, and $310 million from restricted funds (State and non-State funds). The $310 million in restricted funds includes special State funds to support a coordinated statewide program of tobacco-related disease research administered by the University ($16.553 million for 2007-08). Another tobacco tax provides support for the Breast Cancer Research Program ($12.776 million). The

Breast Cancer Research Program also receives special State funds from the California Breast Cancer Research Fund ($778,000), which derives from the State personal income tax check-off.

Restricted funds also include performance fee revenue from the management of the Department of Energy (DOE) laboratories. Historically, one of the ways in which the UC management of the DOE national laboratories benefited the University is by providing support for the University's research programs, both indirect support through UC General Fund Income and direct support through the DOE Lab Management Fee. This is discussed in the *Income and Funds Available* section of this document.

Of the $292 million in State and UC 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, neuro-developmental 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 for 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.

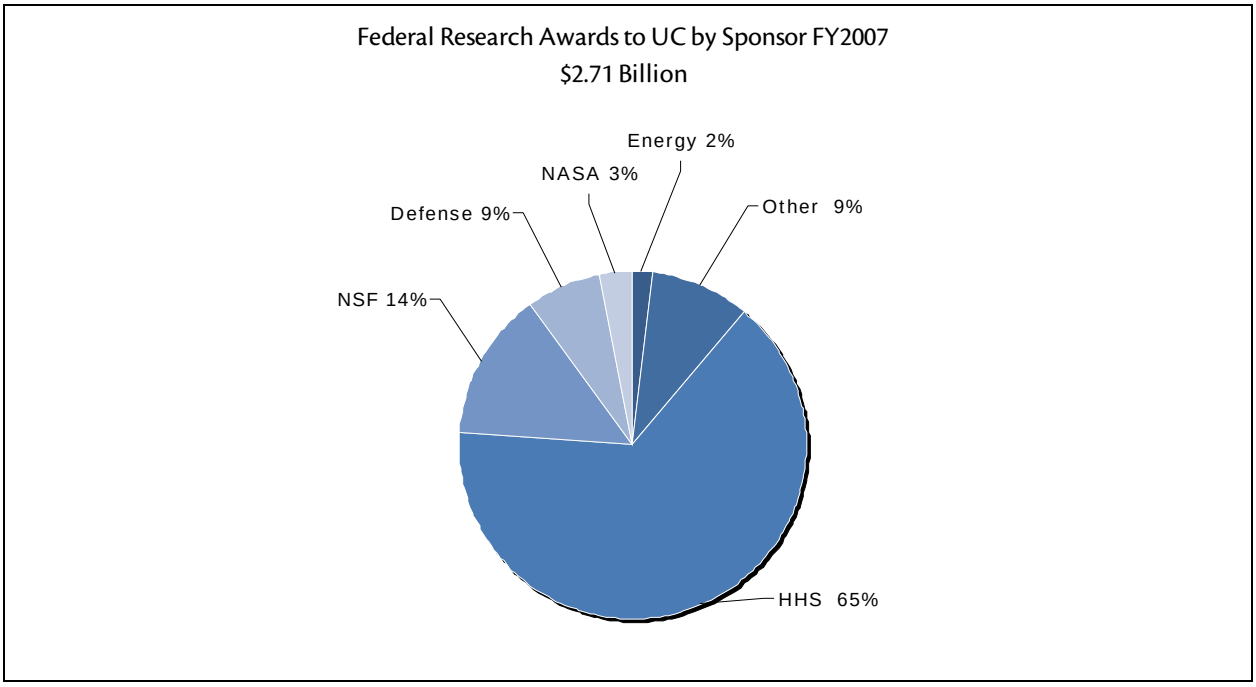
State funds for research provide the core funding that enables UC to develop in new areas and position itself to continue to compete successfully for new federal research initiatives. These funds will be especially important as the increases in federal research funds slow and competition for those funds increases. State funds also help support State-private sector partnerships which offer potential direct economic benefits for California. Restoration of State support for research eliminated during the recent fiscal crisis and for new initiatives that hold promise for significant returns to the State's economic prosperity 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 56% of all University research expenditures in 2006-07.

As shown in Display 2, about 79% of the University's federal research awards in FY2007 came from just two federal agencies, Health and Human Services (HHS), primarily through the National Institutes of Health (NIH), and the National Science Foundation (NSF). Other agencies that figure prominently in the University's awards are the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Department of Energy (DOE).

Display 2



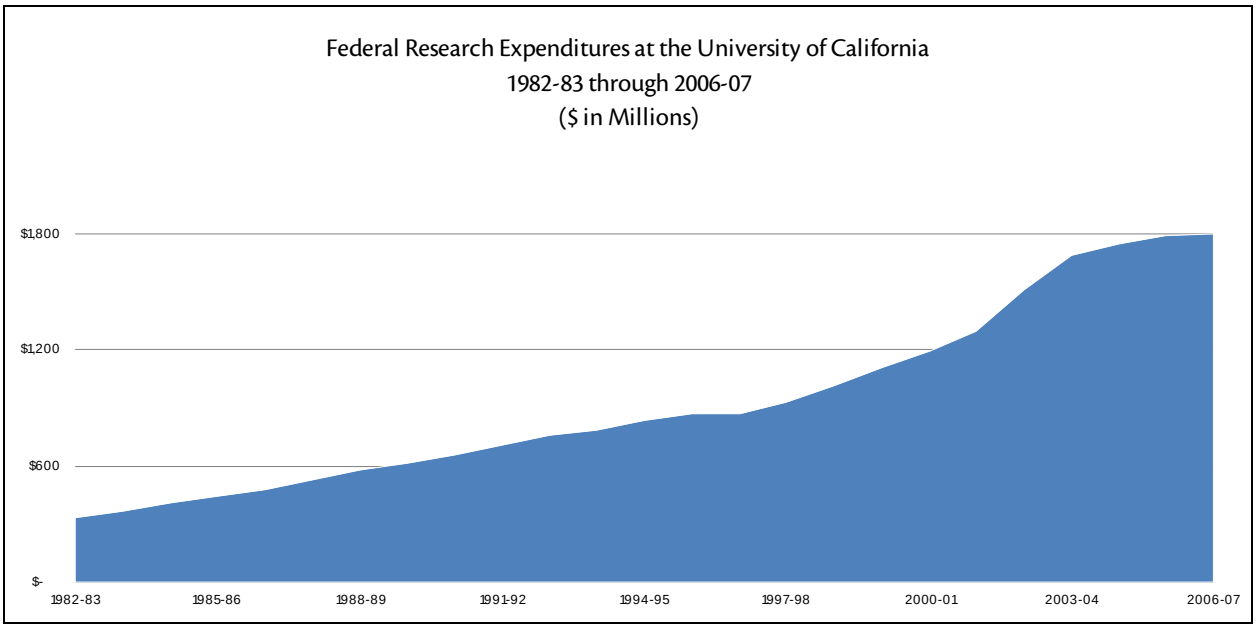
The University remains highly competitive in terms of attracting federal research dollars, with fluctuations in the University's funding closely paralleling trends in the budgets of federal research granting agencies. Thus, the outcomes of the annual federal budget process and the changes in the federal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

As noted previously, the University manages the Lawrence Berkeley Laboratory (LBL), and is a partner in the Los Alamos National Security (LANS) Limited Liability Company and the Lawrence Livermore National Security (LLNS) Limited Liability Company that manage the Los Alamos National Laboratory and the Lawrence Livermore National Laboratory. 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 benefits for University faculty and students this chapter).

Historical Trends in Federal Funding of University Research

Display 3 illustrates trends in federal research funding for the University over the 23-year period between 1982-83 and 2006-07. In the decade between 1982-83 and 1992-93 and again from 1997-98 through 2003-04, federal support for research at UC grew dramatically, with annual

Display 3



increases averaging almost 10%. Between 1992-93 and 1995-96, in a pattern that may be repeating itself beginning in 2004-05, the focus of the federal government was on reducing the deficit, which led to constraints on discretionary spending. Most of UC's federal research funds come from the domestic discretionary portion of the federal budget.

As a result, while total University federal 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.

But progress toward a balanced budget and continued administrative and congressional support for investments in research again resulted in new growth for funding. 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. 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 turn-around in the federal budget 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. As the federal budget went into its first surplus in more than 30 years in 1998, federal research and development (R&D) funding experienced rapid increases, due largely to a bipartisan commitment in 1999 to double the NIH budget over five years.

Federal support for research and development (R&D) continued to grow following the terrorist attacks of September 11, 2001, and the subsequent wars in Afghanistan and Iraq. The federal

budgets for FY2002, FY2003, and FY2004 contained record increases for federal R&D due mainly to new R&D spending on homeland security and defense.

After 1997-98, the University's federal research expenditures increased as follows: 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 2003-04. Beginning in 2004-05, however, the renewed concern over an escalating national deficit and the resulting political pressures to constrain federal domestic spending began to have an effect on the University's federal research expenditures, which increased by only 3.5% in 2004-05, a 2.3% in 2005-06, and by 0.5% during the past year.

Over the next few years, it is likely that overall federal research funding will continue to be subject to spending cuts and constraints. Looking ahead, the federal budget situation will continue to be greatly influenced by military commitment to Iraq and Afghanistan, and the growth of entitlement programs such as Medicare. These put enormous pressure on overall domestic discretionary spending, which as previously noted, is the source of most of UC's federal research funding.

Outlook for FY2008 and Beyond

Display 4 shows the percent change in federal appropriations for total research and development and for selected federal research agencies that are major sources of the University's federal

Display 4

Federal Appropriations for Research and Development (R&D)
Total and Selected Agencies
Percent Change over Prior Year

Federal Budget Year	Total Research and Development (R&D)	National Institutes of Health (NIH)	National Science Foundation (NSF)
	% of Change	% of Change	% of Change
2008 Final	*1.2*	*0.9*	*1.1*
2008 (Proposed)			
President's Budget	*1.3*	*-1.2*	*8.3*
House Version	*2.3*	*2.4*	*8.7*
Senate Version	*2.6*	*3.2*	*9.1*
2007	*3.4*	*2.2*	*7.0*
2006	*2.4*	*-0.3*	*1.8*
2005	3.9	2.3	-0.5
2004	7.0	3.2	5.0
2003	14.6	16.2	11.4
2002	12.6	14.7	6.2
2001	9.3	14.9	13.3
2000	4.5	14.9	9.8
1999	5.6	14.4	6.8
1998	2.7	7.3	3.2

Source: Based on AAAS tables from OMB and agency budget data, and Congressional appropriations bills.

contracts and grants awards — the National Institutes of Health (NIH), and the National Science Foundation (NSF). It documents the extraordinary increases for NIH between 1999 and 2003 as a result of the now completed campaign to double the NIH budget. While the overall R&D budget continued to increase after that point, the rate of increase slowed dramatically — to 2.4% in 2006, and NIH actually experienced a decrease in its R&D funding.

President Bush's FY 2007 Budget Proposal included an initiative to begin remedying the underfunding of physical sciences R&D. The 7% increase in the final 2007 budget was to be the first of a multi-year increase for NSF that was supported by both the President and the Congress. Recognizing that sustained scientific advancement and innovation are key to maintaining the country's competitive edge, the increases proposed by the President and the Congress were aimed at to doubling over 10 years the investment in key federal agencies that support basic research programs in the physical sciences — the National Science Foundation, the Department of Energy's Office of Science, and the Department of Commerce's National Institute of Standards and Technology. For FY 2008, the President had proposed 8.3% for NSF and the Congress at various stages in the budget process had supported increases of 8.7% (House) and 9.1% (Senate), but the final increase falls far short, 1.1%. The overall increase for research is 1.2%, and the increase for NIH is 0.9%, falling short of inflation.

On December 26, well after the start of the federal fiscal year which began on October 1, President Bush approved an omnibus appropriations bill combining the 11 unfinished 2008 appropriations bills. (The Defense bill had been signed earlier, on November 13.) As a result of the threat of Presidential vetoes over extra spending, the final bill keeps overall 2008 funding for most domestic programs flat with last year.

The federal investment in research and development (R&D) in 2008 will increase by 1.2%, a decline from congressional proposals. Although most R&D funding agencies would still receive increases, several key R&D agencies would fall behind the 2.4 percent expected inflation rate.

According to an American Association for the Advancement of Science analysis, "The omnibus bill takes away most of the requested increases for the three physical sciences agencies in the American Competitiveness Initiative ... in order to reverse requested cuts in medical research, energy R&D, and environmental research. NSF would see only a 1 percent increase in its R&D funding instead of a larger increase, while most NIH institutes would get flat funding at FY2007 levels instead of requested cuts. A 15 percent requested increase for DOE's Office of Science would be trimmed to just 5 percent to turn requested cuts in DOE's energy R&D programs such as carbon sequestration, biomass, and solar energy into a 23 percent increase. The omnibus bill would restore funding for climate change science and other environmental research in several agencies."

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 measured and compared 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 led 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 2005-06, for every State dollar UC spent nearly $5 more dollars from the federal government and other non-State sources, although this is in large part made possible by the State funds also provided for the support of faculty salaries.

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. Two key programs fostering University cooperative efforts with the private sector, the Industry-University Cooperative Research Program and the California Institutes for Science and Innovation, are discussed at the beginning of this chapter.

UC's museums, performing arts venues, and nationally ranked arts and humanities instruction programs and organized research 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.

Agriculture

California farmers and ranchers produce nearly 350 commodities and the state's agricultural industry accounts for more than 1 million jobs. California is the nation's leading agricultural state, grossing nearly $32 billion in farm receipts and generating more than $8 billion in export revenues in 2005. Over 50% of the nation's fruits, nuts and vegetables are grown on California farms, and during certain times of the year almost all of the fresh produce consumed in the United States is California grown. Eight commodities — milk and cream, grapes, nursery and greenhouse products, almonds, cattle and calves, lettuce, hay and strawberries — generated more than $1 billion in farm income in 2005.

For over a century, UC, as the state's land grant institution, has brought California agriculture the best that science has to offer. Along the way, California farmers and ranchers have consistently increased yields, improved water efficiency, reduced pesticide loads, introduced new crops and varieties, and adopted new food safety practices — all with the help of UC. As a result, California has the most environmentally compatible, natural resources conscious and sustainable agricultural sector in the world from which all Californians benefit.

The UC Division of Agriculture and Natural Resources (ANR), with 650 scientists affiliated with the Agricultural Experiment Station (AES) on the Berkeley, Davis, and Riverside campuses, and more than 340 campus specialists and county-based advisors with Cooperative Extension (CE), its public service arm, has been at the forefront of developing and delivering cutting-edge research, new technologies and innovative farming practices to California growers. These UC breakthroughs have helped farmers and ranchers maintain a competitive edge in domestic and export markets, while improving the quality of the environment and ensuring that consumers have a safe and secure food supply. A few examples include:

- Development of new varieties of strawberries, walnuts, citrus, and other fruit, nut, field and vegetable crops have contributed to California's dominance as the leading agricultural producer in the nation (80% of the strawberries consumed in the U.S. are UC-patented varieties).

- Discovery of the basic principles of biological control and integrated pest management (IPM) have led 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 practices, more efficient irrigation methods, and enhanced drainage techniques have made California agriculture more productive while conserving natural resources (UC scientists brought drip irrigation to California, significantly reducing agriculture's water use).

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

- Effective ways to reduce the adverse impacts of agricultural and other wastes on land, water, and air resources. UC is providing dairies in the Central Valley with science-based tools to meet new waste discharge regulations and implement effective nutrient management and monitoring practices.

- Cutting-edge strategies for the protection of rangelands, watersheds, and water quality by helping ranchers reduce the impacts of livestock production.

- Innovative agricultural and forestry practices to improve wildlife habitat. UC scientists helped growers solve a rice straw disposal problem and create more than 100,000 acres of seasonal habitat for migratory waterfowl through research showing benefits of winter flooding of harvested fields.

However, California is changing rapidly, and the state's agricultural and natural resources sectors are at a crossroads. Growers are facing increased land use pressures, rising land costs, and new air and water quality regulations as the state's rapidly urbanizing population spills onto the state's most productive farm and forest lands. There is increased competition for water among urban residents, fish and wildlife, and California's irrigation-dependent agriculture with the Sacramento-San Joaquin Delta in crisis. Food safety is on the minds of consumers, with the *E. coli* contamination of fresh spinach in the Salinas Valley in 2006 the most recent example. Energy costs and supplies are in flux, driving interest in producing renewable energy on agriculture and forested lands. Agriculture is affected by invasive pests and diseases, many of which also threaten urban residents (West Nile virus, Pierce's disease/Glassy-winged sharpshooter, Sudden Oak Death). Overlaying these competing factors is a push for more sustainable agriculture and natural resources systems.

The ability of California agriculture to meet the food needs of a growing population, build sustainable farming and natural resources systems for future generations, and compete in an increasingly global economy will, more than ever, require early adoption of cutting-edge research, the availability of new technologies, and rapid access to innovative farm management practices. Successfully addressing the emerging issues and opportunities facing agriculture and the environment will require a new way of doing business in UC.

The future problem-solving model will require a comprehensive, multi-disciplinary focus, bringing together teams of experts from the UC and CSU systems, along with public and private sector partners, to identify critical issues, set research priorities and directions, generate new funding for research, development and delivery, and create new ways to get the results quickly and more efficiently into the hands of farmers, ranchers, environmentalists, land managers and

policy makers. The Division of Agriculture and Natural Resources, with its land grant mission, proven record of employing multi-disciplinary teams and systems approaches to address and solve problems, and direct links to clientele through county- and campus-based programs, is uniquely positioned within UC to provide leadership in this area. The new research initiative discussed earlier in this chapter — *Responding to State Research Needs: Addressing the Effects of Climate Change on Agriculture and the Environment* — is an important step in achieving this new paradigm.

Medicine

UC medical research has led to dramatic improvements in the diagnosis and treatment of disease. The University assumed a major leadership role in the battle against AIDS, and 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 the 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.

In the late 1990s, the State funded several new initiatives in medical research, including funds for research on substance and alcohol abuse, operating and annual debt service support for a facility to house basic science research on various neurodevelopmental disorders, and funding for geriatric research, 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 in the late 1990s and early 2000s 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 other areas, 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

The Governor's Budget for 2008-09 did not include funding for the $5 million Educational Imperative, discussed in this chapter, that was included as part of the University's budget plan for 2008-09 and approved by the Regents at the November 2007 meeting. Likewise, the research initiative affecting Cooperative Extension, and discussed in the "Research" chapter of this document, was not funded in the Governor's Budget for 2008-09.

Public service includes a broad range of activities organized by the University to serve state and 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. State funds support a variety of public service programs. This chapter describes four major State-supported public service efforts: Student Academic Preparation and Educational Partnerships, California Subject Matter Project, Cooperative Extension, and the Charles R. Drew University of Medicine and Science. Campuses conduct other public service programs supported by State funds, student fees, user fees, and other non-State fund sources, such as arts and lecture programs and student- or faculty-initiated community service projects.

Student Academic Preparation and Educational Partnerships (SAPEP) work collaboratively with schools, industry, and other partners to help talented, but educationally disadvantaged students meet rigorous standards of academic preparation needed to be successful in higher education and the workforce. In 2008-09, the University is requesting an augmentation of $5 million for the Educational Imperative, a program designed to provide better information for schools and parents on student success; help schools deliver rigorous academic content; improve linkages between researchers, practitioners, and policy makers; and improve statewide dialogue on K-12 educational issues. This program (described in more detail in the *Cross Cutting Issues* chapter of this document) will work in close coordination with the University's SAPEP programs. The California Subject Matter Project provides standards-aligned professional development for K-12 teachers based on student, teacher, and school-identified needs. 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 program areas 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. This is especially important in California since in many ways it competes as a nation economically, rather than as a state. 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.

Raising K-12 achievement levels and closing achievement gaps between groups of students is critical to keeping the state's economy competitive in the long run. In national comparisons of 8th graders, California scored last in the country in science and 8th from the bottom in mathematics (National Science and Engineering Indicators, 2006). In high schools with the lowest Academic Performance Index (API) scores, 56% of physical science teachers do not have a credential in their subject area, compared with just 4% in high-API schools. Over one-third (35.2%) of California high school students are successfully completing a rigorous college preparatory curriculum; however, the rates are lower for students in many regions of the state and for students in educationally disadvantaged environments. At UC today, 58% of public high school students enrolled at UC come from just 20% of the state's high schools. In recognition of these needs, The Regents adopted a resolution in 2005 affirming this work as a fundamental part of the University of California's mission. The policy states in part:

> "The University affirms that a fundamental part of its mission is to engage in efforts to promote the academic achievement and success of all students, including students who, because they are educationally disadvantaged and underrepresented, therefore need additional assistance. Toward these ends, the University seeks to work collaboratively with other key constituencies to enhance the educational capacity of California schools, to help close opportunity gaps that separate groups of students, and enhance access to those who have been underserved by the University."

At the July 2006 meeting, The Regents agreed on the need for a study of actions the University can take to increase diversity in undergraduate and graduate enrollments and faculty hiring and foster a climate that is welcoming and inclusive. A study group has reviewed these issues and submitted their report in Fall 2007, which can be accessed on the Web at: http://www.universityofcalifornia.edu/diversity/.

Beyond providing direct services to K-12 students, University links with school personnel are essential. UC faculty possess unique capabilities to work in tandem with teachers and principals to analyze complex factors that can make higher student achievement possible and assist in building new models for teaching and learning. Moreover, changing the conditions in schools serving poor, disadvantaged communities is a complex, long-term challenge that cannot be addressed without applying the expertise of scientists, mathematicians, economists, and

educators from all disciplines in California's universities. The University's Student Academic Preparation and Educational Partnerships engage university expertise with that of K-12, so that throughout the educational pipeline, students, teachers, and parents have a clear sense of academic expectations and goals. Research has shown that the basic resources needed for learning by students in all communities (rich and poor, urban and rural) are:

- competent, well-trained teachers and school leaders;
- rigorous, standards-based curricula;
- safe and adequate facilities;
- a college-going culture of excellence;
- academic support systems; and
- access to textbooks and other learning resources.

The overriding purpose of the University's Student Academic Preparation and Educational Partnerships is to decrease the impacts of disparity in educational opportunity in California schools. This is addressed in four ways by:

- providing academic support, mentoring, information, and other services to individual disadvantaged students so that they may complete a rigorous college preparatory curriculum in high school and enroll in college;

- contributing to improvement in the school conditions that shape students' opportunity to learn, such as directing teachers and administrators to programs that provide effective high quality professional development, helping to build college-going cultures in middle and high schools, providing access to technology-based learning resources, and training parents to be more effective participants in their children's education;

- identifying through research what works — and doesn't work — in individual schools and throughout the state's educational system; and

- enhancing the academic preparation of undergraduates from educationally disadvantaged communities in order to promote their readiness for graduate and professional level training.

Student academic preparation programs concentrate on educationally disadvantaged students as well as low-performing schools throughout the state. Underrepresented minority students — African American, Latino, and American Indian — comprise the majority of students in these schools and the ethnic make-up of the University's program participants is generally reflective of the diversity pattern in schools UC serves and supports.

The impact of the University's student academic preparation programs on educationally disadvantaged and underrepresented minority students is significant. In Fall 2006, 17.2% of African Americans and 24.8% of Chicano and Latino students in the incoming freshman class at UC campuses had been participants in UC's student academic preparation programs. The most 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 and Latino students, eligibility gains were equally strong, with 6.5% eligible in 2003 compared with only 3.8% in 1996. Unfortunately, budget cuts reduced opportunities for more than 50,000 students to participate in the University's student academic preparation programs, and fewer schools and teachers are served. Reduced funding has required new modes of engagement and utilization of resources with K-12 schools, businesses, and community-based organizations.

The following includes a brief description of each of the programs within the Student Academic Preparation and Educational Partnership portfolio, a description of the accountability framework for assessing program effectiveness, outcome highlights for the 2005-06 academic year, funding, and a history of UC's efforts to date.

Program Descriptions

Direct Student Services Programs. Most of the University's SAPEP programs provide academic assistance directly to students. These programs include:

- ***Community College Transfer Programs*** are designed to increase the opportunities for community college students to transfer to baccalaureate degree-granting institutions by providing comprehensive academic guidance and support to prospective transfers to UC and other four-year colleges. Services include: individual academic advising and educational planning, including assistance with course selection and monitoring of student programs; academic enrichment; informational workshops on academic requirements for transfer admissions; and professional development and training for community college counselors and faculty.

- ***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 and student academic preparation initiatives in rural and remote counties of California, including the Summer Algebra Academies in Imperial County and 9 other rural counties, and College Options in Shasta and Siskiyou Counties.

- ***Graduate and Professional School Programs*** help 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.

- ***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.

- ***The Puente Program*** helps to prepare high school and community college students for four-year colleges and universities through rigorous academic instruction in writing and literature, intensive college-preparatory counseling, and mentoring from successful members of the community.

- ***Student-Initiated Programs*** focus on mentorships aimed at high school juniors and seniors including: college information days, campus tours, conferences, workshops, and cultural activities for students and their parents.

- ***UC Links*** is a multi-campus, intersegmental faculty-based initiative linking community and university partners in a network of after-school programs that provide academic preparation activities for K-12 youth in an effort to enable them to enroll in and complete the "a-g" high school course pattern to prepare for college.

Statewide Infrastructure Programs. SAPEP also includes two programs that provide infrastructure needed to facilitate transfer from the community colleges to four-year institutions. They include:

- ***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.

- ***Community College Articulation*** agreements are formal understandings between individual community colleges and individual UC campuses that define how specific college courses can be used to satisfy a subject matter requirement at a UC campus.

Longer-Term Strategies. K-20 (Kindergarten — University) 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.

Direct Instructional Programs. The University offers direct instruction to students in K-12 schools through two programs within the SAPEP portfolio:

- ***The Preuss Charter 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.

- ***UC College Preparation*** (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.

Detailed program descriptions for each of the University's Student Academic preparation and Educational Partnership programs can be found in the most recent legislative report at: http://www.ucop.edu/sas/research/researchandplanning/welcome.html.

Accountability

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. The programs are in the midst of a new five-year cycle (2004-05 to 2008-09), with required improvement in program objectives and a revised accountability structure and the evaluation designs that support them. The University reports to the Legislature each year on details for individual programs, including goals and accountability data demonstrating program scope and effectiveness in accordance with the accountability framework developed in April 2005. The University's third annual report under the new framework, completed in April 2008, includes benchmarks and outcomes for all programs, including infrastructure programs for which the University serves as steward.

The accountability framework was developed with the participation of representatives from the Legislature and the Schwarzenegger administration to help forge a common approach to understanding and assessing the performance and accountability of the University's Student Academic Preparation and Educational Partnerships. The new framework defines the way that SAPEP assesses, evaluates, and reports the effectiveness and efficiency of its programs. It identifies SAPEP goals and aligns them with accountability mechanisms. Over time, use of the framework will ensure that programs are managed efficiently and effectively and in accordance with a common set of principles, policies, and stakeholder expectations. By placing emphasis on specific program goals, the framework also ensures that program planning across SAPEP is data-driven and results-oriented. Examples of goals and indicators used to measure outcomes under the framework include:

- completion of college preparatory "a-g" courses;
- readiness for four-year colleges other than UC;
- high school graduation and high school exit exam completion;
- community college transfer readiness;
- matriculation into graduate and professional schools; and
- establishment and maintenance of K-20 partnerships.

The entire text of the Student Academic Preparation and Educational Partnerships Accountability Framework can be found in the most recent legislative report at: http://www.ucop.edu/sas/research/researchandplanning/welcome.html.

Outcome Highlights for the 2006-07 Academic Year

In April 2008, the University submitted its third legislative report under the new accountability framework and was able to demonstrate effectiveness in a number of program areas.

Programs are serving the students, schools, and community colleges they are intended to serve.

- Collectively, the SAPEP programs reach more than 131,000 students at 687 K-12 public schools and 110 community colleges. Most high schools served by SAPEP programs need assistance; the majority are among the lowest-performing in the state, with 73% in the lowest half of Academic Performance Index rankings (API deciles 1-5).

Programs are effective at improving academic achievement, college readiness and enrollment.

- Program participants graduate from high school better prepared for college. In 2006-07, a higher proportion of Early Academic Outreach Program (EAOP), Mathematics, Engineering, Science Achievement (MESA), and Puente students took the SAT or ACT than did non-participants in the same schools. For example, 66% of EAOP-MESA-Puente students at API 1 and 2 schools took the SAT or ACT compared to 32% of non-participants at those same schools.

- Program participants are prepared for and succeed in college-preparatory ("a-g") courses. The "a-g" completion rates of program participants are 61% for Puente and EAOP, and 62% for MESA. These rates exceed the statewide UC/CSU course completion rate of 36% as reported by the California Department of Education.

  Declines in completion rates for the 'a-g' curriculum were noted in EAOP, from 74% to 61%, over a two-year period. While investigation into the decline is in progress, recent expansion of the program to include a broader pool of educationally disadvantaged students is consistent with noted declines. The 61% figure continues to exceed the statewide course completion rate of 36%. Program changes will be considered based on findings of the investigation into the decline.

- More students are passing the California High School Exit Exam (CAHSEE). Puente 10^{th} graders passed the CAHSEE at a significantly higher rate than all economically disadvantaged students statewide: 93% versus 77% for the English section, and 91% versus 76% for the math section. Among MESA 10^{th} graders, 72% had passed the combined English and math sections.

- Data on the class of 2007 show high college-going rates. More than two out of three (69%) EAOP-MESA-Puente graduates and 94% of Preuss Charter School graduates enrolled in a two- or four-year college, including private and out-of-state colleges. More than three in five (63%) program graduates enrolled in the state's public institutions (UC, California State University and California Community Colleges), compared to 44% of public high school graduates statewide.

Programs are helping community colleges and students reach their transfer goals.

- With the support of $2 million provided by the Legislature, UC has launched the UC/Community College Transfer Initiative for Access and Success. In this first year of the augmentation, UC campuses have instituted new programs with community college campuses with low transfer rates, begun initiatives to support a transfer pipeline for high school students, streamlined the Transfer Admissions Guarantee program and begun planning for a virtual Transfer Center. Preliminary results from targeted community colleges indicate that most participating campuses experienced an increase in the number of transfers to UC.

- UC has established academic major course articulation agreements with all community colleges. All nine UC undergraduate campuses have established major preparation articulation agreements for their top 20 majors with all 110 community college campuses. Moreover, 99% of majors at all UC campuses are articulated with every community college in the state.

UC's graduate and professional school programs work.

- SAPEP programs prepare undergraduates for graduate and professional school work. 79% of graduate and professional school academic preparation program participants have enrolled in a graduate/professional school. Independent research confirms that UC's postbaccalaureate premedical programs improve applicants' chances of getting into medical school.

Research and evaluation continue to confirm program effectiveness.

- New research study confirms the impact of SAPEP activities. A cohort study of EAOP graduates in the Sacramento region found that program activities had positive impacts on college going. For each additional hour of involvement in academic advising and college information activities, the likelihood of attending a 4-year college increased 6% and 7% respectively.

- Research on and evaluation of SAPEP programs exceeds the level of assessment of even large federal programs, and the findings for SAPEP programs are empirically based and statistically significant. Studies on SAPEP programs have focused on more difficult but generally more rigorous longitudinal analysis of program participants. These studies clearly document programs' effectiveness in promoting student achievement.

SAPEP programs are a worthwhile state investment.

- SAPEP programs use state resources efficiently. The cost per student of most of the SAPEP programs is substantially less than the cost per student of comparable federally funded programs.

- Programs have leveraged the state's investment in SAPEP. In the aggregate, SAPEP programs have leveraged the State and University investment of $31.3 million in SAPEP by raising an additional $54 million in support of K-14 efforts to be expended during the next 3-5 years.

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 and the resulting instability in these programs. In 1997-98, after the adoption of SP-1 and Proposition 209, the University's budget for student academic preparation programs was $18.1 million from State and University funds. 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 2005-06. In 2006-07, an augmentation of $2 million was provided to expand community college transfer programs, bringing the budget to $31.3 million, consisting of $19.3 million in State General Funds and $12 million in University funds (consistent with the Compact). The total budget for 2007-08 remains at $31.3 million.

Since 2004-05, State funding for these programs has been the subject of debate during each budget cycle. The University is seeking stability in the funding for these programs and hopes that the successful outcomes reported each year through the SAPEP accountability framework help achieve such stability. Display 1 (next page) shows the budget for each program in 1997-98 prior to the significant augmentations, funding in 2000-01 when it reached its peak, and the 2007-08 budget for each program.

History

The current generation of student academic preparation programs took shape in the 1960s, when the civil rights movement drew attention to issues of access to the University. During this period when there were no fiscal constraints on enrollments, The Regents addressed access issues primarily through aggressive and innovative admissions policies.

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 7th grade and continuing through their college careers.

Display 1

University of California
Student Academic Preparation and Educational Partnerships
1997-98, 2000-01, and 2007-08 Budgets
($000s)

	1997-98 State & UC Funds	2000-01 State & UC Funds	2007-08 State & UC Funds
Direct Student Services Programs			
Community College Transfer Programs *	$ 1,718	$ 5,295	$ 3,279
EAOP	4,794	16,094	8,914
Graduate and Professional School Programs	1,893	8,575	2,661
MESA K-12 Programs	4,169	9,355	4,861
MESA Community College Programs	22	1,309	327
Puente High School	-	1,800	1,051
Puente Community College Programs	162	757	450
Student-Initiated Programs	-	-	440
UC Links	-	1,656	694
Statewide Infrastructure Programs			
ASSIST	360	360	429
Community College Articulation	-	-	600
Longer-Term Strategies			
K-20 Regional Intersegmental Alliances (formerly School-University Partnerships)	-	15,591	1,395
Direct Instructional Programs			
Preuss Charter School	-	1,000	1,000
UC College Preparation (online courses)	-	8,400	3,106
Other Programs			
Evaluation	-	1,386	1,180
Other Programs (currently includes Community Partnerships, ArtsBridge, Other)	203	3,887	936
Programs that have been eliminated or consolidated into others, including Test Preparation, Dual Admissions, Gateways, Informational Outreach and Recruitment, Central Valley Programs, UC ACCORD	4,750	9,717	-
Total	**$ 18,071**	**$ 85,182**	**$ 31,323**
General Funds	[$ 16,996]	[$ 82,243]	[$ 19,323]
University Funds	[$ 1,075]	[$ 2,939]	[$ 12,000]

*Includes an additional $2 million beginning in 2006-07 for the UC/Community College Transfer Initiative for Access and Success.

Academic preparation programs expanded gradually during the 1980's and early 1990s. Then, in July 1995, Resolution SP-1 was adopted by the Board of Regents, eliminating consideration of race, ethnicity, and gender in UC admissions. At the same time, the Board called on the resident 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, which essentially placed the tenets of SP-1 in the State's Constitution, these events elevated academic preparation programs to become the University's most critical tool for promoting access to the University for educationally disadvantaged students in California.

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. 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.

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 new 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). A total of $62.2 million was available in 1998-99 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.

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 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 CPDIs was completely eliminated from the University's budget in 2002-03 as a result of the State's fiscal crisis. Several schools from throughout California now contract with the University for these professional development services; others use county office of education or for-profit providers. Some larger districts use "in-house" staff to provide the same or similar services.

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 fifth year, UC eligibility of program participants had climbed from 4,200 in 1998-99 to over 6,800 in 2003-04.

The five-year Outreach Task Force timeframe concluded in 2003-04 and the University transitioned 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.

This paradigm was in large part guided by a Strategic Review Panel (SRP), convened by then-President Atkinson in Fall 2002. It consisted 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.

The SAPEP programs have entered a new five-year cycle (2004-05 to 2008-09) with required changes in program objectives and a revised accountability structure developed in 2005 with the participation of representatives from the Legislature and the Schwarzenegger administration. Programs continue to make steady progress toward achieving SAPEP goals.

Other K-12 Public Service Programs

California Subject Matter Project

In 1998, the California Legislature authorized funding for nine Subject Matter Projects based on the model of the Bay Area Writing Project, which began at UC Berkeley in 1974. The California Subject Matter Project (CSMP) provides content focused, standards-aligned professional development for K-12 teachers based on student, teacher, and school identified needs. CSMP engages K-12 leaders and faculty in the various disciplines from the University of California, California State University (CSU), and private higher education institutions to develop and deliver intensive institutes for education professionals. The institutes and workshops advance teachers' understanding of subject matter knowledge and support their implementation of research-based instructional strategies to improve student achievement, including approaches to support English learners. During the 2006-07 school year, CSMP served 42,368 teachers and school administrators at 6,593 schools, 2,097 of which were low-performing schools. Statewide, there are 96 discipline-specific sites in 15 regions and 9 statewide offices. In 2007, 55 of these sites were hosted by CSU, 33 by UC, and 8 by private higher education institutions.

The CSMP was reauthorized in 2002 (AB 2950, Strom Martin, Chapter 463). In 2003, legislation (SB 611, Ducheny, Chapter 857) recognized that seven of the nine projects were operating with content and skill standards approved by the State Board of Education and

authorized the continuation of State funding support for those projects, including: reading and literature, writing, mathematics, science, history/social science, world history/international studies, and the arts. SB 611 recognized that the foreign languages and physical education/health projects were waiting for content and skill standards approval from the State Board of Education and authorized maintenance level funding for those programs. K-12 Physical Education standards were adopted by the State Board of Education in Spring 2005. SB 611 also authorized the CSMP to integrate instructional strategies for working with English learners into their professional development training. The CSMP was reauthorized again in October 2007 (SB 232, Ducheny, Chapter 292, amended sections 99200 and 99206 of the Education Code, relating to instructional strategies) and includes a requirement for a report to the Legislature due on January 1, 2011. The bill extends authorization to January 1, 2013.

An in-depth evaluation of CSMP released in December 2005 by SRI International concludes that teachers consistently rated CSMP professional development more highly than other professional development programs and that CSMP has been successful in its efforts to serve teachers from low-performing schools and teachers of English learners. Also, the report indicates that there is a positive correlation between student achievement and the number of years students had teachers who participated in CSMP in science, reading, writing, and mathematics.

State funding for the CSMP was reduced from a high of $35.5 million in 2000-01, to $20 million in 2002-03, and to $5 million in 2003-04 where it remains in 2007-08; an additional $4.35 million from the federal No Child Left Behind Act, Title II, Part A program (NCLB) brings the total CSMP funding to $9.35 million. NCLB funding requires CSMP to support instructors in becoming Highly Qualified Teachers (HQT) and to provide technical assistance to low-performing schools. In 2006-07, CSMP leveraged approximately an additional $14 million in cash from foundation grants and $1 million in in-kind contributions from district contracts, for a total of $15 million to augment state and federal support.

Research shows that intensive and ongoing 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 additional funding to provide quality professional development programs for K-12 teachers.

Cooperative Extension

About 225 county-based Cooperative Extension advisors team with over 115 campus-based Cooperative Extension specialists and nearly 650 Agricultural Experiment Station scientists on the UC Berkeley, Davis and Riverside campuses to deliver the latest research-based information, management practices, and technological advances to users across the state. Cooperative Extension advisors, who live and work in local communities, also conduct applied research in the field and adapt new technologies from campus labs to meet local and regional needs. UC 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.

While new technologies and research innovations developed on UC campuses, and delivered to local constituencies via the Cooperative Extension network, make a real difference in addressing and solving some of the most pressing economic, environmental, social and community development challenges facing California, this is not a one-way process. The network of county-based CE advisors is also the locus for identifying new and emerging problems as they occur — locally and regionally. Working with farmers and ranchers, government agencies and regulators, elected officials, environmentalists, consumers and other stakeholders, CE advisors are uniquely situated to anticipate and observe emerging issues and then to share this information with CE campus-based specialists, AES-affiliated scientists, and other experts throughout the UC and California State University (CSU) systems.

This continuous interaction involving campus-based scientists and CE specialists, county-based CE advisors, and local constituencies helps to drive research priorities in the UC Division of Agriculture and Natural Resources, and to focus increasingly limited fiscal and human resources on addressing the most critical challenges (and opportunities) facing California. Cooperative Extension reaches many people very effectively and at a personal level, making it one of the university's most successful public service programs.

Providing California agriculture with cutting-edge research and the technology innovations needed to compete successfully in domestic and international markets, while implementing the environmentally-friendly and sustainable agricultural practices that make its growers the envy of the world, remains a high priority for CE and other parts of the Division of Agriculture and Natural Resources. CE advisors and specialists work with farmers and ranchers to solve pest problems, improve irrigation efficiency, reduce chemical use, increase productivity, and introduce new crops and varieties.

Recent examples of this relationship include:

- Detection, control and eradication of invasive and exotic insect and plant pests that damage crops and nursery and ornamental plants (ANR scientists and CE specialists and advisors have helped limit the spread of glassy-winged sharpshooter, an invasive insect that kills grapevines and threatens California's $2 billion plus grape industry; work is now beginning on identifying and controlling the recently introduced light brown apple moth that is responsible for quarantines on food and nursery crops grown on the Central Coast).

- Introduction of new field, vine and tree crop varieties that give growers a competitive advantage and benefit consumers (80% of strawberries consumed in the U.S. are from UC patented varieties developed by ANR scientists and CE specialists; CE advisors tested and released new blueberry varieties that helped create a $40 million industry in less than five years, benefiting small and entry-level farms).

- Precision application of water and chemical inputs in crop production, with reduced inputs and positive environmental consequences (CE specialists and advisors have upgraded drip irrigation and fine mist irrigation systems to reduce frequency and amount

of water used on many commodities, along with developing methods to apply chemicals, fertilizers and other nutrients with precision via drip systems).

- Improved monitoring and detection methods to improve food safety and security, and consumer confidence from "farm-to-fork" (CE specialists and advisors helped identify a strain of bacteria that caused the *E. coli* contamination in fresh spinach grown in the Salinas Valley, and are conducting field research trials to prevent future occurrences).

The Division of Agriculture and Natural Resources and its public service and research programs, however, serve more than agriculture. CE specialists and advisors are working with land managers, environmentalists, and regulators to protect air and water quality, manage forestland and watersheds, and reduce wildfire danger; with youth to build the life skills needed to help them become tomorrow's leaders; with at-risk and low-income families to teach better nutrition and food management skills; with landscape professionals and homeowners to reduce pesticide and water use; and with consumers to help ensure a healthful, nutritious, and affordable food supply.

Here are examples of how Cooperative Extension is making a difference for these stakeholders:

- Research and field testing of new methods to reduce brush build-up, thin trees, and strategically manage public and private forest and wildland holdings to reduce wildfires and wildfire damage to natural resources and homes (CE specialists and advisors have helped implement forest management plans in the Sierra resulting in reduced damage to timber, wildlife and residences; more recently, many homes in southern California survived the devastating October 2007 wildfires thanks to an interactive educational program from the CE San Diego County office showing residents how to manage vegetation around their homes and retrofit non-flammable building materials)

- Nutrition education programs, primarily in urban areas and delivered by CE advisors, teach at-risk and low-income families the nutritional value of fresh fruits and vegetables, money management, food preparation, and basic shopping skills, with the goal of increasing nutritional awareness and promoting healthier lifestyles (Expanded and Nutrition Education Program — EFNEP serves families in 17 counties, including Alameda, Los Angeles, Orange and Sacramento).

- 4-H Youth programs provide core curricula and hands-on educational opportunities for young people (ages 5-19) to build confidence, learn responsibility and develop life skills through traditional 4-H clubs, and through after school programs that focus on building science literacy and other educational and life skills. Over 100,000 youth and 20,000 adult volunteers participate in 4-H programs serving every county.

- Landscape professionals, homeowners, and backyard gardeners receive research-based information and advice on plant selection, reduced pesticide use, water conservation, and implementing "green" practices from UC trained CE Master Gardener volunteers who

undergo an intensive educational program and then serve their local communities in return. The UC Master Gardener program is active in 42 counties, including Fresno, Monterey, San Diego and Santa Cruz.

What does the future hold? Cooperative Extension and AES took deep budget cuts earlier this decade that will compromise the ability of the University to continue to address the high priority, most pressing economic, environmental, social and community-related challenges facing California. The budget cuts resulted in the loss of nearly 25% of State funds, a hiring freeze on CE specialist and advisor positions, and extensive lay-offs in administration and support programs. The situation has stabilized and ANR has made a priority of using limited State funds freed up by retirements and attrition to begin hiring CE advisors to fill high priority statewide, regional and local needs. However, at this point in time, there has been no appreciable increase in the CE county advisor ranks, and hiring of new campus-based CE specialists continues to be on hold.

In order for the Division of Agriculture and Natural Resources to build the research and public service capacity to meet emerging and future needs of California agriculture and other key stakeholders, and for the University of California to fully realize the "power and promise of 10," an increased investment of State funds will be required to augment support from federal, county, and private sources. The research initiative in the 2008-09 Regents Budget — *Responding to State Research Needs: Addressing the effects of Climate Change on Agriculture and the Environment* — highlights the important role played by Cooperative Extension and agricultural research, and is critical to leveraging existing resources and building new capacity.

Charles R. Drew University of Medicine and Science

The Charles Drew University of Medicine and Science (CDU) is a private, nonprofit corporation with its own Board of Trustees. CDU conducts educational and research programs in south central Los Angeles. 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 CDU. State General Funds are provided to CDU under two separate contracts, both administered by the University of California. 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 to provide funding for a prescribed list of health science educational, research, and clinical public service programs in the Watts-Willowbrook community. CDU receives State funds for the training of 24 third-year and 24 fourth-year medical students, and, until recently, for 170 medical residents. State support for the resident training program is provided through the University of California's budget for Medical Education.

In the early part of the decade, CDU experienced difficulties involving the accreditation of its graduate medical education (or residency) programs. In response to these problems, the California Legislature passed Assembly Concurrent Resolution 139 (Dymally, 2003), which requested that the University join with leadership at CDU and Los Angeles County to address

accreditation concerns regarding Drew residency training program; the University actively worked with Drew to achieve accreditation of its residency training programs. As a result of these efforts, significant progress was made in addressing and successfully responding to issues involving accreditation.

Undermining this progress, however, were serious concerns involving patient care activities at Los Angeles County's King Drew Medical Center (KDMC), which had served as a primary teaching site for UCLA-Drew medical students and Drew medical residents. Based upon these and related actions, the Los Angeles County Board of Supervisors, which has administrative and fiscal responsibility for the hospital (operated the hospital under the Harbor-UCLA Medical Center) closed KDMC in 2007. As a result of the closure of the hospital, CDU voluntarily closed its residency programs. Although no residents are currently in training, CDU is working with the national accreditation council to pursue re-establishment of training programs that meet existing standards and requirements. It is important to note, however, that medical student education through the joint UCLA-Drew program continues at full enrollment. The University of California is committed to working with CDU and to assist in efforts to address current challenges and to support development of proposed new programs in nursing education when programmatically and financially feasible.

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 recent 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 the fiscal crisis were minimal — about $200,000. UCLA-Drew medical students, however, along with every other student in the University, shared 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 2007 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 previously available to UC through the State's Medi-Cal Medical Education program, which provided 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. The total from all University sources available to Drew for 2007-08 is $11.5 million. CDU is developing a proposal for the State requesting continuation of state support for this transitional period as ongoing efforts are made to re-build and re-establish resident training programs in the community.

ACADEMIC SUPPORT — LIBRARIES

Great universities have great libraries for four reasons. First, information resources are at the foundation of academic excellence; leading-edge research, distinguished graduate programs, and effective undergraduate instruction all require effective and convenient access to the information resources that libraries provide. Second, universities provide significant services to their communities; their library collections are invaluable resources for the public, serving as repositories of knowledge, art, and expression, and functioning as key components of our society's cultural memory. Third, because the library provides essential services across the entire breadth and depth of the academic program and the academic community, the quality of the library is often seen as a tangible symbol of an institution's commitment to support academic excellence in all its forms. Finally, as information in all its forms gains importance in an increasingly knowledge-based society, highlighting the role of universities as engines of economic and social development, the core expertise of libraries and librarians, facilitating ready access to recorded knowledge in all its many forms, takes on broader significance and value.

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 at the libraries promise increased efficiencies in print collections management, cost savings and increased access to scholarly materials via systemwide leveraging of the development and operation of digital collections and services, and new methods of electronic scholarly communication and collaboration. At the same time, these developments promise even greater benefits for the people of California. UC's growing 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. Finally, the Libraries, as centers of information and knowledge and with decades of experience in the use of information technology, have emerged as both essential components of and significant contributors to the rapidly-changing digital information environment that is indispensable for the University's world-class research, teaching, learning, and service enterprise.

The Library Budget

The University's library budget is divided into four categories:

- Acquisitions-processing, which represents 56% of the library 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, licensing, receiving, and cataloging.

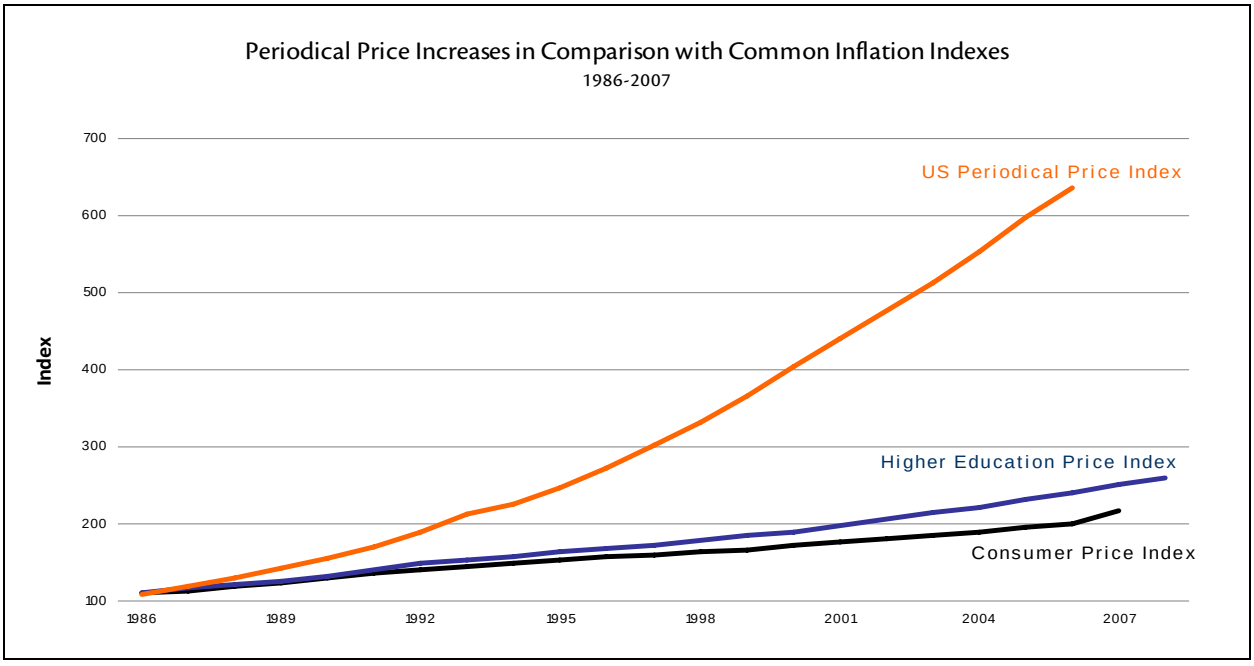
- Reference-circulation, which represents 39% of the library budget, includes providing users with information and materials, managing circulation of materials, shelving and re-shelving books, maintaining collections, providing reference services, instructing students and faculty in the use of the library 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 California Digital Library (CDL), representing 3% of the library budget, supports the development of systemwide digital collections (among the largest in the world); provides digital library technologies that enable campuses to cost-effectively build the distinctive online information services that faculty, staff, and students need; supports innovations in and provides access to UC scholarly publishing; and maintains Calisphere, a compendium of freely accessible online collections for California K-20 education.

- The systemwide Library Automation unit (now operationally incorporated within the CDL), which represents 2% of the total library budget, provides universitywide bibliographic access to the resources of the University's libraries through the MELVYL online union catalog.

Over the last 25 years, the State has provided substantial support for the University's strategy to leverage library development on a systemwide basis. Over the last decade, however, the State has been unable to provide full funding to meet the impact of persistent price increases for library materials, which consistently outpace the rate of inflation, as shown in Display 1. The result is a permanent budget shortfall that was estimated at $33 million in 1999-2000.

Display 1



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, while the remainder was 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 $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 ongoing fiscal crisis, the provision for a 1% increase to address core needs, including libraries, was funded only twice, in 1999-2000 and 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 erased. In spite of the significant efficiencies UC has introduced into its library system, growing evidence suggests that the strength of the University's library collections and services is declining in comparison with peer institutions, with a potential negative impact on the University's ability to recruit and retain faculty and support cutting-edge research programs.

Under the provisions of the Compact with Governor Schwarzenegger, funds to address the permanent shortfall in the library collections budget and other core needs are scheduled to once again become available beginning in 2008-09. Rebuilding funds dedicated specifically to core needs, including library materials, is a high priority for the University. These funds will be used to restore the strength and vitality of library collections, continue development of collaborative services that enable the libraries to make the most cost-effective use of their collections, and support innovative new technologies and services that enable faculty and students to effectively utilize and contribute to the burgeoning universe of digital information resources. When the State's fiscal situation improves, additional investment of State funds will be needed to support development of new digital collections, tools, and services. Given the continuing fiscal constraints on the State's budget, no new State funds to support library programs are being requested in 2008-09.

The Library Program

Over the last 25 years, the University has employed a systemwide strategy that emphasizes campus collaboration and application of new technology to create a multi-campus library system with capabilities for coordination and sharing of resources that are unequalled by the research libraries of comparable university systems. Through their campus libraries, UC faculty and students have enjoyed increasingly faster and more convenient access to a larger universe of information in a wider variety of formats, even in the face of rising costs and constrained budgets. The collaborative, technology-supported UC library strategy has enabled:

- economic and operational efficiencies that have allowed the University to meet the ongoing challenges of inflation in the cost of library materials, enrollment growth, and growth and change in academic programs, and to maintain quality even in the face of the budget cuts;

- increasing investments in digital collections and services that have supported further efficiencies while improving service to faculty and students and enhancing the competitive position of the University and its libraries. While books and other print material remain central to the services of the 21st century library, and growth in the output of published books worldwide remains unabated, the information resources needed and used by campus communities for teaching, learning, and research have grown to include a host of digital resources purchased or licensed from publishers, created internally by UC or converted into digital form from existing UC collections; teaching materials created in digital form by the UC community; and the burgeoning information resources available on the World Wide Web;

- enhanced service to all Californians, by making the rich resources of the UC libraries readily accessible to the general public.

The principal components of this systemwide program are described below.

Bibliographic Services. The bibliographic services provided by the UC Libraries enable users to discover, locate and obtain the information they need from the rich resources available in the UC collections, in other libraries, and on the public network. The systemwide Melvyl online library catalog, complemented by an extensive range of journal abstracting and indexing services covering all subjects, allows library users at any campus to easily locate and request items held anywhere in the UC system or the University's rapidly-expanding digital library collections.

Resource Sharing. Resource sharing services, including overnight courier services, facilities for immediate scanning and electronic delivery of journal articles and other brief items, and online services that permit library users to immediately request items on interlibrary loan, expedite the lending and borrowing of materials across the system. Interlibrary borrowing among UC's libraries (which accounts for about 73% of all items borrowed from other libraries) has increased by 142% since 1988-89, while borrowing from libraries outside UC increased by 127%. 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 2006-07, the total purchase cost would have been almost $37 million.

Regional Library Facilities. Two Regional Library Facilities (RLFs) at Richmond (for northern campuses) and Los Angeles (for southern campuses) began operation in the early 1980s and currently provide low-cost, high-quality off-campus space housing 11.5 million volumes of infrequently-used materials of enduring research value deposited by campus libraries, allowing the University to maintain a rich and distinguished research collection at a fraction of the cost required to build equivalent on-campus library facilities. By depositing materials in the regional library facilities, the campuses avoid capital costs of about $16 million per year, on an annualized basis, that would have been incurred to build on-campus library facilities to house these collections.

California Digital Library. While UC has made strategic use of information technology to enhance library service and control costs for over 25 years, the incorporation of digital collections and services in the UC library program accelerated dramatically with the launching of the University's groundbreaking California Digital Library (CDL) in 1997. The CDL now makes it possible for UC's libraries to make available to faculty, students, and staff from all UC campuses about 24,000 journal titles, 250 reference databases, and over 8,000 finding aids that provide access to unique special collections resources. If campus libraries independently negotiated for, licensed, and cataloged these information resources, they would spend an additional $42 million per year. In 2005-06, over 16 million digital journal articles were used, a 3.5% increase from the previous year and a fifteen-fold increase over the 1998-99 level. These shared digital collections provide the UC community with access, at any time of day or night and regardless of location, to a wealth of materials that campuses might not have been able to afford individually. In addition, the libraries are creating collections of high-quality material that are solely available in digital form. Examples include the Online Archive of California, the Counting California service, and the eScholarship Repository, all of which bring valuable, but previously hard to find, information resources into the digital realm and make them accessible not only to UC faculty and students, but also to the general public.

These services, by making accessible to the general public the University's information resources, demonstrate that the libraries' investments in digital technologies to improve service for students and staff also have enormous potential to benefit Californians. California citizens can, for example, gain access to the inventories of material in California's archives, libraries, and museums through the Online Archive of California (OAC); view the 170,000 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; and view online many of the premier publications of the University of California Press. Many of the libraries' public offerings have now been brought together in Calisphere (http://www.calisphere.universityofcalifornia.edu), a free public gateway to thousands of digitized primary sources — including photographs, documents, newspaper clippings, and works of art — from UC museums and libraries and other cultural heritage institutions in California.

Materials are organized in alignment with the California State Board of Education content standards, thereby making it easier for teachers and students to find materials relevant to school curricula.

Shared Print Collection. A newly-established shared print collection program, modeled on the success of the shared digital collection, allows campuses to purchase single copies of printed material for systemwide use or assemble high-quality collections from existing campus holdings, avoiding unnecessary and unplanned duplication of collections and expenditures. Through this program, the libraries may avoid subscription costs for print journals of up to $3.5 million per year, and realize additional savings in on-campus shelf space to house those journals, while being assured that the University will continue to have available at least one print copy of each title.

Mass Digitization. A significant expansion of the UC libraries' digital collection program was launched in 2005-06. With industry partners including Yahoo, Microsoft, and Google, the University of California began digitally reformatting large numbers materials from the Libraries' print collections. The initiative will unfold over several years and promises to stimulate greater innovation in UC research, expand access for the people of California to the University's rich scholarly information resources, help ensure the preservation of holdings, and enable significant efficiencies in collection management by allowing UC libraries to choose to minimize redundant holdings.

ACADEMIC SUPPORT — OTHER

Included in the category Academic Support — Other are various clinical or other support activities that are operated and administered in conjunction with schools and departments. 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 budgets were cut by $36.5 million in 2003-04 and another $45.4 million in 2004-05.

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 for patients. 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

The Teaching Hospital information in this section was prepared as part of the University's budget plan for 2008-09, including explanations of the types of State and federal support that flow to the hospitals. Although the Teaching Hospitals receive very limited direct State funding support, they are heavily reliant on State-funded Medicaid payments. Recently, legislation was enacted that includes cuts to selected Medi-Cal provider rates by 10% beginning July 1, 2008. It is estimated that the impact of these cuts is $14 million. Additionally, the State has proposed an additional Medicaid reduction, which would reduce Medicaid payments to the Teaching Hospitals by an additional $16 million. Lastly, current federal regulatory activities, which are designed to significantly limit Medicaid payments for services to uninsured patients and medical education, could materially impact Medicaid payments to the Teaching Hospitals. It is possible that Congress could delay the implementation of these regulations. Absent such a delay, should these regulations become effective and determined to be applicable to California, it is estimated that the reduction to the Teaching Hospitals could total $120 million per year when fully implemented.

The Role of the University Teaching Hospitals

The University operates academic medical centers at five campuses. Their primary mission is to support the clinical teaching programs of the five schools of medicine located on the Davis, Irvine, Los Angeles, San Diego, and San Francisco campuses, as well as programs in the University's other health sciences schools. To a large extent, the core clinical learning experiences in the health sciences take place in the UC medical centers, although changing needs in medical education require the development of more out-of-hospital educational sites and primary care networks. In conjunction with their teaching mission, the medical centers provide a full range of health care services and are sites for testing the application of new information and the development of new diagnostic and therapeutic techniques. With their tripartite mission of teaching, public service, and research, the University of California academic medical centers are a major resource for California and the nation. They provide excellent training for tomorrow's health professionals, educational opportunities for community health professionals who participate in the University's clinical teaching and continuing education programs, and health care services to thousands of patients each day. The patients served generally have more complex medical conditions than patients at many other institutions, which often can only be managed in tertiary referral hospitals such as the University's academic medical center. The complexity of the patient population is reflected in the specialty and regional nature of the care provided. The University's academic medical centers operate in urban areas, and three of the five centers are located in counties that have no county hospital.

In 2006-07, the University medical centers will have a combined licensed capacity of 3,400 acute care beds and are expected to generate more than 820,000 patient days and more than 3.6 million

outpatient visits. This makes the University's academic medical centers the fifth largest health care systems in California. Four of the five Medical Centers currently operate as Level 1 Trauma Center, capable of providing the highest level of specialty expertise and surgical care to trauma patients twenty-four hours a day, 365 days a year.

In alignment with the mission of advancing medical science and educating health professionals, the UC academic medical centers also play a critical role in maintaining healthcare access to medically vulnerable populations. This includes being major providers of care to Medi-Cal and Medicare eligible patients. At the request of the State, the University assumed operation of three former county hospitals for the Davis, Irvine, and San Diego campuses rather than constructing teaching hospitals of its own. Three of the medical centers have historically served a. disproportionately high percentage of Medi-Cal patients, as well as uninsured patients, whose care may be covered only partially by county indigent care programs. Given these services, changes in Medicaid and Medicare funding are extremely important to the academic medical centers

Over the last few decades, the medical centers have faced financial crises brought on by varying fiscal issues requiring different operational and policy solutions. For example, special capital and operating subsidies were provided to the three former county hospitals (UCD, UCI, and UCSD) in the mid-1980s and the State is currently providing lease revenue bonds to help with seismic corrections at the medical centers. The federal and state governments provide support through various programs, including Medicare, which helps pay for medical education, and Medi-Cal, which provides various supplemental payments to help fund care to low-income patients. As with the funding for the medically indigent, these funding sources are vulnerable to changing public policies.

Current Issues

The medical centers have taken steps to remain competitive in their respective markets by improving efficiencies, and by expanding their presence in the market through affiliations or the addition of clinical 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 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.

UC medical centers are subject to the same pressures currently confronting most hospitals, including:

- increasing demand for services and capacity constraints;
- a shortage of key personnel, including nurses, lab techs, and radiology techs, resulting in increased use of temporary labor;
- rising costs of pharmaceuticals and medical supplies;

- increasing salary and benefit costs, including re-instatement of employer contributions to UC's retirement system;

- changes to the federal Medicare payments program that affect direct and indirect support for medical education as well as reimbursement for patient care (discussed in the *Medicare* section of this chapter);

- changes to federal Medi-Cal payments for patient care, including aggregate caps on supplemental payments (discussed in the *Medi-Cal* section of this chapter);

- financing seismic retrofit other significant capital needs, such as upgrades necessary for programmatic changes (discussed in the *Seismic Safety and Other Capital Outlay Issues* section of this chapter);

- community preparedness activities, such as establishing procedures for responding to epidemics; and

- compliance with government regulations, e.g., 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 support their Schools of Medicine. The financial viability of UC medical centers depends upon payment strategies that recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment, invest in infrastructure and program expansion, and support medical education and care for the poor.

Additionally, the increased public policy discussions regarding health care reform suggest the potential for change that could significantly impact the academic medical centers. To the extent that healthcare reform results in expanded health care for coverage for uninsured patients currently served by the medical centers, the result could be extremely positive. Conversely, to the extent healthcare reform limits reimbursement payments from public programs, or imposes markets reforms that reduce commercial insurance payments to the medical centers, the result could negatively impact the medical centers.

The following sections briefly discuss the changes that have occurred in the delivery and funding for patient care, the resulting impact on the medical centers and academic programs, and the challenges ahead.

Health Care Financing

Each of the Medical Centers has agreements with third-party payors that provide for payments at differing amounts. The following is a brief discussion of several types of third-party payors who have such agreements with the Medical Centers.

Medicare. Medicare is a federal governmental health insurance system under which physicians, hospitals and other providers are paid directly for services provided to eligible elderly and disabled persons. In order to achieve and maintain Medicare certification, health care providers must meet certain "Conditions of Participation" on an on-going basis, as determined by inspections conducted by either the applicable state health department and/or the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO"). Each of the Medical Centers is currently certified as a provider for Medicare services and intends to continue to participate in the Medicare program. The requirements for Medicare certification are subject to change, and, in order to remain qualified for the program, it may be necessary for one or more of the Medical Centers to effect changes from time to time in its facilities, equipment, personnel, billing processes, policies and service.

The University is closely following the changes that the federal Center for Medicare and Medicaid Services (CMS) has proposed for the acute inpatient prospective payment system. The Medicare changes would: 1) shift the Diagnostic Related Group (DRG) weighted inpatient payment system from a charge-based to a cost-based system; and 2) expand the DRGs to better reflect the severity of patients. These changes are designed to ensure that Medicare payments more closely reflect acuity. While these changes may prove beneficial for UC over the long term, they represent significant changes that may reduce payments in the short-term as the system transitions to the new payment arrangement.

In addition, the Medicare physician fee schedule includes reductions imposed by Congress. These changes impact Medicare physician reimbursement and have a downstream impact on commercial physician reimbursement rate structures tied to Medicare rates.

Medicare Graduate Medical Education Payments. Medicare provides teaching hospitals with Graduate Medical Education payments to help pay for the direct medical costs 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 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 direct and indirect medical education payments in 2005-06 were $127.9 million, approximately 13.7% of Medicare reimbursement to the five medical centers.

The federal 1997 Balanced Budget Act (BBA) contained significant changes to Medicare. It included a schedule for reducing indirect medical education (IME) payments by approximately 29% over a four-year period. These changes were expected to reduce Medicare spending by $116 billion by 2002. The BBA proposed to reduce the indirect medical education 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 direct medical education 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 Balanced Budget Refinement Act of 1999 (BBRA) and the Medicare, Medicaid, and State Children's Health Insurance Program Benefits Improvement and Protection Act of 2000 (BIPA) altered the schedule. The BBA of 1997 reduced the IME percentage add-on from 7.7% in FY1997 to 7.0% in FY 1998, 6.5% in FY1999, 6.05% in FY2000, and 5.5% in FY2001 and subsequent years. The BBRA of 1999 modified BBA reductions by holding the IME adjustment to 6.5% through FY2000, then lowering the adjustment to 6.25% in FY2001, and finally reducing it to 5.5% in FY2002 and subsequent years. BIPA 2000 further delayed the reduction by holding it to an average of 6.5% in FY2001 and FY2002, before allowing it to fall to 5.5% in FY2003 and thereafter.

The "Medicare Prescription Drug, Improvement and Modernization Act of 2003," signed into law on December 9, 2003, increased the Medicare Indirect Medical Education (IME) adjustment from 5.5 to 6.0% on April 1, 2004; 5.8% in FY2005; and 5.55% in FY2006. In FY2007, IME payments are reduced to 5.35% before being set at 5.5% in FY2008 and beyond.

Medi-Cal. Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependents. Under Medicaid, the federal government provides grants to states that have medical assistance programs that are consistent with federal standards.

Medi-Cal is the Medicaid program in California. The State of California selectively contracts with general acute care hospitals to provide acute inpatient services to Medi-Cal patients. Each of the Medical Centers currently has a Medi-Cal contract. Typically, either party may terminate such contracts on 120 days' notice. The State may also terminate these contracts without notice under certain circumstances (e.g., breach by the provider or failure to remain qualified under the Medi-Cal Program) and is obligated to make contractual payments only to the extent the State legislature appropriates adequate funding.

Payments Under Medi-Cal. Medi-Cal payments received by each of the Medical Centers include (i) fee-for-service payments, (ii) disproportionate share payments, which are supplemental payments to hospitals, such as the Medical Centers, that serve a disproportionately large share of Medi-Cal beneficiaries and other low income patients, and (iii) Safety Net Care Pool payments, which are payments for otherwise uncompensated care provided to certain uninsured patients.

Private Health Plans and Managed Care. Health care, including hospital services, is increasingly paid for by various "managed care" plans that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services such as inpatient hospital care. Payments to the Medical Centers from managed care plans typically are lower than those received from traditional indemnity/commercial insurers. (Managed care plans have replaced indemnity insurance as the prime source of nongovernmental payment for hospital services provided at the Medical Centers.) Many managed care plans currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day basis, which, in

each case, is discounted from the typical charges for the care provided and, in some cases, is less than the actual cost of such care. Other managed care plans employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the plan who is "assigned" or otherwise directed to receive care at a particular hospital. In a capitation payment system, the hospital assumes a financial risk for the cost and scope of institutional care provided to a plan's enrollees. Participation in managed care plans may maintain or increase the patient base of a Medical Center but could result in lower net income to such Medical Center if the Medical Center is unable to adequately contain its associated costs. Thus, the effect of managed care on each Medical Center's financial condition and on the amount of revenues pledged under the Indenture is difficult to predict and such effect may differ over time.

Medically Uninsured. The Medical Centers all treat a large number of indigent patients who are unable to pay for their medical care. Future economic, demographic or political changes could result in additional increases in the number of such patients cared for by the Medical Centers and increased amounts of unreimbursed costs related to the care of such patients. For example, changes in governmental policy that result in coverage exclusions under local, state and federal health care programs (including Medicare and Medi-Cal) may increase the demand for care by the uninsured at the Medical Centers.

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, the downturn in the State's economy also affected local county revenues, creating increased competition among local services for reduced funds, severely constraining the ability of local governments to adequately fund health care services to the uninsured. Although there have been measures enacted to mitigate the impacts, e.g., 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 2005-06, the University medical centers received a total of $1.5 million in Proposition 99 funds as compared to $14.6 million in 1989-90.

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 2006-07 budget included nearly $51 million in CTS funds for the five UC medical centers. While CTS funds represent about 1.3% 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.

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. Other State and federal actions have added to these concerns.

Special State Help for the Disproportionate Share Hospitals

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 the entire $28.6 million operating subsidy because it was the only UC medical center that incurred losses prior to receiving the subsidy.

State 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 2004-05, the Davis and San Diego Medical Centers received $5.5 million and $2 million, respectively. UC Irvine, also a disproportionate share hospital, had no projects that qualified.

Other State Budget Actions Impacting the Teaching Hospitals

One-time Funds. The 2000 Budget Act 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 included a broad range of high-priority projects, such as the upgrade of operating rooms, correction of deficiencies in clinical laboratories, modernization of patient facilities, 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.

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. 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.

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 faced, the UC medical centers were not totally exempt from a share of these cuts — a $5.5 million reduction in CTS funds was included in the mid-year budget cuts in 2003-04.

Other Federal Actions Impacting the Teaching Hospitals

Health Insurance and Portability and Accountability Act of 1996. The Health Insurance and Portability and Accountability Act of 1996 (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.

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.

UC estimated that compliance with SB 1953 through the year 2008 would cost 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. 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. Construction for the Tower II, Phases 2 and 3 renovations at the Davis campus is complete, and approximately 88% of the Westwood/Santa Monica Replacement Hospital facilities at UCLA is complete. Construction is underway for the Irvine Replacement Hospital, the Surgery and Emergency Services Pavilion at the Davis campus, as are renovations of Moffitt/Long Hospital facilities at UCSF. Improvements to the UCSD Hillcrest facility are in the final design phase.

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. FEMA funds are being used to build the new hospital in the Westwood campus and the Santa Monica Medical and Orthopedic Hospital in Santa Monica.

STUDENT FEES

The original plan related to student fees included as part of the University's budget plan for 2008-09 and as approved by the Regents at the November 2007 meeting is discussed in this section. The University's budget plan assumed that revenue equivalent to a 7% increase in the Educational Fee and a 10% increase in the University Registration Fee would be provided either from fee increases or from additional funding provided by the State. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor and then proposed a 10% reduction (totaling $332 million) to that higher budget to address the State's fiscal situation. Thus, several items from the University's 2008-09 budget request were first "funded" and then that funding was subsequently eliminated. The Governor's May revision proposes to restore $98.5 million of the cut proposed in January. While under the proposed May Revise budget the net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $10 million, the University faces mandatory costs it must fund despite receiving no new State support, leaving the University short of what it needs by up to $240 million. Because of the severity of this shortfall, the University is re-evaluating its November budget plan. The Governor's May revision does not provide additional funds to avoid a fee increase; instead, it assumes that increases in mandatory systemwide fees of up to 10% would be implemented by the University. The Regents acted at the May 2008 meeting to implement a 7% increase in the Educational Fee and a 10% increase in the Registration Fee; a portion of the revenue will be used to augment the University's student aid programs: 33% of new fee revenue from undergraduate and professional degree students and 50% of new fee revenue from graduate academic students will be set aside for financial aid purposes. Revenue from increases in the Educational Fee will be used to help fund the budget. One-half of the revenue from the increase in the Registration Fee will be used to continue a program to enhance campus mental health services; the remainder will be used to cover cost increases to Registration Fee-funded programs.

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, also 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 the 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:

- Students seeking specified degrees in medicine, dentistry, veterinary medicine, law, business/management, pharmacy, optometry, nursing, public health, public policy, the UCLA theater/film/television program and the UCSD International Relations and Pacific Studies program are required to pay a professional school fee.

- Nonresident students must pay nonresident tuition as well as mandatory fees and any applicable professional school fees.

The University's average fees for 2007-08 for undergraduate resident students (excluding health insurance fees) are $1,770 less than the average fees charged at the University's four public salary comparison institutions, as shown in Display 1. Currently, only one of the four public comparison institutions charges resident undergraduate students lower fees than UC.

Display 1

University of California and Public Salary Comparison Institutions
Total Student Fees *

Public Salary Comparison Institutions 2007-08 Fees	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
University at Buffalo (SUNY)	$ 6,217	$ 12,477	$ 8,289	$ 12,309
University of Illinois	$ 11,130	$ 25,216	$ 11,216	$ 24,056
University of Michigan	$ 11,111	$ 32,400	$ 15,747	$ 31,657
University of Virginia	$ 8,690	$ 27,940	$ 11,240	$ 21,240
2007-08 Average Fees of Comparison Institutions	$ 9,287	$ 24,508	$ 11,623	$ 22,316
2007-08 Average UC Fees	*$ 7,517*	*$ 27,137*	*$ 9,831*	*$ 24,819*

* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident UC students. Also includes a waivable health insurance fee for UC graduate students.

University fees for resident graduate academic students continue to be below (by $1,848) the average fees charged at the University's four public salary comparison institutions and only one of these institutions charges lower fees to graduate academic students than UC.

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 academic students, of any of the University's public salary comparison institutions. With the increases in mandatory systemwide fees and nonresident tuition approved by

The Regents for 2005-06, for the first time since the mid-1980s, the University's fees for nonresident undergraduate and graduate students exceeded the average fees for these comparison institutions. Currently, UC's fees are higher than the average fees for the comparators by $2,629 for nonresident undergraduates and $2,448 for nonresident graduate academic students. Even so, the University's tuition and fees for nonresident undergraduate students continue to represent the mid-point among our public salary comparison institutions. However, making the University more affordable for nonresident graduate academic students remains a serious concern. This issue is discussed in greater detail in the chapter on *Cross-Cutting Issues*.

2008-09 Budget Plan — Student Fees

Similar to last year, the University delayed action on increases in mandatory systemwide fees until after release of the Governor's proposed budget for 2008-09. The budget plan proposed for 2008-09 included an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State. Since the approval of the budget plan in November, however, the Governor's Budget released January 10 did not provide the funding needed to avoid student fee increases and also proposed a 10% reduction to the University's base budget for 2008-09. As a result, the budget plan approved in November is being re-evaluated by the Board of Regents.

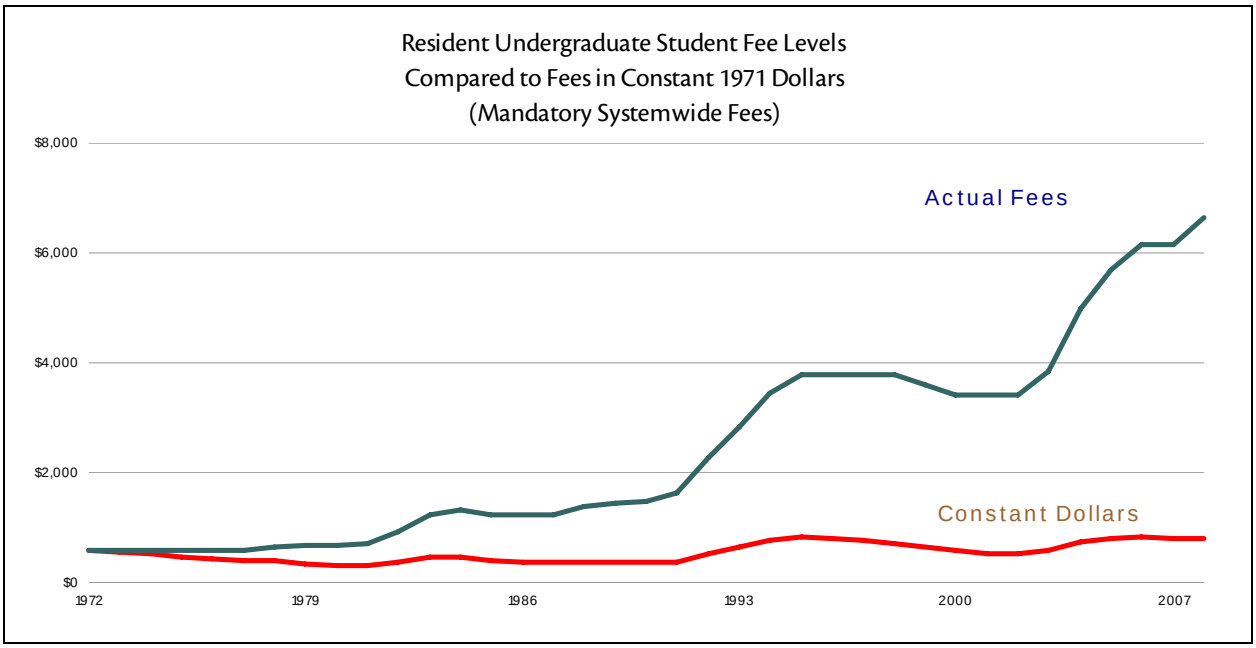
Any consideration of student fee increases would need to provide adequate financial aid to ensure continued access for all students regardless of financial circumstances. Thus, if student fee increases are instituted, the University would propose a return-to-aid of 33% for undergraduates, including special emphasis on ensuring accessibility for middle-income students, and a return-to-aid of 33% for professional school students. The University would propose a higher return-to-aid for graduate academic students (50%) to recognize the need to provide competitive graduate support packages and to cover collective bargaining agreements with teaching assistants.

For nonresident undergraduate students only, it is proposed that the Nonresident Tuition Fee be increased by 5% in 2008-09, raising the nonresident tuition level for these students by $953 from $19,068 to $20,021. Nonresident tuition would remain at $14,694 for graduate academic students and $12,245 for professional students.

History of Student Fees

The history of undergraduate student fees at UC, as shown in the top line of Display 2, 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 2007-08 undergraduate fee levels, when adjusted to reflect 1971-72 constant dollars, are slightly less than they were in 1994-95.

Display 2



Display 3 (next page) shows fee levels for resident undergraduate and graduate academic students from 1978-79 through 2007-08. In the early 1980s, fees were increased to offset losses in State funds. Throughout the rest of the decade, fees were held constant or increased moderately until the onset of the State's fiscal 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. 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 University's ongoing 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 to date.

Student Fees 1995-96 through 2005-06

There were no increases in mandatory systemwide fees for seven consecutive years from 1995-96 through 2001-02. 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 3

UNIVERSITY OF CALIFORNIA
STUDENT FEE LEVELS
1978-79 to 2007-08

	Average Annual Fees per Resident Undergraduate Student							Average Annual Fees per Resident Graduate Academic Student						
			Fees Combined							Fees Combined				
	Reg. Fee	Ed. Fee	Total	% Change	Misc. Fees	(a)	Total Fees *	Reg. Fee	Ed. Fee	Total	% Change	Misc. Fees	(a)	Total Fees *
1978-79	$ 371	$ 300	$ 671		$ 49			$371	$ 360	$ 731		$ 38		$ 769
1979-80	385	300	685	(2.1%)	51		736	385	360	745	(2.1%)	39		784
1980-81	419	300	719	(5.0%)	57		776	419	360	779	(5.0%)	45		824
1981-82	463	475	938	(30.5%)	60		998	463	535	998	(30.5%)	45		1,043
1982-83	510	725	1,235	(31.7%)	65		1,300	510	785	1,295	(31.7%)	51		1,346
1983-84	523	792	1,315	(6.5%)	72		1,387	523	852	1,375	(6.5%)	58		1,433
1984-85	523	722	1,245	(-5.3%)	79		1,324	523	782	1,305	(-5.3%)	63		1,368
1985-86	523	722	1,245	(0.0%)	81		1,326	523	782	1,305	(0.0%)	64		1,369
1986-87	523	722	1,245	(0.0%)	100		1,345	523	782	1,305	(0.0%)	82		1,387
1987-88	570	804	1,374	(10.4%)	118		1,492	570	804	1,374	(10.4%)	100		1,474
1988-89	594	840	1,434	(4.4%)	120		1,554	594	840	1,434	(4.4%)	125		1,559
1989-90	612	864	1,476	(2.9%)	158		1,634	612	864	1,476	(2.9%)	222		1,698
1990-91	673	951	1,624	(10.0%)	196		1,820	673	951	1,624	(10.0%)	482		2,106 (b)
1991-92	693	1,581	2,274	(40.0%)	212		2,486	693	1,581	2,274	(40.0%)	557		2,831 (b)
1992-93	693	2,131	2,824	(24.2%)	220		3,044	693	2,131	2,824	(24.2%)	608		3,432 (b)
1993-94	693	2,761	3,454	(22.3%)	273		3,727	693	2,761	3,454	(22.3%)	703		4,157 (b)
1994-95	713	3,086	3,799	(10.0%)	312		4,111	713	3,086	3,799	(10.0%)	786		4,585 (b, c)
1995-96	713	3,086	3,799	(0.0%)	340		4,139	713	3,086	3,799	(0.0%)	836		4,635 (b, c)
1996-97	713	3,086	3,799	(0.0%)	367		4,166	713	3,086	3,799	(0.0%)	868		4,667 (b, c)
1997-98	713	3,086	3,799	(0.0%)	413		4,212	713	3,086	3,799	(0.0%)	923		4,722 (b, c)
1998-99	713	2,896	3,609	(-5.0%)	428	(d), (e)	4,037	713	3,086	3,799	(0.0%)	839	(d)	4,638 (b, c)
1999-2000	713	2,716	3,429	(-5.0%)	474	(d), (e)	3,903	713	2,896	3,609	(-5.0%)	969	(d)	4,578 (b, c)
2000-01	713	2,716	3,429	(0.0%)	535	(d), (e)	3,964	713	2,896	3,609	(0.0%)	1,138	(d)	4,747 (b, c)
2001-02	713	2,716	3,429	(0.0%)	430	(d), (f)	3,859	713	2,896	3,609	(0.0%)	1,305	(d)	4,914 (b, c)
2002-03 (g)	713	3,121	3,834	(11.8%)	453	(d), (f)	4,287	713	3,301	4,014	(11.2%)	1,327	(d)	5,341 (b, c)
2003-04	713	4,271	4,984	(30.0%)	546	(d), (f)	5,530	713	4,506	5,219	(30.0%)	1,624	(d)	6,843 (b, c)
2004-05	713	4,971	5,684	(14.0%)	628	(d), (f)	6,312	713	5,556	6,269	(20.0%)	1,606	(d)	7,875 (b, c)
2005-06	735	5,406	6,141	(8.0%)	661	(d), (f)	6,802	735	6,162	6,897	(10.0%)	1,811	(d)	8,708 (b, c)
2006-07	735	5,406	6,141	(0.0%)	711	(d), (f)	6,852	735	6,162	6,897	(0.0%)	2,041	(d)	8,938 (b, c)
2007-08	**786**	**5,850**	**6,636**	**(8.1%)**	**881**	(d), (f)	**7,517**	**786**	**6,654**	**7,440**	**(7.9%)**	**2,391**	(d)	**9,831** (b, c)

Notes:
(a) Represents the average of fees charged by the campuses for undergraduates and graduate academic students. Fees for professional students are not included here.
(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.

Even though the State's fiscal situation began to deteriorate in 2001-02, student fees did not increase until mid-year cuts were instituted in the spring 2003 term. As part of the University's effort to offset cuts targeted at instructional programs, systemwide student fees were raised by about 11% in 2002-03 ($405, of which $135 was effective for the Spring term 2003 with the remainder deferred to 2003-04) and another 30% in 2003-04 ($1,150 for resident undergraduates). Professional school, graduate academic, 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 professional degree program. Nonresident students also paid an additional 20% in nonresident tuition (a $2,746 increase for undergraduates). In 2005-06, student fees again rose by 8% ($457) for undergraduates and by 10% ($628) for graduate academic students.

In May 2004, the University negotiated a Compact with Governor Schwarzenegger which includes an agreement about student fee increases over its six-year term. The Compact specified fee increases for undergraduates and graduate academic students for 2004-05 through 2006-07. Beginning with 2007-08, the Compact envisioned fee increases equivalent to the annual increase in California per capita personal income or more — up to 10% per year — if fiscal circumstances require increases that exceed the rate of growth in per capita personal income 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. The specific provisions of the Compact are described in the *Historical Perspective* chapter of this document.

As fees have increased over time, the percentage of additional fee income dedicated to financial aid, referred to as return-to-aid, also has increased. In 1987-88, the return-to-aid from new fee revenue was 16%; by 1994-95 that proportion had risen to 33%, where it remained through 2003-04. Due to the State's fiscal crisis, the Governor proposed and the Legislature agreed to a lower return-to-aid of 20% for 2004-05. For 2005-06, approximately 25% of all new fee revenue generated from undergraduate fees was used for undergraduate student financial aid, which was consistent with the historical average, and 45% of all new fee revenue raised from graduate academic student fees was used for graduate student financial aid.

For 2006-07, because of the State's student fee buyout, there was no new fee revenue associated with fee increases and consequently no concomitant return-to-aid. However, new revenue was generated from new enrollments in 2006-07. For 2007-08, approximately 33% of all new fee revenue generated from undergraduate fees related to fee increases and new enrollments was used for undergraduate student financial aid, 45% of all new fee revenue raised from graduate academic student fees was used for graduate student financial aid, and 33% of the revenue generated by professional school students was used for financial aid for professional school students.

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. Because the State's Cal Grant program does not cover fees for graduate students, other sources of funds including student fee revenue, are particularly critical for the University to provide financial aid and remain competitive in recruiting graduate academic students. Funding for financial aid from grants and scholarships is expected to be approximately $1.3 billion in 2007-08. 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. 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 assumes 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 high-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. 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, at a minimum, 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. The University recognizes it is helpful when information on projected fee levels can be provided in a timely way so families can plan their finances for the coming year. However, given the instability in the University's state-funded budget, including mid-year budget cuts, it has been difficult to provide notice well in advance of the academic year. To the extent that State funding stabilizes, the University has made a commitment to providing notice of fee increases in a more timely way.

The agreement among UC, CSU, and the Governor regarding the student fee policy as expressed in the Compact preserves the concept of predictable, moderate, and gradual 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.

Mandatory Systemwide Student Fees — Undergraduate and Graduate Academic Students

Educational Fee

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

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 applicable 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.

As described in the *Student Services* chapter of this document, the University is implementing a multi-year plan of increases to the Registration Fee to provide additional funds to address student mental health issues, which are a growing concern at UC as well as other higher education institutions across the nation. The first increment of funding, $4.6 million, was provided in 2007-08. An additional $8 million was proposed as part of the expenditure plan for 2008-09 to be funded from State resources or an increase in the Registration Fee.

Mandatory Student Fees — Professional School Students

Historically, many of UC's professional schools have held a place of prominence in the nation, promising a top-quality education for a reasonable price. The cuts that have occurred, in the early 1990s and the current decade, have devastated the resources available to the professional schools to such a degree that the schools are extremely concerned about their ability to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students — all of which are important components of excellence in these schools. Once started on a downward spiral, it is very difficult to recover previous levels of excellence. The professional schools see this as a crisis of quality and believe significant steps, including raising student fees, must be taken to regain the excellence recent budget cuts have threatened.

Since the initial implementation of professional school fees in 1994-95, professional schools have been largely supported by a combination of sources, including State general funds, Educational Fee revenue, and professional school fee revenue, among others. Because fee increases have been used to offset budget cuts instead of generating revenue to sustain and improve the quality of the schools as originally envisioned, professional schools have fallen further behind in their ability to offer competitive salaries to their faculty and staff. Fee increases since 2005-06 have provided new revenue for the schools to cover salaries and other necessary costs. However, the new revenue has not been sufficient to make up for the losses

sustained previously. As a result, the financial circumstances of the schools remain severely strained and the University's professional schools are in danger of losing prominence among their peers. For example, the disproportionate cuts taken in law and business at the beginning of this decade have had long-lasting effects and fee increases above the minimum to fund cost increases and additional financial aid are needed to address the effects of cuts and help them regain their prominence. A sustained effort over time will be required for the schools to recover.

History of Professional School Fees

Policy. Consistent with the 1990 State Budget Act, a Special Fee for Law School and Medical School Students of $376 per year was implemented for the 1990-91 academic year. In addition, 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 fee policy, the University reaffirmed its commitment to maintain academic quality and enrollment in the professional school programs, and recognized that earning a degree in these programs benefits the individual financially as well as the state.

Following extensive discussion spanning more than a year, in March 2007, The Regents adopted the principle that future fees for professional degree students would be approved within the context of a multi-year plan that is subject to annual reconsideration. A multi-year plan with regard to fees for professional degree students is a vital and fiscally prudent strategy, providing a more stable planning environment for the professional schools. It allows the schools to consider and act on long-term investment needs such as new faculty positions, facility needs, and financial aid program development. In addition, a multi-year plan provides each degree program with the opportunity to comprehensively analyze their program needs, the costs to address those needs, and the revenue available to support those needs. Finally, multi-year planning allows each program to examine its competitiveness with other institutions on a number of measures, including the "sticker price" of attendance, its financial aid programs and its impact on the net cost to students, and other indicia of national competitiveness of the program. At the same time, a multi-year strategy will help inform decision-making by clearly identifying each degree program's goals and objectives and the steps that are needed to achieve them. At their July 2007 meeting, The Regents Policy on Fees for Selected Professional School Students was amended to require schools to develop multi-year fee plans and to delete other provisions that were no longer applicable. In September 2007, The Regents approved fee increases for 2008-09 and endorsed a three-year plan of fees for each professional degree program. At the same time, The Regents adopted specific conditions for ensuring that the University's commitment to access, affordability, diversity, and students' public service career decisions are not adversely affected by increases in fees for professional degree students.

Budget Cuts and Fee Increases. In 1997, AB 1318 (Chapter 853) was enacted, which, among its provisions, imposed a two-year freeze on fees for California residents, including those enrolled in graduate academic or professional school programs. 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 funding 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 school 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 instructional programs. 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. Because not all schools could sustain the increases that would be necessary to meet the revenue target, The Regents approved increases in these fees averaging approximately 30% for 2004-05. However, these increases fell short of the revenue anticipated by the Governor by $5 million. To cover the shortfall, mandatory systemwide fees charged to professional school students were increased for 2005-06 by $628, the same dollar amount of increase proposed for graduate academic students.

The Governor's 2004-05 proposal did not account for any return-to-aid from the increase in professional school fees. Moreover, the ability of the affected professional schools 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, was of particular concern. To address both the academic quality and financial aid issues associated with the Governor's 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. Several schools (Law and Business at Berkeley and Los Angeles; Dentistry at Los Angeles and San Francisco; and Pharmacy at San Diego and San Francisco) exercised this option in amounts ranging from $1,000 to $1,932; the remaining schools made no further changes in their fee levels.

For 2005-06, The Regents approved a 3% across-the-board increase in professional school fees to cover salary costs and non-salary price increases. In addition, The Regents approved new professional school fees for students enrolled in degrees in public health, public policy, and the San Diego campus program in International Relations and Pacific Studies (IRPS). At the same time, recognizing that the professional schools have been unable to make the financial investments necessary to maintain the academic quality of their programs and to provide additional financial aid to their students, the Board stated its intention to review any proposals for supplemental increases in professional school fees that might be proposed by the individual schools. At the May 2005 meeting, increases of up to an additional 7% were proposed for specified professional degree programs for 2005-06; when combined with the 3% increase approved for all professional degree programs, the total increase proposed for these programs was a maximum of 10%. The proposed increases varied by school, campus, and residency status, and ranged from $205 in nursing to $1,163 for MBA students at UCLA. The full 10% increases in professional school fees were approved for implementation in 2005-06. However, two-thirds of the proposed professional fee increases were approved for implementation for

2005-06 beginning in winter quarter/spring semester to ensure that students received adequate notice. This action resulted in an increase for 2005-06 of about 7.7% in professional school fees over 2004-05 for the affected degree programs. While the State bought out professional school fee increases planned for 2006-07, the remaining one-third of the 2005-06 supplemental increases, ranging from $69 to $387, were implemented in 2006-07.

For 2007-08, professional school fees were increased by 7 percent for most programs. In recognition of the disproportionate cuts taken by the law programs at Berkeley, Davis, and Los Angeles and the business programs at Berkeley and Los Angeles, increases of 11% to 12% in professional school fees were approved which resulted in an overall average increase in total fees of 10% for those programs.

Increases in professional school fees for 2008-09 were approved at the September 2007 Regents consistent with the three-year plans presented by the campuses. For most programs, increases of 7% programs were approved. For some select programs, primarily in law, business, and pharmacy, the approved increases ranged from 10% to 19%. To comply with the new conditions requiring the President to ensure that the University's commitment to access, affordability, diversity, and students' public service career decisions are not adversely affected by increases in fees for professional degree students, the President reviewed all the professional degree fee programs to determine if the program had satisfied these new conditions. Of the 32 programs, all satisfied the conditions related to delivery of financial aid programs, strategies for inclusion of underrepresented groups, and marketing outreach plans.

However, not all 32 programs are expected to meet the condition that in-state charges for any degree program receiving state support be at or below the total tuition and/or fees charged by comparable degree programs at other public institutions. Those meeting the condition included 23 programs in the following disciplines: Law, Business, Medicine, Dentistry, Veterinary Medicine, Nursing, and Optometry; and the program in International Relations and Pacific Studies at the San Diego campus. Estimated in-state fees for Pharmacy, Public Health, and Public Policy programs as well as the UCLA program in Theater, Film, and Television are expected to exceed the estimated total charges at their public comparison institutions. In some cases, the amount by which the programs' total fees exceed the average of comparable institutions is small and may disappear entirely once these other institutions finalize their 2008-09 fee levels. In other cases, however, the difference is substantial. Further Regental action will be needed to align the 2008-09 fee levels for these nine programs.

Display 4 shows the history of professional school fee levels since 1994-95.

UC and Comparison Institution Professional School Fees

Display 5 (pages 176-177) shows 2007-08 and estimated 2008-09 total resident fees for professional school students at the University of California in relation to the total resident charges at other public institutions. For both years, UC fees for most resident professional students fall within the range of the tuition and fees charged by comparable public institutions. UC professional degree programs recruit students nationally and internationally as well as from

Display 4

Fees for Selected Professional School Students
Annual Fee Levels by Year of First Enrollment (resident students)

	Fees Previously Approved by The Regents										
	1994-95	1995-96	1996-97	1997-98 through 2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Medicine#	$ 2,376	$ 3,376	$ 4,376	$ 5,376	$ 5,776	$ 8,549	$ 13,049	$ 13,440	$ 13,440	$ 14,380	$ 15,360
Dentistry	2,000	3,000	4,000	5,000	5,400	8,060	12,560 *	13, 523 - 15,445	13,816 - 15,798	14,784 - 16,902	18,087
Veterinary Medicine	2,000	3,000	4,000	4,000	4,350	6,565	10,565	10,882	10,882	11,646	12,459
Law#	2,376	4,376	6,376	6,376	6,776	9,849	13,649 *	14,695 - 15,976	15,013 - 16,334	16,694 - 18,146	18,815 - 21,618
Business	2,000	4,000	6,000	6,000	6,400	9,360	13,860 *	14,276 - 16,984	14,276 - 17,371	15,276 - 19,287	16,345 - 22,049
Riverside	2,000	3,000	4,000	5,000	5,400	9,360	13,860	14,276	14,276	15,276	16,345
Optometry			2,000	3,000	3,250	4,875	8,675	9,340	9,542	10,210	10,925
Pharmacy			2,000	3,000	3,250	4,875	8,675 *	10,849	11,098	11,874	13,635
Nursing			1,500	1,800	1,950	2,925	2,925	3,149	3,218	3,444	3,685
Theater, Film, & TV			2,000	2,000	2,150	3,185	5,785	5,959	5,959	6,375	6,821
Public Health								4,000	4,000	4,284	4,584
Public Policy								4,000	4,000	4,284	4,584
Int'l Rels & Pacific St.								4,000	4,000	4,284	4,584

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.
**For 2005-06, The Regents approved fee increases of 3% for all programs. In addition, supplemental increases up to an additional 7% were approved for selected degree programs. However, because the supplemental increases were implemented beginning in winter/spring terms, only 2/3 of the increases were assessed. The remaining 1/3 was implemented in 2006-07.
Fee levels include the $376 Special Fee for Law and Medical Students approved in 1990.

within California, and they compete with private as well as public institutions of comparable quality. These factors are among those taken into consideration by the professional degree programs as they developed their three-year plans for professional degree program fees. Other factors that were considered include similarity among academic program offerings, faculty profiles with regard to scholarly productivity, competitors identified in accreditation reviews, current placement in national rankings as well as goals for improvement in rankings, and a commitment to community and public service.

Temporary Educational Fee Increase for Professional School Students

In 2003, students who had been enrolled in UC's professional degree programs prior to December 16, 2002 filed a class action suit against the University alleging that the increases in the Fee for Selected Professional School Students that were approved by The Regents for Spring 2003 and for all subsequent years violated a contract between the University and students that the professional school fee would not be increased while they were enrolled. Subsequently, the trial court entered an order granting a preliminary injunction against the University, prohibiting the University from collecting the professional school fee increases approved by The Regents for 2004-05 and 2005-06 from students affected by the lawsuit. At the end of 2006-07, the University had lost approximately $20 million in uncollected professional school fee revenue. To address this revenue loss, The Regents approved a multi-year plan of fee increases beginning with a $1,050 increase in the Educational Fee for professional school students. Two-thirds of the increase was implemented in 2005-06 beginning in winter quarter/spring semester to ensure that students received adequate notice. This action resulted in an increase in the Educational Fee for 2005-06 of $700 over 2004-05. The full increase of $1,050 was implemented in 2006-07 for one year. At the end of 2006-07, the temporary Educational Fee increase for professional school

Display 5

University of California
Fees for Resident Selected Professional School Students

	Berkeley		Davis		Irvine		Los Angeles		Riverside		San Diego		San Francisco	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Business														
UC Total Fees	**$ 26,881**	**$ 30,913**	**$ 24,069**	**$ 26,257**	**$ 26,187**	**$ 28,040**	**$ 28,447**	**$ 31,860**	**$ 24,231**	**$ 25,798**	**$ 23,854**	**$ 26,047**		
Comparison Institutions														
Average Tuition & Fees	***$ 40,132***	***$ 42,637***	***$ 36,112***	***$ 38,428***	***$ 30,158***	***$ 33,115***	***$ 40,132***	***$ 42,637***	***$ 27,674***	***$ 30,186***	***$ 40,132***	***$ 42,637***		
Arizona State University									$ 16,500	$ 17,865				
University of Michigan	$ 40,639	$ 42,915	$ 40,639	$ 42,915	$ 40,639	$ 42,915	$ 40,639	$ 42,915	$ 40,639	$ 42,915	$ 40,639	$ 42,915		
University of Minnesota			$ 28,072	$ 30,009	$ 28,072	$ 30,009								
University of Texas					$ 21,764	$ 26,421			$ 21,764	$ 26,421				
University of Virginia	$ 39,625	$ 42,359	$ 39,625	$ 42,359			$ 39,625	$ 42,359	$ 39,625	$ 42,359	$ 39,625	$ 42,359		
University of Washington									$ 19,843	$ 21,371				
Dentistry														
UC Total Fees							**$ 26,266**	**$ 28,103**					**$ 25,956**	**$ 27,848**
Comparison Institutions														
Average Tuition & Fees							***$ 27,964***	***$ 30,793***					***$ 27,964***	***$ 30,793***
University of Illinois-Chicago							$ 26,076	$ 29,127					$ 26,076	$ 29,127
University of Michigan							$ 28,893	$ 30,684					$ 28,893	$ 30,684
Ohio State University							$ 28,923	$ 32,567					$ 28,923	$ 32,567
International Relations & Pacific Studies														
UC Total Fees											**$ 13,720**	**$ 14,745**		
Comparison Institutions														
Average Tuition & Fees											***$ 19,230***	***$ 20,198***		
University of Illinois (Business)											$ 19,342	$ 19,961		
University of Maryland											$ 18,178	$ 19,432		
University of Michigan (Pub.Pol)											$ 20,171	$ 21,200		
Law														
UC Total Fees	**$ 26,897**	**$ 30,931**	**$ 25,489**	**$ 28,270**			**$ 27,056**	**$ 31,113**						
Comparison Institutions														
Average Tuition & Fees	***$ 38,462***	***$ 41,441***	***$ 34,358***	***$ 37,905***			***$ 38,462***	***$ 41,441***						
University of Michigan	$ 41,299	$ 44,479	$ 41,299	$ 44,479			$ 41,299	$ 44,479						
University of Illinois			$ 26,150	$ 30,831										
University of Virginia	$ 35,625	$ 38,404	$ 35,625	$ 38,404			$ 35,625	$ 38,404						
Medicine														
UC Total Fees	**$ 23,162**	**$ 24,704**	**$ 25,754**	**$ 27,224**	**$ 24,329**	**$ 26,020**	**$ 22,551**	**$ 24,183**	**$ 23,330**	**$ 23,947**	**$ 23,019**	**$ 24,664**	**$ 23,438**	**$ 25,187**
Comparison Institutions														
Average Tuition & Fees	***$ 26,056***	***$ 27,285***	***$ 28,051***	***$ 29,518***	***$ 26,056***	***$ 27,285***	***$ 26,056***	***$ 27,285***	***$ 26,056***	***$ 27,285***	***$ 24,824***	***$ 26,360***	***$ 26,056***	***$ 27,285***
University of Colorado	$ 27,011	$ 28,605	$ 27,011	$ 28,605	$ 27,011	$ 28,605	$ 27,011	$ 28,605	$ 27,011	$ 28,605	$ 27,011	$ 28,605	$ 27,011	$ 28,605
University of Maryland	$ 24,053	$ 24,871			$ 24,053	$ 24,871	$ 24,053	$ 24,871	$ 24,053	$ 24,871			$ 24,053	$ 24,871
University of Michigan	$ 27,105	$ 28,379	$ 27,105	$ 28,379	$ 27,105	$ 28,379	$ 27,105	$ 28,379	$ 27,105	$ 28,379			$ 27,105	$ 28,379
Oregon Health Sciences U.			$ 30,038	$ 31,570							$ 30,038	$ 31,570		
University of Washington											$ 17,425	$ 18,906		
Nursing														
UC Total Fees					N/A	$ 15,173	**$ 11,554**	**$ 12,447**					**$ 12,423**	**$ 13,364**
Comparison Institutions														
Average Tuition & Fees							***$ 16,463***	***$ 17,544***					***$ 13,597***	***$ 14,667***
University of Maryland					N/A								$ 9,816	$ 10,503
University of Michigan					N/A	$ 19,551	$ 18,585	$ 19,551						
Oregon Health Sciences U.					N/A								$ 18,268	$ 19,547
University of Pittsburg					N/A		$ 18,098	$ 19,130						
University of Washington					N/A	$ 13,952	$ 12,707	$ 13,952					$ 12,707	$ 13,952

Display 5 (continued)

University of California
Fees for Resident Selected Professional School Students

	Berkeley		Davis		Irvine		Los Angeles		Riverside		San Diego		San Francisco	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Optometry														
UC Total Fees	$ 18,931	$ 20,208												
Comparison Institutions														
Average Tuition & Fees	***$ 19,340***	***$ 20,694***												
Ferris State U. (Michigan)	$ 20,606	$ 22,048												
University of Houston	$ 18,074	$ 19,339												
Pharmacy														
UC Total Fees											**$ 20,452**	**$ 22,878**	**$ 20,877**	**$ 23,341**
Comparison Institutions														
Average Tuition & Fees											***$ 19,468***	***$ 20,999***	***$ 19,468***	***$ 20,999***
University of Illinois-Chicago											$ 18,202	$ 20,441	$ 18,202	$ 20,441
University of Michigan											$ 20,057	$ 21,180	$ 20,057	$ 21,180
Virginia Commonwealth U.											$ 20,147	$ 21,376	$ 20,147	$ 21,376
Public Health														
UC Total Fees	**$ 13,863**	**$ 14,784**	**$ 15,056**	**$ 15,902**	**N/A**	**$ 16,072**	**$ 13,252**	**$ 14,263**						
Comparison Institutions														
Average Tuition & Fees	***$ 13,059***	***$ 14,103***	***$ 10,458***	***$ 11,244***	***$ 14,032***	***$ 15,183***	**$ 13,059**	**$ 14,103**						
University of Iowa			$ 10,392	$ 11,223										
University of Massachusetts					$ 12,836	$ 13,863								
University of Michigan	$ 21,663	$ 23,486			$ 21,663	$ 23,486	$ 21,663	$ 23,486						
University of Minnesota			$ 13,387	$ 14,304										
University of North Carolina	$ 7,597	$ 8,205	$ 7,597	$ 8,205	$ 7,597	$ 8,205	$ 7,597	$ 8,205						
University of Washington	$ 9,917	$ 10,621					$ 9,917	$ 10,621						
Public Policy														
UC Total Fees	**$ 13,863**	**$ 14,784**					**$ 13,252**	**$ 25,264**						
Comparison Institutions														
Average Tuition & Fees	***$ 13,424***	***$ 14,168***					***$ 13,424***	***$ 14,168***						
University of Michigan	$ 20,171	$ 21,200					$ 20,171	$ 21,200						
University of Texas	$ 8,570	$ 9,230					$ 8,570	$ 9,230						
University of Wisconsin	$ 11,532	$ 12,074					$ 11,532	$ 12,074						
Theater, Film & TV														
UC Total Fees							**$ 14,485**	**$ 15,583**						
Comparison Institutions														
Average Tuition & Fees							***$ 8,418***	***$ 8,974***						
University of Iowa							$ 7,158	$ 7,523						
University of Texas							$ 8,679	$ 9,399						
University of Washington							$ 9,417	$ 10,001						
Veterinary Medicine														
UC Total Fees			**$ 22,403**	**$ 23,876**										
Comparison Institutions														
Average Tuition & Fees			***$ 26,205***	***$ 27,451***										
Cornell University (in-state)			$ 24,068	$ 25,079										
Ohio State University			$ 22,824	$ 23,965										
U. of Pennsylvania (in-state)			$ 31,724	$ 33,310										

students ceased and was replaced by a temporary surcharge of $60 that is being assessed to all students until the shortfall in revenue is fully replaced. At the time this plan was approved,

The Regents determined that, should the University be exposed to damages as a result of the litigation, the President would propose a plan to The Regents to address any liability incurred.

In March 2006, the trial court entered judgment in favor of plaintiffs in the amount of $33.8 million. In November 2007, the Court of Appeal affirmed that judgment, and the University filed a Petition for Review with the California Supreme Court. On January 23, 2008, the Court denied the University's petition, making the judgment final. Issues in the case remain to be resolved including the formula by which refunds will be provided to class members and whether the University will be liable, in addition to the judgment, for the plaintiffs' attorneys' fees. The University is currently reviewing options for addressing this liability.

In 2005, a second lawsuit, *Luquetta v. Regents*, was filed which seeks to extend the professional fee claim to professional students who enrolled during the 2003-04 academic year. Plaintiffs allege that, although the University removed the language regarding professional fees from University web sites after the *Kashmiri* suit was filed (in July 2003), by that time members of the 2003-04 entering class had already accepted their admissions offers, thereby forming a contract that includes the "no fee increase" term. Plaintiffs are represented by the same counsel as plaintiffs in *Kashmiri*. Unlike in *Kashmiri*, the trial court has repeatedly refused plaintiff's request that it enjoin increases in the professional fee, but the plaintiffs' claim that the University must pay damages to compensate them for excess fees they paid remains pending. The University has defenses to the claims in *Luquetta* that were not available in *Kashmiri*. The financial impact of this lawsuit, should the trial court rule in favor of the plaintiffs, is uncertain, but would exceed $20 million.

Financial Aid for Professional School Students

The majority of UC financial aid funds for professional school students is used for grant and fellowship awards with some funds set aside for loan repayment assistance programs. The majority of financial aid funds from other sources, however, are in the form of loans. As a result, about two-thirds of all aid awarded to graduate professional students is in the form of loans, rather than fellowships or grants. Student loans are considered appropriate for students pursuing professional degrees because these programs are relatively shorter than doctoral degree programs and students' incomes have the potential to be substantially higher. Students who choose careers in the public interest, however, often forego these higher incomes. Loan repayment assistance programs (LRAPs) are available for graduates of several professional degree programs to ensure that student loan repayment obligations are not an obstacle for students who pursue relatively low-paying public interest careers in their field of study. Some of these programs are funded at the federal, state, or regional level to encourage students to serve specific populations (e.g., to work as a physician in a medically underserved area). Others are funded by the University. In recent years, every UC law school has significantly expanded its LRAP to provide a higher level of debt repayment relief to a broader population of graduates. Other professional schools are continuing to evaluate the appropriate mix of loan assistance and increased fellowship support to ensure that public interest careers remain a viable choice for their graduates, given the different

labor markets and students that each program serves. The University will continue to monitor the debt levels of students enrolled in professional degree programs.

Nonresident Tuition

University of California students who do not qualify as California residents under Section 110.2, Matters Relating to Residency, of the *Standing Orders of The Regents*, are required to pay nonresident tuition. 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" in effect 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: 24 years old or older; 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 who has 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.

The 2008-09 budget plan includes a 5% increase in the Nonresident Tuition Fee for undergraduate students only, raising the fee by $953 from $19,068 to $20,021 for 2008-09. This increase is expected to generate about $6 million in new revenue. The budget plan assumes that the Nonresident Tuition Fee will remain at $14,694 for graduate academic students and $12,245 for professional degree students.

Nonresident students also pay mandatory systemwide fees and miscellaneous fees, bringing the average total charges paid by nonresident students to $27,137 for undergraduate students and $24,763 for graduate students in 2007-08. The average total charges for nonresident professional students vary by discipline; for example, the average of total tuition and fees (including waivable health insurance fees) for 2007-08 is $38,241 for nonresident law students and $24,233 for nonresident nursing students.

As noted previously, and in greater detail in the *Student Financial Aid* 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 keep the programs competitive in terms of total student charges and avoid exacerbating an already difficult problem. Thus, the Nonresident Tuition Fee will remain at the current level of $14,694 for graduate academic students and $12,245 for professional students.

While the faculty has expressed interest in eliminating nonresident tuition for academic graduate students, State policy, described later in this chapter in more detail, constrains the extent to which the University can reduce nonresident tuition levels and there are budgetary issues that must be considered as well.

Nevertheless, the University is continuing to take steps to help address the impact of nonresident tuition on our ability to remain competitive. By forgoing any increase in graduate nonresident tuition as noted above, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

In addition, beginning in 2006-07, nonresident graduate academic students who have advanced to candidacy for their degree are not charged nonresident tuition. This benefit is consistent with the practices of comparable institutions and is intended to help improve time-to-degree for nonresident graduate academic students and is available to eligible students for three years.

In response to widespread concern about the University's ability to provide competitive award packages for academic graduate students - especially international students faced with the added expense of nonresident tuition - in 2006-07, the campuses were expected to provide additional graduate student support by redirecting cost savings. For 2007-08, the University provided additional funding for graduate student support, on a matching basis, to campuses based upon their success at continuing to redirect cost savings to provide additional graduate student support. For 2008-09, the University proposed in November to continue to provide additional funding for graduate student support from within available Compact funds, though the funds will not require a campus match from savings programs. However, the budget plan approved in November is being re-evaluated, given the deep cuts proposed by the Governor.

Finally, and perhaps most importantly, beginning with 2007-08, each campus is retaining the nonresident tuition revenue that is generated at that campus. Prior to 2007-08, nonresident tuition revenue was collected centrally and distributed to the campuses along with other general fund revenue to cover costs associated with faculty and staff salaries, other operating costs, and financial aid. Campuses now have the flexibility to determine how the nonresident tuition revenue will be spent, taking into account their overall expenditure needs. It is anticipated that campuses will use a significant portion of the revenue for graduate student support.

Even with these measures, the University continues to be concerned about future increases in nonresident tuition. Applications for admission from undergraduate nonresidents declined 25% during the State's recent fiscal crisis (Fall 2001 through Fall 2005), though the rate of nonresident applications received has since recovered. The 5% nonresident tuition increase proposed for undergraduate students in 2008-09 is modest compared to the increases that occurred during the worst years of the State's budget crisis, reflecting the University's goal of avoiding further erosion in nonresident enrollment. When determining increases in nonresident tuition for future years, it will be important to consider the effects of recent tuition increases on nonresident enrollment.

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 and requested that the California

Postsecondary Education Commission (CPEC) convene a work group 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 CPEC Advisory Committee 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 1987-88

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, 1995-97. The Regents have approved annual increases in nonresident tuition since 1996-97.

Display 6 (on page 183) shows the total tuition and fee charges for nonresident undergraduate students since 1978. 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. The increase in

total nonresident tuition and fees for undergraduates averaged about 16% from 2002-03 through 2004-05, reflecting the impact of the cuts to the University's state-funded budget over that time. Since 2005-06, the increases have averaged about 5.3%.

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 3 (on page 168 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 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.

Display 6

UNIVERSITY OF CALIFORNIA

TOTAL TUITION AND FEE CHARGES
FOR NONRESIDENT UNDERGRADUATE STUDENTS
1978-79 through 2007-08

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	(1)	6,657	661	17,304	24,622	5.8%
2006-07	(1)	6,657	711	18,168	25,536	3.7%
2007-08	(1)	7,188	881	19,068	27,137	6.3%

(1) Does not include undergraduate student health insurance fees which may be waived by demonstrating insurance coverage.

STUDENT SERVICES

Student services programs and activities contribute to students' intellectual, cultural, and social development outside of the formal instructional process, including 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. These services can have a significant influence on a student's academic outcome and personal development, and can also help create bridges between what students learn in the classroom and how they apply their knowledge and skills on campus and in the broader community. Student services are supported entirely from non-State funds with a majority of the funds provided from student fee income. The total budget for student services in 2007-08 is $490 million.

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 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 cut of $6.3 million, which grew to $25.3 million in 2003-04 — equivalent to a 20% reduction in Registration Fee-funded programs. These reductions occurred when student enrollment increased with corresponding growth in demand for student services, including services during summer sessions. As students change and as greater numbers of students enroll at UC campuses, it is becoming increasingly difficult to provide adequate services for students in the face of severely reduced budgets. Achieving adequate support for student services remains a high priority for the University.

Student Mental Health Services

Additional funds are needed to address student mental health issues, a growing concern at UC as well as other higher education institutions across the nation. Psychological counseling has become an area of major importance, given the increasing numbers of students arriving annually who are on medications or who otherwise manifest behavioral or other psychological issues that negatively impact their wellness and academic performance or that of their immediate peers.

In 2006, the University completed a comprehensive systemwide review of student mental health issues and the challenges associated with providing these services within the campus community. The final report, which was presented at the September 2006 Regents' meeting, found the following:

- consistent with national trends, UC students are presenting mental health issues with greater frequency and complexity;

- budget constraints limit the capacity of campuses to respond to mental health issues and result in longer student wait times, difficulty retaining staff, and decreased services and programs;

- increasing demand and declining capacity pose a threat to the learning environment because of the significant adverse impacts on faculty, staff, and fellow students when students are inadequately cared for through the existing mental health system.

Recommendations in the final report include:

- restoring critical mental health services to fully respond to students in distress and at risk;

- implementing and augmenting targeted interventions through education, support, and prevention programs, and restoring staffing levels in those units best poised to assist high-risk students; and

- taking a comprehensive institutional approach to creating healthier learning environments by enhancing the full spectrum of student life services and revising administrative policies as well as academic practices that influence communication and collaboration around these issues.

Enhancing mental health services has become an urgent priority for the University. Part of the 2007-08 increase in the Registration Fee was designated for student mental health services at the campuses, which provided approximately $4 million in additional funding for these programs. An estimated $8 million in additional funds for student mental health services will be provided from an increase in the Registration Fee or equivalent State funds for 2008-09, bringing the total increase for this purpose over two years to $12 million.

Other Future Needs

Campuses have identified the following critical needs for additional funds, should the State's fiscal situation permit restoration of recent budget cuts:

- Campuses need more funding in academic support programs, including tutoring in writing, mathematics, study skills, and preparation for graduate and professional school exams. Additional funds are also needed to help bridge the digital divide between those students who enter the University with high levels of experience and skills in using technology and other students, particularly those from lower income or disadvantaged backgrounds, who do not have the skills necessary to take full advantage of the available technology-based resources on campus.

- 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 spread even more thinly. There has been an increase in the number of students needing interpreting and/or real-time captioning services (costs have increased for interpreters), suffering repetitive stress injuries, and requiring multiple forms of auxiliary services and assistive technology.

- Campuses have not had the resources to invest sufficiently in major student information systems (student information services, web-based services, registration, admission, financial aid and billing and accounting, etc.) to meet current and future needs of students and student service organizations. In many cases, core information technology systems are completely outdated.

STUDENT FINANCIAL AID

The original plan related to student financial aid included as part of the University's budget plan for 2008-09 and as approved by the Regents at the November 2007 meeting is discussed in this section. The University's budget plan assumed that revenue equivalent to a 7% increase in the Educational Fee and a 10% increase in the University Registration Fee would be provided either from fee increases or from additional funding provided by the State. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor and then proposed a 10% reduction (totaling $332 million) to that higher budget to address the State's fiscal situation. Thus, several items from the University's 2008-09 budget request were first "funded" and then that funding was subsequently eliminated. While under the proposed May Revise budget the net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $10 million, the University faces mandatory costs it must fund despite receiving no new State support, leaving the University short of what it needs by up to $240 million. Because of the severity of this shortfall, the University is re-evaluating its November budget plan. The Governor's May revision does not provide additional funds to avoid a fee increase; instead, it assumes that increases in mandatory systemwide fees of up to 10% would be implemented by the University. The Regents acted at the May 2008 meeting to implement a 7% increase in the Educational Fee and a 10% in the Registration Fee; a portion of the revenue will be used to augment the University's student aid programs: 33% of new fee revenue from undergraduate and professional degree students and 50% of new fee revenue from graduate academic students will be set aside for financial aid purposes.

Current Perspective

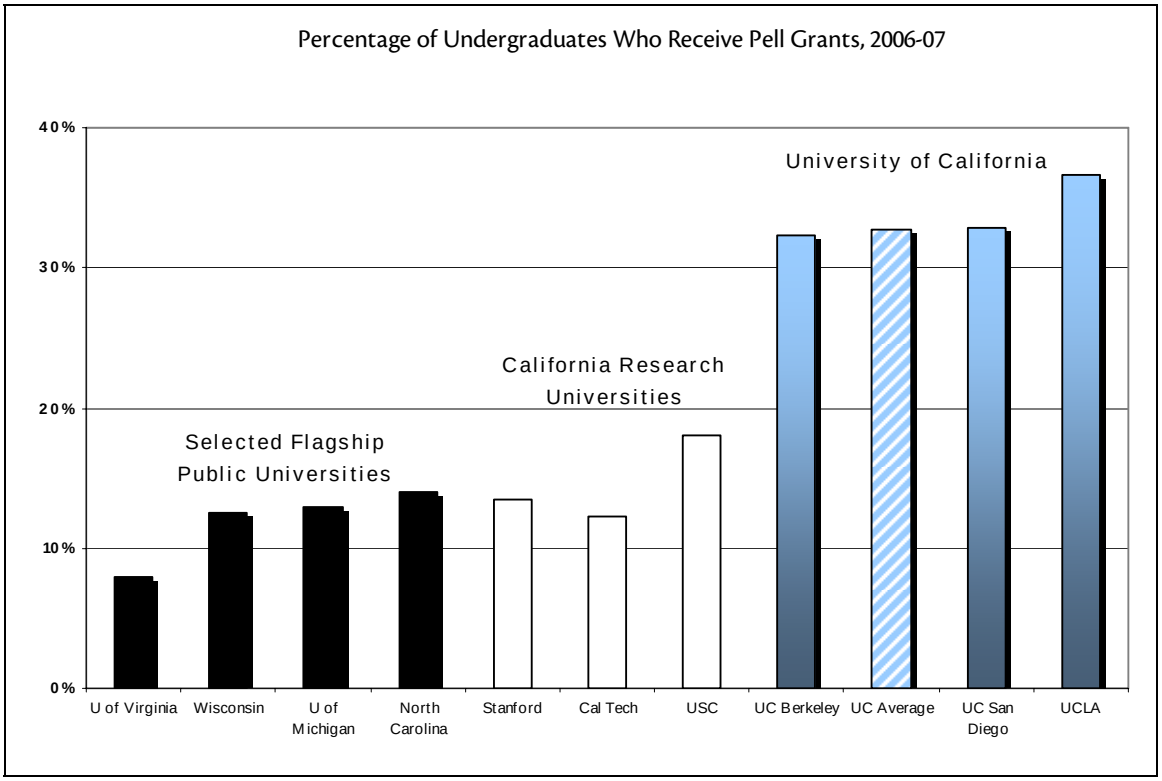
In 1994, the Regents adopted a financial aid policy that established the guiding principles of the University's financial aid programs. At the undergraduate level, the University's policy is guided by the goal of maintaining the affordability of the University for all students so that financial considerations are not an insurmountable barrier to students seeking 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.

In each of the past few years, the University of California has received national attention for enrolling an economically diverse pool of undergraduates. Studies published by the James Irvine Foundation, *The Washington Monthly*, *Postsecondary Education Opportunity*, and *U.S. News & World Report* have all ranked University of California campuses at the top of their lists of selective national universities for their ability to enroll low-income undergraduate students.

Among institutions on the most recent *U.S. News & World Report* list of the nation's top 40 national universities, UCLA enrolled the highest percentage of Pell Grant recipients in 2006-07 (37%), followed by UC San Diego (33%) and UC Berkeley (32%). As shown in Display 1, these UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (8%), the University of Wisconsin (13%), the University of Michigan (13%), and the University of North Carolina (14%). In 2006-07, as a system, the University enrolled a higher percentage of low-income undergraduates (33%) than any other comparably selective institution, 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. Attracting and enrolling these students directly affects the University's ability to fulfill its fundamental mission of research, instruction, and public service. 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 enhance the undergraduate experience. Upon graduation, these students make a vital collective contribution to California's economic and intellectual capital.

The University has faced several challenges in recent years related to both the need to remain affordable at the undergraduate level and to be competitive at the graduate level. At the undergraduate level, fee increases implemented in response to declining State support for the University's budget contributed to an increase in the University's cost of attendance. These fee increases occurred while other elements of the cost of attendance — such as living expenses and books and supplies — also increased. For graduate academic students, increases in fees and nonresident tuition threatened the University's ability to offer competitive student support packages and placed additional strain on the fund sources that cover those costs. Increases in the Fee for Selected Professional School Students, which were implemented to help professional schools maintain the quality of their programs, have increased the demand for student financial support for these students as well. The University responded to these challenges by adopting measures that both expanded the availability of student support and mitigated student cost increases, as described below.

Increased University funding for grants and fellowships. The University used the equivalent of one-third of the fee revenue generated from the 2002-03 and 2003-04 fee increases and enrollment growth for augmentations to UC financial aid. In 2004-05, the proportion of new fee revenue returned to aid was limited to 20%, in accordance with the Governor's financial aid proposal. For 2005-06, the University increased the proportion of new fee revenue returned to aid to 25% at the undergraduate level. These funds, together with funding provided through the Cal Grant program, were sufficient to cover the 2005-06 fee increase as well as provide some assistance for other increases in the cost of attendance. The University also set aside 50% of new fee revenue from graduate academic students for graduate student support in order to cover the fee increase for graduate academic students with University fellowships, teaching assistantships, and University-funded research assistantships. A portion of these funds was used to implement a five-year plan to restore the $5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. Thus, the net return-to-aid for graduate academic students was 45%. In addition, the University dedicated an amount equivalent to 25% of new fee revenue from increases in professional school fees and mandatory systemwide fees to support for professional school students.

State support for the University's budget allowed student fees to remain flat in 2006-07; consequently, student financial support derived from fee revenue increased modestly that year, primarily in response to enrollment growth. For 2007-08, the University reserved 33% of new undergraduate fee revenue for financial aid, along with an amount equivalent to 33% of new graduate professional degree fee revenue. The University also set aside 50% of new graduate academic fee revenue for financial aid, with 5% again being used to restore funds to

undergraduate aid (as described above), effectively leaving a return-to-aid of 45%. The University also provided an additional $10 million in matching funds to campuses to provide an incentive for additional campus support for graduate academic students.

These funds, in combination with substantial increases in Cal Grant funds awarded to UC undergraduates and increases in other scholarship, fellowship, and grant funds, raised the total estimated amount of grants, scholarships, and fellowships for UC students from $789.7 million in 2002-03 to an estimated $1.3 billion in 2007-08, as shown in Display 2. (The decline in funding from the Student Aid Commission between 2005-06 and 2006-07 reflects a modest increase in Cal Grant awards offset by a continuing decline in funding from the Governor's Scholarship Programs, which ceased making new awards in 2003.)

Display 2

University of California
Scholarships, Grants, and Fellowships
by Fund Source, 2002-03 to 2007-08
($ in Millions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
UC Funds						
Student Fees and State General Funds	$ 262.7	$ 330.8	$ 357.8	$ 414.0	$ 426.0	$ 476.9
Other University Funds	125.4	159.1	164.3	189.0	217.4	222.6
Subtotal	$ 388.1	$ 489.9	$ 522.0	$ 603.0	$ 643.4	$ 699.5
Other Funds						
Student Aid Commission	$ 148.7	$ 219.3	$ 259.6	$ 280.7	$ 278.6	$ 297.5
Federal	203.2	214.5	223.4	225.3	246.0	263.9
Private Agency Funds	49.6	52.4	51.0	52.4	57.7	59.1
Total	$ 789.7	$ 976.0	$ 1,056.0	$ 1,161.5	$ 1,225.8	$ 1,320.1

Note: Numbers for 2006-07 and 2007-08 are estimates. Student Fees and State General Funds are based on budgeted amounts.

Limiting nonresident tuition increases for graduate students. The University has not increased nonresident tuition for graduate academic students since 2004-05; nonresident tuition for professional school students has not changed since 2003-04. By foregoing any increase in nonresident tuition for these students, the University has allowed nonresident tuition to effectively decline in real terms in recent years. The decision to freeze nonresident tuition for these students addresses the special challenge faced by the University in recruiting top international and out-of-state students. For academic graduate students, the competitive market for these students generally requires the University to cover their tuition costs — either through University funds, faculty research grants, or other sources. The University's professional schools also compete for students nationally and globally. Freezing nonresident tuition allows the University to remain viable in the global competition for these students as well.

Reducing costs for academic doctoral candidates. Since Fall 1997, academic doctoral students who have advanced to candidacy have been assessed 25% of nonresident tuition for up to three years. This policy provides an incentive for these students to complete their dissertation

work promptly and reduces the burden on research grants and other fund sources that are often used to fund this cost as part of a student's financial support package. In 2006-07, The Regents approved a proposal to make these students exempt from paying any nonresident tuition, subject to the same three-year limit.

Expanding Loan Repayment Assistance Programs for professional degree students choosing public interest careers. Loan repayment assistance programs (LRAPs) are available for graduates of several professional degree programs to ensure that student loan repayment obligations are not an obstacle for students who pursue relatively low-paying public interest careers in their field of study. Some of these programs are funded at the federal, state, or regional level to encourage students to serve specific populations (e.g., to work as a physician in a medically underserved area). Others are funded by the University. In recent years, each of the University's three law schools has significantly expanded its LRAP to provide a higher level of debt repayment relief to a broader population of graduates. Other professional schools are continuing to evaluate the appropriate mix of loan assistance and increased fellowship support to ensure that public interest careers remain a viable choice for their graduates, given the different labor markets and students that each program serves.

Improving the availability and terms of private loans for graduate and undergraduate students. For 2006-07 and 2007-08, the University leveraged its systemwide loan volume to ensure access to private student loans with competitive terms. Private loans are an important financing option for students with unique circumstances, such as international students with no U.S. co-signers and students who have already borrowed the maximum allowable amount under Federal student loan programs. They are particularly important for students in professional degree programs due to the relatively high cost of those programs. Following a competitive bidding process, the University reached agreements with two private lenders to ensure that all UC students had access to loans — which is especially important to those students who could not otherwise have obtained a loan — and that the terms were as good or better than they would have otherwise obtained.

Financial Aid Proposals for 2008-09

For 2008-09, the University is proposing a plan for student support that addresses the University's most pressing student support needs within the context of the full range of UC budgetary priorities. As described elsewhere in this document, the University delayed action on increases in mandatory systemwide fees until after release of the Governor's proposed budget for 2008-09. The Regents at their May meeting voted to implement a 7% increase in the Educational Fee and a 10% increase in the Registration Fee. To provide adequate financial aid to ensure continued access for all students regardless of financial circumstances, the University will augment its student aid programs with a return-to-aid of 33% for undergraduates, including special emphasis on ensuring accessibility for middle-income students. This return-to-aid would provide funding to augment its undergraduate need-based grant program to ensure that the University remains financially accessible to low-income students. Additional funding would be derived from a portion of the new fee revenue generated by a fee increase and by continuing the University's five-year plan to restore the $5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. These funds, together with

Cal Grant award increases, would provide additional funding to help meet the systemwide fee increases of UC's grant eligible undergraduates (generally those with parent income below about $60,000) along with some coverage of other cost increases.

The University continues to be concerned about the impact of student fee increases on middle-income students. The University plans to use additional funds from the fee increase to mitigate its impact by covering a portion of the increase for financial needy middle-income undergraduates who would not otherwise be eligible for grant assistance.

The University also will implement several measures at the graduate level to improve its student support programs. The University would maintain its current policy of returning 50% of new systemwide fee revenue from graduate academic students to student support, less the amount restored to undergraduate aid (as described above), for an effective return-to-aid of 45%. These funds will allow campuses to cover the increased costs associated with University-funded teaching assistantships, research assistantships, and fellowships that currently cover students' fees.

In addition, under the amended Policy on Fees for Selected Professional School Students, each of the University's professional degree programs will be expected to supplement its financial aid resources by an amount equivalent to at least 33% of its new professional school fee revenue, or by an amount necessary to ensure that financial aid sources are equivalent to at least 33% of all its professional school fee revenue.

The University also proposes to freeze nonresident tuition for graduate academic students for the fourth consecutive year and to freeze tuition for graduate professional students for the fifth year in a row. By forgoing any increase in graduate nonresident tuition, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition as part of a graduate student's support package and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

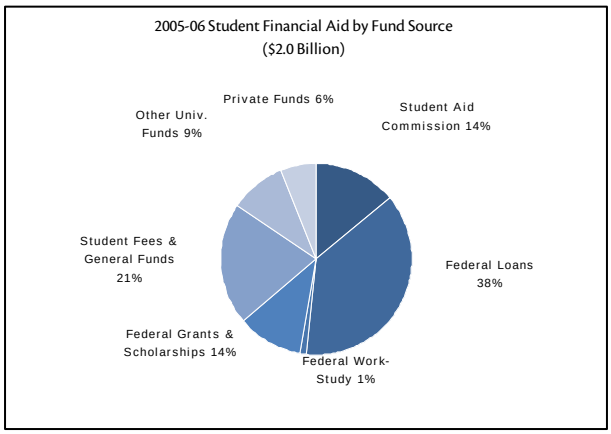
Lastly, in response to continued concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the University's expenditure plan proposed in November would provide an additional $10 million in funds for graduate academic student support in 2008-09. These funds would augment the $10 million provided to campuses on a matching basis in 2007-08. If fully funded, these funds will help campuses compete for top students — including talented international students — and will help campuses achieve their graduate enrollment goals.

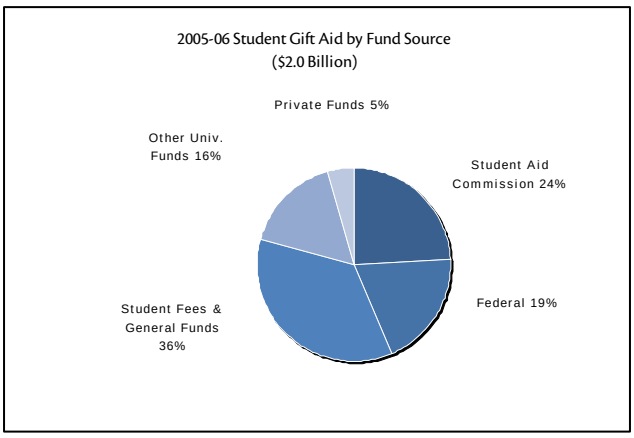
The University will continue to monitor the effectiveness of its financial support both at the undergraduate and graduate level to evaluate its success in adhering to the principles, articulated by the Regents, of affordability at the undergraduate level and competitiveness at the graduate level.

Student Aid Programs

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 2005-06, University students received over $2 billion in student aid, including $1.2 billion (57%) in assistance from grants, scholarships, and fellowships. Display 3 shows in 2005-06 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. In 1987-88, the percentage of new fee revenue dedicated to financial aid was 16%. This proportion increased over time to 33% and 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 2004-05, 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. For 2005-06, the University increased the proportion of new fee revenue returned to aid to 25% at the undergraduate level. The University also set aside 50% of new fee revenue from graduate academic students for graduate student support, a portion of which was used to implement a five-year plan to restore the $5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. Thus, the net return-to-aid for graduate academic students was 45%. In addition, the University dedicated an amount equivalent to 25% of new fee revenue from increases in professional school fees and mandatory systemwide fees to support for professional school students.

For 2006-07, the University did not increase student fees. However, new fee revenue was generated from enrollments and the University reserved 33% of the new revenue associated with undergraduate enrollment growth and 50% of the revenue from graduate academic enrollment growth for financial aid. For 2007-08, the University reserved 33% of new undergraduate fee revenue for financial aid, along with an amount equivalent to 33% of new professional degree fee revenue. The University also set aside 50% of new graduate academic fee revenue for financial aid, with 5% again being used to restore funds to undergraduate aid (as described above), effectively leaving a return-to-aid of 45%. In 2007-08, the University also provided an additional $10 million in matching funds to campuses to provide an incentive for additional campus support for graduate academic students.

In addition to setting aside a portion of new fee revenue for financial aid purposes, the University provides 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 150% over the past ten years (from 1995-96 to 2005-06).

Display 4 shows total financial aid expenditures for 2005-06 by type of financial award and source of funds for each. The amount of financial aid provided in 2005-06 represented an

Display 4

University of California
2005-06 Student Financial Aid
by Type of Award and Fund Source
($ in Millions)

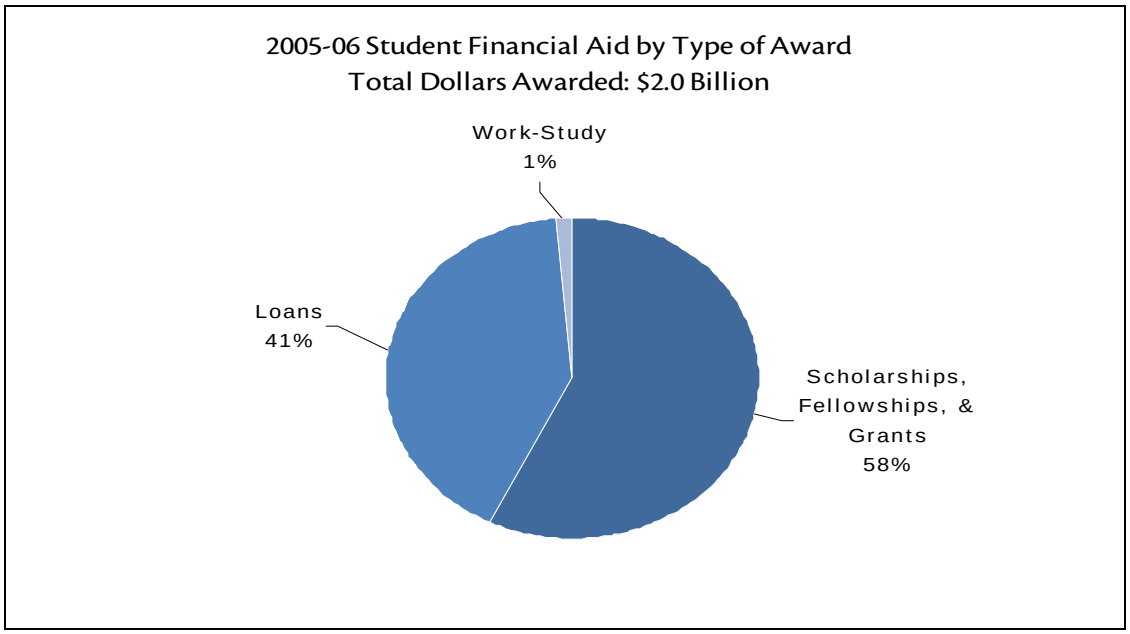
Program	Student Aid Commission	Federal	University Funds: Student Fees and State General Funds	University Funds: Other University Funds	Private Agency Funds	Total
Scholarships, Grants, Fellowships						
Pell Grants	$ -	$ 143.5	$ -	$ -	$ -	$ 143.5
Cal Grant A	96.4	-	-	-	-	96.4
Cal Grant B	163.2	-	-	-	-	163.2
Other	21.0	81.8	414.0	189.0	52.4	758.3
Subtotal	280.7	225.3	414.0	189.0	52.4	1,161.5
Loans						
Perkins Loans	-	46.9	-	-	-	46.9
FFELP/FDSLP	-	712.6	-	-	-	712.6
Other	-	6.5	2.2	1.0	69.6	79.4
Subtotal	-	766.0	2.2	1.0	69.6	838.9
Work-Study						
Federal	-	25.2	-	-	-	25.2
State	-	-	-	-	-	-
University	-	-	1.8	0.8	-	2.6
Subtotal	-	25.2	1.8	0.8	-	27.8
Total	$ 280.7	$ 1,016.6	$ 418.0	$ 190.9	$ 122.0	$ 2,028.2

Totals do not add due to rounding

increase of about $129 million, or 6.8%, over the amount received in 2004-05. Included in that increase was $105 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.

Display 5



Financial aid totals include aid administered for a State-supported summer term at UC. 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

In 2005-06, 64% of undergraduate students received some type of financial aid. About 72% of all undergraduate aid was awarded on the basis of financial need, 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 attend.

Over half (55%) of all undergraduates received grants, scholarships, and fellowships averaging approximately $8,700 per recipient. In 2005-06, 86% of all grants, scholarships, and fellowships received by UC undergraduates was awarded on the basis of need.

Grants, scholarships, and fellowships represented 60% of all undergraduate aid, with self-help aid (loans and work-study) 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, allocate undergraduate aid funds among the campuses, and 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

Education Financing Model

Start with Student Expense Budget:

Less	Reasonable Contribution from Parents
Less	Manageable Student Contribution from Working
Less	Manageable Student Contribution from Borrowing
Less	Federal and State Grant Aid
Equals	University Grant Aid Needed

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 the same formula used to determine need for Federal and State aid programs, 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.

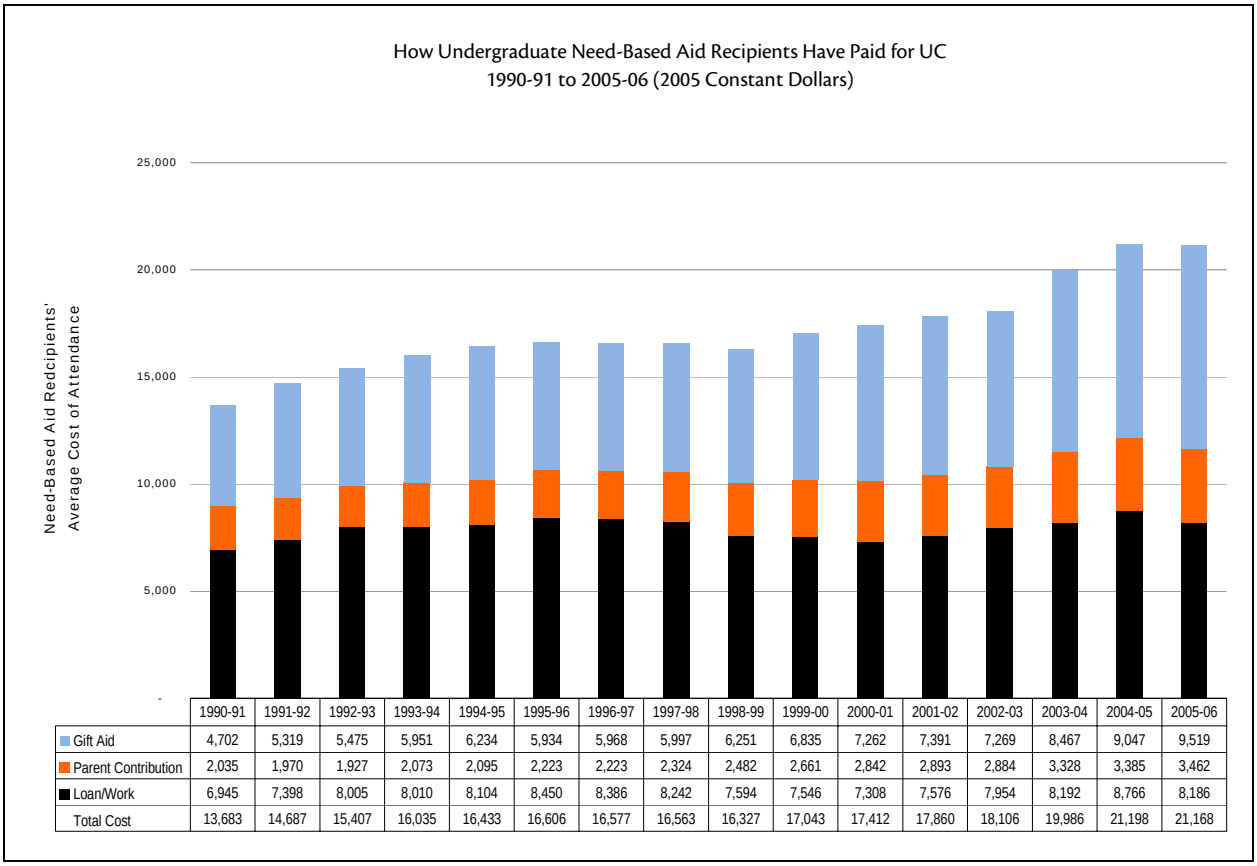
Contribution from Federal, State, and University Grant Aid

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 are used to reduce the loan and work expectation of students.

Display 7 (next page) illustrates how undergraduate need-based aid recipients at UC have financed their cost of attendance from 1990-91 through 2005-06, based upon the categories described above: the students' parent contribution, the student's expected contribution from loan and work, and grants, scholarships, and fellowships.

Display 7 also illustrates several noteworthy trends. Need-based aid recipients' total cost of attendance has increased in recent years, due to increases in both fee and non-fee expenses. Since 1990-91, the average parental contribution of need-based aid recipients has increased by 70%, due largely to higher income families becoming eligible for need-based aid. During that same period, the average amount of grant, scholarship, and fellowship assistance received by need-based aid recipients increased by 102% in inflation-adjusted dollars. Nevertheless, the amount to be covered by student work and borrowing increased by 18% during this period and will likely continue to increase in the future. Keeping students' expected contribution from work and borrowing at a manageable level is a core principle of the University's financial aid programs. Not shown in Display 7 (next page) is the increased availability of federal tax credits and deductions for higher educational expenses (see "Other Sources of Financial Assistance" at the end of this chapter).

Display 7



	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Gift Aid	4,702	5,319	5,475	5,951	6,234	5,934	5,968	5,997	6,251	6,835	7,262	7,391	7,269	8,467	9,047	9,519
Parent Contribution	2,035	1,970	1,927	2,073	2,095	2,223	2,223	2,324	2,482	2,661	2,842	2,893	2,884	3,328	3,385	3,462
Loan/Work	6,945	7,398	8,005	8,010	8,104	8,450	8,386	8,242	7,594	7,546	7,308	7,576	7,954	8,192	8,766	8,186
Total Cost	13,683	14,687	15,407	16,035	16,433	16,606	16,577	16,563	16,327	17,043	17,412	17,860	18,106	19,986	21,198	21,168

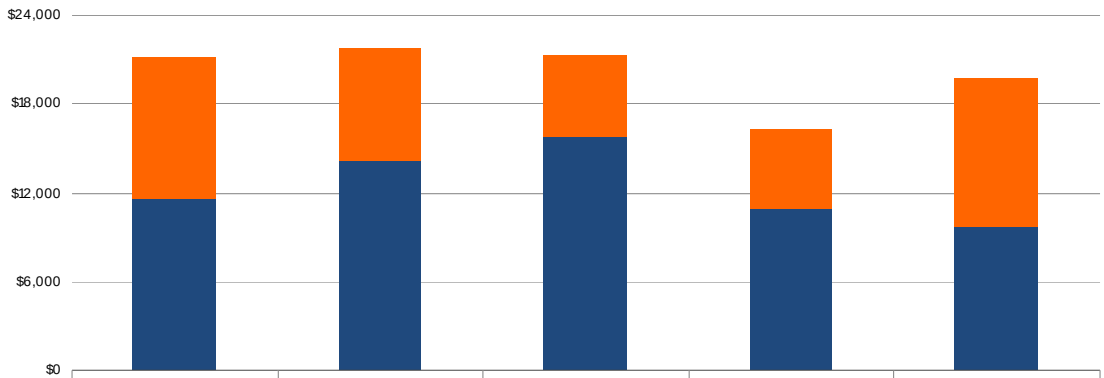
Outcomes of the University's Undergraduate Aid Program

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 grants, scholarships, and fellowships. In 2006-07, as in previous years, the University's average *total* cost of attendance was higher than that of its four public comparison institutions. After adjusting for grants, scholarships, and fellowships, however, the *net* cost of attendance for resident need-based aid recipients was lower than the estimated net cost at two of the University's four public comparison institutions (see Display 8). Furthermore, as noted earlier in this chapter, the University enrolled a higher percentage of low-income Pell recipients in 2006-07 (33%) than any of its public comparison institutions. This pattern is not expected to change in 2007-08.

To date, there is no evidence that the University's success in enrolling low-income students was affected by recent fee increases or by increases in non-fee costs that also occurred during those years. The percentage of low-income students who enroll at UC has remained constant in recent years.

Display 8

Estimated Average Net Cost for Undergraduate Needbased Aid Recipients
at UC and Public Comparison Institutions, 2006-07



	UC Average	Michigan	Illinois	SUNY Buffalo	Virginia
Total Cost	$21,152	$21,791	$21,298	$16,323	$19,790
Gift Aid	$9,615	$7,668	$5,532	$5,400	$10,131
Net Cost	$11,537	$14,123	$15,766	$10,923	$9,659
Pell Grants	32%	13%	16%	28%	8%

For 2007-08, it is estimated that UC grant recipients will be expected to work or borrow, on average, approximately $9,680 to finance their education, an increase of about $140 over 2006-07 levels. Note, however, that students can compete for UC scholarships and outside awards that effectively reduce their expected contribution. In 2005-06, one in five undergraduate students received scholarships worth, on average, about $3,500 each.

For 2008-09, undergraduate student fee increases will be accompanied by an augmentation of the current need-based grant program through a return-to-aid of 33% of the new fee revenue. In addition, the University would restore $1.2 million in undergraduate fee revenue that was temporarily budgeted for graduate student support in 2003-04. It is expected that these funds, in conjunction with an increase in Cal Grant funding over 2007-08 levels, would be sufficient to offset for the University's neediest students any fee increase implemented next year as well as to offset a portion of the increase in non-fee expenses.

The University would also propose to use additional funds from any systemwide fee increase to mitigate the impact of the increase on financial needy middle-income undergraduates who would not otherwise be eligible for grant assistance. Under this program, a portion of the fee increase would be covered for these students.

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 2008-09 — although it will be higher, within that range, than it was in 2007-08.

The University's commitment to providing financial access for students at every income level extends beyond its proposals for 2008-09. In October 2007, the Provost established a Workgroup on Undergraduate Affordability to identify and prioritize the University's most important undergraduate student support needs and to recommend specific goals and strategies to address them. In its preliminary findings, the Workgroup foresaw a widening gap, developing over the next five to ten years, between students' total cost of attendance and the resources that will be available to cover them. The Workgroup also noted that, under the Federal formula used to determine a student's expected parental contribution, middle-income parents are expected to contribute at levels that can be quite burdensome for those families. Lastly, the committee identified certain subpopulations of students – for example, former foster youth – whose unique needs are not adequately served by existing student aid programs. The Workgroup's preliminary findings, goals, and recommendations were finalized in Spring 2008 and will inform the University's decisions regarding undergraduate student support within the context of other University priorities.

Graduate Student Aid

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University. 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.

At the undergraduate level, the Cal Grant program insulates many needy low- and middle-income families from the effects of systemwide fee increases and plays an important role in maintaining the affordability of the University. No comparable State program exists at the graduate level. For graduate students, the burden of covering increases in both the University's fees and nonresident tuition falls upon other parties, including the University, research grants funded by Federal and other extramural agencies, private foundations, and students. Although the State does not currently provide significant amounts of grant or fellowship support to graduate students, the University believes that it is in the State's interest to do so, in consideration of the contribution that graduate education makes to the economic vitality of the California economy. The University will continue to explore ways to increase support of graduate education from *all* potential sources.

In 2005-06, 74% of UC's graduate students received some form of financial aid. That year, 62% of all graduate students received gift assistance averaging $12,980.

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

The competitiveness of graduate student support for UC graduate academic students and its impact on the ability of the University to enroll top students from across the world has been a longstanding concern at the University. Several administrative and faculty groups and committees, including the 2001 Commission on the Growth and Support of Graduate Education, have taken up the issue and concluded that both the size and composition of UC's awards for graduate academic degree students are not fully comparable to the best offers UC students receive from competitor institutions. Recently, the longstanding concern about the competitiveness of UC's awards has been joined by concerns about the impact of cost increases — especially increases in nonresident tuition and systemwide fees — that were instituted in response to declining State support for the University's budget.

Concerns about the competitiveness of the University's awards were substantiated by surveys conducted in 2001, 2004, and 2007 of students admitted to UC's academic doctoral programs. These surveys showed variation in the competitiveness of UC's offers across academic disciplines and campuses but indicated that the average net stipend (fellowship and assistantship awards in excess of tuition and fees) associated with the offer from the student's top choice UC doctoral program was substantially less than the student's top choice non-UC offer. This shortfall was exacerbated by differences in the cost of living in the communities surrounding UC campuses and those of other institutions. (Academic master's students were not included in the surveys.)

The surveys also indicated that the competitive gap between UC's offers and those of students' top-choice non-UC institutions (excluding cost-of-living differences) did not increase in real terms between 2001 and 2004, and declined between 2004 and 2007.

Fee increases during these years were offset in part by new UC graduate student support funding generated by the fee increases themselves. A total of 33% of the revenue resulting from systemwide fee increases in 2002-03 and 2003-04 was set aside for graduate student support, and 20% of the additional revenue generated by the 2004-05 fee increase was set aside for graduate student support.

For the 2005-06 academic year, the University took several steps to address the gap between graduate student support demand and supply. First, the University increased the percentage of new fee revenue from graduate academic students to be set aside for graduate student support. The percentage was increased from 20% in 2004-05 to 50% in 2005-06 (less an amount used to partially restore the $5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04). This increase provided funds to cover the 2005-06 fee increase for students whose fees were already covered, in whole or in part, by University fellowships and teaching assistantships.

Second, the University did not increase graduate nonresident tuition levels in 2005-06. The foregone revenue was judged to be a worthwhile trade-off in order to avoid further demands on limited fellowship and research assistantship funding caused by a tuition increase.

The University also established an ad-hoc Graduate Student Support Advisory Committee (GSSAC) to advise the Provost and other senior University officials on matters related to graduate student support. The Committee's charge included establishing specific graduate support benchmarks, developing a short- and long-term strategy for enhancing graduate student support, and reviewing the methodology for allocating UC systemwide funding for graduate student support. The final report of the Committee included three principal findings:

- Anticipated increases in traditional funding levels for graduate student support will be inadequate to allow the University to achieve its twin goals of closing the competitive gap and meeting its enrollment growth targets. The Committee estimated that an additional $122 million of support would be necessary for the University to improve the competitiveness of its awards and to achieve its graduate academic enrollment goals by 2010-11.

- The cost of covering tuition for first-year nonresident students and for international students who have not yet advanced to candidacy limits the extent to which UC graduate programs can compete for and enroll these students.

- Research and training grants cannot be relied upon both to fully cover all future tuition and fee increases and help increase the University's competitiveness.

In 2006-07, the State buy-out of graduate fee increases eliminated fee increases as a source of additional pressure on graduate student support. In addition, the University continued to freeze non-resident tuition at 2004-05 levels, eliminated nonresident tuition for doctoral students who have advanced to candidacy (who, prior to 2006-07, paid 25% of nonresident tuition), and allocated to student support savings from General Fund-supported and student fee-supported programs attributed to the University's new Strategic Sourcing Initiative.

For 2007-08, the University again set aside 50% of new graduate academic fee revenue for financial aid, with 5% again being used to restore funds to undergraduate aid (as described above). The funds allowed campuses to cover cost increases associated with University-funded teaching assistantships, research assistantships, and fellowships that currently cover students' fees.

By continuing to hold nonresident tuition for graduate academic students at the 2004-05 level, the University also continued to reduce, in real terms, the costs associated with covering nonresident tuition for out-of-state and international students.

Finally, the University provided $10 million in matching funds to campuses that re-directed cost savings to graduate student support as a further incentive to improve their graduate student support programs. The proposal reflects a shared responsibility at the systemwide and campus level to address the widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition.

The University's proposals for 2008-09 would continue to address the most pressing concerns regarding graduate student support, namely, (1) mitigating the impact of any further fee increases on graduate student support, (2) ensuring that the University can compete successfully for the top students — including out-of-state and international students, and (3) providing additional funding so that the University can achieve its goals for graduate enrollment growth.

In the event of a fee increase in 2008-09, the University's expenditure plan proposed at the November Regents meeting included setting aside 50% of any new revenue (less the amount restored to undergraduate financial aid, as described above) so that campuses may cover the associated cost increases for University-funded teaching assistants, fellowships, and research assistantships. The University would also freeze nonresident tuition for graduate academic students for the fifth consecutive year, further reducing the real cost of nonresident tuition in each of the past few years.

Lastly, in response to continued concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the expenditure plan included an additional $10 million in funds for graduate academic student support in 2008-09. These funds would augment the $10 million provided to campuses on a matching basis in 2007-08. These funds would be used to help campuses compete for top students — including talented international students — and help campuses achieve their graduate enrollment goals.

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. Among other provisions, 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. Since that time, budget cuts affecting professional schools and the University as a whole have increased the need for professional school fee revenue to cover these schools' operating expenses and to maintain the quality of their programs. The role played by professional school fee revenue in meeting these budget needs is greater than was anticipated in 1994, when the current Regental policy was approved. In September 2007, The Regents approved fee increases for 2008-09 and endorsed a three-year plan of fees for each professional degree program. At the same time, The Regents adopted specific conditions for ensuring that the University's commitment to access, affordability, diversity, and students' public service career decisions are not adversely affected by increases in fees for professional degree students.

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 in higher education. 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.

The majority of University financial aid funds awarded to professional school students is used for grant and fellowship awards. A portion of University funds, however, is used for loan repayment assistance programs (LRAPs). These programs acknowledge the fact that students who choose careers in the public interest often forego higher incomes. Consequently, these students may be less able to meet their debt repayment obligations.

The professional degree fees charged by the University should not deter highly skilled graduates who wish to apply their skills to a public service career. For 2008-09, the University will continue to expect campuses to expand the size and scope of their loan assistance repayment programs where appropriate to help borrowers with public interest employment meet their student loan repayment obligations.

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 ten-year period.

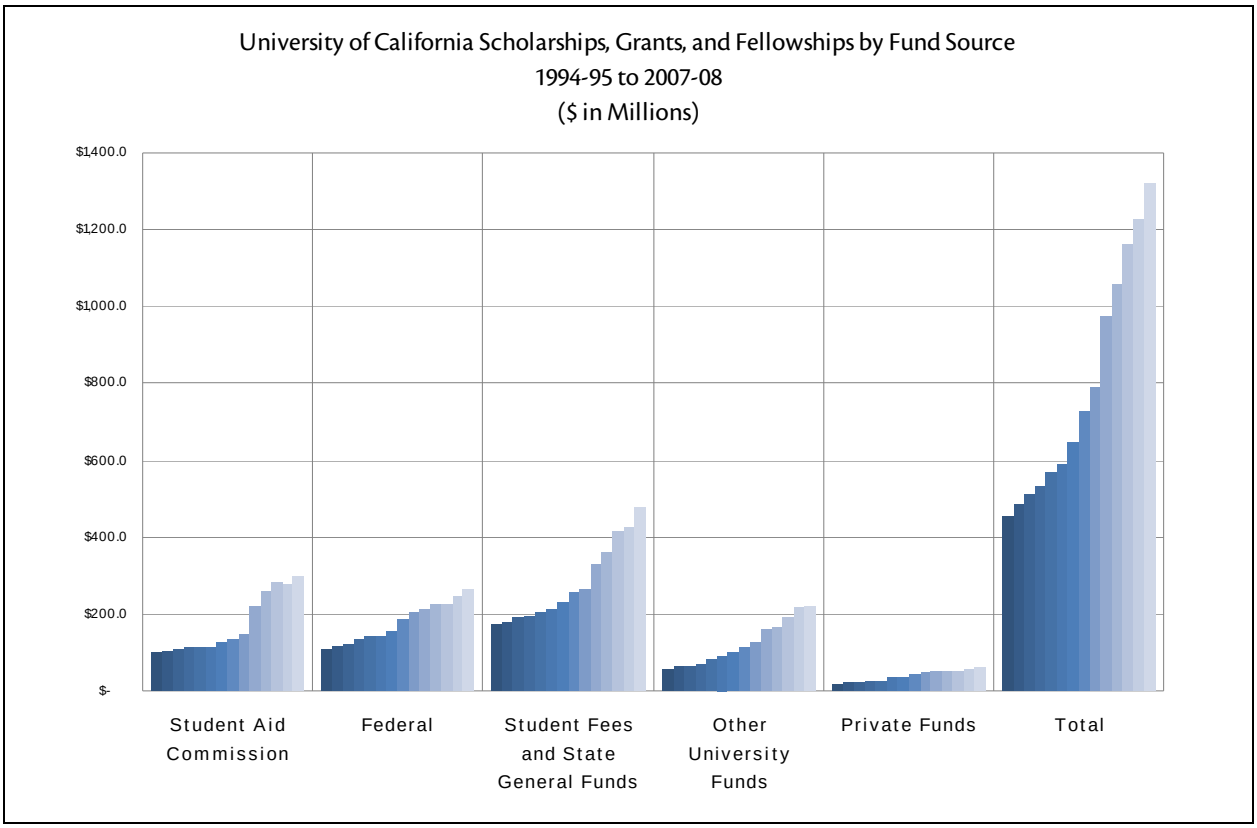
University Student Fees and State General Funds

Approximately 42% of enrolled undergraduates and 55% of enrolled graduate students received some form of financial assistance funded from institutional aid programs in 2005-06. 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. 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 2005-06, UC students received $225.3 million in federal grants and scholarships, an increase of about 1% over 2004-05 levels. Federal grants and scholarships comprised 19% of all grants and scholarships received by UC students in 2005-06, a slight decline from 21% in 2004-05.

Display 9



As in past years, the vast majority of federal aid received in 2005-06 was in the form of loans; UC students and their families received $766.0 million in federal loans that year.

These figures exclude the value of Federal tax credits and income tax deductions that benefit many UC families. Nationally, the value of these Federal benefits has grown steadily since their introduction in 1997. They are described in greater detail at the end of this chapter.

The Higher Education Reconciliation Act of 2005 (HERA) created two new, significant Federal grant programs that began Fall 2006.

Academic Competitive Grants (ACGs) are now available to all Pell Grant recipients who are U.S. citizens in their first and second year of college who completed a "rigorous secondary school program of study" and meet other eligibility requirements. The maximum value of the grant is for $750 during the student's first year and $1,300 during the second year. The U.S. Department of Education has accepted the University's "a-g" subject requirement as a "rigorous . . . program of study." As a result, the vast majority of regularly admitted UC Pell Grant recipients are expected to qualify for an ACG.

Science and Mathematics Access to Retain Talent (SMART) Grants are available to Pell Grant recipients who are U.S. citizens in selected scientific, engineering, and foreign language majors during their third and fourth year of college, provided that the student maintains a cumulative

GPA of 3.0 or higher in coursework required for their major. The maximum annual value of a SMART Grant is $4,000.

The University expects UC students to receive nearly $20 million in benefits under these programs.

HERA also enabled graduate students to borrow PLUS loans to finance their education. These loans, which had previously been reserved for the parents of undergraduate students, are now an attractive funding option for graduate students who either do not qualify for subsidized Federal loans or who have exceeded the loan limits under the Federal Stafford loan program.

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 2005-06, University of California students were awarded $280.7 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. In the event of a fee increase for the 2008-09 year, it is anticipated that the State would continue its longstanding commitment to covering systemwide fees for UC 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 2005-06, $191 million in University aid from these sources was awarded to students. Nearly all of this support ($189 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 Gates Millenium Scholars program and the American Cancer Society). Nearly all funds in this category are awarded to students in the form of grant support. In 2005-06, $122 million was awarded to UC students from private agency programs, which represented 6% 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. Some programs provide exemptions from paying fees, one program provides a tax credit, and others provide incentives for parents to save for college. Other programs assist students with repayment of their student loan debt after graduation. Several of these are described below.

Cal Vet Fee Exemptions. Under the California Education Code, dependents of veterans whose death or disability was service-connected are generally eligible for exemption from mandatory systemwide fees. In 2005-06, nearly 2,600 UC students took advantage of such exemptions, worth a total of $15.9 million.

Tuition Exemption Under AB 540. Certain nonresident students who attended a California high school for at least three years and who graduated from a California high school may be eligible for exemption from nonresident tuition at UC. Potentially eligible students include undocumented students and domestic students who fail to meet the University's requirements for residency. (Students who do not have a lawful immigration status must certify that they are taking steps to legalize their status or will do so as soon as they are eligible.) Students who are non-immigrants, including foreign students, are not eligible for this exemption. In 2005-06, over 1,500 UC students qualified for such exemptions, worth a total of $23.5 million. This figure increased rapidly following the inception of the program as new cohorts of entering UC students took advantage of the exemption. The number of participants has now stabilized, although the annual value of these exemptions is expected to increase each year as nonresident tuition increases.

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. The actual number of UC students and families taking advantage of these credits and the total value of the credits they received are unknown. However, based upon the results of a 1999 UC student survey and adjusted for enrollment growth, the estimated value of these tax credits for UC students and their families exceeded $70 million in 2005-06.

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.

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.

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.

Loan Repayment Assistance Programs. Loan repayment assistance programs (LRAPs), loan assumption programs, and loan forgiveness programs are available to graduates who enter certain professions or who serve specific populations after graduation. Examples of these include LRAPs offered by every University of California law school, which are available to graduates who pursue qualifying public interest work, and the State Assumption Program of Loans for Education (APLE), which provides loan assumption benefits to students who enter K-12 teaching in certain fields or in certain low-performing schools. Federal programs provide similar benefits to physicians and other health science practitioners.

INSTITUTIONAL SUPPORT

The University's budget plan for 2008-09 and as approved by the Regents at the November 2007 meeting is discussed in this section. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor and then proposed a 10% reduction (totaling $332 million) to that higher budget to address the State's fiscal situation. Thus, several items from the University's 2008-09 budget request were first "funded" and then that funding was subsequently eliminated. The Governor's May revision proposes to restore $98.5 million of the cut proposed in January. Under the proposed May Revise budget the net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $10 million. The University faces mandatory costs it must fund despite receiving no new State support, leaving the University short of what it needs by up to $240 million. While most of the reduction would be unallocated, the Governor's Budget specifically directed that $32 million of the reduction come from administrative budgets. Proposals for implementing this cut are being reviewed.

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, audit, 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.

State funding for administration has failed to keep pace with enrollment growth, the costs of new State and federal mandates, and 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, security measures, and increased accountability requirements

Despite this increased administrative burden, Institutional Support expenditures have actually decreased over the years as a percent of the University's total expenditures. Institutional Support budgets are often one of the first areas of the budget to be reduced in difficult economic times.

As a result, including all fund sources, Institutional Support expenditures declined from 12% of total expenditures in 1971-72 to less than 8% of total expenditures in 2006-07.

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. Budget reductions totaling $40 million occurred between 1995-96 and 1998-99, in anticipation of productivity improvements mandated under a four-year Compact between then-Governor Wilson and higher education.

The most recent fiscal crisis resulted in significant further reductions to Institutional Support: a mid-year cut of $20 million to academic and general administration budgets (Academic Support and Institutional Support) grew to $36.5 million in 2003-04. In 2004-05, these budgets were reduced by an additional $45.4 million. In addition to these base budget cuts, the University incurred over $100 million in unavoidable costs related to faculty merits, employee health benefits, energy cost increases, and maintenance of new space in 2003-04 and 2004-05, most of which were funded by redirecting resources from Institutional Support and other parts of the budget.

Savings from Efficiencies

The University intends to realize savings from efficiencies to be implemented stemming from the review of the Office of the President and campus functions by the consulting management firm, Monitor Group. Their first report was issued in September, 2007; a second report is due in the spring 2008. Provost and Executive Vice President Wyatt R. Hume, in his capacity as Chief Operating officer has formed 19 work groups to review and make recommendations for operational improvements, both in the short and long term, to improve efficiency and reduce costs in multiple areas.

The immediate priorities of the restructuring initiative are:

a. Clarify the role of UCOP in relation to the Regents and the campuses, both in the management of the University overall and in regard to the specific services it provides to the campuses;

b. Streamline and improve the capital projects development process to generate substantial savings in reduced financing and delay costs;

c. Upgrade the Human Resources capabilities at UCOP to a level commensurate with the University's scope and importance, including:

- implementing performance management processes to recruit, develop and retain high-performing employees and to identify and manage underperforming employees;

- reforming Senior Management Group hiring and compensation;

- upgrading information systems to enable timely, comprehensive reporting.

d. Improve the University's State Government Relations function and our methods for energizing alumni and donors in order to ensure long-term support for the University and its priorities;

e. Revise the UCOP Budget process for 2008-09 to implement a more systematic and transparent approach that will enable departments to clearly articulate their needs as well as identify opportunities for savings. In the interim, controls have been placed on filling current vacancies. More near-term restructuring opportunities include:

- consolidating basic desktop computing services;

- reviewing reserves and cash management to ensure funds in the short term investment pool are invested to maximize returns;

- lowering costs through better purchasing by negotiating more favorable, higher volume contracts on certain outsourced activities through centralizing activity with a smaller number of vendors. The current Strategic Sourcing Program underway, which is different from traditional purchasing because it focuses on total costs and consolidates the purchasing power of the entire organization, can be expanded to cover other "commodity" products. For 2006-07, the Strategic Sourcing Program included 84 strategically sourced contracts that generated $37.6 million in actual cost savings based on systemwide purchases of $285 million. For 2007-08, the program has entered into additional strategic sourcing initiatives that once completed and fully implemented systemwide have the potential to generate an estimated $17 million in annual cost savings to the University.

In order to fully fund the budget plan for 2008-09, savings of $28.1 million must be achieved through these efforts. When the Office of the President has taken the above concrete steps, it is anticipated that savings beyond the amount assumed in the budget plan will be achieved.

OPERATION AND MAINTENANCE OF PLANT

The University maintains 120 million gross square feet of space in 5,500 buildings at the ten campuses and the agricultural field stations. Over 58 million square feet, or about 50%, is eligible to be maintained with State funds. Three basic types of funding are required to operate, maintain, preserve and upgrade University buildings and campus infrastructure: 1) annual support for operation and maintenance of plant (OMP), including building maintenance and purchased utilities; 2) deferred maintenance; and 3) capital renewal. Years of underfunding of basic maintenance and the absence of systematic funding of capital renewal have severely challenged the University's ability to operate and maintain facilities that can effectively support the University's vast array of instructional, research and public service programs. Overall funding provided for building maintenance has been estimated to be at a level less than 70% of standard. In addition, the University continues to face substantial shortfalls in its purchased utilities budget even as it has continued to implement an aggressive energy conservation program.

Beginning in 2008-09, and continuing through 2010-11, the Compact calls for an additional 1% adjustment to the base to be used to address annual budgetary shortfalls in State funding for faculty and other instructional and research support for core areas of the budget, including instructional equipment, instructional technology, libraries, and ongoing building maintenance. This funding will begin once again, after a several-year hiatus, to address the critical shortfalls that exist in OMP support. Given the numerous competing priorities, progress in improving the maintenance of buildings and infrastructure systems will be slow, if future funding is limited to that provided within the Compact.

OMP Support for New Space ($9,700,000 Increase)

Additional funding for new space coming on line during the budget year is an annual budget need. Unfortunately, for two years — 2003-04 and 2004-05 — no new State funding was provided to support increased purchased utilities and maintenance costs associated with new space due to the State's fiscal crisis. To address the most critical maintenance needs for core instructional and research space in new facilities that were opened during this period, the University redirected $7 million from existing University resources. In 2005-06, $16 million of funding was provided within the approved budget plan for maintenance of core instructional and research space coming on line that year.

In response to legislative supplemental language requesting the Department of Finance, the Legislative Analyst's Office, UC and CSU to review the marginal cost of instruction calculation,

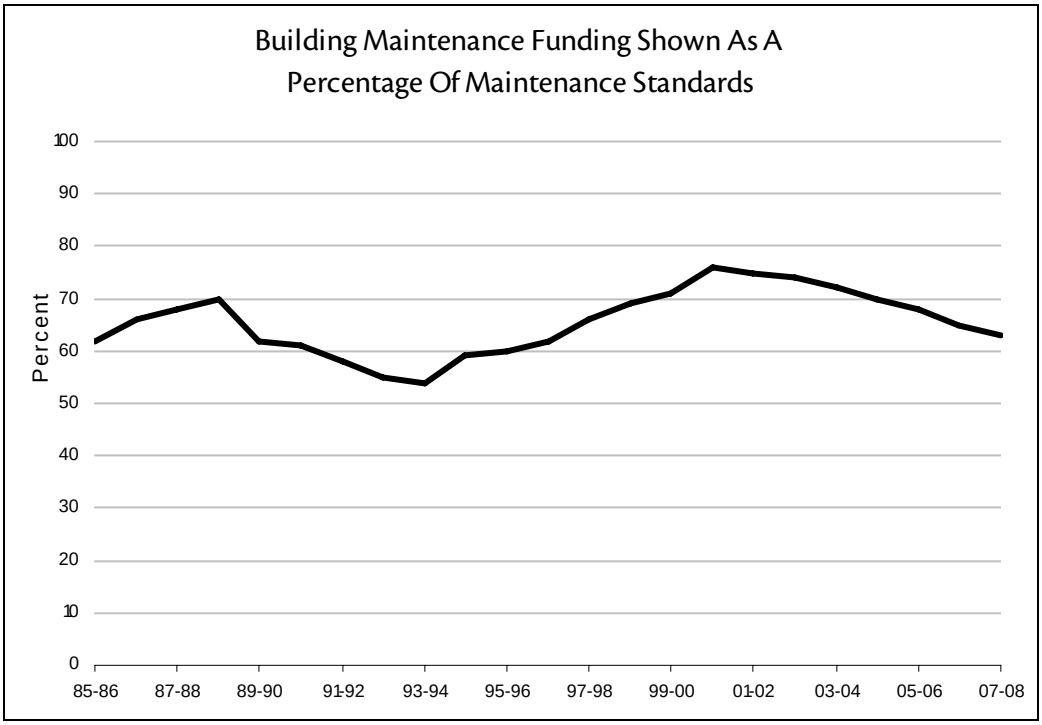
the marginal cost for 2006-07 was revised to $9,900 per student, reflecting more accurately the cost of hiring new faculty, as well as the need to include a component in the calculation for maintenance of new space. As a result, $8.3 million was provided in the 2006-07 budget for maintenance of new space coming on line during the budget year. In 2007-08, a total of $9.2 million was provided based on a marginal cost of $10,500 per student.

For 2008-09, the University's proposed budget plan includes $9.7 million in funding provided within the Compact, based on an estimated marginal cost of $11,300 to support basic maintenance and purchased utilities for approximately 983,000 gross square feet of new space. As in recent years, the funded facilities encompass the highest priority State-eligible space coming on line, including core instructional and research facilities, and innovative research facilities for the California Institutes for Science and Innovation that support enrollment growth.

OMP Funding for Existing Facilities

OMP funding supports several facilities service functions, including regular building and grounds maintenance, janitorial services, utilities operations and purchased utilities. 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 each of the four maintenance components of OMP (excluding purchased utilities). The established standards indicate that current levels of State support for OMP do not adequately fund most of the OMP functional areas (see Display 1).

Display 1



Support for janitorial services at the University is estimated 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 estimated at 60% of the standard.

Maintenance Services

In recognition of more than two decades of chronic underfunding of annual OMP support for existing facilities, the Legislature proposed a funding plan in 1996-97 to begin to eliminate over four years the estimated $60 million funding shortfall for ongoing maintenance services by providing $7.5 million in State funds each year matched by an equal amount of University funds. However, due to the State's fiscal constraints, only the University was able to provide funding during the first two years of the plan for a total of $13.5 million. Beginning in 1999-2000, the Partnership Agreement with Governor Davis also called for annual improvements in OMP funding to be provided as part of the 1% increase to UC's General Fund base, with a goal of funding two-thirds of the OMP funding shortfall over a four-year period. Increases for OMP of $4 million in 1999-2000 and $4.5 million in 2000-01 were provided. However, due to the State's deteriorating fiscal situation, no new funding for maintenance of new space was provided between 2001-02 and 2005-06.

This chronic funding shortfall for OMP for existing facilities must be addressed to ensure that buildings and infrastructure systems can be operated for their full useful life and that growth of the University's already substantial deferred maintenance backlog is not accelerated. The Compact calls for an additional 1% adjustment to the base in 2008-09, and continuing through 2010-11, to be used to address annual budgetary shortfalls in State funding for core areas of the budget, including the critical shortfalls that exist in OMP.

Purchased Utilities

The cost of purchased utilities is affected both by consumption levels and commodity rates. For the last two decades, the campuses have implemented increasingly stringent energy conservation measures, undertaken capital improvements to reduce energy consumption, and taken measures to purchase energy at the lowest rates possible. Recently, the University's commitment to energy efficiency has been codified in policy. All campuses continue to undertake significant efforts to reduce energy consumption, such as installing energy monitoring and metering systems, and retrofitting existing facilities to install and upgrade temperature controls, efficient lighting systems, motors, and pumps. Many of these efforts have been subsidized with utility incentives. Other larger-scale projects have included the development of new energy efficient co-generation facilities at the San Francisco, Los Angeles, and San Diego campuses and thermal storage facilities at the Davis, Irvine, and Merced campuses. The University's Policy on Sustainable Practices requires that new facilities be designed so that energy use is 20% below existing Title 24 State standards and sets a systemwide goal of reducing overall energy use to 10% below 2000 levels.

The University is working with the State's investor-owned utilities on a new, much-expanded incentive program to help the University meets its 2014 energy reduction goals. To support this larger incentive program, the University has developed a Strategic Energy Plan that identifies

opportunities for reducing energy use at each of the campuses. Based on preliminary findings of the Strategic Energy Plan, the University has made a commitment to the State's investor-owned utilities to deliver a certain level of energy savings over the next three years. The University will be seeking approval from the Regents to secure $200,000,000 in external financing to ensure that campuses are able to fund project costs not covered by utility incentive awards. The University has negotiated provisional budget language with the Department of Finance that will allow campuses to pledge operating funds for debt service on financed projects in State-supported facilities.

Despite significant conservation efforts, 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. Recognizing these increased costs, the State provided the University with $75 million in 2000-01 and 2001-02 to help offset the increases in purchased utility costs, with $20 million 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 substantial ongoing shortfall in the University's purchased utility budget. No additional new State funding directed at increasing utility costs has been appropriated since 2001-02. The ongoing annual shortfall in funding for purchased utilities — electricity and natural gas — continues to grow.

In addition to pursuing opportunities for energy conservation, the University has also continued its efforts to obtain favorable contracts for electricity and natural gas. The University renegotiated a short-term "direct-access" electricity supply contract. The current contract with Arizona Public Service Energy Services (APSES), extends through June 2008. The University is currently negotiating short term (6 to 12 month) contracts with new vendors on behalf of several campuses. While the APSES rates were competitive, utility rate structure changes have made direct access contracts less attractive for several campuses and, in an effort to manage the increases in purchased utilities costs, some have returned to service from local utilities, such as Pacific, Gas & Electric and Southern California Edison. Based on current projections, electricity prices are expected to increase by 10 to 20% in 2008-09. Increases in the cost of natural gas, now indexed to the escalated price in crude oil, also affects the cost of electricity as natural gas is the preferred fossil fuel to generate electricity in the West. Most campuses have been managing natural gas costs by developing a portfolio of longer-term natural gas contracts, many with the State pool through the Department of General Services. The Department of General Services has recently revised its natural gas forecast, projecting increases of 20 to 30% in natural gas costs in FY 2008-09.

Campuses have absorbed the significant rise in purchased utility costs by cutting other elements of the maintenance budget — a difficult tradeoff during a time of declining State funding and against the backdrop of chronic underfunding of OMP — and by redirecting other program funds. The University will need to continue to reallocate resources to cover shortfalls in purchased utilities funding in 2008-09.

Capital Renewal and Deferred Maintenance

The University's substantial deferred maintenance problem — currently estimated at $800 million for highest priority projects — is the result of both underfunding of OMP and a lack of regular and adequate funding for the systematic renewal and replacement of building and infrastructure systems to extend the useful life of facilities. Moreover, the University's deferred maintenance backlog will continue to grow as long as the University lacks a robust capital renewal program to provide for the periodic renewal and replacement of building and campus infrastructure systems.

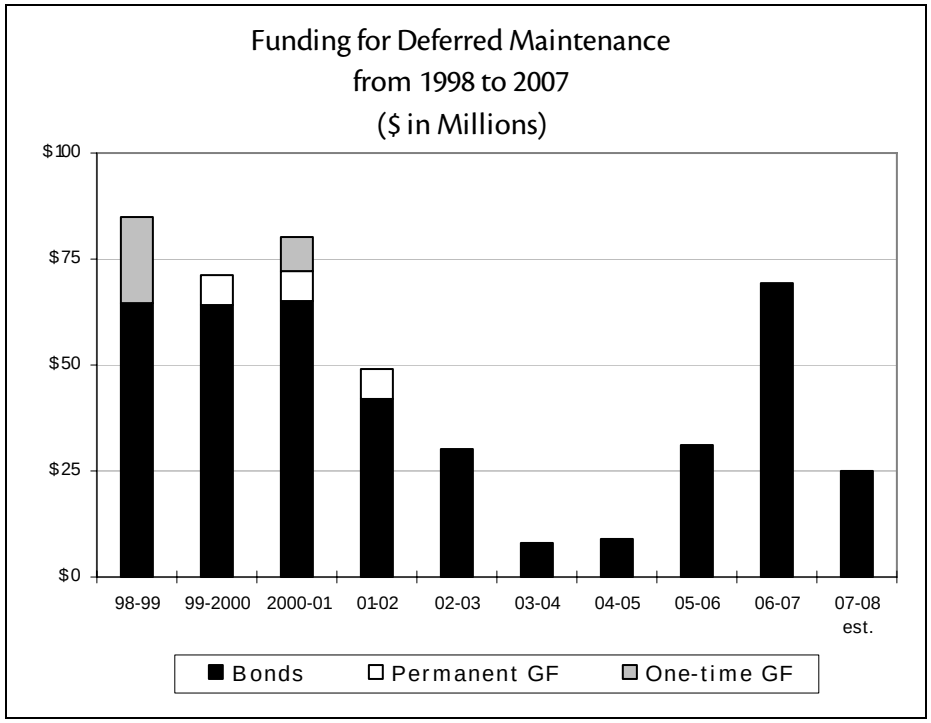
The University estimates that, on average, at least $275 million will be required annually over the next 50 years to meet its capital renewal needs, including approximately $230 million for building systems and $45 million for campus infrastructure. This annual investment is for the normal replacement and renewal of building systems and components, such as replacing roofs and building chillers, which may occur several times during the life of a building. Funding for renewal of building systems and infrastructure components is not included in the allocations for ongoing building maintenance.

The estimates of funding needs for capital renewal and deferred maintenance are based on a sophisticated budget model developed by the University in 1998. The model includes a detailed inventory of all State-maintained facilities at each campus and breaks down infrastructure and buildings into systems that need to be renewed on a predictable basis and have life cycles between 15 and 50 years. These systems include components such as roofs, fire alarm systems, heating and ventilation systems, central plant chillers and underground utility cabling. The model assumes standard life cycles and costs for renewing each system, and from these elements develops a profile for each building and infrastructure system, projecting the renewal date and cost for a 50-year period. The model also estimates the deferred maintenance backlog by tracking those systems that have deteriorated to the point that they currently need major repair, replacement or renewal to stop accelerating deterioration and reverse increasing maintenance costs to keep the systems operating.

Funding for deferred maintenance has not been predictable or stable 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. From 1994-95 through 1997-98, annual funding for deferred maintenance ranged from $8 million to $25 million per year, provided through a variety of one-time, bond, and permanent funds.

Recognizing the University's growing deferred maintenance backlog and the lack of regular and adequate capital renewal funding, The Regents approved a new funding approach in 1998 for deferred maintenance that provided significant levels of funding for the next several years. It emphasized a "systems renewal" rather than a "repair" approach in addressing the deferred maintenance backlog. 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.

Display 2

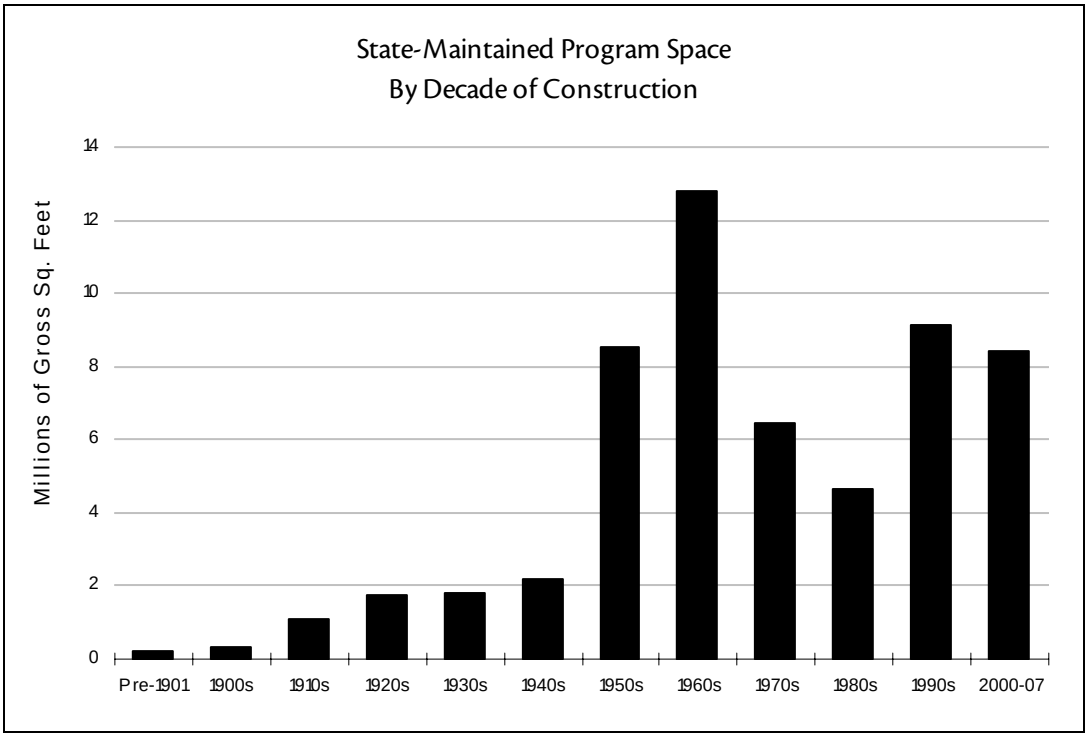


As shown in Display 2, between 1998-99 and 2001-02, approximately $289 million was provided on a systemwide basis to address the most urgent deferred maintenance and capital renewal problems.

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. In 2002-03, the systemwide long-term debt financing program for deferred maintenance and capital renewal was suspended because University funds used to support debt financing had to be redirected to offset State funding cuts. 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 the remaining $7.1 million for deferred maintenance that had been available on a permanent basis since 1999-2000.

The suspension of the long-term debt financing program for deferred maintenance and capital renewal and the elimination of permanent deferred maintenance funding has coincided with a period when capital renewal costs are rising sharply as the systems in buildings and supporting infrastructure constructed during the University's building boom of the 1950s and 1960s surpass their useful life, become increasingly difficult and expensive to maintain, and ultimately lose their capacity to support the programs they house. As Display 3 (next page) shows, over 50% of the University's state-supported facilities are more than 35 years old.

Display 3



In the absence of other funding, the University has continued to use its capital outlay program to address some of the highest capital renewal, deferred maintenance, and seismic priorities while still meeting new growth. During the five-year period 2002-03 to 2006-07, four campuses pledged a portion of their UC General Fund income to finance long-term debt to fund urgent capital renewal and deferred maintenance work, generating $140 million in bond funding for this purpose over the five-year period. This program is continuing in 2007-08, with additional campuses participating to the extent that it is financially feasible for them to do so. The program is expected to generate another $27 million or more in bond funding for deferred maintenance and capital renewal projects.

Between 1998-99 and 2001-02, the systemwide long-term debt financing program and other sources allowed the University to address over 1,200 high priority deferred maintenance and capital renewal projects. The University learned after four consecutive years of predictable deferred maintenance and capital renewal funding that there are significant benefits to regular and predictable investment in capital renewal. The multi-year planning and strategic resource allocation that are possible with a regular and predictable funding stream allows efficiencies in the use of limited resources that are not possible when there is no systematic funding of capital renewal and deferred maintenance is largely handled as emergency repair.

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.

As permitted by the State's fiscal situation, the Compact between the Governor and UC and CSU provides for State one-time funds to address high priority infrastructure needs, such as capital renewal of facilities and deferred maintenance needed to maintain capital assets. As the State's fiscal condition improves, the University intends to seek funding to help meet its substantial ongoing capital renewal needs and manage its large deferred maintenance backlog.

AUXILIARY ENTERPRISES

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; all budget increases are funded by corresponding increases in revenue.

During 2006-07, revenue from auxiliary enterprises will be expended as follows: 51% for residence and dining services; 6% for parking operations; 8% for intercollegiate athletics; 24% for bookstores; and 11% for other expenditures.

Student, Faculty, and Staff Housing

The largest program in Auxiliary Enterprises is student housing, comprising approximately 53,157 residence hall and single student apartment bed-spaces and 4,895 student family apartments, for a total of 58,052 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 2006-07 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 103%). This percentage will increase as a result of enrollment patterns in Fall 2006. 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. By the Fall 2012 term, if construction proceeds as planned, the University will add 6,822 new student bed-spaces.

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 723 units available at seven campuses: Berkeley, Irvine, Los Angeles, San Diego, San Francisco, Santa Barbara, and Santa Cruz.

As of June 30, 2007, home loan programs have provided mortgage loans with favorable interest rates and/or down payment requirements to 5,012 faculty members and other designated employees. In addition, the Faculty Recruitment Allowance Program has provided 3,043 faculty members with housing assistance during their first years of employment with the University.

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 1,156 units, including townhouses, condominiums, and single-family structures.

Parking

Another major auxiliary enterprise is the parking program, with approximately 111,617 spaces for students, faculty, staff, and visitors. Recognizing the serious need for parking on each of the campuses, in 2005-06 and 2006-07 the University approved parking projects that will yield approximately 2,225 new spaces.

PROVISIONS FOR ALLOCATION

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, equity, and merit increases), employee benefit increases, and price increases, are held in provision accounts pending final allocation. Fixed cost increases for 2007-08 are discussed in the *Compensation, Employee benefits, and Non-Salary Cost Increases* chapter of this document. Provisions for allocation also include negative appropriations, specifically State General Fund unallocated budget reductions awaiting allocation decisions and budgetary savings targets.

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 2007-08, $160.9 million was appropriated to the University for revenue bond lease payments. Consistent with past practice, the funding level needed for revenue bond lease payments for 2008-09 will be determined by the Department of Finance and included in the final budget.

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 appropriated 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 2007-08 budget continues this level of funding.

COMPENSATION, EMPLOYEE BENEFITS, AND NON-SALARY COST INCREASES

The University's budget plan for 2008-09 and as approved by the Regents at the November 2007 meeting is discussed in this section. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor and then proposed a 10% reduction (totaling $332 million) to that higher budget to address the State's fiscal situation. Thus, several items from the University's 2008-09 budget request were first "funded" and then that funding was subsequently eliminated. The Governor's May revision proposes to restore $98.5 million of the cut proposed in January. While under the proposed May Revise budget the net result between 2007-08 and 2008-09 is a reduction to the University's base budget of $10 million, the University faces mandatory costs it must fund despite receiving no new State support, leaving the University short of what it needs by up to $240 million. To address this shortfall, proposals for salary and benefit increases need to be reviewed, particularly given the fact that these programs comprise over 70% of General Fund expenditures.

2008-09 Budget Plan

This chapter discusses funding increases for employee salaries and benefits, and for price increases required to maintain the University's purchasing power at present program levels.

The University's budget plan for 2008-09 includes a compensation package of 5% for faculty and staff funded from State and UC General funds and student fee income. Consistent with past practice, compensation for employees funded from other fund sources — including teaching hospital income, auxiliary enterprises, federal funds and other sources — must be accommodated from within those fund sources and must conform to the University's established systemwide salary programs for State-funded employees. Faculty salaries are estimated to lag the market by about 9.6%, and there is a similar problem with respect to staff salaries. An accelerated faculty salary plan aims to increase faculty salaries to market over a four-year period, with a substantial portion being phased in beginning in 2007-08. The 5% package will narrow the competitive salary gap for staff by approximately 1%. An amount equal to 2.25% of the non-salary base will be provided for price increases.

The compensation package will be used to fund faculty and staff salary increases, increases in the cost of employee health and welfare benefits, market-based and equity salary increases for faculty and staff whose salaries significantly lag behind those who have been newly hired at

market rates, and continuation costs for salary adjustments that occurred effective October 1, 2007, as described below.

The University's 2008-09 budget plan also assumes employer contributions to the University's retirement plan will not be reinstated until 2009-10 at the earliest. Actuarial valuations show that the UCRP remains fully funded as of July 1, 2007. The Regents have made it a high priority to ensure the long-term viability of the retirement program for the benefit of all UC employees. Issues of phasing-in contributions (at what rate of increase contributions occur and over what period of time), as well as the share between employer and employee and the availability of funding to support the employer-paid contributions, are the subject of continuing discussion among The Regents, the Administration, faculty, staff and State government officials. At this time, The Regents are working to have the State affirm its prospective liabilities for contributions on State-funded salaries through Budget Bill trailer language. These same issues for represented employees are subject to collective bargaining negotiations.

Compensation Increases for Academic and Staff Employees

In 2005, The Regents commissioned a study to review its total compensation program. The results of the study indicate that in general, salaries are substantially below that of the market median. At present, however, the total compensation package, including salary, health and welfare benefits for active employees and annuitants, and retirement system benefits, is close to the market. It is anticipated that the employer-provided value of the benefit package will decrease in the next few years as employer and employee contributions to the retirement system are phased in which are required to ensure the solvency of the retirement program. Employees have not had to contribute to the retirement system since the early 1990s. In addition, funding over the next several years likely will not be adequate to match the inflationary increases of health benefit costs, requiring that employees pick up a larger share of their medical premiums. The University's long-range plan is to rebalance the components of the total compensation package and bring salaries closer to market-competitive levels so that the total compensation package remains competitive. In order to maintain the quality of its programs, the University is determined to remain competitive in the market. For 2008-09, the University's budget plan calls for a total compensation increase package of about 5%, using a combination of State General Funds, UC General Funds, and student fee revenue, consistent with the Compact. This package includes the following elements:

- continuation costs for salaries and health and welfare benefits provided in the previous year, but effective for only part of the year;
- funding for merit salary increases for eligible employees;
- a cost-of-living-adjustment (COLA) effective October 1 (for employees eligible for COLA adjustments);
- market based and equity salary increases; and
- health and welfare benefit cost increases.

Continuation Costs. Salary continuation costs occur because the 2007-08 budget included salary increase funding for only 9 months of the year (they were effective October 1, 2007). Therefore, the 2008-09 budget includes the remaining 3 months of funding needed to support the annualized salary increases for 2007-08. Similarly, the 2007-08 budget provided funding for health and welfare insurance cost increases effective December 1. Thus, five-month continuation costs for these benefits must be provided in 2008-09.

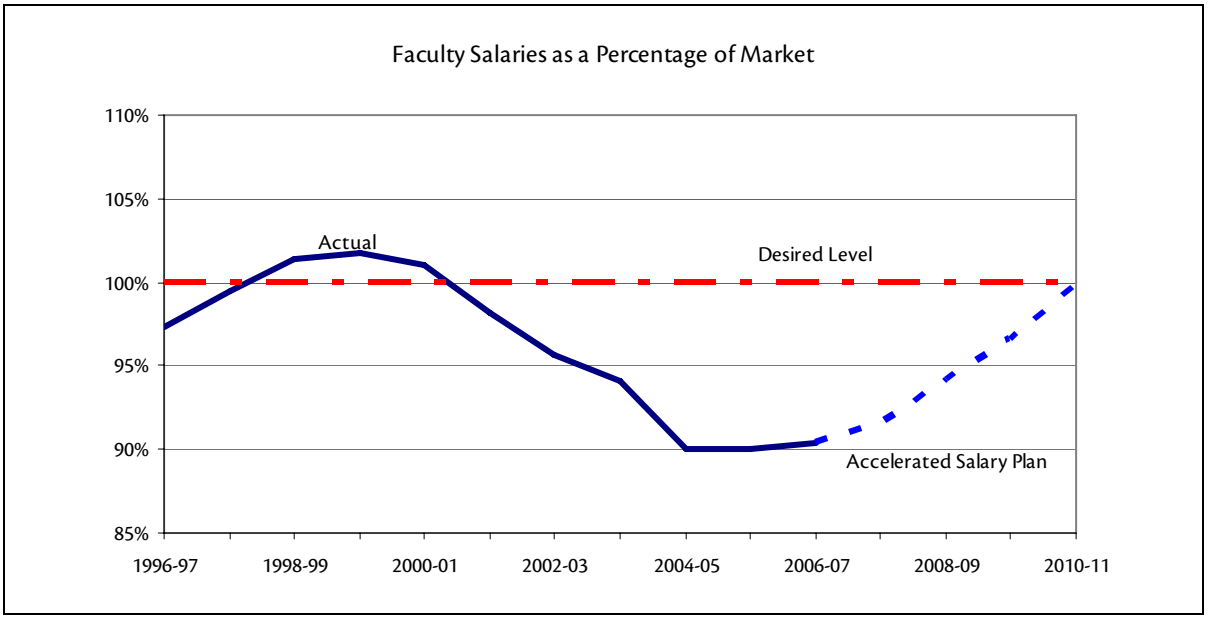
Merit Salary and COLA Increases. Funding for merit salary increases is again among the University's highest budget priorities. The merit salary programs recognize and reward excellence, and are critical to the preservation of the quality of the University. In addition, the University's budget plan for 2008-09 includes funding for general cost-of-living adjustment (COLA) salary increases effective October 1, 2008 for eligible academic and staff employees. As indicated below, the University is also including a component in its compensation package, in addition to these general salary program increases, to address essential market and equity related compensation needs.

An area of continuing concern, as a result of years of underfunding of the University's budget, is the growing lag in faculty and staff salaries compared to market. As noted earlier, among the University's highest priorities is to achieve and maintain market-competitive total compensation for its employees. This means providing sufficient funds, through a combination of merits, general increases, 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, remain competitive with the relevant labor markets.

As part of the State's actions to reduce the University's budget in 2001-02 and 2002-03, the University lost funding that had been targeted for COLA and equity 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. The University instituted additional internal budget cuts in order to fund academic merit increases for 2003-04 and 2004-05, but no employees received a general increase or COLA and staff employees received no merit increases. In 2005-06, the Compact provided funding for academic and staff salary increases; however, this was not enough to reverse the effects of years without adequate salary increases.

Closing the Faculty Salary Gap. In 2007-08, to better reflect the market, the University began implementing changes to raise faculty salary scales over a four-year period. Corresponding actual salaries for faculty who previously have been on-scale and therefore not market competitive are also being increased. In addition, all faculty will receive general range adjustments each year. These salary adjustments are expected to close the faculty salary gap by 2010-11. The four-year cost of implementing this plan is estimated to be $263 million. A portion of the funding ($195 million) for the plan will come from the 5% compensation package funded with the normal budget plan each year. The remainder will be funded through a redirection from existing resources, including savings identified as part of the current restructuring and efficiency effort. Display 1 (next page) shows the 9.6% lag projected for actual faculty salaries compared to the average of UC's comparison institutions.

Display 1

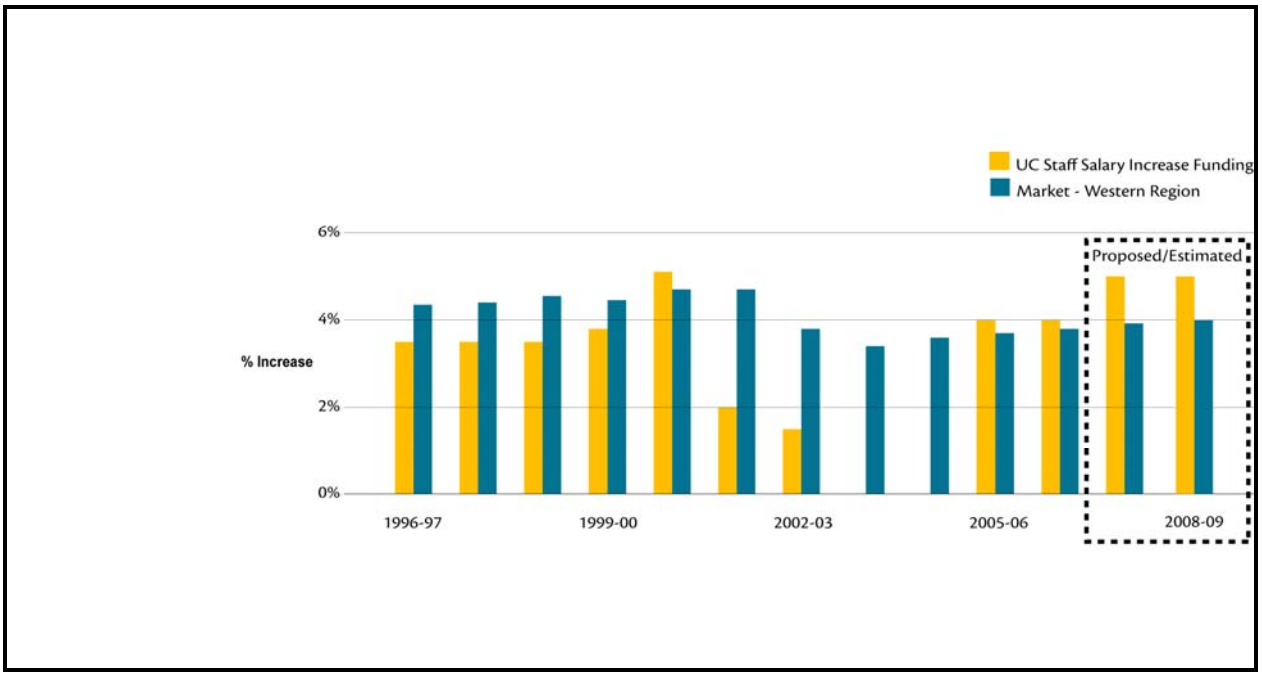


Academic merit salary increases provide an incentive to maintain and expand teaching and research skills, and enable the University to be competitive with other major research universities in offering long-term career opportunities. Academic merit increases are never automatic; they are awarded only once every 2-3 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.

Staff Salary Plan. Staff compensation differs from faculty compensation. For employees represented by unions, the University has collective bargaining agreements that specify compensation increases for their members. The University's budget plan will provide the resources needed to honor those agreements. Non-represented employees are eligible for salary increases through performance-based merit salary programs. These are funded from a pool created by combining budgeted funds for COLAs with those provided for merit increases.

The funding gap with respect to staff salaries presents a similar problem for the University as faculty salaries. Display 2 compares the annual State 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 over the period have been increasing at nearly 4% per year, but funding for UC staff salary increases has not kept pace. As in the early 1990's, the State's recent fiscal crisis prevented full funding of a normal workload budget for several years. In Fall 2005, The Regents adopted a plan calling for annual increases of 5%-5.5% in staff salaries over a period of 10 years to close the gap.

Display 2



Funding provided in 2008-09 for merit and COLA adjustments proposed under the Compact will not be sufficient to close market lags. Beginning in 2007-08, the University began implementation of The Regents' 10-year plan to address the lag between the University's salaries and relevant labor markets. In 2008-09, the University proposes to continue funding additional salary increases and plans to use a combination of State General Funds, UC General Funds, and income from student fees to provide a total compensation package of about 5%, which will narrow the competitive salary gap by approximately 1%. Depending upon the availability of funding, the University proposes to decrease the lag by 1%-1.5% per year with the goal of eventually bringing average salaries closer to market-competitive levels.

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).

Market and Equity Compensation Increases. The University is proposing to use a portion of the funding provided under the Compact for market-based and equity compensation adjustments in 2008-09. As stated earlier, faculty salaries are about 9.6% behind the market and there is a similar problem with staff salaries. To the extent that there are more serious market lags within specific employee categories, the University plans on funding market adjustments to decrease the disparity. In addition, there is a need to address issues of equity where newly hired faculty and staff are paid significantly more than long-term University employees with similar experience, skills, and knowledge who have been employed at the University during the extended period of low or no salary increases. Unfortunately, funding is not sufficient to address all inequities that may exist throughout the University, so emphasis will be placed on using equity funding for critical recruitment and retention purposes.

Employee Benefits. The University has a continuing commitment to controlling employee health benefit costs; however, these efforts have been impacted by state and national trends of dramatically increasing health insurance costs. Health benefit costs are expected to increase significantly again in 2008-09. In addition, the funding provided in recent years for health benefits has mitigated employee cost increases, but has been insufficient to cover the full gross premium increases which have been two or three times the Consumer Price Index (CPI). It is unlikely that there will be sufficient funding within the Compact to cover the entire cost increase expected in employee health benefits for 2008-09, and for several years to come. The University will use available funding not used for salary increases to help defray the cost of increases in health benefits for employees; however, it is likely that some of the increases in health benefit costs will again be borne by employees themselves.

In 2002-03, the University instituted a progressive medical premium rate structure designed to help offset the impact of the employee's share of the medical plan premiums on lower paid employees. While UC continues to pay approximately 87% of monthly medical premiums for employees on an aggregate basis, UC has made a strategic decision to cover an even larger portion of the premium for those in lower salary brackets.

The University has historically had a very competitive benefit package compared to those of other institutions. In fact, the compensation study mentioned earlier showed that the University's below market salaries are being offset by its competitive benefit package. However, it is anticipated that within the next few years there will be an unavoidable decrease in the employer-provided value of the overall benefit package due in part to increases in employee paid health premiums and a necessary phase-in of employer and employee contributions to the University's retirement system.

Annuitant Health 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 consistent with the principles of the Compact.

New accounting rules now require the University to report in its financial statements all post-employment benefits (OPEB) expense, such as retiree medical and dental costs, on an accrual basis over the employees' years of service, along with the related liability, net of any plan assets. (Currently, the University records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements.) The University is currently evaluating the effect on its financial statements, but it is expected that the annual OPEB expense, including normal cost, interest and amortization of unfunded liability, will range from $1.35 billion to $1.45 billion, based on current program design. If, over a period of years, The Regents gradually increased funding for retiree health costs up to the point where only the normal cost was funded, the incremental budgetary demand would reach approximately $325 million. The State's portion of this incremental amount would be approximately $60 million.

Reinstatement of Retirement Contributions

Prior to November 1990, both University (employer) contributions and member (employee) contributions to the University of California Retirement Program (UCRP) were required. In the

early 1990s, the Regents suspended University contributions to UCRP after the actuaries and auditors confirmed that UCRP was adequately funded to provide plan benefits for many years into the future. At the same time, the Regents directed that employee contributions be redirected to individual accounts in the Defined Contribution Plan. As part of this decision, The Regents reserved the right to reinstate contributions to UCRP to maintain the Plan's funded status. Under the DC Plan, contributions from employees have been held in accounts and invested at each employee's direction. DC Plan accumulations are available for distribution starting at retirement or termination of employment.

At the November 2005 meeting, the Regents were presented with the results of the July 1, 2005 UCRP annual actuarial valuation by the Segal Company, the current Regents' actuary for UCRP. This report indicated that the funded status of UCRP is projected to decline well below 100%, unless contributions are restarted or extraordinary market gains occur. A 100% target funded status for UCRP over the long term will sustain the viability of the Plan.

In March 2006, The Regents approved a targeted funding level of 100% over the long term, with employer and employee contribution rates necessary to maintain that level within a range of 95% to 110%. The Regents also authorized the reinstatement of contributions to provide for a multi-year strategy under which total contribution rates will increase gradually over time to 16% of covered earnings, based on UCRP's current normal cost.

In November 2007, the actuary for the UCRP, the Segal Company, presented the annual actuarial valuation to The Regents, showing that the UCRP's funded status ratio increased from 104% as of July 1, 2006 to 105% as of July 1, 2007. Because funding for UCRP contributions was not provided by the State in 2007-08, the date for restarting pension contributions has been delayed and will be re-evaluated as the University develops the 2009-10 budget.

The University continues to examine options for how contributions will be shared between the employer and employee when contributions resume. Information is being provided to employees about the need to re-start contributions.

Provision for Non-Salary Price Increases

The University's 2008-09 budget plan includes 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. The Higher Education Price Index (HEPI), an index which reports changes in cost for the goods and services employed for education, is a more accurate indicator for colleges and universities than the Consumer Price Index (CPI) and is expected to again exceed the CPI in 2008-09.

The University expects cost increases greater than 2.25% for commodities such as energy and fuel, petroleum based products, paper based products, laboratory and agricultural chemicals, equipment, and property insurance. The University incurs substantial cost for all of these items.

UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS

The following section discusses one of the fund sources derived from contracts with the federal government that are used to help fund the University's operating budget: the University Opportunity Fund. A more detailed explanation of income generated from contracts with the federal government can be found in the Federal Indirect Cost Reimbursement section of the *Income and Funds Available* chapter.

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 level of research support that can be offered is often a pivotal factor in the recruitment of promising junior faculty members

Research support is also critical to retention of distinguished faculty members who regularly receive attractive offers from other institutions. 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 as the California Institutes for Science and Innovation. 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 programs like the Education Abroad and UC Washington D.C. programs are essential for maintaining dynamic, high quality academic programs.

Capital Outlay

The State funds only a portion of the University's capital outlay needs — approximately half of our need for State-supportable space. The University must use a variety of other sources to help address the unmet needs in capital outlay, including funding from overhead. The University's non-State capital outlay program is heavily reliant on Opportunity Funds, although given limited growth in federal funds expected for the next several years, it is unlikely that additional projects will be undertaken using this fund source.

Institutional Support

A portion of the University Opportunity Fund is used to support administrative activities for which adequate State support has not been provided, such as staff and management development programs, and administrative computing.

Funds are also provided under Institutional Support to maintain and improve the University's capabilities to attract external funding, primarily from private sources.

INCOME AND FUNDS AVAILABLE

General Fund Income and Funds Available

The programs described in this budget document will require General Fund resources in 2008-09 of $4.169 billion, including $3.502 billion in State General Funds, $70.5 million State General Funds possible Student Fee increases, and $597 million in UC General Funds. UC 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 fee and some other smaller fees.

Nonresident tuition will produce $256 million in University General Fund income. This income estimate is based on the 2008-09 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 $25 million.

Overhead on State agency agreements totaling $13.5 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 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 disbursal 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 Multi-Campus Research Units (MRUs). This is the source of the University's Off-the-Top Overhead Fund, estimated to be $116 million in 2008-09. The

remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as UC General Funds, of which 94% of the increase generated since 2000 is returned to the campuses based on the amount generated. It is used, along with State General Funds, to help fund the University's basic budget (estimated to be $258.4 million in 2008-09) and the remaining 45% is the source of the University Opportunity Fund (estimated to be $210.1 million in 2008-09). Approximately 6% of these funds is used to support special programs like the California Institutes of Science and Innovation, systemwide activities such as the Education Abroad and UC Washington D.C. programs, 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, 19 have been completed and two sought alternative sources of funding and were removed from the program after receiving partial or no Garamendi financing. Included in the 21 projects are six California Institutes for Science and Innovation facilities that received partial funding from the Garamendi funding mechanism.

Department of Energy Laboratory Management Fee

Contracts for University management and oversight of the Department of Energy (DOE) National Laboratories at Berkeley (LBNL) and the University's ownership interest in Los Alamos National Security LLC (LANS) and Lawrence Livermore National Security LLC (LLNS), which are the contractors at Los Alamos (LANL) and at Lawrence Livermore (LLNL), provide compensation to the University for its management of the Laboratories.

The University was awarded a new management and operating contract for LBNL on April 19, 2005. This contract runs for five years and may be extended through an "award term" provision for additional years not to exceed twenty in all.

The 2007-08 fiscal year continues a period of transition for the University's relationship with two of the DOE national laboratories. The University's original LANL contract expired on May 31, 2006, and its LLNL contract expired on September 30, 2007. These two Laboratories are now managed by limited liability companies partially owned by the University.

- The Los Alamos National Security (LANS) limited liability company was awarded a new management and operating contract for LANL on December 21, 2005 and commenced full operations on June 1, 2006. This contract runs for seven years and may be extended through an "award term" provision for additional years not to exceed twenty in all.

- The Lawrence Livermore National Security (LLNS) limited liability company was awarded a new management and operating contract for LLNL on October 1, 2007. This contract also runs for seven years and may be extended through an "award term" provision for additional years not to exceed twenty in all.

Indirect Cost Reimbursement. The University receives indirect cost reimbursement for LBNL. In accordance with a Memorandum of Understanding between the University and the State Department of Finance, this indirect cost reimbursement contributes to the UC General Fund income and helps to support the University's operating budget, in particular its research programs. In 2007-08, management fees from the LBNL contract will provide $1.3 million to fund the UC General Fund budget. Since the University no longer directly manages LANL and LLNL, the University no longer receives an indirect cost reimbursement contribution related to LANL and LLNL.

DOE Management Fee. Performance management fees from LBNL are gross earned amounts before the University's payments of unreimbursed costs. In contrast, net income to UC from LANS and LLNS reflects fee income remaining after payment of unreimbursed costs at the two laboratories. In total, $25.9 million, which represents the University's performance management fees from LBNL ($5 million) as well as an estimated share of the LANS and LLNS net income ($20.9 million) is budgeted as estimated restricted fund income for 2007-08.

LBNL Management Fee Revenue. The $5 million in management fee revenue related to LBNL will be used for costs of University oversight, research programs, reserves for future claims, and unallowable costs associated with LBL.

LLC Income. While LLC income is estimated at $20.9 million for 2007-08, only an estimated $16.6 million of LANS LLC revenue is available for expenditure, and this $16.6 million is actually from 2005-06 receipts. This is explained below. The planned expenditure of the $16.6 million, proposed to and approved by The Regents in September 2007, is discussed below.

Lag Time in Availability of LLC Income. Although LLCs can collect a "provisional" amount of fee in process during a year, no fee is final and earned until an annual fee determination is made by DOE/NNSA, typically in December following the close of the last contract fee period. (The federal fiscal year is October 1 to September 30.) Though unlikely, the final fee can be zero under certain circumstances, requiring refund of all "provisional" fee received by the LLC for that contract fee period. Further, the LLCs operate on a calendar fiscal year with the largest fee distribution to the owners being made on December 31 of each year. Given that the University's fiscal year varies from the federal fiscal year by 3 months and the LLC's fiscal year by 6 months, this introduces some complications into University planning for, and expenditure of, its share of LLC income. Accordingly, as described in the September 2007 Regents Item requesting approval of the expenditure plan, UC minimizes the risk of committing to spending funds it may not receive by deferring appropriations from the current accrued fee until the start of the third quarter of the fee period (July 1).

Expenditure Plan for 2007-08 LLC Income. Of the $16.6 million of LANL income approved by The Regents for use this year, $1.2 million will be used to provide supplemental income to

select LANS employees for whom it was the University's responsibility to recruit to LANS employment, and $2.5 million will cover unreimbursed oversight and post-contract costs. The remaining $12.8 million is designated for reserves for future claims ($700,000), and for research programs ($12.1 million) as follows: support for the four UC California Institutes for Science and Innovation ($2.5 million), UC Campus-Los Alamos Research and Education Initiatives ($3.1 million); Los Alamos-New Mexico Universities Research Initiatives ($1.5 million); Science and Technology Policy Initiatives ($1 million); UC System-Wide Institute for Geophysics and Planetary Physics ($500,000); UC Institute on Global Conflict and Cooperation ($500,000); Collaborative Research Program ($1 million); UC Professorship ($1 million); and a UC National Laboratory Doctoral Student Fellowship Program ($1 million).

LLC Income for 2007-08. The expenditure plan for the DOE lab management fees remain unchanged for 2008-09 because of the uncertainties and inexperience with the new contractual arrangements with the LLCs. The budget will be adjusted once the results of the competition are known.

The next expenditure plan for LLC income will be submitted to the Board of Regents in May 2008 for University fiscal year 2008-09. This plan will project UC's share of earned fee from both LLNS and LANS for contract fee period October 1, 2007 to September 30, 2008.

Restricted Fund Income and Funds Available

Other State Funds

In addition to State General Fund support, the University's budget for 2007-08 current operations includes $72.9 million in appropriations from State special funds including, for example, $31.4 million from the California State Lottery Education Fund, $16.6 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program, and $12.8 million for the Breast Cancer Research Program, also funded from the Cigarette and Tobacco Products Surtax Fund. Also included in State special funds is $778,000 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

Based on the number of students expected to enroll and the fee increases for 2008-09, income from current mandatory universitywide fees (Educational Fee and University Registration Fee) is currently projected to be $1.579 billion in 2008-09. Income from current professional school fees is projected to be $153.2 million in 2008-09. University student fees are discussed in detail in the *Student Fees* chapter of this document.

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. Income from professional school fees is retained by the campuses and used to help fund instructional costs including hiring faculty as well as for instructional and computer equipment, libraries, other instructional support, and student services. In addition, professional fee revenue is used to provide financial support for students.

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. 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.

- **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 problems confronting the medical centers and how those problems have been, and will continue to be, addressed.

In 2008-09, expenditures of hospital income for current operations are projected to increase by $255.8 million, about 5.9%. 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 $1.144 billion in 2008-09. 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, with a long-term target rate set at 4.75%. For 2006-07, the approved spending rate was 4.75% of a 60-month rolling average market value.

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. The University is projecting expenditures of $216 million in 2008-09.

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 $816.6 million in 2007-08 to an estimated $857.4 million in 2008-09.

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 2008-09, extramural research funding is projected to be $2.86 billion, including $1.88 billion of federal funds. Federal funds are the University's single most important source of support for research, accounting for approximately 55% of all University research expenditures in 2006-07.

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 80% of the University's federal research contract and grant awards in 2006-07.

Federal funds for research are discussed in more detail in the Research chapter of this document.

In addition to the funding of research contracts and grants, federal funds entirely support the Department of Energy Laboratories at Berkeley (Lawrence Berkeley Laboratory) for which the University has management responsibility. In 2008-09, this support is projected to be approximately $653 million.

Student Financial Aid

In 2005-06, UC students received $1,016.6 billion in federal financial aid, including $225.3 million in gift aid and the remainder in the form of loans and work-study. Overall, UC students received about 1.4% more in federally-funded aid in 2005-06 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 more than three-quarters of all federally funded aid and 38% of the total financial support received by UC students in 2005-06. 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. 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

Private funds include gifts, private grants, and private contracts. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations,

private foundations, and other nonprofit entities. Private contracts are entered into with for-profit and other organizations to perform research or other services. For 2008-09 expenditures from gifts and private contracts and grants to the University are estimated to be $1.228 billion, an increase of 5% over budgeted 2007-08 expenditures.

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, private support for the University has exceeded $1 billion a year for seven years, even with the recent economic downturn. New gifts and pledges for 2006-07 totaled $1.299 billion.

As of the 2004-05 fiscal year, the method of reporting private support changed to the cash basis from the former accrual basis reporting method. The University now employs the same cash reporting system used across the country by other educational institutions, a system which is the basis for inter-institutional comparisons. Included in the private support figures are outright gifts as well as pledge and grant payments received during reporting period. Previously, the private support numbers included new pledges made during the reporting period, but not yet paid, along with outright gifts and grants actually received during the period.

Private support for the University is derived from a number of sources. In 2006-07, charitable foundations donated the largest amount ($526 million), alumni ($193 million); non-alumni ($244 million) and corporate support ($211 million).

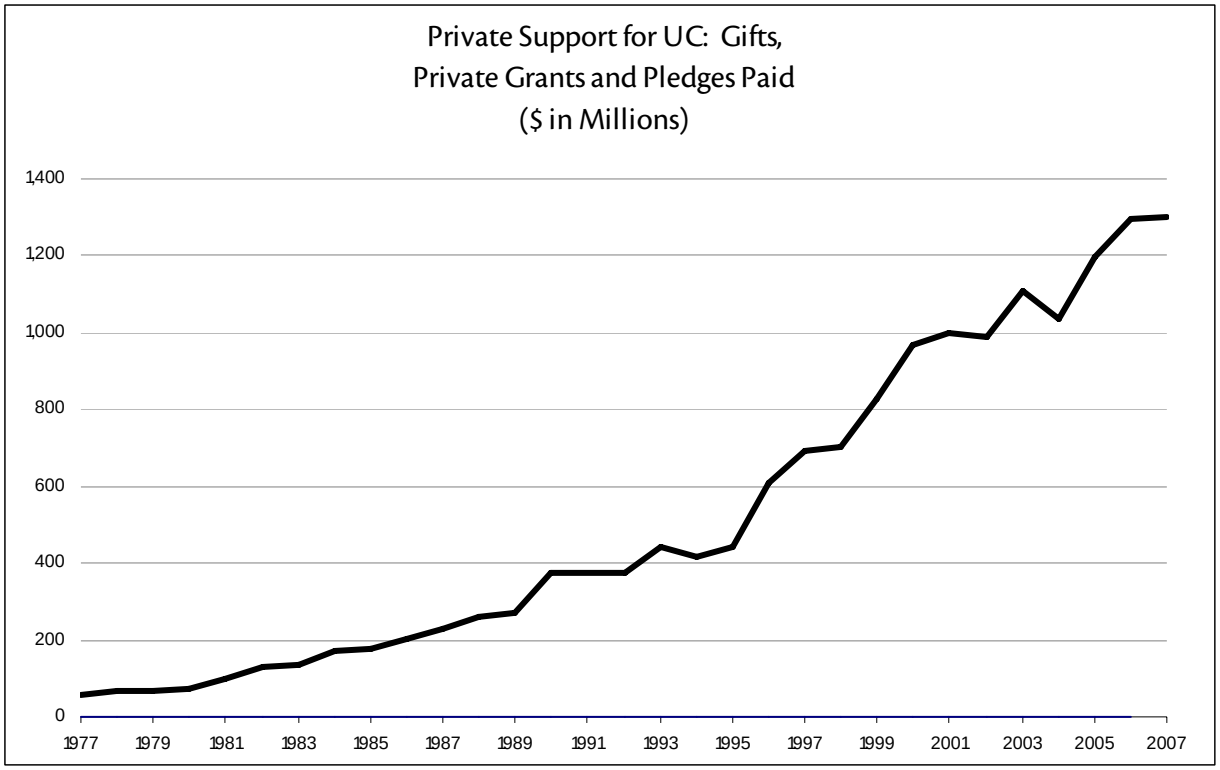
Recent trend data show that receipts declined somewhat in 2003-04, then climbed again in
As shown in Display 1 (next page), in 2005-06, alumni and other supporters committed almost $1.3 billion in gifts, and pledge and grant payments to the University. New pledges totaled another $367 million.

Donors in 2006-07 provide the largest amount towards campus departments ($438 million) and research ($409 million) as well as campus improvements ($182 million) and gifts for student support ($121 million).

Of the total donations in 2006-07, $664 million (51.12%) was specified for use in the health sciences. Unrestricted funds comprised 2.0% of the total for private support.

The University's remarkable achievement in obtaining funding in recent years — even during state and national economic downturns — 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.

Display 1


Private Support for UC: Gifts,
Private Grants and Pledges Paid
($ in Millions)
1400
1200
1000
800
600
400
200
0
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007

INCOME AND FUNDS AVAILABLE
($000s)

	Estimated 2007-08	Proposed 2008-09	Proposed Changes
STATE APPROPRIATIONS			
General Fund	$ 3,273,916	$ 3,501,758	$ 227,842
General Fund / Possible Std Fee Incr		70,476	70,476
Special Funds	72,933	69,485	(3,448)
TOTAL, STATE APPROPRIATIONS	$ 3,346,849	$ 3,641,719	$ 294,870
UNIVERSITY SOURCES			
General Funds Income			
Student Fees			
Nonresident Tuition	$ 250,000	$ 256,000	$ 6,000
Application for Admission and Other Fees	25,000	25,000	--
Interest on General Fund Balances	31,800	33,800	2,000
Federal Contract & Grant Overhead	248,377	258,377	10,000
DOE Allowance for O/H & Management	1,300	1,300	--
Overhead on State Agency Agreements	11,500	13,500	2,000
Other	8,800	8,800	--
Subtotal	$ 576,777	$ 596,777	$ 20,000
Prior Year's Income Balance	522	--	(522)
Total UC General Fund Income	$ 577,299	$ 596,777	$ 19,478
Special Funds Income			
GEAR UP State Grant Program	$ 3,500	$ 3,500	$ --
United States Appropriations	17,000	17,000	--
Local Government	90,337	90,337	--
Student Fees			
Educational Fee	1,269,791	1,302,508	32,717
Registration Fee	167,474	171,725	4,251
Special Law/Medical Fee	1,820	1,820	--
Professional School Fees	135,136	154,063	18,927
University Extension Fees	202,071	208,133	6,062
Summer Session Fees	13,421	13,421	--
Other Fees	245,150	254,956	9,806
Sales & Services - Teaching Hospitals	4,263,424	4,519,228	255,804
Sales & Services - Educational Activities	780,941	812,179	31,238
Sales & Services - Support Activities	318,713	331,462	12,749
Endowments	201,853	215,983	14,130
Auxiliary Enterprises	816,579	857,408	40,829
Contract and Grant Off-the-Top Overhead	112,927	116,000	3,073
DOE Management Fee	25,937	25,937	--
University Opportunity Fund	204,545	210,100	5,555
Other	275,245	287,631	12,386
Total Special Funds	$ 9,145,864	$ 9,593,391	$ 447,527
TOTAL, UNIVERSITY SOURCES	$ 9,723,163	$ 10,190,168	$ 467,005
TOTAL INCOME AND FUNDS AVAILABLE	$ 13,070,012	$ 13,831,887	$ 761,875

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 1.

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.

Display 1

Permanent Cuts to Campus and Office of the President Budgets
1990-91 through 1994-95
($ in Millions)

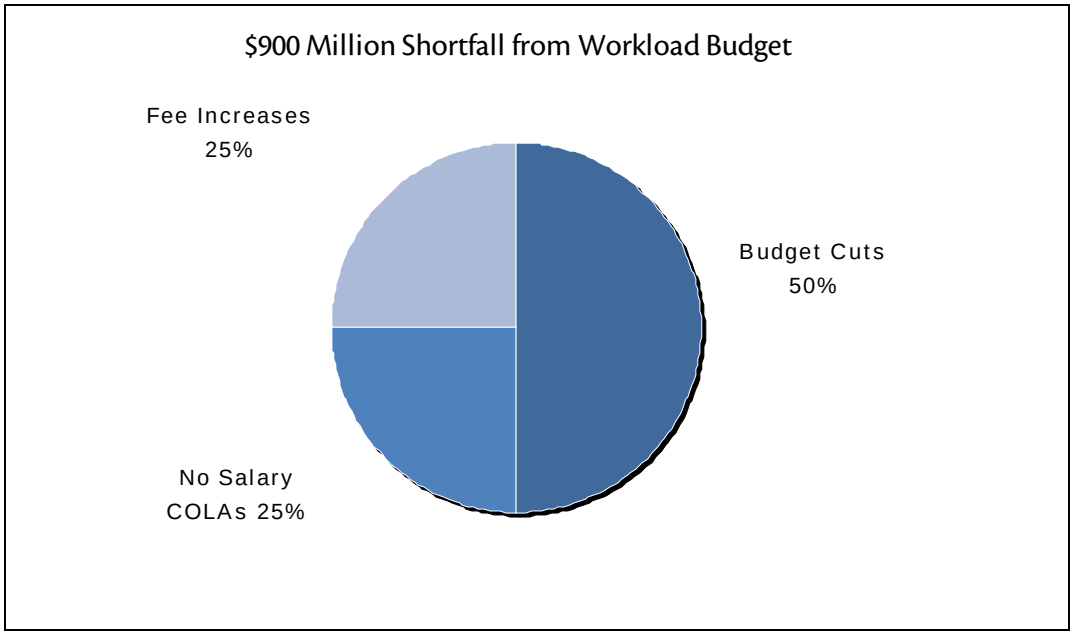
1990-91	5% cut in research, public service, and administration.	$	25
1991-92	Workforce reduction in both instructional and non-instructional programs; cut in non-salary budgets; undesignated cut.		120
1992-93	Permanent cut of $200 million phased in over two years.		200
1993-94	Reduction in campus and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

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

While regrettable, the fee increases were necessary to address budget cuts of such significant magnitude. At the same time, the University mitigated the impact of these fee increases on financially needy low- and middle-income students through a significant increase in financial aid grants (as opposed to loans). Over five years, through 1994-95, financial aid grants and other gift aid funded from University sources increased by approximately $118 million, or nearly 170%, to help mitigate the impact of increased fees.

Display 2



During the early 1990s, the University's General Fund workforce declined by a net total of approximately 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 Based on the Compact with Governor Wilson: 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 that 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 provide 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 as well as a 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, although a priority was placed on providing access for undergraduate students. Graduate enrollments grew only modestly, exacerbating the imbalance between graduate and undergraduate enrollments that has occurred over the last two decades. 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 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 do the following: 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 and Principal Leaders programs; expand the California State Summer School for Mathematics and Science; begin planning for a regional center in the Santa Clara Valley; development of K-12 high-speed 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 for UC 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 2001-02 through 2004-05 — A State Fiscal Crisis

Unfortunately, by 2001-02, the State's fiscal situation was beginning to deteriorate. The University based its budget request on the 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 and the State was fully engaged in a major fiscal crisis that was to last four years.

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 and welfare 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 access for faculty and students, faculty start-up 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 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 for K-12 teachers 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 2002-03 budget provided funding to the University for a 1.5% increase to the basic budget — instead of the 4% called for in the Partnership Agreement — to fund compensation, health and welfare 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 UC College Preparatory Initiative (which provides online courses for K-12 students), savings from prior years related to several research programs that had received large augmentations in the late 1990s, public service programs, the 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 $1,150, or 30%, to offset this reduction in 2003-04. Also, $34.8 million of the total cut proposed 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 the Merced campus, funding for 13,000 additional FTE students at the agreed-upon marginal cost of instruction, funding for health and welfare 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, 2003 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. 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.

The State remained in fiscal crisis for 2004-05 and the reductions to the University's budget were once again significant. State General Funds for 2004-05 totaled $2.721 billion, $147 million less than the funding level provided in the previous year.

Base budget reductions included another 5% cut to research ($11.6 million) and a 7.5% reduction to academic and institutional support ($45.4 million). Another $34.8 million cut had originally been targeted at increasing the University's student-faculty ratio, but was instead taken by the University as an unallocated reduction.

Also included in the total reduction to the University's budget was $183.5 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. While the Governor had originally proposed a 10% increase in undergraduate student fees and a 40% increase in graduate academic student fees to help offset these cuts, as part of the negotiation of the Compact 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. As specified in the Compact, 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.

The 2004-05 budget also included 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), which generated $5 million less in revenue than the Governor had originally assumed in his budget. The University believed that the increases needed to achieve the level of revenue proposed by the Governor would have been too steep to accomplish all in one year. As a result of the shortfall, campuses were asked to absorb an unallocated reduction of $5 million on a temporary basis until fees could be raised in 2005-06 to cover the shortfall. Nonresident tuition was also increased by 20% in 2004-05 for undergraduate and graduate academic students. It should be noted that nonresident students pay mandatory systemwide student fees and campus-based fees in addition to nonresident tuition.

One of the most difficult issues facing the University in the 2004-05 budget related to funding for enrollment. For the first time in recent history, the University was asked to reduce enrollment to help meet budget reductions. The Governor's January budget had proposed a 10%, or 3,200 FTE, reduction in University freshman enrollments and called for the University to redirect these students to the California Community Colleges for their first two years of study. Upon successful completion of their lower division work, as specified by the UC campus that originally accepted and redirected them, these students would enroll for their upper division work at that UC campus. 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 1,854 enrolled at UC during 2004-05. Another 500 remained as GTO students with plans to later transfer to the University as upper division students.

Funding for student academic preparation programs was also a challenging issue in the 2004-05 budget. In his January budget, the Governor proposed eliminating funding for these programs. Ultimately, after significant negotiation, all but $4 million of the funds for these programs was restored on a one-time basis, leaving the program with a total of $29.3 million for 2004-05.

The Governor's January budget had also 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 program with a $200,000 reduction, equivalent to the 5% reduction to the overall research budget that year.

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.

Consistent with the last several years, the 2004-05 budget again provided one-time funding to allow the Merced campus to continue its preparations to open the campus by Fall 2005. The budget increased one-time funding by $2.7 million to $10 million. This funding was provided for faculty start-up costs and to help establish the systems and core infrastructure needed to ready the campus for its opening in September, 2005.

In addition, the one-time reduction of $80.5 million from 2003-04 was also restored, consistent with the prior year budget act and, consistent with past practice, funding for annuitant health benefits and lease revenue bond payments was provided.

The University did not receive funding for increases to salaries, employee health and welfare benefits, maintenance, energy, inflation, core needs, and other cost increases. Faculty salaries were about 8-10% behind the average of other comparison institutions — a similar problem existed with respect to staff salaries. Employee benefit costs were skyrocketing, energy costs were increasing significantly, new space was 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, was falling further behind.

With the 2004-05 budget, as a result of the State's fiscal crisis, the University's State General Fund budget was nearly $1.5 billion below what it would have been if a normal workload budget had been funded for the previous four years. A little more than 1/3 of this shortfall was accommodated through base budget cuts to existing programs; a little more than 1/4 was addressed through student fee increases; and the remainder represented foregone salary and other unfunded cost increases.

A New Compact with Governor Schwarzenegger

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, Governor Schwarzenegger proposed further significant reductions to the University's budget, including over $140 million in additional base budget reductions, another $200 million in reductions to be offset by student fee increases, and an unprecedented enrollment reduction of 3,200 FTE, as discussed above. 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 with Governors Deukmejian, Wilson, and Davis in the past. The new higher education Compact was announced by Governor Schwarzenegger in May, 2004.

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 10% behind the average of comparison institutions; there is a similar problem related to staff salaries. The Compact has allowed the University to stop the erosion in salaries in the first two years, and, in subsequent 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 core 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 by about 2.5% 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 is to 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 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 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, and annuitant health benefits.

- **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.

Funding in 2005-06 and 2006-07: A Turning Point

As mentioned earlier, negotiation of the Compact with Governor Schwarzenegger late in the budget process for the 2004-05 budget helped stem the tide of budget cuts that had prevailed for four years. Further cuts that were likely to be targeted at UC in the May Revision were avoided. With the 2005-06 budget, the Compact represented a true turning point. For the first time since the State's recent fiscal crisis began, the State provided the University with a normal workload budget. Again, in 2006-07, the State provided a normal workload budget and the University was beginning to address major shortfalls that had occurred in the recent fiscal crisis.

Over that two-year period, base budget adjustments of 3% in 2005-06 and 4% in 2006-07 were funded to help support cost-of-living adjustments, market-based and equity salary adjustments, merit salary increases, health and welfare benefit cost increases, and non-salary price increases. Continuation costs for salary and benefit increases from the 2005-06, were also funded in 2006-07. In addition, enrollment workload funding was provided to support 5,000 new student FTE in 2005-06 and 5,299 new student FTE in 2006-07. In addition, the marginal cost of instruction methodology was revised for 2006-07 to more appropriately recognize the actual cost of hiring faculty and include a component for maintenance of new space, which had not been adequately

funded by the State in recent years. Other normal workload increases included provision of a 2.25% non-salary price increase and $16 million in funding for maintenance of new space in 2005-06.

In both years, the University also began a multi-year plan to restore unallocated reductions that had originally been targeted at instructional programs. In each of the two years, $10 million was directed for this purpose.

The State also funded several initiatives during this period. A total of $1.25 million was phased in over two years for the University's science and math initiative, *California Teach: One Thousand Students — One Million Minds.* State funds were matched 1:1 by the University for a total of $2.5 million for this program. An additional 400 APLE warrants were also authorized over that period as a loan forgiveness initiative to help participants in the program pay down their student loans. In 2005-06, all State funding for the University's program in labor and employment research was eliminated from the budget. However, funding totaling $6 million was restored to the University's budget for this program in 2006-07. Also, $4 million was provided in 2006-07 for the Gallo Substance Abuse Program at the San Francisco campus.

Funding for student academic preparation programs was once again a major issue in the budget process for both 2005-06 and 2006-07. In both years, the Governor's January budget proposed eliminating $17.3 million in State funds for this program, leaving only the University's $12 million in support for student academic preparation as called for in the Compact, although in the end, the final budget act for both years restored the $17.3 million in State support. In fact, the budget for 2006-07 included an augmentation of $2 million for community college academic preparation programs. In addition, the debate over effectiveness of these programs led to development of a new accountability framework developed in 2005-06, and used as the basis for the University's first annual report on the framework in April, 2006. This framework is a significant step forward in enabling the University to assess the effectiveness of these programs in a demonstrably quantifiable way.

In the 2005-06 budget, fee increases were implemented as follows:

- an 8% increase in undergraduate student fees;
- a 10% increase in graduate academic student fees;
- increases ranging from 3% - 10% in professional school fees;
- a 5% increase in nonresident tuition for undergraduate students.

In 2006-07, the State provided funding to avoid planned increases in student fees.

The budget in both years also provided $14 million in temporary start-up funds for the Merced campus as well as increases for annuitant health benefits and lease revenue bond payments, consistent with past practice. The State-funded budget for 2005-06 totaled $2.845 billion, which was a 5% increase over the prior year. The State-funded budget for 2006-07 was $3.077 billion and constituted an 8.4% increase over 2005-06.

Funding in the Current Year, 2007-08

The University is very grateful for the support of the Governor and the Legislature in providing full funding of the Compact in 2007-08. This is particularly noteworthy given the State's continuing financial challenges. The 2007-08 budget includes the following:

- a 4% base budget adjustment, which together with increases in student fees and UC General Funds, will be used to fund a compensation package of 5% including salary continuation costs, cost-of-living adjustments, merit salary increases, market-based and equity salary adjustments, health and welfare benefits, and non-salary budgets; and

- enrollment growth of 5,000 FTE students at an average marginal cost of $10,586 per student, including planned growth in nursing and medical school programs;

In addition, while the Governor had once again proposed elimination of State $19.3 million in State funds for student academic preparation programs, the Legislature augmented the University's budget to restore the funds and the final budget sustains the augmentation. Similarly, the Governor's January budget had proposed elimination of State funds for labor and employment research. The Legislature augmented the University's budget by $6 million to restore funding for labor research to its original level when the program was initiated in 2000-01 and the final budget sustains the augmentation. Budget language accompanying the appropriation calls for 40% to be used for labor education programs and 60% for research on labor and employment. Finally, the Legislature augmented the University's budget by $500,000 to support an increase for the California State Summer School for Mathematics and Science (COSMOS), an intensive academic four-week residential program for talented and motivated high school students who have completed grades 8 to 12. This augmentation was sustained by the Governor. The University is grateful for the support of the Governor and the Legislature for this very worthwhile and successful program. It should be noted that two other legislative augmentations, $1.5 million for agricultural research and $1.5 million for the Scripps Institute for Oceanography, were vetoed from the final budget act as part of the agreement reached between the Governor and legislative leadership to eliminate $700 million from the legislative version of the budget.

There were several initiatives the University had proposed that were not funded in the final budget.

- **Employer Retirement Contributions.** The University had requested that employer and employee contributions be reinstated by July 1, 2007. This issue was discussed at length throughout the budget process; however, the final budget does not include funds to reinstate support of the State's share of employer contributions, which had been estimated to be $60 million in the first year. The Governor's May Revision proposed budget language that would have stated the Governor's and Legislature's intent to fund employer contributions to the University's retirement plan (UCRP), once employee contributions are reinstated, at rates comparable to employer contributions provided to the Public Employees Retirement System. Unfortunately, neither house acted on this language. This issue will need to be revisited in the near future. The University continues to believe

that the State should support its efforts to ensure the fiscal viability of the retirement plan and that State support should be provided for the UCRP at a level similar to that provided for other State employees.

- **California Institutes for Science and Innovation.** As part of the Governor's Research Initiative announced in December, 2006, the January Governor's budget proposed increasing core support for the California Institutes for Science and Innovation by a total of $15 million, bringing the total State funding for operations to $19.8 million. The funding proposed by the Governor was needed to ensure that each Institute had a minimum level of support with which to operate, which in turn would act as seed money to continue to attract funds from industry and governmental sources. Unfortunately, the Legislature did not support the Governor's request and no funds for this purpose are contained in the final budget. It had been the University's intention to work with the Governor to continue seek approval of this funding during the remainder of the legislative session through separate legislation. However, the additional $700 million in reductions that were part of the final agreement on the budget among the legislative leadership and the Governor made it unlikely we would succeed in this effort. Options for achieving adequate funding for the Science Institutes are currently under discussion and will be discussed with the Board when a preferred option is identified.
- **Funding for Petascale Computing.** The National Science Foundation (NSF) launched a national bidding process for the design and management of a $200 million petascale computer which would become operational in 2011 as the world's fastest supercomputer. The University requested and the Governor proposed including $5 million in the 2007-08 budget as State matching funds in support of the University's bid to win this competition. The final version of the budget did not include these funds. However, the issue became moot with the announcement that the award was made instead to the University of Illinois.
- **Funding for Casa de California.** For several years, the State budget had contained language authorizing the University to use operating funds (up to $7 million) to support renovations needed for the University's educational facility in Mexico City, *Casa de California.* As part of the final negotiations on the budget, the Governor agreed to veto $700 million from the Legislative version of the budget. Included among these vetoes is a total of $500,000 eliminated from the University's budget as well as the language authorizing use of State operating funds for maintaining and renovating the facility. It is the Governor's intention that no State funds be used for this facility. The University is seeking other sources internally to continue the work of renovating the building for future academic uses.

Student fee increases of 7% for mandatory systemwide fees were implemented for all students, except 10% increases in the professional school fee were implemented for Law at the Berkeley, Davis, and Los Angeles campuses, and for Business at the Berkeley and Los Angeles campuses.

The budget in also continued $14 million in temporary start-up funds for the Merced campus and provided increases for annuitant health benefits and lease revenue bond payments, consistent with past practice. The State-funded budget for 2007-08 totaled $3.274 billion, which was a 6.4% increase over the prior year.

A P P E N D I X

BUDGET FOR CURRENT OPERATIONS
EXPENDITURES BY PROGRAM AND FUND TYPE
($000s)

	2007-08 Budget			2008-09 Proposed			Proposed Increases		
	STATE & UC GENERAL FUNDS[1]	RESTRICTED FUNDS	TOTAL FUNDS	STATE & UC GENERAL FUNDS[1]	RESTRICTED FUNDS	TOTAL FUNDS	STATE & UC GENERAL FUNDS[1]	RESTRICTED FUNDS	TOTAL FUNDS
INSTRUCTION									
General Campus	$ 1,689,346	$ 717,677	$ 2,407,023	$ 1,782,044	$ 715,650	$ 2,497,694	$ 92,698	$ (2,027)	$ 90,671
Health Sciences	377,773	541,072	918,845	385,347	548,237	933,584	7,574	7,165	14,739
Summer Session	--	13,421	13,421	0	13,421	13,421	--	--	0
University Extension	--	202,071	202,071	--	208,133	208,133	--	6,062	6,062
RESEARCH	291,949	310,093	602,042	301,949	321,645	623,594	10,000	11,552	21,552
PUBLIC SERVICE									
Campus Public Service	61,071	99,115	160,186	66,071	102,615	168,686	5,000	3,500	8,500
Cooperative Extension	45,483	16,981	62,464	45,483	17,481	62,964	--	500	500
ACADEMIC SUPPORT									
Libraries	186,492	91,666	278,158	190,799	95,166	285,965	4,307	3,500	7,807
Organized Activities	193,845	471,523	665,368	193,845	496,523	690,368	--	25,000	25,000
TEACHING HOSPITALS	53,538	4,263,424	4,316,962	53,538	4,519,228	4,572,766	--	255,804	255,804
STUDENT SERVICES	--	490,197	490,197	--	517,410	517,410	--	27,213	27,213
INSTITUTIONAL SUPPORT	365,520	285,901	651,421	365,520	300,783	666,303	--	14,882	14,882
OPERATION AND MAINTENANCE OF PLANT	447,542	114,978	562,520	473,567	119,978	593,545	26,025	5,000	31,025
STUDENT FINANCIAL AID	60,339	557,931	618,270	60,339	597,475	657,814	--	39,544	39,544
AUXILIARY ENTERPRISES	--	816,579	816,579	--	857,408	857,408	--	40,829	40,829
PROVISIONS FOR ALLOCATION	78,317	21,623	99,940	73,795	21,623	95,418	(4,522)	--	(4,522)
UNIVERSITY OPPORTUNITY FUND AND SPECIAL PROGRAMS	--	204,545	204,545	--	210,100	210,100	--	5,555	5,555
SUBTOTAL	$ 3,851,215	$ 9,218,797	$ 13,070,012	$ 3,992,297	$ 9,662,876	$ 13,655,173	$ 141,082	$ 444,079	$ 585,161
PROGRAM MAINTENANCE									
Fixed Costs, Economic Factors	--	--	--	176,714	--	176,714	176,714	--	176,714
TOTAL UNIVERSITY	$ 3,851,215	$ 9,218,797	$ 13,070,012	$ 4,169,011	$ 9,662,876	$ 13,831,887	$ 317,796	$ 444,079	$ 761,875

[1] 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 14%of the General Fund Budget. The State General Fund represent the remaining 86%. In 2008-09 proposed State and UC General Funds includes a possible $70.5 million buyout of student fee increases.

GENERAL CAMPUS AND HEALTH SCIENCES

Full-Time Equivalent Enrollments—Year Average

	2006-07		*2007-08*	
	Budgeted	***Actual***	***Budgeted***	***Estimated***
BERKELEY				
General Campus	32,325	32,875	32,535	33,810
Health Sciences	757	767	761	763
Total	33,082	33,642	33,296	34,573
DAVIS				
General Campus	27,150	27,311	27,700	27,867
Health Sciences	1,898	2,081	1,910	2,182
Total	29,048	29,392	29,610	30,049
IRVINE				
General Campus	24,743	25,586	26,050	26,960
Health Sciences	1,122	1,256	1,184	1,365
Total	25,865	26,842	27,234	28,325
LOS ANGELES				
General Campus	33,150	33,592	33,390	34,239
Health Sciences	3,827	3,879	3,935	3,815
Total	36,977	37,471	37,325	38,054
MERCED				
General Campus	1,800	1,276	2,000	1,942
RIVERSIDE				
General Campus	16,270	16,349	17,159	16,810
Health Sciences	48	49	48	48
Total	16,318	16,398	17,207	16,858
SAN DIEGO				
General Campus	25,295	25,760	26,375	26,509
Health Sciences	1,352	1,569	1,409	1,674
Total	26,647	27,329	27,784	28,183
SAN FRANCISCO				
Health Sciences	3,733	4,197	3,784	4,164
SANTA BARBARA				
General Campus	21,925	21,516	22,000	21,697
SANTA CRUZ				
General Campus	15,680	15,583	16,075	15,980
TOTALS				
General Campus	198,338	199,848	203,284	205,814
Health Sciences	12,737	13,798	13,031	14,011
Reserve	180	-	(60)	-
Total	211,255	213,646	216,255	219,825

GENERAL CAMPUS

Full-Time Equivalent Enrollments—Year Average

	2006-07		2007-08	
	Budgeted	*Actual*	*Budgeted*	*Estimated*
BERKELEY				
Undergraduate	24,170	24,792	24,435	25,555
Graduate	8,155	8,083	8,100	8,255
Total	32,325	32,875	32,535	33,810
DAVIS				
Undergraduate	22,975	23,054	23,340	23,558
Graduate	4,175	4,257	4,360	4,309
Total	27,150	27,311	27,700	27,867
IRVINE				
Undergraduate	21,368	22,540	22,550	23,689
Graduate	3,375	3,046	3,500	3,271
Total	24,743	25,586	26,050	26,960
LOS ANGELES				
Undergraduate	25,410	25,956	25,690	26,484
Graduate	7,740	7,636	7,700	7,755
Total	33,150	33,592	33,390	34,239
MERCED				
Undergraduate	1,600	1,199	1,860	1,820
Graduate	200	77	140	122
Total	1,800	1,276	2,000	1,942
RIVERSIDE				
Undergraduate	14,130	14,408	15,059	14,777
Graduate	2,140	1,941	2,100	2,033
Total	16,270	16,349	17,159	16,810
SAN DIEGO				
Undergraduate	21,750	22,124	22,575	22,834
Graduate	3,545	3,636	3,800	3,675
Total	25,295	25,760	26,375	26,509
SANTA BARBARA				
Undergraduate	18,790	18,706	19,000	18,768
Graduate	3,135	2,810	3,000	2,929
Total	21,925	21,516	22,000	21,697
SANTA CRUZ				
Undergraduate	14,090	14,187	14,475	14,555
Graduate	1,590	1,396	1,600	1,425
Total	15,680	15,583	16,075	15,980
GENERAL CAMPUS				
Undergraduate	164,283	166,966	168,984	172,040
Graduate	34,055	32,882	34,300	33,774
Reserve	180		(60)	
Total	198,518	199,848	203,224	205,814

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