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

2011-12 Budget for Current Operations
Summary of the Budget Request
As Presented to the Regents for Approval

UNIVERSITY OF CALIFORNIA

Letter from the President

California's future—no less than its past—will be shaped substantially by the quality and accessibility of public higher education. The Governor and Legislature recognized this fact when they made funding higher education a priority in the State's 2010–11 budget. Now it's up to the leadership of the University of California to do our best to ensure excellence and opportunity for future generations.

We are ready. Californians deserve the best that UC can offer. Much depends, of course, on fulfillment of the State's latest funding commitments. We will work hard for expanded, permanent commitments in the next State budget, seeking restoration of deep funding cuts and full support for enrollment growth.

However daunting the challenges may seem, I am confident that the University of California will thrive in the decades ahead because of what we accomplished during the past two years. Necessity is the mother of invention, so in this time of fiscal constraint we are finding ways to work smarter with less, aggressively cutting spending, consolidating and restructuring wherever possible, and investing in energy and strategic sourcing initiatives to make us more efficient. In reducing our budget, we strove to protect the academic program as much as possible by making disproportionate cuts to other areas.

Through the UC Commission on the Future, we developed long-range strategies to preserve the quality of teaching, research, and public service, all critical to California's economic, cultural, and physical health. We took on the task of revising post-employment benefits for the sake of future viability.

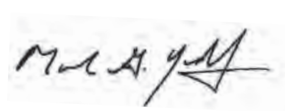
We expanded access by launching the Blue and Gold Opportunity Plan to cover systemwide fees for tens of thousands of eligible students and saw the percentage of enrolled students from low-income families rise to an all-time high. We increased enrollment from community colleges.

In addition to these positive steps, we were forced to pursue actions we would have preferred not to take. Student fees rose significantly (although we mitigated these increases with additional financial aid for lower income students), staff and faculty were furloughed, staffing was reduced, and freshman enrollment was curtailed.

We weren't alone in making these painful choices or in being vocal about their impact. Together with California State University, California Community Colleges, UC students, faculty, staff, and other advocates, we succeeded in conveying the centrality of higher education to the state's well-being.

The challenges ahead are enormous. The 2011–12 budget we are proposing reflects the fragile balance between need and resource. Its success depends in large measure on the continued restoration of our historic partnership with the State.

It will take every ounce of energy we have to make this budget work. We will strive for efficiency, be as innovative in resolving our administrative challenges as we are in our world-class research, and remain front and center with our many partners to ensure that the State keeps higher education as a top priority and fulfills its promises. And, by making difficult decisions regarding employee health and post-employment benefits, we will help secure the future for our faculty and staff, so they can assure excellence for our most precious commodity, the young minds of the next generation of Californians who seek to fulfill the promise of public higher education.



Mark G. Yudof / President

During a period of unprecedented State funding reductions, the University's primary focus is to preserve the University of California's essential role in educating the state's workforce and incubating new jobs and research discoveries. Consistent with this goal, the University's 2011–12 budget request is an attempt to balance the need to provide access, maintain quality, and stabilize fiscal health.

The key features of the budget plan are as follows:

- Curtailing enrollment to more closely match resources by maintaining constrained enrollment targets for new California resident freshmen, reduced from 2008–09 levels by 3,800 students;
- Addressing state workforce needs by expanding instructional programs in medicine and nursing;
- Stabilizing the UC Retirement Plan by increasing employer and employee contributions to 7% and 3.5%, respectively, for 2011–12, as previously approved by the Regents;
- Containing cost increases and preserving the quality of employee and retiree health benefits programs;
- Funding compensation increases already approved as part of the collective bargaining process; continuing the academic merit salary increase program, a critical activity for retaining high-performing faculty; and reviewing the staff and faculty compensation structure to prevent further erosion in terms of market competitiveness;
- Keeping pace with inflationary costs for instructional equipment, technology, library materials, purchased utilities, and other non-salary items;
- Promoting efficiencies in operations that are designed to capture savings or avoid costs;
- Increasing mandatory systemwide student fees by the minimum amount needed to help address State funding reductions, while sustaining the University's commitment to affordability by setting aside a portion of new fee revenue for financial aid for both low- and middle-income students;
- Raising professional school fees for 2011–12 to promote quality; and
- Expanding and renewing essential infrastructure and facilities, and maintaining progress on seismic and other life-safety improvements.

This document provides a summary of the current status of the University's operating and capital budgets and proposed changes for 2011–12. A companion to this document, the *2011–12 Budget for Current Operations—Budget Detail,* provides explanatory detail for all aspects of the University's operating budget, including both sources of funding and expenditure program areas. The University's capital budget program is described in more detail in the *2010–20 Consolidated State and Non-State Capital Financial Plan* document.

Display 1: 2011–12 Budget Request (Dollars in Millions)—Revised

2010–11 Current Operating Budget	
State General Funds	$2,912.6
Total Core Funds (State General Funds, UC General Funds, Student Fee Revenue, and One-time ARRA Funds)	$6,275.7

PROPOSED INCREASES IN REVENUE

State General Funds	
Restoration of One-time Reductions	$106.0
Restoration of Two-year Reduction	$167.5
Unfunded Enrollments	11,570 FTE | $115.7
Retirement Contributions[1]	$171.8
Annuitant Health Benefits	$10.5
Health Sciences Initiatives	$24.6
Subtotal	**$596.1**
UC General Funds	
Nonresident Tuition	$16.7
Federal Indirect Cost Recovery	$10.0
Subtotal	**$26.7**
Student Fees	
Educational Fee Increase	8% | $163.8
Student Services Fee Increase	8% | $15.7
Professional Fee Increases	0–31% | $32.3
Subtotal	**$211.8**
TOTAL INCREASE IN REVENUE	**$834.6**

1 Represents the State's share of retirement contributions, covering State and student fee-funded employees, totaling 7%. While employer contributions were restarted at 4% in April 2010 and will increase to 7% beginning July 2011, the State has not yet funded its share.

2 Represents the total core funds cost of the 3% increase in employer contributions effective July 2011 and the State's share of the 4% contributions occurring during 2010–11, for which the State has not provided funding.

3 Percentage increase calculated based on the permanent 2010–11 core funds budget, excluding ARRA funding totaling $106 million.

PROPOSED INCREASES IN EXPENDITURES

Enrollment Growth and Instructional Programs	
Unfunded Enrollments	$115.7
PRIME Programs	$5.5
Nursing Programs	$4.1
UCR Medical School	$15.0
Professional School Programs	$21.6
Compensation and Non-salary Items	
Retirement Contributions[2]	$182.3
Employee Health Benefits	$22.9
Annuitant Health Benefits	$10.5
Academic Merit Increases	$27.7
Compensation Increases	$87.0
Collective Bargaining Agreements	$6.0
Purchased Utilities	$5.5
Non-salary Cost Increases	$24.0
Deferred Maintenance	$60.0
Other Actions	
Reinvestment in Academic Excellence	$273.5
Efficiencies and Redirections	($101.1)
Financial Aid	
Mandatory Fee Increases	$63.7
Professional School Fee Increases	$10.7
TOTAL INCREASE IN EXPENDITURES	**$834.6**
Percentage Increase[3]	13.5%

Overview of the University Budget for Current Operations

Under the California Master Plan for Higher Education, the University of California is charged with the tripartite mission of teaching, research, and public service.

In addition to providing instruction for more than 230,000 students annually and maintaining a multi-billion dollar research enterprise, the University engages in a broad spectrum of ancillary activities, including the operation of teaching hospitals, maintenance of world-class libraries, development of academic preparation programs, management of national laboratories, and provision of housing and dining services. In 2010–11, the University's endeavors are generating $21.8 billion from a wide range of revenue sources for support of the University's operations.

Core Funds

Core funds, totaling $6.3 billion in 2010–11, provide permanent funding for core mission and support activities, including faculty salaries and benefits, academic and administrative support, student services, operation and maintenance of plant, and student financial aid. Comprised of State General Funds, UC General Funds, and student fee revenue, core funds represent 29% of the University's total expenditures. Much of the focus of the University's strategic budget process and negotiation with the State is dedicated to the uses of these fund sources.

Historically, State funding has been the largest single source of support for the University. Totaling $2.91 billion in 2010–11, State funds have provided and remain a critical core investment, enabling UC to attract funds from federal, private, and other sources. However, the volatility of State support and the failure to keep pace with enrollment and inflation, particularly over the last 20 years, have eroded the University's competitiveness and jeopardized the quality of the academic program. Even with partial restoration in 2010–11, the unprecedented cuts in State funding for 2008–09 and 2009–10 have brought the University to an insufficient support level that threatens to replace excellence with mediocrity.

Over the last two decades, student fees have helped to make up for declines in State support for UC, but at considerable cost to students and their families. Even with fee increases, overall core funding per student has declined by 18% in inflation-adjusted dollars.

Other sources of funds help augment and complement the University's core activities of instruction and research, providing support functions, public service to the state and its people, and a rich social, cultural, and learning environment on UC campuses. However, these other sources cannot supplant core funding from the State. In fact, inadequate core funding will affect the continued robustness of these other sources.

Sales and Services Revenue

These revenues directly support the University's academic medical centers and clinical care staff; auxiliary enterprises such as housing and dining services, parking facilities, and bookstores; University Extension; and other complementary activities such as museums, theaters, conferences, and scholarly publishing.

Government Contracts and Grants

Federal, state, and local governments directly fund specific research programs as well as student financial support.

Private Support

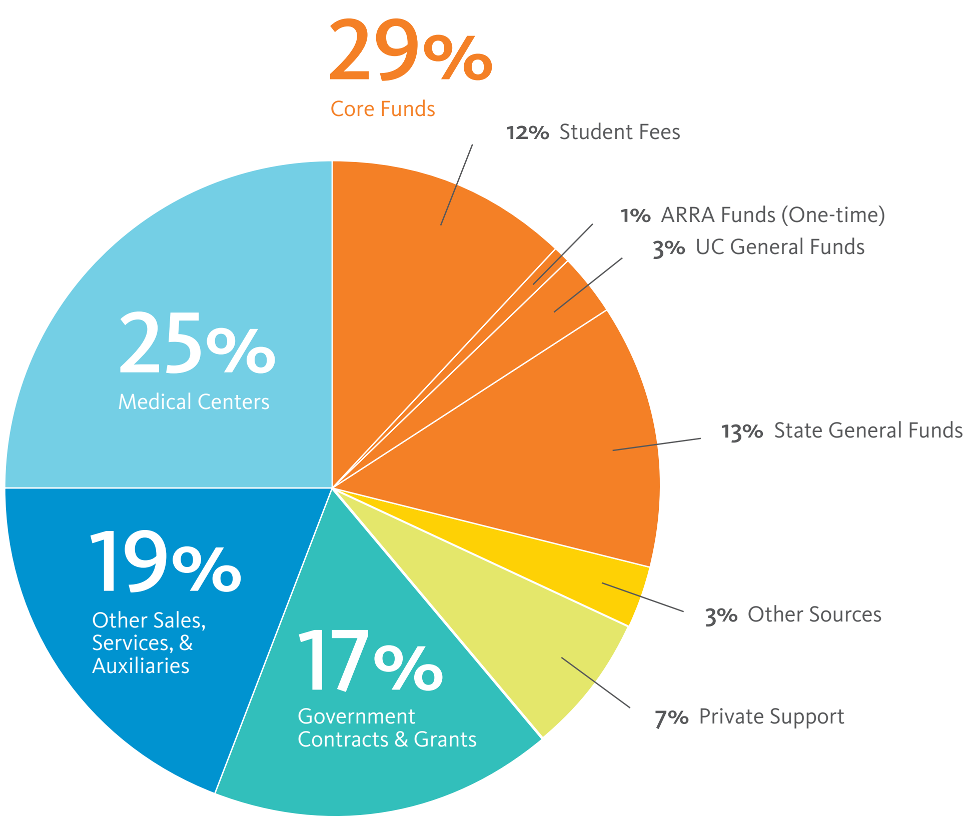
Endowment earnings, as well as private gifts, grants, and contracts, fund a broad range of activities, typically restricted by the donor or contracting party. Private support comes from alumni and friends of the University, foundations, corporations, and through collaboration with other universities.

Other Sources

Other sources include indirect cost recovery funding from research contracts and grants that supports the costs of administration and operation and maintenance of facilities.

In the case of gift, grant, and contract funds, uses are often contractually or legally restricted; funds can be used only for purposes stipulated by the donor or granting agency. For other sources, such as hospital and auxiliary revenues, operations are market-driven and face many of the same cost and revenue pressures occurring in the private sector. Revenues are tied not only to the quality of the direct services and products being provided, but also to the price the market will bear. The

Display 2: 2010–11 Sources of Funds



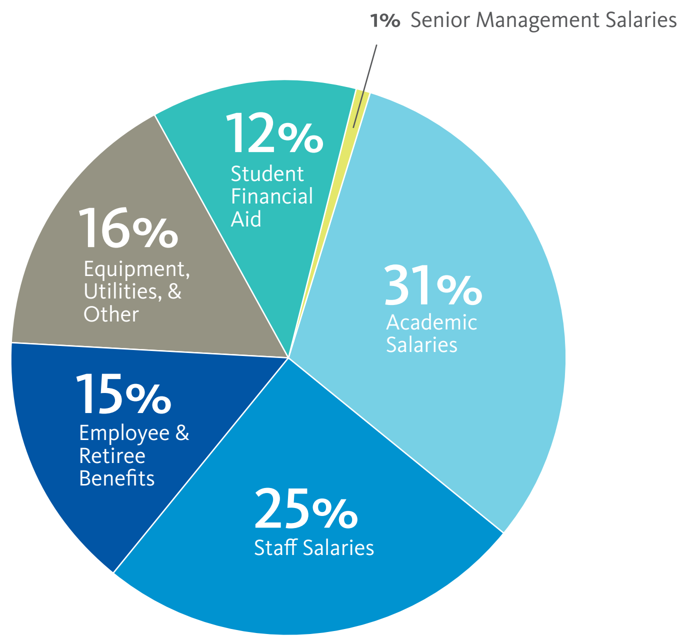
UC's $21.8 billion operating budget consists of funds from a variety of sources. State support, which helps attract other dollars, remains most crucial.

excellence of the core mission operation of the University also plays a role. Erosion of support for UC's core operations will have ripple effects on other activities.

The historic investment from the State has helped develop one of the finest public university systems in the world, one that serves the economically and ethnically diverse people of California, who will go on to contribute through research and ingenuity to drive the economic health of the state. That investment must be restored if the University is to remain among the world's top universities and continue to provide the state with the economic and social benefits that derive from a great institution of research and learning.

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

Display 3: 2009–10 Expenditures from Core Funds



Nearly three-fourths of core funds (State and UC General Funds and student fees) support personnel through academic, staff, and senior management salaries and benefits.

How ARRA Funds Are Helping UC

The American Recovery and Reinvestment Act (ARRA), signed by President Obama in February 2009, is providing support for UC in several ways.

State Fiscal Stabilization Funds

ARRA includes funding for states to help maintain support for education. As of October 2010, UC has received $822.5 million in State Fiscal Stabilization Funds to help offset State funding reductions and support UC's operating budget on a one-time basis.

Research Grants

ARRA provides significant additional funding for federal research grants, particularly for biomedical, energy, and climate change research. UC researchers have been awarded more than $1.1 billion in additional grant funding. Because many are multi-year, these research awards will have an impact beyond the 18-month term of ARRA. UC campuses and national laboratories are also benefiting from ARRA awards for construction of research facilities.

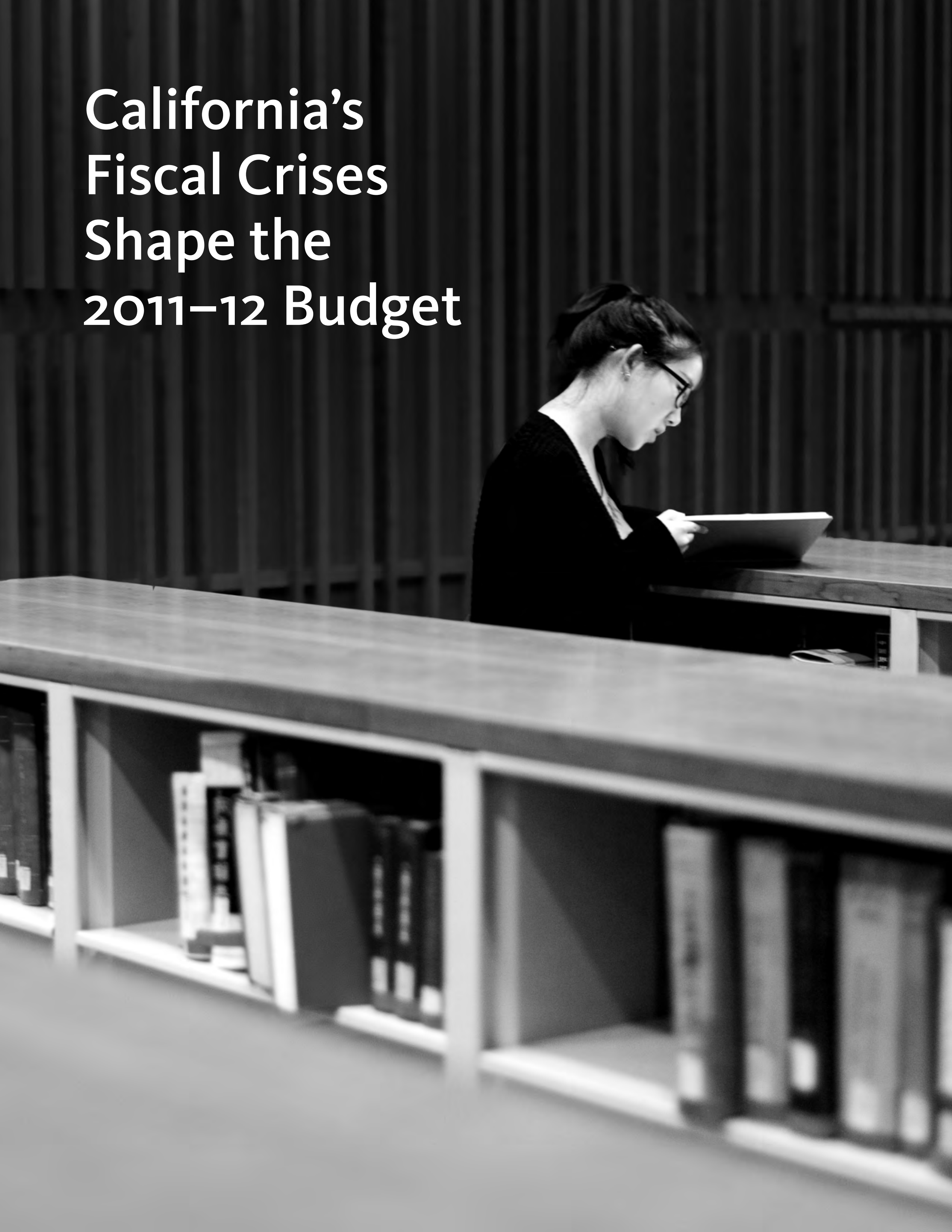
Medical Centers

In addition to the expansion of research funds described above, UC's medical centers are benefiting from a major investment in clinical operations through an increase in the federal Medicaid matching assistance percentage, which increased Medicaid payments to the medical centers by $55 million in 2009–10. ARRA also includes funding for investment in clinical information technology and community health.

Financial Aid

ARRA is helping UC students and families pay for their education. For low-income students, it increased the maximum Pell Grant from $4,731 in 2008–09 to $5,550 in 2010–11, benefiting more than 52,000 UC undergraduates, and boosted funding for the Federal Work-Study program. In addition, the American Opportunity Tax Credit, which was created by ARRA, is benefiting eligible students and parents who pay for required tuition, fees, books and course materials out-of-pocket in 2009 and 2010. More than 80,000 UC students are eligible for the tax credit.

California's Fiscal Crises Shape the 2011–12 Budget



The development of the 2011–12 budget occurs in a context shaped by the State's enduring fiscal challenges and the University's efforts to respond to inadequate State funding.

The State has faced two major fiscal crises in the last ten years. In the midst of the earlier crisis, in 2005–06, UC and CSU entered into a six-year Compact with Governor Schwarzenegger. The funding agreement was a comprehensive statement of the minimum resources needed for the University to accommodate enrollment growth and sustain the quality of the institution.

From 2005–06 through 2007–08, the Compact served the University well. State funding increased by more than $550 million, allowing UC to continue enrollment growth, provide compensation increases for faculty and staff, and avoid a student fee increase in 2006–07.

The provisions of the Compact called for the State to provide increased funding for 2008–09, 2009–10, and 2010–11 of at least $223 million each year. However, the State's ongoing budget deficit has prevented funding of the Compact. In 2008–09, the Governor first funded the Compact provisions and then proposed a 10% reduction from that higher budget. In this way, at least initially, the Compact protected UC from greater budget reductions in 2008–09. As the State's latest fiscal crisis grew during 2008–09, proposed budget cuts for 2008–09 and 2009–10 also grew. Permanent and one-time cuts to UC's budget for 2008–09 totaled $814.1 million, although these reductions were offset by $716.5 million in American Recovery and Reinvestment Act (ARRA) funds. For 2009–10, permanent and one-time cuts in State funding totaled $637.1 million (from the level of State funding in 2007–08), essentially erasing the gains made over the earlier period of the Compact.

In 2010–11, the State restored a portion of the 2009–10 cuts ($305 million), although one-third of this restoration was provided from additional one-time ARRA funds. The State also provided funds to support enrollment of 5,121 FTE students, reducing the University's unfunded enrollment by about one-third. Even with this funding, the University's 2010–11 permanent State allocation is more than $1 billion below the level envisioned by the Compact.

The fiscal problems associated with the inability of the State to provide the funding called for in the Compact—including funding for 2.5% enrollment growth annually—and subsequent funding reductions have been further compounded for UC by unfunded cost increases for academic merit increases, collective bargaining agreements, health benefits, purchased utilities, and, beginning in 2009–10, contributions to the UC Retirement Plan.

ACTIONS TO ADDRESS BUDGET SHORTFALLS

The State's enduring fiscal challenges, the long-term decline in State support, and substantial mandatory cost increases are forcing the University to reexamine all aspects of operations and develop new strategies. It is in this context that efforts are being made centrally as well as at the campus level to reduce costs, both over the short term and the long term.

Systemwide and UCOP Actions

- Salary Reduction/Furlough Plan: In July 2009, the Regents approved a salary reduction and furlough plan limited to one year that has saved $136.5 million in General Funds as of October 2010; more will be saved in the coming months as furloughs continue for some employee groups that started the program on a delayed schedule.

- Debt Restructuring: UC has taken steps to delay principal payments totaling $150 million over 2009–10 and 2010–11, providing temporary relief to campuses.

- Senior Management Compensation Actions: The President and other senior members of the Office of the President (UCOP) and campus leadership reduced their salaries by 5% for one year, effective July 1, 2009. This was two months ahead of the implementation of the furlough program, which in most cases imposed 9% to 10% pay reductions for Senior Management Group (SMG) employees in 2009–10. In addition, systemwide salary freezes for SMG members were imposed.

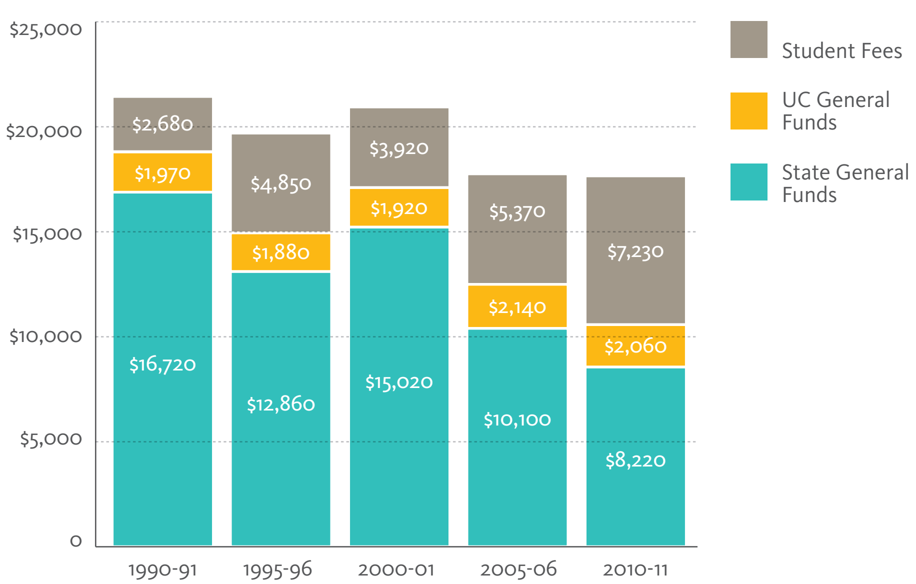
- UCOP Restructuring: During 2007–08 and 2008–09, UCOP undertook a thorough restructuring and downsizing. As of 2010–11, the UCOP budget is 16% less than it was in 2007–08 when restructuring began, declining from $523.8 million to $438.5 million over that period. The number of FTE staff employed at the UCOP declined by nearly 600, from

2,069 to 1,480. Roughly $30 million of the budget reduction has been achieved through the transfer of programs to campuses. The remainder—$55 million—has been the result of layoffs, consolidations and restructuring, new administrative efficiencies, expenditure reductions, and voluntary separations.

- Other Actions: Certain bonus and incentive programs were cancelled or deferred. Staff merit salary increase programs were not implemented for 2008–09 or 2009–10. Significant restrictions have been placed on travel and other purchasing. As an example, travel expenditures at UCOP were down over 60% as a result of the travel constraints.

- The UC Commission on the Future: In July 2009, UC launched the Commission on the Future with a goal to shape a far-reaching vision to ensure excellence and access to UC in the future while addressing acute financial challenges resulting from the State's fiscal woes. Key issues pursued by the Commission include access and affordability, the appropriate size and shape of the University, efficient models for educational delivery, strategies for reducing costs and maximizing funding streams, and best models for research practices. A critical focus of the Commission, in addition

Display4: Per-Student Average Expenditures for Education



Since 1990–91, average inflation-adjusted expenditures for educating UC students have declined 18%. The State's share of expenditures has plunged even more steeply—by more than 50%. Over this period, the student share, net of financial aid, has tripled, from 13% to 41%.

to preserving the excellence of UC while facing economic realities, has been to find ways to maintain and even expand UC's substantial contributions to California's economy and cultural life.

- Administrative Efficiencies: Working Smarter: Growing out of the work of the Commission on the Future, the University community has identified administrative and operational effectiveness as a key tenet of long-term viability. This consensus has evolved into Working Smarter, an ongoing administrative efficiency effort that brings together systemwide, regional, and campus-level initiatives under one umbrella, with the specific objective of redirecting $500 million of annual positive fiscal impacts in five years from administrative costs to the academic and research mission of the University. Among these efforts, the University's Strategic Sourcing initiative has achieved $260 million in cumulative cost savings since its inception in 2004–05. Through the Statewide Energy Partnership Program, the University is pursuing $262.6 million in energy conservation projects that are expected to generate $18 million in annual energy savings after debt service.

Campus Actions

Campuses also are taking individual actions to address funding shortfalls. Academic and administrative units on the campuses have been assigned cuts ranging in general from 6% to 35%, determined through a series of consultative processes on each campus. More than 2,600 staff have been laid off and another 1,400 positions have been eliminated since the fiscal crisis began. Scores of programs have been eliminated and others consolidated for an estimated savings of over $110 million.

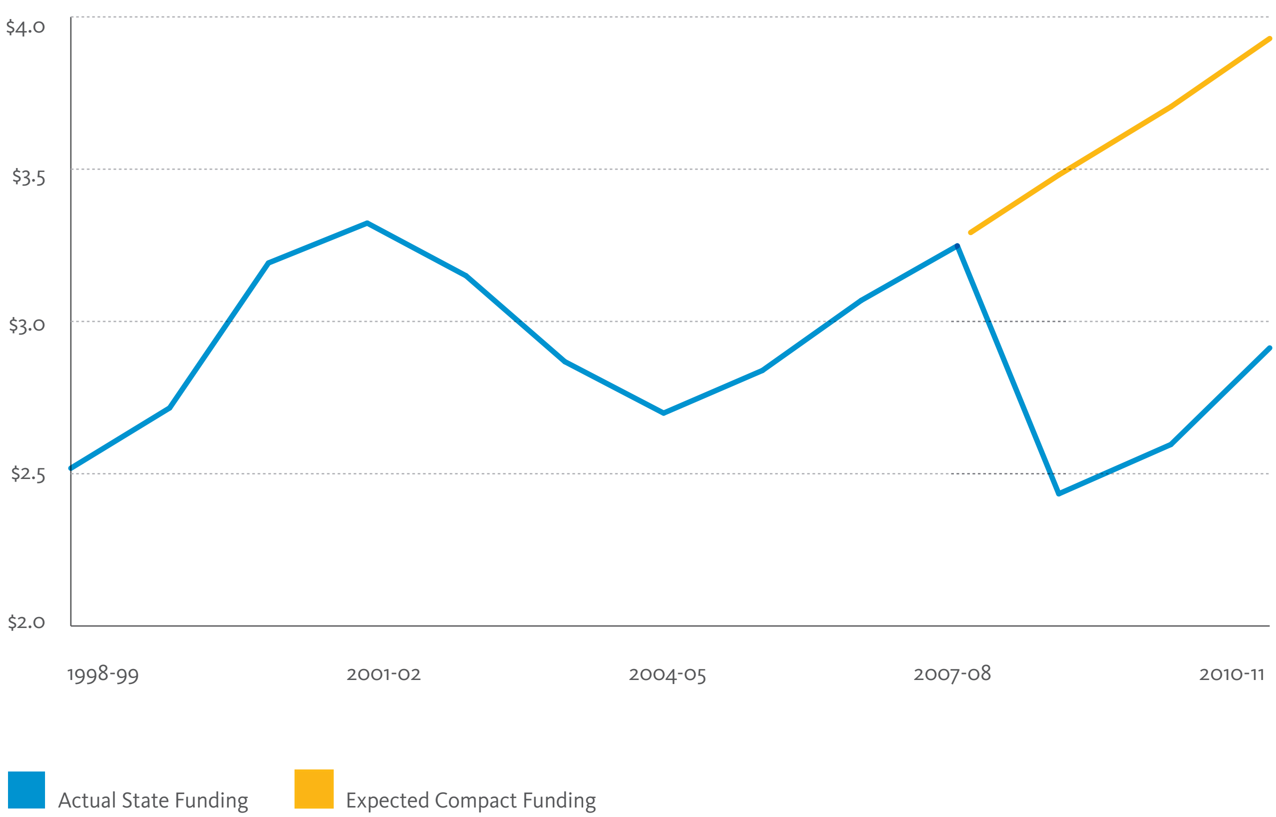
No campus is applying across-the-board cuts; each is using a consultative, deliberative process to determine how reductions should be allocated. All campuses are applying disproportionate cuts to administrative programs in order to reduce the impact on academic programs.

Even so, the magnitude of the State budget reductions has meant that the University's academic programs are being affected. Some of the measures being taken to address cuts include delaying hiring of new faculty and the elimination of course sections and even some programs. These decisions in turn mean larger class sizes, narrower offerings for students, and less opportunity for students to interact with leading scholars.

The impacts of even short-term actions on the academic programs are of great concern. For example, reduced course offerings and contact with faculty may undermine the strength of the academic community and lead to reduced student retention and lengthened time-to-degree. Meanwhile, due to loss of staff support, remaining faculty will be asked to assume more administrative tasks and more student advising.

Furthermore, the inability to hire new faculty and the increased instructional workload for existing faculty will also have damaging impacts on the University's research enterprise. UC researchers attract billions in federal and private research dollars to California, creating thousands of jobs and helping support graduate students, who will be the state's next generation of scientists, engineers, entrepreneurs and leaders. The innovations and discoveries generated from UC's research enterprise in turn lead to the creation of patents, as well as spinoff industries and startup companies. Disinvestment in UC faculty harms UC's ability to use its research enterprise to fuel the state economy.

Display 5: State Funding for UC (Dollars in Billions)



The State's fiscal crises over the last ten years have made State funding for UC highly volatile. Despite significant increases in costs and student enrollment, in 2010–11, State funding is below the level provided in 2000–01 and more than $1 billion below the level promised by the Compact.

Summary of the University's 2011–12 Budget Request

For UC to remain the high-quality institution it has been for more than 140 years requires that the State reinvest in the University.

As mentioned earlier, full funding of the Compact, intended to establish the minimum levels of support necessary to maintain access and quality, would mean that State support for UC would be nearly $1 billion higher in 2010–11 than funding currently provided. While most of the State budget reductions for UC during 2008–09 and 2009–10 were proposed and approved as temporary cuts, the continuing State budget deficit makes the full restoration of these earlier reductions a significant challenge.

Recognizing the State's difficulty in fully funding the University's needs, the budget plan for 2011–12 is based on the most critical funding priorities and actions necessary to keep quality from eroding to a point beyond which access to a UC education becomes an empty promise.

SUMMARY OF PROPOSED REVENUE

The University's plan calls for restoration of State funding reductions, funding of the State's obligations to UC retirees, and additional State funding for recent enrollment growth and initiatives, as well as new revenue from student fee increases.

State General Funds

State General Funds totaling $596.1 million are proposed as follows:

- permanent restoration of $106 million that is funded during 2010–11 on a one-time basis with federal ARRA funds;
- restoration of $167.5 million associated with a two-year reduction proposed by the Governor in May 2009 for the 2009–10 budget;
- funding for the State's share of the cost of restarting contributions to the UC Retirement Plan, totaling $171.8 million;
- funding for the State's share of cost increases associated with retiree health benefits, totaling approximately $10.5 million;
- marginal cost of instruction funding for enrollment of 11,570 FTE students for whom the State has not yet provided support, totaling $115.7 million;
- additional enrollment funding to support growth in medical and nursing education programs, totaling $9.6 million; and
- permanent support of $15 million to develop a new medical school at the Riverside campus.

UC General Funds

UC General Funds are expected to increase through growth in indirect cost recovery on research contracts and grants and nonresident tuition income due to increases in enrollment of nonresident students and adjustments to nonresident tuition levels. Nonresident students will experience dollar increases in total charges equivalent to those of resident students ($822). Due to the already high level of tuition and fees paid by nonresident students, no further increase in nonresident tuition is proposed, aside from minor adjustments necessary to eliminate differentials in mandatory systemwide fees for nonresident students.

Student Fees

Given the large share of instructional costs currently funded from student fees, annual fee increases are increasingly necessary for the University to address rising costs, barring extraordinary reinvestment by the State. In addition to the State funding request of $596.1 million, the proposed budget plan includes an assumption of revenue associated with fee increases as follows:

- mandatory student fee increases of 8% ($822) for all students for 2011–12; and
- increases for 2011–12 in professional school fees ranging from 0% to 31%, depending on the campus and program.

It is the University's intention, as it has done in the past, to augment UC financial aid to mitigate the impact of cost increases, including fee increases, on needy students. Net of financial aid, these student fee increases are expected to generate $137.4 million annually to support the University's operating budget.

The University is proposing these fee actions at the November 2010 meeting of the Regents. These actions are being requested at this time in order to provide continuing and prospective students with advance notice of fee levels for 2011–12 and enable faculty and campus leadership to plan accordingly. By restoring funds cut from the University's base budget, the State funding requested in the budget plan would only partially backfill the University's current budget gap—in other words, student fee increases would still be needed to help fund mandatory, but unfunded, cost increases. If the State is able to provide not only the funding requested but also funding in excess of this request to help fill the total budget shortfall, the fee increases approved at the November meeting would be reviewed and a subsequent action to revise fee levels would be brought to the Regents.

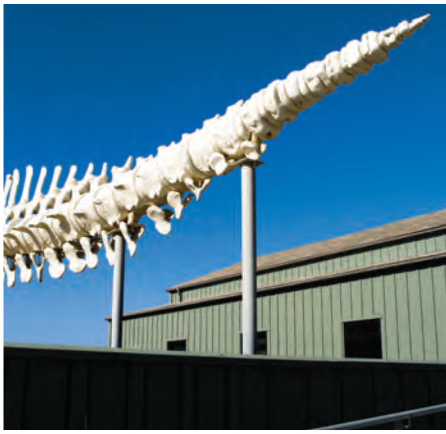
However, if the State is unable to provide sufficient funding augmentations to support the University's most essential cost increases in 2011–12, further fee increases may need to be considered later in the budget cycle.

The proposed budget plan represents an increase of $834.6 million, or 13.5%, over the current year, when calculated on a base that includes programs funded from State and UC General Funds and student fees (Educational Fee, Student Services Fee, and the Fee for Selected Professional School Students).

Expenditure Challenges Facing the University in 2011–12

Accommodating enrollment without sufficient resources means that new and continuing students alike are denied the highest quality academic experience promised them.

CURTAILING ENROLLMENT TO REFLECT AVAILABLE FINANCIAL RESOURCES



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 California resident undergraduate students who wish to attend. This commitment was most recently underscored in the Compact with the Governor.

In addition, in recent years, the University planned to rebalance 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 was estimated that enrollment would need to grow by about 2.5% per year, consistent with the Compact, through 2010–11 as growth in high school graduates peaked. Funding for this growth was provided during the first three years of the Compact. UC was planning for continued growth in graduate and professional enrollments after 2010–11, when demographic projections indicate there would be a significantly slower rate of growth in undergraduates.

The State's current fiscal crisis has dramatically altered the enrollment landscape. The State was unable to provide funding for enrollment growth that occurred during 2008–09 and 2009–10. As a result, in 2009–10, UC enrolled more than 15,000 FTE students for whom the State had not provided enrollment growth funding.

In response to the State's inability to provide the resources necessary to support enrollment demand, the University has taken steps to curtail enrollment growth. For 2009–10, UC planned to reduce the number of new California resident freshmen by 2,300 students as a means of slowing enrollment growth, and for 2010–11, the planned reduction was increased by another 1,500 students, for a total reduction of 3,800 students. Fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation, primarily at Merced. As a result, students had fewer UC campus choices and, in some cases, chose to pursue their education at other institutions.

During 2009–10, the actual number of new California resident freshmen fell by more than 2,000 students. For 2010–11, current estimates indicate that campuses fell short of the planned reduction, achieving a reduction of only 2,850 students over the two-year period. The freshman reductions were partially offset by a planned increase of more than 1,000 California Community College (CCC) transfer students over the two-year period. The University took this action in order to preserve the transfer option in difficult economic times.

In 2010–11, the State budget provided enrollment growth funding of $51.3 million to support 5,121 FTE students at UC. Even with these new resources, during 2010–11, the University is enrolling 11,570 FTE students for whom the State has not provided funding. The University is requesting that the State provide full funding of UC enrollments during 2011–12.

Accommodating enrollment without sufficient resources (except the student fee income associated with enrollments) means that new and existing students alike are affected by the lack of resources needed to support a high quality academic experience. As mentioned earlier, campuses are employing a variety of measures to deal with the budget shortfall—dramatically slowing the hiring of permanent faculty, narrowing course offerings, increasing class sizes, curtailing library hours, and reducing support services for students—all of which are negatively impacting what has historically been an educational program characterized by excellence and opportunity.

During a budget crisis, such steps are necessary. But these actions are not sustainable over a long period of time if the quality of the University is to be preserved. Revenue from student fees has helped, but it is insufficient to fully address the loss of State funding. While acknowledging that access is important, the University cannot indefinitely accommodate larger numbers of students without adequate resources needed to provide them a UC-caliber education. The dilution of State funding over larger numbers of students results in a lower quality experience for all students.

If the State is unable to fund the University's request for funding for 11,570 FTE students, the University will need to continue on a path toward bringing enrollments to a level more consistent with the resources provided by the State in order to preserve quality. To do so, the University will continue to constrain the enrollment of new California resident freshmen in 2011–12 and later years. For 2011–12, California resident freshman enrollment targets and graduate student enrollments would be maintained at 2010–11 levels. These targets, if sustained over several years, would help decrease total enrollments to a level more consistent with resources. For CCC transfer students and graduate students, 2010–11 enrollment levels will be slightly increased, by 250 students systemwide.

If the State funds the University's budget request, including support for 11,570 FTE students, the University would be able to restore spaces in the California resident entering freshman class over the next several years.

Dilution of State Funding

Accommodating enrollment without sufficient State support (the student fee income associated with enrollments is inadequate) affects students and faculty alike, denying them the highest-caliber academic experience they deserve and have come to expect. The lack of funding for recent growth dilutes the resources of the University.

For students, this means, among other things:

- fewer high-caliber faculty hired,
- fewer and narrower course offerings,
- larger class sizes,
- reduced interaction with leading faculty,
- a lack of functional and modern instructional equipment, and
- constrained library holdings and longer waits for library and student services.

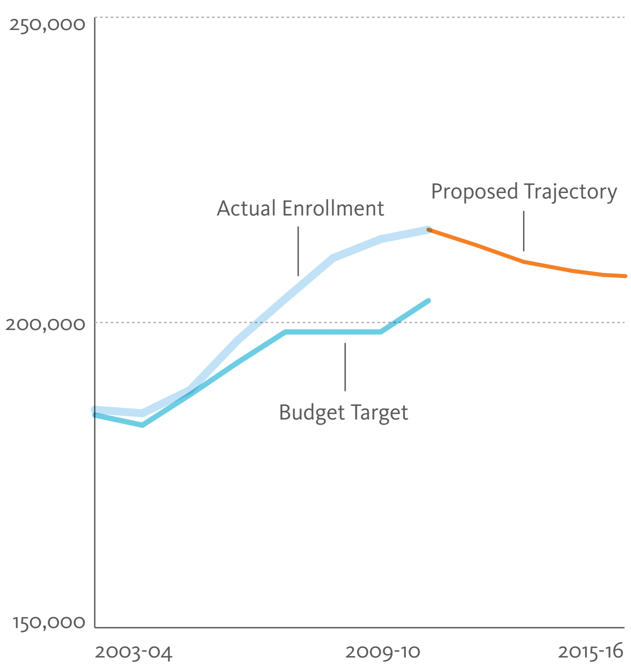
For faculty, some of the impacts include:

- fewer competitive offers to attract the best faculty and graduate students,
- less time spent on research and public service activities as more time must be spent teaching a larger number of students,
- working with outdated equipment in inadequately maintained buildings, and
- impaired morale at a time when offers from other institutions are becoming more attractive.

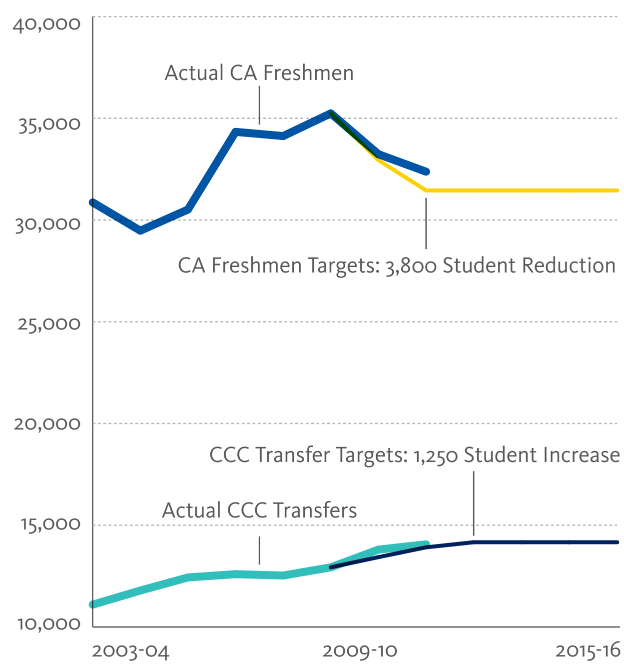
For students and faculty alike, dilution of resources leads to reduced quality and increasing dissatisfaction with the academic experience. Ultimately, the loss of the University's preeminence will have an impact beyond the campuses.

Display 6: State-supported Student Enrollment

Total Enrollment



New Student Enrollment



The Compact called for enrollment growth of 2.5% annually through 2010–11 to accommodate Tidal Wave II and expansion of graduate enrollments. Enrollments grew more rapidly than expected, and during 2008–09 and 2009–10, the State was unable to provide funding for enrollment growth. Despite new enrollment funding provided by the State in 2010–11, the University is enrolling 11,570 FTE students for whom the State has not provided funding.

In order to decrease the level of unfunded enrollment, the University took action in 2009–10 and 2010–11 to reduce numbers of new California resident freshmen by a total of 3,800 students over two years. This reduction was offset by a planned increase of 1,000 CCC transfers. Unless State funding is provided to fund total enrollment, the University will continue to constrain entering freshman classes in order to bring total enrollments to a level consistent with resources.

UC Merced

Adding to the difficulty of dealing with State budget reductions, cost increases, and unfunded enrollments is the need for UC to maintain enrollment growth at Merced. The Merced campus commenced its sixth year of operation in 2010–11 with a total enrollment of 4,254 FTE students, reflecting strong student interest in Merced's unique educational environment and programs. Deferring growth at Merced is undesirable because it delays the point at which the new campus reaches "critical mass" enrollment and achieves economies of scale. Given its small size, Merced is not capable of absorbing, even temporarily, the additional instructional costs incurred by enrollment growth without State support.

In order to maintain the enrollment growth trajectory needed to reach critical mass at the Merced campus, the University redirected resources from the other campuses and used savings realized from UCOP restructuring to support planned increases of 1,375 students over 2008–09 and 2009–10. For 2010–11, enrollment growth funding provided by the State will support another 675 students at Merced. It is essential to maintain Merced's growth funding over the next four years. The campus is expected to reach critical mass in 2015–16.

Medicine

Over the last several years, the University began to expand 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. Without State support, reductions in regular MD enrollments have been made in order to continue development of the PRIME programs. The University is requesting funding for 194 MD and 61 MS students in 2011–12.

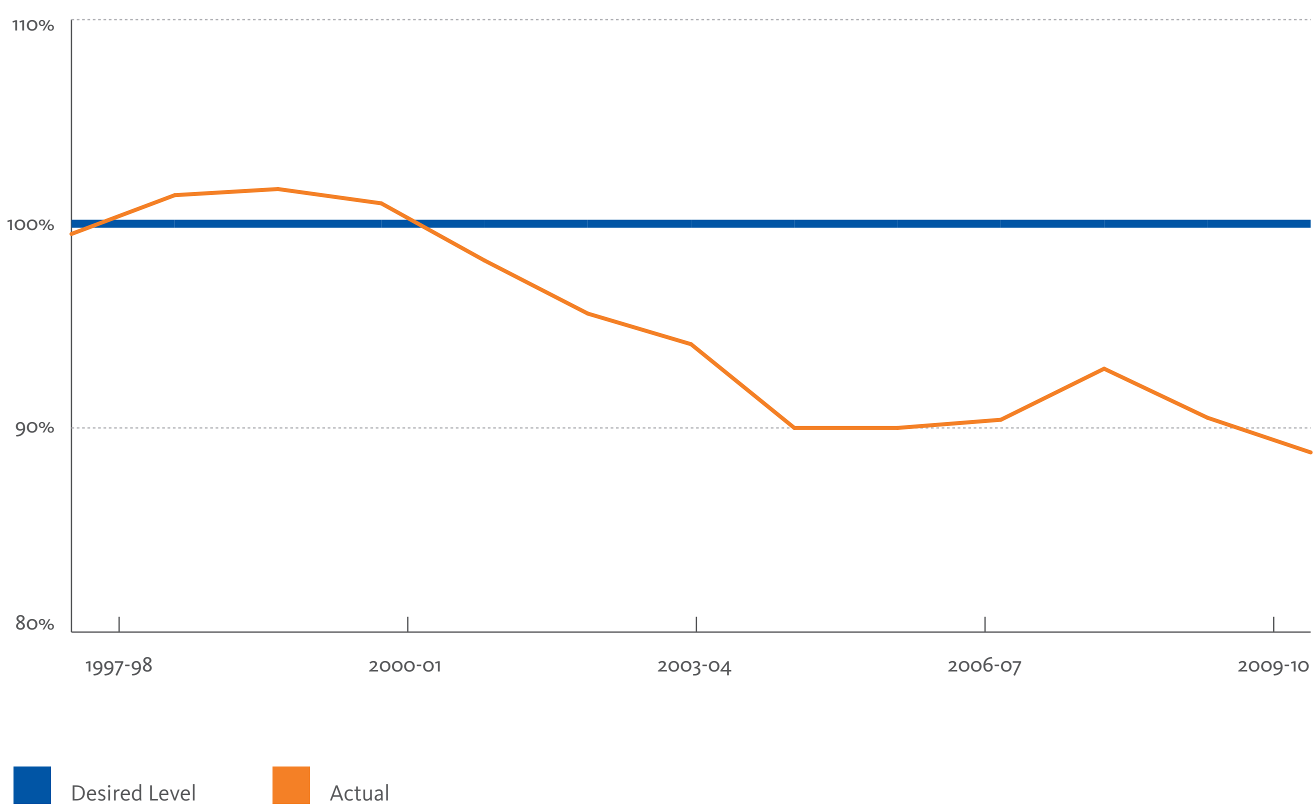
Display 7: General Campus and Health Sciences FTE Student Enrollment

	2007-08 Budgeted	2009-10 Actual	2010-11 Estimated
Berkeley	33,296	36,167	36,373
Davis	29,610	31,613	32,237
Irvine	27,234	28,302	28,152
Los Angeles	37,325	39,033	39,058
Merced	2,000	3,472	4,254
Riverside	17,207	19,239	20,234
San Diego	27,784	30,091	29,885
San Francisco	3,784	4,286	4,358
Santa Barbara	22,000	23,250	22,747
Santa Cruz	16,075	17,160	17,711
Total	**216,315**	**232,613**	**235,009**

Nursing

In recent years, the University began a multi-year plan to increase undergraduate and graduate nursing programs to help meet the state's critical shortage of both practitioners and nursing faculty. The University is receiving $12 million of Workforce Investment Act funding over five years ($3 million during 2011–12) through the Governor's Nursing Education Initiative to train and graduate a single cohort of about 350 nursing students across multiple degree programs. In addition, the University is requesting $1.1 million to support a permanent increase of 111 students to help address the state's nursing shortage.

Display 8: Faculty Salaries as a Percentage of Market



After one year of the faculty salary plan, the market lag of UC's faculty salaries improved from 9.6% to 7.1% in 2007–08. However, with no range adjustments in 2008–09 or 2009–10, the gap widened again to 11.2% in 2009–10, excluding the impact of the furlough reductions. Without a general salary increase in 2010–11, the gap is expected to widen further.

ESTABLISHING A NEW MEDICAL SCHOOL

Responding to the state's need for more physicians in the workforce, the Riverside campus plans to establish a four-year school of medicine that would be the first new allopathic medical school to open in California in more than 40 years. The mission of UCR's School of Medicine will be to improve the health of the people of California and to serve inland southern California by training a diverse physician workforce and developing innovative research and health care delivery programs.

The 2010–11 State budget includes a provision requiring the University to redirect $10 million from existing resources to continue planning for the medical school. However, redirecting resources to fund a major new initiative such as a medical school is not sustainable. Thus, the University is requesting permanent State funding of $15 million for 2011–12.

State funding of $15 million will be used to develop academic programs and support the salaries of initial medical school staff and faculty. Specific start-up activities that will occur during 2011–12 include pursuing accreditation for the medical school curriculum and graduate medical education (residency) programs, establishing affiliations with community-based hospitals and clinics, and pursuing private philanthropy to capitalize on the State's investment in the medical school.

COMPENSATION FOR ACADEMIC AND STAFF EMPLOYEES

Attracting and retaining quality faculty and staff to the University of California are critical to building and maintaining the excellence of UC's teaching and research programs. Earlier cuts to the University's budget have resulted in significant disparities in faculty and staff salaries compared to the market. In 2009–10, UC faculty salaries lagged the market by 11.2%, and there is a similar or greater problem with respect to staff salaries in most workforce categories. The University is deeply concerned about the widening gap between funds available for compensation and the resources needed to fund competitive salaries. Studies of UC's total compensation program indicate that, in general, salaries are significantly below the market median, but that the total compensation package, including salaries, health and welfare benefits for active employees and annuitants, and retirement benefits, is more competitive with the current market.

Plans to eliminate the salary lags for faculty over four years and for staff over a longer period were initiated in 2007–08, but the State's ongoing fiscal crisis has delayed implementation of those plans. While the merit and promotion system for academic employees has been maintained, no general salary increases were provided for faculty or staff in 2008–09 and 2009–10. Furthermore, as mentioned earlier, to provide immediate, temporary financial relief to the University amidst unprecedented reductions in State funding, the University implemented a one-year salary reduction/furlough plan from September 2009 through August 2010. Graduated salary reductions based on total salary levels ranged from 4% to 10% and furlough days ranged from 10 to 26 days over the year. While the furlough program allowed the University to achieve immediate savings and avoid larger numbers of layoffs, the salary reductions exacerbated already significant salary gaps on a temporary basis.

Looking ahead, compensation costs will remain a significant issue over the next several years. First, the cost to continue the academic merit salary increase program, net of salary savings from retirements and separations, will grow at an annual rate of nearly $30 million.

Second, current collective bargaining agreements will add more than $6 million to the cost of UC's core funded programs during 2011–12 and much more in other areas of University operations.

Display 9: Increases in Funding for Staff Salaries

Annual percentage increases in funding for UC staff salaries lagged increases in funding for salaries in the Western Region market in nine out of the 13 years since 1997–98. In four of those years, UC was unable to provide any increases, resulting in significant market disparities. (Source: World at Work Annual Salary Budget Survey)

Third, changes in the costs and structure of the University's employee benefits programs will intensify pressure for salary increases. While the initial 2% employee contributions to the retirement plan during 2010–11 were made by redirecting previous employee payments to the Defined Contribution Plan, the 1.5% increase in employee contributions that will occur in 2011–12 and further increases in subsequent years will have an impact on employee take-home pay. In addition, a lack of funding over the next several years to match the inflationary cost increases in health and welfare benefits will likely require that employees pay for an increased share of their medical insurance premiums. Although the benefits provided by the University are an important component of the packages offered to candidates, the salary component itself must be competitive to attract and retain quality faculty and staff employees if the University is to retain its preeminent stature.

Finally, a national economic recovery is likely to have daunting repercussions on recruitment and retention of high-performing faculty and staff for UC. If and when endowments at private institutions recoup their losses and other states restore funding for public institutions, it is expected that those institutions will move rapidly to restore academic programs by recruiting high-performing faculty away from other universities. UC may find itself struggling to retain its own high quality faculty. Similarly, economic recovery in California will generate new competitive opportunities for staff.

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.

Employee Health Benefits

Employee health benefit costs are rising at a rapid rate (10% for calendar year 2010), much more so than the 5% rate of growth anticipated when the Compact was developed in 2004–05. Thus, funds received during the early years of the Compact for employee benefit costs fell far short of what was actually needed. And as previously noted, no State funds were provided for this purpose in 2008–09 or 2009–10, yet costs continued to rise, dramatically exacerbating an already difficult problem. Campuses have been forced to redirect funds from existing programs to address these cost increases—beyond the redirections necessary to absorb base budget cuts.

In addition, employees have been required to bear a larger responsibility for the rising costs of these benefits, partially offsetting earlier salary increases. 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 pays approximately 87% of monthly medical premiums for employees on an aggregate basis, the University has made a strategic decision to cover an even larger portion of the premium for those in the lower salary brackets.

In the current environment, with limited new funding and growing cost pressures, it is expected that some of the increases in cost will continue to be borne by most employees. The University will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market.

RETIREMENT BENEFITS

Pension Benefits

The University of California Retirement Plan (UCRP) provides pension benefits for nearly 54,000 retirees and survivors and has nearly 115,000 active employee members, as of July 1, 2010. UCRP's defined-benefit plan promotes recruitment of talented individuals and provides incentives for long careers with UC. Prior to November 1990, contributions to UCRP were required from both the University as employer and from employees as members. In the early 1990s, the Regents suspended University contributions to UCRP after actuaries confirmed that the Plan was adequately funded to provide plan benefits for many years into the future.

Over the 19 years during which employer and employee contributions were not required, the State saved over $2 billion. However, the funded status of UCRP has declined as both annual payouts and the accrued liability have risen. Furthermore, the national economic crisis has depleted the actuarial value of assets held in the UCRP, which had fallen to a funded status of 87% in July 2010.

In February 2009, the Regents approved the restart of contributions to UCRP in April 2010, with an employer contribution of 4% through June 30, 2010 and of at least 4% for 2010–11. The Regents also acted to set employee contributions at 2% for the period from April 2010 through the 2010–11 fiscal year. During this time there will be no impact on employee take-home pay because employee contributions began in the form of a redirection of mandatory employee contributions previously going into the Defined Contribution Plan.

In September 2010, the Regents approved increases to both the employer and employee contributions for 2011–12 and 2012–13. Employer contributions will rise from 4% to 7% for 2011–12 and to 10% for 2012–13. Employee contributions will rise from 2% to 3.5% for 2011–12 and to 5% for 2012–13.

For 2011–12, UC's retirement-covered compensation is projected to be $2.9 billion from core funds, and at least $8.3 billion from all fund sources. The incremental cost to UC for the 3% increase in the employer contribution is estimated to be $85.8 million from core funds and $260 million overall. Of this amount, funding requested from the State, associated with State and student-fee funded employees, is $76.1 million, plus the unfunded amount for 2010–11 of $95.7 million, for a total of $171.8 million.

Retiree Health Benefits

As part of the benefit package, UC also provides medical and dental benefits for more than 50,000 eligible retirees and their dependents. Unlike the UCRP, UC retiree health benefits are currently funded on a pay-as-you-go basis—that is, from current operating funds rather than from a trust account. In 2010–11, the cost to the University for retiree health benefits is $255 million. This amount is projected to increase significantly over the next several years, as both health benefit premiums and the number of annuitants rise rapidly. The University requests that the State continue its practice of funding its share of cost increases for retiree health benefits, which in 2011–12 is projected to be $10.5 million.

Because accumulated future retiree health benefits costs are not pre-funded, as of July 1, 2010, UC has an unfunded liability for retiree health of $14.9 billion. This amount represents the cost of benefits accrued to date by current faculty, staff, and retirees based on past service. The retiree health liability is projected to grow to $19.9 billion in 2014, if no program changes are implemented.

Changes in Post-Employment Benefits

In April 2009, the President established the UC Post-Employment Benefits Task Force, charged with examining the University's pension and retiree health benefits policies and funding and exploring alternatives for a comprehensive long-term approach to retirement benefits and reducing long-term costs. The Task Force issued its final report in August 2010, recommending a number of changes to both the pension and retiree health programs designed to strike a balance between offering competitive benefits and achieving long-term financial stability.

In December 2010, it is expected that the Regents will take further action to approve changes in post-employment benefits plans that will reduce long-term plan costs.

MAINTENANCE OF NEW SPACE

In recent years, the University has been engaged in a significant capital program in order to accommodate enrollment growth, address seismic safety issues, and renew aging facilities. Each year new buildings are completed and brought into service that must be operated and maintained. While some funding comes from indirect cost recovery on federal and private research grants, historically, the State has been a major provider of funding. In recent years, without State support for enrollment growth, the University has been forced to redirect funds from other programs in order to provide maintenance funding for new space. If the State were to fund the University's budget request, including providing support for an additional 11,570 FTE students, the University would be able to fund maintenance of new space opened since 2009–10 without negative impacts on other areas of the budget. Without new State support, the University must continue to redirect funding from within existing resources.

KEEPING PACE WITH INFLATION

To maintain the quality of the instructional program and all support activities, the University must regularly replace, upgrade, or purchase new instructional equipment, library materials, and other non-salary items. The University must also purchase utilities to provide energy to its facilities. Just as costs for salaries and benefits for employees rise, the University's non-salary spending is affected by inflation. Costs of goods and services employed for education generally rise faster than the typical basket of goods and services used to measure inflation. In addition, since 1999–00, prices of electricity and natural gas have risen by over 120%, resulting in significant cost increases for UC campuses despite only modest increases in consumption. Even with the efficiencies described earlier, to offset the impact of inflation and maintain the University's purchasing power, without State funding to support cost increases, the University must redirect funds from existing resources to cover non-salary price increases.

MAINTAINING QUALITY IN PROFESSIONAL SCHOOLS

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. The budget plan assumes that $32.3 million, including a minimum of $10.7 million for financial aid, will be generated for these purposes from professional school fee increases in 2011–12.

REINVESTING IN ACADEMIC EXCELLENCE

As described earlier, State funding cuts have led to academic program reductions across the system. Campuses have delayed hiring of new faculty and eliminated course sections, resulting in larger class sizes, narrower offerings for students, and less opportunity for students to interact with faculty. Furthermore, library hours have been shortened and campuses have delayed purchases of necessary instructional equipment and technology. Restored State funding and student fee revenue will be used by campuses to reinvest in faculty, course offerings, and instructional and academic support.

Student Fees and Financial Aid

Despite efficiencies achieved by UC in the delivery of education and research, student tuition and fees have increased significantly in recent years due to inadequate State support and efforts to maintain program quality.

STUDENT TUITION AND FEES

Student tuition and fees provided $2.36 billion for the University's basic operations and student financial aid in 2009–10. In 2010–11, students are paying 41% of the cost of education.

Despite recent fee increases, UC in-state fees remain competitive with public comparison institutions for resident undergraduates and graduate academic students. In 2010–11, average fees for resident undergraduates remain below two of the University's four public comparison institutions and average fees for resident graduate students remain below three of the four comparison institutions, as shown in Display 10.

The University is proposing fee actions at the November 2010 meeting of the Regents in order to provide continuing and prospective students with advance notice of fee levels for 2011–12 and enable faculty and campus leadership to plan accordingly. As mentioned earlier, if the State were to provide funds in excess of the University's budget request of $596.1 million, the University would revisit fee levels for 2011–12. On the other hand, if State funds requested for critical elements of the University's budget are not provided, it may be necessary to consider further increases in fees.

In addition, at the November 2010 meeting, the University is requesting action by the Regents to rename several student charges as "tuition." This action is requested to improve transparency by reflecting the now longstanding use of fee revenue for UC's basic operations and to be consistent with the definition of tuition used in standard parlance.

Mandatory Systemwide Fees

Mandatory systemwide fees, consisting of the Educational Fee and the Student Services Fee (formerly the Registration Fee), total $10,302 in 2010–11 for California resident undergraduate and graduate academic students. For 2011–12, UC proposes to increase mandatory systemwide fees by 8% ($822) for all students.

Display 10: 2010–11 UC and Comparison Institution Tuition and Fees

	Undergraduate		Graduate	
Public Comparison Institutions	Resident	Nonresident	Resident	Nonresident
University at Buffalo (SUNY)	$7,136	$15,546	$9,978	$15,388
University of Illinois	$13,508	$27,650	$13,498	$26,764
University of Michigan	$12,590	$37,265	$17,973	$36,133
University of Virginia	$10,628	$33,574	$13,870	$23,866
University of California	$11,279	$34,158	$10,904	$26,006

In 2010–11, the University's average fees for California resident students remain below two of four public comparators for undergraduates and three of four comparators for graduate students.

Note: Comparison institution figures include tuition and required fees as reported by the Association of American Universities Data Exchange (AAUDE). UC figures include mandatory systemwide fees, campus-based fees, and nonresident tuition for nonresident students. Waivable health insurance fees are not included.

The new fee revenue will be used to support cost increases for core-funded programs. Because programs funded from Student Services Fee revenue will face cost increases, both the Educational Fee and the Student Services Fee will be increased by 8%.

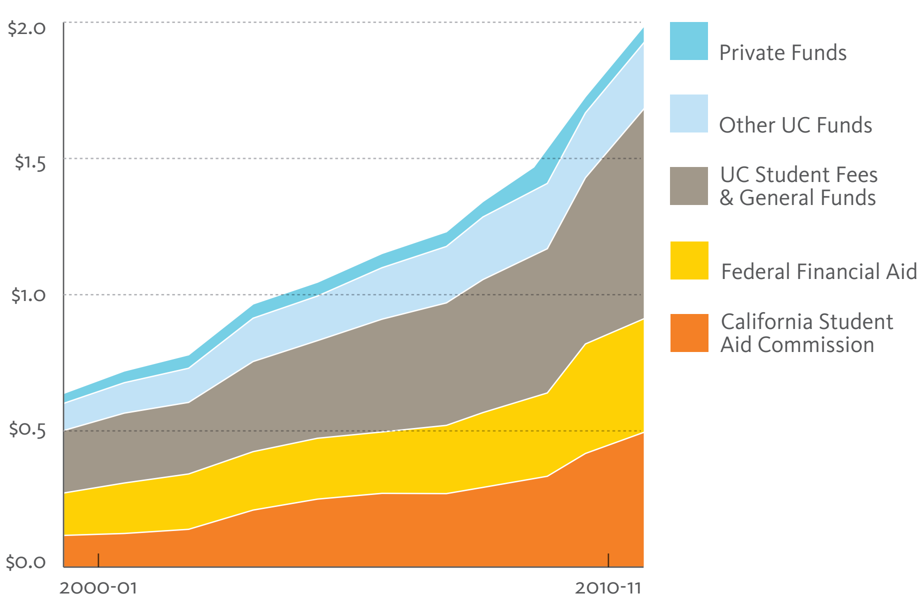
Fees for Professional School Students

As mentioned earlier, professional school fees provide UC's professional schools with funds to maintain quality—to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students—following significant budget cuts over the last two decades. The budget plan includes campus proposals for increases in professional school fees ranging from 0% to 31%, depending on the campus and program. Specific fee levels are based on an evaluation of program resources and needs, comparison institution fees, and affordability for students.

Nonresident Tuition

In addition to mandatory student fees, nonresident students pay tuition in lieu of State support. Nonresident students will experience increases in total charges equivalent to the increases imposed on resident students ($822) and nonresident tuition

Display 11: Total Gift Aid by Source (Dollars in Billions)



To offset fee increases and maintain the promise of higher education for all Californians, both the University and the State have invested heavily in student financial support. Total gift aid is projected to reach $2 billion in 2010–11.

levels will be adjusted to eliminate differentials in Educational Fee levels in a way that is cost-neutral to students.

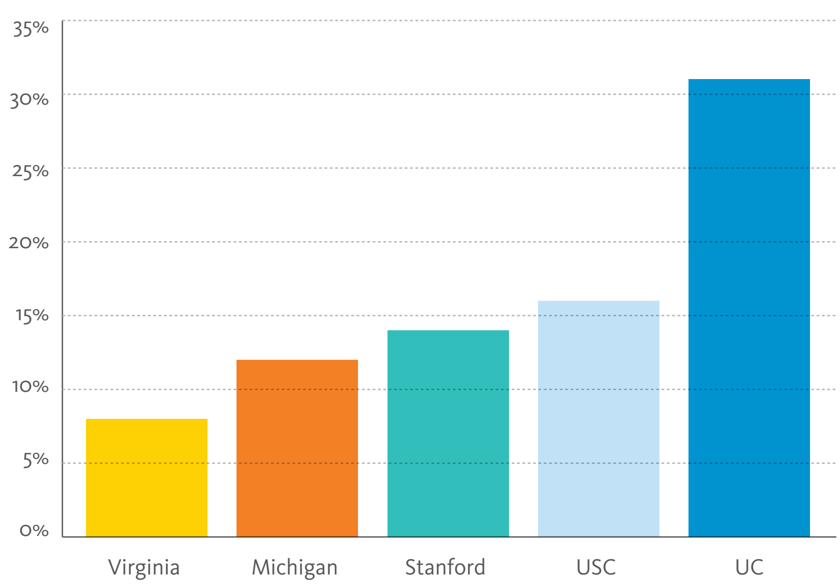
STUDENT FINANCIAL AID

The University's student financial aid programs, guided by policy adopted by the Regents in 1994, are closely linked to the University's goals of student accessibility and meeting the state's workforce needs. 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 new revenue derived from student fee increases to support financial aid. Other sources of funds, including State funding for Cal Grants and federal and private funds, have helped UC meet its financial aid goals.

Undergraduate Aid

At the undergraduate level, the goal is to ensure that UC remains financially accessible to all academically eligible students so that financial considerations are not an obstacle to student decisions to enroll at UC. In 2008–09, 55% of UC undergraduates received grant or scholarship aid, averaging $11,055 per student. The University of California has become

Display 12: 2008–09 Undergraduate Pell Grant Recipients



UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients—over 30% in 2008–09, which is higher than at any comparable public or private institution.

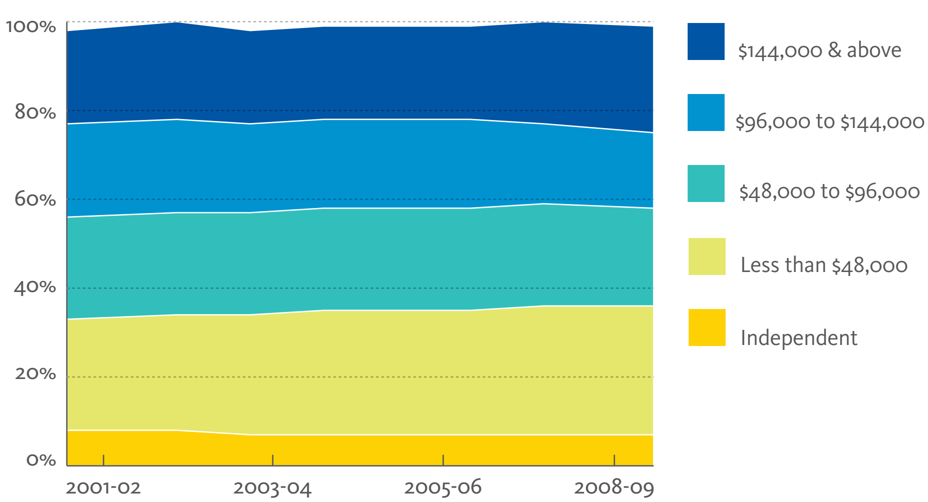
nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students.

Despite fee increases, the University has remained accessible to undergraduate students from all income groups. Enrollments of low-income Pell Grant recipients at other research institutions range from below 10% to nearly 20%. The average at UC is over 30%, more than any other comparably selective research institution. Recent data indicate that Pell Grant recipients are represented in even greater numbers (39%) in Fall 2010.

For many years, the enrollment of students from middle-income families also has remained relatively stable. The percentage of middle-income students enrolled at the University remained about 43% between 2001–02 and 2006–07, despite fee increases in most of those years. Since then, the percentage has declined slightly, to 39% in 2008–09. The University intends to closely monitor this trend, together with income trends among California families generally, and proposes to expand financial aid programs targeted to middle-income students for 2011–12.

Financial aid also contributes greatly to the University's undergraduate ethnic diversity. African-American, Chicano/Latino, and Asian American students are disproportionately low-income. Collectively, these students receive 70% of all undergraduate gift assistance. For all of these

Display 13: Undergraduate Enrollment by Family Income (2008–09 Dollars)



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Data do not sum to 100% due to missing parent income information for a small percentage of students.

reasons, maintaining a robust financial aid program for UC undergraduate and graduate students remains a top University budget priority.

In 2010–11, several significant factors have helped UC maintain affordability for undergraduates:

- increases in the maximum federal Pell Grant;
- full funding of the State's Cal Grant program;
- continuation of UC's 33% return-to-aid policy;
- expansion of the Blue and Gold Opportunity Plan, which in 2010–11 ensures that all eligible students with household incomes below $70,000 receive gift aid covering systemwide fees up to their need level;
- expansion of middle-income fee grants, covering one-half of fee increases for needy middle-income students, to students from families earning up to $120,000; and
- temporary expansion of federal education tax credits.

As a result of these and other ongoing programs, financial support generally has covered systemwide fee increases for Cal Grant and UC Grant recipients in 2010–11 and is providing some coverage of other cost increases as well.

In 2011–12, the University will continue to set aside 33% of new undergraduate fee revenue for financial aid. In addition, the University proposes to broaden the Blue and Gold Opportunity Plan to all eligible students with family incomes below $80,000 and proposes to expand the middle-income fee grant program to cover the full amount of fee increases for one year for eligible students.

Graduate Aid

At the graduate level, the Regents' financial aid 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 other institutions. This competitive context reflects the fact that graduate student enrollment is tied most directly to the University's research mission and helps the state meet its academic and professional workforce needs. Graduate awards must be sized not only to make the University accessible, but also to be competitive with awards prospective students receive from other institutions.

Graduate academic students received support from fellowships, grants, and assistantships averaging about $28,500 per student during 2008–09. However, in recent years, the financial aid packages awarded by UC fell short of the packages offered by competing institutions. While the gap narrowed to just $1,000 on average in 2007, graduate student aid remains a concern. To help mitigate this problem, UC's current practice is to return 50% of any new graduate academic fee revenue to students in the form of financial aid. In addition, in recent years, the University has augmented graduate student support by $40 million from a combination of campus and systemwide resources.

For graduate professional students, UC ensures that an amount equivalent to one-third of fee increases is returned to students as financial aid. Even so, about two-thirds of aid awarded to graduate professional students is in the form of loans, primarily from federal loan programs. The University provides loan repayment assistance programs (LRAPs) in certain disciplines, and since 2009–10, students may avail themselves of an Income-Based Repayment plan (IBR) for federal student loans.

Display 14: Competitiveness of UC Financial Support Offers to Graduate Students

For academic doctoral students, UC narrowed the gap between its offers and those of competing institutions by more than $500 between 2004 and 2007. UC's competitiveness has improved the most for international students, where the gap was reduced by almost $2,000. UC made progress for domestic nonresident students as well and maintained a sizable advantage over competing institutions for California resident students. Nevertheless, large gaps remain, and they are exacerbated by the high cost of living at UC campus locations.

Future Funding for High Priority Needs

To compete in the global economy, the state must increase production of bachelor's degrees among its own citizens.

The budget priorities described in the previous pages reflect essential priorities for managing the University through a time of fiscal crisis. However, the University's funding needs far exceed what is contained in that request if it is to continue to be the high-quality institution it has been until now.

From its founding, the University of California has propelled California's economy and quality of life. UC has helped transform desert to farmland, created new industries and economic prosperity, contributed to the defense and security of the nation, stimulated social mobility, and promoted discoveries and innovations that have improved the health and well-being of people far beyond California's borders.

To achieve all this, the University has required continuous investment—investment that, in recent years, has been inadequate because of dwindling state resources. The University faces the very real threat that it will lose its competitive advantage among research universities, endangering the quality of its academic programs and impacting the California economy and the quality of life for all Californians.

A renewed investment by the State in the University of California would allow UC to pursue the following goals critical to the quality of instructional programs, research productivity, and economic benefits to the state.

Restore the Promise of Access

To compete in the global economy, the state must increase production of bachelor's degrees among its own citizens. State funding for enrollment growth ensures that California's high school graduates and community college transfer students have access to the University education they have worked to attain.

Recruit and Retain the Highest Quality Faculty and Staff

The faculty are the University's lifeblood, driving the high quality instructional programs desired by students, their families, and California business, and leading an unparalleled research enterprise that serves as an engine for California's economy. Maintaining the quality of the faculty—by fully funding faculty salaries at competitive levels—is critical to both the University and the state. The need to pay competitive salaries to staff is as critical to the University as bringing faculty salaries to market levels. The quality of the institution relies upon excellence in all areas—excellence that is difficult to maintain when faced with chronic compensation shortfalls compared to market.

Restore Funding to Instructional Budgets and Improve the Student-Faculty Ratio

Investments in additional faculty will provide students with greater access to leading scholars and widen the breadth of academic offerings, enriching educational experiences. In addition, new faculty will attract additional research funding to California, promoting the advancement of knowledge and innovation and leading to further benefits for the state's economy.

Achieve the Potential of the Merced Campus

Growth of the nation's newest research university will promote college-going in the previously underserved communities of the Central Valley.

Reignite Growth in Graduate and Health Sciences Enrollments

The state needs highly educated workers and must address the large and growing shortfalls of doctors, nurses, public health professionals, pharmacists, and veterinarians, particularly in California's medically underserved communities. The current crisis is causing the University and the State to delay unique opportunities to educate new knowledge workers.

Reinvest in the Research Enterprise and Provide Support for Graduate Students

Investments in research and graduate students, 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, workforce needs, and agriculture, to name just a few; and inform public policy.

Contribute Lasting Solutions to California's K-14 Educational Crisis

UC recognizes its responsibility as a public trust to mobilize its teaching, research, and public service mission to respond to

The University faces the very real threat that it will lose its competitive advantage among research universities, endangering the quality of its academic programs and impacting the California economy and the quality of life for all Californians.

California's K-14 educational crisis. The University is committed to a coordinated institutional strategy to address the quality of California's K-14 education, building upon the University's existing programs that provide services to schools, teachers, and students.

Upgrade Essential Academic, Technology, and Facilities Infrastructure

Recruitment and retention of the best faculty and students and modernization of instruction practices require that the University make continuing investments in libraries, instructional technologies, and instructional equipment, areas critical to the quality of UC's academic programs. Development and maintenance of an information technology infrastructure is critical to management of the University's educational and business enterprise and to manage a cyber-infrastructure capable of supporting cutting-edge and increasingly computationally-based research. Capital projects are necessary for seismic and life-safety improvements, accommodating enrollment growth including instructional buildings, capital renewal, and expanding essential infrastructure. Additional capital development is needed to improve and expand research space, improve medical centers, and provide auxiliary structures such as parking and housing for students, faculty, and staff.

Increase Diversity and Promote UC's Principles of Community

UC is committed to achieving excellence through diversity in the classroom, research lab, and the workplace. Key to this goal is establishing a campus climate that welcomes, celebrates, and promotes respect for the contributions of all students and employees through promoting UC's principles of community. Also key are successful student academic preparation programs as well as outreach activities that encourage recruitment, retention, and successful advancement of diverse faculty and staff.

The University recognizes this is an ambitious agenda, but it is 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, the State must dramatically augment its investment in the University as its fiscal situation improves. Only in partnership—with the State committed to investing in its research university, and a University that, in turn, recognizes its public trust obligation to operate with the highest levels of accountability—can the University of California's continued place as the highest quality public research institution in the world be ensured.

Budget for State Capital Improvements

Sustaining the excellence of the University's teaching and research programs requires ongoing investment in state-of-the-art facilities.

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

The University has been without funding from a general obligation bond since 2008–09. The University sought and received $261.3 million to support a portion of its 2008–09 capital plan, including $204.6 million in lease revenue bond funding; the remainder was funded from unspent dollars from previously authorized general obligation bonds. The University sought similar financing for 2009–10; however, only $30.9 million in previously authorized general obligation bond funds actually was provided, primarily to support medical education and telemedicine projects.

In 2010–11, the University received $352.7 million in funding, of which nearly $343 million was from lease revenue bonds for four major building and renovation projects at four campuses. The remaining $9.7 million was appropriated from existing general obligation bonds for four projects, including two infrastructure projects at the Merced campus. Over the three-year period, less than half of the funding anticipated from bond measures in 2008 and 2010 was provided to the University for high-priority needs, resulting in a backlog of essential unfunded projects.

However, even those projects that were funded were delayed when the State was unable to access the bond market or obtain new interim financing for the second half of 2008. Appropriations for 68 UC projects totaling $983 million were initially halted or suspended as a result of the freeze of loan disbursements. Between April 2009 and April 2010, the University received funding from four general obligation bond sales totaling $404 million and lease revenue bond funding totaling $370.6 million. In July 2009, the University raised $199.8 million through the sale of short-term commercial paper to purchase a privately placed State of California general obligation bond that provided funding to complete an additional 18 voter-approved building projects. The combination of these funds allowed all suspended projects to restart and permitted all general obligation and lease revenue bond-funded projects authorized in the 2008 Budget Act to proceed.

Because a new bond measure did not materialize in 2010, it is the University's intent to pursue additional State lease revenue bonds for 2011–12 to address a portion of the backlog of essential projects that require funding as well as address emerging capital needs. The University also intends to pursue a four-year general obligation bond for voter approval in 2012 that provides at least $450 million per year for general campuses to meet enrollment, renewal and seismic improvement, and modernization needs, and another $100 million per year for health sciences programs to help address California's need for more health care providers and for improved clinical facilities.

Within this context, the University's 2011–12 capital budget proposal totals $768.6 million for essential infrastructure and renewal, expansion related to prior enrollment growth, seismic and life-safety improvements, and new health sciences initiatives. The capital budget proposal would meet two objectives:

- restore projects that have been included in the University's budget plans since 2008–09, but were not funded; and
- provide funding for additional projects included in the campuses' ten-year capital plans that address critical needs for seismic and life safety, enrollment growth that has already occurred, and facilities renewal.

The University estimates that it will require more than $1 billion per year over the next five years to address its most pressing facilities needs for core academic and support space traditionally funded by the State. In addition, there are other urgent needs in areas traditionally not supported by the State, such as student and faculty housing, parking, and other facilities that serve public as well as University needs. Unfortunately, the magnitude of funding needed for these non-State-funded facilities places significant pressure on the University's debt capacity.

The University's 2011–12 request for State funds for capital improvements is presented in more detail in a companion document, the *2010–20 Consolidated State and Non-State Capital Financial Plan*. This document also presents information about the University's multi-year program of proposed capital construction and renovation and consolidates into a single report the following required annual reports: the Budget for State Capital Improvements, University of California Five-Year Capital Program State Funds, and the Annual Report on Campus' Ten-Year Capital Financial Plans.

Display 15: 2011–12 Capital Budget Proposal (Millions of Dollars)

Academic facilities to support recent enrollment growth	$276.0
Maintaining progress on seismic and other life-safety improvements	121.0
Essential infrastructure and building renewal	308.4
New program initiatives	63.2
TOTAL	$768.6

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