

A blurred background image of a university campus. In the foreground, there are pink cherry blossom branches. In the middle ground, several students are walking on a paved path. In the background, there is a large, multi-story building with many windows, likely a university hall. The lighting is soft, suggesting late afternoon or early morning.

UNIVERSITY
OF
CALIFORNIA

Budget for Current Operations

SUMMARY AND DETAIL

2013-14

UNIVERSITY of CALIFORNIA

**2013-14 BUDGET FOR CURRENT OPERATIONS
BUDGET SUMMARY**

MESSAGE FROM THE PRESIDENT

For the last four years, the University of California has struggled through budgeting challenges rife with uncertainty. This year is no exception as the University labors under the specter of additional mid-year cuts in the current fiscal year if new State revenue streams do not materialize.

Given California's economic constraints, UC's proposed 2013-14 spending plan represents a realistic picture of what is needed to maintain the three hallmarks of this great public university system: access, affordability, and quality.

Despite the sharp declines in State support, UC has sought to preserve those three pillars of its public mission through aggressive financial strategies and operational efficiencies. Every part of the UC community has shared in the sacrifices needed to achieve those cost-saving goals. Every campus and the Office of the President have cut and consolidated programs, eliminated jobs, laid off staff, and across the board produced more with fewer and fewer resources. Most regrettably, UC students and their families now pay more of the cost of their education than the State contributes.

UC has now reached a point where quality is seriously at risk – and without renewed, stable State investment, the long traditions of innovation, exceptional teaching, and committed public service will suffer. Not just the University, but all of California, will feel the repercussions if that is allowed to happen.

UC's impact reaches far beyond the boundaries of its campuses. Every Californian benefits in some way from its health and medical breakthroughs, its technological and scientific discoveries, its creative endeavors, and its economic benefits.

While UC continues to pursue its own revenue-increasing strategies and cost efficiencies, State General Fund support remains a crucial part of its core budget. State funds not only provide support for academic programs and vital student services, they also help generate additional public and private funds from outside California.

UC will do its part, but the State of California needs to do its part as well. The University will continue to strive for excellence and efficiencies, affordability and accountability, and access and transparency. What UC needs from the State is a renewed commitment that this great institution of higher learning will be preserved, that years of prior investment will not be forsaken, and that the doors of opportunity will remain open wide for all Californians.

The University of California grew up with the state and for a century-and-a-half has served as a beacon of hope, an agent of transformation, and a true source of pride for all Californians. Without adequate and stable State reinvestment, the combination of educational quality, affordability, and access that sets UC apart from other public research universities will be jeopardized. UC needs the support of the Governor and Legislature to make sure that doesn't happen.

I look forward to working with both to ensure a sustainable future for the University.

Mark G. Yudof
President
October, 2012

KEY ELEMENTS OF THE UNIVERSITY OF CALIFORNIA 2013-14 BUDGET

The University of California's long tradition of excellence rests on three pillars: access, affordability, and quality. Through a period of unprecedented State funding reductions, the University has protected two of those pillars: access and affordability. Most states expect their public universities to offer a good education at an affordable price to those who wish to attend. California's expectation has been much higher – the investment by the State in the University of California has allowed UC to offer a top-flight education taught by world-class faculty, comparable to those at elite private universities, to all who work hard enough to qualify, irrespective of social background or economic situation. It is this access to excellence in a public setting that sets UC apart from other major research universities. Yet it is quality – the third pillar of UC's excellence – that is seriously jeopardized by the State's disinvestment in higher education.

The University's budget plan for 2013-14 reflects the University's view that it must not only stabilize funding for core operations, it must also focus on reinvesting in the quality of UC's core instruction and research programs while continuing to protect access and affordability. Building on the prospect of a multi-year funding agreement with the State, the plan seeks to stabilize UC's fiscal foundation through a combination of moderate increases in both State funding and tuition, aggressive cost reductions and efficiency improvements that leverage UC's economies of scale, and the active pursuit of alternative revenues. A stable fiscal foundation will allow UC to plan for the future; to make the long-term investments needed to secure its stature as a world-class university; and to provide its faculty, students, and employees with a more certain future.

The proposed 2013-14 plan assumes passage of the Governor's revenue-raising initiative, Proposition 30, in November 2012. Whether the initiative passes or fails, however, the University is committed to securing a path to fiscal stability and pursuing a course that sustains and enhances the quality of its academic programs. If the initiative fails, the University will face difficult choices, including the potential for an array of more extreme strategies to reduce costs and enhance alternative revenues, as well as the potential for much higher tuition and fees – choices that together could alter the very nature of the University of California.

Key elements of the 2013-14 budget plan include:

- **Moderate increases in both State support and tuition and fees.** The University proposes to meet escalating mandatory costs through its principal revenue sources. Moderate and predictable increases in both State support and tuition and fees can provide the funding needed to meet the University's basic operating needs. For 2013-14, the budget plan includes revenue associated with the State buy-out of 2012-13 tuition and fee increases (\$125.4 million), a 6% base budget adjustment (\$150.2 million), and a 6% tuition and fee increase (\$126.5 million, net of financial aid).
- **Modest enrollment growth.** UC proposes a 1% increase in funded enrollments to maintain momentum at the Merced campus and provide support for unfunded enrollments that currently exist on the general campuses and in health sciences programs.
- **New medical school at UC Riverside.** In October 2012, the Riverside campus received notice of preliminary accreditation for its new medical school. The inaugural class of 50 students for the medical school will enroll in Fall 2013. The University is requesting an additional \$15 million, above the amount proposed from the new multi-year agreement, to fund this critically important initiative. Building a new medical school, which will be a regional and statewide resource, cannot be sustained through a redirection of existing resources. It is critical that the State commit to this endeavor by providing core support for the school's academic program and basic operations.
- **Addressing continuing mandatory costs.** The 2013-14 budget plan includes funding for employer contributions to the UC Retirement Plan, employee and retiree health benefit costs, inflation increases in non-salary costs, and modest compensation increases to prevent further erosion of faculty and staff salaries.
- **Reinvestment in the University's core academic programs.** The plan includes the first component of a multi-year reinvestment in the quality of UC's core academic programs. This investment is focused on reducing the student-faculty ratio; increasing the competitiveness of faculty and staff salaries; enhancing graduate student support; expanding resources for core instructional support needs, such as instructional equipment and technology, libraries, and building maintenance; and addressing capital renewal of UC's aging facilities and campus infrastructure.

2013-14 BUDGET PROPOSAL

Display 1: 2013-14 Budget Proposal (Dollars in millions)

CURRENT OPERATING BUDGET

State General Funds	\$2,378.1
Total Core Funds (State General Funds, Student Tuition and Fee Revenue, and UC General Funds)	\$6,207.9

PROPOSED INCREASES IN REVENUE

State General Funds

2012-13 Tuition and Fee Buy-out	\$125.4
6% Base Budget Adjustment	150.2
UC Riverside Medical School	<u>15.0</u>
Subtotal	\$290.6

Student Tuition and Fees

Tuition Increase (6%)	\$150.3
Student Services Fee Increase (6%)	13.4
Professional Degree Supplemental Tuition Increases (0% to 35%)	<u>20.8</u>
Subtotal	\$184.5

UC General Funds

Nonresident Supplemental Tuition (related to new enrollment)	\$23.0
Indirect Cost Recovery	<u>3.4</u>
Subtotal	\$26.4

Alternative Revenues to Fund Reinvestment in Quality

Debt Restructuring	\$80.0
Asset Management (STIP to TRIP)	20.0
Systemwide Contracts	<u>20.0</u>
Subtotal	\$120.0

Alternative Revenues for Financial Aid

Other Sources	<u>\$20.0</u>
Subtotal	\$20.0

TOTAL INCREASE IN REVENUE **\$641.5**

PROPOSED INCREASES IN EXPENDITURES

Enrollment Growth and Instructional Programs

1% Enrollment Costs (including 675 FTE students at UC Merced)	\$22.4
Professional School Programs	13.3
UC Riverside Medical School	<u>15.0</u>
Subtotal	\$50.7

Compensation and Non-Salary Items

Retirement Contributions	\$77.2
Employee Health Benefits	11.4
Annuitant Health Benefits	6.4
Academic Merit Increases	30.0
Compensation Increases	100.2
Continuation Costs of 2012-13 Mid-Year Compensation Increase	37.2
Non-salary Price Increases	23.7
Deferred Maintenance	<u>25.0</u>
Subtotal	\$311.1

Repayment of 2012-13 STIP Borrowing	<u>\$60.0</u>
Subtotal	\$60.0

Reinvestment in Quality (first year of a multi-year plan)

Reduce Student-Faculty Ratio	\$40.0
Support Start-up Costs for New Faculty	20.0
Reduce Faculty Salary Gap	25.0
Reduce Staff Salary Gap	20.0
Increase Graduate Student Support	15.0
Enhance Undergraduate Instructional Support	<u>35.0</u>
Subtotal	\$155.0

Financial Aid

Tuition Increase	\$34.2
Student Services Fee Increase	3.0
Professional Degree Supplemental Tuition Increases	7.5
Alternative Revenue for Financial Aid	<u>20.0</u>
Subtotal	\$64.7

TOTAL INCREASE IN EXPENDITURES **\$641.5**

THE UNIVERSITY OF CALIFORNIA AT A CROSSROADS

At this juncture, the University must achieve fiscal stability and address its long-term needs if it is to remain a world-class public research university.

More than a century-and-a-half of investment by the State of California has made the University of California the finest public university in the nation, and indeed the world – one that can also compete with the pre-eminent private universities around the globe. This tradition of excellence has created untold advantages for the state of California and its citizens, which belies the steady disinvestment by the State that has occurred over the last two decades. Recent budget cuts, unprecedented in magnitude, have accelerated this long-term trend and heightened the stark impacts of reduced support for UC's core academic programs.

Yet the University remains committed to ensuring that all undergraduate students who work hard to become eligible have a place somewhere in the University of California; to training graduate students needed for the state's workforce in a knowledge-based economy; to supporting a highly productive research enterprise that brings innovation, economic development, and jobs to this state; and to providing public services that enhance the quality of life for all Californians. However, the cumulative effect of prior recessions, coupled with the draconian cuts in State support over the last four years, now threatens the University's ability to continue to provide the world-class education, scholarship, and public service it has in the past.

If the University is going to continue to serve California in valuable ways, it must achieve fiscal stability in the near term and begin to reinvest over the long term in the academic infrastructure that is the foundation of its many contributions to California. This means shoring up the quality that historically has set this public university apart from all others – for no other institution of higher education offers UC's combination of explicit public access to a world-class research university at an affordable price regardless of social or economic background.

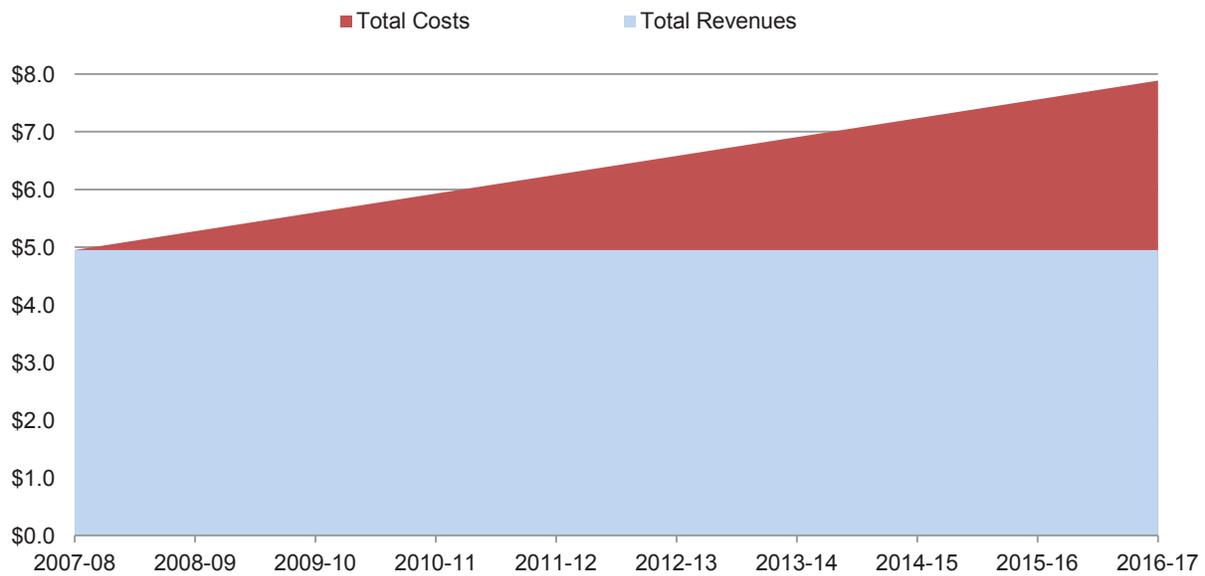
In this last year, the University developed a long-term budget plan through 2016-17 which identifies the costs that will need to be addressed over the next five years, as well as potential funding solutions to support its basic needs.

This plan shows that without new resources from the State, tuition and fees, and other sources, the University will face a budget shortfall of \$2.9 billion by 2016-17. This shortfall exceeds the current University State-funded budget by nearly \$600 million – and is also equivalent to the combined State funding for the Irvine, Riverside, Santa Barbara, and Santa Cruz campuses.

It must be understood that closing this projected shortfall would only address the recent reductions in State support and new mandatory costs, basically preventing further erosion of support for the University's core mission activities. Closing the \$2.9 billion shortfall would not address the effects on UC's academic infrastructure of nearly two decades of State disinvestment that preceded the most recent State fiscal crisis. The damage to quality that prior budget cuts have wrought can no longer be left unaddressed. It is imperative that UC take action now to reinvest in its academic program.

The University understands that resolving its budget gap cannot be the sole burden of the State and its taxpayers; rather, this must be a shared responsibility among the State, the University, and those it serves. As a result, UC has identified and is already implementing a vast array of funding solutions – some of which generate new revenue, some of which avoid costs, and some of which find newer and more efficient ways of doing business – that will address about \$1 billion, or more than a third, of this gap over the next several years. These actions are discussed in more detail later in this document.

Display 2: 2016-17 Budget Gap (Dollars in Billions)



Due to a combination of previous budget reductions and upcoming cost increases, the University faces a looming budget shortfall of \$2.9 billion by 2016-17 if no additional revenues or other solutions are identified and there are no further changes in State support.

Assuming that the Governor’s revenue-raising initiative passes in November 2012, one-half of the \$2.9 billion funding gap will be addressed over the next five years through a combination of moderate increases in State funding and tuition and fees. In fact, the solutions currently projected close all but about \$150 million of this gap; additional solutions will need to be identified for this remaining balance. But for UC to retain its place among the finest research universities it must do more than address these basic operating costs. After two decades of State disinvestment, additional resources are needed to reinvest in UC’s core academic infrastructure in ways that will restore instruction and research programs to a level of quality that a long history of prior investment by the State at one time achieved.

In recognition of this need for reinvestment, the University has actively explored a broad range of other fiscal strategies beyond the \$1 billion of alternative revenues and administrative efficiencies that are currently being implemented to address a portion of the basic operating needs of the University. An extensive list of “out-of-the-box” ideas was presented to the Regents during their

retreat at the September board meeting; the ideas represent potential additional strategies UC could explore to further avoid costs, generate new revenue, and advance operational efficiency. While most of the proposals presented to the Regents at the September retreat will not generate fiscal benefits to the University in 2013-14, a number offer opportunities for significant fiscal benefits during the next few years. Successful implementation of some of these strategies is the impetus behind a renewed commitment to reinvest in the quality of core programs essential to UC’s future as a top research university.

The University expects to present a revision of its long-term budget plan, which will include investments needed to both stabilize funding and enhance the quality of the academic program, at the January or March meeting of the Board. Reinvesting in quality will ensure that UC retains its standing as a pre-eminent research university and will continue to provide the access to excellence the State of California has come to expect. While the specifics of the revised long-term budget model are still under development, the 2013-14 budget plan includes funding for the first year of what is contemplated as a multi-year

THREE PILLARS OF UC EXCELLENCE

Access

UC provides a high quality education to all eligible California residents at the undergraduate level and meets state workforce needs at the graduate level.

Affordability

UC ensures that financial considerations are not an obstacle for qualified undergraduates who wish to enroll at UC. For graduates, UC attracts a diverse pool of highly-qualified students by providing competitive levels of support.

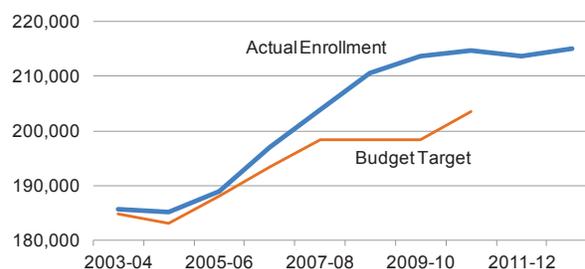
Quality

UC offers undergraduate educational opportunities, carries out research and other creative activities, and provides academic and professional graduate programs that are all on a par with the foremost educational institutions in the world, both public and private.

UC has maintained access

Though applications have continued to rise significantly over the past 20 years and State funding has declined during this same period, to date all eligible undergraduate students wishing to attend as freshmen have been offered a place at UC. In 2012-13, UC enrolls over 240,000 total students. UC graduated more than 63,000 students in 2011-12, many of whom will stay in California and contribute to the state's social and economic well-being. Maintaining access comes at a cost, however. In 2012-13, UC is educating more than 11,500 FTE students for whom it has never received funding from the State. When budget cuts are taken into account, this figure rises to 25,000, or one in every 9.6 students. For this share of the student population, UC must identify other resources or allow State resources to be diluted across ever-increasing numbers of students.

Budgeted and Actual State-Supported FTE Enrollment



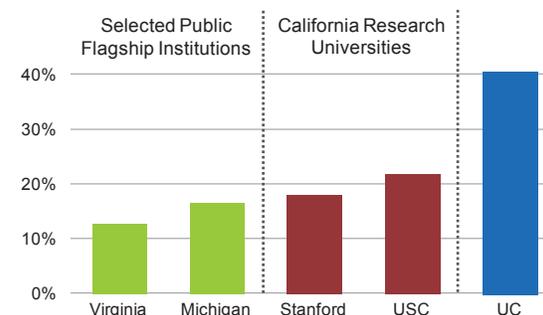
UC has maintained access despite the State's failure to provide enrollment growth funding. UC's decision to maintain access has a diluting effect on quality, however.

UC has maintained affordability

Undergraduate tuition and fee levels remain in line with those at comparator public research universities, and UC's exceptional financial aid program has ensured that cost need not be the deciding factor in pursuing a UC education. In 2010-11, 62% of UC undergraduates received grants/scholarship aid from federal, State, UC, and private sources. Undergraduate need-based aid recipients at UC received an average of \$16,100 in 2011-12, resulting in a net cost of \$12,600; in fact, UC's net cost in 2011-12 was lower than the net cost at three of its four public comparison institutions. Moreover, UC continues to enroll a higher proportion of Pell Grant recipients (41%) than any other research university in the nation.

At the graduate level, UC strives to offer competitive aid to graduate students. In the past, UC made some headway towards closing the gap between its financial support offers and those of competing institutions, but that headway has eroded in this time of extraordinary budget cuts.

2010-11 Undergraduate Pell Grant Recipients



UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 41% during 2010-11, more than at any comparable public or private institution.

Quality is jeopardized

What defines quality at a major research university?

While there are no agreed-upon standards in the higher education community for determining quality, there are clear metrics that are commonly used when rating great universities. They include maintaining an outstanding faculty, measured in terms of individual achievements as well as adequate numbers to teach and train, and being appropriately staffed to support them; recruiting and educating outstanding undergraduate and graduate students; engaging in robust programs of research, scholarship, and creative activity that result in economic stimulation and the creation of jobs; sharing expertise and resources with the wider community to the benefit and well-being of constituents beyond the University's walls; having a sufficient infrastructure of core academic support programs such as instructional technology that keeps current with new developments, library materials that fuel academic discovery, and up-to-date equipment for both cutting-edge research and hands-on education; maintaining facilities needed to house cutting-edge academic programs; and a stable funding base on which to build an innovative, secure future.

A top research university requires a commitment to excellence.

A FRAMEWORK FOR REINVESTING IN QUALITY AT THE UNIVERSITY OF CALIFORNIA

UC's vision for the future

As a preeminent public research university, UC will provide access to a world-class education at an affordable price to those who work hard to qualify, regardless of their social or economic background. A multi-year reinvestment in the academic program will help UC regain fiscal stability and secure the quality of UC's instruction and research programs so that UC can continue to compete with the best public and elite private institutions. This is essential if UC is to prepare young people to be productive and contribute to an evolving knowledge-based economy, serve as an economic engine through innovation and discovery, and contribute public service to all Californians that enhance their quality of life. The University shares this vision with the State of California, whose investments over many decades has created the greatest public research university in the world. This vision is also shared with the State and all those whom UC serves, contributing its intellectual resources to the economic prosperity and continued vitality of the state of California.

Why State funds matter

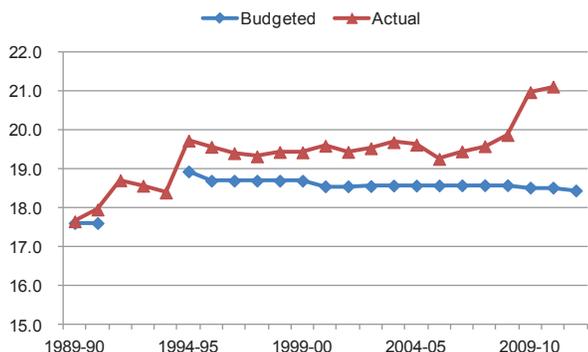
UC's status as a world-class public research university is in jeopardy because of the State's steady disinvestment in higher education. Though State funds have become a relatively small portion of UC's total budget, shrinking from 24% in 1990-91 to only about 10% of UC's total budget for 2012-13, it is State funds, along with tuition and fees, that provide the resources essential to UC's academic program; fully 97% of ladder-rank and equivalent faculty are paid from these core funds, and UC's extraordinary faculty are the foundation of its excellence. Moreover, it is the basis upon which other funds are leveraged. The University simply cannot remain what it is now without this source of revenue. Decreases in the balance of State support for the core academic program inexorably change UC's character.

UC's 2013-14 budget plan

Given the extraordinary decline in State funding, UC's quality has not been prioritized as it should be. UC's 2013-14 budget plan sets a course that begins to reinvest in quality and moves the University forward over the next several years. These goals include, but are not limited to:

Reducing the Student-Faculty Ratio

Budgeted and Actual Student-Faculty Ratios



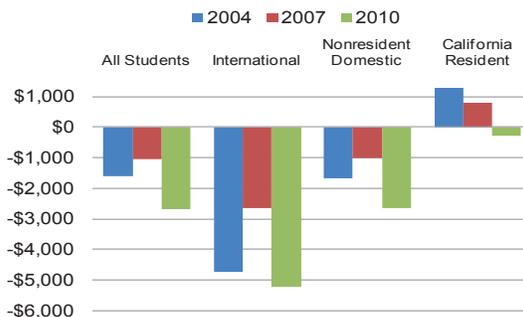
Actual student-faculty ratios have increased precipitously over the past 20 years. Because UC has prioritized access in its commitment to the Master Plan, enrollment has risen precisely at a time when faculty hiring has slowed. UC intends to reinvest in faculty, reducing the student-faculty ratio by 2020.

Closing Staff and Faculty Salary Gaps

Historically, one of the University's highest priorities has been to achieve and maintain market-competitive compensation for its employees. The faculty salary gap stands at 10.8% in 2011-12. Annual percentage increases in funding for UC staff salaries lagged in 10 out of the last 15 years. Though the fiscal crisis has set UC back on its efforts, closing faculty and staff salary gaps is one of UC's most important goals for 2020.

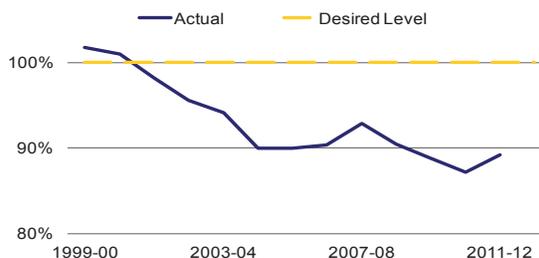
Increasing Graduate Student Support

Competitiveness of UC Financial Support Offers to Academic Doctoral Students



For academic doctoral students, UC narrowed the gap between its financial support offers and those of competing institutions between 2004 and 2007, but lost ground between 2007 and 2010. UC will become more competitive by 2020.

Ladder-rank Faculty Salaries as a Percentage of Market



Excellence requires consistent support and shared priorities.

reinvestment in critical elements of the core academic program. Recognizing that immediate reinvestment in program quality is constrained by the current fiscal situation, the reinvestment plan is anticipated to extend over a multi-year period with the expectation that more resources will become available in later years, once many of the financial strategies planned or underway come to fruition. In the meantime, the 2013-14 budget plan directs funding to several of the highest priority areas of the core instruction and research program, areas that have suffered the greatest deterioration as a result of State funding reductions: the student-faculty ratio; start-up support for newly hired faculty, faculty and staff salary gaps; graduate student support; and instructional support items, including instructional equipment and technology, libraries, and building maintenance.

In the short term, the University faces perhaps the most critical juncture in its history, depending on the outcome of the November election. The Governor's revenue-raising initiative on the November 2012 ballot, Proposition 30, seeks to provide the State of California with a path forward to address its structural deficit and reestablish a sound fiscal footing for State government. The initiative would temporarily raise income taxes for the wealthiest earners in the state and temporarily increase the sales tax by one-quarter of one percent. The revenue would be used to fund K-12 schools and local public safety programs, freeing up State General Funds for the discretionary part of the budget, including higher education. If the initiative passes, the Governor has stated his intention to support a multi-year agreement with UC that would promise steady, moderate support from the State for the first time in a decade. Such an agreement will permit the University to

keep tuition and fee increases moderate while still addressing its basic operating needs and leaving open the opportunity in the future for the State to reinvest in the quality of the education, research, and public service UC provides. This agreement is described in more detail later in this document.

If the initiative fails, the path ahead for the University is much more difficult. The University will face an immediate trigger cut of \$250 million in the current year. In addition, the promise of funding in 2013-14 in order to avoid a tuition and fee increase in the current year will be eliminated, increasing the immediate shortfall in the University's budget to a total of \$375 million. This cut would be on top of the \$750 million reduction UC absorbed in 2011-12. When the loss of these increases is taken into account, the swing between what the University would receive in 2013-14 if the initiative passes or fails is more than \$500 million. In addition, if the initiative fails, the State's role in continuing to support the University will be highly uncertain. Given the fiscal challenges it would face, the University would need to make difficult choices about a wide array of issues that could alter the very nature of the University.

In short, the University finds itself at a crossroads. UC's primary goal, regardless of whether the initiative passes or fails, is to return to a level of quality that is in keeping with its tradition of providing access to an affordable, high quality research university. Developing the resources necessary to promote all three pillars of excellence is the goal and challenge that faces the University in the near term. It is a challenge that the University must meet in order to preserve the quality that the state, its citizens, and the University have worked so hard and so long to achieve.

SOURCES OF UNIVERSITY REVENUES

A variety of funds supports the University and helps it meet its tripartite mission of teaching, research, and public service.

In 2012-13, the University's endeavors are generating \$24.1 billion from a wide range of revenue sources for support of the University's operations. Not only does the University provide instruction each year for more than 240,000 students and maintain a multi-billion dollar research enterprise, the University also engages in a broad spectrum of activities that provide substantial public benefit, 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. The University's annual budget plan is based on the best estimates of funding available from each of these sources.

Core Funds

Core funds, totaling \$6.2 billion in 2012-13, 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 tuition and fee revenue, core funds represent 26% of the University's total expenditures. Much of the focus of the University's strategic budget process and negotiation with the State is the use and level of these fund sources.

Historically, State funding has been the largest single source of support for the University. Totaling \$2.38 billion in 2012-13, 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 imperiled the quality of the core academic program.

Over the last two decades, student tuition and fees have helped to make up for a portion of lost State support for UC. Corresponding to State fiscal crises, tuition and fees have

risen dramatically three times over the last twenty years – in the early 1990s, in the early 2000s, and most recently over the four years beginning in 2008-09. This volatility in tuition and fee levels has come at considerable cost to students and their families. Even with tuition and fee increases, overall core funding per student has declined by 25% in inflation-adjusted dollars since 1990-91.

Non-Core Fund Sources

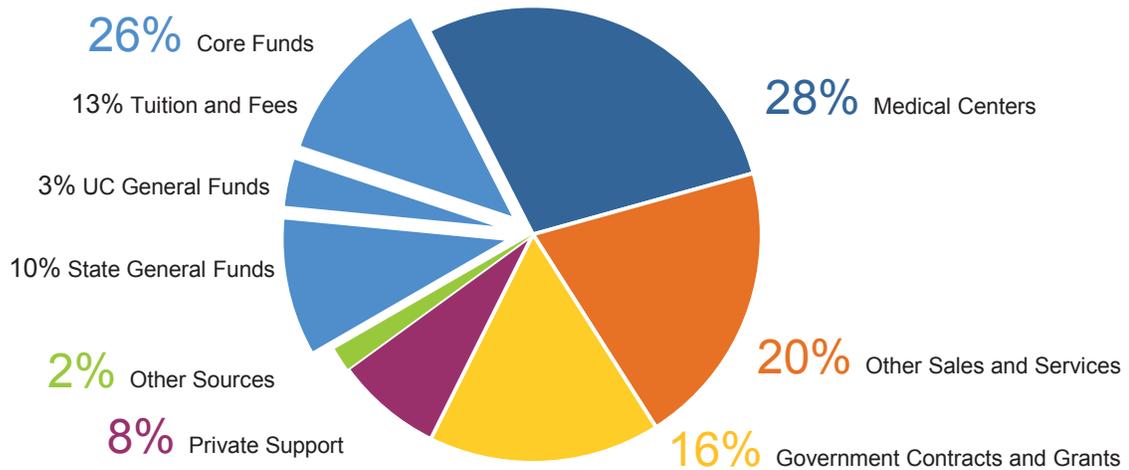
Other sources of funds help augment and complement the University's core activities of instruction and research, such as providing support functions; public service to the state and its people; and a rich social, cultural, and learning environment on UC campuses. Non-core fund sources cannot be easily redirected to support core mission activities. 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 services and products being provided, but also to the price the market will bear.

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 publishing.

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

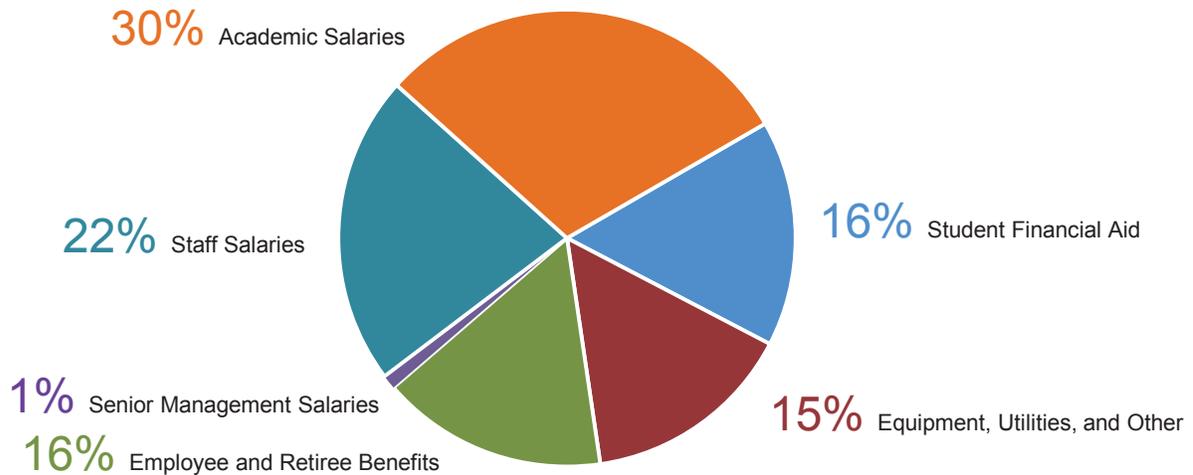
Private Support. Endowment earnings, grants from campus foundations, and other private gifts, grants, and contracts fund a broad range of activities, but are typically restricted by the donor or contracting party.

Display 3: 2012-13 Sources of Funds



UC's \$24.1 billion operating budget consists of funds from a variety of sources. State support, which helps attract other dollars, remains crucial and together with tuition and fees and UC General Funds provide the core support for the University's basic operations.

Display 4: 2011-12 Expenditures from Core Funds



A little more than two-thirds of core funds (i.e., State General Funds, UC General Funds, and student tuition and fees) support personnel through academic, staff, and senior management salaries and employee and retiree benefits.

Private support comes from alumni and friends of the University, from foundations and corporations, and through collaboration with other universities.

Other Sources. Other sources of revenue include indirect cost recovery funds from research contracts and grants, patent royalty income, and fees earned for management of Department of Energy laboratories.

THE NEED TO ADDRESS THE IMPACT OF CALIFORNIA'S PERSISTING FISCAL CRISIS DRIVES THE UNIVERSITY'S BUDGET PLAN

In a context shaped by the State's enduring fiscal challenges and the University's efforts to respond to inadequate and unreliable State funding, the 2013-14 budget plan marks the beginning of a multi-year course for strengthening the excellence of the University's core instruction and research programs.

State Funding Has Declined Steadily Over the Last Twenty Years

Since 1990-91, State funding for the University of California has been marked by dramatic reductions due to recurring fiscal crises followed by temporary increases tied to ambitious plans to restore support. While many parts of the University, such as the medical centers and research enterprise, have continued to flourish and grow, the University's core academic programs have suffered from this decline in State funding.

- In the early 1990s, the University lost the equivalent of 20% of its State support.
- Later in the decade, under agreements with Governors Wilson and Davis, significant funding increases were provided for enrollment growth necessary to maintain the University's commitment to the Master Plan, to avoid student fee increases, and to maintain quality.
- Another State fiscal crisis during the early 2000s resulted in a significant step back in State support during a time of rapid enrollment growth due to increases in the number of California high school graduates.
- Beginning in 2005-06, UC entered a six-year Compact with Governor Schwarzenegger to provide the minimum resources needed for the University to accommodate enrollment growth and sustain the quality of the institution. Through 2007-08, the Compact served the University, students, and the State well, allowing UC to continue enrollment growth, provide compensation increases for faculty and staff, and avoid a student fee increase in 2006-07.
- The State's ongoing budget shortfalls, compounded by the onset of the global financial crisis, led the State to renege on the Governor's Compact and resulted in significant reductions in State support at the end of the decade. For two years, no funding was provided for enrollment growth and UC's base budget was reduced at a time when demand to attend the University soared. Federal economic stimulus funds provided temporary support. When contributions to the UC Retirement Plan

(UCRP) were restarted in April 2010, the State failed to contribute its fair share, which increased the budgetary pressure on the University.

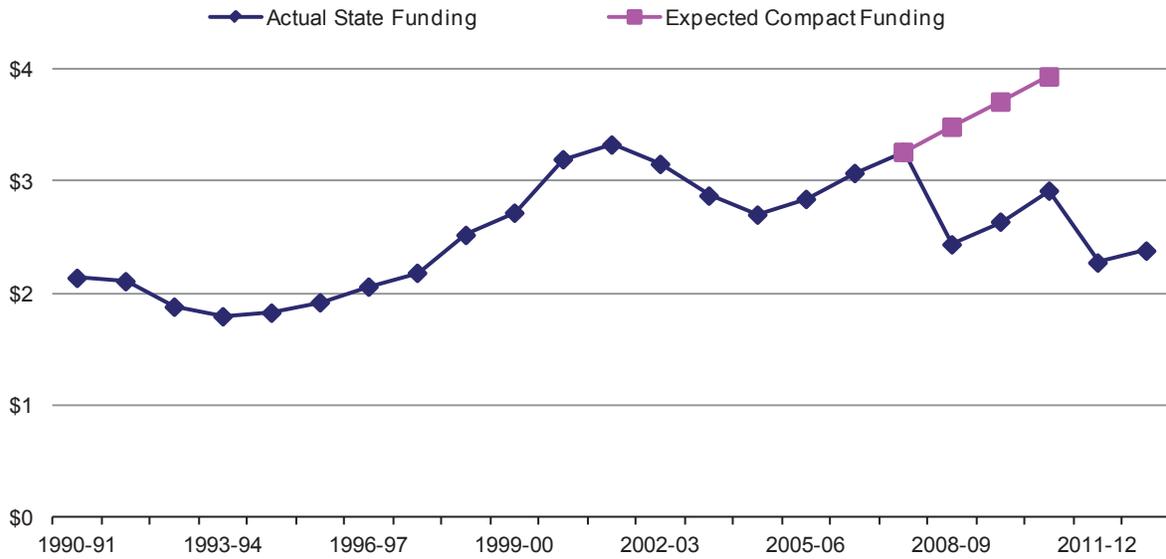
- After partially restoring previous cuts to UC's budget in 2010-11, the State reduced support to UC by \$750 million in 2011-12, which included a \$100 million mid-year "trigger cut." The lagging economy and the State's inability to extend temporary tax increases left State support to the University more than \$1.6 billion less than it would have been under the most recent funding agreement with former Governor Schwarzenegger (see Display 5).
- The University received \$105.9 million in new State funding in 2012-13, including \$89.1 million toward the State's share of employer contributions to the University's retirement plan. Considering the State's continuing structural deficit and a projected State revenue shortfall of \$15.7 billion, the University fared well relative to other State agencies. Nevertheless, even with this year's augmentation UC's State appropriation has fallen nearly \$900 million, or 27%, since 2007-08.

The net result of these swings is that State support for UC in 2012-13 is just \$242 million above the amount provided in 1990-91 in non-inflation-adjusted dollars, reflecting average growth of just 0.5% annually.¹

During this same period of volatility in State funding, the number of California high school graduates has soared (see Display 6). Despite lagging State support, the University has met its commitment to preserve access for California residents by continuing to accommodate growing numbers of students prepared for and seeking a quality university education. Since 1990-91, student enrollment has risen 52% and UC has opened a tenth campus, while

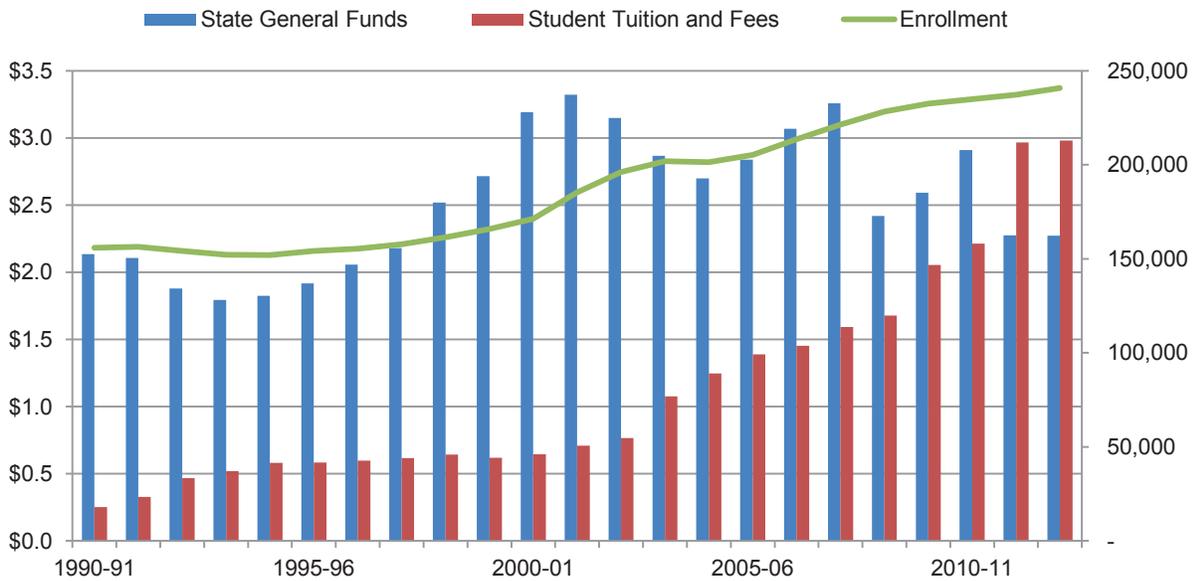
¹ As noted earlier, the 2012-13 Budget Act leaves UC vulnerable to further cuts. If the Governor's revenue-raising tax initiative fails or is superseded by a competing initiative, the budget calls for a further mid-year trigger cut of \$250 million and the elimination of a \$125.4 million base budget adjustment in 2013-14 to cover a 2012-13 tuition and fee buy-out.

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



Volatility in State support for UC has meant that funding in 2012-13 is just 10% above the amount provided in 1990-91 in non-inflation-adjusted dollars and more than \$1.6 billion below expected workload funding as pledged in the last Compact.

Display 6: Core Revenues and Student Enrollment Over Time



Since 1990-91, student enrollment has increased by more than 50%, primarily driven by the University's continuing commitment to accommodate eligible California resident undergraduates, while State support has not kept pace and student tuition and fees have risen to backfill the loss of State General Funds.

State support has risen only 10% in non-inflation-adjusted dollars. If an adjustment is made for inflation, State support to the University since 1990-91 has declined by 44%.

Mitigating State Cuts Has Both Positive and Negative Impacts

To help mitigate the impacts of the reductions in State funding, UC has been obligated to increase student tuition and fees. In 1990-91, tuition and fees were just \$1,624 for all California residents. In 2012-13, mandatory systemwide tuition and fees total \$12,192 for California resident undergraduates and graduate academic students, and mandatory charges are even higher for graduate professional students. Increases over the last twenty years have been implemented to offset cuts in State support during the three major economic downturns in the State since 1990. Tuition and fees increased 92% during the recession of the early 1980s, 134% between 1990-91 and 1993-94, 58% between 2003-04 and 2005-06, and 83% between 2007-08 and 2011-12.

Even with these steep increases, tuition and fees have only partially made up for the reductions in State support. As shown in Display 7, resources for educational programs for general campus students (undergraduate and graduate students combined) have declined on an inflation-adjusted per-student basis – UC is spending less per student.

- The average expenditure per student for a UC education has declined by 25% over 20 years – from \$22,030 in 1990-91 to \$16,530 in 2012-13.
- State funding per student declined significantly – by 65% over an approximately 20-year period. In 1990-91, the State contributed \$17,240 per student – 78% of the total cost. In 2012-13, the State share declined to \$6,100, just 37%.
- As the State subsidy has declined, the share students pay has more than tripled. In 1990-91, students contributed 13% of the cost of their education; students are paying 49% of the cost of their education in 2012-13.

The impact of State funding reductions has been compounded for UC by unfunded cost increases for academic merits, collective bargaining agreements, health benefits, non-salary price increases, and annually escalating employer contributions to the UC Retirement Plan.

Tuition and fee increases have always been a direct result of inadequate and volatile State support. However, the University has also taken other actions to address inadequate State support and unfunded cost increases. Some of these actions have been positive, but many have been negative.

Positive actions include operational improvements such as development of information technology systems that reduce personnel effort, strategic sourcing, shared library resources, energy savings programs, curriculum redesign, elimination or consolidation of redundant operations, new financial investment strategies, and alternative instructional delivery.

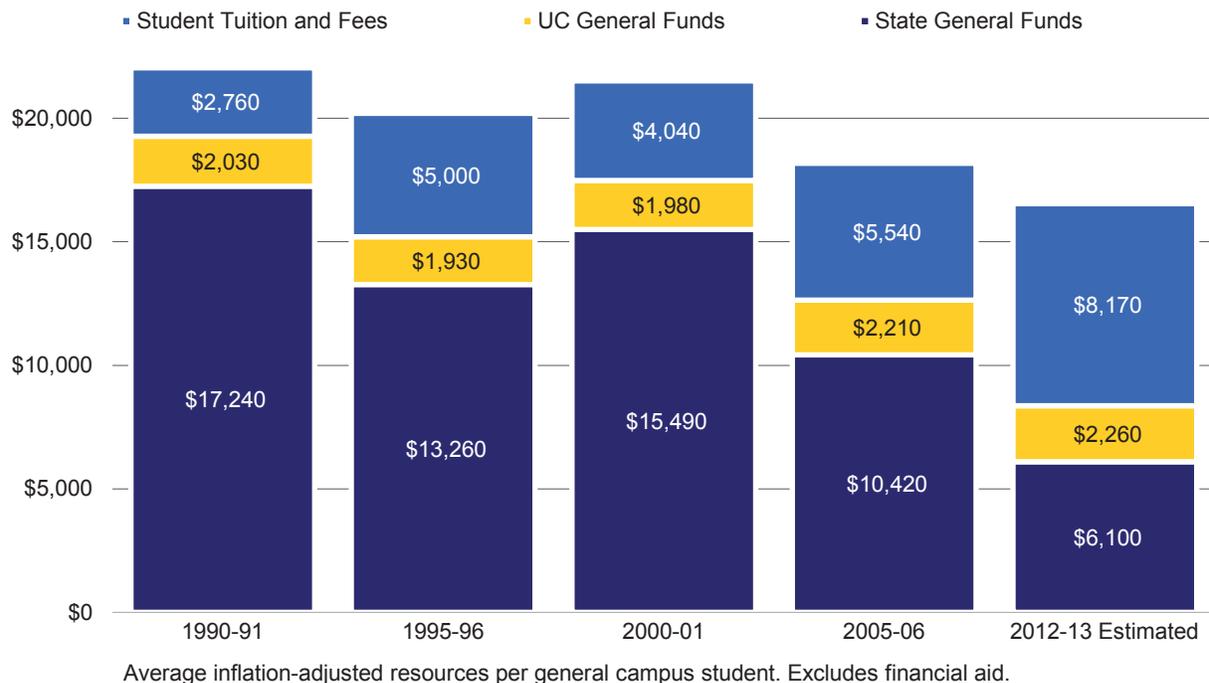
More significant, however, are the austerity measures necessitated by the lack of support which have a negative impact on quality and functionality:

- faculty and staff salaries that significantly lag the market;
- reduced faculty hiring, leading to rising student-faculty ratios, larger class sizes, and less depth and breadth in course offerings;
- inadequate graduate student support;
- reductions in services and service hours;
- deferral of library material purchases and equipment replacement;
- inadequate spending on ongoing building maintenance and the absence of systematic investment in capital renewal and deferred maintenance; and
- increased risk due to constraints on administrative oversight.

Austerity measures are inevitable in times of fiscal crisis, when UC must shoulder its share of cuts in the State budget. However, such measures are not sustainable in the long term if the University is to maintain its place among the world's top-tier research universities.

The impacts of even short-term actions on the academic programs are of great concern. For example, reduced course offerings and contact with faculty will ultimately 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 are being asked to assume more administrative tasks and more student advising. Furthermore, the inability

Display 7: Per-Student Average Expenditures for Education (2011-12 Dollars)



Since 1990-91, average inflation-adjusted expenditures for educating UC students have declined by 25%. The State's share of expenditures has plunged even more steeply – by 65%. Over this period, the student share, net of financial aid, has more than tripled, from 13% to 49%, while the State now contributes just 37%.

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.

In 2011, UC commissioned a study of its economic contribution to the state, quantifying what has been long known – UC touches the lives of all Californians and is a major economic engine in the state. For example, UC

generates about \$46.3 billion in economic activity in California and contributes about \$32.8 billion to the gross state product annually. Every dollar a California taxpayer invests in UC results in \$9.80 in gross state product and \$13.80 in overall economic output. One out of every 46 jobs in California – approximately 430,000 jobs – is supported by UC operations and outside spending by the University's faculty, staff, students, and retirees. UC is the state's third-largest employer, behind only the State and federal governments and well ahead of California's largest private-sector employers. UC attracts about \$8.5 billion in annual funding from outside the state. In short, every \$1 reduction in State funding for UC has the potential to reduce State economic output by \$2.10 due to ripple effects of UC activities across the entire California economy.

The 2013-14 Budget Plan Marks the Beginning of a Multi-Year Reinvestment in UC's Core Academic Programs

For the University of California to continue to be the world-class public research university California has taken pride in and benefited from, it must have sufficient resources over the long term to employ outstanding faculty and staff, recruit and educate well the best undergraduate and academic and professional graduate students, engage in robust programs of research, scholarship, and creative activity, share its expertise and resources with the people of California, and provide the considerable infrastructure necessary to support its expansive operations.

The 2013-14 budget plan sets the groundwork for a new multi-year plan to stabilize funding, provide a course for addressing the University's ongoing mandatory costs and recent budget cuts, and leverage new sources of revenue and cost reduction to reinvest in quality.

After a twenty-year trend of State disinvestment in higher education punctuated by severe cuts in State support over the last four years, UC's stature as a world-class public research university is imperiled unless it moves to reverse the erosion of support for its core academic activities. State funds now comprise just 10% of UC's total budget, down from 24% in 1990-91. The University's expansive efforts to broaden its revenue base and reduce costs through administrative efficiencies have helped to mitigate the impact of State cuts, but the University's core instructional and research programs still rely primarily on the combination of State funds and tuition and fees. These core funds remain the foundation of UC's academic program. Fully 97% of ladder-rank and equivalent faculty, for example, are paid on core funds. Sustained cuts in State funding and unfunded cost increases have taken their toll on the quality of UC's academic enterprise.

Since the latest State budget crisis began, State funds have been reduced by \$880 million – from \$3.26 billion to \$2.38 billion – representing a 27% reduction. As noted above, the shortfall is exacerbated by the fact that the State has also not provided funding for \$1.2 billion in mandatory cost increases during that time. Tuition and fees have only mitigated about 39% of the budget gap in recent years, leaving campuses to absorb the remaining shortfall.

As noted earlier, the University's budget shortfall is projected to grow dramatically (the \$2.9 billion gap identified in Display 2) due to a variety of cost pressures. Assuming passage of the Governor's tax initiative and a multi-year funding agreement with the State, the University will be able to address most of this funding gap through moderate increases in both State funding and tuition and fees, as well as revenue enhancement and administrative efficiencies that the University is currently pursuing. But covering such costs, as substantial as they are, only maintains the status quo. Investing in UC's legacy of excellence requires additional resources.

The University must ultimately address not only UC's mandatory costs, but also the overall level of core funding needed to protect and enhance the quality of UC's academic programs. Within the constraints of the State's lingering fiscal woes, the 2013-14 budget plan recognizes that such an investment represents a multi-year commitment, yet sets the groundwork for moving forward by proposing strategic investments in UC's core academic program – specifically investing in faculty, the cornerstone of UC's tradition of excellence; in graduate student support; and in basic infrastructure needed to sustain the academic program.

To fund this investment, the University is pursuing a wide variety of alternative strategies ideas for cutting administrative costs and generating new revenues, beyond those already planned or underway to address basic operating costs. At their September retreat, the Regents were presented with a comprehensive list of these ideas in four primary categories: balance sheet strategies; business and finance strategies; enrollment, tuition and financial aid; and proposals to enhance academic delivery of programs or otherwise revise the academic model. The alternative strategies ideas include:

- asset management opportunities, such as restructuring working capital from the Short-term Investment Pool (STIP) to the Total Return Investment Pool (TRIP);
- parking securitization, under which the University would receive an up-front monetization of its parking assets;
- consolidation of medical center infrastructure and rationalization of the delivery of clinical services;
- increases in systemwide contract utilization;

- changes in health and welfare benefits (e.g., introducing a self-insured health plan option through UC's medical centers, modifying employer contributions to health premiums, and revisiting UCRP and annuitant health reforms to further reduce employer costs);
- further increases in nonresident student enrollment;
- reform of UC's financial aid model (e.g., refocusing on maintaining net cost rather than a fixed percentage of return-to-aid, and using philanthropy and other fund sources to help maintain the net cost for students with financial need); and

- implementing differential tuition by campus or discipline.

Most of these proposals will not generate significant revenue in 2013-14, but are expected to offer opportunities for generating positive fiscal impacts over the next few years. These options and others that the University is currently exploring will support a multi-year reinvestment in areas critical to UC's core mission.

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 its operations and develop new strategies.

As noted previously, the 2012-13 State-funded budget for UC is nearly \$900 million less than the level provided in 2007-08. Moreover, the State has steadily disinvested in the University over the last 20 years. This long-term decline in State support, combined with substantial mandatory cost increases that have gone unfunded by the State, has led the University to examine all aspects of its operations to identify solutions that will have a positive fiscal impact on its budget. Efforts at the campus level, along with systemwide initiatives, are being implemented in order to reduce costs and identify alternative revenue sources, both in the short term and the long term.

Campus Actions

For four years, campuses have been implementing measures to address funding shortfalls and discover new ways of operating with far fewer funds. Academic and administrative units on the campuses have been assigned cuts ranging in general from 0% to 35%. More than 4,200 staff have been laid off and more than 9,500 positions have been eliminated or remain unfilled since the most recent fiscal crisis began. Over 180 programs have been eliminated and others consolidated for an estimated savings of over \$116 million.

Against this backdrop it is important to note that the University currently enrolls about 11,500 students for whom it has never received funding from the State; when budget cuts are taken into account, the University estimates it enrolls more than 25,000 unfunded students. In addition, UC lost more faculty to retirement and attrition than it hired last year; total hires were more than 200 faculty less than total separations, yet enrollment has grown by more than 10,000 students since the fiscal crisis began. All campuses report moving aggressively toward implementing shared service centers to reduce duplication and streamline

WORKING SMARTER WILL GENERATE \$500 MILLION IN POSITIVE FISCAL IMPACT BY 2016-17

The systemwide *Working Smarter* initiative has a portfolio of more than 30 projects. Over the two years it has been in operation, the program has generated \$289 million in positive fiscal impact for UC. Following is a list of those projects that are already yielding savings or new revenue for UC (estimated savings/revenue shown in parentheses).

- UC Travel Insurance Program (\$2 million) – focuses primarily on providing better protection by more efficiently gathering UC's travel data, negotiating this insurance on a systemwide basis, and automatically enrolling travelers who book using Connexus, the UC Travel portal.
- UC Equipment Maintenance Insurance Program (\$600,000) – replaces prior spending on emergency repair service and certain original equipment manufacturer (OEM) maintenance contracts which are statistically unlikely to be used.
- Enterprise Risk Management (\$71 million) – reduced the University's overall cost of risk in fiscal year 2011-12.
- The Purchase Card Program (\$5 million) – generated incentive payments and signing bonuses for the campuses in 2011.
- Liquidity Management (\$18 million) – optimized the allocation of campus working capital between STIP and TRIP, generating additional investment income in 2011-12.
- Parent Giving (\$12 million) – identified as having high potential for revenue increases because of UC's relatively low parental giving rates.
- Strategic Sourcing (\$11 million) – leverages UC's substantial combined buying power.
- Connexus Travel (\$7 million) – offers reservation options and systemwide supplier discounts through a centrally managed travel program.
- Banking Services (\$2 million) – renegotiated UC's merchant credit card account per transaction interchange fee and implemented a more modern and secure Treasury workstation.
- Legal Services (\$3 million) – reduces expenses without increasing risk to the University by both in-sourcing and creating preferred provider panels for outside counsel.

processes. All campuses have curtailed faculty recruitment. 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. Campuses also report taking a wide variety of other measures to avoid or reduce costs and raise new revenue to address budget shortfalls. Some examples from the campus reports are listed below. A more complete report on campus actions to address budget gaps can be found at <http://regents.universityofcalifornia.edu/regmeet/jul12/f1.pdf>.

Between April 2009 and April 2011, the Berkeley campus reduced its staff workforce by more than 900, a drop of 10%; further reductions have occurred since. Davis reports that there are 500 fewer faculty and staff FTE supported by general funds and tuition than there were four years ago. Irvine recently lost three professors to other institutions who received salary increases of \$27,000 to over \$87,000 from its competitors. Several organized research units on the Los Angeles campus have been eliminated, including the Institute of Social Research and the Brain Injury Institute. At Merced, while the campus is being spared from budget cuts as it continues to strive for self-sufficiency, the campus is still severely underfunded and is struggling to contain and avoid costs. The Riverside campus reports that the average size of an undergraduate lower division lecture class has increased 33%, from just over 66 in Fall 2008 to over 88 in Fall 2011. San Diego has reduced library services, including closing four out of nine library locations and significantly reducing library staff, for a savings of \$2 million. San Francisco has eliminated Clinical Nurse Specialist programs in cardiovascular care and neonatal intensive care, as well as nurse practitioner programs. Santa Barbara reports that the number of lecture, laboratory, and seminar classes has been reduced by 6.5% (94 classes) since 2007 at the same time enrollment has grown by 1%. Santa Cruz reports that the funding associated with 124 of the campus' budgeted faculty FTE has been cut.

These are just a few examples of the wide range of actions underway at the campus level to address the unprecedented cuts that have occurred to their budgets.

Systemwide Initiatives Underway

As noted earlier, the University projects a shortfall of \$2.9 billion by 2016-17, absent any revenue generating or cost-cutting measures. Several strategies to raise new revenue, cut costs, or otherwise have a positive fiscal impact on this shortfall have already been initiated. It is expected that together these initiatives will provide more than \$1 billion of solutions aimed at addressing the \$2.9 billion gap.

Working Smarter. The University's five-year program to introduce administrative efficiencies across the system is expected to ultimately generate \$500 million of positive fiscal impact; two-thirds of these savings are expected to accrue to core fund sources.

Philanthropy. The University aims to raise \$50 million annually in unrestricted or more flexible philanthropy. Obtaining this additional revenue will require a considerable expansion of UC's fundraising efforts, as well as efforts to request the elimination of endowment restrictions from donors.

Research Cost Recovery. UC is pursuing increased research indirect cost recovery (ICR) above current levels over four years, ultimately for a total savings of \$120 million, through negotiated increases in federal ICR rates and reductions in ICR waivers for private and State contracts and grants.

Nonresident Enrollment. Most campuses are increasing enrollment of nonresident undergraduates. These students pay more than the actual cost of their education. Every 1,000 nonresident students generates close to \$23 million in Nonresident Supplemental Tuition.

Other cost reductions. The University is also achieving savings through efficiencies in central functions, reductions and eliminations of earmarked programs that do not advance the core mission of UC, and limits on increases in the cost of employee and retiree health benefits. These efforts could yield \$120 million in savings by 2016-17.

MULTI-YEAR PLANNING WILL HELP BUILD FISCAL STABILITY

Fostering and maintaining quality at the caliber of the University of California requires long-term planning and investment that, in turn, require fiscal stability.

The excellence that has made UC one of the very best universities in the world is based on a long-term investment that has taken many decades to develop. And yet, that excellence is fragile and can rapidly disappear if the current disinvestment by the State is not addressed.

The volatility in State funding in recent years has made it difficult for campuses to plan – but thoughtful long-term planning is fundamental to a world-class institution like UC. Decisions to hire and tenure faculty; enroll students; add or expand academic programs; build new residence halls, classrooms, or research facilities; and invest in books or digital technology for libraries all involve long-term investments that require assurance of stable funding in the future. Put another way, the University is unlike many businesses, which can quickly increase or reduce production and inventories depending on market conditions.

Without the assurance of stable funding, UC is inhibited from making decisions that are essential to operating a major research institution and allowing it to move forward, particularly since the swings in State support are now deeper and of longer durations.

UC's high-quality faculty is its most precious asset. The unpredictability and uncertainty that characterize the current environment have led to a growing lack of confidence among many faculty about UC's ability to maintain quality and provide competitive compensation and benefits in the years ahead. Continued instability of UC's core funding will jeopardize the institution's ability to recruit and retain high quality faculty.

At the same time, students and their families have been hit with large, frequent, unpredictable, and untimely tuition and fee increases, while also feeling the effects of budget cuts on the instructional program through reduced course offerings, increased class sizes, and curtailed student services. The instability of the University's budget

promotes uneasiness among students and their families about whether the high quality education to which students work hard to gain access will be available in future years.

While considerable uncertainty remains about the fiscal condition of the State, the 2013-14 budget is built on the assumption that the University must gain some level of fiscal stability to move forward. That stability requires predictability of future State support and tuition and fee levels, the two primary revenue sources supporting UC's core academic mission.

If the Governor's tax initiative passes, the University and the State may realize a level of fiscal stability that has been lacking since the recent fiscal crisis began. As noted earlier, the Governor has indicated that he will support a long-term funding agreement with the University if his initiative is successful. Such an agreement is likely to include base budget adjustments of 6% annually through 2016-17, as well as a multi-year tuition and fee plan that would include predictable and moderate tuition and fee increases (between 6% and 7.5%, contingent on the State funding the specified base budget adjustments). The State would continue to contribute to student financial aid equivalent to current commitments. The agreement would also likely include performance metrics tied to such variables as time-to-degree and transfer student enrollments.

While a multi-year agreement is likely to provide no more than a minimum level of support for the University over the next five years, it would provide the foundation for predictable and stable funding that is so critical for the University as it faces decisions regarding how to reinvest in quality in the future.

SUMMARY OF THE UNIVERSITY'S 2013-14 EXPENDITURE PLAN

To achieve its goals in the coming years, UC must strive to protect access, affordability, and quality, at the same time maintaining fiscal health through key investments, administrative efficiencies, and new sources of revenue.

SUMMARY OF PROPOSED INCREASES IN REVENUE

State General Funds

The University's 2013-14 budget plan calls for moderate increases in both State funding and tuition and fees, consistent with the general framework of a multi-year funding agreement that the University has been negotiating with the Governor's Office.

The plan calls for \$290.6 million in new State General Funds, including:

- \$125.4 million associated with the 2012-13 tuition and fee buy-out, as provided in the 2012-13 Budget Act;
- \$150.2 million from a 6% base budget adjustment; and
- \$15 million for the new UC Riverside medical school.

The plan assumes that the Governor's revenue-raising initiative will pass and that the University will secure a multi-year funding agreement with the State, as proposed by the Governor during negotiations on the 2012-13 budget.

Under the broad terms of the agreement, UC would receive a 6% base budget adjustment from which it would need to cover operating needs. Approximately 2% would be earmarked as the State's contribution to UC's retirement system costs and the rest as a general base adjustment to be used to fund other operating cost increases.

In October 2012, the Riverside campus received notice of preliminary accreditation for its new medical school. The inaugural class of 50 students will enroll in Fall 2013.

Above the 6% base budget adjustment proposed in the multi-year funding agreement, the University is requesting \$15 million to fund this critically important initiative, as building a new medical school, which will be a regional and statewide resource, cannot be sustained through a redirection of existing resources. It is critical that the State commit to this endeavor by providing core support for the school's academic program and basic operations.

Student Tuition and Fees

Also consistent with the principles of the proposed multi-year funding agreement, the budget plan assumes \$163.7 million in revenue associated with a 6% (or \$732) increase in tuition and fees, of which a net of 5%, or \$126.5 million (after financial aid is accounted for) would be available for operating costs. In addition, planned increases in professional school fees, which vary by discipline and range from between 0% and 35%, are expected to generate a total of \$20.8 million, of which \$7.5 million would be used for financial aid. For undergraduates, the plan assumes that the equivalent of 33% of new tuition and fee revenue will be returned to financial aid, with one-half of this amount coming from corporate fundraising or other University sources. The plan also assumes the equivalent of 33% in return-to-aid for professional school students and 50% in return-to-aid for graduate academic students.

UC General Funds

Campuses have sought to expand nonresident enrollment as a strategy to increase revenues. The budget plan proposes \$23 million in new revenue from Nonresident Supplemental Tuition associated with a projected increase in nonresident enrollment of 1,000 students, and a modest increase in indirect cost recovery due to higher rates achieved in recent renegotiations.

Alternative Revenue Sources

As noted earlier, at their September retreat the Regents were presented with a comprehensive list of "out-of-the-box" ideas about how to enhance revenues and reduce costs. Most of the proposed strategies are not expected to generate significant revenue in the short term, but offer opportunities in 2014-15 and subsequent years. The University will continue to pursue these and other options as it moves to stabilize its funding over the longer term. In the meantime, the 2013-14 plan assumes \$80 million of

new revenue from the restructuring of State lease revenue bond debt, \$20 million from asset management strategies (i.e., moving Short Term Investment Pool funds to the Total Return Investment Pool), and \$20 million from procurement savings through new systemwide contracts.

In addition, the University is planning to raise \$20 million in revenue from other sources, such as philanthropy, to assist with meeting its financial aid goals to provide the equivalent of 33% return-to-aid associated with the proposed increase in mandatory systemwide tuition and fees. If these alternative funds were not used for financial aid, the University would have needed to ask the Regents to approve a slightly higher tuition and fee increase for 2013-14 to ensure that the University generates sufficient new revenue for both its operating budget needs and its financial aid needs.

SUMMARY OF PROPOSED EXPENDITURES

The plan proposes \$641.5 million in expenditure increases for 2013-14. These increases consist of the following:

- \$22.4 million to cover enrollment growth of 1% above current funded levels, or about 2,100 students, including continued expansion of the Merced campus and addressing unfunded enrollment of California residents and in the health sciences. The funding is based on a marginal cost of \$10,000 for all students and supplemental funding for health sciences students;
- \$13.3 million, net of financial aid, for supporting instructional programs and maintaining quality in professional school programs;
- \$15 million to support planning and start-up activities for the UC Riverside medical school;
- \$77.2 million to support new employer contribution costs for UC's retirement plan associated with moving to a 12% employer contribution rate in 2013-14;
- \$11.4 million in employee health benefit costs to fund an increase of approximately 3.5% in health benefit plans overall, or one-half the amount that had originally been planned. This represents one of the University's aggressive "out-of-the-box" strategies for reducing costs, as discussed at the September Regents' retreat;
- \$6.4 million in retiree health benefit costs needed to provide funding for UC retiree health benefit cost increases equivalent to that being provided to other State employees;
- \$30 million to continue the academic merit program, critical to retaining high quality faculty;
- \$100.2 million to cover 3% increases in merit-based

compensation for represented and non-represented employees. Salaries for represented employees are subject to notice, meeting and conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA);

- \$37.2 million in continuation costs for a 3% mid-year salary increase to be implemented in 2012-13 if the Governor's revenue-raising initiative passes;
- \$23.7 million in non-salary price increases, representing a 2% increase over the prior year plus \$8 million for rising electricity and natural gas costs; and
- \$25 million for deferred maintenance and capital renewal, as the first of a multi-year effort to reinvest in UC's aging facilities.

The plan also assumes repayment of \$60 million of STIP borrowing by campuses to help bridge the budget shortfall in 2012-13.

In addition to funding these basic operating costs, the 2013-14 budget plan includes the first year of a multi-year reinvestment in the quality of the University's academic programs. The plan is focused on several well-established and closely watched measures of academic program quality, including the following:

- Reducing the student-faculty ratio. Delays in faculty hiring and unfilled vacancies have dramatically increased the actual student-faculty ratio. The University's long-term goal is to return the actual student-faculty ratio to the budgeted level of 18.7:1.
- Increasing revenue to cover faculty start-up costs. Attracting high quality faculty requires up-front investment for research support, lab renovations, and other support. This has become extremely challenging in the current constrained budget environment.
- Reducing faculty and staff salary gaps. Faculty salaries currently lag the average of the University's comparison institutions by 10.8%; there is a similar or greater problem with staff salaries in most categories. Paying competitive salaries is critical to UC's ability to recruit and retain the employees needed to secure the University's future as a preeminent research university.
- Increasing graduate student support to competitive levels. UC graduate support packages fall far short of the packages offered by competing institutions.
- Enhancing undergraduate instructional support. Investments are needed in instructional technology, libraries, instructional equipment replacement, and building maintenance, all critical to the quality of the academic program.

A combination of State resources and tuition and fee revenue is required to meet the University's basic operating costs and lose no further fiscal ground. Just to stay even – in other words, to maintain its current fiscal position – the University needs about \$300 million in new revenue every year to support cost increases on core funded-programs needed to keep pace with workload, inflation, and other market costs. These costs consist of the following:

- enrollment growth, estimated at 1% per year, although enrollment increases in most years have exceeded this rate;
- employer contributions to the University's retirement system, which will continue to be required to at least support normal cost and ultimately to help retire the unfunded liability;
- health and welfare benefit increases;
- annuitant health benefit increases;
- academic merit increases;
- compensation increases for all employees – represented and non-represented – needed to stay even with inflation and lose no further ground to UC's competition. This would not, however, help to close the current market gaps that exist between UC and its competitors;
- non-salary price increases, needed to stay even with inflation on non-salary expenditures; and
- deferred maintenance and capital renewal.

Most of these cost increases are in one way or another related to compensation and benefits for University employees. While there are many pressures externally and internally to keep these costs down, and despite the actions the University has taken to control these costs, the fact of the matter is that costs associated with employees make up about 70% of the University's operating budget. These employees teach the students, conduct research, provide services to the public, and keep the University operating on a day-to-day basis. More importantly, the quality of the University's instruction and research programs is explicitly tied to the success and performance of the University's employees. When enrollment increases occur and the University is unable to hire new faculty to address these increases, this has a direct bearing on such quality indicators as class size, depth and breadth of instructional offerings, research opportunities, and a variety of other equally important measures of quality which allow the University to compete for talented faculty and staff and attract top students. An inability to hire, or even retain,

knowledgeable, qualified employees will ultimately hinder the University from ensuring the quality of its programs. Keeping pace with market-driven employee-related costs is one of the most critical elements of the University's budget plan.

In the 2013-14 budget plan, mandatory cost increases total \$361.8 million. Even if the State returns to supporting its share of funding cost increases on the State-funded portion of the budget, rising costs continue to occur on the tuition and fee-funded portion of the budget and those, too, must be funded. Moreover, the tuition and fee-funded portion of the budget now exceeds the State-funded portion by hundreds of millions of dollars, making it imperative that tuition and fee increases bear some share of responsibility for funding these cost increases, thus the inclusion of a 6% increase in tuition and fees in the 2013-14 budget plan.

It is critical to adopt this plan in November in order to allow for sufficient notice to students and their parents to plan for the coming year. Tuition increases implemented on short notice create major challenges for students, parents, and UC's financial aid offices in terms of planning for educational costs and financial aid packages. Moreover, statutory language adopted in the 2012 legislative session (AB 970, Fong) requests UC to adopt much stricter policies with regard to advance notice and consultation before setting tuition and fee increases and the elapsed time between when a vote to increase tuition and fees is taken and their implementation date. While this language does not become operative until January 1, 2013, adopting a tuition and fee increase in November is consistent with the spirit of advanced notice contained in the legislation.

While increasing tuition and fees is always difficult, these proposed increases are considerably moderated from the double-digit increases the University has contemplated, and implemented, in recent years because of the volatility of State funding. Also, there is nothing precluding the State from buying out the planned tuition and fee increase in any year in which there are sufficient resources to do so. For example, the State bought out every fee increase planned for seven consecutive years following the then-unprecedented recession, and significant fee increases that occurred in the early 1990s.

ENROLLMENT GROWTH AND INSTRUCTIONAL PROGRAM EXPANSION

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

California Resident Enrollment Growth

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 underscored in the Compact with Governor Schwarzenegger, which included an expectation of enrollment growth of about 2.5% annually through 2010-11 as growth in the number of high school graduates peaked. Funding for this growth was provided during the first three years of what was intended to be a six-year Compact.

In addition, the University planned to rebalance the proportions of graduate and undergraduate students to better meet state workforce needs, particularly in the health science disciplines. UC was planning for continued growth in graduate and professional enrollments after 2010-11, when demographic projections indicated there would be a significantly slower rate of growth in undergraduates.

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, particularly at the undergraduate level, the University planned to slow enrollment growth, reducing the number of new California resident freshmen by more than 2,000 students in 2009-10 and by 1,800 during 2010-11. During these years, 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. The actual curtailment of freshmen was somewhat lower

than planned, with a reduction of approximately 1,000 students over a four-year period.

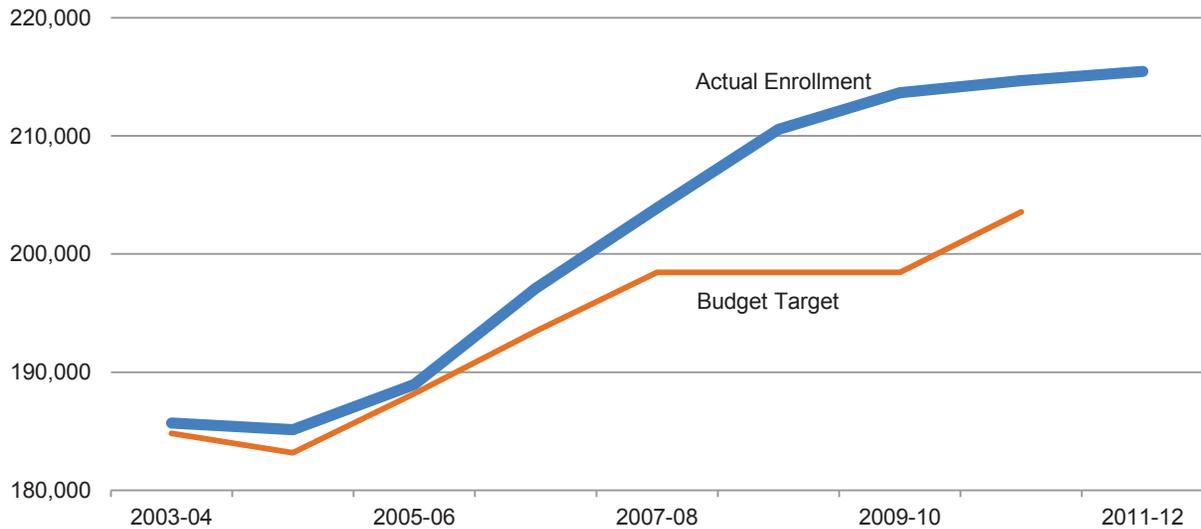
The freshman reductions were partially offset by a planned increase of more than 1,000 California Community College (CCC) transfer students. In fact, transfer enrollment grew by nearly 1,300 over this period, exceeding the planned increase. UC took this action in order to preserve the transfer option 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. No additional funds were provided for enrollment growth in 2011-12, however, and the extraordinary reduction in State support over the last several years effectively means that the State is not providing support for more than 25,000 California residents (based on a DOF methodology) in 2012-13.

Accommodating enrollment without sufficient resources (as student tuition and fees do not cover the cost of instruction) means that new and existing students alike are affected by the lack of resources needed to support a high quality academic experience. Though 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 – these are negatively impacting what has historically been an educational program characterized by excellence and opportunity.

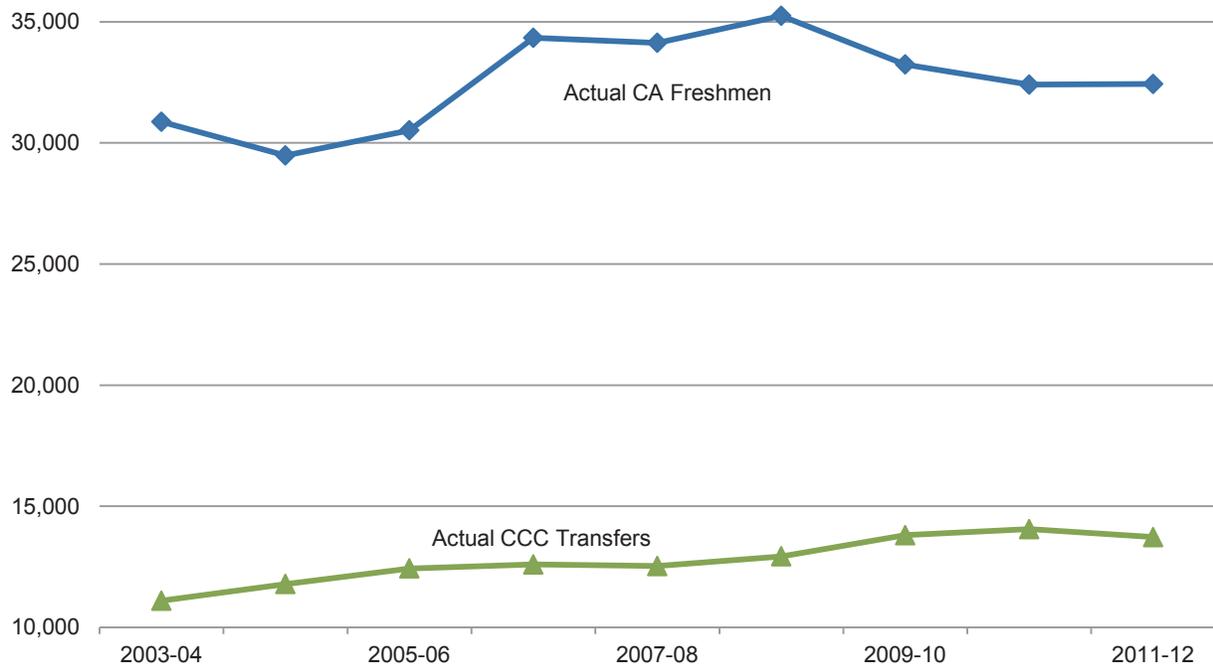
During a budget crisis, such steps are necessary. But these actions are not sustainable over a long period of time if the quality of the University is to be preserved. Revenue from student tuition and fees has helped, but it has been insufficient to fully address the loss of State funding. Historically, the University has offered access, affordability, and quality. The draconian reductions over the past several years, however, mean that the University cannot

Display 8: State-supported FTE 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 from 2005-06 to 2007-08. 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 and efforts to slow growth, the extraordinary reduction in State support during 2011-12 effectively means that the State is not providing support for more than 25,000 California residents in 2012-13 (per DOF methodology).

Display 9: California Resident Freshman and California Community College Transfer Entrants



In order to slow enrollment growth, the University planned 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 California Community College transfers. Actual decreases in California resident freshmen were less than planned, while UC exceeded its goal on increasing transfers.

DILUTION OF STATE FUNDING

Accommodating enrollment without sufficient State support (since the tuition income associated with enrollments only partially offsets the loss of State support) affects students and faculty alike, denying them the highest-quality 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,
- a lack of functional and modern instructional equipment,
- reduced interaction with leading faculty, and
- constrained library holdings and longer waits for library and student services.

For faculty, some of the impacts include:

- fewer competitive offers to attract and retain the best faculty and graduate students,
- less time spent on research and public service 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 ultimately dissatisfaction with the academic experience. Ultimately, any loss of UC's preeminence would have an impact beyond the campuses.

sustain all three. While the University has maintained access and affordability thus far, quality is at risk. The dilution of State funding over larger numbers of students results in a lower quality experience for all students.

Growth in the number of California high school graduates will be slower in the next several years than it has been over the last decade, although UC expects continuing growth in demand for a UC education from high school graduates and community college transfers. Graduate enrollments should also increase to meet the State's workforce needs: the last decade's undergraduates are this decade's graduate students. The University's expenditure plan includes funding for moderate enrollment growth at the Merced campus, as well as addressing unfunded enrollment of California residents and PRograms In Medical Education (PRIME) and nursing students.

Nonresident Enrollment Growth

While UC's priority is to enroll eligible California residents for whom the State has provided funding, nonresident students are essential to the quality of the University and a crucial part of the economic future of California. They contribute to the educational experience of all students and enhance the diversity of backgrounds and perspectives on the campuses at which they enroll. Their contributions help prepare all UC students to effectively live and work in an increasingly global world. Nonresident enrollments also help grow and sustain the University's global reach, promoting new opportunities for students and faculty.

In addition, because nonresident students pay supplemental tuition not charged to California residents, (\$22,878 in 2012-13 for undergraduates, an amount that far exceeds the State support provided for California residents), they provide extra revenue that enables UC to improve educational programs for all students.

Systemwide nonresident undergraduate enrollment represented only 8% of the undergraduate population at UC in 2011-12, whereas over 30% of undergraduates at the University of Michigan and the University of Virginia are nonresidents. All campuses are attempting to increase their nonresident undergraduate enrollments in the coming year.

UC Merced

Adding to the difficulty of addressing State budget reductions, cost increases, and unfunded enrollments is the need for UC to maintain enrollment growth at Merced. The Merced campus commenced its eighth year of operation in 2012-13 with a total enrollment of over 5,900 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 the absence of such support, UC has been forced to turn to other resources.

In order to maintain the enrollment growth trajectory needed to reach critical mass at the Merced campus,

during 2008-09 and 2009-10, the University redirected resources from the other campuses and used savings realized from UCOP restructuring to support planned enrollment increases. For 2010-11, enrollment growth funding provided by the State supported another 675 students at Merced and allowed the University to restore funding to other campuses. However, without State support for enrollment growth in 2011-12 or 2012-13, the University was again forced to redirect resources to support growth at Merced. It is essential Merced's growth funding over the next four years be maintained.

Medicine

During the last decade, 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. Some initial funding for these programs was provided during 2005-06 through 2007-08, but since then, no State funding has been added to support these programs. In 2012-13, UC is enrolling 241 MD and 61 master's students for which it has received no State funding. Addressing a portion of this unfunded backlog is a priority in the University's 2013-14 budget plan.

Display 10: General Campus and Health Sciences FTE Student Enrollment

	2011-12 <u>Actual</u>	2012-13 <u>Estimated</u>
Berkeley	36,824	37,330
Davis	32,017	32,373
Irvine	28,624	28,974
Los Angeles	39,707	40,310
Merced	5,317	5,929
Riverside	20,382	20,274
San Diego	29,859	30,581
San Francisco	4,446	4,508
Santa Barbara	22,298	22,527
Santa Cruz	<u>17,583</u>	<u>17,988</u>
Total	237,057	240,794

Nursing

In recent years, the University began a multi-year plan to increase enrollment in undergraduate and graduate nursing

programs to help meet the state's critical shortage of both practitioners and nursing faculty. In 2012-13, UC is enrolling nearly 300 unfunded nursing students, including 150 from the University's 2005-06 growth plan and 136 in recent growth at the Davis and Irvine campuses. Over \$3.7 million in Workforce Investment Act funds no longer available were to have supported two cohorts of students totaling 298 FTE in 2012-13 and 2013-14. As with PRIME, providing support for a portion of these unfunded students is a priority in the University's 2013-14 budget plan.

Establishing a New Medical School

Responding to the state's need for more physicians in the workforce, the Riverside campus is establishing a four-year school of medicine that will be the first new allopathic medical school to open in California in more than 40 years. The mission of the Riverside campus' 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 included 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. The budget plan for 2013-14 includes \$15 million above the amount provided in the multi-year agreement to support development of academic programs and support the salaries of staff and faculty for the new medical school.

The school received preliminary accreditation from the Liaison Committee on Medical Education (LCME) in early October, a major achievement for the campus. Specific start-up activities that will occur during 2013-14 include enrolling the inaugural class of 50 students in August 2013, building more graduate medical education (residency) programs in addition to the recently approved internal medicine program, recruiting and appointing basic science and clinical faculty and administrative staff necessary to open and teach in the school, expanding the faculty practice plan, and securing additional non-state funding.

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.

Faculty and Staff Salaries

Recent cuts to the University's budget have resulted in significant disparities in faculty and staff salaries compared to the market. In 2011-12, UC faculty salaries lagged the market by 10.8%, 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. The most recent study of UC's total compensation program indicates that, in general, average UC salaries are significantly below the market median, but the total compensation package, including salaries and health and welfare benefits for employees as well as post-employment benefits (pension and retiree health), was close to market.

Plans to eliminate the salary lags for faculty over four years and for staff over a ten-year period were initiated in the middle of the last decade, but the State's ongoing fiscal crisis 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 non-represented staff in 2008-09, 2009-10, or 2010-11, although represented staff have continued to receive increases required through their collective bargaining agreements. In 2011-12, faculty received their normal merit increases and general increases, and non-represented staff (excluding executives and those with salaries at or above \$200,000) received merit-based salary increases representing 3% of salary funding, though these increases were partially offset by increases in employee contributions to the UC Retirement Plan (UCRP). The University had planned to support another general salary increase for faculty and staff in 2012-13; however, any such action has been deferred pending the outcome of the Governor's initiative in the November election.

Changes in the costs and structure of the University's employee benefits programs will intensify pressure for salary increases over the next several years. While the initial 2% member contributions to UCRP during 2010-11 were made by redirecting previous employee payments to the Defined Contribution Plan, employee contributions have increased by 3 percentage points since then, to a total of 5% in 2012-13; increases planned in subsequent years, including an approved increase in employee contributions to 6.5% in 2013-14, will have further impact on employee take-home pay. In addition, inflationary cost increases in health and welfare benefits will likely require that employees pay an increased amount in medical insurance premiums. Although the benefits provided by UC 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.

Furthermore, a national economic recovery is likely to have daunting repercussions on recruitment and retention of high-performing faculty and staff for UC. Campuses are already experiencing significant faculty retention challenges from other institutions within California, across the country, and around the world. Similarly, economic recovery will generate new competitive opportunities for staff.

To ensure that UC is able to recruit and retain faculty and avoid further growth in salary lags for both faculty and staff, the University must develop a stable, predictable program for compensation increases. In 2013-14, the expenditure plan includes an assumption of funding for the normal merit salary increase program for faculty and a 3% salary increase pool for faculty and staff.

Actual salary and benefit actions for represented employees are subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act.

Employee Health Benefits

Employee health benefit costs have been rising at a rapid rate, typically between 8.5% and 11% in recent years. Yet, no State funds have been provided for this purpose since 2007-08. 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 2011, through negotiations and the addition of new programs to the employee benefit plan portfolio, UC was able to limit health benefit cost increases to 7.1%. Again, aggressive negotiating resulted in an increase of only 3.5% for current employees in 2013. Minimizing the increase in health benefit costs helps reduce the overall pressure on strained UC budgets, but the resulting increases still must be funded.

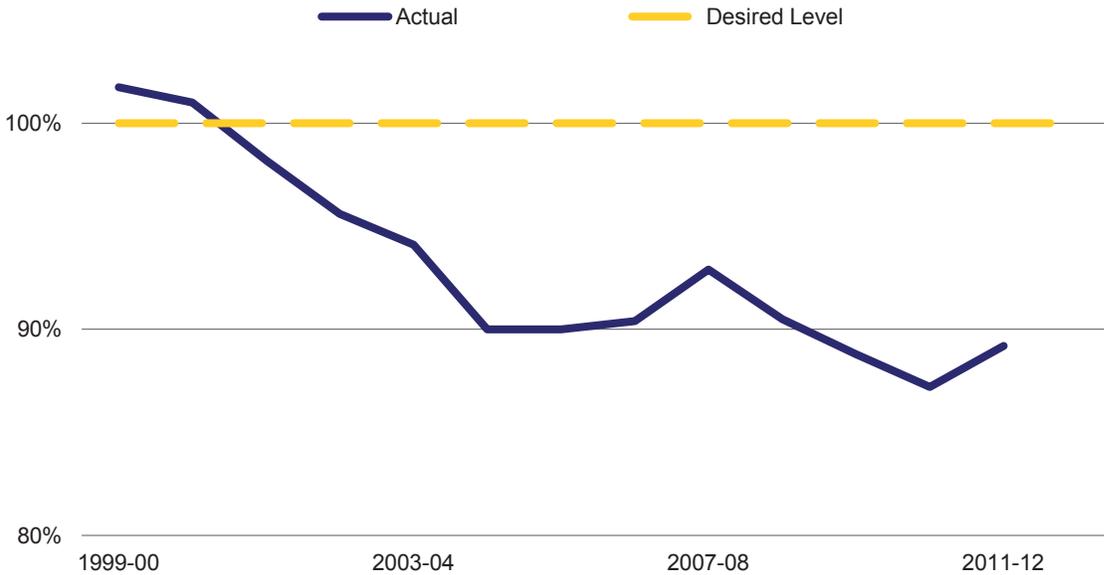
In addition, employees have been required to bear a larger responsibility for the rising costs of these benefits, partially offsetting any salary increases they may have received in recent years. In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical premium increases on lower-paid employees.

Although UC pays approximately 87% of monthly medical premiums for employees on an aggregate basis, the University 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. UC will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market.

In March 2012, The University, through its Human Resources Compliance unit, launched a Family Member Eligibility Verification review for health benefits coverage. The review was conducted to ensure that only those eligible for coverage by University health benefits were, in fact, enrolled in UC-funded plans. Ninety thousand staff, faculty, and retirement plan participants, along with their 175,000 enrolled family members, were included in the process. The annualized savings from this and ongoing efforts are expected to be approximately \$35 million.

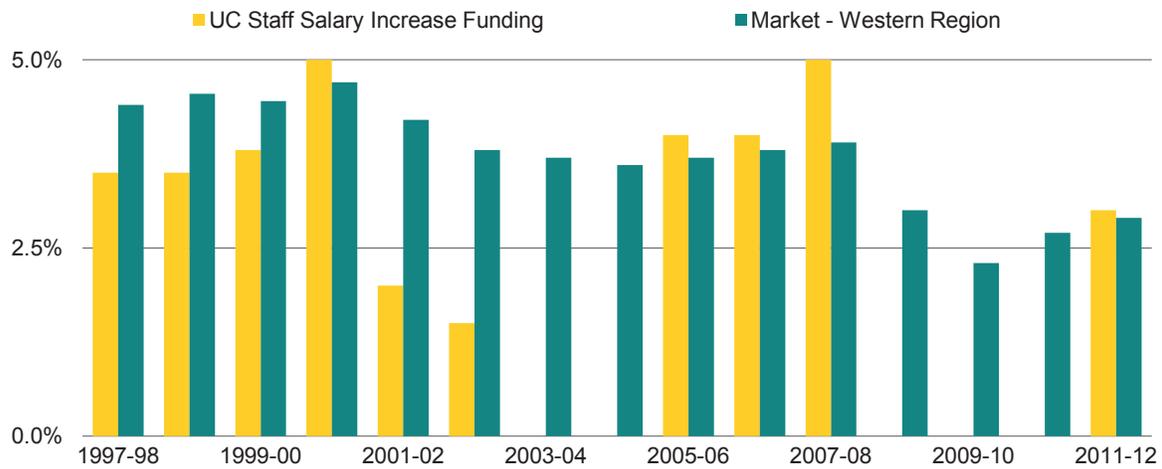
Employee health benefit costs for core-funded programs are projected to increase by \$11.4 million in 2013-14.

Display 11: Faculty Salaries as a Percentage of Market



Due to inadequate State funding over the last eleven years, faculty salaries at UC have declined relative to UC's comparison institutions. In 2011-12, UC's faculty salaries were 10.8% below those of UC's comparison institutions.

Display 12: 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 10 out of the 15 years since 1997-98. In five of those years, UC was unable to provide any increases, resulting in significant market disparities. (Source: World at Work Annual Salary Budget Survey, 2010)

RETIREMENT BENEFITS

Rising retirement plan contribution levels, necessary to ensure the fiscal health of the program, are adding financial pressure on both employees and UC as employer.

Pension Benefits

The University of California Retirement Plan (UCRP) provides pension benefits for more than 58,000 retirees and survivors and has nearly 117,000 active employee members as of July 1, 2012. 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 it was adequately funded to provide plan benefits for many years into the future.

In the nearly 20 years during which employer and member contributions were not required, the State saved more than \$2 billion. However, the funded status of UCRP has declined as both annual payouts and the accrued liability have risen. Furthermore, the recent national economic crisis has depleted the actuarial value of UCRP assets, which had fallen to a funded ratio of 78% by July 2012.

The University restarted contributions to UCRP in April 2010, with an employer contribution of 4% and member contributions of 2% through the 2010-11 fiscal year. In September 2010, the Regents approved increases to both the employer and employee contributions for 2011-12 and 2012-13. Employer contributions rose from 4% to 7% for 2011-12 and to 10% for 2012-13. Member contributions rose from 2% to 3.5% for 2011-12 and to 5% for 2012-13. At the November 2011 meeting, the Regents approved increasing employer and member contribution rates to 12% and 6.5%, respectively, effective July 1, 2013. Employer contributions are expected to continue to rise by 2% annually through at least 2014-15.

In December 2010, the Regents took further action to make changes to retirement plan benefits that will reduce long-term costs. Most significantly, the Regents approved the

establishment of a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which would increase the early retirement age from 50 to 55 and the maximum age factor from 60 to 65, but otherwise retain many of the features of the current plan.

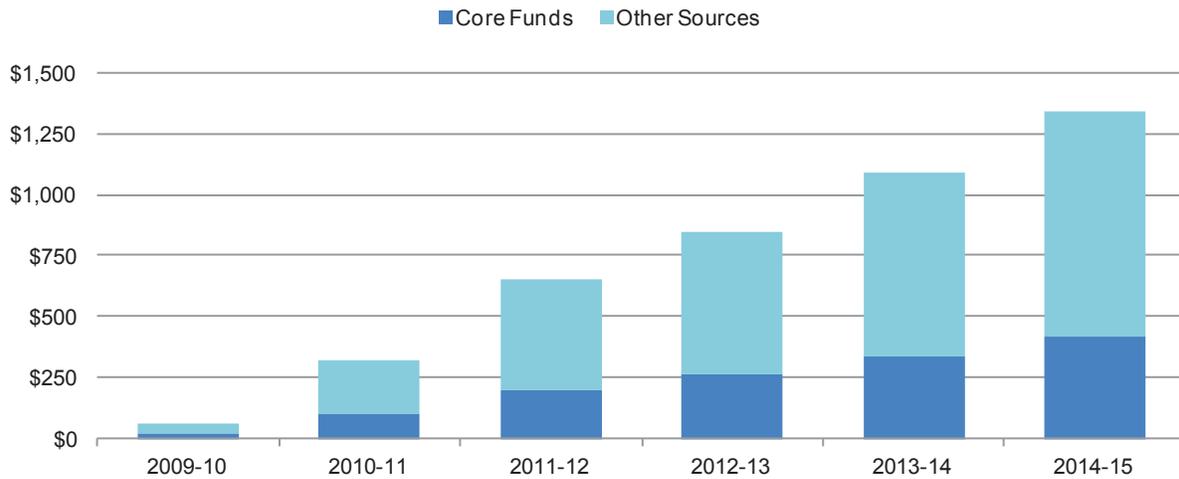
In 2012-13, the State provided an augmentation to the University's budget of \$89.1 million intended to be used toward the State's share of the employer contribution to UCRP. In 2012-13, the University is contributing \$261.8 million from core fund sources and \$588.6 million from other sources to UCRP. As employer contribution rates rise over the next several years, UC contributions are expected to rise to \$339.1 million from core funds (\$1.1 billion from all funds) in 2013-14 and to \$420.4 million from core funds (\$1.3 billion from all funds) in 2014-15. The State's share, based on State- and student tuition and fee-funded employees, is projected to rise to approximately \$296 million in 2013-14 and to \$367 million by 2014-15.

The cost pressures created by these rising contributions are far too vast to be addressed through efficiencies or cost-cutting at the margin. If the State is unable to provide funding for contributions to UCRP, the University will need to identify alternative sources of new revenue or savings to cover the growing cost.

Retiree Health Benefits

As part of the benefit package, UC also provides medical and dental benefits for about 50,800 eligible retirees and their dependents. Unlike 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 2012-13, the cost to the University for retiree health benefits is estimated to exceed \$261 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

Display 13: Actual and Projected Employer Contributions to UCRP by Fund Source (Dollars in Millions)



Employer contributions to UCRP restarted in April 2010. Contribution rates are projected to rise to at least 14% of employee compensation by 2014-15, at a cost of about \$420 million for core-funded programs and \$1.3 billion in total.

cost increases for retiree health benefits, which in 2013-14 is projected to be \$6.4 million.

Because accumulated future retiree health benefits costs are not pre-funded, UC has an unfunded liability for retiree health representing the cost of benefits accrued to date by current faculty, staff, and retirees based on past service. In December 2010, in order to reduce long-term costs and the unfunded liability for retiree health, the Regents approved changes to retiree health benefits, including reductions in the University's aggregate annual

contribution to the Retiree Health Program to a floor of 70% of premiums (from a projected average level of 80% during calendar year 2013), and a new eligibility formula for all employees hired on or after July 1, 2013 and for existing employees with fewer than five years of service credit or whose age plus service credits is less than 50 as of June 30, 2013. Including the future cost savings resulting from these changes, the retiree health liability is estimated to be \$14.5 billion as of July 1, 2012.

OTHER EXPENDITURE DRIVERS

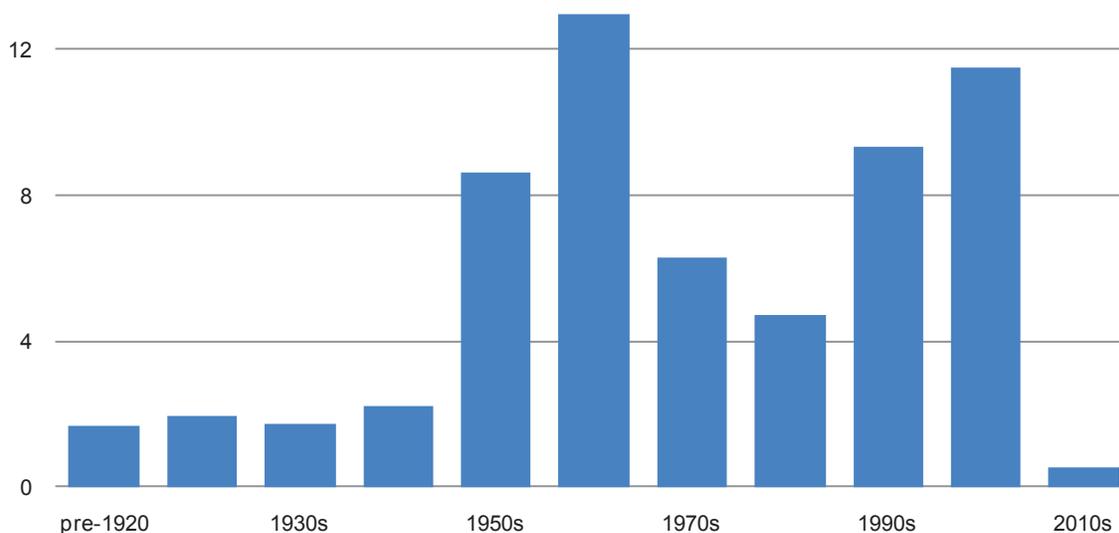
To complement the University's world-renowned faculty and support activities, the University must also address facilities renewal needs and rising costs of instructional equipment, library materials, and other non-salary items.

Capital Renewal and Deferred Maintenance

Before the mid-1990s, the State provided the University with nearly \$20 million a year in permanent deferred maintenance funding. While not sufficient to meet the University's deferred maintenance needs, it was a reliable and predictable source of funding. In subsequent years, the State provided between \$7.1 million and \$25 million in permanent and one-time funding for deferred maintenance. With the State's fiscal crisis deepening, however, State support for deferred maintenance was eliminated in 2002-03 and since that time, the State has provided no funding, either one-time or permanent, to address UC's deferred maintenance backlog. Yet the need for this funding has never been more acute as the University's inventory of aging buildings continues to grow (about 60% of University facilities are more than 30 years old) and

severe cuts in operation and maintenance funding have forced campuses to reduce building maintenance services and curtail, or in some instances eliminate, preventive maintenance programs. Without reliable and predictable funding to address the highest priority needs, campuses face an ever-increasing risk of catastrophic failure of building and infrastructure systems. The University's budget plan includes \$25 million in permanent funding to support restoration of a modest deferred maintenance program. While not sufficient to address the University's substantial backlog of deferred maintenance, this amount would provide an initial, predictable source of funding which campuses could use for their most urgent deferred maintenance needs. The University would seek to increase the budget for deferred maintenance in future years.

Display 14: State-Maintained Space by Decade of Construction (Gross Square Feet in Millions)



The University's physical plant expanded rapidly in the 1950s and 1960s and again in the late 1990s and 2000s.

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, between 2000 and 2011, market cost for electricity rose more than 50%, although this was partially offset by wild swings in natural gas costs, which have ended up over the decade at

50% below the price in 2000-01. Campuses overall are paying more for these costs despite only modest increases in consumption. Yet, with the continuing fiscal crisis, the State has not funded non-salary price increases for several years. 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 has been forced to redirect funds from existing resources to cover non-salary price increases. The University's 2013-14 expenditure plan includes \$23.7 million for non-salary price increases and purchased utilities costs, consisting of a 2% general non-salary price increase, as well as \$8 million to cover projected higher energy costs.

STUDENT TUITION AND FEES

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

Student tuition and fees provide \$2.98 billion for the University's basic operations and student financial aid during 2012-13. Revenue from tuition and fees exceeded State support for the first time in 2011-12 and now, in 2012-13, students are paying 49% of the cost of education.

As previously noted, the University's 2013-14 budget plan assumes passage of the Governor's revenue-raising initiative in November and support from the Governor for a multi-year framework with the State that would result in a 6% base budget adjustment in 2013-14 for core operational support of the University's budget. In this context, at the November Board meeting the Regents are being asked to approve an increase of 6% (or \$732, from \$12,192 to \$12,924) in mandatory systemwide charges for 2013-14.

If the Governor's initiative does not pass in November, the University will revise its plan for 2013-14 in time for the November Board meeting and request a higher increase than the planned 6%. In addition, it is likely the University would seek to implement a mid-year Tuition increase for 2012-13 to help address the \$250 million trigger cut that would occur with failure of the initiative.

Mandatory Systemwide Tuition and Fees

Mandatory systemwide tuition and fees consist of Tuition and the Student Services Fee. Tuition provides general support for the University's operating budget, including costs related to faculty and instructional support, libraries and other academic support, student services, institutional support, operation and maintenance of plant, and student financial support. In 2012-13, Tuition is \$11,220 for all students. The Student Services Fee funds services that are necessary to students, but not part of the University's programs of instruction, research, or public service. The majority of these funds is spent on student services. In 2012-13, the Student Services Fee is \$972 for all students.

Professional Degree Supplemental Tuition

Professional Degree Supplemental Tuition provides UC's professional degree programs with supplemental 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. Tuition levels vary by program and are based on an evaluation of program resources and needs, comparison institution fees, and affordability for students. In 2012-13, Professional Degree Supplemental Tuition varies by program from \$4,000 to \$38,548. The 2013-14 budget plan assumes increases of between 0% and 35% in Professional Degree Supplemental Tuition for various programs, totaling from \$0 to \$3,256.

Nonresident Supplemental Tuition

In addition to mandatory systemwide tuition and fees, nonresident students pay Nonresident Supplemental Tuition in lieu of State support. Campuses use Nonresident Supplemental Tuition to support the instructional enterprise. For nonresident undergraduates, Nonresident Supplemental Tuition is \$22,878 during 2012-13. The supplemental charges for nonresident graduate academic and graduate professional students are \$15,102 and \$12,245, respectively. The 2013-14 budget plan assumes no increase in Nonresident Supplemental Tuition.

Total Charges and Comparison Institutions

In addition to the charges described above, students also pay campus-based fees. Display 15 shows total charges for undergraduate and graduate academic students by residency status for 2012-13.

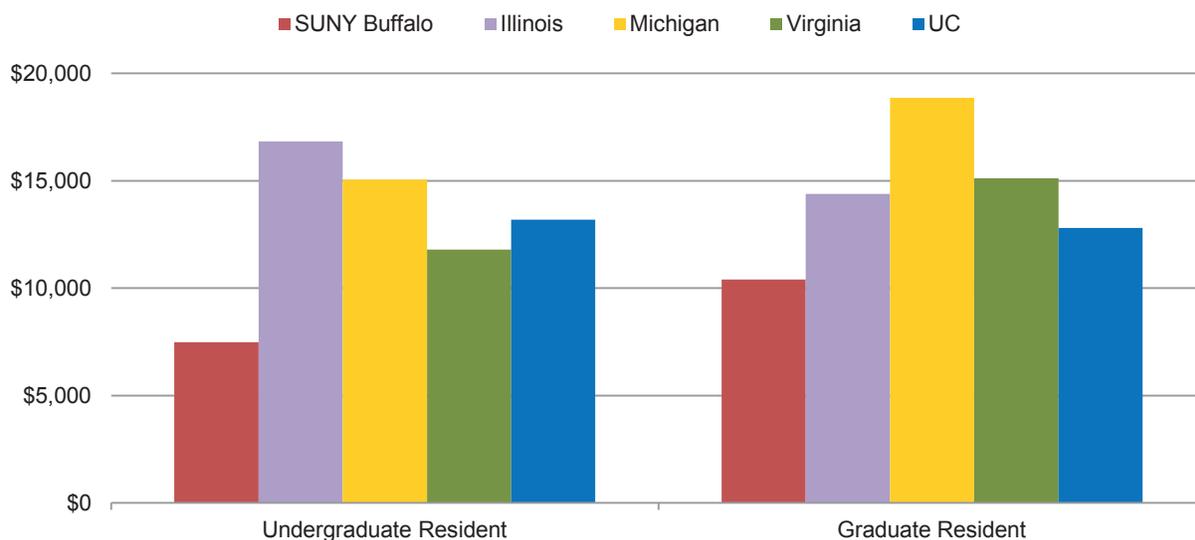
Despite recent fee increases, UC's in-state fees remain competitive with public comparison institutions for resident undergraduates and graduate academic students.

Display 15: 2012-13 Total Charges by Student Level and Residency Status²

	<u>Undergraduate Students</u>		<u>Graduate Academic Students</u>	
	<u>Resident</u>	<u>Nonresident</u>	<u>Resident</u>	<u>Nonresident</u>
Tuition	\$11,220	\$11,220	\$11,220	\$11,220
Student Services Fee	\$972	\$972	\$972	\$972
Subtotal, Mandatory Systemwide Charges	\$12,192	\$12,192	\$12,192	\$12,192
Nonresident Supplemental Tuition		\$22,878		\$15,102
Average Campus-based Fees	<u>\$1,008</u>	<u>\$1,008</u>	<u>\$616</u>	<u>\$616</u>
Average Total Charges	\$13,200	\$36,078	\$12,808	\$27,910

Note: During 2012-13, 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 16.

Display 16: 2012-13 UC and Comparison Institution Tuition and Fees for In-State Students



In 2012-13, the University's average tuition and fees for California resident students remain below two of four public comparators for undergraduates and three of four comparators for graduate academic students.

Note: Comparison institution figures include tuition and required fees as reported on campus websites. UC figures include mandatory systemwide tuition and fees, and campus-based fees. Waivable health insurance fees are not included.

² Estimated 2012-13 and 2013-14 tuition, fees, and charges in this document assume passage of the Governor's revenue-raising initiative in November 2012 and are subject to change by the Regents.

STUDENT FINANCIAL AID

Student financial aid from federal, State, UC, and private sources has helped UC maintain access and affordability at the undergraduate level while also attracting graduate students with exceptional potential.

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 tuition and fee increases, as well as increases in other educational expenses, the University has continued to use a portion of the new revenue derived from tuition and 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. During 2010-11, 62% of UC undergraduates received grant or scholarship aid, averaging \$14,715 per student. UC has become nationally recognized as a leader in enrolling an economically diverse pool of undergraduate students.

Despite tuition and 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 about 10% to 30%. During 2010-11, 41% of UC undergraduates were Pell Grant recipients, more than at any other comparably selective research institution.

For many years, the enrollment of students from middle-income families also has remained relatively stable, at about 43% between 2000-01 and 2006-07, despite fee increases in most of those years. Since then the percentage has declined, to 37% in 2010-11, which may reflect a statewide decline in middle-income families attributable to the economic recession. The University is closely monitoring this trend, together with income trends among California families generally.

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 68% of all undergraduate gift assistance. For all of these reasons, maintaining a robust financial aid program remains a top University budget priority.

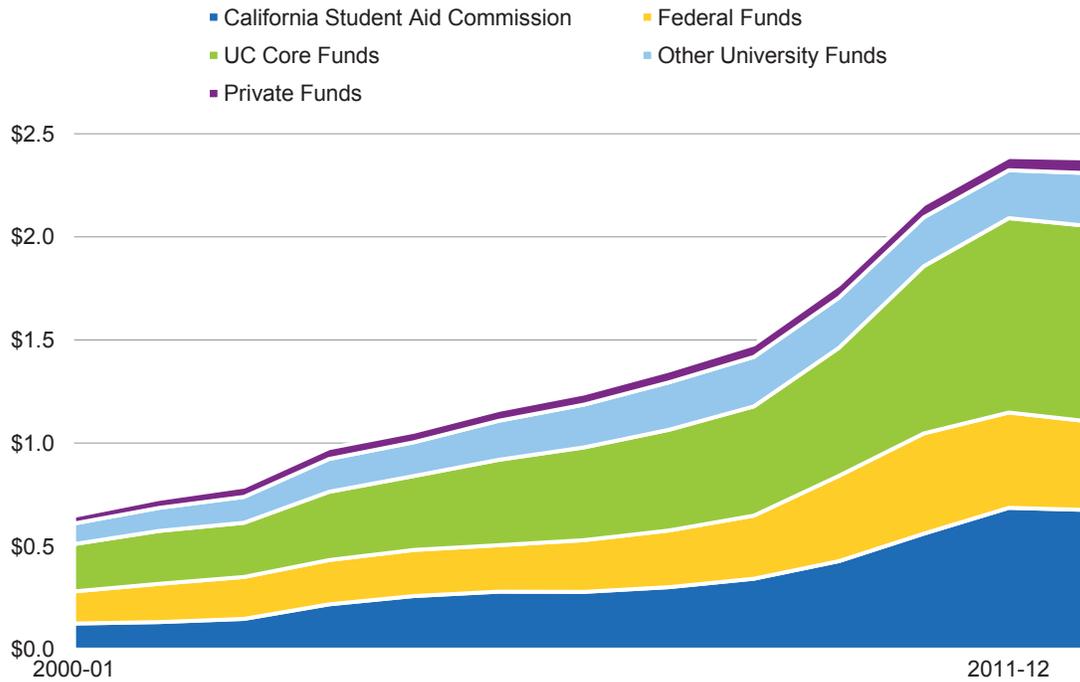
In recent years, several significant factors have helped UC maintain affordability for undergraduates:

- 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;
- development and expansion of the Blue and Gold Opportunity Plan, which in 2012-13 ensures that all eligible students with household incomes below \$80,000 receive gift aid covering systemwide tuition and fees up to their need level;
- expansion of middle-income fee grants, covering one-half of tuition and 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 recent years and is providing some coverage of other cost increases as well.

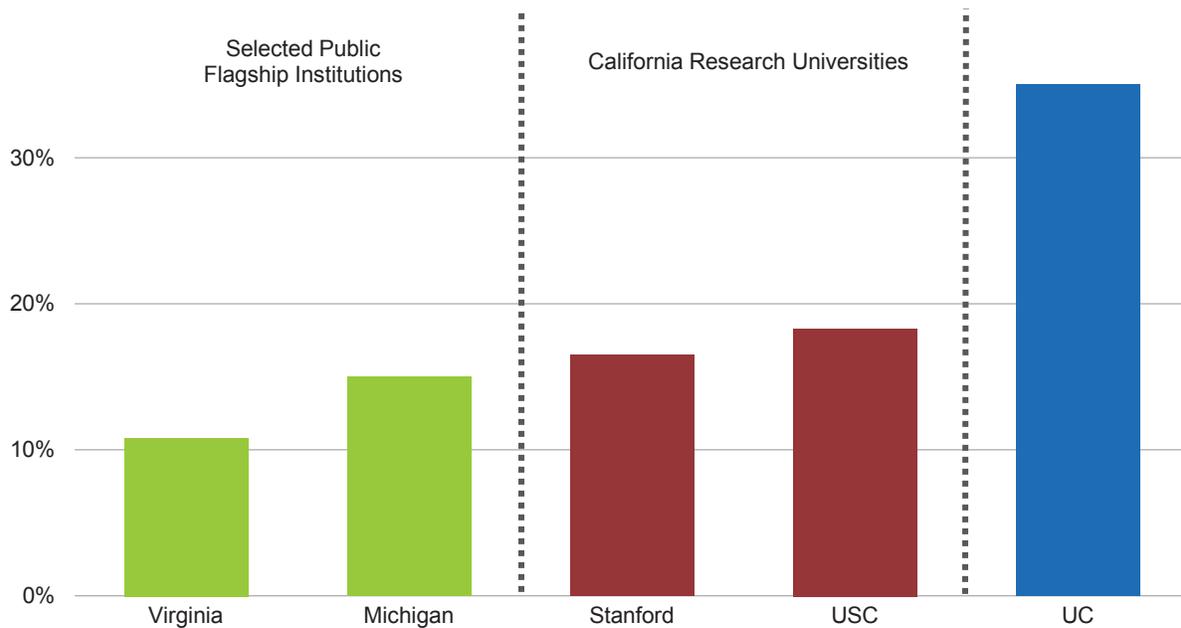
In 2013-14, the University proposes to set aside the equivalent of 33% of new undergraduate fee revenue for financial aid. In addition, the University will continue to ensure that tuition and fee increases do not deter talented, low-income students from aspiring to attend UC by fully funding the Blue and Gold Opportunity Plan, which provides full coverage of mandatory systemwide tuition and fees for eligible resident undergraduates with family incomes up to \$80,000 (up to a student's need) and provide assistance to financially needy middle-income families.

Display 17: Total Gift Aid by Source (Dollars in Billions)



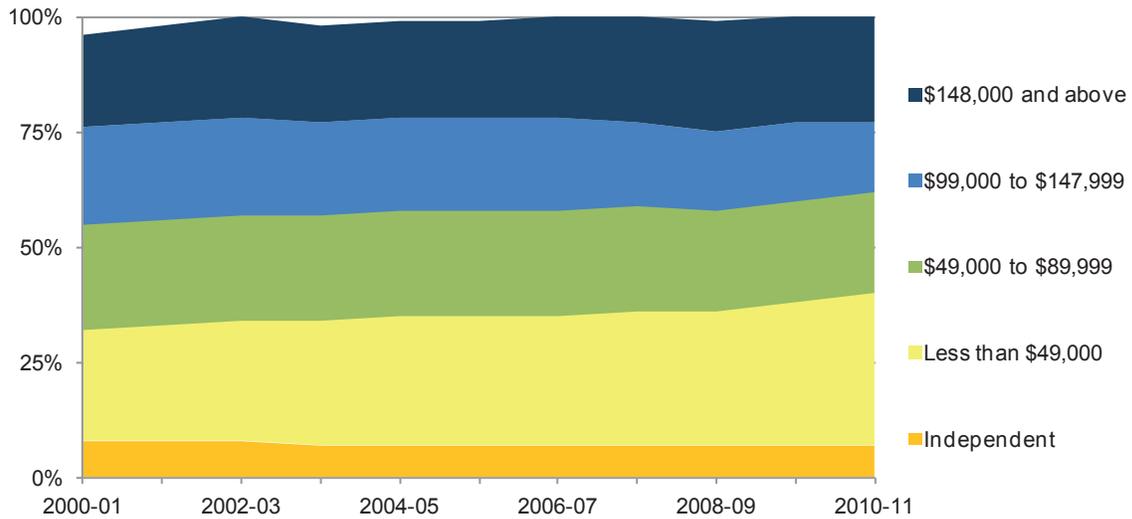
To offset tuition and fee increases and maintain the promise of higher education for all Californians, both the University and the State have invested heavily in student financial support. During 2012-13, total gift aid is projected to reach nearly \$2.38 billion, over half of which is generated from UC sources.

Display 18: 2010-11 Undergraduate Pell Grant Recipients



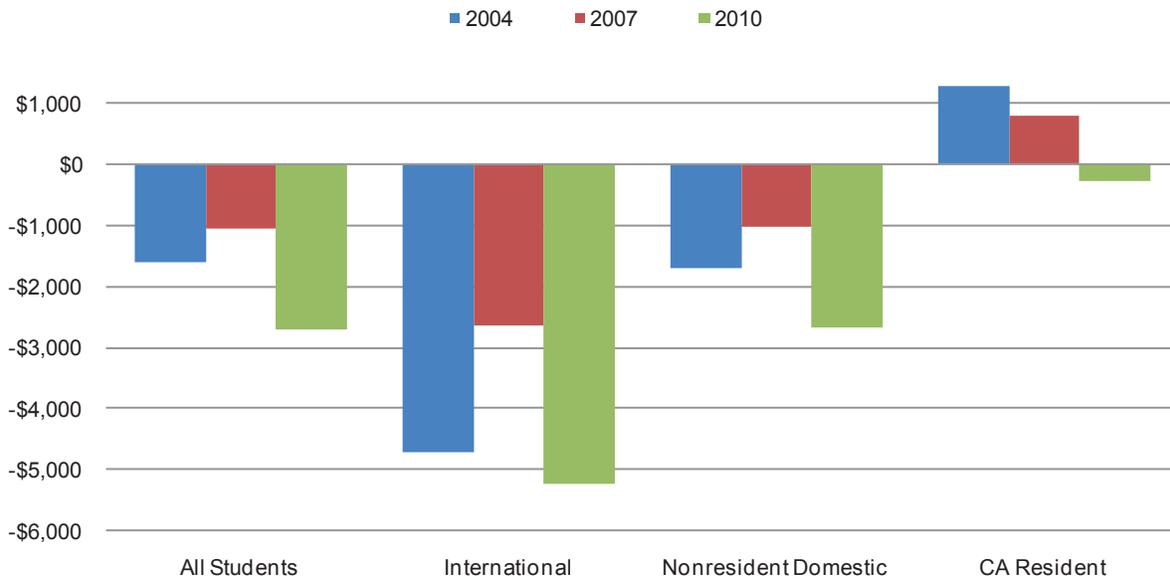
UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 41% during 2010-11, which was more than at any comparable public or private institution.

Display 19: Undergraduate Enrollment by Family Income (2010-11 Dollars)



The percentage of middle-income students enrolled at the University remained relatively stable, at around 43% between 2000-01 and 2006-07, despite tuition and fee increases in most of those years. Since then the percentage has declined, to 37% in 2010-11, which may reflect a decline in middle-income families statewide attributable to the economic recession.

Display 20: Competitiveness of UC Financial Support Offers to Academic Doctoral Students



For academic doctoral students, UC narrowed the gap between its financial support offers and those of competing institutions between 2004 and 2007, but lost ground between 2007 and 2010.

During 2012-13, the University intends to develop options for a long-term financial aid strategy to achieve specific goals that reflect an ongoing commitment to access and affordability. The strategy will be paired with a flexible and realistic funding plan that will include a variety of sources, including not only tuition and fee revenue and State General Funds, but also proceeds from enhanced fundraising efforts and local campus funds.

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 \$31,200 per student during 2010-11. However, in recent years, the financial aid packages awarded by UC fell short of the packages offered by competing institutions. While UC narrowed the gap between its offers and those of competing institutions by more than \$500 between 2004 and 2007, findings from 2010 suggest UC is again losing ground to its competitors. To help mitigate this problem, UC returns 50% of any new graduate academic tuition and fee revenue to students in the form of financial aid.

For graduate professional students, UC ensures that an amount equivalent to 33% of tuition and 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 in certain disciplines, and since 2009-10, students may avail themselves of an Income-Based Repayment plan for federal student loans.

2013-14 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.

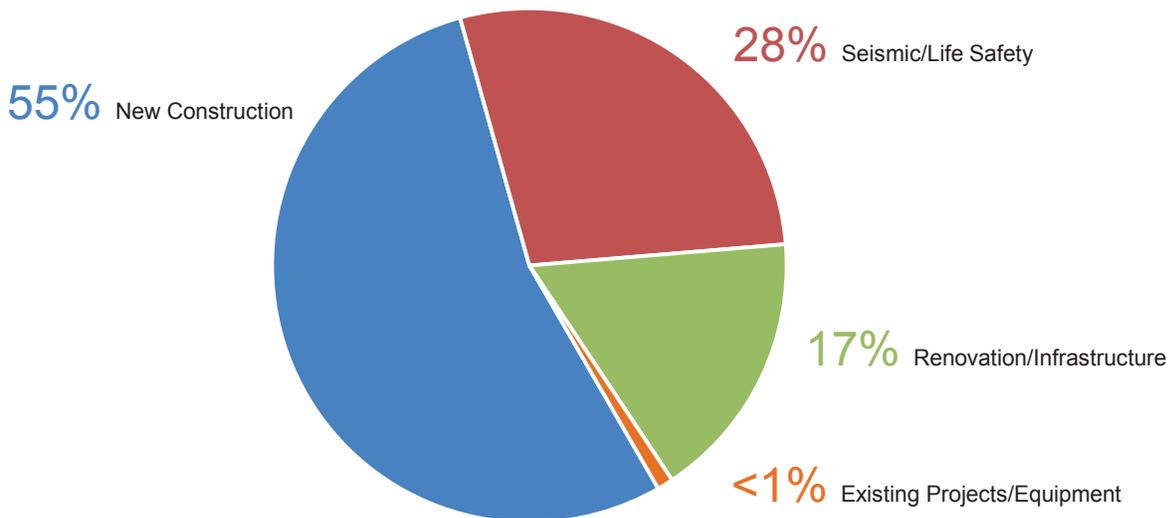
Current financial and economic challenges have compelled the State of California to delay the sale of bonds needed to fund capital projects approved by the State Legislature.

Though the sale of Lease Revenue bonds in November 2011 and March 2012, totaling \$308 million, allowed four projects at the Berkeley, Los Angeles, Merced, and Irvine campuses to proceed to construction, UC still has a backlog of \$168 million in approved but unfunded projects at the Berkeley (LNBL), Merced, Santa Barbara, San Diego, and Riverside campuses.

Because of current economic conditions, the State anticipates selling bonds for some of these remaining projects no earlier than the spring of 2013. This delay

could have seriously affected the bid schedules and completion schedules, as well as the approved construction budgets, because of construction cost escalation. However, UC has successfully pursued special legislation to provide interim financing from its commercial paper program to avoid adverse consequences to these projects. Prior to this legislation, statutes restricted UC reimbursement to the principal amount financed and not for interest costs or costs of issuance. The modification of the statute permits repayment of interest costs and costs of issuance, as well as principal payments, from bond proceeds sold by the State. This enables State projects to proceed with interim UC financing, with reimbursement from the State at such time when bonds are sold.

Display 21: 2013-14 Capital Budget Proposal (Millions of Dollars)



Almost a third of the University's 2013-14 budget request for capital improvements consists of seismic and life-safety improvements to existing facilities.

The need to ensure the safety of the campus community and the urgency of renovations has compelled some campuses to take on externally financed debt to address several projects that would normally have been funded by the State, reducing the funding being requested of the State for the 2013-14 year.

The State of California's recovery from the economic recession has been slow and halting, and unemployment rates in California remain the second highest in the nation. The construction industry has been particularly hard-hit. Capital projects initiated by UC campuses will stimulate construction activity at a point in the economy when it is sorely needed. Proceeding to construction earlier also benefits the University in terms of lower costs.

The University's State capital budget proposal for the 2013-14 year totals \$788.5 million for critical seismic and life-safety improvements to support enrollment growth that has already occurred, and for facilities renewal and infrastructure.

The projects requested for State funding include approximately 28% in critical seismic and life-safety corrections, 55% to address existing enrollment needs, and

17% for infrastructure deficiencies and building-systems renewal, including new infrastructure for physical expansion within the Merced and Riverside campuses. The request includes less than 1% to equip projects already funded for construction.

The future of State capital funding for the University remains uncertain. The last general obligation bond for higher education capital projects was approved by the voters in Fall 2006. Current fiscal and economic conditions in the state do not favor passage of a general obligation bond for capital outlay for at least another two years. The multi-year agreement proposed by the Governor in 2011-12 included a provision whereby funding for capital outlay projects would be added to the University's base budget and then would be subject to the base budget adjustment each year along with the operating budget funding. The University would have the flexibility to determine how much of the budget each year should be directed toward the construction, operation, maintenance, and renewal of facilities. This proposal would give the University a degree of stability and predictability in its capital funding that has been absent in recent years, allowing the University to proceed with project planning needed to address high priority facilities needs. The Governor's support for the multi-year agreement is contingent on the passage of his revenue-raising initiative on the November 2012 ballot.

UNIVERSITY of CALIFORNIA

**2013-14 BUDGET FOR CURRENT OPERATIONS
BUDGET DETAIL**

Foreword

The University of California was founded in 1868 as a public, State-supported land grant institution. The State Constitution establishes UC as a public trust to be administered under the authority of an independent governing board, the Regents of the University of California. The University maintains 10 campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. Nine of the campuses offer undergraduate and graduate education; one, San Francisco, is devoted exclusively to health sciences graduate and professional instruction. 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 throughout the state. The University's Agricultural Field Stations, Cooperative Extension offices, and the Natural Reserve System benefit all Californians. In addition, the University provides oversight of the Lawrence Berkeley National Laboratory and is a partner in limited liability corporations that oversee two additional Department of Energy laboratories.

ORGANIZATION OF THE 2013-14 BUDGET FOR CURRENT OPERATIONS — BUDGET DETAIL

The companion to this document provided at the front of this volume, the *Summary of the Budget Request*, provides a brief overview of the major policy issues, revenue needs, and expenditure plans and objectives of the University for 2013-14. This document provides explanatory detail for all aspects of the University's operating budget.

The first chapter, *UC's Role in the State of California*, provides an overview of the University's contributions to the state in both the education and economic sectors.



The *Sources of University Funds* chapter presents a digest of the major fund sources that constitute the University's \$24.1 billion in operating revenues. Of particular note is a discussion of the shifts in core funding for the University's mission of instruction, research, and public service due to the loss of State funds that has occurred over the last several decades.

The *Cross-Cutting Issues* chapter provides budget detail for issues that cross functional areas — systemwide and campus actions to address budget cuts and to shape the long-term future of the University, diversity, information technology needs, and funding for academic support activities.

Subsequent chapters discuss specific program areas in more detail and provide fuller justification of requests for funding increases. These include chapters covering the core mission activities of instruction, research, and public service, as well as all support activities and student financial aid.

Salary increases and rising costs of employee and retiree benefits are major drivers of the University's budget plan. These issues are discussed in the *Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases* chapter.

The *Student Tuition and Fees* chapter provides information about the University's tuition and fee policy and practices, as a significant and growing source of revenue in support of UC's teaching mission now comes from student tuition and fees.

The *Historical Perspective* chapter provides a detailed account of the history of State funding for the University over the last several decades.

The Appendix includes various tables providing current and historical budget, enrollment, and tuition information.

Finally, an index appears at the end of this document to assist readers who are looking for a particular subject.

A separate volume, the *2012-22 Consolidated State and Non-State Capital Financial Plan* provides information about the University's capital facilities needs.

Table of Contents

	Page
Foreword	i
Table of Contents	1
List of Displays	2
I. UC's Role in the State of California	5
II. Sources of University Funds	10
III. Cross-Cutting Issues	22
IV. General Campus Instruction	31
V. Health Sciences Instruction	51
VI. Self-Supporting Instructional Programs	57
VII. Research	59
VIII. Public Service	69
IX. Academic Support-Libraries	77
X. Academic Support-Other	81
XI. Teaching Hospitals	83
XII. Student Services	87
XIII. Institutional Support	90
XIV. Operation and Maintenance of Plant	95
XV. Student Tuition and Fees	103
XVI. Student Financial Aid	111
XVII. Auxiliary Enterprises	122
XVIII. Provisions for Allocation	124
XIX. Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases	125
XX. Department of Energy Laboratory Management	134
XXI. Historical Perspective	136
Appendices	
1. Budget for Current Operations and Extramurally Funded Operations	150
2. University of California Income and Funds Available	151
3. SAPEP State General Funds and University Funds Budgets	152
4. Expenditures by Fund Category, 1980-81 Through 2012-13	153
5. Core Funds Expenditures by Fund Source, 1980-81 Through 2012-13	154
6. General Campus and Health Sciences Full-Time Equivalent Student Enrollment	155
7. General Campus Full-Time Equivalent Student Enrollment	156
8. Enrollment History, 1980-81 Through 2012-13	157
9. UC Mandatory Student Charge Levels	158
10. UC Average Annual Student Charges for Resident Undergraduate Students	159
11. UC Average Annual Student Charges for Nonresident Undergraduate Students	160
12. UC Average Annual Student Charges for Resident Graduate Academic Students	161
13. UC Average Annual Student Charges for Nonresident Graduate Academic Students	162
14. 2012-13 Total Charges for Undergraduates and Graduate Academics	163
15. 2012-13 Total Charges for Professional Degree Students by Program and Campus	164
Index	167

List of Displays

	Page
I. UC's Role in the State of California	
1. UC At-A-Glance, 2012-13	5
2. Earnings and Unemployment by Level of Education	8
II. Sources of University Funds	
1. 2012-13 Sources of Funds	10
2. 2011-12 Core Funds Expenditures by Type	11
3. 2011-12 Core Funds Expenditures by Function	11
4. State General Fund Support	13
5. UC Share of Total State General Funds	13
6. State Support versus Student Tuition and Fee Revenue	13
7. Per-Student Average Expenditures for Education (2011-12 Dollars)	13
8. Estimated 2011-12 Federal Support for UC and UC Students	17
9. Private Gift and Grant Support	18
10. 2011-12 Private Gift and Grant Support by Source	18
11. 2011-12 Private Gift and Grant Support by Purpose	18
III. Cross-Cutting Issues	
1. 2011-12 <i>Working Smarter</i> Projects: Cost Savings and New Revenue	24
IV. General Campus Instruction	
1. 2011-12 General Campus Instruction Expenditures by Fund Source	31
2. 2011-12 General Campus Instruction Expenditures by Category	31
3. Characteristics of Fall 2011 Undergraduate Students	32
4. Distribution of Domestic Undergraduate Students by Race/Ethnicity	32
5. 2011-12 Bachelor's Degrees Conferred by Broad Discipline	32
6. Characteristics of Fall 2011 Graduate Students	33
7. Distribution of Domestic Graduate Students by Race/Ethnicity	33
8. 2011-12 Graduate Degrees Conferred by Broad Discipline	33
9. State-Supported FTE Student Enrollment	36
10. California Resident Freshman and California Community College Transfer Entrants	36
11. UC Merced FTE Student Enrollment	37
12. Fall 2011 California Resident Freshmen by Race/Ethnicity	37
13. Federal and Private Research Expenditures at UC Merced	38
14. General Campus Student-Faculty Ratio	40
15. Summer Headcount and FTE Enrollment	45
16. Summer Enrollment Patterns of UC Undergraduates	45
17. Time to Degree among Freshmen by Cohort	46
18. Graduation Rates among Freshmen by Cohort	46
19. Graduation Rates among Upper Division CCC Transfer Students by Cohort	46
20. Undergraduate and Graduate General Campus FTE Enrollment	48
21. Graduate Students as a Percentage of General Campus Enrollment	48
22. Proportion of Graduate Enrollment at UC and Comparison Institutions	48
V. Health Sciences Instruction	
1. 2011-12 Health Sciences Instruction Expenditures by Fund Source	51
2. 2011-12 Health Sciences Instruction Expenditures by Category	52
3. Projected California Population Growth by Age Group	52
VI. Self-Supporting Instructional Programs	
1. 2011-12 Self-Supporting Program Headcount Enrollment by Discipline	58
VII. Research	
1. 2011-12 Direct Research Expenditures by Fund Source	60
2. Trends in Research Expenditures by Source	61

3.	Direct Research Expenditures by Discipline	61
4.	2011-12 Federal Research Awards by Sponsor	61
5.	History of Federal Funding for UC Research	61
6.	Private Research Awards by Type of Sponsor	62
7.	UC Invention Disclosures	64
8.	Impact of UC Technology Transfer	64
VIII.	Public Service	
1.	2011-12 Public Service Expenditures by Fund Source	69
IX.	Academic Support-Libraries	
1.	2011-12 Library Expenditures by Fund Source.....	77
2.	2011-12 Library Expenditures by Category	78
3.	UC Libraries At-A-Glance, 2011-12	78
4.	Consumer, Higher Education, and Periodical Price Increases	78
5.	Estimated Annual Savings from Library Innovations and Efficiencies	79
X.	Academic Support-Other	
1.	2011-12 Other Academic Support Expenditures by Fund Source	81
XI.	Teaching Hospitals	
1.	UC Medical Centers At-A-Glance, 2011-12	83
2.	2011-12 Medical Center Revenue by Source	84
XII.	Student Services	
1.	2011-12 Student Services Expenditures by Fund Source	87
2.	2011-12 Student Services Expenditures by Category.....	87
XIII.	Institutional Support	
1.	2011-12 Institutional Support Expenditures by Fund Source	90
2.	2011-12 Institutional Support Expenditures by Category	90
3.	Institutional Support as a Percentage of University Spending.....	91
4.	2012-13 UCOP Budget by Category	91
5.	Non-Academic FTE Employees by Function, 2011-12	93
6.	Distribution of Growth in Non-Academic FTE Employees by Function, 1997-98 to 2011-12	93
XIV.	Operation and Maintenance of Plant	
1.	2011-12 OMP Expenditures by Fund Source	95
2.	2011-12 OMP Expenditures by Category	96
3.	Growth in Energy Expenditures, State-Eligible Space, and Energy Consumption	99
4.	Energy Use by Building Type	99
5.	Percentage Change in State-Eligible Space and Energy Consumption	100
6.	State-Maintained Space by Decade of Construction.....	101
7.	10-Year Projected Annual Capital Renewal Needs	101
8.	History of Programmatic Funding for Capital Renewal and Deferred Maintenance	102
XV.	Student Tuition and Fees	
1.	2012-13 Student Tuition and Fee Levels	104
2.	2011-12 Student Tuition and Fee Revenue	104
3.	2012-13 Campus-based Fees by Levels	107
4.	2012-13 University of California and Public Comparison Institution Fees	108
XVI.	Student Financial Aid	
1.	2010-11 Student Financial Aid by Type and Source of Funds	112
2.	Gift Aid Expenditures by Source	112
3.	Undergraduate Student Financial Aid At-A-Glance, 2010-11	115
4.	2010-11 Undergraduate Pell Grant Recipients	115
5.	2011-12 Net Cost of Attendance for Undergraduate Aid Recipients	115
6.	Cost of Attendance by Expected Source of Funding.....	117
7.	Trends in Student Work Hours, 2004-2011.....	117
8.	Graduate Student Financial Aid At-A-Glance, 2010-11.....	118
9.	2010-11 Graduate Academic Financial Support by Program Type and Aid Type	118

List of Displays

10.	2010-11 Graduate Professional Financial Support by Program Type and Aid Type	118
11.	Competitiveness of UC Financial Support Offers to Academic Doctoral Students	119
XVII.	Auxiliary Enterprises	
1.	2011-12 Auxiliary Enterprises Expenditures by Service Type	122
2.	Auxiliary Enterprises At-A-Glance, 2011-12.....	122
XVIII.	Provisions for Allocations	
1.	Lease Purchase Revenue Bond Debt Service	124
XIX.	Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases	
1.	Compensation and Benefits At-A-Glance, 2011-12	125
2.	Ladder Rank Faculty Salaries as a Percentage of Market	127
3.	Increases in Funding for Staff Salaries Compared to Market.....	127
4.	Health Benefit Cost Increases and Core Funding Available.....	129
5.	UCRP Historical and Projected Funded Status.....	130
6.	Actual and Projected Employer and Employee UCRP Contribution Rates.....	131
7.	Actual and Projected Employer Contributions to UCRP by Fund Source.....	131
XX.	Department of Energy Laboratory Management	
1.	2012-13 Expenditure Plan for Income from LANS and LLNS	135
XXI.	Historical Perspective	
1.	Permanent Cuts to UC Budgets, 1990-91 through 1994-95.....	136
2.	Actions Taken to Address the Budget Shortfalls of the Early 1990s	137
3.	Provisions of the Compact with Governor Wilson, 1995-96 through 1999-00	138
4.	Provisions of the Partnership Agreement with Governor Davis.....	139
5.	State Funding Changes under the Partnership Agreement, 2000-01.....	139
6.	State Funding Changes under the Partnership Agreement, 2001-02.....	139
7.	State Funding Changes under the Partnership Agreement, 2002-03.....	140
8.	State Funding Changes under the Partnership Agreement, 2003-04.....	141
9.	State Funding Changes under the Partnership Agreement, 2004-05.....	141
10.	Provisions of the Compact with Governor Schwarzenegger, 2005-06 through 2010-11	142
11.	State Funding Changes under the Compact, 2005-06 through 2007-08.....	143
12.	2008-09 State Budget Actions	145
13.	2009-10 State Budget Actions	145
14.	2010-11 State Budget Actions	146
15.	2011-12 State Budget Actions	147
16.	2011-12 Targeted Budget Reductions	147
17.	2012-13 State Budget Changes	148
18.	The UC Budget Since 2000-01	149
Appendix		
1.	Budget for Current Operations and Extramurally Funded Operations	150
2.	University of California Income and Funds Available	151
3.	SAPEP State General Funds and University Funds Budgets.....	152
4.	Expenditures by Fund Category, 1980-81 Through 2011-12.....	153
5.	Core Funds Expenditures by Fund Source, 1980-81 Through 2011-12	154
6.	General Campus and Health Sciences Full-Time Equivalent Student Enrollment	155
7.	General Campus Full-Time Equivalent Student Enrollment	156
8.	Enrollment History, 1980-81 Through 2011-12.....	157
9.	UC Mandatory Student Charge Levels.....	158
10.	UC Average Annual Student Charges for Resident Undergraduate Students	159
11.	UC Average Annual Student Charges for Nonresident Undergraduate Students	160
12.	UC Average Annual Student Charges for Resident Graduate Academic Students	161
13.	UC Average Annual Student Charges for Nonresident Graduate Academic Students	162
14.	2012-13 Total Charges for Undergraduates and Graduate Academics	163
15.	UC Average Annual Student Charges for Professional Degree Students by Program and Campus	164

“It is impossible to overstate the benefits UC brings to Californians, economically, culturally, and socially. UC is California’s primary driver of growth in each arena.”

Mark G. Yudof
University of California
President

UC’s Role in the State of California

California’s far-sighted public investments in higher education have fueled economic prosperity, social mobility, and cultural opportunities for decades. The State’s historic commitment has enabled the University of California not only to educate the brightest students – over 237,000 in 2011-12 alone – but to touch the lives of every Californian:

- **UC educates the workforce** needed by high technology, business, agriculture, health care, education, and other sectors of the economy.
- **UC conducts research that fuels the economy**, creates jobs, increases productivity, and solves state and societal problems, leading to higher standards of living.
- **UC is a key source of innovation and entrepreneurs**, which are essential to the industries that drive California’s competitiveness.
- **UC improves the health of Californians** by providing an unmatched combination of state-of-the-art patient care facilities and groundbreaking research programs, which are integrated with the nation’s largest medical education program.
- **UC works with K-12 schools** to improve the quality of instruction and expand educational opportunities.
- **UC has dozens** of museums, concert halls, art galleries, botanical gardens, observatories and marine centers – academic resources but also exciting gathering places for the community.

Display I-1: UC At-A-Glance, 2012-13

Founded in 1869, the University of California consists of:

- 10 campuses serving almost 241,000 FTE students in over 700 instructional programs;
 - 5 academic medical centers providing 3.9 million outpatient clinic visits per year;
 - a \$4.5 billion research enterprise, seeking new knowledge and solutions to critical problems;
 - Over 100 libraries housing 38 million print volumes;
 - More than 5,000 buildings comprising 129 million gross square feet; and
 - approximately 139,000 employees across the system.
-

UC’s excellence is well documented by the many honors and awards conferred upon faculty, departments, and campuses. That excellence, in turn, attracts billions of dollars in federal and private funding every year and supports the discovery and dissemination of new knowledge that promotes economic, social, and cultural development.

UC has long been a major contributor to California’s vibrancy and strength. To maintain California’s leadership role and to meet the changing needs of future generations, California must continue to invest in the future by supporting its world-class public research university system.

THE STATE’S HISTORIC INVESTMENT IN UC

The University’s operating budget, totaling \$24.1 billion in 2012-13, funds the core mission responsibilities of teaching, research, and public service, as well as a wide range of support activities, including teaching hospitals, the Lawrence Berkeley National Laboratory, UC Extension, housing and dining services, libraries, and other functions.

Historically, State funding has been the largest single source of support for the University. However, the fiscal crises that have rocked California since 1990 have reduced the State’s share of core funding per student by more than half, as described in the *Sources of University Funds* chapter of this document. In 2011-12 alone the State cut \$750 million from the University’s base budget. California now funds UC at the same level it did in 1997, when the University enrolled 83,000 fewer students. Due to enrollment growth and inflation that have occurred since 1990-91, as well as the precipitous decline in State funding, the value of the State’s contribution has greatly diminished. The unprecedented cuts of over \$1 billion in State funding since 2008-09 threaten California’s ability to meet its critical need for a world-class “publicly-supported” research university.

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, researchers, programs, and campuses singled out for awards and distinctions, election to academic and scientific organizations, and other honors.

- 59 Nobel laureates – more than any other public university, including a 2012 winner of the Physiology or Medicine prize, Shinya Yamanaka, and a 2012 winner of the Economics prize, Lloyd Shapley
- 61 Medal of Science winners
- 410 current, emeritus or retired National Academy of Science members
- 437 American Academy of Arts and Sciences members
- More than 200 Institute of Medicine members
- Almost 1,000 American Association for the Advancement of Science members
- 84 recipients of MacArthur Foundation “genius” grants since their start in 1981
- 1,494 Guggenheim fellowships since 1930 – more than any other university or college
- For 19 years running, UC has developed more patents than any university in the United States
- *Washington Monthly* 2012 college rankings that focused on how much an institution benefits the country — how well it performs as an engine of social mobility, fosters scientific and humanistic research, and promotes an ethic of service to the country – included seven UC campuses in the top 100, with the San Diego campus at the top of the list and three other campuses in the top ten.
- In 2010, the National Research Council reviewed 322 UC programs in science, math, engineering, social sciences, and humanities, ranking 141 among the top 10 in their fields.
- Six campuses were among the top 45 American universities, as ranked by *US News and World Report* for 2012-13.
- The medical centers at Los Angeles and San Francisco were ranked fifth and thirteenth by *US News* in their 2012-13 Best Hospitals “Honor Roll.”
- The Institute of Higher Education at Shanghai Jiao Tong University in China annually ranks worldwide universities based on several indicators of academic or research performance. In 2012, nine campuses were included in the top 150 and four in the top 20.

Over the last two decades, student tuition and fees and other sources of general funds, such as federal indirect cost recovery funding, have helped to mitigate the impact of declines in State support for UC, but overall core funding per student has declined by 25% in inflation-adjusted dollars. Other fund sources augment the University's core activities of instruction and research; support academic and administrative functions; allow UC to provide public service to the state and its people; and support rich social, cultural, and learning environments on UC campuses.

Yet State General Funds remain extremely critical because they support the core instructional mission and make it possible to attract funds from other sources. Each year, UC draws approximately \$8 billion from outside the state and generates more than \$46 billion in economic activity in California. State funds help leverage significant private funding, with one example being the California Institutes for Science and Innovation, a unique funding partnership between the State, industry, and UC; the Institutes are discussed in more detail in the *Research* chapter of this report.

The historic investment from the State has helped develop the finest public university system in the world. That investment must be restored if UC 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.

Planning for the University's 2013-14 budget is proceeding against the backdrop of the State's persisting fiscal problems. UC is aggressively reducing operating costs and identifying alternative sources of revenue to help offset lost State support. These alternative revenue sources include private and alumni giving, increased indirect cost recovery rates, debt restructuring, and various balance sheet strategies.

Yet even under the most optimistic assumptions, efficiency improvements and alternative revenue generation are sufficient to address only a portion of the projected budget shortfall over the next few years. Tuition and fees have historically increased to mitigate State funding reductions, though these increases have only partially backfilled for the cuts in State support – and in 2011-12, students began

THE CALIFORNIA MASTER PLAN FOR HIGHER EDUCATION

The Master Plan has served as California's blueprint for higher education for more than 50 years, specifying the mission of each segment of higher education. UC's mission is tripartite:

- **Teaching.** UC serves students at all levels of higher education and is the public segment primarily responsible for awarding the doctorate and many professional degrees in areas such as medicine and law.
- **Research.** UC is the primary State-supported academic agency for research. Research is inextricably linked with teaching at the graduate level and is increasingly so at the undergraduate level. Research also creates a vital link between UC and the private sector and development of new knowledge and innovation leading to new industries and jobs.
- **Public Service.** UC contributes to the well-being of communities, the state, and the nation through efforts including academic preparation programs, Cooperative Extension, and health clinics. UC's public service programs allow policy makers to draw on the expertise of UC's faculty and staff to address public policy issues of importance to the state and society at large.

contributing more to their UC education than the State for the first time in California history.

If the Governor's revenue-raising initiative passes in November, the Governor has expressed his intention to enter into a multi-year framework with UC that would include annual base budget increases from the State and moderate, predictable tuition and fee increases going forward. If the Governor's initiative does not pass and the State is not able to provide regular base budget adjustments over the next few years, UC will undoubtedly rely on larger tuition and fee increases to provide the revenue needed to stabilize UC's fiscal foundation.

UC'S COLLEGE GRADUATES AND THE CALIFORNIA ECONOMY

California's Economic Performance. California has a long history of strong economic performance, including thriving industries 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.

California became one of the world's leading economies in the second half of the 20th century, in part because it has a high number of excellent research universities and more venture capital than other states, which has helped create and attract knowledge-based companies. Basic research at California's research universities, for example, served as the foundation for the biotechnology industry, while hundreds of biotechnology companies have been founded by UC faculty and former students. In addition, the success of knowledge-based companies is heavily reliant upon discoveries, well-educated employees, and technology transfer from University research laboratories.

Declining Educational Attainment of the Labor Force.

As baby boomers retire, they will be replaced by younger workers. These younger workers, however, will have lower educational levels than today's retirees. According to the 2006 report by economists at the California State University (CSU) at Sacramento's Applied Research Center, "Keeping California's Edge: The Growing Demand for Highly Educated Workers,"

"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."

While 41% of California's 45- to 64-year-olds hold an associate's degree or higher, only 36% of 25- to 34-year-olds are as educated. The report projects, moreover, that occupations in California requiring an associate's 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%.

The industries that will be driving California's longer-term economic competitiveness will be knowledge-based industries. California's fastest growing occupational categories are professional and managerial jobs. In the early 1980s, professionals and managers held one-fourth of all jobs in California. Today, that fraction has grown to one-third of all jobs.

Most of these new professional and managerial jobs require at least a bachelor's degree and often a graduate degree. The California Postsecondary Education Commission's 2007 "Public Higher Education Performance Accountability Framework Report" showed that fields in critical need of highly educated professionals include computer occupations, engineering, teaching, nursing, and pharmacy.

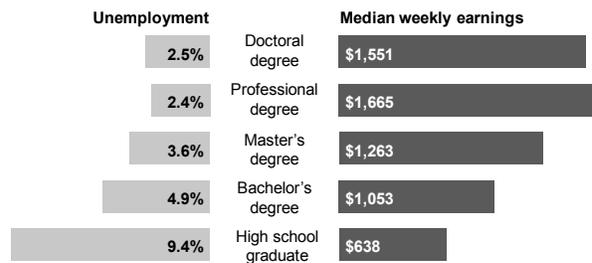
As the Public Policy Institute of California (PPIC) described in their 2009 report, "Closing the Gap: Meeting California's Need for College Graduates," the state faces a shortfall in college-educated workers as, for the first time, retirees are not being replaced by more plentiful and better-educated younger workers. Instead, the state's college-aged population will be increasingly composed of groups with historically low levels of educational attainment.

Particularly notable are Latinos, comprising about one-third of the state's current population, and projected to make up 43% of California's 2025 population. Though UC has made great strides over the past 30 years in increasing Chicano/Latino enrollment (as described in the *General Campus Instruction* chapter of this document), college attendance and completion rates of Chicano/Latino students are still low as compared to their representation in the state's current population.

Echoing the PPIC's report, Georgetown University's 2010 report, "Help Wanted: Projections of Jobs and Education Requirements through 2018" forecasts that nearly two-thirds of jobs will require postsecondary education by 2018. The 2010 Lumina Foundation report, "A Stronger Nation through Higher Education," shows that while California's percentage of college graduates is above the national average, an annual increase of college graduates of 6.7% is needed to produce enough educated professionals by 2025 to meet California's projected workforce needs. Additional analysis conducted by the PPIC indicates that growth in the number of jobs requiring graduate degrees will surpass one million by 2025, a 68% increase from 2005.

Returns on Investment. A more educated population is one that generates more tax revenue and enjoys more rapid economic growth. On an individual level, the correlation between higher levels of education, lower levels of unemployment, and median earnings is clear, as shown

Display I-2: Earnings and Unemployment by Level of Education



Source: Bureau of Labor Statistics, 2011.

With the shift to a knowledge-based economy, individual income and employment are more closely linked to level of education. Average earnings are higher and unemployment rates are lower for those with more advanced levels of education.

in Display I-2. Furthermore, individuals who are members of groups that are historically the least likely to complete college are those who receive the greatest return on their education in terms of salaries.

A more educated populace greatly benefits California as well. An April 2012 report from UC Berkeley's Institute for the Study of Societal Issues, "California's Economic Payoff: Investing in College Access & Completion," concludes:

- For every dollar California invests in students who attend college, the state will receive a return on investment of \$4.50 through taxing the increased and higher earnings of graduates as well as reducing costs on social services and incarceration.
- By age 38, college graduates have paid back California in full for the state's initial investment in higher education.
- Past graduates of UC and CSU return \$12 billion annually to California.

Possible Solutions. The need for more college graduates is evident, but the solutions are less so. Already, the California Community Colleges (CCC), CSU, and UC systems account for approximately 60% of California's higher education enrollment, and the CSU and UC systems award nearly three-fourths of the baccalaureates conferred annually in California. In order to generate the additional one million baccalaureates needed by 2025, PPIC suggests that California would need to graduate another 60,000 students each year, a 40% increase over current levels. Solutions suggested by the PPIC in "Closing the Gap" include:

- **Increase college attendance.** The National Center for Public Policy and Higher Education found in 2008 that only 56% of California's high school graduates directly matriculate to any college, compared to 62% nationwide.
- **Increase the transfer rate to CSU and UC.** Only 20-30% of students who matriculate at a community college eventually transfer to a four-year institution, and community college students spend an average of four years at a CCC before transferring.

A May 2012 report from the PPIC, "Defunding Higher Education: What Are the Effects on College Enrollment?" examines the effects of California's eroded financial commitment to higher education on declining enrollment rates at California's institutes of higher education. Findings include:

- Enrollment rates at UC and CSU have fallen by one-fifth over the past five years, from about 22% of all high school graduates to below 18%.
- Among the state's most highly prepared high school graduates – those completing the 'a-g' courses required for admission to UC and CSU – the enrollment rate has declined even more, from around 67% to 55%.
- About one in 10 students who were accepted to UC did not appear to enroll in any college.

The PPIC also projects that unless enrollment and graduation rates substantially improve, by 2025 California will fall one million college graduates short of economic demand.

A lack of public investment in education will continue to erode the economic advantages and quality of life that Californians have long enjoyed. Unfortunately, because the State has been unable to fully fund recent enrollment growth, UC, like CSU, took steps to constrain enrollment growth in recent years, thus limiting UC's ability to contribute to increasing college attendance. The University can, however, make inroads with improving the transfer rate. President Yudof has made increasing transfer enrollments a priority for UC, and UC has several initiatives to this end. In the future, California will also be in need of students with graduate-level training. Recent enrollment trends, efforts to expand transfer enrollment, and the need for more graduate students are discussed in the *General Campus Instruction* chapter of this document.

UC'S CONTRIBUTION TO THE STATE ECONOMY

In 2011, UC commissioned a study of its economic contribution to the state of California. Though it has been long known that UC-related economic activity touches every corner of California, making important contributions even in regions without a UC campus, the report quantified many of UC's economic impacts.

- UC generates about \$46.3 billion in economic activity in California and contributes about \$32.8 billion to the Gross State Product annually.
- Every dollar the California taxpayer invests in UC results in \$9.80 in Gross State Product and \$13.80 in overall economic output.
- One out of every 46 jobs in California – approximately 430,000 jobs – is supported by UC operations and outside spending by the University's faculty, staff, students, and retirees.
- UC is the state's third-largest employer, behind only the State and federal governments, and well ahead of California's largest private-sector employers.
- UC attracts about \$8 billion in annual funding from outside the state.
- Every \$1 reduction in State funding for UC has the potential to reduce State economic output by \$2.10 due to ripple effects of UC activities across the entire California economy.

The University of California is an inextricable part of the California economy, truly touching the lives of all the state's citizens. The fortunes of UC and the state are intrinsically linked, such that disinvestment in UC on the part of the State represents a disinvestment in California and its citizens as well.

While California remains among the highest educated and earning states in the nation, that advantage is declining and will disappear if current trends in education continue. The University of California thus far remains one of the top universities in the world, as a research institution and as an engine of economic growth. Investment by the State in UC translates to investment in the future of California.

“Though State funding makes up a relatively small portion of UC’s budget, it is this funding that makes it possible to support the core mission that leverages significant funding from other sources. Thus, State investment remains critical.”

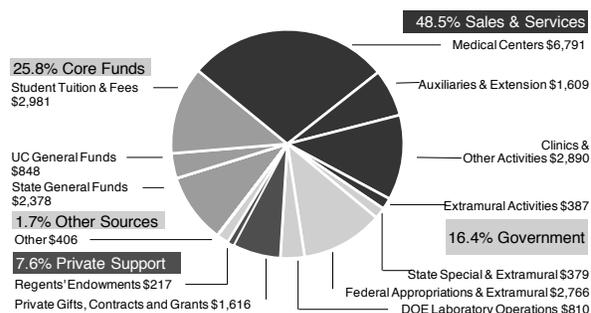
Peter Taylor
University of California
Chief Financial Officer

Sources of University Funds

The University’s operating revenues, estimated to be \$24.1 billion in 2012-13, support the tripartite mission of teaching, research, and public service, as well as a wide range of activities in support of and generated by these responsibilities, including teaching hospitals, the Lawrence Berkeley National Laboratory, University Extension, housing and dining services, and other functions. Historically, State funding has been the largest single source of support for the University, but other fund 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. As State support has declined and other areas of the UC budget, such as research, medical centers, and auxiliary enterprises, have grown, State General Funds represent an increasingly smaller share of UC’s overall budget. As shown in Display II-1, the University’s sources of funds include:

- **Core funds**, consisting of State General Funds, UC General Funds, and student tuition and fees, provide permanent funding for UC’s core mission and support activities, including faculty salaries and benefits, academic and administrative support, student services, operation and maintenance of plant, and financial aid.
- **Sales and services 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 publishing.
- **Government contracts and grants** provide direct support for specific research endeavors, student financial support, and other programs.
- **Private Support**, including Regents’ endowment payout; transfers from campus foundations; and other private gifts, grants, and contracts, funds a broad range of

Display II-1: 2012-13 Sources of Funds (Dollars in Millions)



UC’s operating budget, totaling \$24.1 billion in 2012-13, consists of funds from a variety of sources. State support, which helps leverage other dollars, remains critical.

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.

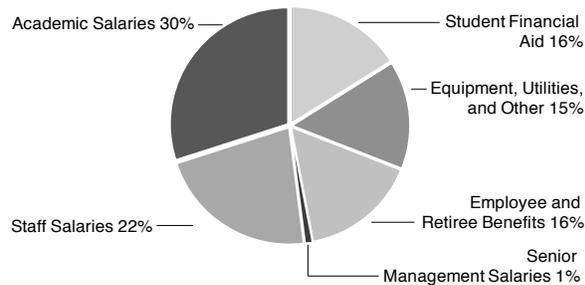
- **Other sources** include indirect cost recovery funds from research contracts and grants, patent royalty income, and fees earned for management of Department of Energy (DOE) laboratories.

The University’s annual budget plan is based on the best estimates of funding available from each of these sources. This chapter presents a digest of major fund sources. Later chapters of this document describe the functional areas in which the University’s funds are expended.

CORE OPERATING FUNDS: GENERAL FUNDS AND STUDENT TUITION AND FEES

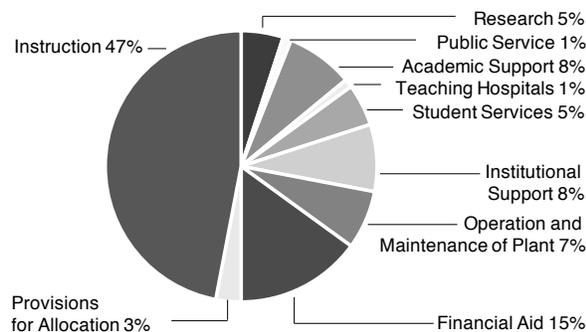
The University’s “core funds,” comprised of State General Funds, UC General Funds, and student tuition and fee revenue, provide permanent support for the core mission activities of the University, as well as the administrative and support services needed to perform these activities. Totalling \$6.2 billion in 2012-13, these funds represent 25.8% of UC’s total operations. While all fund sources are critical to the success of the University, much of the focus of UC’s strategic

Display II-2: 2011-12 Core Funds Expenditures by Type



A little more than two-thirds of core funds support academic and staff salaries and benefits.

Display II-3: 2011-12 Core Funds Expenditures by Function



Nearly half of core funds are spent in general campus and health sciences instruction.

budget process and negotiation with the State is dedicated to the levels and use of these fund sources.

State General Funds

State General Fund support for UC, \$2.4 billion in 2012-13, provides a critical base of permanent support for the University's core mission activities. The majority of State General Funds is undesignated in the State budget act, but historically, some funding has been designated for specific programs or activities. The 2012-13 Budget Act eliminated most of the language designating funds for specific programs. While the Budget Act no longer specifies funding levels for specific programs, the University continues to maintain 2011-12 funding levels for most of the programs formerly supported by State Specific Funds.

In addition to funding for basic operations, the State appropriation also includes funding for principal and interest payments associated with University facilities financed through lease-purchase agreements with the State Public Works Board. The history of State support for UC is

described briefly later in this chapter, and in greater length in the *Historical Perspective* chapter of this document.

UC General Funds

In addition to State General Fund support, based on long-standing agreements with the State, certain other fund sources are unrestricted and expected to provide general support for the University's core mission activities.

Collectively referred to as UC General Funds, these include:

- a portion of indirect cost recovery on federal and State contracts and grants,
- Nonresident Supplemental Tuition,
- fees for application for admission and other fees,
- a portion of patent royalty income, and
- interest on General Fund balances.

The University expects to generate \$848 million in UC General Funds during 2012-13. The largest sources of UC General Funds are Nonresident Supplemental Tuition, (\$408 million) and indirect cost recovery on federal contracts and grants (\$316 million).

Student Tuition and Fees

Also included in the core funds category are revenues generated from three student fees.

- Tuition (formerly the Educational Fee) revenue supports student services; student financial aid; and a share of the University's operating costs for instruction, libraries, operation and maintenance of plant, and institutional support. During 2012-13, Tuition is \$11,220, and will generate \$2.5 billion.
- Student Services Fee (formerly the University Registration Fee) revenue provides funding for student life, student services, and other activities that provide extracurricular benefits for students, as well as capital improvements for student life facilities. The Student Services Fee, currently set at \$972, will generate \$218.5 million during 2012-13.
- Professional Degree Supplemental Tuition (formerly Professional Degree Fees) revenue helps fund instructional costs associated with the professional schools, including faculty salaries, instructional support, and student services, as well as student financial support. Professional school fees range from \$4,000 to \$38,548, depending on the program, campus, and student residency status and will generate \$248.5 million in 2012-13.

These and other UC student fees are discussed in detail in the *Student Tuition and Fees* chapter of this document.

Historical Changes in Core Funds Support

State funds represent a critical investment by the State, making it possible for the University to attract funds from other sources. Each year, UC attracts approximately \$8 billion from outside the state and generates more than \$46 billion in economic activity in California.

State funding for UC has fluctuated over time, as shown in Display II-4. Funding increases and reductions have largely coincided with changes in the state's economy.

- In the late 1980s, State funding for UC doubled due to the high priority placed on the University of California by Governor Deukmejian and the Legislature, but extraordinary declines occurred during recessionary years in the early 1990s.
- Since 1990-91, State funding for the University of California has been marked by dramatic reductions due to recurrent fiscal crises followed by temporary increases tied to ambitious plans to restore support.
- In the early 1990s, the University lost the equivalent of 20% of State support.
- Later in the decade, under agreements with Governors Wilson and Davis, significant funding increases were provided for enrollment growth, to avoid student fee increases, and to maintain quality.
- Another State fiscal crisis during the early 2000s meant a significant step back in State support during a time of rapid enrollment growth.
- In the middle of the last decade, UC entered a six-year Compact with Governor Schwarzenegger to provide 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, students, and the State well, allowing UC to continue enrollment growth, provide compensation increases for faculty and staff, and avoid a student fee increase in 2006-07.
- The State's ongoing budget shortfalls, compounded by the global financial crisis, led to the abrogation of the Governor's Compact and significant reductions in State support at the end of the decade. For two years, no funding was provided for enrollment growth, at a time

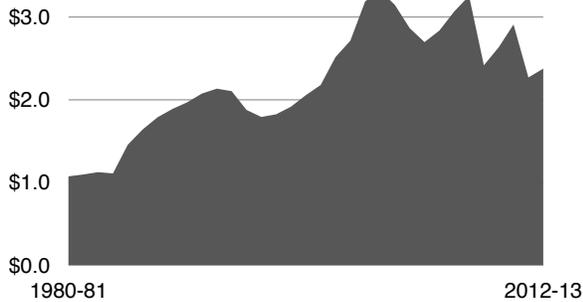
when demand for UC was soaring. Federal economic stimulus funds provided temporary support.

- In 2011-12, due to the lingering effects of the recession and ongoing State structural deficit, State funding for UC is more than \$1.6 billion less than it would have been under the most recent agreement.
- In 2012-13, the University received a \$105.9 million increase in its State funding. This augmentation, though modest, is noteworthy given the State's continuing \$15.7 billion budget shortfall and the fact that nearly every other agency took cuts. The State directed most of the increased funding to cover a portion of the State's share of UC's retirement costs. This is the first time since the State stopped making contributions to UCRP in the early 1990s that the State has acknowledged its responsibility to contribute to UC's retirement costs, as it has always done for the California State University and California Community Colleges.

The net result of these swings is that State support is just \$242 million above the amount provided in 1990-91, reflecting average annual growth of just 0.5%. During this same period of volatility in State funding, the number of California high school graduates has soared. The University accepted the challenge to accommodate growing numbers of students prepared for and seeking a quality university education, and succeeded in enrolling many more students. Student enrollment in 2012-13 is 52% greater than 1990-91 levels, and UC has opened a tenth campus, while State support for UC has grown just 11% in non-inflation-adjusted dollars. This discrepancy is further exacerbated by the inflation that has occurred since 1990-91, as described below.

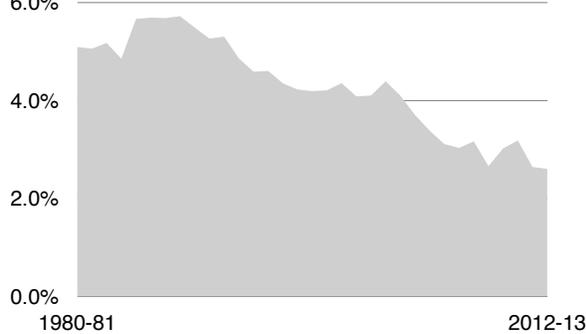
Furthermore, while funding from the State in real dollars tripled during the period from 1980-81 through 2007-08, the University's share of the total State General Fund budget declined markedly (see Display II-5). In 1980-81, the State dedicated 5% of the State General Fund to the University. In 2012-13, funding for UC represented just 2.6% of the State budget. Other State operations, and the prison system in particular, have taken increasingly larger shares. In 1990-91, the State's corrections budget was slightly less than support for UC. Today, State funding for corrections exceeds

Display II-4: State General Fund Support (Dollars in Billions)



State support for UC has fluctuated over time, coincident with the state's economy. The past decade has been particularly volatile for the State and the University.

Display II-5: UC Share of Total State General Funds
6.0%

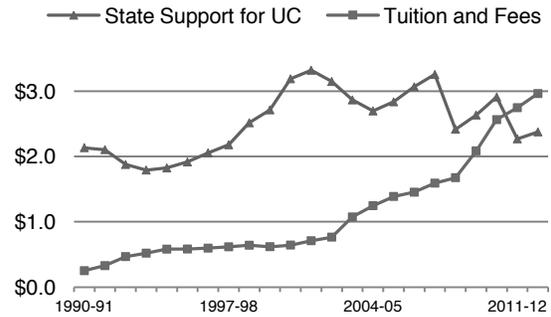


UC's share of the total state budget has declined markedly over the long term. In the late 1980s, more than 5% of the State General Fund was dedicated to UC. By 2012-13, the UC share has declined to 2.6%.

State support for UC, CSU, and the community colleges combined.

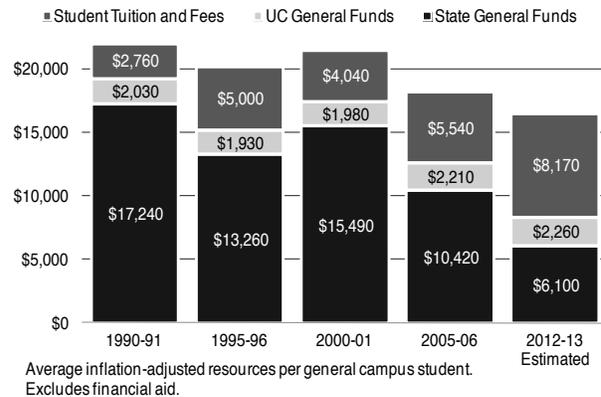
Another critical issue for the University is the degree to which funding has kept pace with the costs of providing postsecondary instruction as they rise with inflation as measured by the Higher Education Price Index (HEPI). The University has fared better in some years and worse in others when compared to inflation, but until 2000-01, total core funding generally kept pace with inflation. After 2000-01, the University experienced a precipitous decline over several years in funding per student when compared to the price index. The importance of sufficient funding to maintain quality cannot be overstated. The erosion of the University's resources must be halted if the educational quality of the University is to be preserved.

Display II-6: State Support versus Student Tuition and Fee Revenue (Dollars in Billions)



Over the last 22 years, while State support has fluctuated, tuition and fees have become a larger share of UC's core funds budget, due both to enrollment growth and tuition and fee increases. In 2011-12, for the first time, tuition and fee revenue exceeded State support.

Display II-7: Per-Student Average Expenditures for Education (2011-12 Dollars)



Since 1990-91, average inflation-adjusted expenditures for educating UC students declined 25%. The State's share of expenditures plunged even more steeply – by 65%. Over this period, the student share of core funds, net of financial aid, has more than tripled, from 13% to 49%.

Underlying the level of core funding relative to inflation, however, is the shift in the distribution of that funding among State support, UC General Fund sources, and student tuition and fees. Display II-7 shows the core funding components of UC average per-student expenditures for education in HEPI-adjusted dollars and yields several key findings:

- The average expenditure per student for a UC education has declined by 25% over 20 years – from \$22,030 in 1990-91 to \$16,530 in 2012-13.
- State funding per student declined significantly – by 65% over an approximately 20-year period. In 1990-91, the

State contributed \$17,240 per student – 78% of the total cost. In 2012-13, the State share declined to \$6,100, just 37%.

- As the State subsidy has declined, the share students pay has more than tripled. In 1990-91, students contributed 13% of the cost of their education; students are paying 49% of the cost of their education in 2012-13.

These findings raise several additional points. First, the funding gap that has developed since 1990-91 represents lost support totaling over \$1.2 billion. Although the University has struggled to meet the challenge presented by this substantial decline in State funding, certain elements of the educational, research, and public service functions have been steadily compromised in order to preserve the core missions of the University. While austerity measures are necessary to address the short-term budget shortfall, they cannot be sustained over the long term if the institution is to retain its excellence. It is unrealistic to assume that cuts of this magnitude, particularly the cuts experienced over the last five years, will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. While the University has been able to reduce some costs through efficiencies that do not affect program quality, some of the reduced cost has come in the form of austerity measures that are detrimental to the quality of a UC education. Such austerity measures include increases in the student-faculty ratio; faculty and staff salary lags; reductions in purchases of instructional equipment and library materials; and deferred maintenance of classrooms, laboratories and other facilities.

Second, national news coverage about skyrocketing costs of college attendance masks what has really happened at UC. Expenditures per student have not increased, but rather have fallen (in constant dollars). Instead, tuition and fees paid by students have risen as funding from the State has declined. Most increases over the last thirty years have been implemented to offset cuts in State support during the four major economic downturns in the State since 1980. Tuition and fees increased 92% between 1980-81 and 1983-84, 134% between 1990-91 and 1993-94, 58% between 2003-04 and 2005-06, and 83% between 2007-08 and 2011-12.

Historically, student tuition and fee increases have helped maintain quality, but have not fully compensated for the loss of State funds. Under better circumstances, had the State subsidy not declined, student tuition and fees would have remained low.

Third, despite rising fees for students, UC has successfully maintained student access and affordability. While tuition and 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 these students by sustaining a strong financial aid program.

SALES AND SERVICES REVENUES

About 48.5% of the University's current budget consists of revenues from self-supporting enterprises operated by the University in support of its instruction, research, and public service missions. Such enterprises include the University's academic medical centers and clinics; 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. Revenues from these activities are restricted — 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 excellence of the core mission operation of the University also plays a role. For example, the cutting-edge research occurring in UC medical schools helps attract patients to UC's medical centers. Conversely, damage to UC's core operations is likely to have ripple effects to other activities.

Teaching Hospitals

The University's academic medical centers generate three types of 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 revenue are government-sponsored health care programs (i.e., Medicare and Medi-Cal), commercial insurance companies, managed care and other contracts, and self-pay patients.

- **Other operating revenues** are derived from non-patient care activities of the medical centers, such as cafeteria sales and parking fees. Another major source is Clinical Teaching Support (with a permanent budget of \$22.7 million in 2011-12), provided by the State to help pay for the costs of teaching programs at the hospitals.
- **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 operating expenses, including salaries and benefits, supplies and services, workers' compensation and malpractice insurance, and other expenditures. Remaining revenues are used to meet working capital needs, fund capital improvements, and provide a reserve for unanticipated downturns.

Expenditures of hospital income for current operations are projected to total \$6.8 billion during 2012-13. 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.

Auxiliary Enterprises

Auxiliary enterprises are non-instructional support services provided primarily to students, faculty, and staff. Programs include student residence and dining services, parking, bookstores, faculty housing, and, on three campuses, a portion of intercollegiate athletics or recreational activities. No State funds are provided for auxiliary enterprises; revenues are derived from fees directly related to the costs of goods and services provided. Expenditures for auxiliary enterprises are estimated to total \$950 million in 2012-13.

University Extension, Other Self-supporting Instructional Programs, and Other Campus Fees

In addition to the tuition and fees charged for regular degree programs, the University also generates fee revenue from enrollment in University Extension courses and self-supporting instructional programs, and enrollment of non-UC students in summer instruction. These programs are entirely self-supporting; they receive no State funding and fees are charged to cover the full costs of offering the courses and programs. Programs are dependent upon user demand. Campuses also charge fees for a variety of student-related expenses not supported by mandatory systemwide tuition and fees, such as student

health insurance fees and course materials fees. Income from University Extension, other self-supporting instructional programs, and other campus fees is projected to be \$659 million in 2012-13.

Educational and Support Activities

Income from sales and services of educational and support activities is projected to total \$2.89 billion in 2012-13. 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, museum ticket sales, publication sales, and athletic facilities users. Similar to auxiliary enterprises and teaching hospitals, revenues are generally dedicated to support the activity operations.

GOVERNMENT CONTRACTS, GRANTS, AND AGENCY APPROPRIATIONS

Contract and grant activity generates about \$4 billion annually in revenue for the University and plays a key role in the University's position as a major driver of the California economy. Government sources, including the Department of Energy and other federal agencies, state agencies, and local governments, are significant providers of contract and grant funding. Contract and grant activity that is codified in legislation or based on long-standing agency agreements is permanently budgeted. In addition, non-permanent extramural funds are provided for specified purposes. The majority of this funding supports research or provides student financial aid.

Federal Funds

Federal funds provide support for UC in three primary ways: research contracts and grants, student financial aid, and health care programs.

Federal funds are the University's single most important source of support for research, generating \$2.2 billion and accounting for nearly 50% of all University research expenditures in 2011-12. While UC researchers receive support from virtually all federal agencies, the National Institutes of Health and the National Science Foundation are the two largest sponsors, accounting for over 75% of UC's federal research contract and grant awards in

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 and directly charged to a specific contract or grant. 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 based on rates negotiated for each campus later provided by the federal government.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 19.9% of the reimbursement accrues directly to the University for costs of contract and grant administration in campus sponsored project offices, academic departments, and research units. This is the source of the University's Off-the-Top Fund, estimated to be \$105 million in 2012-13.

The remaining 80% of the federal reimbursement is split into two funds. The first 55% is budgeted as UC General Funds. It is used, along with State General Funds and student fee revenue, to help fund the University's basic budget (estimated to be \$316 million in 2012-13).

The remaining 45% is the source of the University Opportunity Fund (estimated to be \$258 million in 2012-13, which is used to make strategic investments in University and campus priorities, such as to enhance faculty recruitment packages through laboratory alterations, equipment purchases, and support for graduate student researchers; to provide innovative instructional programs; and to augment funding for capital outlay.

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 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. A total of 23 facilities have been fully financed using this mechanism.

With the implementation of the Funding Streams Initiative in 2011-12, each campus retains all the indirect cost recovery funding generated by research activity at the campus. A discussion of efforts to improve indirect cost recovery is included in the *Research* chapter of this document.

2011-12. In the past, federal funds for UC research have grown dramatically, though more recently constraints on federal spending have led to more modest growth. UC has benefited significantly in the last several years from temporary federal economic stimulus funding provided to federal agencies that support academic research. Despite much of this funding ending, UC managed to maintain its level of graduate research funding in 2011-12.

Indirect cost recovery funding reimburses the University for costs of facilities and administration associated with research activity, but that cannot be identified as solely benefiting a particular contract or grant. During 2012-13, indirect cost recovery funding from federal contract and grant activity is projected to be about \$750 million and is dedicated to support contract and grant administration, core mission activities (in the form of UC General Funds), and special programs. Federal research funds are discussed in more detail in the *Research* chapter of this document. The University is working to recover more of its indirect costs from research sponsors by increasing its negotiated federal rates and improving waiver management. Increased rates for Berkeley, San Francisco, Santa Barbara and Santa Cruz campuses have the potential to return an additional \$70 million in indirect costs to those campuses above current rates. However, this impact will be spread out over the next four years as the new rates are phased in, with the greater share expected in later years.

In addition to research contracts and grants, federal funds entirely support the Lawrence Berkeley National Laboratory, for which UC has management responsibility. This support is projected to be \$810 million in 2012-13.

In 2011-12, it is estimated that UC students received nearly \$1.7 billion in federal financial aid, including \$461.9 million in gift aid and the remainder in the form of loans and work-study. The significance of the federal loan programs for UC students is demonstrated by the fact that these programs comprise over two-thirds of all federally funded aid and 33% of the total financial support received by UC students in 2011-12. 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 Federal Work-Study

Display II-8: Estimated 2011-12 Federal Support for UC and UC Students (Dollars in Millions)

<u>Program Support</u>	
Research Grants and Contracts	\$2,230.8
Indirect Cost Recovery	\$748.0
DOE National Laboratory Operations	\$810.0
DOE Laboratory Management Fees	\$31.4
Other Contracts and Grants	\$196.8
<u>Student Financial Aid</u>	
Pell Grants	\$369.0
Other Undergraduate Grants and Scholarships	\$15.1
Graduate Fellowships and Scholarships	\$77.8
Student Loans	\$1,178.6
Work-Study	\$34.1
<u>Patient Care</u>	
Medicare	\$1,400.0
Medicaid	\$848.0
Estimated Total Federal Support	\$7,939.6

Program, through which the federal government subsidizes 50-100% of a 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 provides additional detail.

Finally, as mentioned earlier, federally-supported health care programs provide significant funding to the University's medical centers for patient care through Medicare and Medi-Cal, totaling \$2.2 billion in 2011-12.

As noted earlier, during the last several years, UC has benefited from additional federal funds provided through the American Recovery and Reinvestment Act (ARRA), signed by President Obama in February 2009. Significantly, ARRA included funding for states to help maintain support for education. Between 2008-09 and 2010-11, UC received a total of \$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. ARRA also provided additional funding for research grants, for clinical operations through an increase in Medicaid matching assistance, and for increases in federal financial aid for students.

State Agency Agreements

Similar to federally-sponsored research, California State agencies provide contracts and grants to the University for a variety of activities. The largest area is research, but these agreements also support public service and instruction. These agreements are expected to generate \$316 million in revenue for the University during 2012-13. Major providers of state agency agreements are the health care services, social services, transportation, food and agriculture, and education departments. Indirect cost recovery on State agency agreements is treated as UC General Fund income and supports the University's core mission activities. Historically, ICR rates on State agency contracts have been very low, based on the assumption that the State has covered these indirect costs through their support for UC operations and campus investments. As State support, including capital investment, in the University decreases, UC may need to seek to recover more of its indirect costs on State contracts.

State Special Funds

In addition to State General Fund support and State agency contracts, UC's budget for 2012-13 includes \$60.3 million in appropriations from State special funds. These include:

- \$29.9 million from the California State Lottery Education Fund, which is used to support instructional activities;
- \$11.1 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program;
- \$10.4 million for the Breast Cancer Research Program, also funded from the Cigarette and Tobacco Products Surtax Fund and from the Breast Cancer Research Fund, which derives revenue from the personal income tax check-off;
- \$2.0 million from the Health Care Benefits Fund for analysis of health care-related legislation;
- \$980,000 from the Public Transportation Account for support of the Institute of Transportation Studies;
- \$1 million from the Earthquake Risk Reduction Fund;
- \$2 million from the Oil Spill Response Trust Fund;
- \$425,000 for cancer research from the California Cancer Research Fund; and
- \$2.5 million for the Umbilical Cord Blood Collection Program.

ENDOWMENT EARNINGS AND PRIVATE GIFTS, GRANTS, AND CONTRACTS

Private funds include endowment payout as well as gifts, grants, and contracts. The Regents' endowment annually provides support for a wide range of activities. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations, private foundations, and other nonprofit entities, with foundations providing nearly half of total private gift and grant support. Private contracts are entered into with for-profit and other organizations to perform research, public service, and other activities.

Endowments

Combined Regents' and campus foundation endowments were valued at approximately \$10.8 billion as of June 2012 as the finance markets were relatively flat. This increase is attributable primarily to strong investment returns. Final values for combined endowments for 2011-12 will not be presented to the Regents until February 2013. Payments from the Regents' General Endowment Pool (GEP), computed as a trailing 5-year moving average, increased by 3% during 2011-12.

Expenditures of endowment payouts are highly restricted but support a range of activities, including endowed faculty chairs, student financial aid, and research. Approximately 95% of UC's overall endowment is restricted, contrasted with 80% for most public institutions and 55%, on average, for private institutions.

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%. This policy is intended to smooth annual payouts and avoid significant fluctuations due to market conditions.

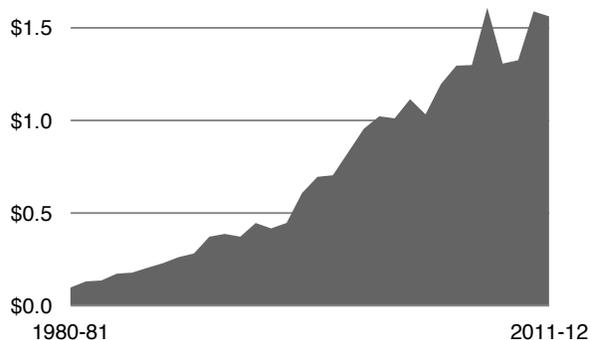
Payouts from the Regents' endowments are permanently budgeted, while payouts from campus foundations are recorded as extramural (non-permanent) private grants. In 2011-12, the expenditure of the payout distributed on endowments and similar funds was \$208.6 million from the Regents' endowments and approximately \$137.1 million from campus foundations. For 2012-13, payout expenditures from Regents' endowments are projected to total \$215 million. Payouts from campus foundations in

2012-13 are expected to be slightly higher than those realized in 2011-12.

Private Support: Gifts and Grants

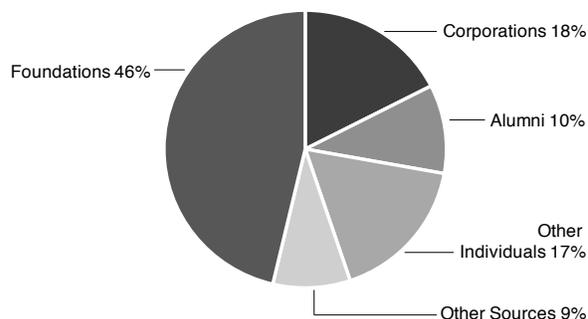
Private funds, even gift funds, are typically highly restricted by funding source and provide support for instruction,

Display II-9: Private Gift and Grant Support (Dollars in Billions)



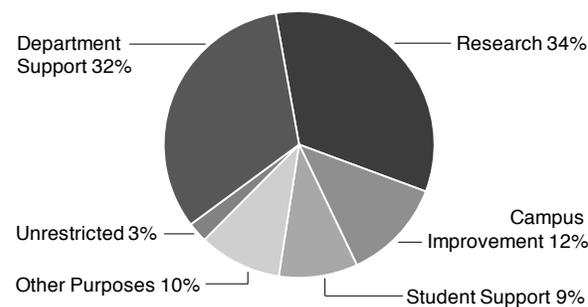
In 2010-11 and 2010-11, gifts and pledge payments totaled almost \$1.6 billion, near the record achieved in 2007-08.

Display II-10: 2011-12 Private Gift and Grant Support by Source



More than half of gift and grant support to the University is provided by foundations and corporations.

Display II-11: 2011-12 Private Gift and Grant Support by Purpose



Academic Departments and research receive two-thirds of private gift and grant support.

research, campus improvements, and student financial support, among other programs. In recent years, approximately 98% of new gifts received by UC are restricted in their use.

Since 1990, the University has experienced large, steady increases in private gifts received. In 2011-12, new gifts and private grants to the University totaled nearly \$1.6 billion, only slightly below 2010-11 and the record total in 2007-08, before the economic downturn. Approximately \$335 million of this total was designated for endowments, thus helping to ensure a strong future for UC, but making these funds unavailable for current expenditure. Health science disciplines receive nearly half of all private support. The University's remarkable achievement in obtaining private funding in recent years — even during state and national economic downturns — is a testament to UC's distinction as a 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. In 2012-13, expenditures of private gifts and grants to the University are expected to be similar to the expenditures in 2011-12.

The University is aggressively pursuing increased philanthropic giving as a means to help address budget shortfalls and expand student financial aid. Over the last two years, UC has launched two systemwide fundraising initiatives – Project You Can, an effort on all 10 campuses to raise \$1 billion for student financial support over a four-year period; and a companion initiative intended to attract funding from California corporate institutions to support financial accessibility for UC students, who are a critical part of California's future workforce.

Private Contracts

In 2011-12, awards from private contracts totaled \$705 million, a 2% increase over 2010-11. Over the last 10 years, awards have more than doubled, making private contracts an increasingly important source of University funding. These contracts, which primarily support research purposes, include clinical drug trials with pharmaceutical and health care organizations, as well as agreements with other agencies, including institutions of higher education.

OTHER FUND SOURCES

DOE National Laboratory Management Fee Revenue

As compensation for its oversight of the DOE National Laboratories at Berkeley, Livermore, and Los Alamos, the University earns management fees which can be used to support other activities. Performance management fees from Lawrence Berkeley National Laboratory (LBNL) are gross earned amounts before the University's payments of unreimbursed costs. In contrast, net income from the Los Alamos National Security LLC (LANS) and Lawrence Livermore National Security LLC (LLNS) reflects net share of fee income remaining after payment of unreimbursed costs at the two laboratories and shares to other owners. For 2012-13, LBNL is eligible to earn up to \$4.5 million in performance fees and UC's estimated share of income from LANS and LLNS is \$26.9 million.

Management fee revenue related to LBNL is used for costs of oversight, research programs, reserves for future claims, and unallowable costs associated with LBNL. Per Regental approval, revenue from LANS and LLNS will be used to provide supplemental income to select LANS employees, to cover unreimbursed oversight and post-contract costs, and to support a variety of University research programs. Further information about DOE Laboratory Management activity and revenue can be found in the *Department of Energy Laboratory Management* chapter of this document.

Contract and Grant Administration

Contract and Grant Administration funds, also referred to as "Off-the-Top" funds, currently represent 19.9% of the total indirect costs recovered under federal awards, net of indirect cost recovery associated with facilities developed using the Garamendi financing mechanism. Pursuant to agreement with the State, funds must be used for costs related to federal contract and grant administration, including federal governmental relations, cost and financial analysis, sponsored projects offices, costs resulting from federal cost disallowances, "and any additional costs directly related to federal contract and grant activity as mutually agreed to by the University and the State."¹

¹ *Memorandum of Understanding between the University and the State Department of Finance for Disposition of*

University Opportunity Fund

The University Opportunity Fund, which consists of a share of federal indirect cost recovery funds, is used to fund programs and services that are not adequately supported from State funds. Beginning in 2012-13, with the implementation of the Funding Streams Initiative, as described later in this chapter, each campus retains all federal indirect cost recovery funding generated by research activity at the campus. This approach represents a reinvestment in research and an incentive to further develop UC's research capacity.

Each campus has discretion as to the use of University Opportunity Funds. Generally, campuses have used Opportunity Funds to enhance faculty recruitment packages through laboratory alterations and support for graduate student researchers, to provide innovative instructional programs, and to augment funding for capital outlay, equipment purchases, and other institutional support.

Intellectual Property Royalty Income

Income derived from royalties, fees, and litigation recovery, less the sum of payments to joint holders, net legal expenses, and direct expenses, is distributed to various stakeholders according to the University Patent Policy and campus policies. Patent income fluctuates significantly from year to year and budget estimates are based upon historical trends. This revenue appears in the University budget in two categories: as a component of UC General Funds and under Other Funds. Income distributions after mandatory payments to joint holders and law firms (for legal expenses) were \$164.6 million in 2010-11, the most recent year for which data are available. While 1,873 inventions generated royalty and fee income, the 25 most profitable inventions collectively accounted for more than 85% of total revenues.

- **Inventor Shares:** The University Patent Policy grants inventors the right to receive a percentage of net income accruing to individual inventions. The terms of the inventor share calculations are established in the Patent Policy. In 2010-11, 2,153 inventors received \$54.1 million.
- **General Fund Share:** In 2010-11, the portion of net income allocated to the UC General Fund was

\$27.2 million, equal to 25% of the amount remaining after deducting payments to joint holders, legal expenses, and inventor shares.

- **Research Allocation Share:** For inventions covered by the 1997 Patent Policy, 15% of net income from each invention is designated for research-related purposes at the inventor's campus or Laboratory. This allocation totaled \$4.5 million in 2010-11.
- **Income after Mandatory Distributions:** All income remaining after deductions and other distributions is allocated to the campuses. These funds, totaling \$78.8 million in 2010-11, are used by the chancellors to support education and research priorities.

FUNDING STREAMS AND REBENCHING INITIATIVES

Historically, certain revenues have been collected centrally by the UC Office of the President (UCOP) and redistributed across campuses to promote systemwide priorities. These included all State General Funds; Tuition (formerly the Educational Fee); indirect cost recovery of federal, state, and private research contracts and grants; application fee revenue; and a share of patent revenue. The funds were used to the benefit of the campuses, such as to assist campuses with cost increases, enrollment growth, and development of new schools or programs or for central administration and programs. Other funds, such as hospital and auxiliary revenues, Student Services Fees, and campus-based fee funds, have historically been retained by source campuses. Over time, the University's budget practices and authority have become more decentralized and policies have changed so that more revenue has been retained by or returned to source campuses.

Following lengthy consultation with campus leadership, in 2011-12, the University made comprehensive changes in the way funds flow within the University and in the way central administration and programs are funded.

In order to simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue, beginning in 2011-12, all campus-generated funds – tuition and fees, research indirect cost recovery, patent and investment income – is retained by or returned to the source campus.

In order to support central operations, the University has established a broad-based flat assessment on campus

Receipts from Overhead on Federal Government Contracts and Grants, 1979.

funds. Central operations are being defined as UCOP administration, UCOP-provided central services, (both administrative and academic), and systemwide initiatives, such as multi-campus research programs and initiatives and Cooperative Extension.

As an exception to the overarching principle that source campuses will retain all funds generated by the campus, redistribution of some funds across campuses will continue as a means to support the systemwide goals of the Education Financing Model (EFM) for undergraduate student financial aid. A key goal of the EFM is to equalize the expected student contribution level from employment and/or loans across the system, such that each individual undergraduate student would face the same net costs regardless of which campus the student chooses to attend. The EFM is described in more detail in the *Student Financial Aid* chapter of this document.

The Funding Streams Initiative addressed the distribution of all revenues except State General Funds. With regard to

the allocation of State General Funds, in November 2010 the UC Commission on the Future recommended that the University examine the rationale for distributing State General Funds and design a proposal for “an equitable and transparent readjustment of base funding formulas.” The Commission’s recommendation coincided with concerns raised by others that the existing distribution model was too complex and opaque. These issues were addressed by the Rebenching Budget Committee, appointed by former Provost Pitts and Executive Vice President Brostrom. The Committee held its first meeting in April 2011 and completed its deliberations with a set of recommendations for rebenching State General Funds in March 2012. Among the Committee’s recommendations were the proposals that State General Funds be distributed on a weighted per-student enrollment and that the rebenching be implemented over a six year period. 2012-13 is the first year that State General Funds are being allocated based on the principles of rebenching.

“Innovation isn’t restricted to UC’s labs and classrooms—the University is dedicated to working more effectively in every corner.”

Mark G. Yudof
University of California
President

Cross-Cutting Issues

Several of the University’s significant budget issues do not fall into a single functional area but instead cut across multiple areas. This chapter provides detailed information about several of these cross-cutting issues for 2013-14: systemwide and campus actions to address budget shortfalls, the *Working Smarter* initiative, post-employment benefits reform, the multi-year agreement with the State, diversity, and core academic support.

SYSTEMWIDE AND CAMPUS ACTIONS TO ADDRESS THE FUNDING SHORTFALL

The continuing fiscal crisis facing the State, and indeed the nation and the world, has presented the University with the significant challenge of achieving major reductions to budgets in a very short period of time. The 2012-13 State-funded budget is nearly \$900 million less than support provided in 2007-08, representing a 27% reduction in State support. While UC was grateful for a partial restoration in 2010-11, those gains were more than erased with unprecedented cuts in 2011-12. The outlook for the next several years is highly uncertain, ranging from an optimistic scenario (if the Governor’s revenue-raising initiative passes in November) of moderate yet still constrained budgets for the next several years, to a worst-case scenario (if the initiative fails) of further budget cuts and the potential for new State funds is highly constrained. Furthermore, the long-term decline in State support, combined with substantial mandatory cost increases, including costs of retirement benefits, is forcing the University to reexamine all aspects of its 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 Actions Were Used to Address Shortfalls Early in the Crisis

While most of the response to budget gaps now falls to the campuses, in the early part of this current budget crisis, many of the actions taken to address cuts occurred at the systemwide level. Examples of systemwide actions taken during 2008-09 are below:

- **Enrollment:** Campuses were asked to reduce enrollment of California resident freshmen by 3,800 students between 2008-09 and 2010-11. This curtailment was partially offset by a goal of increasing transfers from the community colleges by 1,000 students.
- **Salary Reduction/Furlough Plan:** In July 2009, the Regents approved a one-year salary reduction/furlough plan that provided \$136 million in one-time General Fund savings and nearly \$236 million in savings from all fund sources. This plan ended for most employees on August 31, 2010, although some represented employee groups remained on furlough several months later due to delayed starts. A Furlough Exchange Program for faculty generated an additional \$21 million in General Fund savings.
- **Merit Increases:** Due to budget constraints, UC did not provide regular merit increases or range adjustments to a significant portion of its staff for three years.
- **Debt Restructuring:** UC took steps to delay debt service payments on capital projects during 2009-10 and 2010-11. The Regents authorized campuses to restructure \$75 million in debt in each year for temporary relief to campuses. Further opportunities for reduction or consolidation of debt service are under review.
- **Senior Management Group Compensation Actions:** The furlough program for the President and other senior members of the Office of the President and campus leadership imposed pay reductions of 9% to 10% in most cases during 2009-10. In addition, systemwide salary freezes for Senior Management Group members were imposed for this same period. Further, while most nonrepresented staff received a 3% merit increase for 2011-12, Senior Management Group members and other staff earning more than \$200,000 per year were ineligible for this salary increase.
- **UCOP Restructuring and Downsizing:** During 2007-08 and 2008-09, the Office of the President (UCOP) underwent a thorough restructuring. Since that time, budget reductions have necessitated additional reviews of UCOP operations. Actions to date have resulted in a reduction of 629 FTE (net of program transfers), a 25% decrease over a four-year period (from 2,069 to 1,440). Savings achieved over that time total \$95 million in unrestricted fund sources. In addition, increased transparency and an improved budget system have made the Office of the President budget more understandable and accessible.

Campus Actions

The 2012-13 academic year marks the fifth year in which UC campuses have been implementing measures to reduce expenditures, avoid costs, and introduce efficiencies at the local level to address significant budget gaps. Of the total budget gap, only a little more than one-third has been addressed through tuition increases. The remainder has, for the most part, been borne by the campuses. Campus actions to cut expenditures often take several years to be fully implemented. While each campus is distinct in its character as well as its fiscal situation, several common themes have emerged.

- Every campus is firmly committed to protecting quality, access, and, as much as possible, academic and student service programs.
- Each campus is setting priorities that over the next several years will advance those initiatives that continue to be important to the development of the institution while eliminating or curtailing programs that no longer serve the identified priorities of the campus.
- While campuses plan for permanent cuts that are likely to be implemented over the next several years upon completion of their highly deliberative review processes, they have taken temporary measures in the early part of the fiscal crisis through the use of one-time funds, vacancy control measures, and other steps.
- While using different approaches, campuses have embraced a process for identifying and eliminating redundancy and for avoiding across-the-board reductions.
- All campuses are approaching the issues with thorough consultation and deliberation.

The following provides a summary of the actions campuses have taken to address budget shortfalls. It is not an exhaustive list, but rather reflects the wide variety of actions each campus is adopting.

- Program Elimination/Consolidation – Over 180 programs have been eliminated or consolidated with other programs for an estimated savings of over \$116 million.
- Budget Cuts – Academic and administrative units were assigned cuts ranging in general from 0% to 35%, determined through a series of consultative processes on each of the campuses. All campuses report significantly higher cuts to administrative services as compared to instructional programs. However, all campuses report a

growing concern over the impact that significant cuts have had on administrative functions, given the increased exposure to risk from regulatory noncompliance and other activities that are not receiving appropriate oversight.

- Layoffs/Positions Eliminated – More than 4,200 staff have been laid off and more than 9,500 positions have been eliminated or unfilled since the fiscal crisis began, while workload has continued to increase due to higher levels of student enrollment, added regulations/oversight, and other issues.
- Enrollment – In 2012-13, the University of California enrolls approximately 11,500 California residents for whom the State never provided workload funding. When recent budget cuts are taken into account, the University estimates it enrolls more than 25,000 unfunded California residents. No campuses plan to embark on major efforts to decrease enrollment of funded California students. A better match between resources and enrollment levels is occurring naturally as larger classes from earlier years graduate and make room for smaller classes being enrolled now. Eventually, total enrollment will approach funded levels.
- Shared Service Centers – All campuses report moving aggressively toward implementing shared service centers where clusters of programs share human resource and informational technology services. Many such centers have been created and many more are planned.
- Faculty Recruitment – All campuses have curtailed the number of faculty recruitments, in many cases by 50% or more. Unfortunately, the University lost over 200 faculty more than it hired last year, resulting in a diminishment in the overall size of the faculty at the same time that several campuses have continued to enroll growing numbers of students. Deferred hiring cannot be sustained indefinitely and campuses must begin to fill many of the positions that have been left vacant.
- Program Assessments – All campuses impose some level of assessment upon auxiliaries to help defray the cost of campus infrastructure. Many campuses are reviewing this assessment and most are considering

increasing or have already increased this assessment to some degree to ensure auxiliaries and other non-State funded programs are paying their fair share of central campus operational costs.

Given the continuing State fiscal crisis and the uncertainty over future State funding, campuses are continuing to review options for additional cost savings and elimination of programs.

ADMINISTRATIVE EFFICIENCIES: WORKING SMARTER

On July 14, 2010, the Regents adopted a resolution regarding systemwide administrative efficiencies¹. The resolution directs the President, in consultation with a small committee of campus representatives, to, where appropriate, design and implement common best-practice administrative systems, including but not limited to student information systems, financial systems, human resources systems, payroll systems, and their underlying technology support systems. This resolution was further bolstered by the recommendation of the Commission on the Future to accelerate this initiative².

The initiative evolved into *Working Smarter*, a five-year program that is focused on promoting and accelerating projects that bring all UC locations the benefits and efficiencies of one common administrative framework. With a portfolio of more than 30 projects, the majority of *Working Smarter* projects have specific “streamline and improve” objectives with significant cost savings relative to the initial investment. Other projects are trained on producing new sources of revenue. Whether through direct cost savings or new revenue, the overarching objective of *Working Smarter* is redirecting \$500 million in five years from administration to the academic and research mission of the University.

The majority of *Working Smarter* projects are still in development or early implementation, and positive fiscal impact, net of any targeted investment, is not expected for another year or more. Each project differs in its complexity,

implementation timeline, and expected fiscal impact. Some projects incur one-time savings or revenue numbers. They are measured and accrue to the University’s fiscal goals, and are instrumental in building momentum and coveted “quick wins.”

But the far greater focus of the initiative is on the permanent savings or revenue. These tend to be more difficult to achieve and usually result from substantial and transformative changes. For these projects, a more robust project team and governance structure are generally in place. All *Working Smarter* projects have identified specific Executive Sponsorship, project owners, teams, and stakeholders.

In July 2012, the Regents were updated on the positive fiscal impact of 10 of the 34 projects in the *Working Smarter* portfolio. As summarized in Display III-1, these 10 projects generated a total of over \$132 million in direct cost savings and new revenue over the last year or comparable time frame.

Display III-1: 2011-12 *Working Smarter* Projects: Cost Savings and New Revenue (Dollars in Millions)

UC Travel Insurance Program (UC TRIPS)	\$1.9
UC Equipment Maintenance Insurance Program (UCEMIP)	\$0.6
Enterprise Risk Management (ERM)	\$71.1
Purchase Card Program	\$5.1
Liquidity Management (STIP/TRIP)	\$18.9
Parent Giving	\$12.0
Strategic Sourcing	\$11.4
Connexus Travel	\$6.5
Banking Services	\$1.6
Legal Services	<u>\$3.1</u>
Total	\$132.2

UC Travel Insurance Program (UC TRIPS) provides improved coverage to protect the health, safety, and security of faculty, students, and staff while traveling on UC business. The program is focused primarily on providing better protection by more efficiently gathering UC’s travel data, negotiating this insurance on a systemwide basis, and automatically enrolling travelers who book using Connexus, the UC Travel portal. The University has seen participation in this program more than double since last year and has achieved volume savings of over \$1.8 million in 2011-12.

¹ See <http://www.universityofcalifornia.edu/regents/regmeet/jul10/f2.pdf>

² Commission on the Future Final Report, November 2010, Recommendation #14, “Expedite Implementation of UC’s Initiative on Systemwide Administrative Reforms, with the Goal of \$500 Million in Annual Savings,” page 20.

UC Equipment Maintenance Insurance Program (UCEMIP) is focused on a standardized, proactive approach to the maintenance of the University's equipment and technology hardware. The program strives to replace prior spending on emergency repair service and certain original equipment manufacturer (OEM) maintenance contracts which are statistically unlikely to be used. Instead, a central equipment maintenance insurance policy is priced to cover wide ranges of medical, engineering, facilities, and IT equipment at any UC location; the policy includes preventive maintenance for all covered physical units as well as any needed repairs or replacement by OEM-authorized service providers. Over the past year, participating UC locations saw direct savings of over \$500,000.

As a strategic approach to managing enterprise-wide risk, the **Enterprise Risk Management (ERM)** program reduced the University's overall cost of risk by over \$71 million in fiscal year 2011-12. These savings are based on the University's overall cost of risk associated with both hazard risks (such as workers' compensation, general liability, employment practices liability, professional liability, auto liability, and property) and other strategic, operational, financial, and reputational risks. These savings represent the reduction in combined premium costs in 2011-12 over the average costs of a previous three-year period (2007-08 through 2009-10, consistent, rolling forward by one year, with the approach noted in the July 13, 2011 *Working Smarter* report).

The **Purchase Card Program** generated over \$5 million in incentive payments and signing bonuses for the campuses in calendar year 2011. The program provided additional benefits to the UC-operated national laboratories not captured by the *Working Smarter* report. The Purchase Card Program at UC changed significantly in 2005, when a universitywide contract was awarded to a single vendor following a public bid process. Since then, University personnel at each location have been focused on optimizing UC's local use of the program to save time (i.e., compared to paper check based payments and other methods) and maximize overall return while closely minding potential risk.

Liquidity Management. By optimizing the allocation of campus working capital between the University's Short-Term Investment Pool (STIP) and the longer-term Total Return Investment Pool (TRIP), the University has generated \$18 million in additional investment income during 2011-12. About \$1.7 billion has been moved from STIP to TRIP since October 2010, bringing the total working capital portfolio to 70% STIP/30% TRIP.

Several years ago, **Parent Giving** was identified as having high potential for revenue increases because of UC's relatively lower parental giving rates compared to parents at other institutions. The Office of the President, working with counterparts at each of the nine undergraduate campuses, implemented what is now called the Parent Giving and Supplemental Development Fund. Gifts from parents tend to be more unrestricted or flexible than gifts from other donor groups. When parent gifts are targeted, donors may more directly influence the student experience. Perhaps even more important than total dollars raised, this targeted effort dramatically improved the participation rates of parents and families. In the first year of the program, systemwide parent giving rose to \$10.7 million from \$3.6 million the previous year. This increase occurred across all undergraduate campuses; Berkeley, Davis, and Santa Barbara had especially significant gains. Parent giving topped \$12 million in 2011-12.

Strategic Sourcing is a universitywide program coordinated at the Office of the President by Procurement Services staff who negotiate vendor contracts to leverage UC's substantial combined buying power. Procurement Services is currently designing and soon will begin implementing a comprehensive data analysis and reporting capability to better track and strategically plan for UC's "sourceable spend" across all locations (a *Working Smarter* project in itself). Until this system is fully implemented, anticipated in 2014, *Working Smarter* is reporting only the total payments of contracted vendors under negotiated patronage incentive agreements. In many vendor purchase contracts, to encourage local contract compliance and aid in supporting complementary programs such as eProcurement use, the University receives quarterly cash rebates of usually 2% of net purchases made under the agreement. These payments are monitored centrally but

made directly to the local campus; in 2011-12, participating UC locations received a combined total of over \$11 million back from purchases made through over 160 universitywide managed contracts.

Connexus Travel is a centrally managed travel program offering reservation options and systemwide supplier discounts. The central office at the Office of the President also uses a complete data repository of all Connexus-booked travel to inform its regular direct negotiations with UC's top-used travel industry suppliers. Connexus adoption across all UC locations is uneven, ranging from capturing only 6% of campus travel bookings to as much as 80% at another location in 2011. Across all UC locations, overall usage is up 10% from the prior year to over 35%. In 2011, the Connexus program delivered over \$6 million in direct negotiated savings and online booking discounts to UC travel budgets. The Central Travel Management Office at the Office of the President is keenly focused on perceived and real barriers – many of which are location-specific – to further increase use of Connexus at all locations in 2012 and beyond.

Banking Services is a project which targets UC's expenses and fees for depository, disbursement, payroll, and merchant card accounts and related transaction activities. The Banking and Treasury Services group within the CFO Division at the Office of the President manages these services and coordinates activities with all UC locations. As part of the *Working Smarter* initiative, Banking and Treasury services began a thorough re-examination of its costs to find savings while maintaining or improving world class control and functionality. Two specific efforts returned direct cost savings to UC this past year – the renegotiation of UC's merchant credit card account per-transaction interchange fee, and the implementation of a more modern and secure Treasury workstation, a software interface allowing cash management across depository and disbursement accounts. Together, these efforts netted over \$1.6 million in year-over-year savings.

In January 2010, the Office of General Counsel (OGC) began implementing a new approach to reducing expenses for UC's **Legal Services** without increasing risk to the University. The effort has two objectives, both very

targeted in their implementation: "in-sourcing" and "preferred provider panels." By in-sourcing, OGC is staffing attorneys in-house where that work can replace what was previously spent on outside counsel. Preferred Provider Panels aim to negotiate lower billing rates based on higher volumes and more predictable usage in selected areas of legal practice. At the same time these programs have rolled out, OGC increased its own analytics capability both with in-house staff time reporting and outside counsel billable data. This capability has documented a year-over-year savings of over \$3 million in Legal Services costs (net of in-house new hires), and the data should inform future decisions on in-sourcing and additional preferred provider panels, or suggest other new areas of focus.

It is important to note that in both of the first two years of *Working Smarter*, the progress has included monies that accrue to core and non-core (such as auxiliaries and other self-supporting functions within the University) operations. The core budget savings will most directly help the University through the current fiscal crisis by freeing up funds that were previously used for other purposes, avoiding costs, or generating revenue. It is estimated that about two-thirds of the positive fiscal impact from *Working Smarter* projects will accrue ultimately to core operations.

In evaluating projects as candidates for inclusion in the portfolio, an assessment is made of expected fiscal impact or process efficiency. Fiscal impact is reportable within the portfolio only after savings or revenue eclipse any up-front investment (such as in implementation services or new technologies). Across all projects, only direct cost savings and realized revenue are measured and reported as positive fiscal impact under *Working Smarter*. In addition, some projects incur permanent savings, usually resulting from substantial and transformative changes; others are more opportunistic. The latter, usually one-time events, are measured and accrue to the University's fiscal goals, but the far greater focus of the initiative is on the permanent savings or revenue, and those projects that reinforce a focus on process efficiency.

This progress is encouraging: in two years, the University has achieved over \$289 million of its goal of achieving \$500 million in positive fiscal impact over five years through the *Working Smarter* initiative. Maintaining the momentum

of the program will rest with both the continued progress of more mature projects and the identification of new strategies to deliver future and sustained impact.

POST-EMPLOYMENT BENEFITS REFORM

Both the unfunded liability for retirement benefits accrued to date by UC employees and retirees and the cost of benefits accrued by current employees going forward will place a significant strain on the University's budget in the future. Sustaining these benefits has become increasingly difficult. To help the University develop a comprehensive long-term approach to post-employment benefits, both pension and retiree health, at the request of the Regents, President Yudof established a task force in 2009 to study and recommend funding, policy, and benefits design alternatives. The task force consisted of senior leadership, faculty and staff representatives, and UC retirees, and considered issues of market competitiveness, workforce behavior and development, affordability, and sustainability.

The final report of the task force was submitted to the President in August 2010. Based on the recommendations of the task force, in December 2010, the Regents approved changes to provisions for both pension and retiree health benefits that will reduce long-term costs. Additional information about post-employment benefits is available in the *Compensation, Employee and Retiree Benefits, and Non-Salary Price Increase* chapter of this document.

THE MULTI-YEAR AGREEMENT WITH THE STATE

Senior representatives of the Governor's administration have stated their intention to conclude a multi-year funding agreement with UC and the California State University. The agreement would provide steady increases of 6% per year to the University's base budget for four years, beginning in 2013-14 through 2016-17. This, along with moderate tuition and fee increases, will provide UC with a solid foundation to help meet its minimum obligations with respect to UC Retirement Plan employer contributions, compensation agreements, health benefit costs, non-salary price increases, and other heretofore unfunded cost increases.

This framework, if supported by the Legislature, holds the promise of financial stability and secures the University's

ability to plan for the future, in stark contrast to recent years, which have been characterized by year-by-year reactions to one major budget cut following another. The agreement would continue the tradition of earlier agreements of specifying minimum funding levels critical to ensuring the support of programs that are fundamental to the character of this great public research university. More importantly, it is an acknowledgement by the State of California that it will again become a reliable partner with the University of California.

However, stable and consistent State funding for UC cannot be achieved without a stable fiscal situation for the State. The Governor has indicated that a multi-year funding framework is contingent on passage of his November ballot initiative.

The importance of regaining stability and providing campuses with an ability to plan cannot be overstated. After years of extreme volatility, with proposals to cut UC's budget changing two and three times during a budget year, campuses and UC's students are eager for predictability and reasonable budget outcomes. The Governor's revenue initiative on the November ballot holds the highest promise in four years for achieving this goal. For this reason, the Regents adopted a resolution to endorse the initiative.

DIVERSITY

UC is dedicated to achieving excellence through diversity in the classroom, research laboratory, and the workplace. It strives to establish a climate that welcomes, celebrates, and promotes respect for the contributions of all students and employees.

In 2007, the Regents adopted as policy the UC Diversity Statement defining diversity as the "variety of personal experiences, values, and worldviews that arise from differences of culture and circumstance. Such differences include race, ethnicity, gender, age, religion, language, abilities/disabilities, sexual orientation, gender identity, socioeconomic status, geographic region, and more."³ The value of diversity in all aspects of UC's educational programs is fundamental to its mission as a land grant institution.

³ www.universityofcalifornia.edu/diversity/documents/diversityreport0907.pdf.

The unique environment created by UC's system of 10 top-tier public research universities contributes to the overall quality of a UC education. An important aspect of this environment is the ability to take advantage of the social, cultural, and intellectual contributions enabled by having a diverse population of students, faculty, and staff from a variety of underrepresented populations. A diverse University community enhances the quality of education by infusing perspectives and experiences from people of all walks of life in California and beyond, enriching and contributing to the educational environment.

While there are many pockets of success and innovation, the University is committed to focusing greater and sustained attention on its diversity efforts. To monitor these efforts, the Regents requested an annual accountability report on diversity at UC. The third *Accountability Sub-Report on Diversity at the University of California*⁴ was presented to the Regents in January 2012. The report identifies three specific areas the University will monitor over the coming years: faculty diversity, graduate professional student diversity, and campus climate. Future Sub-Reports will focus on these as special topics beginning with faculty diversity in January 2013.

In recognition of the importance of gauging campus climate to create more inclusive and welcoming environments, in 2010, UC President Yudof formed an Advisory Council on Campus Climate, Culture, and Inclusion charged with monitoring campus progress and metrics and examining campus practice and policy. Each of the chancellors created similar councils on the 10 campuses and, in May 2010, the Regents created the Ad Hoc Committee on Campus Climate. In September 2010, UC launched an online campus climate incident reporting system.

In June 2011, President Yudof announced that UC will undergo a campus climate study in order to gather a variety of data and assess the quality of life at UC for students, faculty, and staff. The University is dedicated to fostering a caring university community that provides leadership for constructive participation in a diverse, multicultural world. UC is determined to create a welcoming environment for

everyone, improve the environment for working and learning on campus, and help to nurture a culture of inclusiveness and respect throughout every campus and location in our system. This major initiative will provide much-needed data and accountability measures. The study will include all populations – students, faculty, and staff – at the campuses, medical centers, the Office of the President, the Division of Agriculture and Natural Resources, and the Lawrence Berkeley National Laboratory. In doing so, UC is taking a leading role in proactively creating more welcoming and inclusive campus environments. UC is the first higher education institution of its size to commit to such a project. Study findings will be available in Spring 2013.

Diversity Within the University Community

UC often describes its diversity aspirations in terms of “reflecting the diversity of California.” Both the University and the state are much more diverse than the nation as a whole. However, while the University community has become increasingly diverse, it has not kept pace with demographic changes in California, especially the rapid growth of the Hispanic population. In Fall 2011, the University community of approximately 365,000 students, faculty, and staff was 16.1% Chicano/Latino compared to about 38% for California as a whole. African-Americans represented 4.7% of the University community compared to 6% for California as a whole.

Racial and ethnic diversity at the University changes slowly over time as populations turn over. At the undergraduate level, students turn over every four to five years, providing an opportunity for the University to become more responsive to demographic shifts in the graduating high school population. Conversely, faculty careers can last 30-40 years, requiring a longer trajectory for these population shifts. Since new faculty hires are more diverse than the faculty as a whole, slowing of faculty hiring in response to budget cuts could result in delays in diversifying the faculty. Over the last 15 years, proportions of underrepresented minorities (Chicano/Latino, African-American, or American Indian) have increased among undergraduates by 27.4% compared to an increase of only 18.6% among ladder rank faculty. In Fall 2011, 23.7% of UC's almost 182,000 undergraduates were

⁴<http://accountability.universityofcalifornia.edu/documents/accountabilityreport12.pdf>.

underrepresented minorities, compared to only 18.6% of 133,000 undergraduates in Fall 1996. In Fall 2011, 8.3% of all 9,800 ladder rank faculty were underrepresented minorities, compared to just 7% of all 8,000 ladder rank faculty in Fall 1996.

Staff Diversity. The most diversity is seen among the Professional and Support Staff, and the least among the Senior Management Group. Despite some progress over the years, in 2011 the Senior Management Group (consisting of just under 200 employees) was 79% white and 63% male. Among the over 90,000 Professional and Support Staff, roughly two-thirds are women across all racial and ethnic groups. In Fall 2011, 27% of all 100,000 staff were underrepresented minorities and half were racial and ethnic minorities (including Asian Americans), up from 25.4% underrepresented minorities and 42% racial and ethnic minorities in Fall 1996 (72,500 total non-academic staff population in Fall 1996). The largest increase was among Asian Americans who comprised 16.7% of all staff in Fall 1996 compared to 23% in Fall 2011, followed by Chicano/Latino staff (13.5% in Fall 1996 compared to 18% in Fall 2011).

Faculty Diversity. The ladder rank faculty at the University of California is more diverse than the faculty at American Association of Universities (AAU) public and private institutions. Of all faculty and academics (34,000 in Fall 2011 and 24,000 in Fall 1996), 7% were underrepresented racial and ethnic minorities in Fall 2011 compared to 6.7% in Fall 1996. African-American faculty and academics experienced a decrease in representation between Fall 1996 and Fall 2011 (2.3% versus 2%), and Chicano/Latinos experienced a slight increase (4.7% versus 4.1%). Asian American faculty and academics showed the largest increase between Fall 1996 (11.8%) and Fall 2011 (15.1%). Despite some gains overall, UC's 9,800 ladder- and equivalent-rank faculty is still over 73% white and over 70% male. At the assistant professor level, UC hiring of underrepresented faculty in life sciences, arts and humanities, social sciences, and education exceeds national availability but is below estimated national availability in engineering and physical sciences.

Graduate Academic Students. UC's graduate academic programs lack racial and ethnic diversity. Just over 10% of

all 31,000 graduate academic students were underrepresented minorities in 2011. An additional 26% were Asian American, and 10% international. This number has not changed as a proportion of all graduate academic students since Fall 1996 (when about 10% of the total 35,000 graduate academic students were underrepresented minorities). However, within each racial and ethnic category, women are well represented. Among African-American students, more women are enrolled than men (59% versus 41%); but the reverse is true for whites, among whom only 45% of enrolled students are women. In all, men represent over 53% of all UC graduate academic students, and across all racial and ethnic groups, men receive more Ph.D.s in the physical sciences, mathematics, and engineering.

Graduate Professional Students. Underrepresented students are a very small percentage (13%) of the 18,400 total professional degree students and over 23% are international. Over the last 15 years, underrepresented minorities in UC professional programs has decreased by over 27% (18.4%, or 1,300 students, in Fall 1996 compared to 13%, or 2,400 students, in Fall 2011). Across all racial and ethnic groups, men receive the greatest percentage of professional degrees in business. For women, the greatest percentage of professional degrees awarded is in "other health" fields (dentistry, nursing, optometry, pharmacy, public health, and veterinary medicine) with the exception of Chicana/Latina women, who receive the highest percentage of their degrees in education.

Undergraduates. At UC, undergraduate students have the highest proportion of underrepresented minorities. In 2011, 24% of UC's 182,000 undergraduate students were underrepresented minorities, and over 38% were Asian American. Since the 1980s, UC has enrolled greater numbers of underrepresented minorities, as discussed in the *General Campus Instruction* chapter of this document. In Fall 1996, underrepresented minorities comprised 18.6% of all 133,000 undergraduates compared to 23.7% of 182,000 in Fall 2011. Most notably, among new freshmen, underrepresented minorities have increased nearly 50% over the last 5 years, from 18.3% (5,750 of all 31,500 new freshmen) in Fall 2005 to 27.4% (nearly 10,000 of all 36,300) in Fall 2011. Additionally, underrepresented

minorities among transfer students have increased nearly 23%, from 18% (2,400 of 13,000 transfer students) in Fall 2005 versus 23% in Fall 2011 (3,800 of 17,000 transfer students).

CORE ACADEMIC SUPPORT

Several areas of the budget are critical to academic quality, but have been historically underfunded. Collectively referred to as core academic support, these areas 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 materials for teaching and research;
- library resources to build and make available print and digital collections and to continue strategic investments in advanced, cost-effective reference and circulation services; and
- ongoing building maintenance to support the janitorial, groundskeeping, and utility costs associated with maintaining facilities.

The Partnership Agreement with former Governor Davis recognized the shortfall in these areas 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 during the early 2000s, however, not only were increases discontinued, but program cuts erased the progress that had been made from earlier funding increases. The shortage in these areas was estimated in 2007-08 to be over \$100 million.

The Compact Agreement with Governor Schwarzenegger again recognized the critical nature of the shortfall in these budget areas and proposed a 1% annual adjustment in the base budget beginning in 2008-09 to help address the shortfall. The additional 1% base budget adjustment was first funded in the Governor's 2008-09 budget proposal before applying a 10% budget-balancing reduction. Similarly, between 2009-10 and 2011-12, no new funding was provided for this purpose and in fact deep base budget cuts were initiated, further exacerbating the chronic funding shortfalls in these areas. The 2013-14 budget plan includes \$35 million in funding for the first year of a multi-year reinvestment in these areas of the budget which are so critical to academic quality.

“UC has long provided the best and brightest with a world-class education. Disinvestment by the State will have far-reaching consequences that threaten that legacy of access to excellence. The time to act is now.”

Aimée Dorr
University of California
Provost

General Campus Instruction

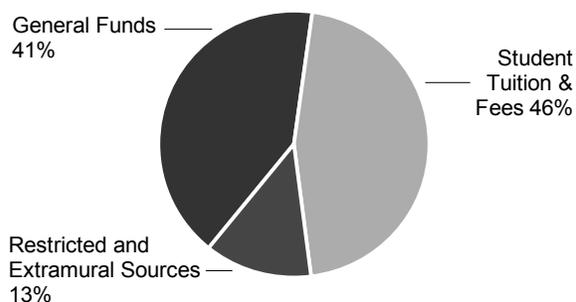
Consistent with the California Master Plan for Higher Education, UC provides undergraduate, professional, and graduate academic education through the doctoral degree level and serves as the primary State-supported academic agency for research. A fundamental mission of the University is to educate students at all levels, from undergraduate to the most advanced graduate level, and to offer motivated students the opportunity to realize their full potential. The University continues to offer a space to all qualified California undergraduates and provides programs for graduate academic and professional students in accordance with standards of excellence and the growing needs of California, the eighth largest economy in the world. To do this, the University must maintain a core of well-balanced, quality programs and provide support for newly emerging and rapidly developing fields of knowledge.

The University offers bachelor’s, master’s, and doctoral degrees in over 700 instructional programs from agriculture to zoology and professional degrees in a growing number of disciplines. The University’s Academic Senate authorizes and supervises courses offered within instructional programs, and also determines the conditions for admission and the qualifications for degrees and credentials. UC began awarding degrees in 1870, and in 2011-12, conferred over 63,000 degrees.

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.¹ I&R expenditures totaled \$2.8 billion in 2011-12, over 85% of which comes from core fund sources (State General Funds, UC General Funds, and student tuition and fees). Additional resources for instruction are derived from self-supporting program fees, course materials and services fees, and other restricted sources.

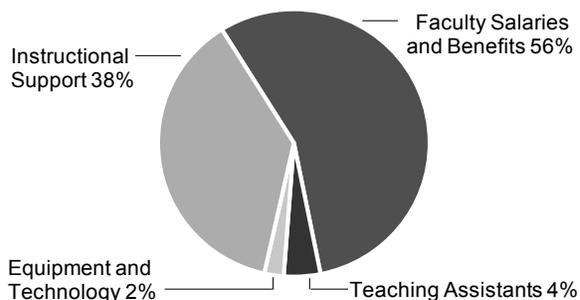
¹ The San Francisco campus exclusively offers health sciences programs, which are discussed in the *Health Sciences Instruction* chapter of this document.

Display IV-1: 2011-12 General Campus Instruction Expenditures by Fund Source



Core funds – State General Funds, UC General Funds, and mandatory and professional school student tuition and fees – provide over 85% of funding for general campus instruction.

Display IV-2: 2011-12 General Campus Instruction Expenditures by Category



More than half of expenditures in general campus instruction are for faculty salaries and benefits.

Major budget elements and their proportions of the general campus I&R base budget are faculty and teaching assistant salaries and benefits, 60%; instructional support, 38%, which includes salaries and benefits of instructional support staff (such as laboratory assistants; supervisory, clerical, and technical personnel; and some academic administrators) and costs of instructional department supplies; and instructional equipment replacement and technology, 2%.

Historically, State funding was provided each year to support proposed enrollment growth. In recent years, due to the State's fiscal crisis, State support has not funded the enrollment growth that has occurred at UC. Moreover, budget cuts that have occurred since 2008-09 have exacerbated the problem of unfunded enrollment. As a result, UC is educating nearly 25,000 California residents for whom the State is not contributing its share in 2012-13.

In order to provide access to California residents and meet the State's workforce needs, the University is anticipating growth from current unfunded enrollment levels of at least 1% annually for the next four years. A key component of this growth is the continuing expansion of UC Merced.

Both the overall need for enrollment growth funding and the need to continue expansion of Merced are discussed later in this chapter.

ENROLLMENT

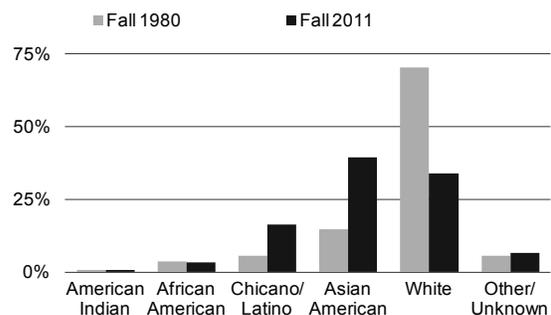
The California Master Plan for Higher Education calls for UC to offer access to all eligible applicants in the top 12.5% of the state's high school graduating class who choose to attend. University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school 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.

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 as the foundation 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 50 years. Legislative reviews of the Master Plan have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students. However, for the University to be able to fulfill its promise over the long term of providing access to all qualified students who wish to attend, either the State must increase funding for enrollment or the University must increase

Display IV-3: Characteristics of Fall 2011 Undergraduate Students

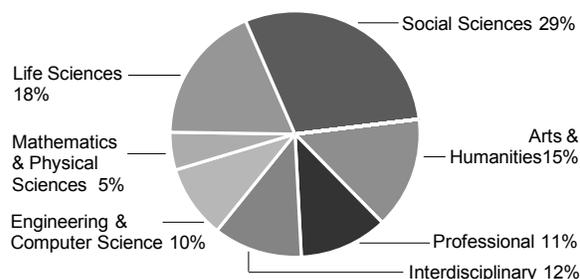
Headcount Enrollment	181,508
▪ Female	53%
▪ Underrepresented minority	24%
▪ First-generation college students	40%
▪ Full-time students	97%
▪ California residents	93%
▪ Domestic nonresidents	3%
▪ International students	4%
▪ Upper division	63%
▪ Lower division	37%

Display IV-4: Distribution of Domestic Undergraduate Students by Race/Ethnicity



Since Fall 1980, the proportion among UC undergraduates of Chicano/Latino students has more than tripled and the proportion of Asian American students has more than doubled.

Display IV-5: 2011-12 Bachelor's Degrees Conferred by Broad Discipline



In 2011-12, UC undergraduates earned 49,000 bachelor's degrees. One-third were earned in sciences, mathematics, technology, and engineering. Social sciences remains the most popular discipline among UC undergraduates.

tuition to a level that can both support growth to meet demand and maintain the high level of quality that has been the University's hallmark. As discussed in the *Cross-Cutting Issues* chapter of this document, many of the actions the University is taking during the fiscal crisis to continue its commitment to access under the Master Plan are of necessity short-term and not indefinitely sustainable.

Framers of the Master Plan also envisioned maintaining or enhancing the proportion of graduate student enrollment at UC. Though providing undergraduate access for a rapidly growing high school graduate population over the past several decades has been a compelling state priority, 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. While the University has expanded access for undergraduates, graduate and professional enrollments have not kept pace as intended in the Master Plan or with comparable institutions.

During early 2008, as part of its ongoing academic planning efforts, UC developed new long-term enrollment projections through 2020-21. UC's long-term enrollment projections are based on consideration of four primary factors:

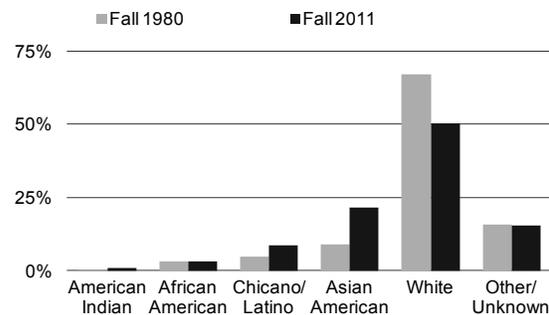
- Department of Finance projections of high school graduates;
- assumptions about the proportion of high school graduates who actually enroll in the University (consistent with the Master Plan, the University establishes eligibility criteria designed to identify the top 12.5% of the high school class, but in recent years about 7% to 8% actually enroll);
- assumptions about community college transfer rates, consistent with the University's goal 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 previous long-term enrollment plan, revised in 1999, called for annual enrollment growth of 2.5%, or about 5,000 FTE, over the last decade. This rapid rate of growth was necessary to accommodate growing numbers of qualified high school graduates as well as to meet the state's need for expanded transfer opportunities and graduate education. As originally designed,

Display IV-6: Characteristics of Fall 2011 Graduate Students

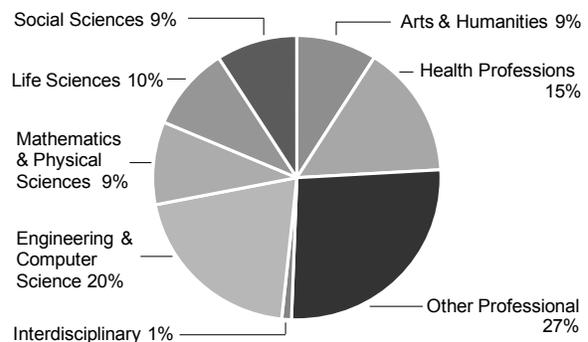
Headcount Enrollment	55,183
▪ Female	47%
▪ Underrepresented minority	12%
▪ General campus majors	73%
▪ Health science majors	27%
▪ California residents	74%
▪ Domestic nonresidents	10%
▪ International students	16%

Display IV-7: Distribution of Domestic Graduate Students by Race/Ethnicity



Since Fall 1980, the proportions of Chicano/Latino and Asian American students among UC graduates have more than doubled.

Display IV-8: 2011-12 Graduate Degrees Conferred By Broad Discipline



In 2011-12, UC awarded 14,284 master's, doctoral, and professional degrees. Over half were in sciences, mathematics, engineering, and health professions. About another quarter are in other professional disciplines.

▪ Master's degrees	8,141
▪ Doctoral degrees	4,031
▪ Professional degrees	2,112

by 2010-11, the University would have reached its planned target of 216,500 FTE students. However, in the early part of the last decade, the University experienced far more rapid enrollment growth than projected in the 1999 plan (in fact, UC exceeded the 2010-11 target by more than 20,000 students). Following a State-enforced pause in enrollment growth in the middle of the decade, the Compact with Governor Schwarzenegger called for UC to return to its earlier estimates of 2.5% enrollment growth per year through 2010-11.

The University's enrollment projections through 2020, published in March 2008, included modest growth as numbers of high school graduates stabilize, slowing to approximately 1% from 2010-11 to 2020-21, and reaching 265,000 FTE students in 2020-21. According to the projections, increasing undergraduate enrollment would expand opportunity to populations historically underserved by higher education, 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. Meanwhile, accelerated growth in graduate enrollments, particularly in sciences, engineering and mathematics, and professional disciplines would fuel California's economy and provide social and economic mobility. To help the state remain competitive in a knowledge-based global economy, UC proposed to increase graduate enrollments by roughly 22,000 students by 2020-21.

Development of a New Long-Range Enrollment Plan

While many of the goals of the March 2008 long-term enrollment plan still stand, projections were developed at a time when the outlook for continuing support from the State for enrollment growth was more positive. Given the State's inability to fund recent enrollment growth and the significant reductions in State support for UC during the last several years, actual enrollment growth and admissions patterns have diverged from the projections almost from the time they were completed. Since 2008, there have been a number of circumstances that warrant the development of a new long range enrollment plan:

- Continued deterioration of the state's fiscal situation has been accompanied by large reductions in State funding for the University.
- Demand for undergraduate education at UC has grown in

spite of budget cuts and tuition increases, due in part to greater than expected growth in the size of California high school graduating classes.

- Projections of California and U.S. workforce needs for individuals with bachelor's and more advanced degrees indicate a larger attainment gap if California continues on its current course.
- UC campuses, in the absence of State support for California residents, have been reaching out to and enrolling more undergraduate nonresidents. This growth in nonresidents was neither anticipated nor accounted for in the 2008 plan.
- Projections for growth in graduate and professional programs were optimistic and aspirational in the 2008 plan. The greater use of Professional Degree Supplemental Tuition (PDST) helped accommodate professional growth, but expansion of academic graduate programs has proceeded at a much slower rate than planned in 2008.
- Two major changes to UC's funding model were not foreseen in 2008. Funding Streams allows campuses to keep all forms of revenue and thus impacts incentives for enrollment growth. Rebenching ties State funds to weighted student enrollment and approved enrollment targets. Both of these are briefly described in the *Sources of University Funds* chapter of this document.

Prospects for State support for further enrollment growth during the next decade are a matter of concern, and many of the solutions UC has implemented to help alleviate the impact of recent budget cuts on program quality are temporary and not sustainable in the long term. The University will begin long-term enrollment planning over the next year, aiming to balance the University's continuing commitment to maintaining access under the Master Plan against the need to maintain quality in a period of declining State resources.

State Support for Enrollment Growth

In a normal year, 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," calculated using an agreed-upon methodology with the State and intended to reflect the level of resources needed to educate additional students at UC's historical level of quality. The marginal cost of instruction formula includes salary and benefits for additional faculty positions (based on the assumption of a budgeted student-faculty ratio of 18.7:1); related instructional support such as clerical and technical

DILUTION OF STATE FUNDING

Accommodating enrollment without sufficient resources (as the student fee income associated with enrollments is less than the cost of instruction) has impacted new and existing students alike by eroding UC's traditional high quality academic experience.

For students, the dilution of resources means fewer and narrower course offerings, less access to functional and modern instructional equipment as part of the educational experience, larger class sizes, reduced interaction with top faculty, longer waits for academic and student services, longer time-to-degree, fewer student jobs, and fewer library holdings and services relative to the number of students enrolled. This negative impact on the student experience comes at a time when students are being asked to pay a greater share of costs through higher tuition and fees.

For faculty, the impact is similar. As the funding gap widens, fewer competitive offers can be made to new faculty. Existing faculty find themselves spread increasingly thinly in order to manage the needs of ever larger classes, with less assistance from additional faculty and graduate students and less time for research or public service activities. Working with outdated equipment in unmaintained buildings, faculty morale suffers and opportunities at other institutions become more attractive. If the best faculty leave, UC's quality will suffer.

personnel, supplies, and equipment; support for teaching assistant positions; institutional support; and support for operation and maintenance of plant, libraries, and student services. Activities that the State has chosen not to support, such as student health services, plant administration, executive management, and logistical services, are excluded. The methodology identifies the State subsidy provided toward the cost of education as well as the portion of this cost that is paid from student tuition and fees. To the extent the methodology is based on expenditures, the marginal cost rate does not capture the full true costs of instruction. During 2010-11, the last time the State provided such support, the State provided enrollment growth funding at a marginal cost rate of \$10,012 per FTE student.

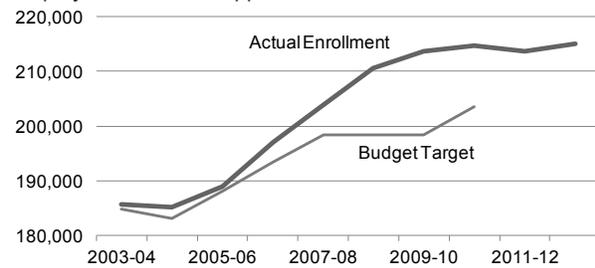
Funding for enrollment growth at the marginal cost of instruction was included in the 2005-06, 2006-07, and 2007-08 budgets. However, due to substantial demand for enrollment from growing numbers of high school graduates and community college transfers, the University was significantly over-enrolled in both 2006-07 and 2007-08.

The State's ongoing fiscal woes led to reductions in support for UC – and no new funding for enrollment growth – during 2008-09 and 2009-10. Without new State funding to support enrollment growth, but in keeping with its commitment to the California Master Plan and undergraduate applicants who had worked hard to become eligible for admission, the University made a decision in 2008-09 to ask that campuses, to the best of their ability, implement the enrollment increases that had been planned before the onset of budget cuts. This enrollment growth, including growth planned in MD students in the PRograms In Medical Education (PRIME), was funded through an internal redirection of existing resources. As a result of this action, and because recent incoming classes have been larger than those graduating, the University's enrollment has continued to grow since 2008-09.

In 2009-10, 2010-11, and 2011-12, the University took action to slow enrollment growth. The plan called for reducing the targeted number of new California resident freshmen enrolled by 3,800 students. To achieve this reduction, fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation at Riverside and Merced (referral is the process by which UC-eligible California applicants who are not selected at any of the campuses where they apply are offered admission to an alternate campus). Students had fewer campus choices for accommodation at UC and, in some cases, chose to pursue their education elsewhere. This freshman reduction was to be partially offset by a planned increase of 1,000 CCC transfer students, an action taken to preserve the transfer option in difficult economic times. The actual curtailment of freshman enrollment was somewhat less than planned, reducing by only about 1,000 students by 2012-13, while the University exceeded its goal to increase transfers by 270 by 2012-13.

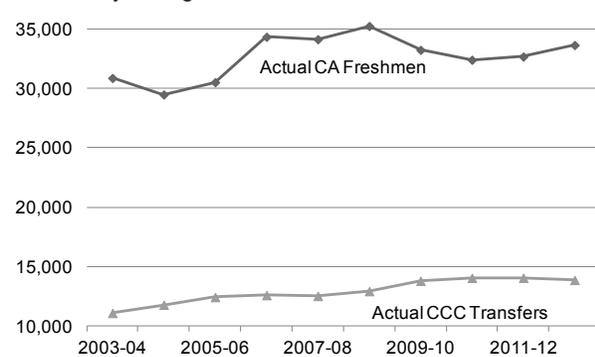
In 2010-11, the State budget provided \$51.3 million to support enrollment growth of 5,121 FTE students at UC at a marginal cost rate of \$10,012. In 2011-12, no funding for enrollment was provided, and State support for the UC budget was eventually reduced by \$750 million. For 2012-13, the University is expecting enrollment to remain relatively flat. Considering the devastating cuts in State

Display IV-9: State-supported FTE 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 in three years between 2008-09 and 2011-12, the State was unable to provide funding for enrollment growth.

Display IV-10: California Resident Freshman and California Community College Transfer Entrants



In order to slow enrollment growth, the University has taken action since 2009-10 to reduce numbers of new California resident freshmen by a total of 3,800 students, offset by an increase of 1,000 CCC transfers.

support over the last several years, during 2012-13, the University is enrolling over 25,000 California resident students for whom the State is not providing support (based on a Department of Finance methodology for calculating unfunded students).

As outlined in the *Cross-Cutting Issues* chapter of this document, increasing enrollment without sufficient resources forces campuses to implement a variety of measures to deal with the budget shortfall – halting the hiring of permanent faculty, reducing numbers of temporary instructors, 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 the quality of the University will be irrevocably damaged if these actions are sustained. While access is one of the University's highest goals, attempting to accommodate larger numbers of students without adequate resources needed to provide them a UC-caliber education can only degrade the quality of the University.

The University's budget plan for 2013-14 includes 6% increases in both Tuition and State funding, a portion of which will support unfunded California residents and nursing and PRIME enrollments, as well as moderate enrollment growth at the Merced campus to sustain the breadth and depth necessary for a world-class research institution, and to contribute towards meeting California's workforce needs for additional highly-educated graduate and professional students (as discussed later in this chapter and in the *Health Sciences Instruction* chapter of this document). As described in the *Summary of the 2013-14 Budget Request*, if the State is unable to provide funding, additional Tuition increases or new funding from other sources would be necessary to support growth and unfunded enrollments. The alternative is to limit enrollment growth in the future.

UC MERCED

The Merced campus was established as the tenth campus of the University of California to meet the state's overall needs for higher education as well as the needs of a significant and rapidly growing area of California – the San Joaquin Valley. Since officially opening its doors to freshmen, transfers, and graduate students in the fall of 2005 with just 875 students and 60 faculty members, the University has achieved critical milestones to mark the further development and expansion of the first new research university in the United States in the 21st century.

As the first new University of California campus since 1965, the Merced campus has a rare opportunity to become an extraordinary institution as it builds on a heritage of distinction and legacy of excellence. Faculty, staff, and administrators have been drawn to Merced by the challenge of building and sustaining a unique institution in a traditionally underserved area of California. The collective energy and enthusiasm of those committed to the

development of the institution has resulted in the promise that the Merced campus will emerge as a world-class center of research, knowledge, and intellectual relevance and significance.

Educational Access

A significant milestone was achieved in Fall 2012 as the Merced campus enrolled more than 5,900 students. As the UC system experienced unprecedented enrollment growth throughout the last decade, student interest in the Merced campus has continued to grow, as more than 16,000 students applied for admission for Fall 2012.

The Merced campus plays a major role in fulfilling the goals of the Regents and the State to ensure that every eligible student in California is offered a place at UC and to raise the college-going rate in the San Joaquin Valley and beyond. In fact, the Merced campus now serves as the sole referral pool campus, thus helping to maintain UC’s commitment to the California Master Plan for Higher Education. Faced with severe State budget reductions, most UC campuses have had to curtail overall enrollment growth, despite increased demand from qualified California applicants. In contrast, with enrollment growth support through a redirection of resources from the Office of the President, the Merced campus has been able to help offer admission to growing numbers of students. This has been critical to UC’s ability to continue to offer a seat to all eligible students who wish to attend. While interim support has helped to sustain development during the State’s fiscal crisis, permanent support is needed for the campus to continue to grow, build on its accomplishments, and expand its impact on the region and the state.

Close to one-third of the incoming undergraduate class in 2011-12 at the Merced campus came from the Central Valley region. Moreover, among freshmen, over 60% are first-generation college students. In Fall 2011, 46% of undergraduates were members of underrepresented minority groups. These students will serve as role models for others and help establish a college-going tradition in their families and communities.

As a research university, the Merced campus is particularly focused on increasing the number of students in California who complete advanced degrees. In Fall 2012, the campus

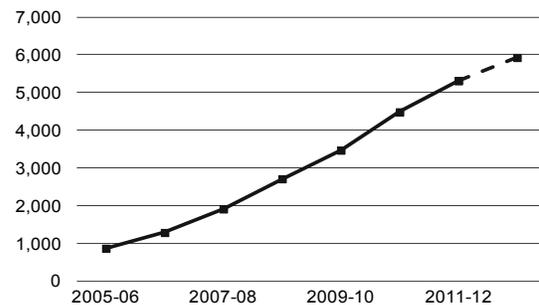
is enrolling more than 300 graduate students. Graduate students work closely with distinguished Merced faculty on groundbreaking research across a wide array of disciplines.

Academic Innovation and Excellence

The Merced campus is in many ways an educational laboratory, its faculty and students deeply engaged in innovative programs in both education and research. The Merced campus’ 150 ladder-rank faculty members, drawn from around the world, are leading the way in advancing cutting-edge curricula in majors that will support a vibrant range of academic offerings. Currently, students are able to choose from 19 majors and 22 minors.

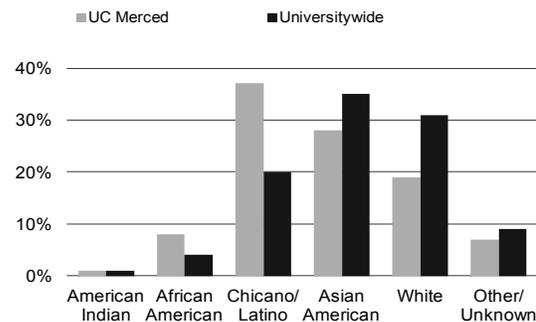
In terms of developing its research enterprise, the Merced campus continues to demonstrate remarkable achievement. For example, the campus maintained its impressive track record in attracting research dollars in 2011-12 with more than \$22 million in research awards to the campus.

Display IV-11: UC Merced FTE Student Enrollment



Enrollment at the Merced campus reached 5,329 FTE students in 2011-12. Interest in the Merced campus continues to grow.

Display IV-12: Fall 2011 California Resident Undergraduates by Race/Ethnicity



Among UC Merced undergraduates in Fall 2011, 46% are students from underrepresented groups.

Awards have been granted by a variety of federal, state, and private sources, including the National Science Foundation, the California Institute for Regenerative Medicine, the National Institutes of Health, the U.S. Department of Agriculture, and the California Institute for Energy and the Environment. The success in garnering extramural funding allows the Merced campus' innovative faculty and students to conduct trailblazing, multidisciplinary research in the campus' particular areas of strength, most notably climate change, solar and renewable energy, water quality and resources, artificial intelligence, cognitive science, and biomedical topics including complex human health issues and stem cell and cancer research. The faculty's accomplishments in these areas are vital to the Merced campus' core mission as a research university with a strong commitment to graduate education.

A distinctive mark on research at the Merced campus is being made by its signature organizations: the Sierra Nevada Research Institute, the Health Sciences Research Institute, and the UC Solar Research Institute. At the Merced campus, opportunities for undergraduates to become involved in research projects are a high priority. As with the instructional programs, the Merced campus' research institutes foster collaboration across disciplinary areas – the relationships among environmental science, human health, and environmental and health policy are examples of issues that are particularly important for the San Joaquin Valley. Partnerships with other UC campuses, Lawrence Livermore National Laboratory, Sequoia and Kings Canyon National Parks, and Yosemite National Park enhance education and research at Merced.

Economic Development

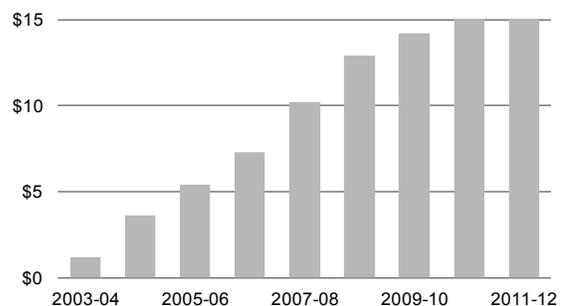
UC Merced serves the San Joaquin Valley as an economic engine. As the employer of more than 1,400 FTE staff, faculty, and student workers and a major user of local services, the campus continues to be a significant and growing contributor to the regional and state economy. The cumulative local economic impact since July 2000 is over \$752 million, and the economic impact of the Merced campus on the state totals over \$1.4 billion, including salaries, goods, and construction awards. Most importantly, the campus will continue to produce an educated workforce that will benefit the region and state.

Essential Growth Funding and Continued Support

In order to keep the Merced campus on its intended trajectory, continued enrollment growth funding is essential. Given its small size, the campus is not yet able to realize the economies of scale required to absorb growth and instructional needs without additional support. During this period of rapid growth, State supplemental funding has been required for faculty costs, as well as instructional technology, library materials, and expanded general support needed to fully operate the campus. As of 2012-13, State support for Merced is no longer separately designated in the Budget Act, indicating the State's solid commitment to Merced as one of the 10 campuses in the UC system. While the removal of the separate funding designation is welcome, it is also clear that continued ongoing support for UC Merced's essential growth is crucial. This must include capital development, as the Merced campus' growth is currently limited by the lack of classroom space, laboratories, and space for student services. Therefore, continued support in both operating and capital funding is vital to realizing the long-term vision of the benefits that a fully developed UC brings to the region and the state.

As the most diverse student body of any UC campus, the Merced campus is the embodiment of the mission of the University of California. The Merced campus' educational and economic impact will continue to grow as the university matures and as its research agenda continues to produce

Display IV-13: Federal and Private Research Expenditures at UC Merced (Dollars in Millions)



UC Merced and its faculty are attracting significant research dollars to the San Joaquin Valley. As student enrollment grows and more faculty are hired, research awards should also continue to rise rapidly.

knowledge and innovations that lift up lives and communities. Despite fiscal challenges, further investment in the Merced campus promises that the substantial difference to the Valley and to the state first envisioned for the tenth campus will be fulfilled.

FACULTY EXCELLENCE

As documented in the *UC's Role in the State of California* chapter of this document, the University of California faculty is among the best and brightest internationally, leading the world in research excellence and productivity at higher education institutions. UC faculty members provide stellar instructional programs, research and creative work, professional leadership, and public service. The faculty fulfill the University's goals on behalf of the State of California by:

- delivering excellence in teaching;
- driving intellectual engagement and discovery, community health, economic vitality, and cultural vibrancy;
- educating the workforce to keep the California economy competitive; and
- attracting billions of research dollars, creating new products, technologies, jobs, companies, advances in health care, and improvements in the quality of life.

UC faculty continue to take on new challenges, such as online education, increased enrollment, and interdisciplinary initiatives. UC faculty comprise the core of an eminent university, combining their roles as classroom teachers and mentors with research and creative activities that bring recognition throughout the nation and the world.

In Fall 2011, UC employed over 9,200 faculty with appointments in the Ladder Rank Professorial series, the core faculty series charged with the tripartite mission of teaching, research, and public service. In addition, the University employs lecturers, adjuncts, visiting faculty, and others, including retired faculty recalled to part-time service, to provide depth and breadth in fulfilling UC's mission. In 2011-12, expenditures on base salaries for appointments in all faculty series (from all revenue sources including State funds, student tuition and fees, contracts and grants, gifts and endowments, and clinical services) totaled \$1.9 billion.

Current data reveal continuing faculty achievement alongside increasing recruitment and retention challenges:

- Faculty continue to perform at top levels marked by career awards for both established and early career faculty.
- Despite considerable enrollment increases since 2007-08 that would normally call for adding additional faculty, the size and composition of the faculty remain relatively stable, with the notable exception of increases in the number of non-Senate faculty in the health sciences. Over the past two years, the University experienced a decrease in the number of general campus ladder and equivalent rank faculty, from 7,900 in 2010 to 7,800 in 2011. This growing imbalance between dramatic enrollment growth and the downward trend in the number of faculty is deeply troubling and must be addressed in the coming years.
- The distribution of faculty by age has shifted, with more faculty members in older age cohorts. In 2011, over 6.5% of ladder rank faculty were age 70 or above. In 2011, approximately 21% of faculty in General Campus departments who had not yet retired were at or above age 62, which is the age at which an individual may usually start receiving Social Security retirement benefits.
- Average UC salaries remain lower than at peer universities, while the most intense competition for faculty is with private universities, where salaries have continued to rise.
- Challenges of hiring a diverse faculty vary by discipline. Campus efforts to increase the representation of women and underrepresented minorities on the faculty have yielded limited progress.
- In the last five years, UC has hired 2,299 ladder rank faculty, or 25% of the current number, to accommodate enrollment growth and replace faculty who have retired or otherwise left the University. During 2010-11, the number of new hires dropped dramatically from 379 the preceding year to 189, the lowest number of hires in more than a decade.

Since 1994, the University's budgeted student-faculty ratio has been 18.7:1. However, the actual student-faculty ratio has deteriorated dramatically in the recent fiscal crisis –the actual student-faculty ratio currently stands at about 21:1. Improving the student-faculty ratio at the University has been among the highest priorities of the Regents. Doing so would permit the University to:

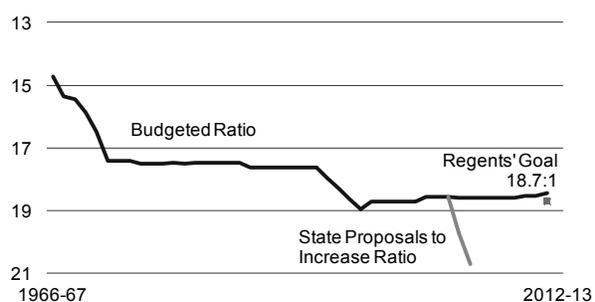
- offer smaller class sizes where possible,
- improve the quality of the educational experience and richness of course offerings, and
- help students complete requirements and graduate more quickly.

A lower student-faculty ratio also increases opportunities for contact outside the classroom, guidance in internships and

placements, and undergraduate participation in research and public service.

Though decreasing the student-faculty ratio has been an important goal of the University for many years, funding for these efforts has rarely been available, particularly during the fiscal crisis. One of the University's quality initiatives is to decrease the student-faculty ratio over the next eight years.

Display IV-14: General Campus Student-Faculty Ratio



State cuts have led to increases in the budgeted student-faculty ratio. The University's long-term goal is to improve the ratio to 18.7:1 or lower.

Maintaining the quality of the faculty is critical to both the University and the State. Due to the significant decline in State support during the last several years, campuses have recruited fewer new faculty. In 2010-11, for the first time, more faculty left UC than were hired. Instead, some positions are being held open until the funding resources to support faculty are identified. This means that campuses have fewer faculty to teach courses, and in turn are eliminating course sections, narrowing course offerings, and increasing class sizes. Faculty resources are further diluted due to departmental and campus-wide academic leadership responsibilities being shared by a smaller faculty workforce.

MAINTAINING FRESHMAN STUDENT ACCESS

In spite of increasing financial pressures in recent years, the University has maintained its commitment to the Master Plan for Higher Education to provide a place on at least one of the UC campuses for all eligible undergraduate California applicants who wish to attend. In recent years, applications for freshman admission from California high school seniors have increased significantly and the University has grown

to accommodate all eligible students. Campuses received applications for Fall 2012 admission from 93,445 California high school seniors, a one-year increase of 9.9%. This increase, in a year when the number of California public high school graduates was expected to remain stable, indicates the continuing demand among California's young people for access to the University of California. Furthermore, the increase was more than double the year-over-year increase experienced in 2011 (3.6%), which may reflect the impact of changes to UC freshman eligibility.

Admission Policies

The University strives each year to meet its commitment under the Master Plan to provide access to the top 12.5% of California public high school graduating seniors. The University also strives to identify and enroll, on each of its campuses, a student body that demonstrates high academic achievement or exceptional personal talent, and that encompasses the broad diversity of backgrounds characteristic of California. Effective for the entering Fall 2012 class, prospective freshmen are required to complete 15 year-long courses in the 'a-g' academic disciplines (11 of which must be completed by the end of 11th grade), take the ACT with Writing or the SAT Reasoning Test, and achieve a GPA in their 'a-g' courses of at least 3.0. All students who meet these requirements are entitled to a full review of their application. Applicants are no longer required to take the SAT subject examinations, although scores on these exams may be submitted as a way to showcase academic achievement and will be considered along with all other information in the application.

The impact of these changes will continue to be monitored and reviewed, but initial indications from the Fall 2012 admission cycle are consistent with the goals of the new policy: to encourage application for admission from a broader range of students and to admit classes of students with the highest qualifications.

Guaranteed admission. Beginning in Fall 2012, there are two paths to attaining guaranteed admission to UC: through the Statewide Context, based on grades and test scores placing an applicant in the top 9% of graduates statewide, and the Local Context, based on a class rank placing an applicant in the top 9% within his/her high school. Both guarantee a space at UC, though not necessarily to the

campus of choice. Consistent with past practice, for California residents who are guaranteed admission but are not accepted by any campus to which they apply, students are admitted through the referral pool at one or more campuses with space to admit more students. Currently, the Merced campus admits all students from the referral pool.

CRITERIA FOR FRESHMAN APPLICATION REVIEW AND ADMISSION GUARANTEES

Application Review Entitlement:

- Completion of at least 15 year-long ‘a-g’ courses and standardized tests (with completion of 11 of the 15 courses by the end of the junior year),
- a minimum GPA of 3.0 in ‘a-g’ courses, and
- completion of either the ACT plus Writing or the SAT Reasoning Test.

Statewide Context Guarantee:

- Satisfaction of the above criteria, and
- a combination of grades and test scores that place them within the top 9% of graduates statewide.

Local Context Guarantee:

- Satisfaction of a specified set of 11 courses by the end of the junior year,
- a minimum GPA of 3.0 in ‘a-g’ courses, and
- rank within the top 9% of the high school class based on GPA in ‘a-g’ courses.

The University’s “comprehensive review” process, in place since 2002, ensures the admission of highly-qualified students by allowing UC campuses to consider the broad variety of academic and other qualifications that all students present on the application. Applicants admitted under comprehensive review continue to be high-achieving students. All freshman applicant 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 leadership, intellectual curiosity, and initiative. 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.

As part of its service to the state, UC is responsible for certifying courses offered in California’s high schools as meeting the ‘a-g’ course requirements, which are also required for eligibility to the CSU system. For the 2011-12 academic year alone, UC reviewed over 23,000 high school courses for UC and CSU eligibility. UC’s ‘a-g’ course lists, which include over 160,000 approved courses from 2,200 high schools, are widely used nationally and internationally; UC’s ‘a-g’ website received more than one million visits in the last year.

In recent years, a great deal of attention has been devoted to creating curricula that combine college preparatory work with Career-Technical Education (CTE). Courses that combine academic content knowledge with practical or work-related applications may be eligible for ‘a-g’ approval. To date, UC has reviewed and approved 10,833 CTE courses as meeting ‘a-g’ standards, exceeding UC’s goal of reviewing 10,000 CTE courses by 2011-12.

TRANSFER FROM CALIFORNIA COMMUNITY COLLEGES TO UC

For those students who choose not to attend a four-year university directly out of high school, the ability to transfer from a California Community College (CCC) to a four-year institution for upper division coursework maintains the state’s commitment to educational opportunity for all. The Master Plan calls for UC to ensure that 60% of its enrolled undergraduates be at the junior or senior level in order to ensure adequate upper division spaces for transfer students from the CCCs. Accordingly, the University’s Commission on the Future recommended that UC, as it improves the transfer function, pursue the goal of seeking to reach the ratio of enrolling one new California resident CCC transfer student for every two new California resident freshmen.

Over the past decade, UC enrollment of new CCC transfer students has grown by one-third. In Fall 2011, UC enrolled 14,360 new California resident CCC transfer students, and the freshman-to-transfer ratio stood at 2.3:1. Reflecting the priority the University places on its transfer mission, the President recommended increasing CCC transfer enrollments in recent years. Applications from transfer students, however, dropped by 5.6% for Fall 2012, possibly

due to limited class availability at community colleges or increasing numbers of transfer to the California State University, and therefore the University maintained, but did not increase, its transfer enrollment targets for Fall 2012.

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 CCC courses are transferable to UC and how individual courses will advance students to a baccalaureate degree. The University makes efforts in all three of these areas to help promote transfer student access to UC.

Transfer Eligibility

The vast majority of transfer students are admitted to the University at the junior level. In 2012, the UC Academic Senate approved changes to minimum transfer eligibility that responds to the development of new associate degrees for transfer at the California Community Colleges. Full implementation of the new policies is scheduled for the Fall 2015 admissions cycle.

TRANSFER ELIGIBILITY

Transfer applicants who meet one of the following paths are guaranteed a comprehensive review of their application for admission.

- Complete 60 semester/90 quarter units of transferable coursework with a 2.4 GPA and complete 7 specific transferable courses with a C grade or better in each, or
- Complete an approved Associate of Arts or Associate of Science for Transfer at a California Community College, or
- Complete an approved UC Transfer Curriculum (under development).

Admission as a Transfer

All UC campuses are open to new transfer students for each fall term and the Merced campus accepts students in the spring term. 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 transfer 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. Selection criteria at campuses with more eligible applicants than spaces available include academic factors such as major preparation, as well as additional evidence of such qualities as motivation, leadership, and intellectual curiosity.

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. Efforts are focused on community colleges with high numbers of educationally disadvantaged students and historically low transfer rates to UC. In 2006-07, State funds totaling \$2 million were added to the funds already provided for community college transfer programs, providing more advisors and funding other transfer initiatives, such as the new online Transfer Admission Planner (TAP). TAP allows students to begin tracking their completed coursework at community colleges in their freshman year and provides immediate feedback on their progress towards transfer. Furthermore, the tool allows UC and CCC counselors to track and communicate with potential transfer students. Additionally, UC campuses have transfer centers and advisors available to assist prospective and new transfer students who enroll at UC.

Course 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. 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 general education, major preparation, and graduation requirements at a second institution (e.g., a UC campus). Each UC campus has articulated high demand majors with all 112 CCCs, and all campuses (except Merced) have more than 70 majors articulated on average with all of the community colleges. Course articulation at UC falls into two categories:

- Universitywide Articulation. Transfer Course Agreements, reviewed by the UC Office of the President,

designate which courses can be transferred for unit credit to meet University admissions, general education, and graduation requirements.

- Major Preparation Articulation. Each UC campus designates which courses at the community college are comparable to courses taught at the UC campus and will be accepted as transfer credit toward the requirements of a particular major.

Students can satisfy lower division general education courses by completing the Intersegmental General Education Transfer Curriculum (IGETC). In addition to completing general education requirements, students must complete specified coursework to prepare for their major.

CCC students have two primary tools to navigate the transfer path. Students can locate course articulation agreements at www.assist.org. ASSIST, the Articulation System Stimulating Interinstitutional Student Transfer, includes all official course articulation established among CCC, CSU, and UC, and more than 13 million articulation reports are generated annually for students.

University faculty have developed a second tool, UC Transfer Preparation Paths, which establishes a framework to identify specific courses at every CCC that students can use to meet the lower division requirements in any of the top 21 transfer majors. This information is available at universityofcalifornia.edu/admissions/transfer/preparation-paths/index.html.

NONRESIDENT ENROLLMENT

UC's priority is to enroll all eligible California residents for whom the State has provided funding. The California Master Plan for Higher Education establishes the framework, calling for UC to offer a space to, and the State to fund, all eligible California resident applicants at both the freshman and transfer levels. Campus enrollment targets for California residents are established on a universitywide level based on available State funding and campus growth plans. Enrollment targets for nonresident students, however, are currently established at the campus level rather than at the system level and are based on campus physical and instructional capacity and the ability of the campus to attract and enroll qualified nonresident students.

Until recently, UC enrollment of undergraduate nonresidents has been less than 8% of total undergraduate

enrollments across the system. UC's public peer institutions typically have much higher enrollments of nonresident students. For example, at the University of Michigan and the University of Virginia, more than one-third of undergraduates are nonresidents.

Just as other forms of diversity enhance the educational experiences of students, California's dependence on an increasingly global society and economy requires geographic diversity among the student body. Nonresident students are essential to the University, contributing to the academic quality and educational experience of all students and enhancing the diversity of backgrounds and perspectives on the campuses at which they enroll. Their contributions help prepare all UC students to live and work effectively in an increasingly global world. Nonresident enrollments also help grow and sustain the University's global reach, promoting new opportunities for students and faculty.

Nonresident undergraduates pay approximately \$23,000 more than California residents in Nonresident Supplemental Tuition, providing extra revenue that enables UC to improve educational programs for all students. Among other things, Nonresident Supplemental Tuition is used to help recruit and retain high quality faculty, mount additional courses that help lower class sizes and expand the breadth of offerings, expand library collections and services for students, renew instructional equipment and technology, and otherwise ameliorate the dilution of quality described earlier in this chapter.

Many nonresident students choose to stay in California after graduation from UC. The state itself reaps benefits from the contributions to California industries of talented and highly qualified nonresident UC graduates. As discussed in the *UC's Role in the State of California* and *Health Sciences Instruction* chapters of this document, California is in desperate need of college-educated workers in many industries. Nonresidents who stay in California after earning their degree at UC bolster the pool of educated workers in California and make significant contributions to the state economy.

Nonresident students do not displace California residents who are funded by the State. UC sets enrollment targets

for California students based on the funding it receives from the State, whereas each campus sets enrollment targets for nonresident students, over and above its California resident enrollment, based on its remaining physical and instructional capacity.

UC is committed to enrolling as many California students as the State is willing to fund. In recent years, the State has not provided funding commensurate with UC's enrollment growth. Because the University has honored its historic commitment to admit all eligible Californians, in 2012-13, UC is enrolling 11,500 residents for whom the State has never provided funding, resulting in a financially untenable situation. When budget cuts are taken into account, the number of unfunded students is actually 25,000.

In 2010, the UC Commission on the Future recommended that UC actively pursue comparatively small increases in nonresident enrollment at the undergraduate level up to 10% of the undergraduate student body both as a means of enhancing the University experience and in order to help maintain the fiscal health of the University, while maintaining its commitment to the enrollment of California residents.

All UC undergraduate campuses have experienced nonresident enrollment increases, with a systemwide total of over 14,600 undergraduate nonresidents estimated for 2012-13, an increase of more than 2,400 over the prior year. As noted previously, systemwide undergraduate nonresident enrollment represents only 8% of the total undergraduate population at UC in 2011-12, significantly less than the 30 – 35% range often found at other major public research universities.

Nonresident demand and enrollment have risen at most campuses, with projections for reaching the 10% cap around 2014-15. At a special retreat meeting of the Regents in September 2012, the Regents discussed a number of "out-of-the-box" ideas for reducing costs or generating new revenue, including the possibility of increasing the nonresident cap from 10%, up to 15% or 20%. The increased revenue would be an important element in the success of achieving UC's goals for reinvesting in the quality of the academic program. Nonetheless, UC's enrollment of nonresident students is –

and will continue to be – low relative to comparable institutions, and will be in addition to enrollment of funded California resident students.

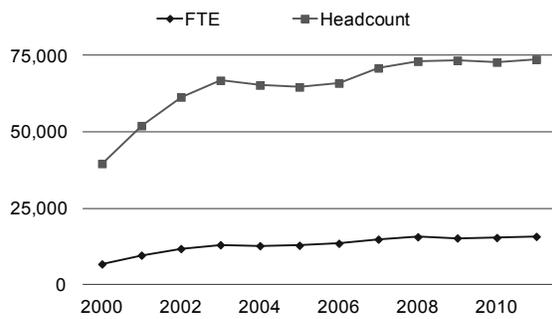
SUMMER INSTRUCTION

Facing extraordinary growth in high school graduating classes over the last decade and the need to accommodate significant enrollment increases, the University, with funding from the State, began expanding summer instruction programs in 2001. Since that time, the University has more than doubled its summer enrollments. In Summer 2011, nearly 74,000 UC students participated in summer instruction, or nearly 16,700 FTE students.

The key to achieving significant enrollment growth in the summer has been to offer 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 has allowed campuses to provide UC financial aid equivalent to the UC grant support available during the regular academic year, fund adequate student services, and hire more regular-rank faculty to teach summer courses. In addition, with State funding, campuses can afford to offer a greater breadth of courses during the summer to maximize efficiency and student progress toward the degree; campuses have more than doubled the number of primary classes offered in the summer since 2000, totaling over 5,500 in 2011. Summer expansion has resulted in more efficient use of facilities and accelerated time to degree for undergraduates, thereby making room for more students during the regular year. Students report using summer as a means to graduate on time or even early, and enjoy the smaller class sizes and faculty contact summer courses provide.

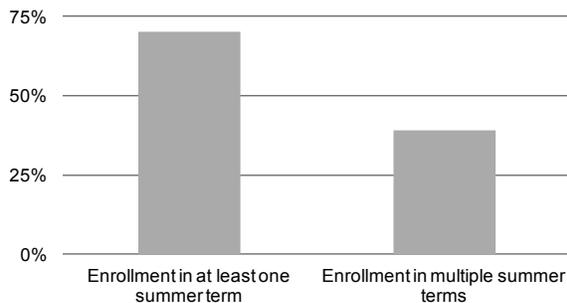
Summer enrollment at UC has likely reached its point of maximum efficiency and further growth in the summer may be difficult to achieve for several reasons. In recent years, over 70% of undergraduate students have enrolled in at least one summer session, and 40% enroll more than once even though students can also use summer for other opportunities, such as work, travel, or internships. Rather than growing in recent years, this participation rate has stabilized. Students are not replacing a regular academic

Display IV-15: Summer Headcount and FTE Enrollment



FTE enrollment in summer instruction has grown by 132% since 2000, and 43% of undergraduates enroll in summer session annually.

Display IV-16: Summer Enrollment Patterns of UC Undergraduates



Among undergraduates who entered UC in 2006 and 2007, fully 70% enrolled during at least one summer term during their undergraduate careers, and 40% enrolled in summer courses during more than one year.

year term with summer, but rather are going year-round for two or more years. Students take 9.5 units per summer on average. Also, many courses are designed in two-semester or three-quarter sequences; the cost and difficulty to re-engineer courses to allow for year-round availability may be prohibitive.

Declining State support has resulted in greater reliance on tuition and fee revenues, signaling a gradual return to a self-supporting model. If State disinvestment in UC continues, it will be less likely the conversion to State-supported instruction can be sustained.

TIMELY GRADUATION

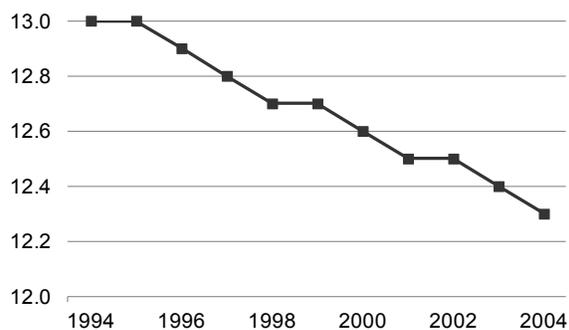
The University remains committed to ensuring that undergraduate students are able to complete their degrees on time and maintaining its excellent record of improving persistence and graduation rates among all students. Accordingly, campuses have developed advising and administrative initiatives to facilitate persistence and timely degree completion. Campuses continue to ensure course availability by sustaining increases in faculty teaching effort, creatively managing the curriculum and its delivery (for example, through targeted and broader summer offerings), and expanding the use of instructional technology.

For UC undergraduates, the average number of terms enrolled has dropped from 13.4 enrolled quarters (where a four-year degree equals 12 quarters) for the 1984 freshman class to 12.3 for the 2004 cohort. About 60% of 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. Students may take more total units or take longer to graduate if they change majors, undertake a double major, major in a field with a higher unit requirement, or take a lighter load some terms, often to accommodate working part-time. In recent years, campuses have worked to increase the average number of units taken during a term, but reduce excess units taken over a student's career, enabling more students to graduate in four years and making room for others.

Freshman and transfer persistence and graduation rates have steadily risen over time. Among recent freshman cohorts, about 93% of students persist into the second year and about 60% graduate within four years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; nearly 80% of the 2005 entering freshmen earned a baccalaureate degree within five years and 83% within six years. UC graduation rates far exceed the national average; among first-time students entering four-year institutions nationwide, only about 59% earn bachelor's degrees within six years.

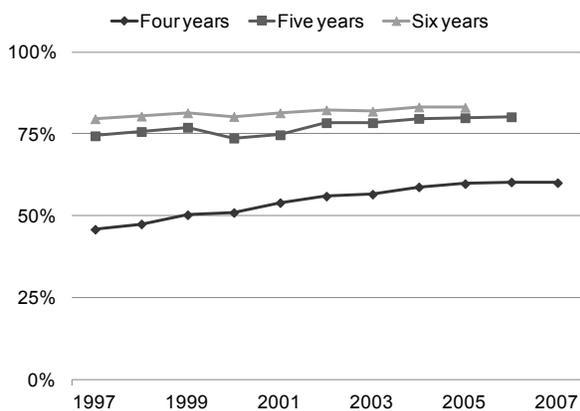
Students beginning their higher education at a community college have historically done very well after transferring to UC. Among CCC transfer students, 92% persist to a

Display IV-17: Time to Degree among Freshmen by Cohort



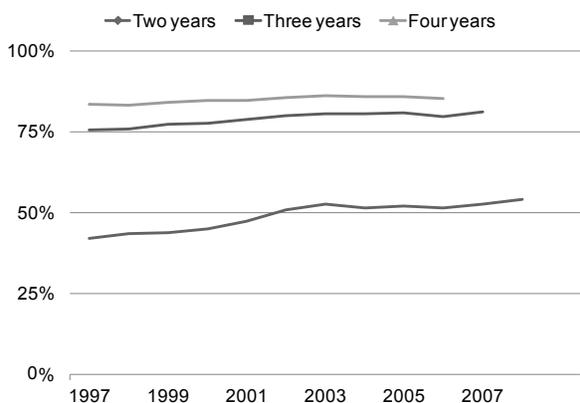
Time-to-degree, measured in quarters enrolled, has declined from 13 to 12.3 among recent freshman cohorts.

Display IV-18: Graduation Rates among Freshmen by Cohort



Approximately 60% of freshman entrants complete their degree program within four years and over 80% finish within 6 years.

Display IV-19: Graduation Rates among Upper Division CCC Transfer Students by Cohort



CCC transfers to UC also exhibit strong graduation rates, with more than half finishing in two years and 85% graduating within four years of transfer.

second year and about 85% earn a UC degree within four years, taking on average 6.9 quarters at UC to complete their degrees. Transfer students' UC grade point averages upon graduation are about the same as those of students who entered as freshmen.

GRADUATE STUDENT ENROLLMENT

Graduate education and research at the University of California have long fueled California's innovation and development, helping establish California as one of the 10 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 40 years, while well-justified attention has been paid to accommodating undergraduate enrollment growth as a result of Tidal Waves I and II, graduate enrollment growth has not kept pace with undergraduate enrollment growth.

Despite high-quality programs and many applicants, growth in graduate programs has been limited due to the lack of State support, creating an imbalance in University programs and failing to keep pace with growing workforce demands needs. As a result, the University has reached a critical point in graduate education. Unless action is taken to fully invest in 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 187,500 FTE, more than 280% over 47 years, as a way of ensuring undergraduate access for UC-eligible students. General campus graduate enrollment has grown at a much slower rate, from 20,000 to 34,900 FTE, only 79%, during the same period. In fact, during the 1980s and early 1990s, graduate enrollment did not increase at all; much of the growth occurred during the early 2000s.

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. Although UC's graduate enrollments began to grow again in 1999-00, by an average of 1,000 FTE students per year, they still have not kept pace with undergraduate growth; the

proportion of general campus graduate students has dropped to 15.7% in 2011-12. Graduate enrollments were expected to continue to grow along with undergraduate enrollments over the next several years. Because numbers of high school graduates will stabilize, UC was expecting increases in the proportion of graduate students during the next decade, as indicated in the University's March 2008 long-range enrollment projections.

The graduate student percentage of total enrollment has remained essentially flat in recent years. From Fall 2003 to Fall 2010, enrollments of graduate academic and professional students (including health sciences and self-supporting enrollments) have averaged about 22% of total UC enrollment each year, while during that same period, among other American Association of Universities (AAU) institutions, approximately 33% of public and roughly 61% of private enrollments were graduate students. UC's total graduate percentage is lower than the percentages at all of UC's eight comparators.

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 chose 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. Dramatic increases in student fees in recent years have exacerbated these problems.

Graduate enrollments in high quality UC programs are critical to the state's economic vitality, as well as its social and cultural development. In addition, UC graduate students play a vital role as future faculty in higher education in California, and serve a key function in enhancing the quality of the instructional and research enterprise while enrolled at UC.

Graduate Education and the State's Economy

UC graduate education and research have a long history of fueling economic development in California. UC graduate education and research spawned the biotechnology industry, and UC graduates have been drivers in the development of the electronics industry, particularly in communications and semiconductors.

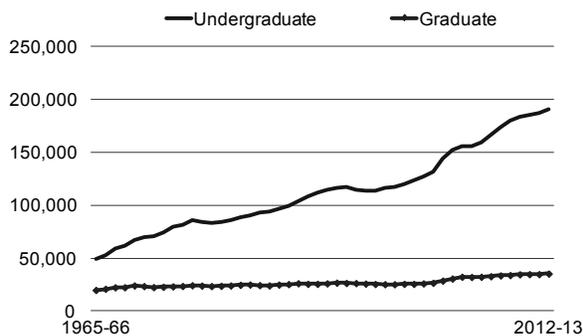
UC graduate programs directly contribute to California's R&D-intensive industry sectors by supplying highly trained alumni and attracting industry to California. Companies in knowledge-based industries tend to form clusters around major universities to take advantage of access to the pool of specialized workers and to benefit from knowledge transfers from the concentration of research, innovation, and specialization.

In the future, California's economy will depend even more on high-tech industries. Stem cell research, environmental research and innovation, global health care delivery, and energy research will have significant impacts on the health and economy of California and the world.

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. 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 looming retirement of highly educated workers in the large baby-boom generation and the declining in-migration of educated workers from other states and nations create significant challenges for California's economy. Growth in UC graduate programs would help meet the need for more science and technology professionals. 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 nation 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.

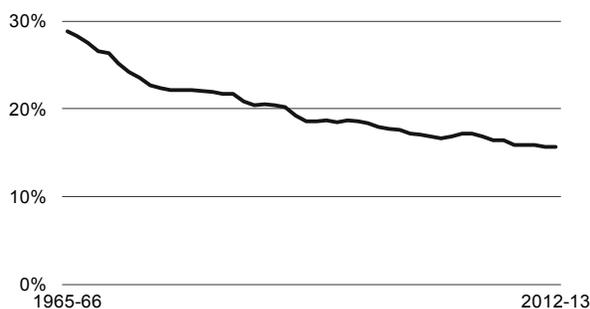
- Notwithstanding the current economic climate, professional and managerial jobs are California's fastest growth occupations, creating thousands of jobs for financial managers, marketing executives, computer scientists, engineers, consultants, and many other

Display IV-20: Undergraduate and Graduate General Campus FTE Enrollment



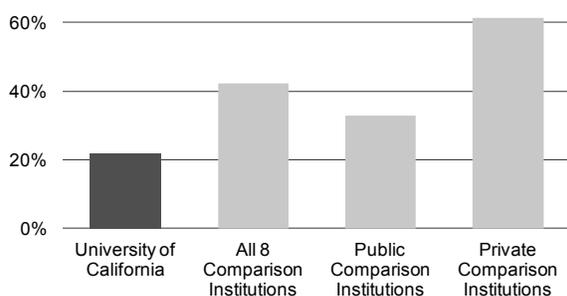
Since the 1960s, UC's undergraduate enrollment has grown rapidly, but graduate enrollment has not kept pace. While undergraduate enrollment has grown almost 290%, graduate enrollment has grown only 78%.

Display IV-21: Graduate Students as a Percentage of General Campus Enrollment



The proportion of graduate enrollment on the general campuses has fallen from nearly 30% in the 1960s to about 16% in recent years.

Display IV-22: Proportion of Graduate Enrollment at UC and Comparison Institutions



In Fall 2010, 22% of total UC enrollment was graduate academic and professional students (including health sciences and self-supporting enrollments), compared to 33% at its four public comparison universities and 61% at its four private comparison universities.

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 school administrators, architects, lawyers, public health and public policy analysts, social workers, urban planners, and other professionals who add to the state's economic and social well-being.
- 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 Students and 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 tens of thousands of new faculty over the next decade not only to replace retiring faculty, but also if California is to address the shortfall in college graduates projected by the Public Policy Institute of California.² 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. New faculty members are attracted to UC in part because of the high caliber of graduate students with whom they can work. In 2011-12, UC attracted significant percentages of prestigious fellowships: 19% of NSF fellowship recipients and 17% of Ford fellowship recipients were UC students. Graduate students also work as teaching assistants, helping to meet UC's overall instructional needs, though their primary importance lies in the ways they complement faculty roles: leading small discussion groups and

² *Closing the Gap: Meeting California's Need for College Graduates*, Public Policy Institute of California 2009 report.

laboratory sections, offering a wider range of perspectives and teaching delivery modes, and serving as mentors for undergraduates.

Graduate students are vital to UC's discovery and innovation enterprise. Especially in the sciences and engineering, the research process entails teamwork, 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 supervising and mentoring undergraduates engaged in research projects, thus enabling greater involvement of undergraduates in primary research activities.

In the 21st century, access to an undergraduate education is no longer sufficient in all cases. While recent increases in undergraduate enrollments have served to provide access for Tidal Wave II, many members of this second wave will seek to further their education beyond the baccalaureate level in the coming years. Following the extraordinary growth of high school graduates during the last decade, California's 25-34 year-old population 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 — 46% of UC undergraduates state a desire to earn a graduate or professional degree. The University has an obligation to provide all Californians with the opportunity to achieve at the highest levels. UC must be particularly vigilant about access to graduate education for historically underrepresented groups, including individuals from disadvantaged socioeconomic backgrounds. Within the next 10 to 15 years, underrepresented minorities will be the majority of California's population. For California to meet its growing workforce needs and to maximize the potential of so much unrealized talent within the state, UC must engage and help equip the emerging majority to pursue graduate study.

Graduate student support is a key factor in enrolling additional graduate students. The *Student Financial Aid* chapter of this document and *Budget Summary* discuss graduate student support in further detail.

UC ONLINE

The University has been offering online instruction for many years. Not only have thousands of courses included at least some element of instruction materials that were delivered online, the University also has substantial experience with fully online courses. Currently, the University offers thousands of such courses, mostly through its master's degree and extension programs.

Building upon UC's track record in this arena, the University launched the Online Instruction Pilot Project in 2010. The pilot project is a research-based effort to establish how students at a highly selective public research university learn most effectively in an online setting and which technological tools are most helpful to them during the learning process.

Based in part on the recommendation of the UC Commission on the Future, initial plans for the Online Instruction Pilot Project were presented to the Regents in July 2010.

During 2011, selected faculty, instructional designers, and other staff began developing courses and the pilot project finalized evaluation and assessment frameworks. The first online course launched in January 2012. Five more courses followed in April 2012, and additional courses will be released each term until approximately 35 courses will have been taught by the end of August 2013. The evaluation team will submit a preliminary report in Fall 2012 and a final pilot project evaluation report is expected in Summer 2013.

In 2012-13, the project will begin offering some courses to non-matriculated students. This new service will mark the transition of the pilot project into the UC Online program.

UC Online will be a self-supporting program that will deliver high-enrollment, lower division gateway courses online to UC and non-UC students for UC credit. This program is the University's systemwide effort to contribute to high-quality online course instruction and establish UC as a leader in online innovation. UC Online will serve three constituencies:

- UC students, for whom UC Online enhances choice, alleviates overcrowding in high-demand courses, and improves time to degree;

- UC faculty, for whom UC Online enables innovation, supports new forms of scholarly communication, and drives new revenue into academic departments; and
- Non-UC students, for whom UC Online broadens access to high-quality education designed by world-class faculty.

In contrast to many other online programs offered by prominent academic institutions, UC Online offers non-matriculated students the opportunity to take real UC courses (reviewed and approved by the UC Academic Senate), designed by UC faculty and taught by UC instructors to UC students for UC credit. Their fees provide the revenue that sustains the program.

During 2012-13, UC Online staff will engage with campus and faculty groups to identify the financial, data, and policy solutions that will facilitate cross-campus enrollments. The goal is to pilot these solutions in 2013-14, allowing UC students to easily enroll in online courses at any UC campus, further enhancing student access to courses and improving time to degree. If successful, cross-campus enrollment solutions will not only benefit students enrolling in UC Online courses, but also other academic programs such as Education Abroad, UCDC, UC Sacramento Center, and Summer Sessions.

“UC trains tomorrow’s leaders who will care for the health of Californians. National health reform efforts underway provide a historic opportunity to foster health workforce training and planning, and UC is ready to do its part to address state needs and close workforce gaps.”

Dr. John Stobo
University of California
Senior Vice President for Health Sciences and Services

Health Sciences Instruction

The University of California plays a critically important role in training health professionals, conducting scientific research on health-related issues, and delivering high quality health services.

- UC operates the largest health sciences instructional program in the nation, enrolling more than 14,000 students across 17 schools at seven campuses. These include schools of dentistry, medicine, nursing, optometry, pharmacy, public health, and veterinary medicine. Across the health professions, UC programs provide an unparalleled integration of education, research, and patient care.
- UC’s research discoveries help prevent and cure diseases, create new technologies for diagnosing and treating illnesses, and provide new strategies for staying healthy. Beyond millions in federal and philanthropic dollars invested in the state through research contracts and grants, UC’s contributions to the prevention and treatment of chronic medical conditions such as cardiovascular disease, asthma, and diabetes help improve health outcomes, and achieve savings and economic productivity.
- UC operates five academic medical centers, providing high quality health services to millions of Californians every year, as described in greater detail in the *Teaching Hospitals* chapter of this document. In addition, UC provides education, prevention, and early intervention services to thousands of Californians through community health and outreach programs.

The ultimate goal of all UC health sciences programs is to train skilled, knowledgeable, and compassionate health care professionals; to improve health care outcomes through state-of-the-art research; and to deliver high quality health services in California and beyond.

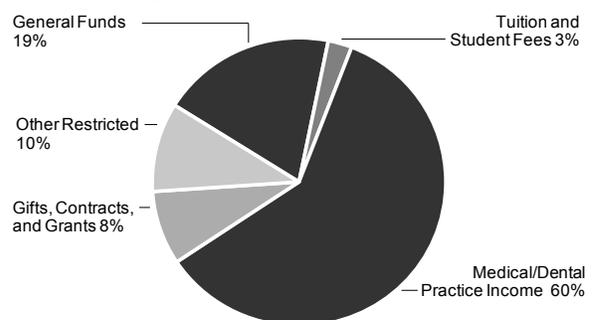
FUNDING FOR HEALTH SCIENCES

The 2012-13 budget for Health Sciences Instruction is \$1.8 billion, of which \$401 million is UC and State General Funds. The patient care services provided by UC health sciences faculty also generate significant revenue, which provides valuable support for health sciences instruction.

To operate the instructional program, the health sciences schools require faculty, administrative and staff personnel, supplies, and equipment. Faculty requirements for instruction are linked to historic student-faculty ratios initially established for each profession and category of students enrolled. These lower student-faculty ratios reflect the intensity and requirements of both basic sciences and clinical instruction, including associated medical and legal responsibilities for supervision of students engaged in direct patient care.

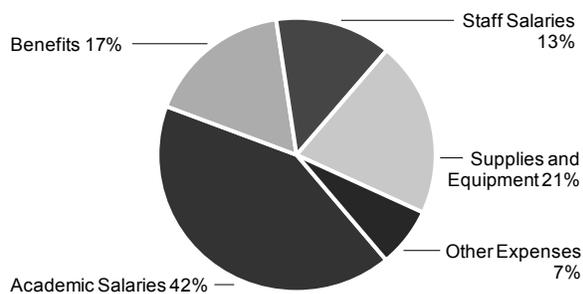
Because of the high costs associated with health sciences education, State support for these programs remains a critical resource. As a result of substantial multi-year budget cuts, however, other revenue sources have become essential. Physician and other professional service fees, and increasingly, Professional Degree Supplemental

Display V-1: 2011-12 Health Sciences Instruction Expenditures by Fund Source



Physician and other professional fee revenue as well as support from the medical centers contribute substantially to funding the cost of clinical training in the health sciences.

Display V-2: 2011-12 Health Sciences Instruction Expenditures by Category



Academic and staff salaries and benefits constitute nearly three-quarters of all health sciences expenditures.

Tuition charged to students in medicine, dentistry, veterinary medicine, nursing, optometry, public health, physical therapy, and pharmacy are necessary to support UC instructional programs. During the State's fiscal crisis of the early 2000s, State support for UC's professional schools declined significantly and professional fees increased dramatically to offset lost State revenue. More recently, Professional Degree Supplemental Tuition has increased in order to maintain quality and academic excellence. The collective impact of these rapid increases raises serious concerns about the unprecedented rise in educational debt for UC graduates.

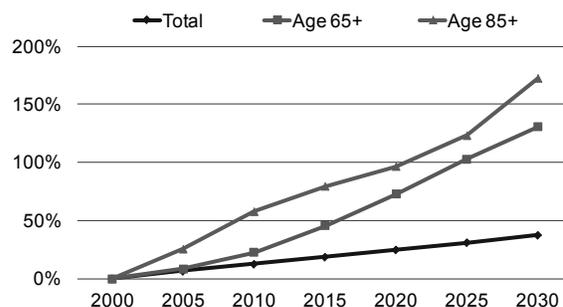
HEALTH SCIENCES INITIATIVES FOR 2013-14

For 2013-14, the University's budget plan includes permanent State support for three major health sciences instruction initiatives, including funding for PRograms in Medical Education (PRIME), Nursing, and a new School of Medicine at the Riverside campus, each of which is described in more detail later in this chapter. While enrollment growth in other health professions is also needed, the University is deferring these initiatives due to the current fiscal crisis.

STATE NEEDS FOR HEALTH SCIENCES EXPANSION

Already the most populous state in the nation, California is projected to grow by an estimated 37% through 2030, faster than the nation as a whole. California's elderly

Display V-3: Projected California Population Growth by Age Group



Between 2000 and 2030, the Census Bureau projects that California's population will grow by 37%. During that time, the population age 65 and older will grow 130% and the population age 85 and older will grow 170%.

population will grow even more rapidly, with the population age 85 or older growing by more than 150% by 2030, as shown in Display V-3. California's population is already more racially and culturally diverse than any other state in the nation, with more than one in four Californians born outside the U.S., more than twice the national average of one in 10. Notwithstanding this growth, UC has added virtually no new capacity in health sciences programs for more than three decades. In fact, only recently has the University begun to expand medical student enrollment (through PRIME) and nursing enrollments through modest growth in existing programs and development of new ones.

In June 2005, the Universitywide Health Sciences Committee completed the most comprehensive assessment of health workforce needs undertaken by UC in more than two decades. 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, former-President Dynes appointed the Advisory Council on Future Growth in the Health Professions to review the findings and develop profession-specific enrollment plans with annual targets for growth through 2020. The Council found compelling needs for enrollment growth in five fields: medicine, nursing, public health, pharmacy, and veterinary medicine, as well as a need to maintain existing enrollment levels in dentistry and optometry. The Council recommended that growth in the health professions occur in a phased, stepwise manner,

contingent upon adequate resource support, starting with increases that could be accommodated within existing campus infrastructures. In addition, because the magnitude of growth that will be needed in some professions exceeds what can be accommodated by existing programs, even with new infrastructure, the Council recommended that planning for new programs at new locations be developed over time.

In recommending substantial enrollment increases, the Council stressed that future growth should provide opportunities for:

- new educational models involving interdisciplinary training and team-based approaches to patient care;
- increased diversity of all UC health professions faculty and students;
- innovative approaches to teaching, including telemedicine, distance learning, and use of new technologies; and
- added value for students, the people of California, and the health professions.

PROGRAMS IN MEDICAL EDUCATION (PRIME)

California's physician workforce is vital to the health and well-being of the state's more than 37 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 uneven geographic distribution of clinicians, lack of insurance, low socio-economic status, limited English proficiency, and low health literacy. Health sciences graduates must be prepared and better trained to address the cultural and socioeconomic factors, health practices, and potential environmental hazards that affect health outcomes. Without comprehensive strategies and focused teaching programs, current health disparities will persist and likely intensify in the years ahead as the state faces a projected shortfall of nearly 17,000 physicians by 2015.

In 2004, UC launched a major new systemwide medical education initiative, PRograms In Medical Education (PRIME), which are innovative training programs focused

PROGRAMS IN MEDICAL EDUCATION (PRIME)

PRIME-RC (Rural California) at Davis

Incorporates the Davis campus' award-winning model program in telemedicine with a commitment to outreach and rural health care.

PRIME-LC (Latino Community) at Irvine

Emphasizes Latino health issues with training in Spanish language and Latino culture.

PRIME (Diverse Disadvantaged) at Los Angeles

Trains physicians to provide leadership and advocacy for improved health care delivery systems in disadvantaged communities.

PRIME (San Joaquin Valley)

Provides specialized training with an emphasis on community-based research and educational experiences to improve the health of populations in the central valley region of California.

PRIME-HEq (Health Equity) at San Diego

Builds upon knowledge of health disparities and minority health problems to help students work toward and contribute to achieving equity in health care delivery.

PRIME-US (Urban Underserved) at San Francisco

Offers students the opportunity to pursue their interests in caring for homeless and other underserved populations in urban communities.

on meeting the health needs of California's underserved populations in both rural and urban areas by combining specialized coursework and clinical training experiences designed to prepare future clinician experts, leaders, and advocates for the communities they will serve. The special training ranges from enhancing cultural competence to the use of technology to overcome geographic barriers to quality care. Because 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, UC PRIME programs will also help address regional health shortages.

PRIME's focus on medically underserved communities has also resulted in extraordinary increases in racial, ethnic, and socioeconomic diversity across the UC medical education system. Of the 306 medical students who participated in UC PRIME programs in 2011-12, 57% are students who come from underrepresented groups in medicine. The PRIME initiative will continue to be an

important element of the University's efforts to train more physicians who reflect the diversity of California's growing population.

State funding increases for PRIME have not been provided since 2007-08. However, in order to maintain momentum in the development of this program, the University temporarily redirected funds from other programs to PRIME to support planned enrollment growth. These unfunded enrollments will not be sustainable without permanent State support. Although redirecting funding from core medical student enrollments to support PRIME offers a potential mechanism for support, this approach would undermine much-needed efforts to address California's physician workforce needs by increasing the number of medical students that UC is able to graduate.

As of 2013-14, UC will enroll 241 MD students and 61 master's students in PRIME for whom no State support has been received. UC's budget plan for 2013-14 includes \$22.4 million for systemwide enrollment growth and support of unfunded students. Full funding of unfunded PRIME enrollments totals \$6.6 million, which will be phased in over four years beginning in 2013-14.

NURSING PROGRAM EXPANSION TO MEET STATEWIDE NEEDS

Virtually all Americans will require nursing care at some time in their lives. The recent nursing shortage raises serious concerns that must be addressed in California and nationwide, especially in light of national health care reform and the expected substantial increase in numbers of Californians who will have health insurance.

Notwithstanding recent efforts by the former Governor's Nurse Education Initiative to increase the state's capacity to train nurses, California remains among the states with the lowest number of registered nurses per capita (664 versus the U.S. average of 874 per 100,000). Causes of the nursing shortage include rapid population growth (especially of those over age 65) and an aging nursing workforce (half of California's licensed nurses are age 50 and older). Current nurse staffing ratios for California hospitals and national accreditation standards limiting the number of hours medical residents can work have created further demand. The recent downturn in the U.S. economy

has led to an easing of the nursing shortage in some parts of the country as some nurses delay retirement and others work longer hours.

Though the nursing workforce is showing signs of stabilizing, workforce analysts caution against assuming the nursing shortage has been fully addressed. In the future, when the economy recovers and the unemployment rate declines, an estimated 118,000 nurses are expected to leave the profession by 2015, which will leave many vacancies to fill.

To help meet the state's future nursing needs, the University has been expanding its focus on graduate level nursing education, including preparation of new faculty for nursing programs and the education and training of advanced practice nurses. UC also operates two undergraduate nursing programs as part of its efforts to rebuild the pool of nurses eligible to pursue future graduate work to become nursing faculty, as well as to allow college-bound high school graduates interested in nursing the opportunity to pursue such a degree at UC.

Baccalaureate Nursing. In Fall 2006, UC re-established the Los Angeles campus' bachelor's degree program in nursing and added a new undergraduate program at the Irvine campus and Davis campus (the Davis proposal is discussed in more detail below). In recent years, the health care industry has seen increased demand for nurses with bachelor's degrees. In a 2010 statewide survey of new nursing graduates at all degree levels, undertaken by a coalition of six organizations, including the Los Angeles campus, to better understand why some newly licensed registered nurses were having difficulty finding employment, 35% of respondents stated that they were informed that a baccalaureate degree in nursing was preferred or required.

Graduate Nursing. The Los Angeles and San Francisco campuses have expanded programs for professional nurses and nursing faculty. The Irvine campus added a graduate program in 2009-10 and has plans to expand the program over the next four years.

Recent Initiatives. In 2007, the Gordon and Betty Moore Foundation (GBMF) announced \$100 million in founding support, the largest commitment ever made to a nursing

school, to launch the Betty Irene Moore School of Nursing at the Davis campus. The GBMF's vision for the School of Nursing was as a public-private partnership between the Foundation and the State in which both would provide funding for the new school. The campus admitted its inaugural class of students in the master's and doctoral programs in Fall 2010. Although no direct State support has yet been provided, instructional support was provided, in part, through temporary federal Workforce Investment Act (WIA) funds for enrollment in 2010-11. A pre-licensure nursing program is also planned for the future. When full enrollment is reached in all programs, the school is projected to have a total enrollment of 456 students. The expectation of the GBMF, as memorialized in the grant agreement executed with the University of California, was that as students are enrolled in the school, funding to support those students would be provided by the State in a manner consistent with funding provided to UC nursing programs at other campuses. This commitment was affirmed by the Regents in their approval of the school in March 2009. The GBMF commitment is disbursed in multi-year grants, and ongoing disbursements are contingent upon the school and University meeting expected goals and commitments, including reaching target enrollments and securing core State funding for the school. To date, permanent State funding for Davis nursing enrollments has not been provided.

Workforce Investment Act. Because of a strong demand for UC-educated nurses, the California Labor and Workforce Development Agency presented a proposal in which, beginning in 2009-10, approximately \$12 million in new, one-time federal Workforce Investment Act funding provided over five years would be available to UC to train and graduate a limited number of new California nurses. Under this proposal, UC committed to provide matching funds and to train and graduate nearly 350 additional nurses across multiple degree programs. This one-time funding was intended for a limited number of one-time cohorts of students to complete their nursing programs.

However, notwithstanding \$3 million in appropriations in the 2011-12 enacted budget for federal WIA funds (year three of the five-year approved plan), the University was informed in October 2011 that as a result of reductions in federal

funding to the State, UC would not receive the promised funding for 2011-12, and that there was considerable uncertainty regarding the availability of any future WIA funding for the remaining two years of the formally approved plan. This unanticipated action created a \$3 million shortfall for UC nursing programs in 2011-12. In fact, all four UC nursing campuses had budgeted for 2011-12 WIA resources and were relying on this funding to support faculty salaries and related teaching costs for students already enrolled. This unexpected elimination of funds created an exceptionally difficult situation as nursing students were already admitted and enrolled in classes, and UC was committed to educating and graduating these students. In late April 2012, the State notified UC that \$800,000 in WIA funding was approved to use toward the original five-year commitment. Although the University was pleased to receive \$800,000, this one-time funding still leaves a significant shortfall for 2012-13. Campuses will strive to better align enrollment with available resources. If the State wants further enrollment growth in this area, it must provide sufficient resources to support the high-quality educational experience students expect from UC.

Funding for Nursing Programs. The University has requested enrollment growth in nursing programs each year since 2006-07. In 2006-07 and 2007-08, UC's requests were fully funded, but in the last five years, no permanent State funding has been provided.

For 2013-14, the University's budget plan includes \$22.4 million to support systemwide enrollment growth and support for unfunded enrollments. To permanently fund 150 unfunded baccalaureate level nurses, provide funding for years four and five of the agreement between UC and the State's Labor Agency (for WIA), and to provide funding for 136 graduate-level nurses would total \$6.9 million, which will be phased in over four years. Core permanent funds are needed to support enrolled students, and to sustain planned growth at newly developed nursing programs at the Irvine and Davis campuses.

PLANNING AND PROGRESS TOWARD A NEW UC RIVERSIDE MEDICAL SCHOOL

The need to address physician workforce shortages by training increased numbers of physicians is well

recognized. Specific regions within California – in particular the rapidly growing Inland Empire of Southern California – are already experiencing a health care crisis due to a shortage of physicians, nurses, and allied health professionals, a crisis that will worsen without expanded medical education. UC's health workforce study demonstrates that even if existing medical schools were to expand to maximum capacity, the state would still fall far short of achieving the number of doctors needed in the coming years. Future demand for physician services will grow even more rapidly than anticipated when the provisions of healthcare reform go into effect in 2014, as described in the *Teaching Hospitals* chapter.

A new school of medicine at Riverside, the first new medical school proposed to open in California in over 40 years, will help meet health care needs in the state and region by expanding access; by educating physicians who are likely to enter residencies and practices in the region and state; by training a culturally competent and diverse physician workforce; and by undertaking research that will help improve the health of people living in the region.

Among the goals of the new School of Medicine at the Riverside campus is transforming the way healthcare is delivered to the community by focusing on:

- improving the population's health through proactive primary and preventive care services and effective management of chronic diseases;
- enhancing the patient care experience by providing conveniently located, timely, and culturally sensitive services;
- lowering the costs of care through such interventions as reducing variations in practice and outcome and improving efficient use of specialty care services; and
- developing research and clinical expertise in population-based assessment of health and wellness, health interventions, healthcare disparities, and access.

In 2010-11, the State required that UC redirect \$10 million of General Funds from the existing base budget to support start-up costs at the Riverside campus' School of Medicine. In 2010-11, funds were used to establish the operational and capital infrastructure needed in advance of opening the school, including necessary appointments of leadership and establishing the initial clinical affiliations needed for the educational platform. In 2011-12 and for 2012-13, the University is also using support from the County of

Riverside, the Office of the President, the Riverside campus and other extramural funds to continue building the operational infrastructure, recruiting additional teaching faculty for expanded medical student enrollments, securing additional resources to build a diversified funding base, and launching its clinical enterprise. It should be emphasized, however, that an initiative of this magnitude and complexity cannot be launched through redirection of University resources. For 2013-14, the University is requesting that the State provide funding to support start-up activities as well as provide a secure base of recurring resources to open, operate, grow, and maintain the medical school on an ongoing basis, totaling \$15 million. In October 2012, the Liaison Committee on Medical Education (LCME), the national accrediting authority for medical education programs leading to the MD degree in the U.S. and Canada, notified the Riverside campus that the School of Medicine was granted preliminary accreditation. Specific start-up activities that will occur during 2013-14 include enrolling the inaugural class of 50 students in August 2013, building more graduate medical education (residency) programs in addition to the recently approved internal medicine program, recruiting and appointing basic science and clinical faculty and administrative staff necessary to open and teach in the school, expanding the faculty practice plan, and securing additional non-state funding.

Permanent core support from the State is essential for the Riverside School of Medicine to move forward and develop all facets of the UC mission: education through the expansion of the medical student enrollment and residency programs; research to create new basic science, clinical, and translational knowledge; provision of clinical services to a medically underserved region; and service by expanding student pipeline programs.

This funding is requested on a permanent basis because future enrollments can be adequately funded through the normal marginal cost (plus supplemental funding for MDs) only if the State makes an initial investment in its core operations before the school increases enrollment. The opening of a medical school is a major and complex endeavor that requires start-up investment, and as such, UC is requesting permanent core support for the new School of Medicine at Riverside.

Self-Supporting Instructional Programs

This chapter describes three instructional program categories that have historically received no State support: University Extension, Summer Session, and self-supporting graduate degree programs. Additional information about UC Online can be found in the *General Campus Instruction* chapter of this document.

UNIVERSITY EXTENSION

University Extension is the largest continuing education program in the nation, annually providing courses to 300,000 registrants who are typically employed adult learners with a bachelor’s degree. UC Extension is a self-supporting operation and its offerings are dependent upon user demand, which varies due to many factors, including the strength of the economy. In 2011-12, University Extension expenditures, derived from student fee revenue, were \$222.3 million.

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 almost 19,000 courses, programs, seminars, conferences, and field studies throughout California and in a number of foreign countries. The majority of Extension programs are designed to serve the continuing education needs of professionals. Programs are presented through open-enrollment courses for individuals as well as through organizational partnerships supported by contracts and grants with public agencies, non-profit organizations, and corporations. 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, across 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.

While Extension does not offer degrees, it provides transferrable degree credit study and cultural enrichment and public service programs. Various undergraduate and graduate degree credit courses are available, either as replicas 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 SESSION

In addition to the University’s course offerings during the regular academic year, both UC and non-UC students may enroll in courses during the summer session on any of the 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 campus.

With State support, UC began converting summer instruction for UC students from a self-supported to a State-supported program in 2001-02 and completed the conversion of all general campuses in 2006-07. Funding for summer sessions was shifted to the general campus instruction budget; however, declining State support has resulted in greater reliance on tuition and fee revenues, signaling a gradual return to a self-supporting model. If State disinvestment in UC continues, it will be less likely the conversion to State-supported instruction can be sustained.

Self-Supporting Instructional Programs

Further discussion of State-supported summer instruction may be found in the *General Campus Instruction* chapter.

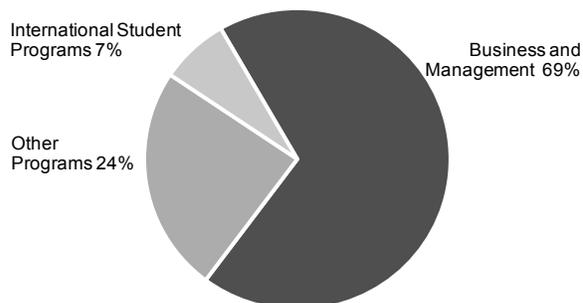
Funding for non-UC students remains in the Summer Sessions budget. In 2011, out of about 88,000 total students, 10,459 non-UC students registered for UC summer sessions, many of whom are regularly enrolled at California State University, California Community Colleges, or other institutions. Non-UC students may pay higher fees to help support the cost of their education, and are not eligible for financial aid. During 2011, approximately \$15.7 million of summer sessions expenditures were funded from non-UC student tuition and fees.

SELF-SUPPORTING DEGREE PROGRAMS

The University operates more than 50 self-supporting graduate degree programs. These programs, developed in accordance with the Presidential *Policy on Self-Supporting Graduate Degree Programs*, are intended to provide alternative pathways to graduate and professional degrees for academically qualified adults to further their education and upgrade their skills. Extending opportunities to working professionals is another way that the University helps the state meet state workforce needs.

Self-supporting programs adhere to the same academic standards as do other graduate degree programs at UC, but do not receive 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. Since fees for these programs are set at market rates and programs are self-supporting, any excess funds generated by these programs are available to support UC's core academic mission. Some of these programs are administered through University Extension, while others are administered directly by professional schools or academic departments.

Display VI-1: 2011-12 Self-Supporting Program Headcount Enrollment by Discipline



Nearly 70% of self-supporting program enrollment is in MBA and other management programs for working professionals.

The University's oldest and largest self-supporting programs are evening/weekend and executive MBA programs. More recently, programs have been established in a range of disciplines, and include online programs, off-site programs, joint programs with other institutions, and programs for foreign-trained students. In 2011-12, UC revised its policy for self-supporting graduate programs, with the intent of facilitating the establishment of additional programs in the future. The State's continuing fiscal crisis is putting pressure on campuses to consider expanding self-supporting programs.

During 2011-12, more than 4,400 individuals and over 3,600 FTE students enrolled in self-supporting programs. These programs generated over \$131.9 million in fee revenue during 2011-12.

In the current fiscal climate, campuses are encouraged to develop self-supporting programs with the understanding that such programs should be entirely self-supporting, covering both their direct and indirect costs.

“California’s knowledge-based economy, among the top ten in the world, owes no small part to UC’s scientists, doctors, engineers, and students.”

*Steven Beckwith
University of California
Vice President for Research and Graduate Studies*

Research

The University of California is one of the leading academic research enterprises in the world, performing about one-twelfth of all the academic research and development conducted in the United States. UC’s graduate students, postdoctoral scholars, faculty, and professional research staff are among the best in the world at finding new cures for disease, developing technologies that produce new industries, creating new knowledge through basic research, and training the next generation of innovative thinkers. UC researchers have discovered better ways to fight drought and fire, prepare for earthquakes, reduce traffic and greenhouse gas emissions, improve public health, and identify sustainable sources of energy. With over 800 research centers, institutes, laboratories, and programs, UC research tackles some of the most pressing problems facing California and the world and creates the knowledge that will improve lives over many decades. The tremendous size, scope, and quality of UC’s research enterprise are the fruits of California’s long-term planning and investment, dating back to 1960 and the Master Plan for Higher Education, which established UC as California’s primary academic research institution.

This investment has resulted in new technologies, new companies, and new industries over the last half century – many within California. UC trains the skilled scientists, doctors, and engineers who shape California’s knowledge economy and support its large technology, agricultural, and medical sectors. The State’s investment in UC has created one of the most competitive research enterprises in the nation, in 2011-12 securing over \$7 in extramural funding for every State research dollar invested.

UC’s research capabilities, built over many years, reflect a long-term investment that has done well even during times of economic difficulty. These capabilities are now threatened because of the sustained State disinvestment in higher education over the past two decades combined with

increasing competition for the best faculty and graduate students from other universities throughout the world. UC’s faculty have been extraordinarily successful at attracting federal and private funds to the state. These funds will disappear if the faculty are lured away by institutions with more reliable financial structures, or if the faculty’s teaching and mentoring responsibilities become so demanding that they cannot devote adequate time to their research activities. Reinvestment in UC’s faculty and research infrastructure is critical to sustain the research enterprise at UC and its beneficial impact on the state’s economy.

THE IMPORTANCE OF STATE INVESTMENT IN THE RESEARCH ENTERPRISE

UC’s world-class research enterprise requires the best faculty and graduate students, state-of-the-art equipment and supplies, and well-maintained facilities in which to conduct research. State funds are the basis for UC’s research success and are essential to its sustainability and continued excellence. Not only do State funds support a large portion of the salaries paid to faculty during the academic year, they also provide start-up money to purchase equipment, staff laboratories, support graduate student research assistants needed to bring new ideas to fruition, and maintain facilities to conduct cutting-edge research.

As principal investigators on research grants, UC faculty attracted \$4.4 billion total in research awards in 2011-12, averaging \$600,000 per principal investigator. The University’s success in attracting extramural funds to California has been a critical element in the state’s economic prosperity, a success jeopardized by the declining State investment in UC.

Underpinning the UC research enterprise are exceptional graduate students, postdoctoral scholars, professional researchers, and specialists supported by State funds.

Each year, UC trains more than 13,000 graduate student researchers and employs or hosts nearly 6,650 postdoctoral scholars, exclusive of health science interns and residents. Funding for graduate enrollment growth helps expand the pool of individuals who engage in and support research programs.

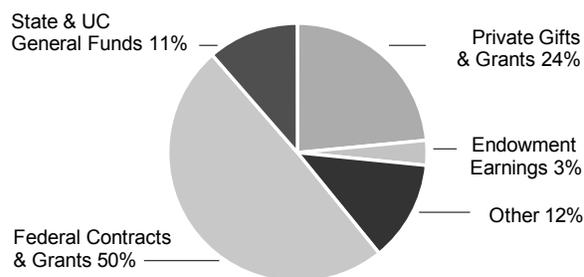
UC enables the success of its researchers by providing very high quality research facilities, many of which were financed using California state bonds. State funding provided the core support to build the four California Institutes for Science and Innovation, which are world-class centers of research excellence in telecommunications, quantitative biosciences, nanotechnology, and advanced electronics, some of the most promising new areas of growth for high-tech industries. The Institutes hold the promise of keeping California industry at the forefront as new technologies emerge. The California Institute of Regenerative Medicine (CIRM) created a state bond-funded award mechanism to make California a world leader in stem cell research, one of the most promising new ways to cure disease. To date, CIRM has awarded UC \$513 million in research and facility grants. These are only two examples of how investment in UC research is expected to help the California economy recover and improve the lives of its citizens.

Unfortunately, State support for the University and its research programs is declining at a time when global competition is increasing, raising concerns about California's ability to maintain its competitive edge. The cost of conducting cutting-edge research in science and engineering is growing, and much of the research connected to economic competitiveness requires large interdisciplinary teams. Research depends increasingly on modern infrastructure. In addition, the costs of compliance with extramural contract and grant requirements have risen rapidly as the federal government has added new regulations, yet core support for the University's research staff and infrastructure has not kept pace with the amount of extramurally funded research.

RESEARCH ENTERPRISE FUNDING

Direct research *expenditures* (contrasted with *awards* as discussed in the previous section) totaled \$4.5 billion in

Display VII-1: 2011-12 Direct Research Expenditures by Fund Source



Nearly 75% of research funding is derived from federal agencies and private sources.

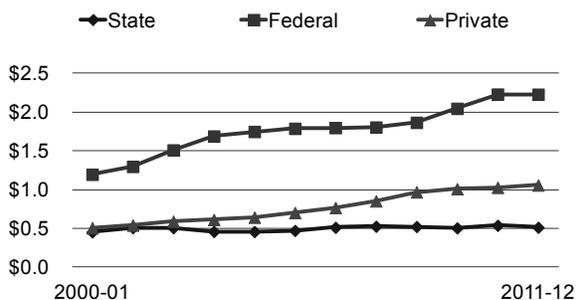
2011-12, an increase of 2% over the prior year.¹ Federal, State, and private sources are major providers of UC research funding. Federal funds are the University's single largest source of support for research, accounting for 50% of all University research expenditures in 2011-12. Display VII-1 shows actual research expenditures by fund source for 2011-12, and Display VII-2 presents growth over time among the major providers. Display VII-3 presents trend data about research expenditures in the various disciplines.

Federal Funds

UC is a leader among universities receiving research awards. The University was awarded \$2.8 billion in federal research funding alone in 2011-12. Awards from the National Institutes of Health (NIH) and National Science Foundation (NSF) accounted for nearly 80% of the University's federal research funding. Other agencies that figure prominently in awards to UC are the Department of Defense (DOD), National Aeronautics and Space Administration (NASA), and Department of Energy (DOE). During 2011-12, UC researchers competed successfully to win nearly 6% and 8% of the NIH and NSF budgets, respectively, accounting for over \$2.2 billion in federal research dollars for California. Display VII-4 shows the distribution of federal research awards by agency. Federal funds are nearly all targeted at research in STEM (Science, Technology, Engineering and Mathematics) and medical fields (about 93% of the total each year during the past

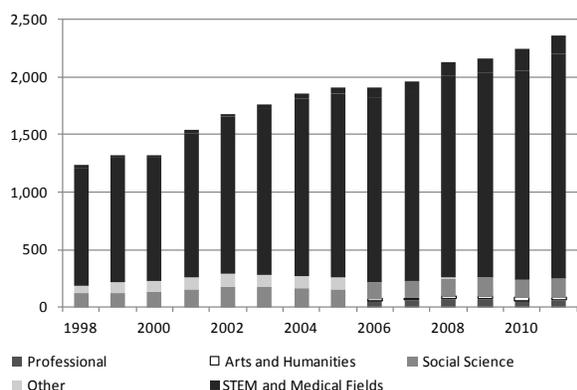
¹ This rate of growth differs from the rate of growth in extramural awards noted earlier, reflecting the multi-year nature of research grant awards.

Display VII-2: Trends in Research Expenditures by Source (Dollars in Billions)



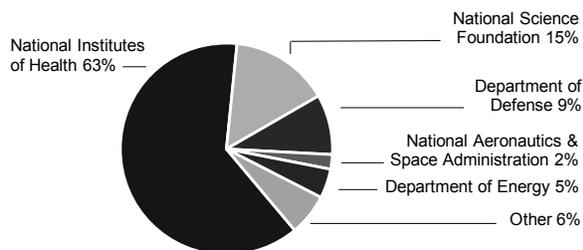
UC federal and private research expenditures have doubled since 2000-01, while State expenditures have remained at almost the same funding level.

Display VII-3: Direct Research Expenditures by Discipline (Dollars in Millions)



Expenditures for research in the medical fields have increased by 90% since 1998, compared to 46% for all other disciplines.

Display VII-4: 2011-12 Federal Research Awards by Sponsor



Federal awards supply over two-thirds of all of UC's extramural funding. NIH and NSF awards provide nearly 80% of federal research awards.

decade). This proportion masks research activity that also occurs in the social sciences, arts and humanities, and professional disciplines, which make important contributions to scholarship, yet have relatively little access

Display VII-5: History of Federal Funding for UC Research

- 1982-83 to 1991-92: Annual increases in federal support for UC averaged nearly 10%.
- 1992-93 to 1996-97: Focus on reducing the federal deficit resulted in much slower growth; federal support for UC rose 4% annually on average, with no increase in 1996-97.
- 1997-98 to 2001-02: Exceptionally strong growth in the national economy led to funding increases for federal research and development, including a bipartisan commitment to double the NIH budget over 5 years. UC support grew 7% to 9% each year.
- 2002-03 to 2003-04: After the terrorist attacks of September 11, 2001, federal budgets contained record increases for federal R&D due in part to new spending on homeland security and defense. UC support grew by more than 10% each year.
- 2004-05 to 2008-09: The federal budget was constrained due to military commitments to Iraq and Afghanistan, and growth of entitlement programs such as Medicare. Growth in research funding for UC again slowed, with annual increases of less than 4%.
- 2009-10: Due to an influx of funding from the American Recovery and Reinvestment Act (ARRA), federal contracts and grants funding to UC increased by 9%.
- 2010-11: With the end of ARRA funding, the fiscal year award total declined 3%. However, non-ARRA funding from both federal and private sources showed a modest increase, mitigating somewhat the ARRA fall-off.
- 2011-12: The federal funding base remained essentially unchanged from 2010-11. The most striking increase was a 29% increase in funding provided by corporate sponsors for a total of \$486 million in 2011-12. This reflected the slowly improving economic climate and suggested reinvestment in academic research and development.

to external research funding. Due to the dominance of federal funds as a source of research funding, the outcome of the annual federal budget process has the largest impact on the University's research budget. Fluctuations in UC's funding from federal agencies closely parallel trends in the budgets of federal research-granting agencies.

Although federal government funding for all university research decreased in 2008, an influx of American Recovery and Reinvestment Act (ARRA) funding temporarily reversed the downward trend. As of October 2012, UC researchers have been awarded over \$1 billion in ARRA contract and grant funding for research and research infrastructure. Consistent with overall federal research funding, the largest amounts of ARRA funding awarded came from NIH and NSF. Because many awards are multi-year, these funds will impact UC beyond the 18-month term of ARRA.

Private Funds

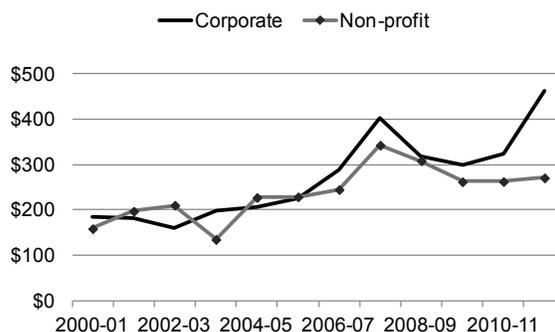
Over the last decade, growth in research investment in UC by private organizations has kept pace with federal funds as an important source of research funding. From 2000-01 to 2011-12, private support for research through gifts, grants, and contracts doubled, and private foundations, industry, and partnerships with faculty at other institutions contributed 24% of total research expenditures in 2011-12. The global economic recession caused a decline in new private gifts and grant awards, as shown in Display VII-6. Corporate support increased during 2011-12, suggesting that the business community is reinvesting in UC research above pre-recession levels. Non-profit sponsorship has not shown any significant growth since 2010. Major awards from the Bill and Melinda Gates Foundation (\$17 million) and the Gordon and Betty Moore Foundation (\$12 million), plus a few other large donations, have resulted in several quarterly spikes in funding.

State Funds

In 2011-12, State funds spent directly for research constituted about 11% of total research funding, including State General Funds, State Special Funds to support coordinated statewide programs, and State agency agreements. For many UC research programs, State funds provide the base support to attract extramural funds by providing seed money for research projects vital to California, whether the subject is earthquake engineering or improved crop varieties.

In 2012-13, State and UC General Funds provide \$331.9 million for direct research, including:

Display VII-6: Private Research Awards by Type of Sponsor (Dollars in Millions)



Corporate and non-profit awards account for nearly 60% of all private research funding to UC. Corporate sponsorship is finally rising above pre-recession levels; in 2011-12, corporate sponsorship increased, while non-profit funding has not experienced significant growth since 2010.

- the California Institutes of Science and Innovation;
- Proof of Concept funds to stimulate greater development of products and new companies from UC research;
- organized research units on individual campuses;
- multi-campus research programs and initiatives (MRPIs);
- systemwide programs to support research on AIDS, geriatrics, and collaborative research with industry; and
- agricultural research through the Agriculture Experiment Stations.

State Special Funds appropriated from restricted State fund sources provided more than \$24 million in funding for a range of research initiatives, including a coordinated statewide program of tobacco-related disease research administered by the University (\$11.1 million for 2012-13), but available to researchers from other institutions on a competitive basis. Part of the State's tobacco tax supports the Breast Cancer Research Program (\$9.9 million). The State personal income tax check-off also supports the California Breast Cancer Research Fund (\$484,000) and the California Cancer Research Program (\$425,000). The California Ovarian Cancer Research Fund has been eliminated due to unmet minimal statutory funding requirements.

California State agencies also provide contracts and grants to the University for research similar to federal awards. In 2011-12, State agency agreements generated \$202 million for UC research. Major providers of State agency agreements are the departments of health care

services, social services, transportation, food and agriculture, and education.

Other Funds

Other funds supporting research include performance fee revenue from the management of the Department of Energy laboratories, which is used to fund collaborative projects between UC and DOE laboratory researchers. The Lab Fees Research Program supports research on issues important to the state and the nation, including bioterrorism, nuclear nonproliferation, energy efficiency, and new energy resources. Collaborative research between UC and the DOE laboratories has many benefits for University faculty and students, giving them access to premier researchers in fields of strategic importance to the nation, as well as unique research facilities that are generally not found at other universities. UC has managed the DOE laboratories since their creation during and immediately after World War II, and it maintains close intellectual ties to the DOE laboratories through this program. The DOE laboratories are discussed in more detail in the *Department of Energy Laboratory Management* chapter of this document.

INDIRECT COST RECOVERY

Budgets for externally funded research projects include direct and indirect cost components. The direct cost is the actual amount of salaries, benefits, equipment, and materials needed to conduct the project. Indirect cost recovery (ICR) covers the facilities and administrative expenses attributable to research. At present, UC's federal ICR rates lag 5-18 percentage points behind comparison institutions. Additionally, research projects funded by the State of California, foundations, gifts, and corporations often have policies that preclude payment of indirect costs. These policies and practices place an even greater burden on the University's limited resources, which already suffer from decreased State funding.

As part of the *Working Smarter* initiative, discussed in more detail in the *Cross-Cutting Issues* chapter of this document, the University is working to recover more of its indirect costs from research sponsors by increasing its negotiated federal rates and improving waiver management. Increased rates for Berkeley, San Francisco, Santa Barbara

and Santa Cruz campuses have the potential to return an additional \$70 million in indirect costs above current rates. However, this impact will be spread out over the next four years as the new rates are phased in, with the greater share expected in later years.

IMPACTS OF UNIVERSITY RESEARCH

UC research contributed to California's emergence as the intellectual and economic power that it is today. Almost all of the industries in which California leads the world – biotechnology, telecommunications, digital media, computers and semi-conductors, and environmental technologies – grew out of university-based research. UC's world-class faculty attract and train the graduates that make up one of the world's best-educated workforces to meet the demands of the changing economy. In addition, UC researchers make discoveries and invent new technologies that benefit the people and industries of California and, in many cases, become the basis for new companies that provide jobs for Californians.

Technology Transfer

One aspect of the University of California's public service mission is to ensure that results of its research are made available for public use and benefit. This transfer of technology is accomplished in many ways: through educating students, publishing results of research, and ensuring that inventions are developed into useful products in the commercial marketplace for public use. As of June 30, 2011, UC faculty and researchers disclosed 1,581 new inventions (Display VII-7), the largest number among universities in the United States. In addition, UC's faculty and graduates are responsible for 10,341 active inventions, an increase of 4.6% over 2009-10 levels. A portion of these inventions are patented and licensed to companies that further develop them into products that enhance the lives of Californians. For the past 19 years, UC has led the nation in developing patents.

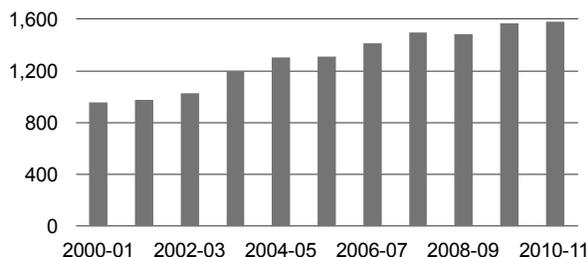
Spin-off Companies and Job Creation

As the foundation for start-up firms, many technologies developed in the UC system also serve as an effective stimulus for economic growth. In 2010-11, 58 start-up companies based on UC technology were founded nationwide. Even though the 58 start-ups represent a

23% decrease over the previous year, these companies are performing well above UC's 10-year average. Since 1976, a total of 594 start-up companies have been founded based on UC inventions, as shown in Display VII-8. Over 80% of the new start-up companies are located in California and contribute to the state's economy. These businesses provide jobs for Californians as well as tax revenue streams for the state.

To further enhance the rate of business creation from UC research, UC recently created a \$3 million program to fund "Proof of Concept" proposals, which will provide UC researchers the seed capital to make prototype products that can then be used to seek investors for new products.

Display VII-7: UC Invention Disclosures



As of June 30, 2011, faculty and researchers at UC campuses disclosed a total of 1,581 inventions, an 1% increase over the prior year.

Display VII-8: Impact of UC Technology Transfer*

Royalty and Fee Income	\$182 million
UC Portfolio of Active Inventions	10,341
UC Portfolio of Active U.S. Patents	3,900
Number of Active Licenses	2,104
Companies founded based on UC technologies	594

*as of June 30, 2011.

Development and Support of Critical Industries

UC research has played a crucial role in the development of some of the state's most successful industries. The modern biotechnology industry was born from the discovery of recombinant DNA technology by scientists at the San Francisco campus and Stanford University. Since then, UC faculty and alumni have founded one in every four biotechnology companies in California, and the state is home to approximately one-third of the U.S. biotechnology industry. In 2010, the biotechnology industry employed

267,271 people in California and generated \$115.4 billion in revenue.²

For many decades, UC has worked closely with California's agricultural industry. In the late 1800s, UC researchers discovered how to remove salts from the soils of California's Central Valley, turning what was once barren alkaline land into the most productive agricultural region in the world. Since then, UC has remained committed to supporting the agriculture industry by bringing to bear new technologies in crop management and pest control and helping it adapt to changing regulations while remaining competitive. Additional information about UC's Agricultural Experiment Stations appears later in this chapter.

Impacts on the Daily Lives of Californians

UC's discoveries and development of new technologies touch the lives of Californians and people around the world every day.

UC medical research 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 syndrome and its associated malignancies, and to isolate the causative agent for AIDS in humans. Genetic engineering technologies being developed at UC will help find cures for serious health problems, such as cancer, Alzheimer's disease, 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 to wean smokers off cigarettes; corrective surgery before birth for formerly fatal abnormalities; an inner-ear implant that enables the deaf to recognize tones and thus understand language; and a simple, inexpensive blood test to determine the risk of having a baby with Down syndrome.

University researchers are exploring methods for predicting the time and location of earthquakes and ways to design new buildings and modify existing buildings to better withstand earthquake effects. Research on global climate and earth systems is benefiting California fisheries and

² 2012 California Biomedical Industry Report (<http://www.chi.org/industry/data.aspx>)

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 for better synthetic products, such as prosthetic devices more acceptable to the body and longer-lasting, easy-care contact lenses.

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 such as trade and economic development, immigration, language acquisition and development, educational access, international relations, public policy issues around homeland security, population growth, and 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: many UC programs are at the top of the National Research Council rankings for excellence in 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 Center, 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.

Value to the Instructional Program

Undergraduate and graduate students alike pursue an education at UC because of the high quality of the University's faculty, quality that includes excellence in teaching, cutting-edge research, and leadership in academia. For students, formal instruction is enhanced by extraordinary informal learning opportunities that occur across the system through the research enterprise. The 2010 UC Undergraduate Experience Survey found that 86% of senior undergraduates had participated in research or other creative activities with faculty as part of their coursework. The opportunity to learn from professors who are leaders in their fields in the informal settings of the research laboratory or fieldwork site is one of the unique and unsurpassed benefits of being a UC student for both undergraduates and graduates.

KEY RESEARCH PROGRAMS

California Institutes for Science and Innovation

In the early 2000s, the State of California, UC, and hundreds of the state's leading-edge businesses joined together in an unprecedented partnership to create the California Institutes for Science and Innovation, using \$400 million in State-supported capital funding matched two-to-one from federal and private sources. The four Institutes, each jointly operated by multiple UC campuses, engage UC's world-class research faculty directly with California, national, and international companies in attacking large-scale issues critical to the state's economy and its citizens' quality of life. Information technology, telecommunications, nanotechnology, quantitative biosciences, health care, environmental management, homeland security, and energy systems are among the areas of focus for new research within the Institutes.

The Institutes have vastly increased technology development and exchange with California's industry and government. For example:

- California Institute for Telecommunications and Information Technology (Calit2) has worked with the San Diego Police, CalFire, and the San Diego Metropolitan Medical Strike Team to customize information and telecommunication technologies to their needs. They subsequently devised wireless video systems to put on the helmets of HazMat responders, allowing remote commanders to see and talk with front-line responders in dangerous environments.
- California Institute for Quantitative Biosciences (QB3) has created low-cost "garage bench" space for aspiring entrepreneurs from UC who want to start biotechnology companies in San Francisco. This approach has been so successful in stimulating new start-up firms that the original space quickly filled up, and QB3 is seeking ways to create a new building on the Mission Bay site dedicated to fostering more young companies from UC research.
- California Institute for Technology Research in the Interest of Society (CITRIS) created new programs in demand response and programmable communicating thermostats, and developed an intelligent infrastructure to explore the degradation of underground power distribution cables at the request of the California Energy Commission – demonstrating CITRIS's active partnership with state entities to address its most pressing energy problems.

- California Nanosystems Institute (CNSI) researchers at the Los Angeles and Santa Barbara campuses explore the power and potential of manipulating structures atom by atom to engineer new materials, devices, and systems that will revolutionize virtually every aspect of our quality of life, including medical delivery and health care, information technologies, and innovations for the environment. The CNSI technology incubator encourages University collaboration with industry and enables the rapid commercialization of discoveries in nanoscience and nanotechnology.

While capital funding allowed the development of these state-of-the-art facilities, funding to ensure operations has been inadequate. Operations require funding for advanced technology infrastructure, specially trained technical personnel to operate the advanced instrumentation, and seed money for building new research teams across disciplines and campuses, as well as attracting large-scale extramural contracts and grants from industry and governmental sources.

In 2011-12, the State provided \$4.8 million for support of the Institutes; this funding was supplemented by \$18.2 million from other UC sources, including both permanent and one-time sources. In 2012-13, total support for the Institutes is \$13.2 million: \$4.8 million in State support, and \$8.4 million in other UC funds. Due to significant budget shortfalls, funding for the Institutes from one-time sources was eliminated.

For several years during the previous decade, UC requested additional State support for the Institutes without success. Lack of permanent operating funds threatens the viability of these newly vibrant institutes and the potential loss of a large capital investment, as well as their ability to create new jobs through their spin-off companies and technologies.

Multi-campus Research Programs and Initiatives

UC's unique strength among national university systems is distributed excellence across all its campuses: six of the UC campuses are members of the prestigious American Association of Universities. This strength gives UC the ability to create multi-campus collaborations drawing the best talent from throughout the system for the most difficult and emerging areas of research. UC's Multi-campus Research Programs and Initiatives (MRPIs) grants support innovative multi-campus collaborative efforts to advance

scholarship, student training, and knowledge, particularly in areas of importance to the University and the state.

The MRPIs use relatively modest UC support, typically in the range of \$100,000 to \$500,000 annually, to stimulate multi-campus engagement, as well as to dynamically link research at the 10 campuses and three national labs into a network of shared information, resources, and dissemination, which in turn helps secure outside support in emerging areas. Selected through rigorous independent peer review, the MRPIs provide seed funding to support innovative research, fund graduate student traineeships, and work directly with State agencies to disseminate the expertise of the UC faculty and their research. For example:

- The Athena Breast Cancer network initiative ties together UC's five medical centers for breast cancer research, creating a patient base larger than any other in the United States. Subsequent to UC's initial year MRPI award of \$900,000 (projected to be about \$5 million over five years), the program leveraged this award to attract another \$10 million from Safeway Corporation to enhance the program. Overall, the network expects to attract three times as much outside support as UC support for this initiative.
- A new UC transportation research initiative teams UC researchers from more than 30 disciplines on six UC campuses to reduce congestion, oil use, air pollution, and greenhouse gas emissions.
- The newly-launched Center for Hydrologic Modeling links researchers at eight UC campuses and the three national labs to forecast how water availability will shrink because of climate change and diminishing snowpack.
- The California Advanced Solar Technologies Institutes is a new initiative focused on the next generation of solar energy. Researchers at the Berkeley, Merced, and Santa Barbara campuses use nanotechnology and non-imaging optics to develop new solar cell materials and methods to cool and heat buildings or generate electricity.
- Collaborative Research for an Equitable California brings UC researchers together with community organizers and policy-makers to tackle the state's crises in education, employment, interconnected health, nutrition, housing, and the environment, researching how disparities and inequities in these areas are linked.
- Studies of Food and the Body, a five-campus collaboration led by a UC Davis professor of American Studies, used a \$70,000 MRPI grant to help secure \$800,000 of outside support from the Mellon Foundation

for humanities research at UC for their novel approach to collaborative research in the humanities.

- Dark Matter Search Initiative, UC's multi-campus research at the Lick and Keck observatories, has helped create one of the strongest programs in astrophysics in the world. UC astronomers are responsible for the discovery of dark energy (and shared the 2011 Nobel Prize in Physics for this discovery), the discovery of planets orbiting other stars, and the discovery of a black hole in the center of the Milky Way. UC researchers have won every prestigious prize in astronomy for research conducted within UC facilities.

Institute of Transportation Studies

With worsening traffic congestion threatening economic growth and quality of life, as well as daunting energy and climate change challenges, California and the nation need new forms of transportation and new ways of thinking about transportation. The Institute of Transportation Studies (ITS), an MRPI, is recognized as the premier center of transportation research in the world. It has been funded with a small portion of the fuel taxes that have supported the Public Transportation Account (PTA) since 1947. The initial PTA funding of \$920,000 has only risen to \$980,000 over the past 60 years, supplemented by \$250,000 of State General Funds cost increase funding over time. Due to inflation, its purchasing power has shrunk to about one-eighth of its initial value.

Despite this, ITS has been extraordinarily successful in attracting nearly \$35 million annually in extramural funding, leveraging the core funding from the state's PTA account at a ratio of nearly 35:1. However, minimal core funding has a significant disadvantage: it forces ITS to be almost entirely reactive to funding opportunities defined by outside agencies and companies, rather than focusing on specific immediate and long-term needs of the state.

Agriculture

The Division of Agriculture and Natural Resources (ANR) is a statewide network of UC researchers and educators dedicated to the creation, development, and application of knowledge in agriculture, natural, and human resources. ANR's mission is to maintain and enhance connections that fully engage UC with the people of California and achieve innovation in fundamental and applied research and education that supports sustainable, safe, nutritious food

production and delivery systems; economic success in a global economy; a sustainable, healthy, productive environment; science literacy; and positive youth development. ANR is unique in its three-way partnership with federal, state, and county governments to provide local and statewide research and extension programs that address the critical agricultural issues of California. ANR's research and public service programs are delivered through two organizational units: Agricultural Experiment Station (AES) and Cooperative Extension (CE). While both units conduct research, CE is the outreach arm for ANR, extending ANR research to communities across the state, as described in the *Public Service* chapter of this document.

AES is located within three colleges on the Berkeley, Davis, and Riverside campuses, as well as at the School of Veterinary Medicine at Davis. There are nearly 600 AES faculty housed in 38 academic departments. The AES faculty hold split appointments, with an average of half of their salaries paid for from AES funds for their research responsibilities and the remainder funded from the general campus for their teaching responsibilities. AES faculty represent a variety of disciplines and, consistent with the University's land-grant status, are charged with conducting fundamental and applied research related to contemporary and relevant problems facing agriculture, natural resources, nutrition, and youth development. ANR statewide programs focus on specific issues that engage AES academics and faculty from all UC campuses, allowing teams to work on complex issues that require multidisciplinary approaches. In addition, research and extension centers (RECs), located in a variety of ecosystems across the state, provide a core research and extension base.

ANR continues to implement budget cuts enacted due to California's enduring state budget crisis. ANR's budget reduction decisions aimed to reduce administrative overhead while focusing ANR programs and people on the future through its 2025 Strategic Vision. The resulting restructured organization is responsive to the needs articulated in the Strategic Vision and represents a strong administrative and programmatic platform for the future. ANR continues to seek alternatives to support its programs.

Examples of research conducted by AES scientists that help address challenges and inform policy include:

Plant Breeding. ANR researchers working with international colleagues successfully introduced an existing rice gene into modern rice varieties that makes them flood resistant and allows them to thrive when floodwaters recede. Over the past few years, national rice improvement programs in Asia, including India, Bangladesh, Indonesia, and the Philippines, have begun dissemination efforts.

Food Safety. ANR's interstate research and extension projects in food safety have had national impacts. ANR's collaboration with the University of Florida and the University of Georgia evaluates practices to improve handling and treatment of nuts to reduce contamination risks from *Salmonella*. When Colorado cantaloupes were found to be contaminated with *Listeria*, ANR academics were called upon to contribute to the national discussion regarding the 2011 outbreak.

Water Resources. ANR scientists developed techniques to improve irrigation efficiency and other water conservation practices needed to supply water to Southern California and northern Baja California. It is estimated that growers in this region realized \$6 million in water and energy savings as a result. The best management practices also informed policy; they were included in the Colorado River Regional Water Quality Control Board Silt/Sedimentation Total Daily Maximum Load (TMDL) standards.

Energy. California has new sustainable energy opportunities with the recent interest in the development of small-scale enterprises, the use of non-timber size trees (small trees) and other woody biomass resources, and the national support for bioenergy. ANR academics have provided local decision makers with the knowledge and expertise needed to realistically evaluate these opportunities. Over the past four years, ANR academics have provided direct technical assistance to small businesses, helping them to acquire 18 federal grants worth more than \$4.5 million.

Labor Research and Education

Growing international economic integration, policy changes, transformations in business organization, new technology, and other changes have brought many positive

developments, but have also resulted in emerging issues and concerns for communities, researchers, and policy makers. The UC labor program engages in research and education that advances knowledge and understanding of these new challenges and opportunities from a variety of perspectives and disciplines, including historical, comparative, and institutional approaches.

State funding for a new Institute for Labor and Employment (ILE) was first provided in 2000-01, when the Legislature proposed and the Governor sustained an additional \$6 million in the University's budget to establish a multi-campus research program focused on issues related to labor and employment. However, since that time, funding for the program has been unsteady. During the early 2000s, the State's fiscal crisis necessitated cuts to the University's State-funded research budget, including the funding provided for ILE, and funding was eliminated entirely in 2005-06. State funding was restored for 2006-07 and 2007-08, but not for the ILE. Instead, \$6 million was provided for labor research and, of that amount, budget language authorized 40% (\$2.4 million) for labor education and training programs. The ILE, as it had been established, was disbanded.

The State has not provided funding in the budget for labor research since 2007-08. The University has continued support for labor research by providing \$4 million in 2008-09 and \$2 million in 2009-10, and 2010-11. Since 2011-12, the funding provided to these programs was reduced to \$1 million for each center. Temporary funding used to fund the labor centers was entirely redirected from existing programs. Funding the Labor Centers by implementing cuts to other programs was not sustainable, however.

The wide array of research being done at UC impacts local communities, the state, and the country in countless ways. As discussed above, 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 State's disinvestment in UC harms the University's ability to use its research enterprise to fuel the state economy and impact society.

“From K-12 education to the agricultural industry, UC partners with a wide variety of stakeholders to serve the needs of the state.”

Aimée Dorr
University of California
Provost

Public Service

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, UC'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 at UC. This chapter describes six major State-supported public service efforts:

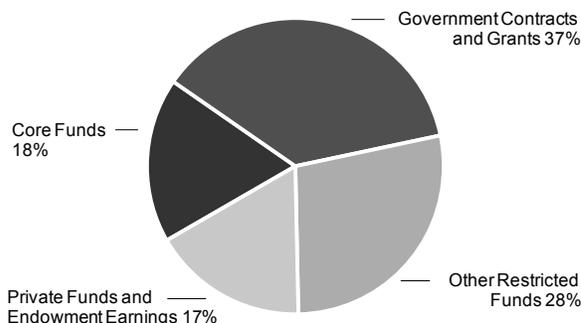
- Student Academic Preparation and Educational Partnerships,
- the California Subject Matter Project,
- COSMOS,
- Cooperative Extension,
- the Umbilical Cord Blood Collection Program, and
- the Charles R. Drew University of Medicine and Science.

Campuses also conduct other public service programs that are supported by State funds, as well as by student tuition and fees, user fees, and other non-State fund sources; these programs include arts and lecture programs and student- or faculty-initiated community service projects.

STUDENT ACADEMIC PREPARATION AND EDUCATIONAL PARTNERSHIPS

Student Academic Preparation and Educational Partnerships (SAPEP) programs seek to raise student achievement levels and to close achievement gaps among groups of students throughout the K-20 pipeline, tasks critical to keeping California's economy competitive. August 2011 data show that 52% of public high school students enrolled at UC come from just 20% of the state's high schools; schools with lower Academic Performance Index (API) scores tend to have lower college-going rates.

Display VIII-1: 2011-12 Public Service Expenditures by Fund Source



While State funds play an important role in UC's public service programs, significant funding for Cooperative Extension and other major programs is generated from government contracts and grants and private sources.

With a focus on serving students who attend California's more challenged schools, in 2009-10 UC's 16 academic preparation programs reached students at more than 850 K-12 public schools and 111 community colleges, raising college eligibility rates, increasing transfer from community college to four-year institutions, and preparing undergraduates for graduate or professional education.¹ The Regents have identified closing achievement gaps, improving access to college, and increasing diversity at UC as among the University's highest priorities.

Through SAPEP programs, UC is reaching those students and schools in most need of assistance. The majority of high schools in California served by UC SAPEP programs are among the most challenged in the state, with 69% in the five lowest API deciles. UC further works with schools that are located in communities where median family incomes are low. According to census data, 73% of SAPEP schools are in communities with median

¹ Data are from the most recent SAPEP legislative report, (www.ucop.edu/edpartners/research.html), and are from the 2009-10 year unless otherwise noted.

incomes of less than \$50,000, compared to about 50% of high schools statewide. In addition, 89% of students in SAPEP's three largest high school programs are from groups underrepresented at the University.

The impact of the University's SAPEP programs on educationally disadvantaged and underrepresented minority students is significant. While enrollment at UC is not the specific goal of UC's academic preparation programs, the ability of students to compete successfully for UC admission is a strong indicator of increased access to postsecondary opportunities. At the same time, these programs increase the diversity of the University. In Fall 2009, 15.6% of African-Americans and 18.4% of Chicano and Latino students in the incoming freshman class at UC campuses had been participants in UC's student academic preparation programs. Furthermore, CPEC eligibility data show that in 2007, 6.3% 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 6.9% eligible in 2007 compared with only 3.8% in 1996.² Significant budget cuts since 2000-01, however, 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.

Budget constraints notwithstanding, UC has created innovative ways to help generate systemic changes in California's educational system through long-term partnerships with K-12 schools, businesses, and community-based organizations. For example, the University's K-20 (Kindergarten - University) Intersegmental Alliances align SAPEP programs with their local and regional K-12, community college, educational, community, and business partners. Activities and strategies vary by region depending on the needs and priorities of partner schools but include direct student and family services, including academic enrichment and student academic and career advising; dissemination of research and best practices on teaching and learning; professional development and coaching in specific content for teachers; and collaboration with schools, districts, and community agencies on grant writing and resource development.

² California Postsecondary Education Commission (CPEC) report. University Eligibility Study for Class of 2007.

STUDENT ACADEMIC PREPARATION PROGRAMS WERE DEVELOPED NEARLY 40 YEARS AGO

As early as 1872, then-University 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."

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 1970s, the University began providing under-represented students academic assistance and information to help them meet University admission standards. The Legislature passed the Meade Bill in 1975 (AB 2412), 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 seventh grade and continuing through their college careers. Academic preparation programs expanded gradually during the 1980s and early 1990s.

In July 1995 the Regents adopted Resolution SP-1, which eliminated consideration of race, ethnicity, and gender in UC admissions. At the same time, the Board called on the President to appoint the Outreach Task Force (OTF) to identify ways in which outreach programs could help to ensure that the University remain accessible to students from educationally disadvantaged backgrounds. Coupled with the passage by California voters of Proposition 209 in Fall 1996, 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 University used these partnerships to implement the Transcript Evaluation Service (TES), which tracks coursework progress and UC/CSU eligibility for both individual students and entire schools. In addition, TES provides aggregate data for school administrators to diagnose course completion obstacles and improve UC/CSU course requirement completion on a schoolwide basis. TES has been recognized by the Campaign for College Opportunity as a "Practice with Promise" for transforming the educational opportunities in California's schools.

Program Descriptions and Outcomes

In addition to partnerships with K-12 and community organizations, UC's portfolio of SAPEP programs raises college eligibility rates, increases transfer from community colleges to baccalaureate-degree granting institutions, and prepares undergraduates for graduate programs.³

College Access and Preparation. With a focus on academic advising and building college knowledge, the **Early Academic Outreach Program (EAOP)**, UC's largest academic preparation program, helps disadvantaged students complete a rigorous college preparatory curriculum in high school, complete UC and CSU coursework and exam requirements, and apply for college and financial aid. EAOP provides academic enrichment, such as intensive workshops and summer courses; advising; test preparation; information for parents, e.g., how to apply for financial aid and college options in California; and support for schools, such as assistance in establishing school structures that have a direct link to students' completion of college preparatory course requirements.

With a focus on science, technology, engineering and mathematics (STEM) and workforce preparation, the **Mathematics, Engineering, Science Achievement (MESA)** program helps middle and high school students excel in math and science so they can graduate from college with degrees in science, engineering, computer science, or other math-based fields. MESA offers classes during the school day that allow advisors to work with students on academics and MESA activities. MESA's academic development curriculum includes math and science coursework based on California Math and Science Standards. MESA also offers individualized academic planning, tutoring, math workshops, study groups, and career exploration services. Parent involvement workshops and events help parents learn how to become effective advocates for their children's academic success.

With a focus on literacy development, **The Puente Project** prepares high school students – many of whom are English language learners – for college through rigorous academic

³ Detailed descriptions of each SAPEP program can be found in the most recent SAPEP legislative report, available at www.ucop.edu/edpartners/research.html.

SAPEP FUNDING SINCE 1997-98

In 1997-98, after the adoption of SP-1 and Proposition 209, the Legislature considered the University's academic preparation programs to be an effective means by which to increase access to college for educationally disadvantaged students and promote diversity at UC. The University's budget for student academic preparation programs grew from \$18.1 million in State and University funds in 1997-98 to a peak of \$85 million in 2000-01.

Due to the State's fiscal crisis in the early 2000s, the SAPEP budget was reduced by \$55.7 million over several years, including a 56% reduction in 2003-04, bringing the total budget to \$29.3 million in 2005-06.

In 2006-07, a \$2 million augmentation to expand community college transfer programs brought the SAPEP budget to \$31.3 million.

The Governor's proposed budget for 2009-10 originally slated SAPEP programs for elimination, but the Legislature converted the cut to an undesignated reduction. As permitted by the 2009-10 Budget Act, campuses were instructed to limit cuts to any program within the portfolio to no more than 10%, which was only half the percentage cut to the University's State funds.

For 2010-11, the Budget Act called for the University to maintain funding for SAPEP programs at 2009-10 levels.

In 2011-12, the University experienced a 21.3% reduction in State funding. Budget Act language authorized reductions of no more than that percentage in SAPEP programs; however, the SAPEP portfolio experienced an overall budget reduction of only 16%.

Consistent with budget act language, the programs in the SAPEP portfolio are not eligible for budget reductions in 2012-13 unless the Governor's revenue-enhancing initiative fails in November. In that event, SAPEP programs may not be reduced more than the percentage reduction to the overall State General Fund reduction.

From 2004-05 to 2007-08 – and again for 2009-10 and 2011-12, as noted above – State funding for SAPEP programs was the subject of debate and negotiations during each budget cycle, contributing to uncertainty as to whether or not programs would be able to continue from year to year. The University believes stability in the State funding of these programs is critical to their success. To that end, the University collects and analyzes accountability data demonstrating the scope and effectiveness of individual programs.⁴

SAPEP programs use State resources efficiently. The cost per student of most programs is substantially less than the cost per student of comparable federally funded programs. In 2008-09, programs supplemented the State and University investment of \$31.3 million by raising an additional \$54 million in support of K-14 efforts to be expended during the next three to five years.

⁴ The SAPEP Accountability Framework is also available at www.ucop.edu/edpartners/research.html.

instruction in writing and literature, intensive college-preparatory counseling, and mentoring from successful members of the community. Students in the program study with the same Puente-trained English teacher for ninth and tenth grades in a college-preparatory English class, work closely with a Puente-trained counselor to prepare an academic plan and stay focused on their goals, participate regularly in community involvement activities, and attend field trips to college campuses.

Other programs promoting college access and preparation include **ArtsBridge**, **Student-Initiated Programs**, **UC College Preparation (UCCP)**, **University-Community Engagement (UCE)**, and **UC Links**.

UC's college access and preparation programs have been recognized nationally as models of best practice. Among specific program achievements are the following:

- Increased college eligibility: Participants are twice as likely to complete the 'a-g' courses for UC/CSU eligibility. In 2009-10, a higher proportion of students took the SAT or ACT than did non-participants in the same schools; for example, on average 66% of EAOP-MESA-Puente students at API 1 and 2 schools took the SAT or ACT compared to 34% of non-participants; and
- Increased college attendance: Approximately 68% of participants attend college the first year after high school.

Community College Transfer. SAPEP programs also promote transfer from community college to baccalaureate-granting institutions.

Community College Articulation Agreements are agreements between individual community colleges and individual UC campuses that define how specific community college courses can be used to satisfy subject matter requirements at UC.

ASSIST, California's official statewide repository for course articulation and transfer information, provides counselors and students with detailed course transfer and articulation information to help streamline the transfer process.

The **MESA Community College Program (CCP)** provides rigorous academic development for community college students who are pursuing transfer to four-year universities in majors that are calculus-based. All MESA CCP students

are required to attend Academic Excellence Workshops, student-led supplemental instruction/study groups that emphasize the most challenging aspects of classes within the student's major. Additional services include individualized academic planning, college orientation for math-based majors, career exploration and professional development, and summer internships in business, industry, and academia.

Students enrolled in **The Puente Community College Program** take a rigorous two-course English sequence, receive transfer requirement counseling, and meet regularly with a Puente-trained mentor from the professional community. Teachers and counselors receive training in innovative counseling and teaching methodologies for educationally disadvantaged students.

Community College Transfer Programs increase opportunities for community college students to transfer to four-year institutions by providing comprehensive academic guidance and support for prospective transfers. Services include assistance with course selection, informational workshops on academic requirements for transfer admissions, and professional development and training for community college counselors and faculty. Students enrolled in these transfer programs are more likely to transfer to a baccalaureate-granting institution than other students.

Other program achievements include:

- In 2010-11, over 2.3 million different individuals used ASSIST to view over 14.1 million articulation agreements;
- UC continues to improve its transfer preparation paths to facilitate the smooth transfer of California Community College (CCC) students into UC's top 20 transfer majors;
- Almost all of MESA's Community College Program participants transfer to a baccalaureate-degree granting college or university, and in 2010-11 100% of those students chose majors in math or science fields; and
- More than 81% of Puente students are retained in community college for a year following participation in the program. The one-year persistence rate for all CCC students statewide is about 69%.

Graduate and Professional School Preparation. SAPEP programs also prepare and encourage high-caliber undergraduates from educationally disadvantaged communities to pursue graduate and professional level

training. **Leadership Excellence through Advanced Degrees Program (UC LEADS)** places juniors and seniors who have experienced conditions that have adversely impacted their advancement in their field of study in two-year intensive research experiences with faculty mentors. **Summer Research Internship Programs (SRIP)** also provide intensive research experience. **UC Law Fellows** and **Post-baccalaureate Medical School Programs** provide preparation for graduate study through academic skills building, test preparation, and mentoring.

Achievements of these programs include:

- More than three-quarters (80%) of graduate and professional school academic preparation program participants enroll in graduate or professional school; and
- Independent research confirms that UC's post-baccalaureate premedical programs improve applicants' chances of admission to medical school.

CALIFORNIA SUBJECT MATTER PROJECT

The California Subject Matter Project (CSMP) is a statewide network of subject-specific professional development programs for teachers. CSMP engages K-12 educators with faculty in various disciplines from UC, CSU, and private higher education institutions to develop and deliver intensive institutes for education professionals. The CSMP includes projects in nine subject areas: arts, history - social science, international studies, mathematics, physical education - health, reading and literature, science, world languages, and writing.

During 2010-11, CSMP served over 25,000 teachers and school administrators at 3,460 schools, more than a third of which were low-performing schools.

CSMP has worked with an external evaluator (SRI International) to understand the impact of CSMP on teachers, their professional community, and their students. In recent evaluations, SRI has concluded that teachers consistently rate CSMP professional development more highly than other professional development programs, and that CSMP has been successful in meeting its goals to serve teachers from low-performing schools and teachers of English learners. Nearly all teachers report that CSMP influenced their instructional practices and content knowledge more than other professional development. In addition, teachers report that their participation contributed

to students' achievement (92%), conceptual understanding (82%), engagement in activities (80%), and ability to explain their reasoning (64%).

State funding has remained at \$5 million since 2003-04 and an additional \$4.35 million is provided from the federal No Child Left Behind (NCLB) Act, Title II, Part A program. The federal funds figure reflects an 18% decrease that the California Department of Education implemented in 2011-12. CSMP leverages State and federal funding with foundation grants and district contracts to support the professional development programs. The CSMP was originally authorized in 1998 and was reauthorized in 2002, 2007, and again in 2011. The 2011 bill (SB 612) extends authorization to June 30, 2017 and incorporates all nine projects into the legislation.

COSMOS

The California State Summer School for Mathematics and Science (COSMOS) provides an intensive academic experience for students who wish to learn advanced mathematics and science and prepare for careers in these areas. COSMOS is a month-long residential academic program for top high school students in mathematics and science. COSMOS course clusters address topics not traditionally taught in high schools such as astronomy, aerospace engineering, biomedical sciences, computer science, wetlands ecology, ocean science, robotics, game theory, and more. The program takes place each summer on the Davis, Irvine, Santa Cruz, and San Diego campuses. Cluster sizes vary from 18-25 students and the student to academic staff ratio is typically 5:1. In summer 2012, 677 students, drawn from an applicant pool of over 2,500 students, were selected to attend COSMOS.

In 2010-11, COSMOS received \$1.9 million in State funds, a 10% reduction from State support in 2007-08. Consistent with budget act language, the University reduced State support for COSMOS in 2011-12 to \$1.7 million, also a 10% reduction. In the 2012-13 Budget Act, the Governor eliminated provisional language associated with several programs, including COSMOS, which had specified the funding level expected by the State for the budget year. While the Governor's action provides UC with more flexibility in terms of setting funding levels for this program,

UC is not currently proposing any funding reductions in 2012-13 for this program. The California Education Code specifies that the State fund at least 50%, but not more than 75%, of the program's actual costs; funds are also provided by participants with the ability to pay and from private sources. In 2012, AB 1663 amended the Education Code to set the program's tuition level for California residents at \$2,810; COSMOS may increase this level up to 5% each year thereafter. AB 1663 was introduced to rectify the ramifications of SB 755 (2005), which had permitted the program to raise tuition levels for a few years but whose provisions should have been extended prior to 2012.

COOPERATIVE EXTENSION

The Division of Agriculture and Natural Resources (ANR) is a statewide network of UC researchers and educators dedicated to the creation, development, and application of knowledge in agricultural, natural, and human resources. ANR's mission is to maintain and enhance connections that fully engage UC with the people of California and achieve innovation in fundamental and applied research and education that supports sustainable, safe, nutritious food production and delivery systems; economic success in a global economy; a sustainable, healthy, productive environment; and science literacy and youth development programs. ANR is unique in its three-way partnership with federal, state, and county governments to provide local and statewide research and extension programs that address critical issues of California. ANR's research and public service programs are delivered through two organizational units: Cooperative Extension (CE) and the Agricultural Experiment Station (AES). While both conduct research, CE is also ANR's outreach arm, extending ANR research to communities across the state. AES is described in more detail in the *Research* chapter of this document.

CE links educational and research activities to the resources of the U.S. Department of Agriculture (USDA), land grant universities, and county administrative units to solve local issues in agriculture, natural resources, and human development. Over 300 CE academics (specialists and advisors) partner with AES faculty, state and federal agencies, and local clientele in 57 of California's 58 counties. CE specialists (housed in ANR's four colleges/schools on the Berkeley, Davis, and Riverside

campuses) conduct research, develop new technologies, transmit results to communities statewide, and serve as the campus link to county CE advisors. CE academic county advisors are situated in local communities to conduct applied research and translate and test campus research findings into solutions for local problems. This statewide network of local CE sites is often the face of UC to local clientele and stakeholders who may never set foot on a UC campus. CE advisors work with teams of staff and volunteers to deliver applied research and science-based education programs in the areas of agriculture, natural resources, nutrition and related human resources. Collaboration with citizen volunteers is an integral part of educational efforts in the 4-H Youth Development, Master Gardener, and Master Food Preserver programs. Advisors provide local residents and industry groups with science-based information through workshops, demonstrations, field days, classes, print and other media, and web sites.

Statewide programs, such as Integrated Pest Management; Youth, Family, and Communities; and the Agriculture Issues Center focus on specific issues that engage ANR academics and faculty from all UC campuses, allowing teams to work on complex issues that require multidisciplinary approaches. In addition, nine research and extension centers (RECs), located in a variety of ecosystems across the state, provide a core research and extension base.

In 2012-13, the CE base budget is \$72 million and is composed of State, federal, county, and other funds. Through its partnerships and collaborations, CE is able to generate additional extramural grant funding, further increasing its ability to address local and statewide issues.

ANR continues to implement budget cuts enacted due to California's enduring state budget crisis. ANR's budget reduction decisions aimed to reduce administrative overhead while focusing on ANR programs and people on the future through its 2025 Strategic Vision. Efforts continue to focus on reducing ANR's administrative footprint by forming multi-county partnerships, rather than single county units, in order to administer UC's research and educational programs more efficiently and effectively. In addition, ANR has refocused resources, including existing competitive grant funds and endowment income

(as appropriate), to support five strategic initiatives: Sustainable Food Systems; Endemic and Invasive Pests and Diseases; Sustainable Natural Ecosystems; Healthy Families and Communities; and Water Quality, Quantity, and Security.

Following are examples of CE programs working to address challenges and inform policy:

Healthy Food Systems. Responding to local grower issues, CE advisors played a key role in introducing new UC-developed varieties of strawberries and blueberries to California growers through field days, workshops, industry meetings, and publications. A CE-led project on alternative irrigation systems for rice fields led to a 98.5% reduction in the mass flow of rice herbicides in the Sacramento River, improving water quality for local residents and demonstrating that alternative water quality management strategies can be developed.

Healthy Environments. ANR's Rangeland Watershed Program won the 2012 Western Extension and Research Director's Award of Excellence. Over the past twenty years, this program has collaborated with local water districts, the U.S. Environmental Protection Agency, and several state and federal natural resource agencies and associations that own or influence the management of rangelands. This multidisciplinary CE-AES team successfully identified management strategies for minimizing microbial hazards, developed monitoring methods for assessing environmental or agro-ecosystem health, and assessed vertebrate reservoirs of protozoa pathogens.

Healthy Communities. ANR houses the California 4-H Youth Development Program; 4-H is one of the largest youth development programs in the nation. ANR's program has 20,000 dedicated volunteers, reaching youth (ages 5 to 19) statewide, across rural and urban areas. The program engages youth in every California county through after-school and classroom enrichment programs, science literacy activities, and traditional livestock and leadership club programs. Although over a century old, 4-H remains very relevant, providing diverse experiences from robotics clubs to promoting new community wellness programs.

The program serves as a driving force to position California as a leader of science and technology.

Through the statewide Master Gardener Program, ANR academics train local community members with research-based information on landscape management and horticulture, including plant selection, reduced pesticide use, water conservation, and implementing "green" practices. In 2011-12, over 5,400 UC Master Gardeners volunteered more than 336,000 hours, the equivalent of 162 full-time positions.

Healthy Californians. In San Luis Obispo and Santa Barbara counties, ANR's Lunch Box program reached 3,600 families and improved the nutritional quality of children's packed lunches. Five educational handouts and a poster in English and Spanish were developed to assist parents in packing healthy lunches. The Lunch Box handouts were provided to parents through their child's preschool, an ideal place for parents to learn positive ways to contribute to their child's overall health and well-being.

In addition, working with a Tulare school district, CE advisors and specialists delivered the EatFit program to sixth graders. The program includes nine lessons with an online assessment (www.eatfit.net) and uses guided goal setting to help students make positive behavior changes. Students apply math concepts in EatFit while learning how to improve their food choices and increase physical activity. An evaluation of ANR's EatFit program for low-income students found that this approach not only improves eating and physical activity habits, but also math and language arts performance.

UMBILICAL CORD BLOOD COLLECTION PROGRAM

Developed pursuant to legislation chaptered in 2010 (AB 52, Portantino), UC established the Umbilical Cord Blood Collection Program (UCBCP) to increase the collection and availability of genetically diverse umbilical cord blood for public use, including purposes such as life-saving transplantation and adult stem cell research.

Revenue for the program will be provided, in part, through a new \$2 fee for certified copies of birth certificates, with these fees estimated to generate \$2.5 million annually. The administrative home for the UCBCP is at the Davis campus

with program activities extending across the state, within the limits of available resources.

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE

The Charles R. Drew University of Medicine and Science (CDU), a private, nonprofit corporation with its own Board of Trustees, conducts educational and research programs in south central Los Angeles. Since 1973, the State has appropriated funds to UC to support a medical student education program operated by the Los Angeles campus in conjunction with CDU. State General Funds are provided to CDU under two contracts, each administered by the University. One contract provides State support for medical education while the second supports a separate public service program that funds activities in the Watts-Willowbrook community.

Drew Medical Program

Historically, CDU received State funds through the University's budget for the training of 48 medical students (including 24 third-year and 24 fourth-year students) and 170 medical residents. The historical activities encompassed in the joint CDU/UCLA instructional program are described in two affiliation agreements with the David Geffen School of Medicine at the Los Angeles campus and the Los Angeles campus' School of Dentistry for student clerkships. Students participating in the joint medical education program earn a Doctor of Medicine (MD) degree, which is granted by the Geffen School.

In 2008, CDU expanded its medical student enrollment by four students (per class) as part of the UC PProgram in Medical Education (PRIME) initiative. The Los Angeles

campus' PRIME program is designed to train physician leaders to be experts and advocates for improved healthcare delivery systems in disadvantaged communities. There are currently 126 medical students enrolled across a four-year curriculum in the joint UCLA-CDU program, including 56 budgeted third- and fourth-year students at CDU.

Unfortunately, serious concerns involving patient care activities occurred at Los Angeles County's King/Drew Medical Center (KDMC), the primary teaching hospital for CDU, in the middle part of the last decade. Given the seriousness of these matters, the Los Angeles County Board of Supervisors, which has administrative and fiscal responsibility for the hospital, 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, the University has worked with state, county, and other local officials to develop a plan for opening the hospital under new governance. This work is on schedule with a projected goal for reopening the hospital in the fourth quarter of 2014. Plans for re-establishing residency training are now in the early stages of discussion.

Consistent with provisional language in the budget act, UC reduced support for CDU by 5% in 2011-12. Funding for CDU instructional and public service programs is \$8.3 million in State General Funds and \$475,000 in matching funds. The University provides additional support from medical student Professional Degree Supplemental Tuition revenue and other University funds to support CDU.

“UC libraries are at the forefront of information technology, providing access to scholarly materials in all formats and innovative services that support the academic programs of the University, the citizens of California, and the world beyond.”

*Aimée Dorr
University of California
Provost*

Academic Support — Libraries

Individually and collectively, the University of California libraries provide access to the world’s knowledge for the UC campuses and the communities they serve. In so doing, they directly support UC’s missions of teaching, research, and public service. The latest UC Undergraduate Experience Survey showed that 75% of upper division students believed that having access to a world-class library was “essential,” “very important,” or “somewhat important.” This was the highest ranking received by any of the rated components of UC research opportunities. The libraries, as key components of UC’s research mission, are among the University’s most essential activities. The intellectual capital of UC libraries – their acclaimed research collections, innovative services, user-friendly facilities, and highly trained staff – constitute an unparalleled resource that must be thoughtfully cultivated in order to ensure its continued support for students, scholars, and Californians.

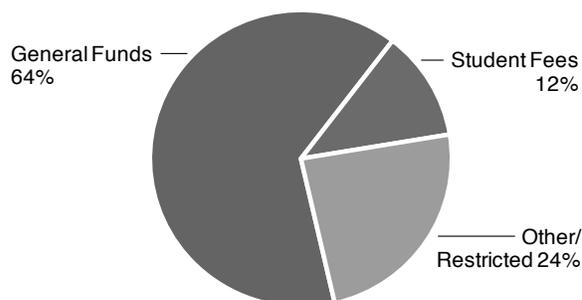
In an increasingly knowledge-based society, the University’s role in facilitating access to information in all its forms takes on broader significance and value. Over the last decade, rapid advances in the development and use of new technologies to create, publish, store, search for, and deliver information have begun to transform libraries, allowing campuses to provide access to information without having to physically possess and store it. UC’s growing digital information services and collections are becoming more extensive and readily accessible to not only the scholarly community, but also all California residents.

As the digital transition continues, the importance of the library as a rich scholarly environment becomes even more vital. Campus libraries provide crucial intellectual and social hubs for individual research and study, collaborative work, teaching and learning, and cultural events and exhibits. Scholars rely on the local rare and special collections, while students value the hands-on expertise of

subject librarians, the availability of dedicated quiet spaces, and technology-equipped group study rooms in which to access, explore, discuss, and produce information.

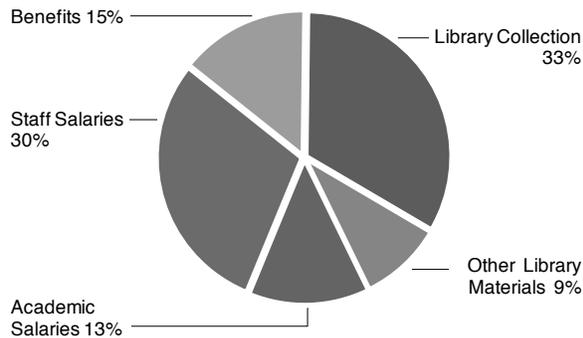
The UC library system includes more than 100 libraries at the 10 campuses, the California Digital Library, and two regional library facilities. UC’s library system has the second largest number of volumes held in the United States; with more than 38 million print volumes available systemwide and 5 million e-books per campus, the collection is surpassed only by the Library of Congress. In 2011-12, the economic value of the physical collection was estimated at \$1 billion and the special collections at \$344 million, or 5.3% of UC’s net capital assets. More than 2.7 million items were loaned by UC libraries in 2011-12, including over 136,000 intercampus library loans and copies. Use of the libraries’ digital collections continues to escalate, as more materials are available primarily or solely online. In 2011, more than 33 million journal articles were downloaded within UC.

Display IX-1: 2011-12 Library Expenditures by Fund Source



About three-quarters of the libraries’ budget are derived from core funds. Endowment earnings, private gifts, and other sources provide additional support.

Display IX-2: 2011-12 Library Expenditures by Category



Over 40% of the libraries' budget provides for the purchase, preparation and use of library materials in a variety of formats (print, digital, multimedia, and objects). As in other functions of the University, salaries and benefits are the largest collective expenditure.

Display IX-3: UC Libraries At-A-Glance, 2011-12

Number of Libraries	100+
Library Holdings	
Total print volumes	38,000,000
Audio, video, and visual materials	21,110,292
Maps	2,259,082
Microcopy and microfilm	28,155,019
Average e-books on each campus	5,000,000
Digitized UC volumes in HathiTrust	3,100,000
Electronic-journals licensed collectively	52,873
Digitized items in campus collections	16,133,410
Library Loans	
Digital articles downloaded	33,047,046
Total library loans	2,722,121
Intercampus loans	136,301
Regional facility loans	128,651

Note: Data reported by all 10 campuses and the CDL.

THE LIBRARY BUDGET

The total budget of the libraries is \$254 million in 2012-13. About three-quarters of the library budget is derived from core funds (State support, UC General Funds, and student tuition and fee revenue). Significant restricted funding is provided from endowment earnings and private gifts and grants.

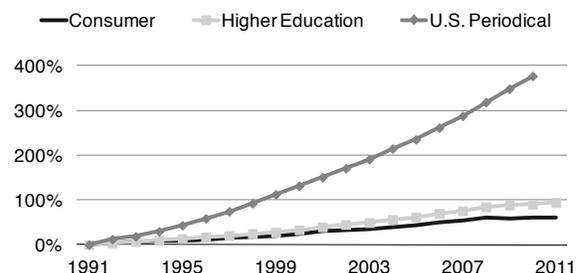
As in other areas of the University, the libraries' greatest expenses are salaries and benefits for more than 2,300 employees, including professional librarians, IT professionals, and support staff, as well as hundreds of student workers. Compensation and benefits represent

58% of library expenditures in 2011-12. Library materials, which include books, subscriptions, and licensing of digital materials, made up another 42%.

Campus library funding cuts have averaged approximately 20% since fiscal year 2008-09, while the cost of library materials continues to outpace inflation, further increasing budgetary pressures. Expansion in academic and research programs continues to increase demand for library collection growth in all formats, and students continue to demand long hours and extended access to library facilities that provide technologically well-equipped and flexible learning environments.

Over the last 25 years, the State has provided substantial support for UC's strategy to promote 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 IX-4.

Display IX-4: Consumer, Higher Education, and Periodical Price Increases



Over the last 20 years, the cost of periodicals has risen more than 377%, while the consumer price index has risen only 66% during the same period. This cost increase has not changed in the digital environment.

To address past funding shortfalls for library collections and services, the libraries identified and developed strategies to reduce costs and promote broader and more efficient use of library resources. As shown in Display IX-5, these include reduced purchasing costs through interlibrary lending, lower capital costs resulting from use of shared off-site facilities, and savings from systemwide digital collections development and shared journal subscriptions. Through the California Digital Library, the UC libraries have

negotiated dozens of favorable contracts with large publishers and vendors, resulting in millions of dollars in savings for digital serial licenses and other digital materials.

THE LIBRARY PROGRAM

The University libraries employ a systemwide strategy that emphasizes campus collaboration and application of new technologies 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.

Display IX-5: Estimated Annual Savings from Library Innovations and Efficiencies (Dollars in Millions)

Resource Sharing	\$33.9
Regional Libraries Facilities	\$22.1
California Digital Library	<u>\$77.3</u>
Total	\$133.3

This systemwide strategy also results in millions of dollars in avoided costs annually. Through their campus libraries, UC faculty and students have enjoyed 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 UC libraries have taken advantage of their combined strengths as a system and developed numerous programs that decrease costs and improve efficiency while increasing access to the distinct library collections offered at each UC campus.

Discovery and Delivery Services for print and digital library materials provide faculty, students, and staff with seamless access to the UC libraries’ extensive research collections. These core services include the MELVYL catalog for discovery of materials at UC and worldwide, direct linking from citations to online journal articles via UC-eLinks, and the Request Service to facilitate intercampus lending and document delivery. The Request Service, developed by the UC libraries, sends interlibrary loan requests directly to lending institutions, saving time and effort by delivering journal articles online, retaining users’ profile information, and providing citation information.

UC’s Resource Sharing Program, which includes overnight courier services, facilities for immediate scanning and electronic delivery of journal articles and other brief

items, and interlibrary lending, expedites the borrowing of materials across the system.

UC’s Regional Library Facilities (RLFs) in Richmond and Los Angeles house more than 12 million volumes of infrequently used materials of enduring research value deposited by campus libraries. The RLFs also house the UC Shared Print Collection, which contains single print copies of material widely available in electronic format, for systemwide use or archival purposes. The existence of a designated shared print collection enables individual campuses to discard duplicate print copies, secure in the knowledge that there is a copy available in the central collection that will be preserved and available.

In order to achieve even further economies of scale, the UC libraries are leading the **Western Storage Regional Trust (WEST)** initiative to establish a regional shared print journal archive with other institutions in the western region of the United States. The initiative will help libraries at UC and beyond make collection decisions that make more efficient use of limited shelf and storage space.

The **California Digital Library (CDL)** supports the development of systemwide digital collections and facilitates the sharing of materials and services used by libraries across the UC system. Through systemwide co-investments with the campus libraries, the CDL makes available approximately 44,000 online journals to students, faculty, researchers, and staff from all UC campuses. The CDL maintains the Online Archive of California, which includes 203,000 digital images and documents from 238 libraries, archives, and museums across the state; a Web Archiving Service; a data curation center; eScholarship for publishing open access scholarly materials; and Calisphere, a compendium of freely accessible online collections for California K-20 education. The CDL works in partnership with campuses to share the collections in UC’s libraries, museums, and cultural heritage organizations with the broader community; in the future, the CDL will continue to use innovative technology to connect content and communities in ways that enhance teaching, learning, and research.

Millions of books from the UC libraries have been scanned through participation in mass digitization partnerships with

Google and the Internet Archive. These projects expand the libraries' ability to provide faculty, students, and the general public with access to collections, as well as help preserve the content. Full text of public domain works, including historic and special collections, is freely available for browsing, reading, downloading, and research uses such as text-mining and digital scholarship.

The UC Libraries are founding partners in the **HathiTrust**, a collaboration of top-tier research universities to archive and share their digital collections. Through the HathiTrust, UC gains access to millions of digitized materials in the public domain, and benefits from cost-effective and reliable storage and preservation of its own materials.

The **UC Curation Center (UC3)** will help ensure that research data archiving and preservation meet the requirements of funding agencies by leveraging expertise and resources across UC to provide management, curation, and preservation of scholarly data.

Looking to the future, UC libraries are accelerating the digital transition by creating high-quality collections in digital formats while continuing to acquire traditional formats where needed. They are leading the way in the development of new licensing approaches, including open access and other new publishing models, pioneering solutions for the preservation and curation of digital materials, and expanding collaborative activities for greater efficiency. The libraries are becoming increasingly active partners in the dissemination of research, further ensuring that faculty, students, staff, and the general public have access to the world of UC's scholarly collections and beyond. All of the UC libraries' activities support the mission of UC as a leading research engine in the growth of California, the advancement of knowledge, and the education of California's youth for a competitive workforce.

“Beyond classrooms, laboratories, and libraries, UC supports clinics, museums, performance centers, and much more that enrich the University experience while also benefitting the community.”

Aimée Dorr
University of California
Provost

Academic Support – Other

Academic Support – Other includes various clinical and other support activities that are operated and administered in conjunction with schools and departments and support the University’s teaching, research, and service missions. The University’s clinics, the largest of these activities, are largely self-supporting through patient fees. State funds for Clinical Teaching Support, discussed further in the *Teaching Hospitals* chapter of this document, are appropriated to the University for the hospitals, dental clinics, and neuropsychiatric institutes operated by UC, in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes.

In addition, other non-clinical activities provide academic support to campus programs, experiences for students, and valuable community services. Their financial support is derived from a combination of State funds, student or other fees, contracts and grants, and other revenue.

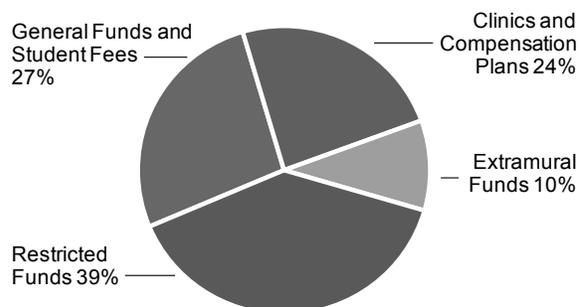
The 2012-13 budget for Academic Support – Other is \$1.3 billion. The State’s ongoing fiscal crises have resulted in significant budget reductions throughout the University’s budget. Academic and Institutional Support budgets were targeted by the State for specific cuts of \$36.5 million in 2003-04 and another \$45.4 million in 2004-05. Since then, due to more recent budget shortfalls, campuses have instituted additional targeted cuts to these programs.

UNIVERSITY CLINICS

Occupational Health Centers

The occupational health centers at Berkeley, Irvine, and Los Angeles were created as a joint project of the California Department of Industrial Relations and UC to help serve the occupational health needs of California. 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.

Display X-1: 2011-12 Other Academic Support Expenditures by Fund Source



Expenditures totaled \$1.3 billion in 2011-12. Clinics and other services are largely self-supporting through revenue other than core funds.

Community Dental Clinics

The on-campus and community dental clinics at Los Angeles and San Francisco serve primarily as teaching laboratories in which graduate professional students pursue organized clinical curricula under the supervision of dental school faculty. The clinics provide a spectrum of teaching cases that are generally not available in the on-campus clinics, thus 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.

Optometry Clinic

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.

Veterinary Clinics

The veterinary medicine clinical teaching facilities at Davis and in the San Joaquin Valley, and the satellite site in San Diego, are specialized teaching hospitals and clinics that support the UC Davis School of Veterinary Medicine. In these facilities, faculty train students enrolled in veterinary medicine in the clinical aspects of diagnosis, treatment, prevention, and control of diseases in animals.

Neuropsychiatric Institutes

UC's 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 developmental, behavioral, psychological, and neurological disorders.

OTHER ACADEMIC SUPPORT PROGRAMS

In addition to the clinics, UC operates a wide variety of other programs that are administered with schools and

departments and enhance the University's teaching, research, and service activities. Some examples are described below.

Laboratory School

The laboratory school at the Los Angeles campus serves as a laboratory for experimentation, research, and teacher professional development in the field of education. The self-supporting school educates pre-K-6 children and contributes to the advancement of education through research efforts and application of results.

Vivaria and Herbaria

Each campus operates vivaria and herbaria, which are centralized facilities for the ordering, receiving, and care of all animals and plants essential to instruction and research.

Museums and Galleries

The University operates many museums and galleries. These cultural resources are open to children and adults throughout the state and are largely self-supporting, generating revenue through ticket sales. Many of UC's museum and gallery holdings are also available to UC faculty and students conducting research.

“Nowhere do Californians see the intersection of UC’s tripartite mission of teaching, research, and public service so clearly as at UC’s medical centers. Our students, faculty, and patients can attest to that.”

*Dr. John Stobo
University of California
Senior Vice President for Health Sciences and Services*

Teaching Hospitals

The University operates academic medical centers at the Davis, Irvine, Los Angeles, San Diego, and San Francisco campuses. A critical mission of the medical centers is to support the clinical teaching programs of the University’s five schools of medicine as well as programs in the University’s other health sciences schools.

The core clinical learning experiences in the health sciences take place in the UC medical centers and other UC-sponsored teaching programs. The University’s academic medical centers operate in urban areas and serve as regional referral centers providing tertiary and quaternary clinical services that are often available only in an academic setting. Additionally, the medical centers provide the entire spectrum of clinical services, including primary and preventive care. For example, the medical center at Irvine operates two federally qualified health clinics, providing primary and preventative services to the underserved community. In 2006, UC led the initiative on behalf of the state to create a digital highway that would expand health care access to all corners of California. Officially launched in August 2010, the California Telehealth Network (CTN) will connect more than 800 facilities over the next three years, allowing over 300 California healthcare providers in underserved areas access to medical expertise and specialist knowledge around the state and nationwide through a live interactive video-conferencing network.

The medical centers are sites for testing the application of new information and the development of new diagnostic and therapeutic techniques. Four of the five medical centers currently operate as Level 1 Trauma Centers, capable of providing the highest level of specialty expertise and surgical care to trauma victims.

With their tripartite mission of teaching, public service, and research, the UC academic medical centers benefit both California and the nation. They provide excellent training

Display XI-1: UC Medical Centers At-A-Glance, 2011-12

The University’s five academic medical centers constitute the fourth largest health care system in California.

Licensed acute care inpatient bed capacity	3,149
Patient days	873,716
Outpatient clinic visits	3,908,436
MDs awarded	676
Nursing degrees awarded	532

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.

UC’s patients generally have more complex medical conditions than patients at many other institutions, which often can only be managed in tertiary referral hospitals such as UC’s academic medical centers. The case mix index, which measures patient complexity and severity, is twice the state average. 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 Medicare and Medi-Cal eligible patients. 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.

TEACHING HOSPITAL FUNDING SOURCES

The University’s teaching hospitals earn revenue from a variety of sources, each with its own economic constraints, issues, and policies. The shifting political environment of health care signals the possibility of changes to the hospitals’ revenue sources over the next several years.

Medicare

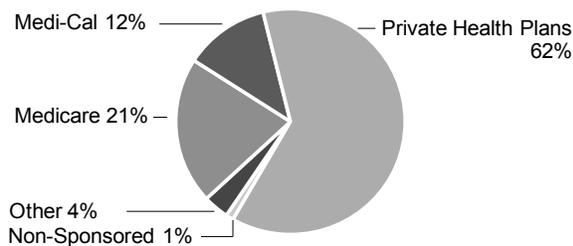
Patient care reimbursements from Medicare, the federal governmental health insurance system for eligible elderly and disabled persons, constituted 21%, or \$1.4 billion, of medical center revenues in 2011-12. Each of the medical centers is currently certified as a provider for Medicare services and intends to continue to participate in the Medicare program. Periodically, the requirements for Medicare certification change, which can require UC to alter or upgrade facilities, equipment, personnel, billing processes, policies, and services in order to remain certified.

Medicare Graduate Medical Education Payments.

Medicare also provides teaching hospitals with Graduate Medical Education payments to help pay for the direct medical costs of providing medical education and for direct programmatic costs allowable under Medicare, such as salary and benefits for medical residents.

Furthermore, 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 medical center staff as a result of teaching activity or additional tests and procedures that may be ordered by residents. The combined direct and indirect medical education payments in 2011-12 were \$193 million, or 2.8% of medical center revenue.

Display XI-2: 2011-12 Medical Center Revenue by Source



In 2011-12, the medical centers generated over \$6.9 billion from patient care and other activities. While 62% of medical center revenues are derived from private health care plan reimbursements, approximately 33% of medical center revenue comes from federal Medicare and Medi-Cal, jointly funded by the state and federal governments.

Medicaid/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. Medicaid programs are operated by states and use various mechanisms to pay hospitals in their states.

Known as Medi-Cal in California, Medicaid provided 12%, or \$848 million, of medical center revenue in 2011-12. The State selectively contracts with general acute care hospitals to provide inpatient services to Medi-Cal patients, and each of the medical centers currently has a Medi-Cal contract.

Current Medi-Cal Waiver. The Medi-Cal Hospital/Uninsured Care Demonstration Waiver, enacted in 2010, is a five-year demonstration project that began in November 2010 and expires in 2015. The Centers for Medicare and Medicaid Services (CMS) grants waivers to some states, allowing them to set up a modified Medicaid financing system through Section 1115 of the Social Security Act, such as through a demonstration project.

Under the current Waiver, hospitals receive:

- fee-for-service payments for inpatient hospital costs;
- Disproportionate Share Payments, which are supplemental payments to hospitals, such as UC's medical centers, that serve a disproportionately large share of Medi-Cal beneficiaries and other low income patients;
- Uncompensated Care Pool payments, which are payments for otherwise uncompensated care provided to certain uninsured patients; and
- Delivery System Reform Incentive Payments, which are payments that compensate the medical center for quality improvement activities.

Additionally, the Waiver expands access and better coordinates care for seniors, persons with disabilities, children with special health care needs, and persons who are eligible under both Medicare and Medi-Cal (dual eligibles).

Provider Fee. To help cover safety net hospitals' Medi-Cal costs that are not reimbursed by the Medi-Cal program, California's hospitals have developed a provider fee

program. Hospitals are assessed fees and the resulting funds serve as the non-federal share to draw matching federal funds.

Private Health Plans and Managed Care

Private health plans, in all forms, represent the largest source of revenue for the medical centers. Revenue from this source is \$4.2 billion in 2011-12. Health care, including hospital services, is increasingly paid for by “managed care” plans that incentivize reduced or limited cost and utilization of health care services. Managed care plans pay providers in various ways, including:

- negotiated fee-for-service rates, and
- “capitation” payments 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.

Under each model of managed care, providers assume a financial risk for the cost and scope of institutional care provided to a plan’s enrollees. If a medical center is unable to adequately contain its associated costs, net income is adversely affected; conversely, medical centers that improve efficiency or reduce incurred costs maximize revenue.

Other Sources

Clinical Teaching Support. State General Funds 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, called Clinical Teaching Support (CTS), are generally used to provide financial support for patients who are essential for the teaching program because their cases are rare or complicated (providing good training experience), but who are unable to pay the full cost of their care. Prior to recent budget cuts, CTS funds represented about \$45 million, about 1% of the total operating revenue for the medical centers in 2007-08. During the recent fiscal crisis, campuses have had the flexibility to reduce CTS funds to help address budget shortfalls. In 2011-12, permanently budgeted CTS funds declined to \$22.7 million.

County Funding Programs. Counties in the State of California reimburse certain hospitals for selected indigent patients covered under the county’s adult indigent program.

Counties use local tax dollars from their general fund to subsidize health care for the indigent. 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. Measures enacted to mitigate the impacts have not provided full relief. In 2011-12, total county funding represented \$76.3 million, or 1.1% of medical center revenue.

CURRENT CHALLENGES AND ISSUES

UC medical centers are subject to a wide variety of pressures that may impact their financial outlook over the next several years, including:

- changes to the federal Medicare program that affect direct and indirect support for medical education and reimbursement for patient care;
- changes to federal Medi-Cal payments for patient care, including aggregate caps on supplemental payments;
- increased pressure to make health care services more affordable and link payments to the type and quality of service provided and the outcomes they achieve;
- increasing unreimbursed costs related to medically uninsured patients;
- rising costs of pharmaceuticals and medical supplies;
- increasing salary and benefit costs, including reinstatement of employer contributions to UC’s retirement system;
- increasing employer contributions to UCRP, which are becoming a growing proportion of medical centers’ fixed costs, and without increasing efficiency, could result in negative operating margins;
- financing seismic retrofit and other significant capital needs, such as upgrades necessary for programmatic changes;
- increasing demand for services and capacity constraints;
- a shortage of key personnel, particularly laboratory technicians, and radiology technicians, resulting in increased use of temporary labor;
- community preparedness activities, such as establishing procedures for responding to epidemics; and
- compliance with government regulations, such as AB 394, which established licensed nurse-to-patient ratio requirements, effective January 1, 2004.

Despite 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 the 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, support medical education, and allow care for the poor. The medical centers continue to grow and enjoy robust earnings, but the future presents challenges, including those associated with health care reform.

HEALTH CARE REFORM

The enactment of health care reform in March 2010, through the Patient Protection and Affordable Care Act and its accompanying reconciliation bill, the Health Care and Education Reconciliation Act, is a historic opportunity to improve the nation's health care delivery system by expanding health insurance coverage by the year 2019 to 32 million Americans who are currently uninsured. Health care reform expands Medicaid coverage, offers coverage to adults not currently covered by safety net programs for the uninsured, provides broader access to insurance through the establishment of insurance exchanges, and includes many other provisions that would expand coverage.

Disproportionate Share Hospital Payments. UC medical centers and other safety net hospitals that provide care to a large number of low-income individuals stand to receive lower federal supplements through the federal Disproportionate Share Hospital (DSH) payments, which serve to compensate hospitals for this type of more costly care, and to help provide low-income individuals access to treatment. In order to expand health insurance coverage to another 32 million people, the health reform law reduces

DSH payments to California hospitals, including UC teaching hospitals.

State Health Insurance Exchange. The California State Health Insurance Exchange will be officially operational by January 1, 2014. While it is difficult to predict the full impact it will have on UC Health, it is clear the Exchange seeks to control the costs of health insurance premiums, challenging UC to lower unit costs and incentivize quality in the delivery of health care. The University has several initiatives underway that address cost and quality issues.

Graduate Medical Education. The Affordable Care Act provides for an additional 32 million U.S. citizens to receive health insurance, either through enrollment in the State Medicaid Program or through participation in the State Health Insurance Exchange. This will require the additional provision of health care services, particularly in primary care prevention areas. In turn, this will require additional health care providers, or, more realistically, changes to how health care is provided. This is an opportunity for UC to use its expertise in using innovative health care delivery systems to large populations.

UC as a Safety Net. UC's five academic medical centers are a major part of California's hospital safety net and provide complex care to a diverse population that includes many low-income patients. Health care costs are significantly higher in areas of poverty, where patients have less access to care and tend to be sicker when they arrive at hospitals, requiring more extensive, and thus more expensive, care. This situation needs to be taken into account when entities pay for health care services, as UC's cost for delivery are higher than non-safety net institutions.

“Student learning is enriched and enhanced when students are engaged in outside-the-classroom opportunities that allow them to grow intellectually, socially, and culturally.”

Judy K. Sakaki
University of California
Vice President – Student Affairs

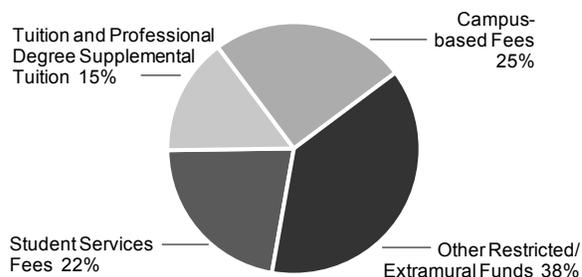
Student Services

Student services programs and activities contribute to the intellectual, cultural, and social development of students outside of the formal instructional process. These services can have a significant influence on students’ academic outcomes and personal development and can help build 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. In 2012-13 the student services budget is \$669.4 million, most of which is generated from student fees. Student services include a variety of programs:

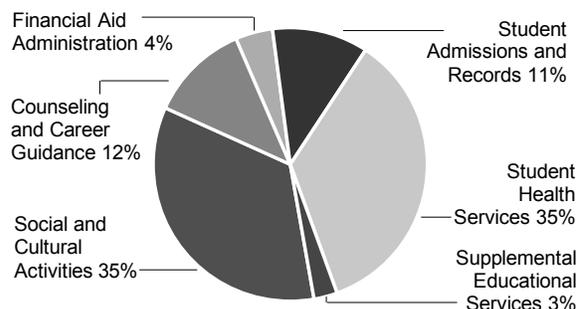
- **Counseling** assists students with personal concerns, academic performance, choice of major, assessing interests and aptitudes, and career opportunities.
- **Academic support services**, or supplemental educational services, offer individual and group tutorial services in writing, mathematics, and study skills, as well as preparation for graduate school exams.
- **Cultural and social activities** enhance quality of life for students and the campus community. Activities include music, dance, drama events, speakers, and sports.
- **Student health services** provide primary care and other services to keep students healthy, including general outpatient medical care; specialty medical care, including mental health services; and health education, including wellness and stress reduction.
- **Campus admissions and registrar operations** include the processing of applications for admission, course registration, scheduling of courses, maintaining and updating student academic records, preparing of diplomas, and reporting of statistics.
- **Campus financial aid offices** 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, fee waivers/remissions, loans, and work-study jobs from federal, State, UC, and private sources.

Display XII-1: 2011-12 Student Services Expenditures by Fund Source



Student fee revenue, including campus-based fee revenue, provides nearly two-thirds of the funding for student services.

Display XII-2: 2011-12 Student Services Expenditures by Category



In 2011-12, over 80% of student services expenditures were for non-administrative activities in counseling, cultural and social activities, and student health services.

- **Services to students with disabilities** include readers for the blind, interpreters for the deaf, note-takers, mobility assistance, adaptive educational equipment, disability-related counseling, and other services.

Recently, questions have been raised about the fund sources used to support athletics programs. As a quality of life program for students, athletics and recreation programs are appropriately supported from Student Services Fee revenue. Under Regental policy, the fee “may be used to support services which benefit the student and which are

complementary to, but not a part of, the instructional program.”¹

Athletics and recreation are primarily budgeted as a student service rather than an auxiliary enterprise, although three campuses manage a portion of their intercollegiate athletics and recreation programs as auxiliaries with self-supporting revenue sources, such as ticket sales and concessions. Issues about funding for intercollegiate athletics were examined as part of a recent audit by the Bureau of State Audits. The audit found no issue with UC’s policies or procedures with regard to funding for athletics.

Student services programs, as with most University programs, suffer from underfunding. Student services 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 Student Services Fee-funded programs. These reductions occurred when student enrollment increased with corresponding growth in demand for student services, including during summer.

Due to the University’s continued budget shortfall across the system, student services positions have been eliminated, frozen, and consolidated, even though the demand for student services continues to grow on each of the campuses. Campuses estimate that they will continue to reduce staffing during this fiscal year.

While adequate support for student services remains a high priority, it is becoming increasingly difficult, as student needs change and more students enroll at UC, to provide adequate services for students in the face of severely reduced budgets.

STUDENT MENTAL HEALTH SERVICES

In recent years, student mental health issues have become a growing concern at UC as well as at 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 manifest behavioral or other psychological issues that negatively impact their wellness and academic performance or that of other members of the UC community.

A comprehensive systemwide review of student mental health issues and the challenges associated with providing these necessary services, which was presented to the Regents in September 2006, found the following:

- consistent with national trends, UC students are presenting mental health issues (e.g., suicidal threats, depression, stress, and anxiety) with greater frequency and complexity (e.g., prescribed psychotropic medications in combination with psychological counseling);
- budget constraints limit campus capacity (e.g., increasing psychological counseling staff) to respond to mental health issues and result in longer student wait times, difficulty retaining staff, and decreased services and programs; and
- 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 were organized within a three-tier model: Critical Mental Health Services, Targeted Interventions for Vulnerable Groups, and Creating Healthier Learning Environments. The model was created to provide a framework for meeting the fundamental mental health needs of students and for providing safe and healthy campus environments across the system. The recommendations include:

- Tier I, restoring critical mental health services to fully respond to students in distress or at risk;
- Tier II, 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
- Tier III, taking a comprehensive approach to creating healthier learning environments by enhancing the full spectrum of student life services and by revising administrative policies and academic practices in order to promote communication and collaboration.

In response to the urgent priority to enhance mental health services, in 2007-08 and 2008-09 the University dedicated \$12 million in funding from Student Services Fee increases

¹ The University of California Student Tuition and Fee Policy is available at www.universityofcalifornia.edu/regents/policies/3101.html.

for this purpose. As reported to the Regents in March 2009, substantial progress was made in expanding mental health services. For example, between 2005 and 2007 counseling wait times decreased from 31 to 8 days, and the psychologist-to-student ratio improved by 26%. In 2008, however, campuses reported budget reductions resulted in their inability to further increase needed staffing. In a subsequent 2009-10 survey, campuses indicated increased demand for services and increased severity of student concerns as reasons for needing more professional staff.

In 2011, in response to this increased severity and demand for services, a collaboration between campus Student Affairs divisions and the Office of the President Student Affairs unit resulted in a proposal and subsequent award of a \$6.9 million student mental health grant funded by the California Mental Health Services Authority (CalMHSA) through Proposition 63. Each campus received \$500,000, with the remaining money set aside for systemwide programming and grant management. Funds are being used to enhance existing mental health services and create new prevention and early intervention programming.

Programmatic efforts include:

- Training for students, faculty/staff, and graduate teaching/research assistants on how to recognize and respond to students in distress;
- Development of a comprehensive, systemwide approach to suicide prevention;
- Creation of a social marketing campaign to reduce stigma and discrimination for those living with a mental illness; and
- Development of an online resource clearinghouse to facilitate collaboration with other mental health stakeholders across California.

To date, enhancements directly related to this grant funding include:

- Increases in staffing levels – all campuses have hired at least one additional psychologist;
- Enhanced training materials, including the development and strengthening of crisis response protocols for all faculty and staff;
- The launch of an anonymous online interactive suicide prevention screening tool; and
- Production of systemwide public service announcements and training videos to support the social media campaign.

As of early 2012, approximately 12% of the total grant funding has been utilized with the remainder expected to be spent by June of 2014. Student mental health issues remain a serious concern at the University and further investment in improving these services is needed.

OTHER FUTURE NEEDS

Campuses have identified a number of critical needs for additional student services funding, should the State's fiscal situation permit new initiatives at some future point.

- Campuses need increased funding for academic support programs, including tutoring in writing, mathematics, and study skills, as well as 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 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 technological resources on campuses.
- 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 demand for interpreting and/or real-time captioning services (costs have increased for interpreters), as well as services for those suffering from repetitive stress injuries who require multiple forms of auxiliary services and assistive technology.
- Additionally, larger numbers of veterans are enrolling at UC and many of these students have a combination of physical and emotional disabilities (e.g., Post Traumatic Stress Disorder and Traumatic Brain Injury) that require greater levels of service.
- Campuses have not had the resources to invest sufficiently in major student information systems (e.g., student information services; web-based services; and registration, admissions, student billing, financial aid, and accounting services) to meet the current and future needs of students and student service organizations.

“While recent budget cuts have been significant, necessity is the mother of invention. UC is taking the opportunity to identify positive efficiencies while protecting the educational enterprise from harmful cuts. Quality is everything to UC.”

Nathan Brostrom
University of California
Executive Vice President for Business Operations

Institutional Support

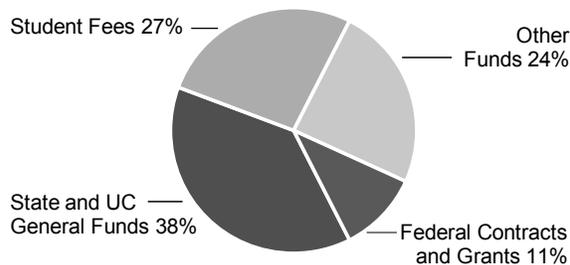
Institutional support services provide the administrative infrastructure for the University’s operations. Grouped into five broad categories, institutional support activities include:

- **Executive Management** — offices of the president, vice presidents, chancellors, vice chancellors, Regents’ officers, the Academic Senate, and planning and budget;
- **Fiscal Operations** — accounting, audit, contract and grant administration, and insurance management;
- **General Administrative Services** — information technology, human resources, and environmental health and safety;
- **Logistical Services** — purchasing, mail distribution, police, construction management, and transportation services; and
- **Community Relations** — alumni and government relations, development, and publications.

State funding for institutional support has failed to keep pace with enrollment and other program growth and general inflation. Moreover, the University faces a growing body of unfunded mandates affecting institutional support, including new accounting standards, growing accountability requirements, and increased compliance reporting in areas ranging from environmental health and safety to fair employment practices and compensation issues. To address these unfunded mandates, the University has absorbed increased costs of new data collection processes, changes to existing information and reporting systems, and analytical staff.

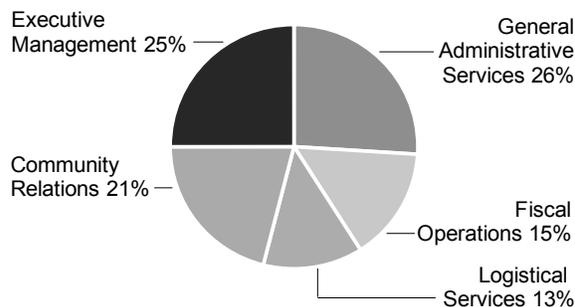
Despite these added expenses, institutional support expenditures as a proportion of total University expenditures have actually decreased over the last 30 years. Institutional support budgets are often one of the first areas of the budget to be reduced in difficult economic times. In response, UC administrative units have implemented new processes, improved use of technology, and consolidated operations to increase productivity in order to meet increasing workload demands under constrained budget situations.

Display XIII-1: 2011-12 Institutional Support Expenditures by Fund Source



Core funds provide 65% of institutional support funding. Significant other sources include private funds, endowment earnings, and indirect cost recovery for contract and grant administration.

Display XIII-2: 2010-11 Institutional Support Expenditures by Category

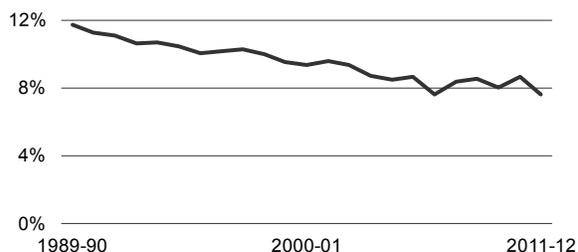


Logistical services, fiscal operations, and general administrative services comprise over half of institutional support expenditures.

Since the early 1990s, institutional support budgets have been significantly reduced as a result of the State’s fiscal problems. Due to legislative intent language and the shared desire of the University and the State to protect core academic programs, institutional support has often been targeted for additional cuts over the years:

- Between 1995-96 and 1998-99, budget reductions totaled \$40 million, consistent with productivity improvements mandated under a four-year Compact with then-Governor Wilson.

Display XIII-3: Institutional Support as a Percentage of University Spending



Since 1989, spending on institutional support as a percentage of total UC expenditures has dropped from nearly 12% in 1989-90 to nearly 8% in 2011-12.

- In 2003-04 and 2004-05, institutional support and academic support budgets were reduced by a total of \$81.9 million.
- For 2008-09, the State directed that \$32.3 million be reduced from institutional support.

In addition to these base budget cuts, unavoidable cost increases related to faculty merits, employee health benefits, purchased utilities, and maintenance of new space have often been funded by redirecting resources from institutional support. Reduced funding of institutional support limits essential investment in UC's technology infrastructure and constrains fundraising and development activities at a time when such activities are more critical than ever to sustaining the institution.

To address the \$32.3 million reduction required in 2008-09, as well as in accordance with the University's own desire and efforts to streamline and improve the effectiveness of administrative services, savings were generated through the restructuring of the Office of the President (UCOP). Additional savings were realized through campus administrative efficiencies as campuses have downsized in response to budget cuts. The *Cross-Cutting Issues* chapter of this document includes a discussion of systemwide efforts to reduce costs.

UCOP BUDGET

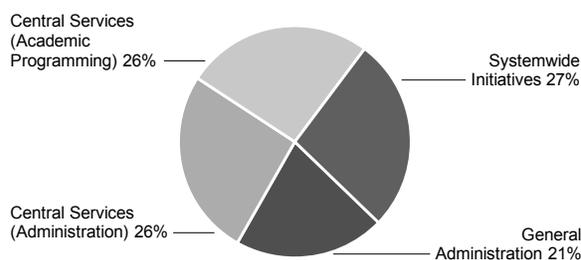
In order to simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue, beginning in 2011-12, the University adopted a policy whereby all funds generated on a campus stay on the campus and are no longer redistributed by the

University of California Office of the President (UCOP) across the system. At the same time, all campus-generated funds supporting the Office of the President were returned to the source campus.

In order to support central operations, the University established a broad-based flat assessment on campus funds to support these central operations. The assessment replaces the funding for central operations previously provided by General Funds, Opportunity Funds, Off-the-Top Funds, Educational Funds, and the Common Fund taxes on medical center, health sciences compensation plan, and auxiliary enterprise expenditures. The assessment does not replace funding for central operations and programs derived from State Special Funds, contracts and grants, and systemwide endowments.

Central operations consists of UCOP administration and central services, UCOP-managed academic programs, systemwide initiatives and ongoing commitments, multi-campus research programs and initiatives, and the Division of Agriculture and Natural Resources Cooperative Extension). The 2012-13 budget approved for UCOP¹ reflects the new funding model and a clarified vision of the appropriate role of central administration in support of the 10 campuses. In this new vision, UCOP performs three distinct and separate functions:

Display XIII-4: 2012-13 UCOP Budget by Category



The majority of the UCOP budget supports central academic and administrative services, such as the California Digital Library, the Education Abroad Program, and various research and academic preparation programs, while 27% supports systemwide initiatives, such as the California Institutes for Science and Innovation.

¹ Available at <http://regents.universityofcalifornia.edu/regmeet/jul12/f4.pdf>

General administration, which includes those responsibilities that UCOP performs on behalf of the entire University of California system, including the campuses, the medical centers, and the Lawrence Berkeley National Laboratory. These responsibilities include governance, as performed by the direct reports of the Board of the Regents (the Secretary and Chief of Staff, the Chief Compliance and Audit Officer, the Treasurer, and the General Counsel of the Regents) and the Academic Senate.

Central services, which UCOP provides to the entire system to avoid redundancy of functions at each campus. These services include:

- Administrative functions, including systemwide budget management and external relations, management of the single retirement and benefit systems, and the financial management of the University, including banking services, cash management, corporate accounting, risk services, and strategic sourcing; and
- Academic programs, including central administration of a single digital library system, UC Press, campus-based research, admissions, and student academic preparation.

Systemwide initiatives, which are administered at and/or funded from the center to the benefit of the entire UC system. These initiatives include critical academic and research programs, such as the UC Observatories and the California Institutes for Science and Innovation; external relations, advocacy and public service activities conducted on behalf of the system; the statewide cooperative extension program administered by Agriculture and Natural Resources; and the administration of non-campus-based facilities, such as the UC Washington Center.

As shown in Display XIII-4, over half of the UCOP budget supports central services, both administrative and academic. General administration, including the Academic Senate and Regents' Officers, is only 21% of total operations.

In 2012-13, the total UCOP budget increased slightly, by about 1%, from 2011-12. This is attributable entirely to a change in budget methodology in the restricted portion of its budget, whereby for the first time \$42 million in patent revenue – which flow through UCOP to the campuses – is accounted for in the budget. UCOP, however, reduced

spending by 3% from unrestricted fund sources even after absorbing dramatically rising fixed salary and benefit costs.

The total UCOP budget represents about 2.5% of the overall University of California budget, with less than one-fourth supporting core administrative functions. This level of support compares favorably to other public university systems, most of which have central administrations that do not have responsibility for such functions as systemwide retirement and benefits programs, labor relations, centralized undergraduate admissions, and administration of Department of Energy national laboratories.

UCOP remains critical to the success of the UC system. A well-operated central administration reduces redundancy across the system and helps strategically position the campuses to excel.

GROWTH IN NON-ACADEMIC PERSONNEL

The growth in academic versus non-academic personnel is a topic that reemerges periodically, particularly during times of budgetary shortfalls and during salary negotiations for specific employee groups. The current budget crisis has rekindled concerns that growth in administration is outpacing growth in student enrollments, and has come at the expense of growth in faculty and the University's instructional program. An analysis of financial and payroll data from fiscal years 1997-98 and 2011-12 helps to clarify where personnel growth has occurred and identifies primary factors driving such growth.

Almost three-quarters of the 139,049 base full-time equivalent (FTE) personnel at the University in 2011-12 were employed in non-academic personnel categories—Professional Support Staff (PSS), Managers and Senior Professionals (MSP), and the Senior Management Group (SMG). This proportion has been stable since 1997-98.

The high percentage of non-academic staff reflects the complexity of the institution; the extraordinary array of functions that support its tripartite mission of teaching, research, and public service; and in part the way that personnel are classified. In particular, non-academic personnel include thousands of employees at UC's medical centers and at the campuses, who provide direct services

to students, faculty, and the public. These non-academic staff include the following:

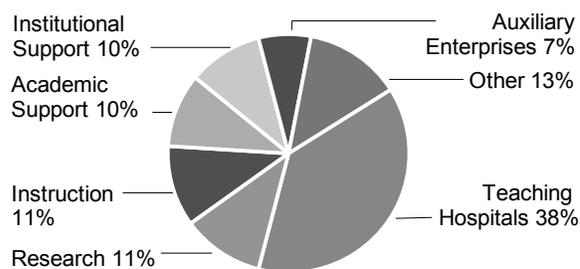
- health care and allied service professionals at medical centers and campus health centers;
- food service workers in UC dining halls and restaurants;
- UC police forces;
- gardeners, janitors, and others who tend to UC's grounds and buildings;
- student mental health advisors;
- student services and activities coordinators and advisors;
- athletic coaches and recreational staff;
- accountants, budget analysts, and other fiscal services professionals;
- compliance and audit analysts;
- architects and engineers;
- community relations, alumni outreach, and development staff;
- laboratory supervisors and support personnel; and
- clerical employees throughout University operations.

As shown in Display XIII-5, non-academic personnel are distributed broadly across the University. Over one-third are employed at the teaching hospitals; another third are employed in research, support faculty and instructional activities in the academic departments, or work in UC's libraries, museums and galleries, IT support, and other ancillary support activities; about 7% of UC's non-academic staff work in auxiliary enterprises, such as housing and dining services; and 10% are employed in areas covered by institutional support. The remaining 13% of non-academic staff are involved in student services, maintenance and operation of campus facilities, and public service.

While increases in student enrollment have played a role in employment growth across the University, increases in personnel have been driven primarily by expansion in teaching hospitals and research (as shown in Display XIII-6), areas largely supported from fund sources other than State General Funds and student tuition and fees. Combined, other sources support 76% of all UC FTE, an increase from 68% in 1997-98. This reflects, as well, the decline in State support that was not offset by tuition revenue over this period.

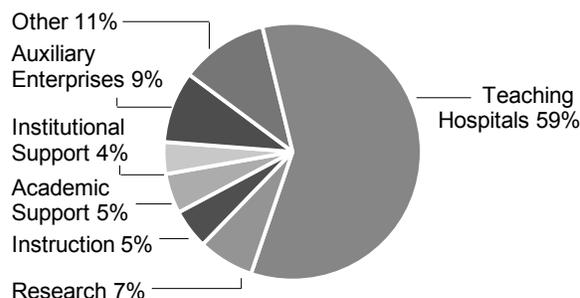
Academic appointees continue to make up the same relative percentage (27%) of total FTE employee as they did in 1997-98. This reflects growth in instruction in

Display XIII-5: All Non-Academic FTE Employees by Function, 2011-12



Teaching hospitals employ over one-third of UC's non-academic staff, with the rest of staff positions distributed more or less equally across other functional areas of the institution.

Display XIII-6: Distribution of Growth in All Non-Academic FTE Employees by Function, 1997-98 to 2011-12



Over half the growth in UC's non-academic FTE since 1997-98 has occurred at the teaching hospitals. Relatively lower growth in instruction, academic support, and institutional support reflect reduced State support for core programs.

combination with the expanding research enterprise. Academic employees include instructional faculty, professional researchers, librarians, and postdoctoral scholars. Growth in FTE faculty (39%), including ladder-rank and non-ladder rank faculty, as well as lecturers, kept pace with growth in student enrollments (39%).

Although non-academic staff have remained relatively constant as a percentage of all UC personnel, an increasingly complex University system requires greater professionalization of its staff, who must meet higher technical and competency standards. This transformation is consistent with current national trends. Increasing staff professionalization is reflected in a decrease in FTE employees in entry-level titles and an increase in more advanced PSS titles. Staff in the higher-level Assistant III

titles in the basic clerical/administrative series of the PSS personnel program increased 74%, while staff in the mid-range Assistant II titles fell 46%, and Assistant I titles, populated with entry-level positions, declined by 81% between 1997-98 and 2011-12. There has also been a modest shift in the distribution of employees from the PSS to the MSP category, with MSP titles growing from 3% to 6% of all FTE personnel and PSS titles experiencing a corresponding decline from 70% to 67%. The MSP category includes not only managers but a wide variety of other professional occupations – among them computer programmers and analysts, physicians and dentists, engineers, and administrative budget/personnel analysts. While still comprising over half of the personnel in the MSP

category, manager positions have declined slightly from 58% in 1997-98 to 54% in 2011-12, while computer programmer and analyst positions have increased from 13% to 17%. There have also been small increases in the relative proportion of MSP FTE employees in nursing services, school relations services, and architecture and planning.

The number of executive leadership personnel (SMG) declined during this period from 315 to 191 FTE. This decline reflects in large part a realignment of about 100 academic deans and other faculty administrator titles from the SMG personnel category to the academic personnel program. The SMG category continues to represent well below 1% of total FTE employees.

“The need to protect quality extends beyond the traditional concerns of attracting high quality faculty and students – the condition of our physical plant must also be maintained. If UC is to provide a state-of-the-art education, it needs state-of-the-art classrooms, labs, and other facilities that foster, rather than hinder, learning.”

*Patrick J. Lenz
University of California
Vice President for Budget and Capital Resources*

Operation and Maintenance of Plant

An essential activity in support of the University’s core mission of instruction, research, and public service is the operation and maintenance of plant (OMP), including facilities, grounds, and infrastructure. UC maintains over 129 million gross square feet of space in over 5,000 buildings at the 10 campuses, five medical centers, and nine agricultural research and extension centers. Over 62.4 million square feet (nearly 50%) is eligible to be maintained with State funds. The remaining space houses self-supporting activities, such as the medical centers and auxiliary enterprises; OMP costs for these programs are included in their budgets. OMP expenditures for State-eligible space totaled \$540 million in 2011-12.

Three types of funding are required to operate, maintain, and preserve facilities and campus infrastructure:

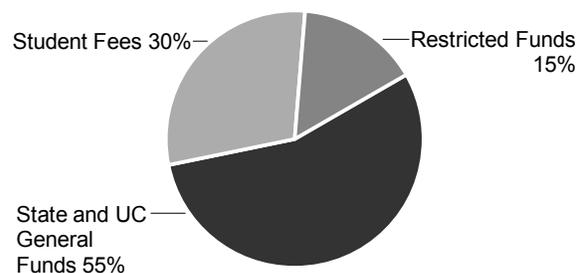
- **ongoing support for operation and maintenance of plant (OMP)** – includes building maintenance and purchased utilities,
- **capital renewal** – the systematic replacement of building systems and campus infrastructure to extend useful life, and
- **deferred maintenance** – the unaddressed backlog of renewal resulting from chronic underfunding of OMP and the lack of regular and predictable investment in capital renewal.¹

Between 2007-08 and 2011-12, the University has been forced to cut funding for the operation and maintenance of facilities to help protect core academic programs. While

¹ Deferred maintenance is a catch-all phrase that is often used to mean different things. As used in this chapter, deferred maintenance is more accurately defined as “deferred renewal,” since it refers to the accumulated backlog of deferred capital renewal of building and infrastructure systems. In its more traditional usage, deferred maintenance refers to the deferral of basic maintenance due to insufficient operating funds. Deferred maintenance in this traditional sense is addressed here in the context of chronic underfunding of ongoing operation and maintenance of plant.

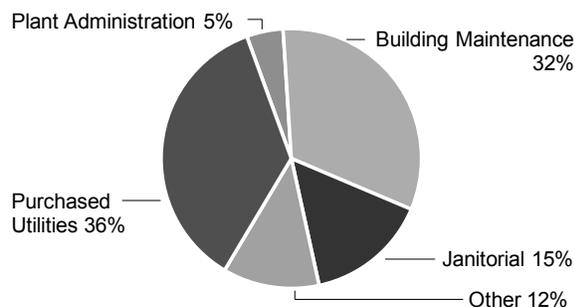
some of this reduction represents increased operational efficiency that is good for the fiscal health of the University, much of the reduction represents negative austerity measures, such as cuts in building maintenance activities, scaled back or eliminated preventive maintenance programs, and reduced custodial and grounds maintenance services. Substantial as they have been, recent reductions in OMP spending must be viewed against the backdrop of the existing challenges campuses have faced in recent years as they have sought to maintain facilities that can effectively support the University’s vast array of instruction, research, and public service programs. Furthermore, the campuses face challenges to comply with the University’s Sustainable Practices Policy and the State’s market-based emissions and renewable energy regulations, while managing a resurgence of higher energy costs in the next few years. The latest budget cuts compound years of underfunding, particularly for basic building maintenance, and the historical absence of systematic funding of capital renewal. Chronic underfunding of OMP shortens the useful life of building systems, accelerating capital renewal costs. Rising costs to operate and maintain the University’s vast inventory of aging facilities have added to the problems arising from underfunding of OMP. Nearly 60% of the University’s State-eligible space is more than 30 years old,

Display XIV-1: 2011-12 OMP Expenditures by Fund Source



The bulk of OMP expenditures are supported by State and UC General Funds and student fees funds.

Display XIV-2: 2011-12 OMP Expenditures by Category



Purchased utilities to light and heat UC facilities account for nearly 40% of OMP expenditures. Building maintenance accounts for another third.

with about half of that space built between 1950 and 1980. These aging facilities are more expensive to maintain, and, with building systems at or beyond their useful life, are a principal driver of the University's escalating capital renewal needs. Moreover, specialized research facilities comprise a growing percentage of the University's inventory of State-eligible space. These facilities strain limited OMP funds with higher maintenance and utility costs. Nearly a decade of dramatically rising purchased utilities costs and a growing inventory of State-eligible but unfunded space also exacerbate the OMP funding shortfall.

With operation and maintenance budgets already constrained, recent budget cuts have forced most campus facilities departments to implement reductions in OMP staff. These reductions in operation and maintenance budgets coincide with the State's inability to provide adequate funding to support new space at the University, as well as increases in basic operating costs due to continuing growth in campus physical plants.

OMP funding supports several facilities service functions, including regular building and grounds maintenance, janitorial services, utilities operations, and purchased utilities. OMP funding of building maintenance and other facilities service functions (excluding purchased utilities) was estimated to fall between 60% and 70% of standard before the recent fiscal crisis, based on workload standards developed in the early 1980s by UC and CSU in conjunction with the Department of Finance and the Legislative Analyst's Office.

In recognition of more than two decades of chronic underfunding of the University's OMP needs, the Legislature proposed a funding plan in 1996-97 to begin to eliminate over four years an estimated \$60 million funding shortfall for ongoing maintenance services by providing \$7.5 million in State funds each year to be matched by an equal amount of University funds. The University provided its share of the funding during the first two years of the plan, for a total of \$13.5 million; however, due to the State's fiscal constraints, the State was unable to provide its share.

Beginning in 1999-00, the Partnership Agreement with Governor Davis called for annual increases in OMP funding to be provided as part of a 1% increase to UC's State support, with a goal of funding two-thirds of the OMP funding shortfall over a four-year period. Increases were provided for OMP of \$4 million in 1999-00 and \$4.5 million in 2000-01, but none thereafter due to the deterioration of the State's fiscal situation. Most recently, between 2008-09 and 2010-11, the Compact with Governor Schwarzenegger called for an additional 1% base budget adjustment each year to be used to address critical shortfalls in State funding for core academic support functions, including ongoing building maintenance. Due to the State's second fiscal crisis of the decade, this provision was not funded.

SUPPORT FOR NEW SPACE

Funding for operation and maintenance of new space is an essential annual budget need. Unfortunately, the State's ongoing fiscal crisis has prevented the State from providing adequate operation and maintenance funding for much of the last decade, at a time when the University has added considerably to its building inventory to meet the demands of a decade of enrollment growth. The cumulative shortfall in funding of new space over the last nine years has exacerbated the effects of long term underfunding of OMP.

In 2002-03, the State provided support for utilities and maintenance costs for only about two-thirds of the new core instructional and research space. During 2003-04 and 2004-05, the State provided no funding for new space and the University redirected \$7 million from existing University resources to address the most critical operation and maintenance needs for the new space added during that period. In 2005-06, \$16 million of funding was provided by

the State to support space added that year and to partially backfill the unfunded space that had opened during the preceding two years.

In response to legislative supplemental budget language, the Department of Finance, the Legislative Analyst's Office, UC, and CSU revised the marginal cost of instruction calculation formula in 2006-07 to reflect more accurately the cost of both hiring new faculty and maintenance of new space. Using the new methodology², \$8.3 million was provided in 2006-07 and another \$9.2 million was provided in 2007-08 for new space.

With no State funding for OMP in 2008-09 due to the State's fiscal crisis, UC redirected \$9.7 million of permanent savings from restructuring at the Office of the President to ensure that campuses had basic operating and maintenance funds to open 983,000 gross square feet of new space.

Given the absence of State funding again in 2009-10 and the State's continuing fiscal difficulties, the University redirected one-time savings from debt restructuring to provide \$11.2 million in 2009-10 and \$19.5 million in 2010-11 to cover maintenance of new space for 1.1 million gross square feet. This funding did not address the significant permanent budget need to support new space, but it did provide temporary relief, especially to those campuses opening large core instructional and research buildings at a time of significant cuts to operating budgets.

The 2010-11 State budget provided \$51.3 million for 5,121 new FTE (based on a marginal cost of instruction of \$10,012), of which approximately \$6.4 million covered the cost for maintenance of new space. However, since that time, no funding for maintenance of new space has been provided. In fact, the University has borne an additional \$750 million budget cut and continues to face severe financial challenges due to unfunded cost increases. The University is now operating over 4 million square feet of core program space that is eligible for State support but unfunded by the State, representing almost \$40 million of support that the State is not providing. Campuses have been forced to redirect other resources or reduce other

² A discussion of the marginal cost methodology may be found in the *General Campus Instruction* chapter.

OMP expenditures to operate these unfunded facilities. Continuing to redirect funds from within strained existing resources to operate and maintain facilities is not sustainable over the long term. High-quality instructional research and public service programs require well-maintained, state-of-the-art facilities.

PURCHASED UTILITIES

For 2013-14, the University estimates an increase in purchased utilities costs of only \$8 million, based on a projected increase above inflation of 4% for electricity and 1% for natural gas.³ This slowdown in energy commodity cost increases is a significant change from recent years primarily due to the abundance of natural gas availability for electric generation. As discussed below, however, longer term forecasts identify a number of factors that will drive a resurgence of higher energy costs in the next few years.

Purchased Utilities Costs and Funding Since 2001

Since the energy crisis of 2001, rising electricity and natural gas prices have had a severe impact on the ability of campuses to manage overall OMP costs. The University's expenditures for electricity and natural gas commodities jumped 120% between 1999-00 and 2009-10, which is substantially higher than the general inflation rate of 31% for the same period. Escalating energy costs have forced campuses to redirect funds from other programs and make cuts within constrained OMP budgets. Because of UC's long-term natural gas contracts, the steep decline in natural gas prices in 2010 had a limited effect on lowering UC's procurement costs.

Evolving Energy and Carbon Markets and UC's Sustainable Practices and Goals – New Challenges

Pressures in the electricity supply chain will push prices up significantly through 2020 due to the implementation of the carbon emissions market ("cap-and-trade") under AB 32, which also requires that, by 2020, a third of the State's energy generation be from renewable sources. As an

³ The projection of electricity prices is based on investor-owned utility rate cases as filed for the period beginning in 2013 and corroborated by the consulting firm E3, which provides projections to the utilities. Natural gas prices will remain relatively flat for the 2013-14 period based on NYMEX projections and the long-term contracts that most campuses have signed for natural gas purchases.

unintended consequence, this mandate renders the current transmission system inadequate to accommodate the remotely located renewable energy sources, and the aging utility-owned distribution system will require significant investment in the years ahead, including Smart Grid expenditures. These factors and costs associated with meeting the goals of UC's Sustainable Practices Policy⁴ exacerbate the OMP funding challenges campuses already face.

Financial Impact of AB 32 – Cap and Trade

Six UC campuses are classified as large emitters (i.e., sites with emissions in excess of 25,000 metric tons of carbon dioxide equivalent (MTCO₂e) per year) under the current cap-and-trade regulations promulgated by the California Air Resources Board (CARB). Collectively these campuses are required to purchase 625,000 tons of carbon allowances in the first year at an estimated cost of \$6.3 - 25 million. Due to uncertainties in the evolving market, it is not possible to forecast the carbon costs with accuracy. Any costs will need to be funded from already constrained OMP budgets. UC is in discussions with CARB to find a strategy to help mitigate the financial impact on UC of the cap-and-trade regulations.

Financial Impact of AB 32 – 33% Renewable Energy Content

Statewide, all utilities and energy service providers must meet a 33% renewable energy content requirement for all electricity deliveries by 2020. In order to achieve that objective, besides having to construct massive renewable energy generating facilities, the transmission delivery system requires unprecedented upgrades to accommodate these often remotely located generation sources. Further goals to include small distributed generation in the supply grid (e.g., the Thousand Roof photo-voltaic program) drive the need for more sophisticated but costly local distribution systems, generally referred to as Smart Grids. The major utilities estimate that rates will increase by more than 16% by 2020 over current prices to finance these infrastructure improvements.

In the absence of additional State funding, campuses have historically absorbed the steep rise in energy commodity costs by reducing other operation and maintenance expenditures – a difficult tradeoff during a time of declining State funding and against the backdrop of historical underfunding of OMP – and by redirecting other program funds. Even with its aggressive efforts to reduce overall energy use, UC will need to continue to redirect resources to cover shortfalls in purchased utilities funding.

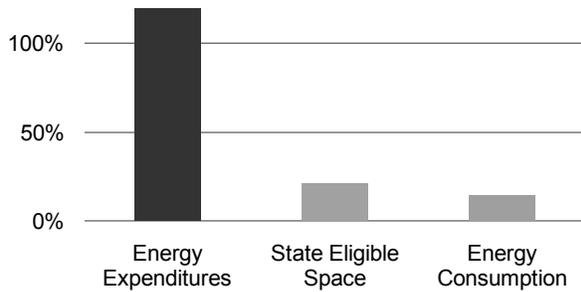
Impact of UC Growth on Purchased Utility Costs

Purchased utilities costs are affected by both commodity rates and consumption levels. Higher commodity rates for electricity and natural gas account for most of the steep rise in purchased utilities costs since 1999-00, although costs have declined modestly over the last few years. UC's energy consumption has also increased since 1999-00, but at a slower rate than enrollment-driven growth in new space as a result of aggressive energy efficiency standards for new buildings and efficiency retrofits in existing facilities.

Between 1999-00 and 2009-10, the University's State-eligible space increased by 20% while overall energy consumption increased by only about 13%. This slower growth in energy consumption is noteworthy because much of the University's new space has been laboratory and other specialized research facilities, which can typically consume more than twice as much energy as basic classroom and office buildings. Such buildings with complex mechanical systems, which now comprise approximately half of the total State-eligible space, account for nearly two-thirds of the energy use in the University's State-eligible space, as shown in Display XIV-4. Energy efficiency measures have helped to mitigate much of this increased energy demand. With its requirement that new facilities be designed so that energy use is 20% below existing Title 24 State standards, the University's Policy on Sustainable Practices dictates that energy efficiency remain a priority for new construction. Nevertheless, as it continues to replace buildings with more complex laboratories and specialized research facilities supporting programs in engineering and the physical and biological sciences, the University will face challenges as it seeks to reduce energy consumption and keep costs down.

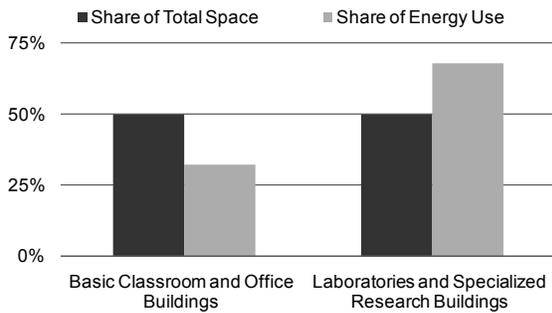
⁴ www.ucop.edu/ucophome/coordrev/policy/sustainable-practices-policy.pdf

Display XIV-3: Growth in Energy Expenditures, State-Eligible Space, and Energy Consumption between 1999-00 and 2009-10



Between 1999-00 and 2009-10, the University's total maintained space grew by 20%, energy consumption by 13%, and commodity expenditures for electricity and natural gas by 120%.

Display XIV-4: Energy Use by Building Type



Laboratories and specialized research facilities consume on average more than two times the energy used by campus classroom and office buildings.

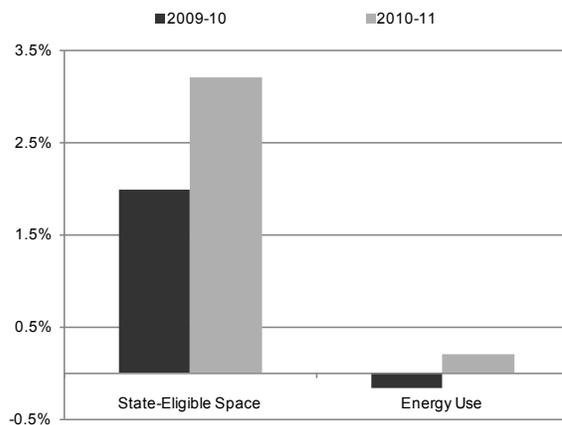
Energy Efficiency to Mitigate Cost Increases

Without additional State funding, UC has sought to mitigate rising purchased utilities costs by moving aggressively to manage overall energy consumption. UC has continued to implement stringent energy conservation measures; undertake capital improvements to maximize the efficiency of new buildings; and invest in energy efficiency projects, such as installing energy monitoring and metering systems and retrofitting existing facilities to install and upgrade temperature controls, efficient lighting systems, motors, and pumps. Other large scale conservation projects have included the development of energy efficient co-generation facilities at the San Francisco, Los Angeles, Irvine, and San Diego campuses and the Davis Medical Center, and thermal storage facilities at the Davis, Irvine, Merced, and Riverside campuses.

Many of the University's energy efficiency projects have been subsidized through partnership programs with the State's investor-owned utilities. Between 2004 and 2009, the University implemented approximately \$46 million of energy projects, garnering \$23.5 million in incentive grants and \$5 million in annual energy savings.

The University is continuing the implementation of an ambitious three-year partnership program (2010-12) to help meet its 2014 energy reduction policy. Based on current projections through December 31, 2012, the partnership program is expected to complete approximately 600 energy efficiency projects that will generate \$36 million in incentive payments from the utilities to offset project costs, and to deliver over \$28 million in annual energy savings to the campuses. Debt service for both State- and non-State-supported projects completed over the three-year program is expected to be about \$12 million annually for the 15-year term of the financing. The program is expected to reduce systemwide electricity consumption by 11%, natural gas consumption by 8%, and greenhouse gas emissions by 9%. Since January 2009, the partnership program has resulted in energy savings of 189 million kWhs, 9 million therms, and 110,000 metric tons of greenhouse gas emission reduction.

Display XIV-5: Comparison of State-Eligible Space Growth and Energy Consumption Relative to 2008-09 Levels (% Change)



As UC has continued to implement energy efficiency measures, 2009-10 and 2010-11 systemwide energy consumption – electricity, natural gas, and steam – has remained relatively unchanged since 2008-09 in light of a 2-3% increase in State-eligible space.

The partnership program with the investor-owned utilities is due to be extended through 2014 pending approval by the California Public Utilities Commission. The Regents will be requested to authorize a \$100 million budget for additional projects that the UC system has already identified and qualified. Combined, the utilities have committed an additional \$20 million in incentive grants to help defray the cost of energy projects, contingent upon the University delivering on projected energy savings.

Strategic Efforts to Manage Purchased Utility Costs and Meet the University's Carbon Neutrality Goals

In addition to pursuing energy conservation opportunities, the University has continued efforts to obtain favorable contracts for electricity while developing a long-term strategy for energy procurement that will reduce costs and advance efforts to meet the University's Policy on Sustainable Practices. The policy mandates that the University reduce overall growth-adjusted energy consumption by 10% below 2000 levels by 2014. The policy also requires reducing greenhouse gas emissions to 2000 levels without a growth adjustment by 2014 and to 1990 levels by 2020.

Electricity. UC was able to take advantage of favorable market conditions throughout 2011 and 2012 that provided attractive commodity pricing, with several campuses continuing contracts with the University's direct access provider through April 2013 and other campuses benefiting from shorter term contracts. Once the current direct access contracts expire in April 2013, UC intends to launch a long-term procurement strategy that will position the University in a more predictable energy market by delivering renewable energy from remote sites to the campuses at a reasonable cost. To date, efforts to expand the University's use of renewable power above mandated proportions have been inhibited by regulatory uncertainties and prerequisite long-term planning horizons. The direct access program can facilitate the delivery of non-conventional energy sources to the University's participating campuses and medical centers.

Based on current projections, the electricity supply cost component that is furnished by the utilities is expected to increase by 4% above inflation in 2012-13, while the

commodity portion furnished by the third-party provider has stabilized at 6% below the equivalent utility cost.

Natural Gas. 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 (DGS). However, it is unclear whether DGS will continue in its role of coordinating statewide procurement of natural gas. It is also anticipated that UC will need to acquire biogas assets to fuel the University's co-generation plants to help neutralize UC's carbon emissions. For these reasons, the University is exploring non-traditional procurement channels that are further elaborated on in the next section.

Strategic Procurement Efforts to Meet Carbon Neutrality Targets

If aggressive measures are not undertaken to reverse UC's emissions trajectory, the costs associated with emissions will be substantial. As California's market-based emissions regulations take effect, the direct and indirect costs to emit carbon will increase year by year, and campus-based initiatives will not be sufficient to address the challenge.

From all emission sources, the University currently emits approximately 1.7 million metric tons of carbon dioxide equivalent (MTCO₂e) per year, which is roughly equivalent to 100,000 American households. With expected growth, the University estimates emissions as high as 2 million MTCO₂e by 2014 and 2.15 million MTCO₂e by 2020. The University has made remarkable progress in reversing the growth of greenhouse gas (GHG) emissions. Most campuses have launched projects that will attain their 2014 GHG goal, and several campuses have voluntarily adopted more aggressive plans to accelerate their 2020 GHG goal to as early as 2014. However, several campuses will need off-site renewable energy in order to attain the 2014 goal, and essentially all campuses will need large-scale, off-site solutions to achieve the 2020 goal.

Strategies. The University is pursuing the following strategies designed to avert carbon costs and control renewable energy costs while enabling the University to achieve its climate commitments:

- **Minimize energy consumption through deep energy efficiency** — continue and expand on conservation

programs including the aforementioned Statewide Energy Partnership (SEP) Program;

- **Procure renewable energy at sufficient scale to negate the University’s emissions** — develop a systemwide wholesale power procurement strategy to manage costs and build a carbon-efficient electricity portfolio that is cost-comparable with utility-supplied electricity, entailing a combination of related strategies, for example:
 - Comprehensively plan for energy acquisition over a 20-year period to stabilize pricing and mitigate carbon-driven costs,
 - Establish the legal and business mechanisms required to import and distribute wholesale power, and
 - Pursue statutory and regulatory changes to enable the wholesale procurement of off-site power.
- **Procure biomethane, which is essentially climate-neutral, for use in the University’s natural gas infrastructure** — biomethane (harvested from controlled decomposition of organic matter) is essential to neutralize carbon emissions from UC’s central plants and to mitigate UC’s cap-and-trade compliance costs.

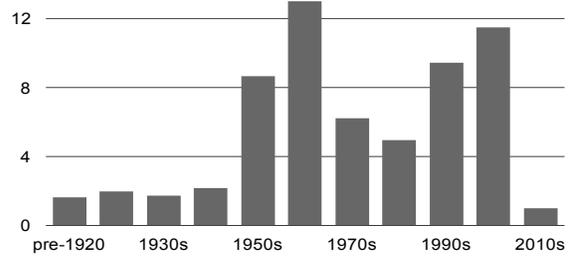
After extensive research and in collaboration with market experts, the University is exploring opportunities to invest in biomethane generation. Given the University’s access to low-cost borrowing and its high demand for this commodity, the University could reduce costs by 40% by removing the middleman from its procurement process. Active discussions are being held with internationally known developers of biomethane generation facilities and technical experts in pursuit of this new venture.

CAPITAL RENEWAL AND DEFERRED MAINTENANCE

The University faces growing costs to maintain and renew its inventory of aging buildings and to support infrastructure. About 45% of the University’s State-eligible space was built between 1950 and 1980, as shown in Display XIV-6.

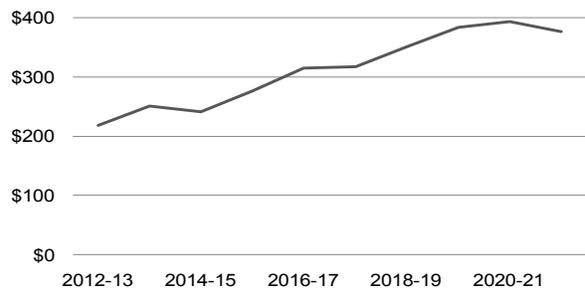
Over the next decade, many of the electrical, heating, ventilation and air conditioning (HVAC), elevator and conveying, plumbing, and other systems in these buildings will reach the end of their useful life. As a result, the University’s annual capital renewal needs are projected to increase significantly over the next decade, as shown in Display XIV-7.

Display XIV-6: State-Maintained Space by Decade of Construction (Gross Square Feet in Millions)



The University’s physical plant expanded rapidly in the 1950s and 1960s and again in the late 1990s and 2000s.

Display XIV-7: 10-Year Projected Annual Capital Renewal Needs (5-year Smoothed Average, Dollars in Millions)



Between 2012-13 and 2021-22, the University’s annual capital renewal needs for buildings are projected to increase significantly. This does not include much of the ongoing capital renewal need that has been deferred because of the lack of funding.

This annual investment is needed for the normal replacement and renewal of building systems and components. Replacement and renewal cycles may occur several times during the life of a building. Campus infrastructure, including utility generation and distribution systems, roads, bridges, hardscape, and seawater systems, also requires a substantial ongoing investment in renewal. Regular funding for the systematic replacement of building systems and campus infrastructure is currently not included in either the operating or capital budgets (though such funding is proposed in the University’s ten-year capital plan). It is estimated that at least \$100 million is needed annually to address critical deferred renewal across the system. Without systematic investment in capital renewal, this backlog will continue to grow.

Estimates of funding needs for capital renewal and deferred maintenance are based on a budget model developed by

Operation and Maintenance of Plant

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 backlog of deferred renewal by tracking those systems that have deteriorated to the point that they need major repair, replacement, or renewal to stop deterioration and reverse increases in maintenance costs required to keep the systems operating.

Funding for capital renewal and deferred maintenance has not been stable or predictable since the mid-1990s. A brief history of this funding is provided in Display XIV-8.

The University's capital renewal needs cannot be met until ongoing building maintenance is adequately supported and the University secures predictable ongoing funding to invest in capital renewal. In the long term, failure to invest adequately in capital renewal and ongoing maintenance represents a growing risk to the University. The risk ranges from disruptions of programs that may be caused by a breakdown of a building mechanical system or a facility's underperformance to the impact of a catastrophic failure of a mission-critical utility distribution system that could shut down an entire campus.

As also discussed in the companion to this document, the *2012-22 Capital Financial Plan*, the University has a strategic plan to dedicate State capital resources for capital renewal of existing facilities. With considerable uncertainty over the availability of State bonds, it is unclear how much of the proposed capital renewal will ultimately be funded. As the State's fiscal condition improves, the University intends to seek additional funding to help meet its substantial ongoing capital renewal needs and manage its large deferred maintenance backlog.

Display XIV-8: History of Programmatic Funding for Capital Renewal and Deferred Maintenance

Pre-1994-95	The State provided nearly \$20 million annually for deferred maintenance (only).
1994-95 to 1997-98	The State provided \$8 to \$25 million annually.
1998-99 to 2001-02	The State provided \$7.1 million each year. UC invested \$289 million over four years for capital renewal and deferred maintenance from bonds (that were to be repaid from a portion of the annual increase in UC General Funds).
2002-03	The State eliminated the remaining \$7.1 million in permanent deferred maintenance funding.
2002	UC initiated a program to allow campuses to pledge a portion of their UC General Fund income to finance urgent capital renewal and deferred maintenance work. Only some campuses have had sufficient revenues to participate. Bonds have financed \$221.1 million for high priority capital renewal and deferred maintenance projects. In the absence of State and other funding, the University has continued to use the capital outlay program to address critical capital renewal needs.
2008 to 2012	UC proposed to implement a capital renewal program to be funded with State general obligation bonds. With no bonds being placed on the ballot in 2008 and 2012, the program has not been implemented.

“As the State disinvests in its premier public university, UC is struggling to maintain access, quality and affordability. Recent increases in tuition and fees are difficult but necessary to achieve these goals.”

*Patrick J. Lenz
University of California
Vice President for Budget and Capital Resources*

Student Tuition and Fees

Revenue from student tuition and fees is a major source of funding for the University’s core educational program; in 2011-12, these sources provided approximately \$3.43 billion¹ to supplement State funding and other sources and help support basic operations.

Throughout the University’s history, but particularly since 1990, reductions in State support for higher education in California have jeopardized UC’s commitment to affordability, an impact that is recognized in the University of California Student Tuition and Fee Policy² established by the Regents in 1994. The policy specifically authorizes the use of Tuition revenue for general support of the University, including costs related to instruction. As noted in the *Sources of University Funds* chapter of this document, students now pay approximately 49% of the cost of education. Over the past 20 years, the State’s inflation-adjusted contribution per UC student has declined by 65%; in 2011-12, in fact, the contribution of students through their tuition and fees surpassed the State’s funding contribution for the first time in the University’s history.

Tuition and fee levels have been increased to help backfill reductions in State funding but have not made up the entire loss; in fact, tuition and fee increases have mitigated less than half of the budget shortfall created by the current fiscal crisis that began in 2008-09. Unfortunately, in a period of declining State support, student tuition and fee increases have been and will continue to be necessary if UC is to sustain its mission to provide access to a high-quality instructional program for the State’s most talented students. Given the large share of instructional costs currently funded from student tuition and fees, annual tuition and fee

increases are increasingly necessary for the University to address rising costs, barring extraordinary reinvestment by the State. All tuition and fee increases since 1990-91 have been a direct result of inadequate and volatile State support.

Students³ at the University of California pay five different types of charges:

- **Tuition**, a mandatory systemwide charge assessed to all registered students providing general support for UC’s budget;
- The **Student Services Fee**, another mandatory systemwide charge assessed to all registered students that supports services benefiting students;
- **Professional Degree Supplemental Tuition**, paid by students enrolled in a number of professional degree programs to support instruction and specifically to sustain and enhance program quality;
- **Nonresident Supplemental Tuition**, charged to nonresident students in addition to mandatory charges

2013-14 PROPOSED TUITION AND FEE ACTIONS

At the Board’s November 2012 meeting, the Regents are being asked to approve the following actions for 2013-14:

- An increase in mandatory systemwide charges (Tuition and Student Services Fee) of 6% for all students;
- Increases in Professional Degree Supplemental Tuition ranging from 0% to 35% and totaling from \$0 to \$3,256, depending on the campus and program; and
- Extension of the temporary Tuition surcharge to cover approximately \$49 million in losses associated with the *Luquetta* judgment.

These increase amounts assume passage of the Governor’s revenue-raising initiative in November 2012. If the initiative fails, following the election a revised budget plan will be submitted for the November meeting, which will include revised recommendations for increases in tuition and fees.

¹ This amount includes revenue from mandatory systemwide charges, Professional Degree Supplemental Tuition, and Nonresident Supplemental Tuition, but excludes fees charged at the campus level and UC Extension fees.

² www.universityofcalifornia.edu/regents/policies/3101.html.

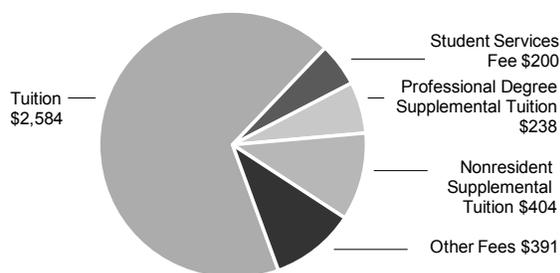
³ Although included in enrollment counts as students, medical and other health sciences residents are not assessed student charges.

Student Tuition and Fees

Display XV-1: 2012-13 Student Tuition and Fee Levels

Student Services Fee	\$972
Tuition	\$11,220
Professional Degree Supplemental Tuition	\$4,000-\$38,548
Nonresident Supplemental Tuition	
Undergraduate	\$22,878
Graduate Academic	\$15,102
Graduate Professional	\$12,245
Campus-based Fees ⁴	
Undergraduate	\$500 - \$1,685
Graduate	\$168 - \$1,087

Display XV-2: 2011-12 Student Tuition and Fee Revenue (Dollars in Millions)



In 2011-12, student tuition and fees generated \$3.43 billion to support the University's core operating budget and student financial aid. Campus-based/other fees totaling \$391 million support specific programs outside the core budget, such as student government and transportation.

and any applicable Professional Degree Supplemental Tuition charges, in lieu of State support for the cost of education; and

- **Fees Charged at the Campus Level**, which vary across campuses and by student level and fund a variety of student-related expenses not supported by other fees.

Despite significant tuition and fee increases in recent years, the University's ongoing commitment of setting aside a percentage of student tuition and fee revenue for financial aid, as discussed in the *Student Financial Aid* chapter of this document, has helped maintain the affordability of a UC education. At the undergraduate level, 30% of total tuition and fee revenue is currently used for student financial aid to ensure that the University remains financially accessible so that costs are not a barrier for academically eligible students in seeking and obtaining a UC degree.

⁴ Campus-based fee levels for undergraduate and graduate students do not include waivable health insurance fees.

To date, UC's charges for resident undergraduates and resident graduate academic students have remained competitive with those of the University's four public comparison institutions. In 2012-13, the University's average fees for California resident undergraduate students remain below the tuition and fees at two of the four public comparison institutions. At the graduate level, UC's charges for resident students are below the tuition and fees of three of UC's four comparators.

As the 2012-13 State budget enacted in June 2012 called for UC to avoid an increase in mandatory systemwide charges, Tuition and Student Services Fee levels did not increase in Fall 2012. In addition, Assembly Bill 970 establishes the Working Families Student Fee Transparency and Accountability Act requesting the Regents to comply with prescribed public notice and student consultation procedures prior to adopting increases in mandatory systemwide charges. AB 970 passed the Senate and Assembly in August 2012 and was signed by the Governor.

TYPES OF FEES

Tuition

Tuition, first established in 1970 and charged to all registered students, provides general support for the University's operating budget, including costs related to general campus and health sciences faculty and instructional support, libraries and other academic support, student services, institutional support, and operation and maintenance of plant. Tuition revenue is also used to provide student financial support. In 2011-12, Tuition generated \$2.584 billion for operations. The Regents set Tuition levels annually as described in the 1994 Student Tuition and Fee Policy. The policy directs the President of the University to recommend annual Tuition levels to the Regents after taking the following factors into consideration: 1) the resources necessary to maintain access under the Master Plan, to sustain academic quality, and to achieve the University's overall mission; 2) the full cost of attending the University; 3) the amount of support available from different sources to assist needy students; 4) overall State General Fund support for the University; and 5) the full cost of attendance at comparable public institutions.

Under the 1994 Student Tuition and Fee Policy, Tuition revenue is limited to the general support of UC's operating budget and cannot be used for capital expenditures. Fee increases have been needed primarily to offset reductions in State support; in fact, every fee increase since 1990-91 has been levied to make up for inadequate State funding.

In 2012-13, Tuition is \$11,220 for every student, regardless of student level, residency, and program.

Student Services Fee

The Student Services Fee is also charged to all registered students. Revenue from the fee funds services that are necessary to students but not part of the University's programs of instruction, research, or public service. In 2011-12, the fee generated \$200 million. The majority of these funds are spent on student services, including counseling and career guidance, cultural and social activities, and student health services. In addition, some Student Services Fee revenue is used for capital improvements that provide extracurricular benefits for students. As with Tuition, the Regents set Student Services Fee levels annually in accordance with the 1994 Student Tuition and Fee Policy. In 2012-13, the Student Services Fee is \$972 for all students.

FEES VERSUS TUITION

The State and UC have long held the position that State support for the University's instructional mission enabled the University to avoid charging "tuition." This view was enshrined in the 1960 Master Plan. Historically, the University established modest "fees" for specific, limited purposes that supplemented the instructional mission.

Since the fiscal crisis of the 1990s, however, the University has been forced to increase fee levels significantly to offset State budget cuts and, in doing so, expand the uses of student fee revenue to include instruction and instructional support activities. Several of these fees are equivalent to tuition charged by other universities.

At their November 2010 meeting the Regents approved the renaming of two student charges as "tuition." Using the word "tuition" increases transparency about UC's costs for the general public, students, and families; makes UC's terminology consistent with its public comparison institutions and entities to which UC reports its student charges; and helps UC avoid problems with the implementation of federal financial assistance programs.

Chancellors are authorized to determine specific allocations of Student Services Fee income on their campuses, within applicable University policies and guidelines. Each campus has a Student Fee Advisory Committee, the membership of which is at least 50% students, to advise the chancellor.

Professional Degree Supplemental Tuition

Professional Degree Supplemental Tuition (formerly known as professional degree fees) was established in 1994-95 to allow UC's professional schools to offset reductions in State support and maintain program quality.

In 2012-13, these fees are charged to students enrolled in graduate professional degree programs in applied economics and finance; architecture; art; biotechnology management; business; dental hygiene; dentistry; development practice; educational leadership; engineering; engineering management; environmental design; environmental science and engineering; genetic counseling; health informatics; information management; international relations and Pacific studies; law; medicine; nursing; optometry; pharmacy; physical therapy; preventive veterinary medicine; product development; public health; public policy; social welfare; statistics; theater, film, and television; urban planning; and veterinary medicine.

Assessed in addition to mandatory student charges and, if applicable, Nonresident Supplemental Tuition, Professional Degree Supplemental Tuition levels during 2012-13 range from \$4,000 to \$38,548 depending on the program, campus, and student residency. In 2011-12, these charges generated \$238 million.

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. Budget cuts have devastated the resources available to the professional schools to such a degree that the professional school deans are extremely concerned about their ability to recruit and retain excellent faculty, provide an outstanding curriculum, and attract high-caliber students. New revenue generated from increases in Professional Degree Supplemental Tuition is one of the ways to regain and maintain the excellence threatened by budget cuts.

The Regents' Policy on Professional Degree Supplemental Tuition⁵ specifies that these charges will be approved by the Regents in the context of multi-year plans that advance the mission and academic plans of each professional school program. Multi-year planning with regard to Professional Degree Supplemental Tuition is a vital and fiscally prudent strategy that:

- provides a more stable planning environment for the professional schools;
- allows the schools to consider and act on long-term investment needs such as new faculty positions, facility needs, and financial aid program development;
- provides each program with the opportunity to comprehensively analyze its program needs, the costs to address those needs, and the revenue available to support those needs;
- allows each program to examine its competitiveness with other institutions on a number of measures, including the "sticker price" of attendance, financial aid programs and their impact on the net cost to students, and other indicators of national competitiveness of the program;
- helps inform decision making by clearly identifying each degree program's goals and objectives and the steps that are needed to achieve them; and
- enables each program to consult with students and faculty about long-term plans and tuition levels.

The Regents' policy also includes 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.

In 2012-13, a systemwide Professional Degree Supplemental Tuition Task Force will review a number of issues related to these charges, specifically the policy governing the charges, and will make recommendations to the Regents for changes to policy.

Professional Degree Supplemental Tuition increases for 2012-13 varied by program but ranged between 0% and 35% and between \$0 and \$7,118. Almost three-quarters of the programs charging Professional Degree Supplemental Tuition prior to 2012-13 determined that, within their current marketplace, annual increases in Professional Degree Supplemental Tuition charges for 2012-13 of 7% or less were sufficient to meet their program goals and objectives;

nursing programs were at the higher end of the range of percentage increases. These increases were approved in the context of the programs' multi-year plans and are enabling programs to act on investment needs such as new faculty positions, facility needs, and financial aid program development.

At their November 2012 meeting, the Regents will be asked to approve increases in existing Professional Degree Supplemental Tuition charges for 2013-14 ranging from 0% to 35% and totaling from \$0 to \$3,256, depending on the campus and program. In addition, the Regents will be asked to establish new Professional Degree Supplemental Tuition charges for a number of programs. Proposals have been received for supplemental charges for programs in games and playable media, health sciences, technology and information management, and translational medicine.

Nonresident Supplemental Tuition

In addition to all other applicable tuition and fees, UC students who do not qualify as California residents are required to pay Nonresident Supplemental Tuition, consistent with the State's policy not to provide support for nonresident students. Enrollment of approximately 23,300 nonresident students, including both undergraduate and graduate international students and domestic students from other states, generated \$404 million in 2011-12.

STATE LAW REGARDING NONRESIDENT TUITION

Section 68052 of the California Education Code directs California's public institutions of higher education to address the following when establishing nonresident student tuition levels:

- Nonresident tuition methodologies used by California's public postsecondary education segments should consider: 1) the total nonresident charges imposed by each of their public comparison institutions, and 2) the full average cost of instruction;
- Nonresident tuition plus required fees should not fall below the marginal cost of instruction;
- Increases in the level of nonresident tuition should be gradual, moderate, and predictable; and
- 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 law's provisions.

⁵ www.universityofcalifornia.edu/regents/policies/3103.html.

Nonresident tuition levels in 2012-13 vary by student level and program: \$22,878 for undergraduate students, \$15,102 for graduate academic students, and \$12,245 for graduate professional students. Doctoral students advanced to candidacy are not charged Nonresident Supplemental Tuition while enrolled within normative time to degree. The California Education Code provides direction to UC about setting Nonresident Supplemental Tuition levels.

Typically it is very difficult for undergraduate students to be reclassified from nonresident to resident status. This is because residency classification typically requires both the student and the student's parents to establish permanent residence in California unless the student can demonstrate financial independence – a very high standard.

Reclassification is more common at the graduate level. International students at any level cannot establish California residency. Consequently, undergraduates and international students typically pay Nonresident Supplemental Tuition each term that they attend UC, while domestic graduate students typically pay Nonresident Supplemental Tuition for one year while they establish permanent residency.

A significant concern associated with Nonresident Supplemental Tuition is the University's ability to attract high quality nonresident undergraduate and graduate students. For several years during the last decade, the University fell short of its goals for nonresident enrollment and tuition revenue. For undergraduates, UC's total charges for nonresidents are among the highest in the country. Moreover, concern over the inadequacy of graduate student support has been the underlying reason that UC has not increased Nonresident Supplemental Tuition levels for graduate academic students since 2004-05 and graduate professional students since 2003-04.⁶ The University annually monitors the numbers of nonresidents applying to and enrolling at UC. Future increases in Nonresident Supplemental Tuition will be carefully considered, given the potential impact on

nonresident enrollment. UC campuses are engaged in efforts to increase enrollment of nonresident undergraduates to help generate revenue to replace lost State support, as discussed in the *General Campus Instruction* chapter of this document.

Regarding Nonresident Supplemental Tuition for graduate academic students, the faculty has expressed interest in eliminating this charge. State policy constrains the extent to which the University can reduce Nonresident Supplemental Tuition levels, however, and budgetary issues must be considered as well. Nevertheless, the University continues to take steps to help address the impact of Nonresident Supplemental Tuition on its ability to fund competitive awards. By forgoing increases in graduate Nonresident Supplemental Tuition over the past few years, the University has effectively reduced the need for graduate awards to cover Nonresident Supplemental Tuition. Continuing to do so will further ease the pressure on the fund sources that currently provide such coverage.

Fees Charged at the Campus Level

Campuses may also charge fees for specific needs related to campus life and safety or instruction.

Campus-based Fees. Campus-based fees cover a variety of student-related expenses that are not supported by Tuition or the Student Services Fee. These fees help fund programs such as student government; the construction, renovation, and repair of sports and recreational facilities;

Display XV-3: 2012-13 Campus-based Fee Levels

<u>Campus</u>	<u>Undergraduate</u>	<u>Graduate</u>
Berkeley	\$682	\$682
Davis	\$1,685	\$915
Irvine	\$930	\$770
Los Angeles	\$500	\$374
Merced	\$878	\$617
Riverside	\$768	\$598
San Diego	\$1,025	\$542
San Francisco	n/a	\$168
Santa Barbara	\$1,479	\$765
Santa Cruz	\$1,224	\$1,087
Average	\$1,008	\$616

⁶ Nonresident graduate academic students experienced a slight increase in Nonresident Supplemental Tuition in 2011-12, which was offset by the elimination of differentials in the Tuition charge for nonresidents. The change was cost-neutral to students.

Student Tuition and Fees

and other programs and activities such as transit.⁷ The number and dollar amounts of campus-based fees vary across campuses and between undergraduate and graduate students. Campus-based fees for 2012-13 range from \$168 at San Francisco (graduates) to \$1,685 at Davis (undergraduates); in 2012-13, average campus-based fees are \$1,008 for undergraduates and \$616 for graduates.⁸ Generally students must vote to establish or increase campus-based fees, but these fees can also be set by chancellors (with the concurrence of the Regents) if a fee is necessary to help ensure the safety of students, e.g., to pay for the seismic retrofit of a building funded by student fees. In recent years, a return-to-aid component has been built into newly established campus-based fees. Display XV-3 shows campus-based fee levels during 2012-13.

Course Materials and Services Fees. Other fees charged at the campus level include Course Materials and Services Fees; these fees cover costs specific to a course, such as materials to be used in a studio arts class, travel costs for an archeological dig, or information technology materials and services as they relate to a specific course. The fees are set by the chancellors but may not exceed the actual cost per student of the materials and services provided for the course in question. In 2011-12, Course Materials and Services Fees generated approximately \$19 million at UC's 10 campuses.

UC AND COMPARISON INSTITUTION FEES

As an overall measure of the University's position in the market, the University annually monitors tuition and fee levels relative to those charged by its four public comparison institutions. As discussed in the *Student Financial Aid* chapter of this document, the University also monitors the net cost of attendance – i.e., total charges for tuition and fees and living expenses, net of financial aid – compared to net costs at these public institutions. The net cost of attendance provides a more complete

⁷ The University's Policy on Compulsory Campus-Based Student Fees is available at www.ucop.edu/ucophome/coordrev/ucpolicies/aos/uc80.html.

⁸ Campus-based fee figures are weighted by enrollment and do not include waivable health insurance fees, which average \$1,286 for undergraduates and \$2,251 for graduates in 2012-13.

Display XV-4: 2012-13 University of California and Public Comparison Institution Fees

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
Public Comparison Institutions				
SUNY Buffalo	\$7,989	\$18,609	\$11,232	\$18,542
Illinois				
Lowest	\$14,960	\$29,102	\$14,938	\$28,204
Highest	\$19,880	\$34,022		
Average	\$17,420	\$31,562		
Michigan				
Lower division	\$12,994	\$39,122	\$19,434	\$39,076
Upper division	\$14,644	\$41,870		
Average	\$13,819	\$40,496		
Virginia	\$12,244	\$38,236	\$15,662	\$25,668
UC	\$13,200	\$36,078	\$12,808	\$27,910

In 2012-13, the University's average fees for California resident students remain below two of four comparators for undergraduates and three of four comparators for graduate students.

Note: Comparison institution figures include tuition and required fees as reported on campus websites. UC figures include mandatory systemwide charges, campus-based fees, and Nonresident Supplemental Tuition for nonresident students. Waivable health insurance fees are not included. Figures for Illinois represent the minimum base rate and the maximum charge for higher-cost programs.

representation of the actual financial impact of student tuition and fee levels and other costs.

In addition, to facilitate recruitment of high quality academic doctoral students, UC regularly conducts surveys assessing the competitiveness of its graduate student financial aid offers relative to those of other doctoral institutions.

Despite the significant fee increases implemented over the last ten years, in 2012-13 UC's average fees for *resident undergraduate* students (excluding health insurance fees) remain below the fees charged at two of the University's four public comparison institutions, as shown in Display XV-4. UC fees for *resident graduate* academic students remain lower than the tuition and fees charged at three of the University's four public comparison institutions.

For nonresidents, UC's tuition and fees remain below two of the four comparators at the undergraduate and graduate levels. Maintaining the University's competitiveness for nonresident undergraduate and graduate academic students is a serious concern, as mentioned above and discussed further in the *Student Financial Aid* chapter of this document. Notably, in 2012-13 UC's tuition and fees

for nonresidents remain lower than those of its private comparison institutions (Harvard, MIT, Stanford, and Yale).

Professional School Comparisons. For 2012-13, UC charges for many resident professional students fall within the range of the resident tuition and fees charged by comparable public institutions. UC professional degree programs recruit students nationally and internationally as well as from 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 programs as they develop their multi-year plans for Professional Degree Supplemental Tuition.

HISTORY OF STUDENT FEES

Student fees were first charged by the University in the 1920s with the establishment of an Incidental Fee. In 1960, the California Master Plan for Higher Education affirmed that UC should remain tuition-free (a widely held view at the time), but allowed that fees could be charged for costs not related to instruction. In the late 1960s, the Incidental Fee was renamed the Registration Fee, and revenue was used to support student services and financial aid. In 2010, the Registration Fee was renamed the Student Services Fee.

The Educational Fee was established in 1970-71 and was originally intended to fund capital outlay. However, each year a greater proportion of the Educational Fee was allocated for student financial aid. Therefore in the late 1970s the Regents established that Educational Fee income was to be used exclusively for student financial aid and related programs. In 1981, the Regents extended the Educational Fee's use to include basic student services, which had lost State General Fund support.

In 1994, the University of California Student Fee Policy established that the Educational Fee may be used for general support of the University's operating budget. In addition, a goal of the policy is to maintain the affordability of a high quality educational experience at the University for low- and middle-income students. In 2011, the Educational Fee was renamed Tuition.

Over time, UC's student fee levels have largely tracked the State's economy. In good years, such as during the mid-1980s and the late 1990s, fees were held steady or were

RECENT HISTORY OF UNIVERSITY OF CALIFORNIA STUDENT TUITION AND FEE LEVELS

1990-91 to 1994-95	Fees increased by 157% over the five-year period in response to significant State funding reductions.
1995-96 to 2001-02	Due to strong support from the State, mandatory systemwide charge levels for resident students did not increase for seven consecutive years.
2002-03 to 2005-06	Due to the State's deteriorating fiscal situation, fees doubled for resident undergraduate and graduate academic students. Increases for nonresident and professional students were even higher.
2006-07	The State provided supplementary funding to avoid student tuition and fee increases.
2007-08 to 2008-09	Mandatory systemwide charges increased by 8% in 2007-08 and 7% in 2008-09. Professional Degree Supplemental Tuition increased by 7-12% in 2007-08 and 5-20% in 2008-09, varying by program.
2009-10 to 2010-11	In May 2009, the Regents approved an increase of 9.3% in mandatory student charges for all students for 2009-10. Due to budget cuts representing nearly 20% of State support, in November 2009 the Regents approved 2009-10 mid-year increases in mandatory charges of 15% for undergraduate and graduate professional students and 2.6% for graduate academic students. For 2010-11, the Regents approved additional 15% increases in mandatory student charges for all students. Professional Degree Supplemental Tuition increased from 0%-25% in 2009-10 and from 0-30% in 2010-11.
2011-12	In November 2010, mandatory systemwide charges increased by 8%. Professional Degree Supplemental Tuition increased by 0-31%. Due to reductions in State support for UC, mandatory systemwide charges increased by an additional 9.6% in July 2011.
2012-13	Because the 2012-13 State budget enacted in June 2012 called for UC to avoid a tuition increase, mandatory systemwide charges in Fall 2012 do not reflect increases over 2011-12 levels and assume passage of the Governor's revenue-raising initiative in November 2012. Professional Degree Supplemental Tuition increased by 0-35%.

reduced. In years of fiscal crisis – during the early 1990s, during the early 2000s, and more recently – student tuition and fees increased dramatically in response to significant reductions in State funding, though these increases have only partially backfilled the reductions in State support. The Appendices to this document include historical tuition and fee levels for UC students by level and residency. The 2012-13 and 2013-14 tuition, fees, and charges included in the Appendices are estimates subject to change by the Regents and assume passage of the Governor’s revenue-raising initiative in November 2012.

KASHMIRI AND LUQUETTA LAWSUITS

A lawsuit against the University, *Kashmiri v. Regents*, has impacted Tuition levels for all students. The lawsuit was filed against the University in 2003 by students who had enrolled in UC’s professional degree programs prior to December 16, 2002. The class action suit alleged that the increases in Professional Degree Supplemental Tuition that were approved by the Regents for Spring 2003 (and for all subsequent years) violated a contract between the University and these students that their Professional Degree Supplemental Tuition levels would not increase during their enrollment. The trial court entered an order granting a preliminary injunction against the University, prohibiting collection of the Professional Degree

Supplemental Tuition increases approved by the Regents for 2004-05 and 2005-06 from students affected by the lawsuit. As a result, at the end of 2011-12, the University had lost \$24.1 million in uncollected Professional Degree Supplemental Tuition revenue.

In March 2006, the trial court entered a \$33.8 million judgment in favor of plaintiffs. After the University exhausted its appeals, the trial court finalized the judgment in January 2008. Currently, a temporary Tuition surcharge of \$60 is being assessed to all students until the lost revenue is fully recovered and the judgment is fully paid off (estimated to occur in 2012-13).

A second lawsuit, *Luquetta v. Regents*, was filed in 2005 and extended the Professional Degree Supplemental Tuition claim to professional students who enrolled during the 2003-04 academic year. In April 2010, the trial court entered judgment in favor of the plaintiffs in the amount of \$39.4 million. The University unsuccessfully appealed the court’s decision, and the judgment was made final in July 2012. At the November 2012 Regents’ meeting, the Board will be asked to approve an extension of the temporary Tuition surcharge to cover the *Luquetta* judgment. Due to the accrual of post-judgment interest, losses associated with the *Luquetta* case total approximately \$49 million.

“A UC education should not be financially out of reach for any student. Accessibility is a critical factor in UC’s success, and the University is committed to preserving that for students at all income levels.”

*Nathan Brostrom
University of California
Executive Vice President for Business Operations*

Student Financial Aid

Guided by policy adopted by the Regents in 1994, the University’s financial aid program is closely linked to the University’s goals of student accessibility and helping the state meet its professional workforce needs.¹ In 2010-11, UC students received \$3.4 billion in financial aid, of which \$1.1 billion (32%) was provided by UC. Maintaining a robust financial aid program for UC undergraduate and graduate students remains a top University budget priority.

At the undergraduate level, the goal of the University’s financial aid program is to ensure that the University remains financially accessible to all eligible students so that financial considerations are not an obstacle to enrollment. During the 2010-11 academic year, 62% of UC undergraduates received grant/scholarship aid averaging \$14,715 per student. Despite tuition and fee increases, the University of California is nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students. In 2010-11, 41% of UC undergraduates were low-income Pell Grant recipients — more than at any other comparably selective research institution.

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 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. In 2010-11, 61% of graduate students received grant or fellowship support averaging about \$15,600 per student, in addition to substantial support from teaching assistantships and research assistantships. The competitiveness of support packages for UC graduate

¹ The University of California Financial Aid Policy is available at www.universityofcalifornia.edu/regents/policies/3201.html.

FINANCIAL AID PRIORITIES FOR 2013-14

In 2013-14, the University proposes to:

- Set aside, as a minimum, amounts equal to 33% of new systemwide tuition and fee revenue from undergraduate and graduate professional students, and 50% of new systemwide tuition and fee revenue from graduate academic students, for student support;
- Continue to ensure that tuition and fee increases do not deter talented, low-income students from aspiring to attend UC by fully funding the Blue and Gold Opportunity Plan, which provides full coverage of mandatory systemwide tuition and fees for eligible resident undergraduates with family incomes up to \$80,000 (up to the students’ need);
- Provide assistance to financially needy middle-income families to offset the impact of any tuition and fee increase proposed for 2013-14; and
- Continue a fundraising effort that aims to raise \$1 billion for student support over four years.

At the State level, UC will work with segments of higher education and other stakeholders to ensure that the Cal Grant program continues to be funded at necessary levels.

These plans assume passage of the Governor’s revenue-raising initiative in November 2012. If the initiative fails, following the election a revised budget plan will be submitted for the November meeting, which could affect UC’s financial aid proposals for 2013-14.

academic students and its impact on the ability of the University to enroll top students from around the world has been a longstanding concern at UC.

The University has faced several challenges in recent years related both to affordability at the undergraduate level and competitiveness at the graduate level. At the undergraduate level, tuition and 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 tuition and fee increases occurred while other elements of the total cost of attendance — including

living expenses and books and supplies — also increased. For graduate academic students, increases in tuition and fees 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 Professional Degree Supplemental Tuition, which was implemented to help professional schools maintain the quality of their programs, have increased the demand for financial aid for these students as well.

The University has responded to these challenges by adopting measures that expanded the availability of student support and mitigated student cost increases, augmenting University funding for grants and fellowships, limiting Nonresident Supplemental Tuition increases for graduate students, expanding loan repayment assistance programs for professional degree students choosing public interest careers, and improving information about the availability and terms of private loans for students.

To increase funding for grants and fellowships, the University has continued to use a portion of the revenue derived from student tuition and fee increases to support financial aid for both undergraduate and graduate students. In recent years, UC has set aside 33% of new fee revenue from undergraduate and graduate professional students and 50% of new fee revenue from graduate academic students to augment UC’s “return-to-aid” funds.

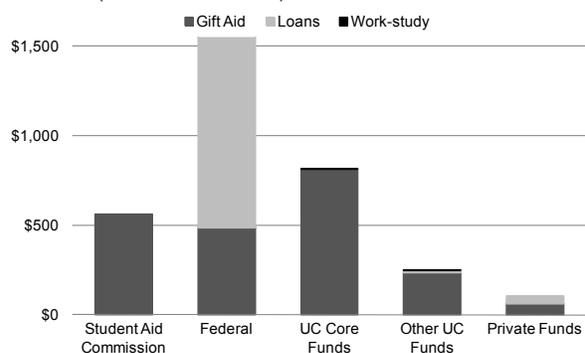
Assuming passage of the Governor’s revenue-raising initiative in November 2012, the University plans to augment its student aid programs further by an amount equivalent to 33% of new undergraduate tuition and fee revenue in 2013-14. This augmentation, together with Cal Grant award increases, would provide enough funding to cover the systemwide tuition and fee increases for those students eligible for UC grant assistance under the University’s primary undergraduate need-based aid program.

These additional resources would also allow the University to fully fund the Blue and Gold Opportunity Plan in 2013-14. This plan ensures that all mandatory systemwide tuition and fees are covered by scholarships or grants for eligible resident undergraduates with family incomes below \$80,000, up to the students’ need. As in past years, UC

would also provide grant support to financially needy middle-income students with family incomes up to \$120,000 to help these families transition to higher tuition and fee levels.

To help mitigate the impact of tuition and fee increases on the competitiveness of UC graduate student support, the University would, at a minimum, provide an amount

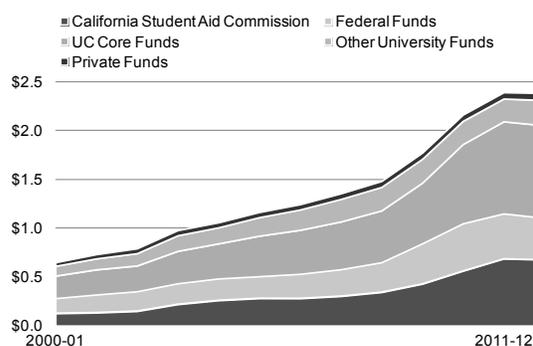
Display XVI-1: 2010-11 Financial Aid by Type and Source of Funds (Dollars in Millions)



	<u>CSAC</u>	<u>Federal</u>	<u>Core Funds</u>	<u>Other UC</u>	<u>Private</u>
Gift Aid	\$561.9	\$485.9	\$810.5	\$236.9	\$63.3
Loans	\$0.0	\$1,147.9	\$0.0	\$8.3	\$44.5
Work-study	\$0.0	\$26.3	\$4.8	\$0.3	\$0.0
Total	\$561.9	\$1,660.1	\$815.3	\$245.5	\$107.8

State, federal, and UC sources each provide large amounts of gift aid (scholarships and grants) for UC students, while federal funds provide the bulk of student loans.

Display XVI-2: Gift Aid Expenditures by Source (Dollars in Billions)



To offset tuition and 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 nearly \$2.38 billion in 2012-13, over half of which is generated from UC sources.

equivalent to 50% of new systemwide tuition and fee revenue from graduate academic students to student financial support in 2013-14.

The University would also set aside an amount equivalent to 33% of new tuition and fee revenue from graduate students in professional degree programs. In addition, these programs will be expected to supplement financial aid resources by an amount equivalent to at least 33% of new Professional Degree Supplemental Tuition revenue in 2013-14, or to maintain a base level of financial aid equivalent to at least 33% of the total Professional Degree Supplemental Tuition revenue. The University continues to monitor indicators of program affordability, including demographic trends in enrollment and cumulative debt levels. The availability of flexible loan repayment plans is becoming increasingly important to these students. For 2013-14, UC expects that campuses will continue to provide loan assistance repayment programs (LRAPs) where appropriate to help borrowers with public interest employment meet their student loan repayment obligations.

As mentioned in the *Student Tuition and Fees* chapter, the University also proposes to freeze Nonresident Supplemental Tuition for graduate academic students for the ninth consecutive year and to freeze Nonresident Supplemental Tuition for graduate professional students for the tenth year in a row.² By forgoing any increase in graduate Nonresident Supplemental Tuition, the University has effectively reduced the real cost of Nonresident Supplemental Tuition in each of the past few years.

Each year UC prepares a comprehensive report for the Regents describing how undergraduate and graduate students finance their education.³ In 2012-13 and beyond, the University will continue to closely monitor the effectiveness of its financial support 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.

FUND SOURCES FOR FINANCIAL AID

UC students may receive scholarships, fellowships, grants, loans, work-study jobs, and tuition and fee remissions to assist them in paying the educational costs of attending UC. The cost of attendance includes tuition and fees, living expenses, books, and other expenses. UC students receive assistance from four major fund sources: State aid programs, federal aid programs, University funds, and private entities.

State Aid Programs

Students at all California institutions of higher education may receive financial support from a number of State programs. These programs, administered on behalf of the State by the California Student Aid Commission (CSAC), include the Cal Grant A and B Programs, described below.

- The Cal Grant A Program is the largest of the State's aid programs and provides grants covering UC systemwide fees for needy, meritorious undergraduates.
- The Cal Grant B Program provides grants covering systemwide charges and a small stipend for living expenses to undergraduates from particularly low-income or disadvantaged backgrounds. First-year recipients generally receive the stipend only.

The programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. Cal Grant awards for recipients attending UC and CSU currently cover systemwide student charges, but provide only minimal assistance to help students cover other costs of attendance. In 2010-11, nearly 56,000 UC students were awarded \$561 million in financial aid from all programs administered by CSAC. Cal Grant funding for UC students has increased in recent years as UC's charges have increased. It is anticipated that the State would provide additional funding to cover proposed 2013-14 tuition and fee increases for UC Cal Grant recipients. UC will work with the other segments of higher education and other stakeholders to ensure that the State maintains its historic commitment to the Cal Grant program and that the program continues to be funded at necessary levels, including funding to cover the proposed increases.

² Graduate academic students experienced a slight increase in the nonresident tuition charge in 2011-12, which was offset by the elimination of differentials in Tuition for nonresident students. The change was cost-neutral to students.

³ Annual student financial support reports, compiled by the Student Financial Support unit in the Student Affairs department at the UC Office of the President, are available at www.ucop.edu/sas/sfs/reports_data.html.

UNIVERSITY OF CALIFORNIA RETURN-TO-AID

Historically, the University has funded UC student financial support needs in part by setting aside a portion of revenue from tuition and fee increases for financial aid for needy students, a practice called “return-to-aid.” As UC more fully recognized student financial need not covered by external resources and as student need increased over time, the percentage of revenue from tuition and fee increases dedicated to financial aid also increased.

In 1987-88, the percentage of new tuition and fee revenue dedicated to financial aid was 16%; this proportion has increased over time to 33% for undergraduates. Similarly, the University has increased its systemwide commitment to graduate student support through a return-to-aid of 50% on new tuition and fee revenue for graduate academic students and 33% of all new tuition and fee revenue for students in professional degree programs. In addition, campuses are expected to set aside a minimum of 25% of the revenue from newly enacted campus-based fees for return-to-aid.

UNIVERSITY OF CALIFORNIA BLUE AND GOLD OPPORTUNITY PLAN

In 2012-13, the Blue and Gold Opportunity Plan ensures that financially needy California undergraduates with total family income under \$80,000 have systemwide tuition and fees covered (up to the students’ need) by scholarship or grant awards. This initiative, introduced in 2009-10, helps ensure that UC tuition and fee charges do not deter the half of California households with incomes below \$80,000 from aspiring to a UC education. Over 70,000 UC undergraduates are expected to qualify for the Plan in 2012-13.

Federal Aid Programs

UC students receive federal support in three ways:

- Federal grants and scholarships worth \$486 million in 2010-11, which comprised 23% of all grants and scholarships received by UC students that year;
- Loans totaling \$1.1 billion in 2010-11; and
- Federal tax credits and income tax deductions, from which many UC families benefited. Nationally, the value of these federal benefits has grown steadily since their introduction in 1997; tax credits and deductions are described in greater detail at the end of this chapter.

Augmentations to federal aid programs resulting from the American Recovery and Reinvestment Act of 2009 affected funding for 2010-11 and 2011-12 and are discussed later in this chapter.

University Funds

University funds consist of two components: UC core operating funds and other University aid funds. The University designates \$815 million in UC core operating funds – i.e., student fee revenue, UC General Funds and State General Funds – for student financial support. Other University aid funds totaled \$245 million in 2010-11 and were provided through campus-based programs funded by endowment income, current gifts, and campus discretionary funds. Nearly all (99%) of the support provided by University funds was in the form of fellowships, scholarships, and grants.

Private Support for Financial Aid

Private agencies and firms also provide student financial support through scholarships and other forms of aid. Funds in this category range from traineeships and fellowships from private firms (e.g., Hewlett Packard and IBM), to funds from associations and foundations (e.g., the Gates Millennium Scholars program and the American Cancer Society), to small scholarships from community organizations. Nearly all funds in this category are awarded to students in the form of scholarship or grant support. In 2010-11, \$63 million was awarded to UC students from private agency programs, representing 3% of the gift aid students received during that year.

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. Such loans are particularly important for students in professional degree programs due to the relatively high cost of those programs. UC students borrowed \$44 million from private lenders in 2010-11. UC makes extensive efforts to identify lenders that offer private student loans with competitive terms in order to help students in various programs make well-informed decisions about private loans.

Other, smaller sources of financial assistance, including exemptions and tax credits, are described in more detail at the end of this chapter.

UNDERGRADUATE STUDENT FINANCIAL AID

As noted earlier in this chapter, the University has remained accessible to undergraduate students from all income groups, particularly low-income students, despite recent tuition and fee increases and increases in non-fee costs. In 2010-11 41% of UC students were low-income Pell Grant recipients, more than at any other comparably selective research institution. Financial aid also contributes greatly to the University's undergraduate diversity. African-American, Chicano/Latino, and Asian American students are disproportionately low income; 46%, 49%, and 35%, respectively, of these students are either financially independent (who are generally low-income) or have parent incomes less than \$40,000. Collectively, these students receive 68% of all undergraduate gift assistance.

For many years, the percentage of students from middle-income families enrolled at the University has remained relatively stable, staying around 43% between 2000-01 and 2006-07, despite tuition and fee increases in most of those years. Since then, the percentage has declined slightly, to 37% in 2010-11, which may reflect a decline in middle-income families statewide attributable to the economic recession. The University is closely monitoring this trend, together with income trends among California families generally, as it refines its undergraduate financial aid programs for the 2013-14 academic year.

A general measure of the University's affordability is its average net cost of attendance, which represents the actual cost of attending UC for undergraduates after taking into account scholarship and grant assistance. In 2011-12 (the most recent year for which information is available), the University's average *total* cost of attendance (before financial aid) was higher than or equal to the total cost of attendance at UC's four public comparison institutions, as shown in Display XVI-5. After adjusting for gift aid, however, the *net* cost of attendance for resident need-based aid recipients was lower than the estimated net cost at three of the University's four public comparison institutions.

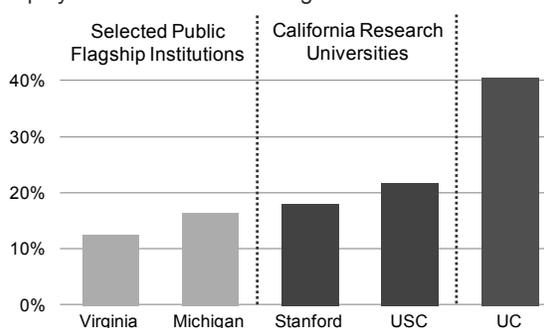
The Education Financing Model

Consistent with the financial aid policy adopted by the Regents in January 1994, the University uses an integrated

Display XVI-3: Undergraduate Student Financial Aid At-A-Glance, 2010-11 Academic Year

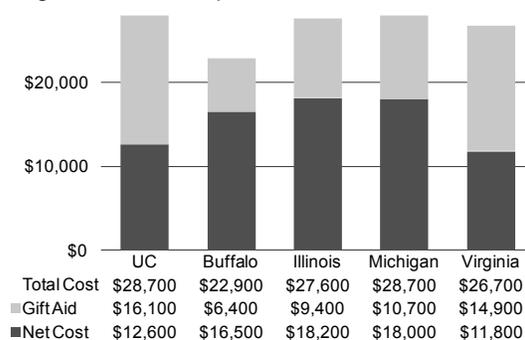
Total Aid (Includes Summer)	\$2.4 billion
Aid Recipients	69%
Gift Aid	
Total gift aid	\$1.6 billion
Gift aid recipients	62%
Average gift aid award	\$14,715
Gift aid awards based on need	Over 92%
Student Loans	
Students who took out loans	45%
Average student loan	\$6,393
Students graduating with debt	51%
Average debt at graduation among borrowers	\$17,712
Student Employment	
Students who worked	43%
Students who worked more than 20 hours per week	8%

Display XVI-4: 2010-11 Undergraduate Pell Grant Recipients



UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 41% during 2010-11, more than at any comparable public or private institution.

Display XVI-5: 2011-12 Net Cost of Attendance for Undergraduate Aid Recipients



Undergraduate need-based aid recipients at UC received an average of \$16,100 in gift aid, resulting in a net cost of \$12,600. UC's net cost in 2011-12 was lower than the net cost at three of its four public comparison institutions.

framework — the “Education Financing Model” (EFM) — to assess UC’s role in funding its financial support programs, to allocate financial aid across campuses, and to guide the awarding of aid to individual students. The framework is based on four principles:

1. The University must acknowledge the total cost of attendance: resident student fees, living and personal expenses, and costs related to books and supplies, transportation, and health care;
2. Financing a UC education requires a partnership among students, their parents, federal and state governments, and the University;
3. To maintain equity among undergraduate students, all students, no matter which campus they attend or their income level, are expected to make a similar contribution from student loans and employment to help finance their educations; and
4. Flexibility is needed for students in deciding how to meet their expected contributions and for campuses in implementing the EFM to serve their particular student bodies.

These principles are reflected in a relatively simple framework for determining the components of a student’s financial aid package, as illustrated below.

UC GRANT ASSISTANCE UNDER THE EDUCATION FINANCING MODEL

The Total Cost of Attendance

<i>Minus</i>	A reasonable contribution from parents
<i>Minus</i>	Grants from federal and state programs
<i>Minus</i>	A manageable student contribution from work and borrowing
<i>Equals</i>	University grant aid needed

Parent Contribution. Parents are expected to help cover 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.

Student Contribution. Undergraduates 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 EFM includes ranges for loan and work expectations based on the University’s estimates 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.

The University’s goal is to provide sufficient systemwide funding to ensure that students’ loan/work expectations fall within the range established by the EFM.

The determination of funding levels for its need-based grant program, how these funds are allocated across the campuses, and guidelines for awarding those funds to students are made in accordance with the EFM principles.

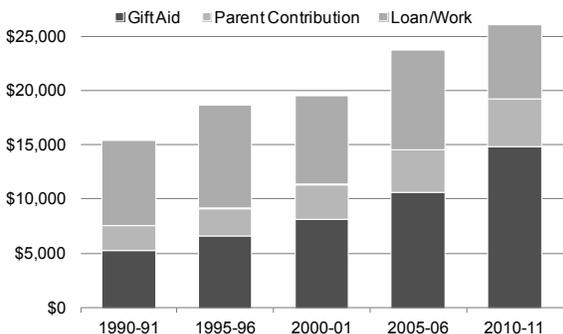
Outcomes of the Undergraduate Aid Program

Display XVI-6 illustrates how undergraduate need-based aid recipients at UC have financed their cost of attendance from 1990-91 through 2010-11, and also illustrates several noteworthy trends:

- The total cost of attendance for need-based aid recipients has generally increased over time, due to increases in both tuition and fee charges and other expenses, such as rent;
- Since 1990-91, the average parental contribution of need-based aid recipients has increased, due largely to higher-income families becoming eligible for aid;
- The average amount of grant, scholarship, and fellowship assistance received by need-based aid recipients has also risen in inflation-adjusted dollars; and
- The amount to be covered by student work and borrowing has increased at a much slower rate when adjusted for inflation.

For 2012-13, it is estimated that UC grant recipients will be expected to work or borrow, on average, approximately \$9,400 to finance their education, although students can compete for UC scholarships and outside awards that effectively reduce their expected contribution. During the 2010-11 academic year, 27% of undergraduates received scholarships worth about \$3,500 on average.

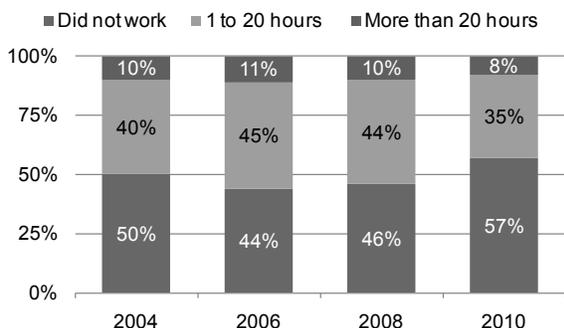
Display XVI-6: Cost of Attendance by Expected Source of Funding Among Undergraduate Need-Based Aid Recipients (2010-11 Dollars)



	1990-91	1995-96	2000-01	2005-06	2010-11
Gift Aid	\$5,274	\$6,655	\$8,144	\$10,676	\$14,901
Parents	\$2,282	\$2,493	\$3,187	\$3,882	\$4,343
Loan/Work	\$7,789	\$9,476	\$8,195	\$9,181	\$8,991
Total Cost	\$15,345	\$18,624	\$19,527	\$23,739	\$28,235

The total cost of attendance, average parental contribution, and average amount of grant, scholarship, and fellowship assistance have increased over time for undergraduate need-based aid recipients. Gift aid has almost tripled in inflation-adjusted dollars to help address the rising cost.

Display XVI-7: Trends in Student Work Hours, 2004-2010



University of California Undergraduate Experience Survey figures from 2004 to 2010 show only slight changes in students' work patterns during this period.

The University monitors a variety of outcome measures related to student support to evaluate the effectiveness of its undergraduate financial aid programs. These outcome measures are designed to answer the following questions:

- Does the University enroll students from all income levels?** As noted earlier, the University has achieved remarkable success at enrolling a high percentage of low-income undergraduate students. In addition, the enrollment patterns of first-year students do not appear to be driven by fee levels or changes in the University's

net cost; rather, trends in the income of UC freshmen generally reflect similar trends among California's population as a whole.

- Do UC students work manageable hours?** The University funds and administers its financial aid programs such that no student is expected to work more than 20 hours per week in order to finance their education. Surveys conducted over time and as recently as 2010 depict similar patterns of work, indicating that increases in UC's cost of attendance have not significantly impacted this outcome measure. Display XVI-7 shows the results of University of California Undergraduate Experience Survey (UCUES); periodic UCUES results indicate that the percentage of students working more than 20 hours per week has not increased. Indeed, the percentage of UC students who do not work during the academic year has increased in recent years.
- Do students' financial circumstances affect their academic success?** Despite recent increases in tuition and fees and other expenses, trends in student persistence remain stable for students at every income level. In addition, financial considerations do not seem to influence students' abilities to make progress towards meeting their baccalaureate degree requirements.
- Do students graduate with manageable debt?** Under the EFM, debt that requires between 5% and 9% of a student's annual postgraduate earnings is considered to be manageable. Among those who do borrow, average cumulative debt has changed little during the past few years. (A slight increase in average cumulative debt among middle- and upper-income students may partly reflect increased federal loan limits.) Among students who graduated in 2010-11, 51% borrowed at some point while enrolled at UC; their average cumulative borrowing at graduation was \$17,712. In comparison, among students who graduated in 2000-01, 55% borrowed while enrolled at UC, and their average cumulative borrowing at graduation was \$15,970 (in constant 2010 dollars).

The University's undergraduate financial aid strategy is focused on making UC financially accessible to California residents. For these students, the University ensures that the in-state total cost of attendance is fully covered by a

Student Financial Aid

combination of an expected parent contribution, a manageable amount of student self-help, and grant assistance, as discussed above. UC typically does not provide extra grant assistance to cover the additional \$23,000 in Nonresident Supplemental Tuition paid by nonresident students. Campuses do, however, have the discretion to provide additional assistance to these students to achieve nonresident enrollment goals.

GRADUATE STUDENT FINANCIAL AID

At the undergraduate level, the Cal Grant and Pell Grant programs insulate many needy low- and middle-income families from the effects of tuition and fee and other cost increases and play an important role in maintaining the affordability of the University. No comparable State or federal programs exist at the graduate level. For graduate students, the burden of covering increases in tuition and fees falls upon the University, research and training grants funded by federal and other extramural sources, private foundations, and students.

Graduate academic and graduate professional programs differ in a number of ways, including the intended outcomes of the programs, typical program length, and competitive markets for students. Because of these differences, the types of financial support provided to these two groups of graduate students differ greatly. In general, graduate academic students receive more grant aid and traineeships and graduate professional students receive more loans.

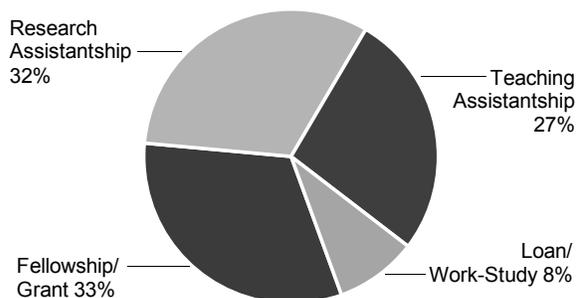
As shown in Display XVI-9, 33% of support for graduate academic students was in the form of fellowships and grants. Graduate academic students also serve as teaching and research assistants and hence receive significant funding from extramural faculty research grants and University teaching funds. Fellowship, grant, and assistantship support is viewed as more effective and loans less effective for recruiting and retaining doctoral students whose academic programs are lengthy and whose future income prospects are relatively low. Combined, fellowships, grants, and assistantships represent over 90% of all support received by graduate academic students.

In contrast, 67% of the support for graduate professional students was in the form of student loans and work-study

Display XVI-8: Graduate Student Financial Aid At-A-Glance, 2010-11

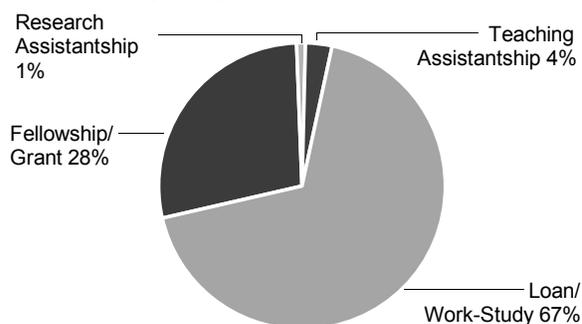
Total Aid	\$1.6 billion
From gift aid	29%
From loans/work-study	29%
From assistantships	42%
Aid recipients	88%
Gift Aid	
Gift aid recipients	61%
Average gift aid award	\$15,665

Display XVI-9: 2010-11 Graduate Academic Financial Support by Program Type and Aid Type



More than 90% of graduate academic financial aid is in the form of fellowships and grants, teaching assistantships and research assistantships.

Display XVI-10: 2010-11 Graduate Professional Financial Support by Program Type and Aid Type



In contrast to graduate academic financial aid, most aid for professional school students is in the form of loans.

and only 33% was in the form of fellowships, grants, and assistantships, as shown in Display XVI-10. In 2010-11, the per-capita loan amount for graduate professional students accounted for over two-thirds of their assistance and was over 8 times that of graduate academic students.

Graduate Academic Student Aid

As noted above, the competitiveness of 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. This issue has been joined by concerns about the impact of cost increases – especially increases in Nonresident Supplemental Tuition and systemwide tuition and fees – that were instituted in response to declining State support for the University.

In 2006, the University 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 final report of the Committee included three principal findings:

- Anticipated increases in traditional funding levels for graduate student support would 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.
- The cost of covering Nonresident Supplemental 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 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.

More recent estimates developed by the University's Task Force on Planning for Doctoral and Professional Education (PDPE) suggest that an additional \$158 million in graduate student support funding will be required in order to achieve the 2016-17 graduate enrollment targets articulated in the University's Long Range Enrollment Plan and to fully close the competitive gap.

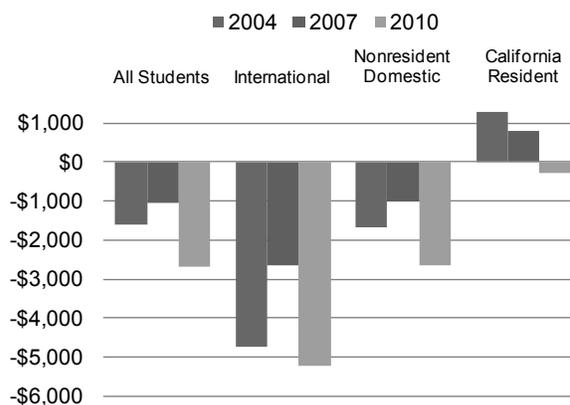
Over the past few years, the University has taken several steps to address the gap between graduate student support demand and supply. First, the University increased the percentage of new fee revenue from graduate academic students set aside for graduate student support, from 20% in 2004-05 to 50% currently. These funds allow the University to cover cost increases associated with University-funded teaching assistantships and fellowships that currently cover students' tuition and fees.

Second, the University has not increased graduate academic Nonresident Supplemental Tuition levels since

2004-05. The foregone revenue is seen as a worthwhile trade-off in order to avoid further demands on limited fellowship and research assistantship funding. By maintaining Nonresident Supplemental Tuition for graduate academic students at the 2004-05 level, the University has reduced, in real terms, the costs associated with covering Nonresident Supplemental Tuition for out-of-state and international students.

Third, the University has worked to reduce costs for academic doctoral candidates. Effective in Fall 2006, graduate doctoral students who have advanced to candidacy are exempt from paying any Nonresident Supplemental Tuition for a maximum of 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. From 1997-98 through 2005-06, academic doctoral students who had advanced to candidacy were assessed only 25% of Nonresident Supplemental Tuition for up to three years.

Display XVI-11: Competitiveness of UC Financial Support Offers to Academic Doctoral Students



For academic doctoral students, UC narrowed the gap between its financial support offers and those of competing institutions between 2004 and 2007, but lost ground between 2007 and 2010.

Surveys of students admitted to the University's academic doctoral programs suggest that UC narrowed the gap between its offers and those of competing institutions by more than \$500 between 2004 and 2007, as shown in Display XVI-11. Nevertheless, findings from 2010 suggest

that UC has lost ground in recent years in terms of the competitiveness of its offers to these students.

This data informed a report released in 2012 by a Joint Administrative/Senate workgroup on Graduate Student Issues. The report expressed concern about the ability of UC to attract quality academic doctoral students in light of differences in support offered by UC and its competitor institutions. The workgroup was particularly concerned with the impact of Nonresident Supplemental Tuition on UC's ability to attract talented international students.

Professional School Student Aid

The Regents' Policy on Professional Degree Supplemental Tuition⁴, approved in 1994, stipulates that an amount of funding equivalent to at least 33% of the total revenue from Professional Degree Supplemental Tuition be used for financial aid. The policy was amended in July 2007, at which time the Regents adopted specific conditions for ensuring that the University's commitments to access, affordability, diversity, and students' public service career decisions are not adversely affected by Professional Degree Supplemental Tuition increases. As mentioned in the *Student Tuition and Fees* chapter, in 2012-13 a systemwide Professional Degree Supplemental Tuition Task Force will review the policy, including sections of the policy that address financial aid for professional students.

About two-thirds of aid awarded to graduate professional students is in the form of loans, primarily from federal loan programs, rather than fellowships or grants. The University also sets aside less return-to-aid funding for professional school students (33%) than for graduate academic students (50%). A greater reliance on loans and a smaller return-to-aid percentage are appropriate for professional school students because their programs are shorter, and their incomes after graduation tend to be higher, than those of other graduate students.

University funds are also used for loan repayment assistance programs (LRAPs) in certain disciplines. These programs acknowledge the fact that students who choose careers in the public interest often forego higher incomes; thus, these students may be less able to meet their debt

repayment obligations. Other LRAPs 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). 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 fellowship support to ensure that public interest careers remain a viable choice for their graduates.

Since 2009-10, students can avail themselves of an Income Based Repayment plan (IBR) for federal student loans, which is designed to make loan repayments easier for students who take jobs with lower salaries. The amount of debt repayment is determined not by the loan amount but by the borrower's discretionary income, and repayment will never exceed 15% of net disposable income.

As noted earlier in this chapter, the University will continue to monitor enrollment trends and debt levels for graduate professional students.

OTHER SOURCES OF FINANCIAL ASSISTANCE

The federal government and the State provide a number of vehicles to help students and their families finance education.

Cal Vet Fee Exemptions. Consistent with provisions of the California Education Code, by University policy, dependents of veterans whose death or disability was service-connected are generally eligible for exemption from mandatory systemwide fees. In 2010-11, over 2,600 UC students took advantage of such exemptions, worth a total of \$27.2 million.

AB 540 Tuition Exemption. Consistent with Section 68130.5 of the California Education Code, by University policy, 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 Supplemental Tuition at UC. Potentially eligible students include undocumented students and domestic students who fail to meet the University's requirements for residency. In 2010-11, over 2,400 UC students qualified for exemptions worth \$45.6 million.

⁴ www.universityofcalifornia.edu/regents/policies/3103.html.

Federal Tax Credits. The Taxpayer Relief Act of 1997 established two tax credit programs, the Hope Tax Credit and the Lifetime Learning Tax Credit, designed to provide tax credits to qualified taxpayers for tuition and fees paid for postsecondary education. Under the American Recovery and Reinvestment Act of 2009, the Hope Tax Credit was expanded and renamed the American Opportunity Tax Credit (AOTC). The AOTC's key enhancements include an increase in the maximum credit from \$1,800 to \$2,500; an increase in the income ceiling from \$116,000 to \$180,000 for married filers; and an increase in the length of eligibility from two to four years of education. The Lifetime Learning Tax Credit provides smaller tax credits, and taxpayers are not limited to payments made during the first four years. In general, middle- and lower-middle-income students and their families benefit from these tax credit programs. While the total value of higher education tax credits benefitting UC students and their families is not known, it likely exceeded \$140 million for tax year 2011.

Tax Deduction for Higher Education Expenses. In 2001, a new higher education expense deduction was established to provide relief to families whose incomes disqualify them from participation in the federal education tax credits. Eligible families can qualify for a deduction of up to \$4,000.

Scholarshare Trust College Savings Program. This tax-exempt college savings program administered by the California State Treasurer encourages families to save for college 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 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 and assist middle-income families. Although contributions are not tax-deductible, earnings on the ESA are tax-free and no taxes are due upon withdrawal if used for qualified higher education expenses.

U.S. Savings Bonds. The interest on U.S. savings bonds is, under certain circumstances, tax-free when bond proceeds are used to cover education expenses. Eligibility is a function of income level when the bond is redeemed and is intended to assist middle-income families.

Student Loan Interest Deduction. Borrowers may take a tax deduction for interest paid on student loans. Middle- and lower-middle-income borrowers with high debt 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.

Veterans Education Benefits. Several federal programs provide financial assistance to help veterans and their dependents finance a college education. In particular, the newly enacted GI Bill provides eligible veterans attending UC with an amount equivalent to what is charged to in-state residents for tuition and fees.

“Cost saving and efficiency have become the norm for UC. All parts of the University are chipping in.”

*Peter Taylor
University of California
Chief Financial Officer*

Auxiliary Enterprises

Auxiliary enterprises are self-supporting services that are primarily provided to students, faculty, and staff. Student and faculty housing, dining services, and campus bookstores are the largest auxiliaries, with parking and some intercollegiate athletics also major components. No State funds are provided for auxiliary enterprises; revenues are derived from fees directly related to the costs of goods and services provided to cover their direct and indirect operating costs. The annual budget is based upon income projections. Operating expenditures for auxiliary enterprises are estimated to total \$950 million in 2012-13.

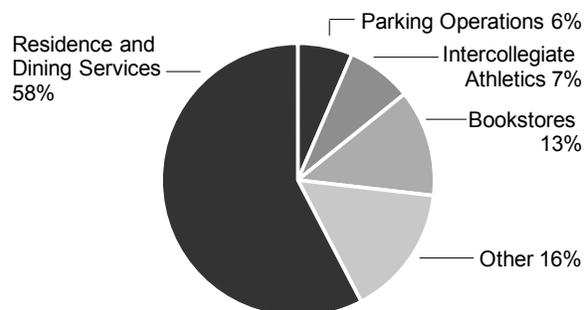
Auxiliary enterprises, as all functional areas of the University, have sought to reduce costs through increased efficiencies in administration and operations. Savings achieved in these programs are necessary to meet higher assessments being charged to auxiliaries for campus-wide operating costs and to cover rising pension contributions and other mandated cost increases such as compensation increases promised in collective bargaining agreements and higher health benefit and utility costs.

STUDENT, FACULTY, AND STAFF HOUSING

UC's largest auxiliary enterprise is student housing, comprising 70,551 University-owned residence hall and single student apartment bed spaces and 5,727 student family apartments, for a total of 76,278 spaces in Fall 2012.

Affordable student housing is an important component of the University's ability to offer a high-quality education and residential life experience. Campus housing is also important in addressing the University's sustainability goals and long-range planning targets. Rapid enrollment growth over the last decade has presented the University with many challenges; creating affordable, accessible student housing to accommodate this growth has been high among those challenges. In accommodating demand, campuses

Display XVII-1: 2011-12 Auxiliary Enterprises Expenditures by Service Type



Residence and dining services account for over half of the expenditures by auxiliary enterprises.

Display XVII-2: Auxiliary Enterprises At-A-Glance, 2011-12

Student Housing:	
Single student residence bed spaces	70,551
Student family apartments	5,727
Student housing occupancy rate	102%
Planned growth by 2012	2,174
Faculty Housing:	
Faculty rental housing units	996
Planned growth by 2012	7
Mortgage loans provided	6,530
Faculty provided housing assistance	4,927
Parking:	
Parking spaces	120,988

identified guaranteed housing for freshmen as one of their highest priorities. Providing additional housing options for transfer and graduate students is also a top priority.

Even though the University has been better prepared in the last couple of years to meet the housing demand of students than in previous years, most campus residence halls continue to be occupied at over 100% design capacity (systemwide occupancy of residence halls was 102% in 2011-12). In response, campuses make accommodations by converting doubles to triples, as well as modifying study areas into temporary quarters. Campuses housed all

freshmen who met enrollment and housing application deadlines. While enrollment growth has slowed, an occupancy rate exceeding capacity is expected to continue as campuses seek to meet increased demand by students other than freshmen.

The California housing market is a continuing deterrent to UC's faculty recruitment efforts, particularly for junior faculty, and adding faculty and staff housing units continues to be a high priority. Various programs to alleviate this problem have been implemented since 1978:

- Rental housing units are made available to newly appointed faculty according to criteria established by each campus. These units are self-supporting without subsidy from student rental income.
- Home loan programs provide mortgage loans with favorable interest rates and/or down payment requirements to faculty members and other designated employees.
- The Faculty Recruitment Allowance Program provides faculty members with housing assistance during their first years of employment with the University.
- Six campuses 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.

BOOKSTORES

Nine of the campuses own and operate bookstores providing a broad selection of general books, textbooks, computer products, supplies, insignia apparel and souvenirs, sporting goods, dormitory and apartment living supplies, newsstand materials, groceries, and a variety of other products. The Berkeley campus is the only campus that contracts the management of the campus bookstore to a private operator.

Although each campus bookstore serves the unique needs of the campus within the context of the local marketplace, there are common trends among UC bookstores and their counterparts serving other research universities:

- Declining disposable income among students, faculty, staff, and parents and slower enrollment growth, the result of the economic downturn in both the state and the nation, continue to have a negative impact on total revenue from book and merchandise sales.
- Textbook sales, traditionally comprised of both new and used titles, now include custom content textbooks, digital textbooks, custom course packs, loose-leaf books, computer software, and rental textbooks.

- Declines in the number of textbooks and general books sold have accelerated in recent years, and this trend is expected to continue in 2013-14.
- In recent years, the sale of course materials content has declined while bookstore sales of computer products (the tools to access that content) have increased. However, more recently, sales of computer products have leveled off as the much-coveted Educational Pricing is now available at Apple Computer stores as well as campus bookstores. UC bookstores are striving to add merchandise to add value to the quality of campus life and to offset the decline in textbook revenue.
- Growth in revenues from online sales continues.

PARKING

UC's parking program is another major auxiliary, with approximately 121,000 spaces for students, faculty, staff, and visitors. Campuses encourage students, faculty, and staff to commute to campus via alternative modes to reduce trips and greenhouse gas emissions. In support of the UC Policy on Sustainable Practices and in conformance with campus Long Range Development Plan Environmental Impact Reports (EIRs), all campuses have implemented extensive Transportation Demand Management programs, including carpools, vanpools, shuttles, transit pass subsidies, and similar initiatives. These programs are funded, in part, by parking revenues. Campus Long Range Development Plan EIRs require mitigation of University-created traffic impacts, thus the more the campus population commutes via alternative transportation modes, the less UC's impact on off-campus intersections.

INTERCOLLEGIATE ATHLETICS

Most UC campuses operate recreation and intercollegiate athletics programs exclusively as student services (as described in the *Student Services* chapter of this document). However, the Berkeley and Los Angeles campuses – both campuses with large intercollegiate sports programs – operate a portion of their recreational and intercollegiate athletics programs as auxiliary enterprises with revenue generated from ticket sales, concessions, and other self-supporting sources. The San Francisco campus also runs its recreational facilities and programs as self-supporting auxiliary enterprises, with modest subsidies from Student Services Fee revenue.

"The University is strongly committed to responsibly managing its assets and maintaining the public trust."

Peter Taylor
University of California
Chief Financial Officer

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 across-the-board cost increases, such as salary adjustments, employee benefit increases, and price increases that occur in most program areas may be held in provision accounts pending final allocation. Such cost increases are discussed in the *Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases* chapter of this document. Provisions for allocation also include negative appropriations, specifically undesignated reductions in State General Fund budgets awaiting allocation decisions and budgetary savings targets.

Display XVIII-1: Lease Purchase Revenue Bond Debt Service (Dollars in Millions)

2007-08	\$159.1
2008-09	\$156.6
2009-10	\$141.7
2010-11	\$199.5
2011-12	\$199.6
2012-13 (budgeted)	\$212.0

DEBT SERVICE PAYMENTS FOR FACILITIES FUNDED FROM LEASE REVENUE BONDS

Funds to pay for debt service 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 2012-13, the State allocation to UC includes \$212 million for revenue bond lease payments. Typically, the budgeted amount is adjusted by the State during the year based on actual debt service payments, but this adjustment does not have an impact on funding available for basic operations. Consistent with past practice, the funding level needed for lease revenue bond debt service payments for 2013-14 will be determined by the State Department of Finance.

“The University’s top-notch faculty and staff are its key to excellence. Compensation and benefits must be competitive if UC is to retain its edge.”

*Nathan Brostrom
University of California
Executive Vice President for Business Operations*

Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases

This chapter discusses funding for employee salaries and benefits. Increased salary costs are largely driven by the need to hire faculty and staff at market competitive rates, and to retain faculty and staff and fairly compensate them for their services. Benefits and other non-salary increases are driven by inflation and price increases imposed by providers. To a large extent, increases and adjustments to the University’s budget plan reflect these rising costs of doing business, rather than initiation of new programs.

An area of ongoing concern, as a result of years of inadequate State support for UC, is the continuing lag in faculty and staff salaries compared to market. Due to the State’s most recent fiscal crisis, no merit increases or general range adjustments for non-represented staff employees were provided in 2008-09, 2009-10, and 2010-11. Academic employees continued to receive salary increases through the normal academic merit salary review program, but they received no general range adjustments.

Three years without salary increases have exacerbated an already significant problem with respect to the University’s ability to provide competitive salaries. Compounding this problem, UC faculty and staff faced furloughs in 2009-10, resulting in salary reductions from 4% to 10%. The lack of regular general salary increases in recent years, along with the temporary salary reductions resulting from the furlough plan, has had serious consequences for UC faculty, staff, and their families.

In 2011-12, however, faculty and non-represented staff were eligible to receive general salary increases on a merit basis representing 3% of salary funding, though these increases have been largely offset by increases in employee contributions to the UC Retirement Plan and health plans; executives and those staff with salaries at or above \$200,000 were not eligible for merit increases. For 2012-13, the University has deferred action on a general salary increase plan pending the outcome of the November election.

Among represented staff, most received salary increases based on their unions’ collective bargaining agreements. The staff agreements, reached just before or at the beginning of the financial downturn, provided for a combination of range adjustments and step increases that generally ranged from 2% to 8%, varying by year and collective bargaining unit. The agreements for represented academic employees (i.e., lecturers/librarians), provided for continuation of the annual academic merit salary increase programs, generally paralleled the salary program for tenure-track faculty.

In 2005, the Regents adopted a program intended to achieve market parity with those institutions with whom UC competes for talent, calling for additional merit increase

Display XIX-1: Compensation and Benefits
At-A-Glance, 2011-12

Number of base FTE Employees as of April 2012	
Academic	41,322
Professional/Support Staff	88,446
Managers/Senior Professionals	9,089
Senior Management	192
Total	139,049
Salaries and Wages	\$10.9 billion
Employee Health Benefits	\$1.2 billion
UC Retirement Plan as of July 2012	
Active members	116,888
Normal Cost	\$1.5 billion
Retirees and survivors	58,934
Benefits payout for 2011-12	\$2.3 billion
Annuitant Health Benefits ¹	
Retirees and family members	50,826
Projected Cost for 2012-13	\$261 million

¹ Excludes retirees of Lawrence Berkeley National Laboratory.

funding over a 10-year period. Due to budget constraints, this additional funding has not been provided. In fact, since 2005, despite the Regents' initiative, UC's position relative to market has worsened. In three out of the seven years since then the University provided no salary increases, and in one of those years implemented temporary salary reductions and furloughs.

Thus, instead of closing market gaps, the lack of general salary increases over a multi-year period is creating profound talent management challenges in attracting and retaining high-performing faculty and staff at UC. Without UC action, these challenges will increase, particularly as the economy recovers and other institutions are in a position to recruit UC's top performers.

The University's 2013-14 budget plan includes the first year of funding for a multi-year initiative to reinvest in quality (described in the *Budget Summary*), part of which will be to begin to address salary market gaps for all employees over the next eight years. Paying competitive salaries for all employees is one of the University's highest priorities.

COMPENSATION FOR ACADEMIC AND STAFF EMPLOYEES: SALARY INCREASES

The University's budget plan for 2013-14 includes an expectation of resources available through revenue increases and cost-savings measures in order to provide a compensation increase package, which would generally include the following elements for eligible employees:

- continuation costs for salaries and health and welfare and retirement benefits provided in the previous year,
- funding for merit salary increases,
- general range adjustments,
- market-based equity salary increases, and
- health and welfare benefit cost increases.

Consistent with past practice, compensation increases for employees funded from other fund sources – including teaching hospital income, auxiliary enterprises, federal funds, and other sources – will be accommodated from within those fund sources and will conform to the University's established systemwide salary programs for State-funded employees.

COMPONENTS OF A COMPENSATION PACKAGE

- **Continuation costs** are costs incurred from salary and benefits increases provided in the previous year, but not fully funded because salary increases are often implemented on October 1 and benefit costs increase on January 1, rather than July 1 at the beginning of the budget year. Therefore, the unfunded portion must be recognized in the following budget year.
- **Merit increases** recognize and reward relative levels of performance and contribution, and are critical to the preservation of the quality of the University and to reinforce a pay for performance philosophy. Merit salary increases for faculty and other academic employees in particular provide a reward mechanism to recognize expansion of teaching and research skills, and enable the University to compete with other major research universities in offering long-term career opportunities. Merit increases are never automatic and are based on demonstrated contributions.
- **General range adjustments** for eligible employees are pay increases that reflect changes in the cost of living.
- **Market and equity adjustments** help bring individual salaries to market level for employees in jobs with the biggest external market gaps and/or internal equity issues, or address recruitment and retention challenges.

In 2009, an updated study of UC's total compensation program indicated that, in general, average UC salaries were significantly below the market median, but the total compensation package, including salary and health and welfare benefits for employees as well as post-employment benefits (pension and retiree health), was close to market.

However, the value of the benefit package has been decreasing as employee contributions to the UC Retirement Plan have risen to 5% of salary, and will increase further in the next few years to ensure the solvency of the retirement program. In addition, inflationary increases of health benefit costs may require employees to contribute a larger share toward their medical premiums. The 2013-14 budget plan includes a 3% general salary increase for all employees.

Faculty Salary Gap

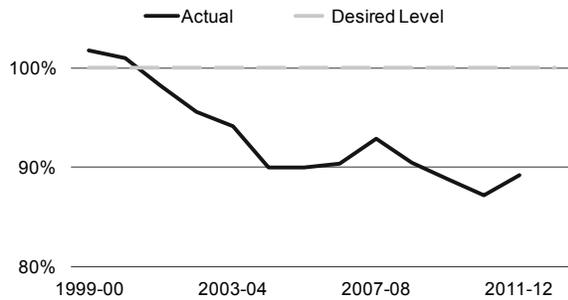
To evaluate its market position, UC compares its faculty salaries with eight peer institutions. Due to State budget cuts during the early 2000s, UC's average faculty salaries declined from parity with these comparators to a 9.6% lag

by 2006-07. In 2007-08, the University instituted a four-year plan to eliminate the lag and return faculty salaries to market levels, and after one year of the plan, the faculty salary gap was reduced to 7.1%. However, the State's ongoing fiscal crisis delayed continuation of this plan, and the gap widened again to 10.8% in 2011-12.

While the merit and promotion system for academic employees has been maintained, estimated at an incremental annual cost of about \$30 million, the University is deeply concerned about the effects of the salary lag on faculty retention, particularly for UC's promising junior

faculty, who often are supporting young families in a high-cost environment. A national economic recovery is likely to have daunting repercussions on recruitment and retention of high-performing faculty for UC. As endowments at private institutions recoup their losses and other states stabilize funding for public institutions, it is expected that those institutions will rapidly move to restore academic programs by recruiting faculty away from other universities. UC already finds itself struggling to retain its own high quality faculty. Additionally, recruitment of new faculty, which has been significantly slowed due to the fiscal crisis, remains a concern. In 2010-11, for the first time, more faculty separated from the University than were hired. Salary lags create major challenges in attracting the best faculty candidates and there is a reputational cost associated with an inability to adequately compensate the faculty.

Display XIX-2: Ladder Rank Faculty Salaries as a Percentage of Market

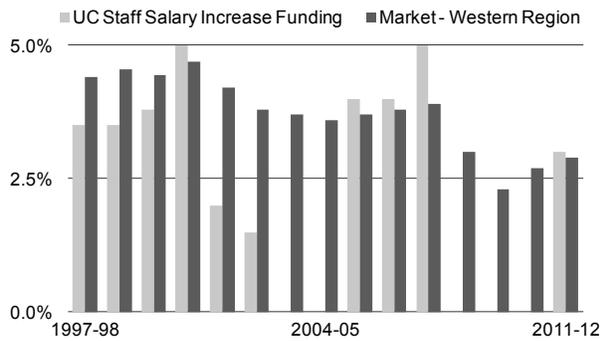


Due to inadequate State funding over the last eleven years, faculty salaries at UC have declined relative to UC's comparison institutions. In 2011-12, UC's faculty salaries were 10.8% below those of UC's comparison institutions and it is estimated that this gap will continue in 2012-13.

Staff Salary Gap

The funding gap with respect to staff salaries in most workforce segments presents a similar competitive market problem for the University. Compared to market data, annual salary increase funding for UC staff employees lagged in 10 out of the 15 years since 1997-98, as noted in Display XIX-3. Market salaries over the period have been increasing at more than 3% per year on average, but funding for UC staff salary increases has not kept pace. In fact, during five of the last 15 years, UC was unable to provide any increases for staff salaries.

Display XIX-3: Increases in Funding for Staff Salaries Compared to Market



Annual percentage increases in funding for UC staff salaries lagged in 10 out of the last 15 years, compared to increases in funding for salaries in the Western Region market. In five of those years, UC was unable to provide any increases, resulting in significant market disparities. (Source: World at Work Annual Salary Budget Survey. Represents data from over 1,000 employers from all sectors in the western United States.)

While much time and effort is spent on attracting and retaining the world-class faculty members who are the foundation of UC quality, the University must also have an administrative infrastructure capable of fostering excellence. An institution operating on the cutting edge of intellectual frontiers cannot function with average performers at its helm. This challenge is even greater during times of financial stress. Leadership and vision are key to the University's ability to find new ways of maintaining quality with less money.

Highlighting the staff salary gap problem facing UC are salaries for UC chancellors, who are about 40% behind their market comparators. Among their peers at other public institution members of the Association of American Universities (an association of 61 leading research

FUNDING SHORTFALLS AND THE SALARY GAP

2001-02 and 2002-03: Staff salary increases were lower than planned because of inadequate State funding.

2003-04 and 2004-05: The University instituted additional internal budget cuts in order to fund academic merit increases for faculty, but no employees received a general range adjustment and staff employees received no merit increases.

2005-06 through 2007-08: The Compact with the Governor provided funding for academic and staff salary increases, though not enough to reverse the effects of years without adequate salary increases.

2008-09 through 2010-11: Due to budget shortfalls, general salary increases were not provided to faculty or staff. However, the University continued to fund faculty merit increases by redirecting funds from existing resources.

2009-10: The Regents approved a one-year salary reduction/furlough plan effective September 1, 2009 to August 31, 2010. The plan instituted a tiered system of furloughs and pay reductions, based on employee pay; employees were furloughed from 10 to 26 days per year, with the lowest paid employees (up to \$40,000) subject to the fewest furlough days. Pay reductions ranged from 4% to 10% per year for employees. The plan is estimated to have saved \$136 million in General Funds to help address the State funding shortfall and \$236 million from all fund sources.

2011-12: For the first time since 2007-08, non-represented staff were eligible for merit salary increases.

universities in the United States and Canada), salaries for UC chancellors fall in the bottom third, despite the size, complexity, and stature of UC. Similar issues exist for staff employees at many levels. In Fall 2005, the Regents adopted a plan calling for annual increases of 5% to 5.5% in staff salaries over a period of ten years to close the staff salary gap. From 2005-06 to 2007-08, with funding from the Compact, UC slightly exceeded market salary increase budgets, but during 2008-09, 2009-10, and 2010-11, no funding was provided for staff salary increases. Further implementation has been delayed due to the ongoing fiscal crisis.

Similar to faculty, retention and recruitment of staff has become a heightened concern due to the salary lag. Economic recovery in California will generate new opportunities for staff, and UC is beginning to experience challenges in retaining its employees.

SALARY VERSUS TOTAL COMPENSATION

Job seekers often focus on salary to determine where to apply for employment. Salaries are the largest component of a compensation package and job seekers are not necessarily aware of the value of the benefits the University offers. If salaries are too low, job seekers may not even consider the total compensation package and apply elsewhere. In order to attract quality faculty and staff, the University cannot rely solely on their benefits package and must offer competitive salaries as well.

The University offers a total compensation package that is competitive with the market. However, due to the rising costs of health and welfare and retirement benefits, the value of the University's compensation package is diminishing. As these costs continue to rise, the University will experience greater difficulty recruiting and retaining high quality faculty and staff.

In September 2011, the University implemented a 3% merit pool for faculty effective October 1, 2011 and non-represented staff employees retroactive to July 1, 2011. This increase did not include employees who are a part of the senior management group or any staff with base salaries above \$200,000. The purpose of this increase was to help UC retain leading faculty members who are increasingly being courted by competing institutions and to demonstrate to non-represented staff members that the University appreciates their contributions. Fairness dictated that the University take this step.

For employees represented by unions, the University has collective bargaining agreements that specify compensation increases for their members. Actual merit or other salary and benefit actions for UC employees are subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA).

EMPLOYEE HEALTH AND WELFARE BENEFITS

As part of the total compensation package for faculty and staff, the University offers competitive health and welfare benefits. Depending upon appointment type, the University may pay as much as 40% of an employee's annual base salary in employer benefit costs over and above salary. While salary packages lag the market for both faculty and staff, the total compensation package at the University

remains competitive when health and welfare and retirement benefits are included.

Chief among these benefits are medical and dental plans for active employees. 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. Increases in health premiums have outpaced core funding available in each of the last seven years, as shown in Display XIX-4.

While UC's cost for its share of premiums for employee health benefits has increased between 8.5% and 11% annually over the last several years, State funding reductions meant that no new funds were available to cover these cost increases.

As a result, campuses have been and will continue to be forced to redirect funds from existing programs to address these costs; however, it is likely that some of the increases in health benefit costs will again be borne by employees themselves – through a combination of increases in premiums and increased out-of-pocket cost due to plan design changes.

These potential changes require that UC maintain at least a minimal regular salary increase program to try to stabilize the competitiveness of total compensation.

Implemented in 2002-03, UC's progressive medical premium rate structure is designed to help offset the impact

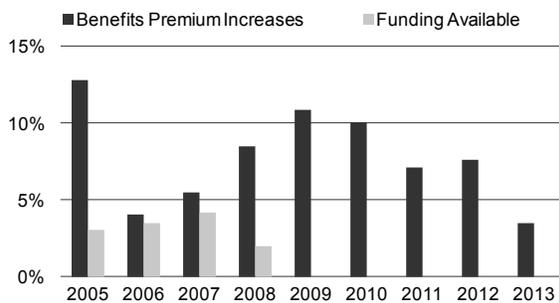
of the employee's share of the medical plan premiums on lower-paid employees. UC pays approximately 87% of medical premiums for employees on an aggregate basis, and has made a strategic decision to cover an even larger portion of the premium for those in lower salary brackets. In addition, the 2011 introduction of a statewide HMO with a customized provider network for UC (HealthNet Blue and Gold HMO) has served to provide members with continued access to affordable care while avoiding an estimated \$76 million in UC benefits costs for the two-year period 2011 through 2012.

In developing the University-sponsored health and welfare plans for calendar year 2012, the University faced a number of challenges, including rate increase proposals from medical plan vendors averaging 8% (versus 10% in 2011 and 12% in 2010). While still significant, the 2012 rate increases show a moderating trend that is hoped to continue into 2013 and 2014. Through negotiations, the University was able to reduce the expected 2012 health program cost by \$30 million across all fund sources. The University is continuing to explore options to control employer health benefit costs over the coming years.

The overall projected increase in health and welfare benefits costs for the University during calendar year 2013 is a relatively modest 3.5%, moderated through plan design changes, negotiations, and monies reimbursed to UC from the Federal Government through the Early Retiree Reinsurance Program (ERRP) under the Affordable Care Act. The estimated cost of increases in the employer share of employee health benefits for 2013-14 is \$11.4 million from core funds.

Recognizing the University's significant financial constraints, a Health Care Benefits Task Force was convened in Fall 2011 to address the issue of escalating health and welfare benefit costs. The Task Force is comprised of academic and administrative leaders from across the University and chaired by UC's Vice President of Human Resources. The Task Force evaluated a variety of options for mitigating future increases in medical program costs including exploration of alternative delivery models (e.g., channeling more UC membership care through UC Medical Centers), alternative funding options, plan design features and employer contribution policies. Short and long

Display XIX-4: Health Benefit Cost Increases and Core Funding Available



UC's share of annual increases in medical and dental benefit premiums have outpaced the core funding available to cover costs.

term challenges exist in this arena and, given the increasing importance of health and welfare benefits to UC's membership and UC's unique position as both a provider and purchaser of health care, the Task Force is expected to have an ongoing role in exploring and evaluating opportunities to manage future cost and the health of UC's membership.

The University, through its Human Resources Compliance unit, launched a Family Member Eligibility Verification review for health benefits coverage in March 2012. The review was conducted to ensure that only those eligible for coverage by University health benefits were, in fact, enrolled in UC-funded plans. Ninety thousand staff, faculty, and retirement plan participants, along with their 175,000 enrolled family members, were included in the process. The annualized savings from this and ongoing efforts are expected to be approximately \$35 million. More regular reviews of this nature will be conducted in the future and will become part of the University's initial benefits enrollment process to help manage costs and continue to strengthen the administration of these important, high value programs.

While the University has historically had a very competitive benefit package compared to those of other institutions, 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.

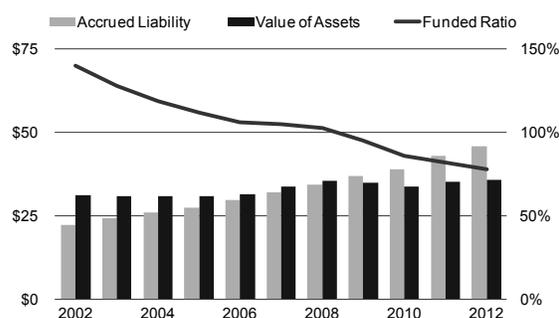
RETIREMENT BENEFITS

Pension Benefits

The University of California Retirement Plan ("UCRP" or "the Plan") is a governmental defined benefit plan that provides pension benefits for more than 58,000 retirees and survivors and has nearly 117,000 active employee members as of July 1, 2012. UCRP promotes recruitment of talented individuals and provides incentives for long careers with UC. Because UCRP provides guaranteed benefits, career faculty and staff gain income security over the span of their retirement years. UCRP disbursed \$2.3 billion in retirement benefits during 2011-12.

Prior to November 1990, contributions to UCRP were required from all employer fund sources and from

Display XIX-5: UCRP Historical and Projected Funded Status (Dollars in Billions)¹



The surplus in the UC Retirement Plan has diminished over time and is estimated to have fallen to a level of 78% on an actuarial value of assets (AVA) basis by July 2012. Even with employer and member contributions to the UCRP beginning in April 2010, the AVA-funded status of the Plan will continue to decline as losses are incorporated from the past few years.

¹ Excludes retirees of Lawrence Berkeley National Laboratory

employees (members). In the early 1990s, the Regents suspended University and member contributions to UCRP after actuaries determined that UCRP was adequately funded to provide benefits for many years into the future.

The University estimates that in the nearly 20 years during which employer contributions were not required, the State saved over \$2 billion in contributions for those UCRP members whose salaries were State-funded.

The total cessation of contributions, which was desirable at the time for a variety of reasons, has created a serious problem today. For almost 20 years, faculty and staff continued to earn additional benefits as they accumulated UCRP service credit, yet no funds were collected from the various fund sources that were supporting member salaries and invested in UCRP to offset the annual increase in liabilities. Plan liabilities currently increase by \$1.5 billion (17.4% of covered payroll) annually as active members earn an additional year of UCRP service credit.

Due to both increasing liability and recent turmoil in financial markets, the actuarial-funded status of UCRP fell from 156% in July 2000 to 78% in July 2012. The accrued liability exceeds the actuarial value of assets by \$10.1 billion. However, this valuation does not include full recognition of investment losses in recent years. If the deferred losses were recognized immediately, the funded

percentage would decrease to 76.5%. The extent to which this unfunded liability grows depends on future investment returns, as well as employer and member contributions to UCRP and changes in plan provisions.

It has been clear since at least 2005 that resumption of contributions is necessary to cover the cost of additional service credit accrued each year. Unfortunately, in 2007, the State was unwilling to restart contributions to UCRP due to the Plan's overfunded status at that time. The lack of State funding to support retirement contributions delayed the restart of contributions from other fund sources as well.

The 2009-10 Governor's Budget acknowledged the need to provide \$96 million for its share of employer contributions (covering employees funded from State funds and student fees), representing a rate of 4% to begin on July 1, 2009, rather than the proposed 9.5% employer rate. However, the Governor's budget proposal reduced this amount to \$20 million, and ultimately, no funding for this purpose was included in the final budget act.

The University restarted employer and member contributions in April 2010, with an employer contribution of 4% and contributions from most members of 2% for the period from April 2010 through the 2010-11 fiscal year. The State's share was funded by redirecting resources from existing programs and student tuition increases.

In September 2010, the Regents approved increases to both employer and member contributions for 2011-12 and 2012-13. Employer contributions rose from 4% in 2010-11 to 7% for 2011-12 and to 10% for 2012-13. Member contributions rose from approximately 2% in 2010-11 to 3.5% for 2011-12 and rose to 5% for 2012-13. Because the combined contribution rate of 15% in 2012-13 remains below the current normal cost of annually accrued benefits (i.e., Normal Cost) as a percentage of salary (17.44%), these contribution rates will slow, but not eliminate, the growth in unfunded liability. At the November 2011 meeting, the Regents approved increases in employer and existing member contribution rates to 12% and 6.5%, respectively, effective July 1, 2013. New employees will pay 7% beginning July 1, 2013, as described below.

In December 2010 and March 2011, the Regents gave the President authority to transfer funds from the UC Short

Term Investment Pool (STIP) to UCRP to stop further increases in the unfunded liability. Approximately \$1.1 billion was transferred to UCRP in April 2011. Another \$936 million was transferred to UCRP in July 2011, which was garnered from external borrowing through the issuance of a variable rate general corporate bond. Campus and medical center payroll funds will be assessed a fee to cover the principal and interest on the STIP note and bond debt. These cash transfers to UCRP were authorized to prevent

Display XIX-6: Actual and Projected Employer and Employee UCRP Contribution Rates¹

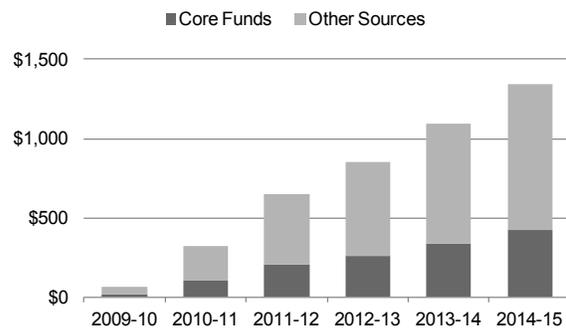
		Employer		Member
		UCRP	STIP Note/ Bond Debt ²	UCRP
2010-11	Actual	4.00%	0.00%	2.00%
2011-12	Actual	7.00%	0.07%	3.50%
2012-13	Actual	10.00%	0.63%	5.00%
2013-14	Approved	12.00%	0.65%	6.50% ³
2014-15	Projected	14.00%	1.00%	Undetermined

¹ Measured as a percentage of base pay. Member contribution amounts are pretax and less \$19 per month. Member contributions are subject to collective bargaining agreements. Contributions began in April 2010 at the 2010-11 rates.

² Payroll assessment to cover the principal and interest on the STIP note and bond debt used to stop further increases in the unfunded liability for UCRP.

³ Member contributions for employees hired on or after July 1, 2013 will be 7% with no \$19 per month offset.

Display XIX-7: Actual and Projected Employer Contributions to UCRP by Fund Source (Dollars in Millions)



Employer contributions to UCRP restarted in April 2010. Contribution rates are projected to rise to at least 14% of employee compensation by 2014-15, at a cost of about \$420 million to core-funded programs and \$1.3 billion in total.

future employer contributions to UCRP from rising to unsustainable levels. However, under the current plan, employer contributions are expected to continue to rise by 2% annually through at least 2014-15.

In December 2010, the Regents took further action to make changes to post-employment benefits, including retirement plan benefits that will reduce long-term costs. Most significantly, the Regents approved the establishment of a new tier of pension benefits applicable to employees hired or (in certain situations) rehired on or after July 1, 2013, which would increase the early retirement age from 50 to 55 and the maximum age factor from 60 to 65, but otherwise retain many of the features of the current plan. In 2013-14, UCRP members hired on or after July 1, 2013 will be paying 7% of covered. UC is continuing to explore further changes to retirement plan benefits to ensure that benefits are market competitive and cost effective.

In September 2012, the Governor signed legislation to reform the California Public Employees Retirement System (CalPERS) for State employees hired after January 1, 2013. The new legislation limits the maximum compensation used for benefit calculations, requires State employees to pay 50% of their pension costs, and increases the early retirement age from 50 to 52 and the age at which the maximum age factor applies from 63 to 67. The pension reform also included measures (similar to measures the University already has) to prevent abusive practices such as “spiking,” when employees are given big raises in their final year of employment as a way to inflate their pensions.

General Accounting Standards Board (GASB) rules require UC to report accrued unfunded pension liabilities on its financial statements. For 2011-12, UC recorded an unfunded pension liability accrual of \$1.9 billion.

In 2012-13, the University is contributing \$261.8 million from core fund sources and \$588.6 million from other sources to UCRP. As employer contribution rates rise over the next several years, UC contributions are expected to rise to \$339.1 million from core funds (\$1.1 billion from all funds) in 2013-14 and to \$420.4 million from core funds (\$1.3 billion from all funds) in 2014-15. The State's share, based on State- and student tuition and fee-funded

employees, is projected to rise to approximately \$296 million in 2013-14 and to \$367 million by 2014-15. In 2012-13, the State provided an augmentation to the University's budget of \$89.1 million intended as actual support of the State's share of the contribution to UCRP. This was welcome acknowledgement of the State's responsibility for its share of these costs. However, this amount is far short of the \$228.6 million needed to fully fund the State's 2012-13 share of UCRP. The budget plan for 2013-14 includes \$77.2 million for the increase in these costs for core-funded programs in 2013-14. Of this, \$67.5 million is the State's share of UCRP employer contributions and the remaining \$9.7 million is related to programs funded from UC General Funds.

Annuitant Health Benefits

As part of the benefit package, UC provides medical and dental benefits for about 50,800 eligible retirees and their dependents.¹ Eligible individuals who retire from UC with a monthly pension have health care coverage options similar to those offered to active employees. On average, in 2013, UC will pay 80% of retiree medical premiums.

Currently, the University does not pre-fund retiree health benefits and pays its share of health benefits for annuitants on a “pay-as-you-go” basis, whereby current plan premiums and costs are paid from an assessment on payroll of 3.72%. During 2012-13, UC's costs for annuitant health benefits are estimated to exceed \$261 million from all fund sources.

Because future retiree health benefits costs are not pre-funded and because health care costs have risen rapidly, as of July 2012, UC has an unfunded liability for retiree health of \$14.5 billion. This amount represents the cost of benefits accrued to date by current faculty, staff, and retirees based on past service. In December 2010, in order to reduce long-term costs and the unfunded liability for retiree health, the Regents approved changes to retiree health benefits. Changes included gradual reductions in the University's aggregate annual contribution to the Retiree Health Program to a floor of 70% (subject to annual review) and a new eligibility formula for all employees hired on or after July 1, 2013, and for existing employees with

¹ Excludes retirees of Lawrence Berkeley National Laboratory.

fewer than five years of service credit or whose age plus UCRP service credit is less than 50 as of June 30, 2013.

GASB rules require the University to report in its financial statements all post-employment benefits expense, including 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. The accrual may be amortized over a number of years, and for 2011-12, the University's financial statements recorded a total liability of \$6.4 billion.

The University's budget plan for 2013-14 includes \$6.4 million for increases in retiree health program costs consistent with the funding provided for the State's annuitants.

NON-SALARY PRICE INCREASES

Prices of equipment, supplies, utilities, and other non-salary items purchased by the University are also rising. Non-salary items include instructional equipment and supplies such as chemicals, computers, machinery, library materials, and purchased utilities. Increases in non-salary costs without corresponding increases in budgeted funds oblige campuses to find alternative fund sources or efficiencies to cover these costs.

Historically, funding for price increases on non-salary portions of the budget are included as part of the University's annual base budget adjustment; however, the continuing State fiscal crisis means funding for price increases have not been provided in recent years. The Consumer Price Index (CPI) showed a decrease of nearly 2% in 2008-09, but between 2009 and 2011 the CPI rose slowly, increasing to 2.7% in 2010-11. More recently, inflation has moderated, declining to about 1.7% in 2011-12. Costs of goods and services purchased by educational institutions, as measured by the Higher Education Price Index (HEPI), typically rise faster than the CPI, though HEPI has tracked more closely to the CPI in recent years. For reasons discussed in the *Operation and Maintenance of Plant* chapter of this document, inflationary pressures are expected to be greater for UC's energy costs than other non-salary items. In 2013-14, UC's electricity costs are expected to increase 4% above inflation and natural gas costs 1% above inflation. The budget plan includes \$23.7 million for non-salary price increases, consisting of a 2% general non-salary price increase, as well as \$8 million to cover projected higher energy costs. Longer term forecasts identify a number of factors that are expected to drive a resurgence of higher energy costs in the next few years.

“UC’s partnership with the U.S. Department of Energy affords opportunities for research unmatched elsewhere. UC and the national labs are leaders in scientific and technological innovation that benefit not only the nation, but the world.”

*Glenn Mara
University of California
Vice President of Laboratory Management*

Department of Energy Laboratory Management

For more than 60 years, the University has played a major public service role as a manager of three Department of Energy (DOE) National Laboratories. UC’s partnership with DOE has provided extensive research opportunities for faculty, and in consideration for the University’s management service, UC generates revenue to support operations and the research enterprise.

Lawrence Berkeley National Laboratory (LBNL). The University was awarded a new management and operating contract for LBNL on April 19, 2005. This contract, which has an initial five-year term, has been extended through 2017 following favorable DOE evaluations. The contract may be extended further through an award term provision that adds contract years based on excellent performance for additional years, not to exceed 20 years in total.

Los Alamos National Security and Lawrence Livermore National Security Limited Liability Companies. The University’s original contracts for the Los Alamos National Laboratory (LANL) and the Lawrence Livermore National Laboratory (LLNL) expired on May 31, 2006 and September 30, 2007, respectively. Both laboratories are now managed by limited liability companies (LLCs) partially owned by the University. The Los Alamos National Security LLC (LANS) was awarded a new management and operating contract for LANL on December 21, 2005 and commenced full operations on June 1, 2006. The Lawrence Livermore National Security LLC (LLNS) was awarded a new management and operating contract for LLNL on May 8, 2007, and commenced full operations on October 1, 2007. Both contracts have initial seven-year terms and may be extended further based on performance through an award term provision for additional years, not to exceed 20 years in total. As a result of 2011 performance, the LANS contract was extended to eleven years and the LLNS contract was extended to ten years after DOE evaluations.

REVENUE STREAMS

Indirect Cost Reimbursement

Under its contract for LBNL and its earlier contracts for LANL and LLNL, the University received indirect cost reimbursement from DOE. During the early 2000s, this funding amounted to more than \$10 million annually. In accordance with a *Memorandum of Understanding between the University and the State Department of Finance*, this indirect cost reimbursement contributes to UC General Fund income and helps to support the University’s operating budget, in particular its research programs. Since the University no longer directly manages LANL and LLNL, the University no longer receives indirect cost reimbursement related to LANL and LLNL.

Furthermore, beginning in October 2009, DOE requested a change from indirect cost reimbursement for corporate services rendered to LBNL by UC. Negotiations with DOE are underway on a proposal to increase the maximum award fee to include an amount that will be directed annually to UCOP for corporate services.

DOE Management Fee

Performance management fees from LBNL are gross earned amounts before the University’s payments of unreimbursed costs. During 2011-12, LBNL is eligible to earn a maximum of \$4.5 million in management fee revenue related to LBNL, which will be used for costs of LBNL research programs, reserves for future claims, and unallowable costs associated with LBNL. As noted above, a proposal to increase the maximum award fee is under consideration by DOE.

LLC Income

Net income to UC from LANS and LLNS reflects UC's net share of fee income remaining after payment of unreimbursed costs incurred by the LLCs at the two laboratories and shares to other LLC owners. UC's LLC income is estimated to be \$26.9 million for 2012, and the Regents also allocated accumulated funds for research from prior years in the amount of \$10.9 million. At their July 2012 meeting, the Regents approved an expenditure plan for the total of \$37.8 million, as shown in Display XX-1.

UC's projected fee income share from LANS and LLNS for 2012 became available the first quarter of calendar year

2012. Because the accepted LLC proposals provided for a smaller fee opportunity after the first three years of each contract, the amount of net fee income may decrease in future years unless laboratory budgets increase.

Display XX-1: 2012-13 Expenditure Plan for Income from LANS and LLNS (Dollars in Millions)

Research Funds from LLC revenues 2012	\$18.28
Research Funds from prior years	\$10.90
UCOP Oversight	\$5.12
Supplemental Compensation	\$1.50
Contingencies (post-contract, other)	<u>\$2.00</u>
Total	<u>\$37.80</u>

“Access, quality, and affordability are the pillars of UC’s excellence. In good times and bad, UC’s commitment to each is unwavering, but the University cannot go it alone – we need the State to recommit to its historic partnership with UC to provide the best public higher education in the world.”

*Mark G. Yudof
University of California
President*

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. This chapter details the history of State funding of the University¹.

1967-1990: TWO CYCLES OF CRISIS

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 series 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 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.

1990-91 THROUGH 1994-95: BUDGET CRISIS

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 UC 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 XXI-1. (By way of comparison to the current fiscal crisis, the proportion by which the UC’s budget was reduced over a four-year period in the 1990s is equivalent to the one-year proportional reduction in 2009-10).

Display XXI-1: Permanent Cuts to UC Budgets, 1990-91 through 1994-95 (Dollars 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

¹ Information about State funding is also available in the *Sources of University Funds* chapter.

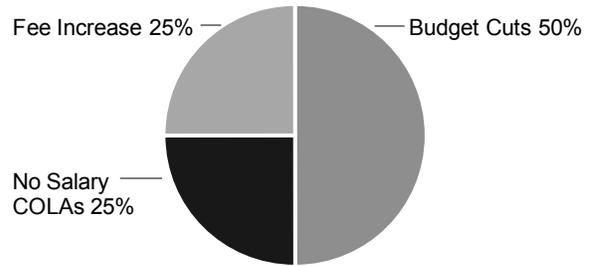
At the time, the budgetary losses during the early 1990s were unprecedented. The University's 1993-94 State General Fund budget was less than it was in 1987-88, even though in the interim there had been inflation, other cost increases, and enrollment growth. The University's budget would have been about \$900 million greater in 1993-94 if the State had maintained the base and funded normal cost increases and workload growth. The University coped with this shortfall in ways that reflected the limited nature of its options in the short term. As illustrated in Display XXI-2, about half of the loss was taken through budget cuts, approximately another quarter by providing no cost-of-living increases for employees, and the remaining quarter through student fee increases accompanied by increases in student financial aid.

While regrettable, fee increases were the only potential source of increased revenue to address budget cuts of such significant magnitude. At the same time, the University mitigated the impact of these fee increases on financially needy low- and middle-income students through a significant increase in financial aid grants (as opposed to loans). Over five years, through 1994-95, financial aid grants and other gift aid funded from University sources increased by approximately \$118 million, or nearly 170%, to help mitigate the impact of increased fees.

During the early 1990s, UC's General Fund workforce declined by a net total of approximately 5,000 full-time equivalent (FTE) employees. 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. In particular, administration was assigned deep cuts both on the campuses and at the Office of the President. 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 residents who sought admission at the undergraduate level and providing students with the classes they needed to graduate on time.

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 UC with a budget increase of about 3%. Base salary levels were restored following a

Display XXI-2: Actions Taken to Address the Budget Shortfall of the Early 1990s



During the early 1990s, UC addressed the cumulative budget shortfall of \$900 million through reductions to academic programs and administrative budgets, increases in student fees, and foregone cost-of-living adjustments for faculty and staff.

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%, and, 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 a precarious financial condition. The University's share of the State General Fund budget had declined by 1% to 4.3%. 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 — instructional equipment, instructional technology, libraries, and facilities maintenance, for example.

1995-96 THROUGH 1999-00: THE COMPACT WITH GOVERNOR WILSON

A major turning point came with the introduction of Governor Wilson's 1995-96 budget, which included a Compact with Higher Education that ultimately was operational through 1999-00, described in Display XXI-3. 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.

Display XXI-3: Provisions of the Compact with Governor Wilson, 1995-96 through 1999-00

- State funding increases averaging 4% per year
- Student fee increases averaging about 10% annually
- Further fee increases in selected professional schools
- At least 33% of new student fee revenue dedicated to financial aid
- Added financial aid through State Cal Grant Program
- Additional funding and deferred maintenance
- \$10 million budget reduction each year for four years
- \$150 million a year for capital budget
- Priority for life-safety and seismic projects, infrastructure, and educational technology

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

The Compact of 1995-2000 was remarkably successful, allowing the University to maintain the quality, accessibility, and affordability that have been the hallmarks of California's system of public higher education. The University enrolled more students than the Compact anticipated, particularly at the undergraduate level, and the State provided funding to support them. Faculty salaries were restored to competitive levels, allowing the University to once again recruit the nation's best faculty. Declining budgets were stabilized and further deterioration of the University's budget was halted.

In fact, the Legislature and the Governor not only honored the funding principles of the Compact, but also provided funding above the levels envisioned in the Compact. This additional funding allowed buyouts of student fee increases, even allowing 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, 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. In addition, general obligation bonds and/or lease revenue bonds were provided each year for high priority capital projects.

2000-01: 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, described in Display XXI-4, a comprehensive statement of the minimum resources needed for the University to maintain quality and accommodate enrollment growth projected throughout the decade. The Agreement was accompanied by the expectation that the University would manage these resources in such a way as to maintain quality, improve relationships with K-12 schools, and increase community college transfer, among other goals.

The significant infusion of State funding over this 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.

2001-02 THROUGH 2004-05: ANOTHER STATE FISCAL CRISIS

Unfortunately, by 2001-02, the State's fiscal situation began to deteriorate. The University based its budget request on the Partnership Agreement and included information about other high priorities for the University and the State to be funded when the State's economic situation improved. While 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, 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.

Display XXI-4: Provisions of the Partnership Agreement with Governor Davis

- 4% increase to the base budget each year to provide adequate funding for salaries and other cost increases
- Marginal cost funding for enrollment growth
- Further 1% annual increase to the base budget to address chronic underfunding of State support for core areas of the budget
- Acknowledgement of the need to either increase fees or provide equivalent revenue
- Commitment to provide State support for summer instruction
- State bond funding of \$210 million annually

Display XXI-5: State Funding Changes under the Partnership Agreement, 2000-01 (Dollars in Thousands)

For the first year of the Partnership, the University's basic budget request was fully funded consistent with the funding principles of the Partnership. The State was also provided additional funding in several areas.

Partnership Funding

Annuitant Health and Dental Benefits	\$1,753
Base Budget Increase	\$104,437
Core Academic Support	\$26,109
Enrollment Growth	\$51,234

Other Initiatives

K-12 Internet Connectivity	\$32,000
UC Internet Connectivity (One-Time)	\$18,000
California Subject Matter Project	\$40,000
MIND Institute (One-Time)	\$28,000
Professional Development Programs	\$31,000
Teaching Hospitals (One-Time)	\$25,000
Academic Support	\$20,000
Buyout of 4.5% Student Fee Increase	\$19,300
Additional 1.5% for Low-Paid Workers	\$19,000
Research Programs	\$35,000
Other Academic and Outreach Initiatives	\$6,109
Summer Session Fee Buy-down	\$13,800
Charles R. Drew Medical Program	\$7,850
UC Merced Base Budget Funding	\$9,900
Geriatrics Endowed Chairs (One-Time)	\$6,000
English Learners Teacher's Institute	\$5,000
Expand AP Program Development	\$4,000
Outreach	\$2,000
Algebra and Pre-Algebra Academies	\$1,700
Summer School for Math and Science	\$1,000
Governor's Education Programs	\$1,000
New Teacher Center at UCSC	\$600
Reapportionment Data Base	\$100

Total State Funding = \$3.192 billion

Display XXI-6: State Funding Changes under the Partnership Agreement, 2001-02 (Dollars in Thousands)

Partnership Funding

Base Increase (4%)	\$59,853
Enrollment Growth	\$65,022
Annuitant Health and Dental Benefits	\$829

Reductions

Increased Natural Gas Costs	\$50,620
California Subject Matter Project	(\$250)
Professional Development Institutes	(\$11,000)
Undesignated Reduction	(\$5,000)
K-12 Internet	(\$4,850)
Outreach Redirection	(\$3,250)
Labor Studies	(\$500)
Substance Abuse Research	(\$310)

Other Initiatives

Buyout of 4.9% Student Fee Increase	\$21,542
Year-round Instruction	\$20,654
MESA and Puente	\$1,500
Clinical Teaching Support Hospitals	\$5,000
Spinal Cord Injury Research	\$1,000
Aging Study	\$250
CPEC Eligibility Study	\$28
UC Merced (one-time)	\$2,000

Total State Funding = \$3.323 billion

The final 2001-02 budget was the first budget in seven years that did not provide full funding of the Partnership Agreement or the Compact (see Display XXI-6). 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.

The budget did, however, 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. 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.

Funds for strengthening the quality of undergraduate education were not provided, however, and UC funding available for debt financing for deferred maintenance projects was reduced from \$6 million to \$4 million to help

Historical Perspective

fund compensation increases. UC'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 totaling \$45.8 million for the 2001-02 budget. The State's budget deficit for 2002-03 eventually grew to \$23.5 billion.

The final budget act for the 2002-03 budget, described in Display XXI-7, 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. 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. State General Funds provided to the University in the 2002-03 Budget Act totaled \$3 billion.

Display XXI-7: State Funding Changes under the Partnership Agreement, 2002-03 (Dollars In Thousands)

Partnership Funding

Annuitant Health and Dental Benefits	\$16,824
Enrollment Growth	\$69,201

Reductions

Base Increase (4% reduced to 1.5%)	\$47,590
Base Reduction Offset by Fee Increases	(\$19,000)
Core Needs (one-time reduction)	(\$29,000)
Professional Development Institute	(\$50,866)
Research	(\$48,482)
Academic and Institutional Support	(\$20,000)
Student Financial Aid	(\$17,000)
Outreach	(\$14,396)
Student Services	(\$6,336)
K-12 Internet Connectivity	(\$6,250)
AP Online – Revert Savings (one-time)	(\$4,000)
Public Service Programs	(\$2,289)
California Subject Matter Project	(\$503)

Other Initiatives

Year-round Instruction	\$8,443
Dual Admissions Program	\$2,500
CA Institutes for Science and Innovation	\$4,750
CPEC Eligibility Study	\$7
UC Merced (one-time)	\$4,000

Total State Funding = \$3.15 billion

Mid-year cuts instituted in December 2002 (though not formally approved by the Legislature until March 2003) included \$70.9 million in further base budget cuts for UC. 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.

By the time the mid-year budget cuts were 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. For the University, cuts proposed by the Governor in January totaling \$373.3 million and affecting nearly every area of the budget were all approved in the final budget act, including \$179 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. The Regents again adopted an increase in mandatory systemwide student fees to offset this reduction in 2003-04.

The University took \$34.8 million of the total cut that had been targeted at increasing the University's student-faculty ratio as an unallocated reduction instead. 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 (see Display XXI-8), but most of the Partnership was not funded and the \$29 million reduction in 2002-03 to core areas of the budget that had previously been specified as a one-time cut was not restored. 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.

A final round of mid-year reductions occurred in December 2003, totaling \$29.7 million. While these mid-year reductions originally were intended by the Governor to be permanent reductions, the budget agreement for 2004-05 restored funding for some programs. Consequently, the mid-year reductions were taken on a temporary basis in 2003-04 and only the \$15 million associated with the

Display XXI-8: State Funding Changes under the Partnership Agreement, 2003-04 (Dollars In Thousands)

Partnership Funding

Annuitant Health and Dental Benefits	\$16,089
Enrollment Increase	\$117,200

Reductions

Base Budget Reduction	(\$160,098)
Unallocated Reduction	(\$149,002)
Core Academic Support	(\$29,000)
Outreach	(\$45,532)
AP Online	(\$4,438)
Student Services	(\$19,008)
Research	(\$28,457)
Public Service	(\$12,500)
Academic and Institutional Support	(\$16,475)
California Subject Matter Project	(\$15,000)
K-12 Internet Connectivity	(\$6,600)
Labor Institutes	(\$2,455)
Teaching Internships	(\$1,300)
San Diego Supercomputer	(\$360)

Other Initiatives

UC Merced Base Budget Adjustment	\$100
UC Merced (one-time)	\$7,300

Total State Funding = \$2.868 billion

Display XXI-9: State Funding Changes under the Partnership Agreement, 2004-05 (Dollars In Thousands)

Partnership Funding

Annuitant Health and Dental Benefits	\$34,416
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Reductions

Base Reduction Offset by Student Fees	(\$133,702)
Research	(\$11,626)
Academic & Institutional Support	(\$45,435)
Subsidy Reductions/Eliminations	(\$40,782)
Increase Student: Faculty Ratio	(\$35,288)
Reduce Freshman Enrollment 10%	(\$20,790)
Outreach/Reinstatement of Enrollment	\$8,209
Unallocated Shift to Main Support	(\$18,000)
Eliminate K-12 Internet	(\$14,300)
Labor Institutes	\$1,800

Other Initiatives

UC Merced (one-time)	\$10,000
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Total State Funding = \$2.699 billion

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, as shown in Display XXI-9. State funds for 2004-05 totaled \$2.72 billion, \$147 million less than the funding level provided in the previous year. Base budget reductions included another cut to research and a reduction to academic and institutional support. Once again, another 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. Undergraduate fees rose 14%, graduate academic fees rose 20%, and graduate professional fees rose 30%, which still generated \$5 million less than expected. As a result of the shortfall, campuses were asked to absorb a temporary unallocated reduction of \$5 million until fees could be raised again in 2005-06. Nonresident tuition was also increased by 20% in 2004-05 for undergraduate and graduate academic students.

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 campuses to redirect these students to the California Community Colleges for their first two years of study before accepting them to enroll for their upper division work at UC, a program referred to as the Guaranteed Transfer Option (GTO). 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, which allowed the University to offer freshman admission to all students who originally received the GTO offer and preserve the Master Plan guarantee of access for eligible students.

Following the compromise, the University immediately sent offers of 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 1,850 enrolled at UC during 2004-05. Another 500 remained as GTO students with plans to later transfer to the University as upper division students.

Among other actions, the Governor's January budget proposed elimination of all State funds for the Institute for Labor and Employment (ILE) and student academic preparation. As part of the final budget package, the Governor and the Legislature assigned ILE a \$200,000 reduction and cut student academic preparation by only \$4 million, leaving the program with a total of \$29.3 million for 2004-05. The final budget did, however, eliminate all remaining funding for the Digital California Project (K-12 Internet) from UC's budget.

Also, the one-time reduction of \$80.5 million from 2003-04 was 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.

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. About one-third of this shortfall was accommodated through base budget cuts to existing programs and one-fourth was addressed through student fee increases. The remainder represented foregone salary and other unfunded cost increases.

A NEW COMPACT WITH GOVERNOR SCHWARZENEGGER

As the State's economic recovery remained slow, the Governor's proposed solution to the overall deficit included major budget reductions in most areas of the budget, 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. 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.

Display XXI-10: Provisions of the Compact with Governor Schwarzenegger, 2005-06 through 2010-11

- Base budget adjustments of 3% in 2005-06 and 2006-07 and 4% for 2007-08 through 2010-11
 - Additional 1% base budget adjustment for annual shortfalls in core areas beginning in 2008-09 and continuing through 2010-11
 - Marginal cost funding for enrollment growth of 2.5% per year
 - Student fee increases of 14% in 2004-05 and 2005-06 for undergraduates, 20% in 2004-05 and 10% in 2005-06 for graduate students, and fee increases consistent with Governor's proposed long-term student fee policy beginning in 2007-08
 - Annual adjustments for debt service, employer retirement contributions, and annuitant health benefits
 - One-time funds and new initiatives when the State's fiscal situation allowed
 - At least \$345 million of capital outlay annually
-

A new higher education Compact was announced by Governor Schwarzenegger in May 2004, shown in detail in Display XXI-10. Negotiation of the Compact with Governor Schwarzenegger helped stem the tide of budget cuts that had prevailed for four years.

According to the Compact, beginning in 2007-08, the University was to develop its budget plan each year based on the assumption that fees would be increased consistent with the Governor's proposed long-term student fee policy that student fee increases should be equivalent to the rise in California per capita personal income or up to 10% in years in which the University determines that to provide sufficient funding for programs and preserve academic quality would require more than the per capita increase rate. Revenue from student fees would remain with the University and would not be used to offset reductions in State support. The Compact also called for UC to develop a long-term plan for increasing professional school fees that considered average fees at other public comparison institutions, the average cost of instruction, the 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 the financial aid requirements of professional school students. Revenue from professional school fees would remain with UC and would not be returned to the State.

As with the first iteration of the Compact under Governor Wilson, the new Compact included accountability measures relating to issues that traditionally had been high priorities for the State, 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 was to report to the Administration and the Legislature on its progress in these areas each year.

With the 2005-06 budget, the Compact represented a true turning point. The first three years of the Compact were very good for the University, as shown in Display XXI-11. In each year, the State provided a normal workload budget and UC began to address major shortfalls that had occurred in the recent fiscal crisis.

Over that three-year period, base budget adjustments helped support salary cost-of-living, market-based, and equity salary adjustments, merit salary increases, health and welfare benefit cost increases, and non-salary price increases. Enrollment workload funding was provided to support significant enrollment growth. In addition, the marginal cost of instruction methodology was revised in 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. In each of the three years, UC was also able to direct \$10 million for a multi-year plan to restore \$70 million of unallocated reductions that had originally been targeted at instructional programs. Thus, \$30 million was put toward this goal. The State also funded several initiatives during this period, including the Science and Math Initiative, the labor and employment institutes, and the Gallo Substance Abuse Program.

Funding for student academic preparation programs was a major issue in the budget process for all three years. In each year, the Governor's January budget proposed eliminating State funds for this program, leaving only the University's \$12 million in support for student academic

Display XXI-11: State Funding Changes under the Compact, 2005-06 through 2007-08 (Dollars In Thousands)

2005-06 STATE FUNDING	
<u>Compact Funding</u>	
Base Budget Adjustment (3%)	\$76,124
Annuitant Health and Dental Benefits	\$521
Enrollment Growth	\$37,940
<u>Reductions</u>	
One-time enrollment shortfall	(\$3,764)
<u>Other Initiatives</u>	
Labor Institutes	(\$3,800)
Science and Math Initiative	\$750
UC Merced (One-Time)	\$14,000
COSMOS	(\$1)
<i>Total State Funding = \$2.839 billion</i>	
2006-07 STATE FUNDING	
<u>Compact Funding</u>	
Base Budget Adjustment (3%)	\$80,489
Enrollment Growth	\$50,980
Nursing Enrollment Growth	\$963
PRIME (MD) Enrollment Growth	\$180
Buyout of 8-10% Student Fee Increases	\$75,015
<u>Other Initiatives</u>	
Student Academic Preparation	\$17,300
Science and Math Initiative	\$375
CA Community College Transfer	\$2,000
Labor Institutes	\$6,000
Substance Abuse Research	\$4,000
UC Merced (One-Time)	\$14,000
<i>Total State Funding = \$3.069 billion</i>	
2007-08 STATE FUNDING	
<u>Compact Funding</u>	
Base Budget Adjustment (4%)	\$116,734
Annuitant Health and Dental Benefits	\$10,458
Enrollment Growth	\$52,930
Nursing Enrollment Growth	\$757
PRIME (MD) Enrollment Growth	\$570
<u>Reductions</u>	
UC-Mexico Research	(\$500)
<u>Other Initiatives</u>	
UC Merced (One-Time)	\$14,000
COSMOS	\$500
<i>Total State Funding = \$3.257 billion</i>	

preparation as called for in the Compact. In the end, the final budget act each year restored the State support, and in 2006-07 included an augmentation of \$2 million

for community college academic preparation programs. In 2007-08, the University's budget included \$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.

Also in 2007-08, the Governor's January budget had proposed elimination of State funds for labor and employment research, but 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.

In 2005-06 and 2007-08, fee increases were implemented, but in 2006-07, the State provided funding to avoid planned increases in student fees.

There were several initiatives the University had proposed in 2007-08 that were not funded in the final budget. The University had requested that employer and employee contributions to the UC Retirement Plan be reinstated (at an estimated cost of \$60 million during the first year); however, the final budget did not include these funds.

Also in 2007-08, the January Governor's budget proposed increasing core support for the four California Institutes for Science and Innovation by a total of \$15 million to ensure that each Institute had a minimum level of support with which to operate, which in turn would serve as seed money to continue to attract funds from industry and governmental sources. Finally, 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*; however, it was agreed by the Governor and the Legislature that no State funds would be used for this facility going forward.

The State-funded budget rose 5% in 2005-06, 8.2% in 2006-07, and 5.9% in 2007-08, rising from \$2.8 billion in 2005-06 to \$3.26 billion in 2007-08.

2008-09 THROUGH 2011-12: A SECOND STATE FISCAL CRISIS IN A DECADE

The 2008-09 academic year began, fiscally, as a very difficult year for the State. The State's ongoing structural

deficit was estimated to be about \$6 billion when the University developed its plan for 2008-09 in November 2007 and ended up totaling closer to \$14.5 billion when the Governor and the Legislature negotiated a final budget in September 2008. The State addressed its problem through a combination of budget cuts, borrowing, and revenue enhancements such as closing tax loopholes, among other actions.

For the University, the budget was constrained, falling short of funding basic costs. 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 in the Governor's January proposal between 2007-08 and 2008-09 was a reduction to the University's base budget of \$108 million (excluding lease revenue bond payments and one-time funds). The Governor's May revision proposed to restore \$98.5 million of the cut proposed in January, and this restoration was sustained through the signing of the budget act. With the adoption of a new State spending plan in September 2008, the University's State-funded budget was essentially flat compared to 2007-08, totaling \$3.25 billion.

Unfortunately, the nation, and indeed the world, was entering the worst economic recession since the Great Depression of the 1930s. As a result, estimates of revenue contained in the State's September 2008 budget act proved unrealistic and the State began a process of budget negotiations over a 10-month period to resolve its deficit.

First, action occurred in October, after the final budget act had been passed, which required the University to achieve \$33.1 million in one-time savings during 2008-09. During November, the Governor called a special session of the Legislature to deal with the State's fiscal crisis. That effort ended with a new 18-month budget package adopted in February 2009 that implemented mid-year cuts for 2008-09 and developed a spending plan for 2009-10 instituting additional cuts. Within a matter of weeks, it became evident the revenue estimates used to adopt the February Special Session budget were too optimistic. Late into the summer, the Legislature adopted its third budget for 2008-09 (after the fiscal year had ended) and a revised

spending plan for 2009-10 to resolve an estimated \$24 billion deficit.

Again, the State used a combination of spending cuts, borrowing, transfers to the General Fund, and increased revenue (through accounting system changes rather than additional taxes) to resolve the budget deficit. The new 18-month State budget included unprecedented cuts for the

Display XXI-12: 2008-09 State Budget Actions (Dollars in Thousands)

Compact Funding

Base Budget Adjustment (4%)	\$123,832
Additional 1% for Core Academic Support	\$30,958
Annuitant Health and Dental Benefits	\$11,081
Enrollment Growth	\$56,370
PRIME (MD) Enrollment Growth	\$975
Other Adjustments	
10% Budget Reduction	(\$220,185)
May Revise Restoration	\$98,548

Mid-year and Year-end Actions

Mandatory Savings Target (one-time)	(\$33,051)
Mid-year Special Session Reduction	(\$65,497)
May Revise Reduction (one-time)	(\$510,000)
May 26 Reduction (one-time)	(\$207,500)
Conference Committee Restoration	\$2,000

Other Initiatives

UC Merced (one-time)	\$10,000
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Total State Funding = \$2.418 billion

Display XXI-13: 2009-10 State Budget Actions (Dollars in Thousands)

Compact Funding

Base Budget Adjustment (5%)	\$153,764
Annuitant Health and Dental Benefits	\$11,332
Enrollment Growth	\$56,180
PRIME (MD) Enrollment Growth	\$1,460
Nursing Enrollment Growth	\$1,087
Other Adjustments	
Elimination of Compact Funding	(\$209,944)
May Revise Restoration	\$98,548

Subsequent Actions

Special Session Vetoes (one-time)	(\$305,000)
May Revise Reductions	(\$81,300)
May 26 Reduction (two-year)	(\$167,500)
Conference Committee Adjustment	(\$17,800)

Other Initiatives

UC Merced (one-time)	\$5,000
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Total State Funding = \$2.591 billion

University. Reductions in 2008-09 totaled \$814 million and included both permanent and one-time cuts. These reductions were partially offset by \$716.5 million in one-time funds provided by the federal government through the American Recovery and Reinvestment Act (ARRA) as part of a wide-ranging economic stimulus package intended to jump-start economic recovery in a number of sectors, including education. Many of the reductions for 2008-09 were not approved until after the fiscal year had ended. In addition, much of the ARRA money was not provided until the new fiscal year. Thus, the University carried forward a large negative balance at the end of 2008-09.

The funding cuts for the University's 2009-10 budget reflected the continuing fiscal crisis in the State. When compared to the budget adopted in September 2008 before the mid-year cuts began, the University's 2009-10 State funded budget was \$637 million less, totaling \$2.6 billion, a reduction of 20%. Displays XXI-12 and XXI-13 show the actions that occurred during 2008-09 and 2009-10.

The fiscal turbulence that characterized the 20 months between December 2008 and August 2010 for the State of California did not subside with the adoption of the 2009-10 budget. The State remained unable to develop permanent solutions to address its ongoing fiscal deficit.

Thus, with the presentation in January 2010 of a proposed budget for 2010-11, the Governor once again had difficult choices to make. As a signal of the high priority he placed on maintaining funding for higher education, the Governor proposed additional funding totaling \$370.4 million for UC, including the following:

- restoration of a \$305 million one-time cut adopted as part of the 2009-10 budget package;
- \$51.3 million to support 5,121 FTE students (at the time, UC estimated it had enrolled more than 14,000 students for whom it had not received State funding); and
- \$14.1 million in annuitant benefits.

While the funding only partially addressed the shortfalls UC has experienced since 2007-08, the Governor's proposal was welcome news for UC's students, faculty, and staff, signaling that adequate funding for UC continues to be important to the State of California.

Budget negotiations continued throughout the spring and summer with no agreement by the Governor and the

Legislature. Ultimately, it was not until October 8th, more than 100 days into the fiscal year, that a final budget package for 2010-11 was signed into law.

Supporting the budget proposals Governor Schwarzenegger submitted in his January budget, the final budget included an additional \$264.4 million for the University of California; another \$106 million in one-time ARRA funds was approved in early September. Of this amount, \$199 million was permanent funding to partially restore the one-time budget cut agreed to as part of the 2009-10 State budget. When combined with the one-time \$106 million in ARRA funds, the total amount restored was \$305 million, which is the total restoration the Governor originally proposed. The total also included the \$51.3 million to address UC's unfunded enrollment. Another \$14.1 million was included for the increase in health care costs for UC's retired annuitants.

An issue of great concern had been the funding of the State's share of the employer contribution to the University's retirement program, estimated to be \$95.7 million in 2010-11. The final budget package did not contain the funding to support this cost. However, the Legislature did approve trailer bill language to eliminate the current statutory language prohibiting any new State General Fund dollars from supporting the State's obligation to the University of California Retirement Program. The Legislature also adopted budget bill language asking for the Legislative Analyst, the Department of Finance, and UC to work together to develop a proposal for how UC's retirement plan would be funded in future years. While this language was vetoed by the Governor, the Legislative Analyst began to present the liability for contributions to the University's retirement program as an issue that must be addressed.

Other actions approved in the final package include budget language requiring UC to redirect \$10 million from existing resources to support planning for a new medical school at UC Riverside and \$600,000 to be redirected from existing resources for the Institute of Governmental Studies at UC Berkeley. Display XXI-14 summarizes the changes to the University's operating budget as approved in the final budget.

Display XXI-14: 2010-11 State Budget Actions (Dollars in Thousands)

Major Actions

Restoration of One-time Cuts (permanent)	\$199,000
Restoration of One-time Cuts (one-time)	\$106,000
Annuitant Health and Dental Benefits	\$14,121
Enrollment Growth	\$51,272
Debt Service Adjustments	\$52,190

Other Initiatives

UC Merced (one-time)	\$5,000
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Redirections of Existing Funds

UCR Medical School (\$10 million)	\$0
Reapportionment Database (\$600,000)	\$0

Total State Funding = \$2.911 billion

While some of the earlier cuts in State support imposed on the University in 2008-09 and 2009-10 were restored in 2010-11, the University continued to face significant mandatory cost increases and a significant budget shortfall. In November 2010, in addition to requesting further restoration of funding, support for contributions to the UC Retirement Plan, and funding to cover the costs of unfunded enrollments from the State, UC implemented an 8% student tuition and fee increase for 2011-12.

Despite the University's request for an increase in funding, in January 2011, newly-elected Governor Brown proposed the restoration of \$106 million that had been funded through ARRA during 2010-11, a \$7.1 million increase to support retiree health benefit cost increases, and a \$500 million undesignated reduction in State support for UC. This reduction was part of a budget package seeking the extension of temporary tax increases that were set to expire in 2011-12 through the referendum process. In spring 2011, the Legislature approved the Governor's proposal for UC for 2011-12. UC also faced \$362.5 million in unfunded mandatory costs, bringing UC's total budget gap for 2011-12 at that point to \$862.5 million.

Ultimately, the Governor was unable to gain approval for placing the tax extension referendum on the ballot for 2011-12. On June 30, 2011, the Governor signed a second budget package for 2011-12 that included additional targeted reductions for many State programs, including \$150 million each for UC and CSU, an assumption of

significant revenue increases, and a trigger mechanism for more cuts mid-year if revenue targets were not realized.

The combined reduction for UC totaled \$750 million, \$100 million of which was not allocated until mid-year. The decrease represented a cut of 26% over the prior year. Combined with the mandatory cost increases of \$360 million, the University's budget shortfall rose above \$1 billion.

In response to the additional reduction of \$150 million, at their July meeting, the Regents approved a 9.6% increase in mandatory systemwide charges, effective for the Fall 2011 term, to replace the lost State funding. This increase,

combined with the increase approved in November 2010, meant that mandatory charges rose by \$1,890, or 18.3%, over 2010-11 charges. These increases covered about 26% of the University's budget shortfall for 2011-12.

The University sought endorsement by the Legislature of its plan to target specific cuts to programs that had received large increases from the State but had not been reviewed to determine their necessity or appropriate funding level. While many of the targeted program cuts were accepted, several were protected by the Legislature, as shown in Display XXI-16.

FUNDING IN THE CURRENT YEAR – 2012-13

The budget package adopted by the Governor and the Legislature for 2012-13 resolved about \$10 billion of the \$15.7 billion gap identified by the Governor in his May Revision, primarily through cuts to Health and Human Services, Social Services, child care, Proposition 98 and other State programs. The 2012-13 State budget assumes adoption of the Governor's revenue-raising initiative (*The Schools and Local Public Safety Protection Act of 2012* – Attorney General reference number 12-0009) on the November ballot, which would address about \$5.6 billion of the gap. If the Governor's revenue-raising initiative is not adopted in the November election, the budget calls for nearly \$6 billion in trigger reductions to various State agency budgets, including \$250 million to UC and \$250 million to the California State University.

For the University, the 2012-13 budget includes no further cuts to the base budget and provides an augmentation of \$89.1 million toward the State's share of the employer contribution to the University's retirement plan. The budget also includes an augmentation of \$5.2 million for annuitant health benefits and \$11.6 million for lease revenue bond debt service. The new State funding base for UC in 2012-13 will be \$2.378 billion, up from \$2.271 billion in 2011-12. Considering the \$15.7 billion budget gap the Legislature and the Governor were addressing, UC fared well compared to other State agencies.

The budget deal also provides UC with \$125.4 million in deferred tuition buy-out funding in the 2013-14 budget if the Governor's revenue-raising initiative passes in November

Display XXI-15: 2011-12 State Budget Actions (Dollars in Thousands)

Major Actions

Restoration of One-time Cuts	\$106,000
Annuitant Health and Dental Benefits	\$7,089
Undesignated Reduction (January)	(\$500,000)
Undesignated Reduction (June)	(\$150,000)
<u>Trigger Cut (December)</u>	\$100,000

Other Initiatives

UC Merced (one-time)	\$5,000
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Total State Funding = \$2.274 billion*

*Subsequent adjustments reduced this total to \$2.271 billion.

Display XXI-16: 2011-12 Reductions for Previously Earmarked Programs (Dollars in Thousands)

<u>Elimination of State support</u>	<u>Reduction</u>
Earthquake Engineering Research	\$384
Lupus Research	\$624
Spinal Cord Research	\$1,246
Substance Abuse Research	\$13,770
Preuss School	\$1,000
<u>Reductions up to 21.3%</u>	
San Diego Supercomputer Center	\$690
Other SAPEP Programs (estimated)	\$4,056
COSMOS (estimated)	\$192
<u>Reductions up to 5%</u>	
AIDS Research	\$461
Charles R. Drew Medical Program	\$462
MIND Institute	\$156
CA Policy on Access to Care	\$50
US-Mexican Treaty Project	\$10
Study of Latino Health & Culture	\$30
<u>No reductions</u>	
Labor Institutes	\$0

and if the University does not implement the 6% tuition increase UC had expected to implement in 2012-13.

In addition, UC students were spared major cuts to their Cal Grants in the 2012-13 State budget. The Governor's January budget had proposed several changes to the entitlement provisions, all of which were rejected by the Legislature.

The University was seeking approval of a proposal that was not included in the final budget. This initiative would have involved the University assuming responsibility for the State's lease revenue bond debt for University facilities (totaling approximately \$2.5 billion), and restructuring that debt to save approximately \$80 million (in part because of UC's more favorable credit rating) on an ongoing basis that

could have been used to help cover operating budget shortfalls and some capital outlay needs. Unfortunately, strong opposition precluded this proposal from being adopted in the legislative budget process. The debt restructuring proposal was critical not only to assisting UC with its budget shortfall, but also to addressing capital facility projects the State is no longer willing to fund. The University will continue to pursue this proposal for 2013-14.

While every decade in recent history has begun with an economic downturn that has negatively affected the University's fiscal stability, the past decade was unprecedented as two major multi-year fiscal crises occurred within a ten-year period. It is critical for the future of the University of California that the State find solutions to its fiscal woes – until that occurs, the University of California will experience increasingly difficult fiscal challenges as it hopes to move forward. Display XXI-17 provides a brief outline of State budget actions since 2000-01. The *Cross-Cutting Issues* chapter of this document contains detail on the actions of the University to address the budget cuts in recent years.

Display XXI-17: 2012-13 State Budget Changes
(Dollars in Thousands)

	<u>Augmentation</u>
UC Retirement Plan	\$89,135
Annuitant Health Benefits	\$5,168
Lease Revenue Bond Debt Service	\$11,648
<i>Total State Funding = \$2.378 billion*</i>	

Display XXI-17: The UC Budget Since 2000-01

2000-01

Partnership Agreement with Governor Davis funding allows increases to base, core needs, enrollment, research, and outreach, as well as new and expanded funding for initiatives, and fee buy-downs for students.

2001-02

While a fiscal crisis looms, the State is able to provide Partnership funding, but by the end of the year must make some cuts to research, outreach, and public service.

2002-03

With the State in fiscal crisis, Partnership funding is provided for enrollment and annuitant benefits, but UC's base increase is lower than planned and partially offset by fee increases, and cuts are made throughout the University.

2003-04

Large cuts are made throughout the enterprise, as high as 50% in outreach, but increases to enrollment and annuitant benefits are still provided.

2004-05

The State budget crisis' effect on UC peaks, with increases in student fees and the student-faculty ratio, a smaller freshman class, and large budget reductions throughout the University.

2005-06

A return to increases in base budget and enrollment funding and few targeted cuts through the new Compact with Governor Schwarzenegger signal a turning point in UC's budget after four years of reductions.

2006-07

The State provides Compact funding, as well as additional funding for outreach and research, and provides students with fee increase buyouts.

2007-08

Compact funding is again available, with some additional funding for outreach.

2008-09

With the onset of another fiscal crisis, the Compact is funded but equivalent unallocated cuts are assigned and institutional support is reduced.

2009-10

The Compact is again funded, but equivalent unallocated cuts are assigned, and large and wide-ranging cuts are assigned throughout the University.

2010-11

The Governor prioritizes investing in higher education, which is reflected in the final State budget with partial restoration of earlier cuts and new funding for enrollment.

2011-12

With the Governor unable to place a referendum to extend temporary tax increases on the ballot, higher education is assigned cuts totaling \$1.7 billion. Also, for the first time, revenue from student tuition and fees exceeded revenue from the State.

2012-13

While most other State agencies received more budget cuts, the University received a budget augmentation to help fund the State's share of the employer contribution to the University's retirement plan. However, if the Governor's revenue-raising initiative on the November ballot is not adopted, UC faces another mid-year trigger reduction of \$250 million.

Appendix Display 1: Budget for Current Operations and Extramurally Funded Operations (Dollars in Thousands)

I N C O M E		
	2011-12 Actual	2012-13 Estimated
BUDGET FOR CURRENT OPERATIONS		
<u>General Fund</u>		
State of California	\$ 2,271,410	\$ 2,378,124
State Fiscal Stabilization Funds	0	0
UC Sources	792,340	848,466
Total General Funds	\$ 3,063,750	\$ 3,226,590
<u>Restricted Funds</u>		
State of California	\$ 87,477	\$ 63,344
U. S. Government Appropriations	20,244	23,000
Tuition, Student Services Fee & Professional School Tuition	3,022,602	2,981,299
Extension, Summer Session & Other Fees	629,891	658,956
Teaching Hospitals	6,288,149	6,791,201
Auxiliary Enterprises	992,096	950,099
Endowment Earnings	212,700	217,359
Other	3,143,583	3,296,888
Total Restricted Funds	\$ 14,396,742	\$ 14,982,14
TOTAL BUDGET FOR CURRENT OPERATIONS	\$ 17,460,492	\$ 18,208,73
EXTRAMURALLY FUNDED OPERATIONS		
State of California	\$ 328,912	\$ 316,073
U.S. Government	2,895,534	2,743,275
Private Gifts, Contracts & Grants	1,568,830	1,615,895
Other	496,633	386,718
TOTAL EXTRAMURALLY FUNDED OPERATIONS	\$ 5,289,909	\$ 5,061,961
DEPARTMENT OF ENERGY LABORATORY (LBNL)	\$ 822,808	\$ 810,000
TOTAL OPERATIONS	\$ 23,573,209	\$ 24,080,697
E X P E N D I T U R E S		
	2011-12 Actual	2012-12 Budgeted
BUDGET FOR CURRENT OPERATIONS		
Instruction:		
General Campus	\$ 2,663,201	\$ 2,708,596
Health Sciences	1,773,463	1,842,412
Summer Session	15,656	15,656
University Extension	223,263	235,766
Research	685,533	711,052
Public Service	248,252	257,348
Academic Support: Libraries	240,907	253,986
Academic Support: Other	1,090,976	1,110,893
Teaching Hospitals	6,310,850	6,813,902
Student Services	668,757	669,363
Institutional Support	662,455	652,469
Operation and Maintenance of Plant	525,146	537,722
Student Financial Aid	1,177,152	1,272,291
Auxiliary Enterprises	992,096	950,099
Provisions for Allocation	212,785	177,181
TOTAL BUDGET FOR CURRENT OPERATIONS	\$ 17,460,492	\$ 18,208,736
EXTRAMURALLY FUNDED OPERATIONS		
Sponsored Research	\$ 3,561,026	\$ 3,425,568
Other Activities	1,728,883	1,636,393
TOTAL EXTRAMURALLY FUNDED OPERATIONS	\$ 5,289,909	\$ 5,061,961
DEPARTMENT OF ENERGY LABORATORY (LBNL)	\$ 822,808	\$ 810,000
TOTAL OPERATIONS	\$ 23,573,209	\$ 24,080,697

Appendix Display 2: University of California Income and Funds Available (Dollars in Thousands)

	Actual 2011-12	Estimated 2012-13
STATE APPROPRIATIONS		
General Fund	\$ 2,271,410	2,378,124
Special Funds	87,477	63,344
TOTAL, STATE APPROPRIATIONS	\$ 2,358,887	2,441,468
UNIVERSITY SOURCES		
General Funds Income		
Student Fees		
Nonresident Supplemental Tuition	\$ 404,404	407,584
Application for Admission and Other Fees	29,229	30,200
Interest on General Fund Balances	6,145	5,000
Federal Contract & Grant Overhead	305,108	316,377
Overhead on State Agency Agreements	15,063	15,500
Other	24,017	15,000
Subtotal	\$ 783,966	789,661
Prior Year's Income Balance	67,179	58,805
Available in Subsequent Year	-58,805	
Total UC General Fund Income	\$ 792,340	848,466
Special Funds Income		
GEAR UP State Grant Program	\$ 5,000	5,000
United States Appropriations	15,244	18,000
Local Government	104,114	96,639
Student Fees		
Tuition [Educational Fee]	2,584,272	2,514,326
Student Services Fee [Registration Fee]	200,188	218,482
Professional School Tuition	238,142	248,491
University Extension Fees	223,263	235,766
Summer Session Fees	15,656	15,656
Other Fees	390,972	407,534
Sales & Services - Teaching Hospitals	6,288,149	6,791,201
Sales & Services - Educational Activities	1,943,169	2,137,486
Sales & Services - Support Activities	637,287	656,363
Endowments	212,700	217,359
Auxiliary Enterprises	992,096	950,099
Contract and Grant Off-the-Top Overhead	142,012	105,000
DOE Management Fee	31,624	31,400
University Opportunity Fund	170,683	145,000
Other	114,694	125,000
Total Special Funds	\$ 14,309,265	14,918,802
TOTAL, UNIVERSITY SOURCES	\$ 15,101,605	15,767,268
TOTAL INCOME AND FUNDS AVAILABLE	\$ 17,460,492	18,208,736

Note: Excludes extramural funds.

Appendix Display 3: SAPEP State General Funds and University Funds Budgets (Dollars in Thousands)

This table shows the budget for each SAPEP program in 1997-98, prior to significant funding augmentations; in 2000-01, when SAPEP funding reached its peak; in 2008-09, representative of a few years of stable funding for SAPEP programs; and in 2009-10 and 2011-12, when SAPEP programs were subject to budget reductions.

	1997-98	2000-01	2008-09	2009-10	2011-12
Direct Student Services Programs					
Community College Transfer Programs	\$1,718	\$5,295	\$3,279	\$3,058	\$2,431
EAOP	4,794	16,094	8,914	8,416	7,599
Graduate and Professional School Programs	1,893	8,575	2,661	2,623	2,467
MESA Schools Program	4,169	9,355	4,861	4,394	3,806
MESA Community College Program	22	1,309	327	327	327
Puente High School Program	-	1,800	1,051	980	793
Puente Community College Program	162	757	450	419	340
Student-Initiated Programs	-	-	440	440	414
UC Links	-	1,656	694	622	622
Statewide Infrastructure Programs					
ASSIST	360	360	429	389	377
Community College Articulation	-	-	600	600	600
Longer-Term Strategies					
K-20 Regional Intersegmental Alliances ¹	-	15,591	1,395	1,361	1,255
Direct Instructional Programs					
Preuss Charter School	-	1,000	1,000	1,000	-
UC College Preparation (online courses)	-	8,400	3,106	3,059	2,411
Other Programs					
Evaluation	-	1,386	1,180	1,077	863
Other Programs ²	203	3,887	936	829	652
Programs that have been eliminated or consolidated ³	4,750	9,717	-	-	-
Total	\$18,071	\$85,182	\$31,323	\$29,594	\$24,957
General Funds	\$16,996	\$82,243	\$19,323	\$17,594	\$12,957
University Funds	\$1,075	\$2,939	\$12,000	\$12,000	\$12,000

¹ Formerly School-University Partnerships.

² Currently includes University-Community Engagement, ArtsBridge, and other programs.

³ Includes Test Preparation, Dual Admissions, Gateways, Informational Outreach and Recruitment, Central Valley Programs, and UC ACCORD.

Appendix Display 4: Expenditures by Fund Category, 1980-81 Through 2012-13 (Dollars in Thousands)

	Core Funds ¹	Medical Centers	Other Sales and Services ²	Government Contracts and Grants ³	Private Support ⁴	Other Sources ⁵	Total
1980-81	\$1,238,071	\$464,817	\$395,382	\$1,491,715	\$97,746	\$66,024	\$3,753,755
1981-82	1,310,575	521,330	464,184	1,647,181	116,411	51,494	4,111,175
1982-83	1,356,921	552,051	487,739	1,762,389	134,328	55,801	4,349,229
1983-84	1,375,660	599,469	520,933	2,009,905	155,344	65,769	4,727,080
1984-85	1,713,333	656,730	585,721	2,301,626	173,915	99,711	5,531,036
1985-86	1,930,560	721,270	678,215	2,463,841	198,812	101,484	6,094,182
1986-87	2,060,597	791,311	786,544	2,624,563	222,154	120,950	6,606,119
1987-88	2,210,321	889,243	852,459	2,763,853	243,764	114,455	7,074,095
1988-89	2,341,127	1,002,931	934,816	3,004,112	272,735	126,654	7,682,375
1989-90	2,479,193	1,135,818	1,079,927	3,136,119	320,818	160,336	8,312,211
1990-91	2,553,581	1,384,994	1,120,365	3,177,571	339,355	159,856	8,735,722
1991-92	2,616,360	1,499,059	1,159,711	3,391,898	365,686	200,862	9,233,576
1992-93	2,583,420	1,570,590	1,253,884	3,549,713	392,237	249,080	9,598,924
1993-94	2,536,244	1,577,936	1,332,303	3,487,858	402,886	211,889	9,549,116
1994-95	2,652,691	1,609,225	1,461,064	3,541,181	456,243	210,963	9,931,367
1995-96	2,749,966	1,821,352	1,627,301	3,486,237	485,694	233,928	10,404,478
1996-97	2,924,341	1,906,454	1,660,431	3,789,774	540,194	245,973	11,067,167
1997-98	3,079,198	1,820,062	1,751,567	4,071,680	602,666	292,693	11,617,866
1998-99	3,461,295	1,811,702	1,936,911	4,459,237	675,989	343,902	12,689,036
1999-00	3,675,637	2,109,383	2,043,538	4,595,925	758,731	359,378	13,542,592
2000-01	4,206,044	2,662,843	2,055,110	4,831,201	851,127	335,733	14,942,058
2001-02	4,460,637	2,880,079	2,098,019	5,463,526	926,355	310,351	16,138,967
2002-03	4,395,681	3,114,683	2,218,477	6,294,983	1,002,227	352,736	17,378,787
2003-04	4,492,468	3,378,824	2,324,417	6,462,902	1,073,828	398,059	18,130,498
2004-05	4,490,079	3,579,653	2,510,067	6,575,227	1,107,101	432,874	18,695,001
2005-06	4,781,469	3,705,005	2,718,023	6,710,678	1,235,546	467,634	19,618,355
2006-07	5,083,748	4,126,066	3,049,629	4,755,621	1,338,356	516,046	18,869,466
2007-08	5,427,851	4,554,364	3,533,777	3,649,040	1,512,588	530,338	19,207,958
2008-09	4,980,495	4,913,330	3,693,711	3,324,549	1,632,435	517,999	19,062,519
2009-10	5,719,980	5,131,765	3,705,881	3,913,403	1,633,590	500,655	20,605,274
2010-11	5,921,179	5,595,563	4,107,989	4,256,858	1,684,369	449,128	22,015,086
2011-12	6,086,352	6,288,149	4,803,190	4,154,975	1,781,530	459,013	23,573,209
2012-13	6,207,889	6,791,201	4,886,261	3,955,692	1,833,254	406,400	24,080,697

¹ **Core funds** consists of State General Funds, UC General Funds, American Recovery and Reinvestment Act (2009) funds, and student tuition and fees.

² **Other sales and services** revenue includes support for 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 publishing.

³ **Government contracts and grants** include direct support for specific research programs as well as student financial support and DOE Laboratory operations.

⁴ **Private Support** includes earnings from the Regents' endowment earnings, grants from campus foundations, and other private gifts, grants, and contracts from alumni and friends of the University, foundations, corporations, and through collaboration with other universities.

⁵ **Other sources** include indirect cost recovery funding from research contracts and grants and other fund sources.

Appendix Display 5: Core Funds Expenditures by Fund Source, 1980-81 Through 2012-13 (Dollars in Thousands)

	State General Funds	UC General Funds ¹	ARRA Funds ²	Tuition	Student Services Fees	Professional Degree Supplemental Tuition	Total
1980-81	\$1,074,584	\$66,219	-	\$42,958	\$54,310	-	\$1,238,071
1981-82	1,097,293	93,252	-	61,602	58,428	-	1,310,575
1982-83	1,125,425	86,349	-	85,705	59,442	-	1,356,921
1983-84	1,110,012	96,695	-	102,984	65,969	-	1,375,660
1984-85	1,457,144	89,100	-	97,322	69,767	-	1,713,333
1985-86	1,641,741	119,936	-	97,025	71,858	-	1,930,560
1986-87	1,788,304	97,462	-	99,357	75,474	-	2,060,597
1987-88	1,888,872	126,870	-	112,102	82,477	-	2,210,321
1988-89	1,970,047	160,524	-	124,815	85,741	-	2,341,127
1989-90	2,076,662	172,676	-	135,944	93,911	-	2,479,193
1990-91	2,135,733	166,407	-	148,891	100,750	\$1,800	2,553,581
1991-92	2,105,560	182,250	-	223,690	103,046	1,814	2,616,360
1992-93	1,878,531	237,954	-	360,883	104,232	1,820	2,583,420
1993-94	1,793,236	223,104	-	418,623	99,461	1,820	2,536,244
1994-95	1,825,402	246,121	-	473,374	104,423	3,371	2,652,691
1995-96	1,917,696	249,124	-	479,480	90,238	13,428	2,749,966
1996-97	2,057,257	270,258	-	473,991	102,182	20,653	2,924,341
1997-98	2,180,350	281,911	-	480,804	105,304	30,829	3,079,198
1998-99	2,517,773	301,996	-	489,944	114,096	37,486	3,461,295
1999-00	2,715,762	340,779	-	460,913	114,014	44,169	3,675,637
2000-01	3,191,614	370,631	-	472,287	127,904	43,608	4,206,044
2001-02	3,322,659	428,115	-	525,943	130,663	53,257	4,460,637
2002-03	3,150,011	480,256	-	577,056	130,956	57,402	4,395,681
2003-04	2,868,069	549,393	-	860,935	131,596	82,475	4,492,468
2004-05	2,698,673	544,258	-	993,607	143,548	109,993	4,490,079
2005-06	2,838,567	554,151	-	1,118,723	147,278	122,750	4,781,469
2006-07	3,069,339	560,594	-	1,171,290	161,427	121,098	5,083,748
2007-08	3,257,409	577,299	-	1,299,590	165,575	127,978	5,427,851
2008-09 ²	2,418,291	616,872	\$268,500	1,358,365	164,856	153,611	4,980,495
2009-10 ²	2,591,158	626,413	448,000	1,722,946	163,595	167,868	5,719,980
2010-11 ²	2,910,697	691,238	106,553	1,816,444	190,703	205,544	5,921,179
2011-12	2,271,410	792,340	-	2,584,272	200,188	238,142	6,086,352
2012-13	2,378,124	848,466	-	2,514,326	218,482	248,491	6,207,889

¹ UC General Funds includes Nonresident Supplemental Tuition, application fees, a portion of indirect cost recovery from federal and state contracts and grants, a portion of patent royalty income, and interest in General Fund balances.

² State Fiscal Stabilization Funds authorized by the 2009 American Reinvestment and Recovery Act.

Appendix Display 6: General Campus and Health Sciences Full-Time Equivalent Student Enrollment

	2011-12 Actual	2012-13 Estimated
Berkeley		
General Campus	36,075	36,576
Health Sciences	<u>749</u>	<u>754</u>
Total	36,824	37,330
Davis		
General Campus	29,726	30,078
Health Sciences	<u>2,291</u>	<u>2,295</u>
Total	32,017	32,373
Irvine		
General Campus	27,153	27,493
Health Sciences	<u>1,471</u>	<u>1,481</u>
Total	28,624	28,974
Los Angeles		
General Campus	35,805	36,407
Health Sciences	<u>3,902</u>	<u>3,903</u>
Total	39,707	40,310
Merced		
General Campus	5,317	5,929
Riverside		
General Campus	20,327	20,223
Health Sciences	<u>55</u>	<u>51</u>
Total	20,382	20,274
San Diego		
General Campus	28,147	28,831
Health Sciences	<u>1,712</u>	<u>1,750</u>
Total	29,859	30,581
San Francisco		
Health Sciences	4,446	4,508
Santa Barbara		
General Campus	22,298	22,527
Santa Cruz		
General Campus	17,583	17,988
Totals		
General Campus	222,431	226,052
Health Sciences	<u>14,626</u>	<u>14,742</u>
Total	237,057	240,794

Appendix Display 7: General Campus Full-Time Equivalent Student Enrollment

	2011-12 Actual	2012-13 Estimated
Berkeley		
Undergraduate	27,997	28,191
Graduate	<u>8,078</u>	<u>8,385</u>
Total	36,075	36,576
Davis		
Undergraduate	25,336	25,730
Graduate	<u>4,390</u>	<u>4,348</u>
Total	29,726	30,078
Irvine		
Undergraduate	23,426	23,851
Graduate	<u>3,727</u>	<u>3,642</u>
Total	27,153	27,493
Los Angeles		
Undergraduate	27,911	28,365
Graduate	<u>7,894</u>	<u>8,042</u>
Total	35,805	36,407
Merced		
Undergraduate	5,065	5,631
Graduate	<u>252</u>	<u>298</u>
Total	5,317	5,929
Riverside		
Undergraduate	18,191	18,066
Graduate	<u>2,136</u>	<u>2,157</u>
Total	20,327	20,223
San Diego		
Undergraduate	24,146	24,678
Graduate	<u>4,001</u>	<u>4,153</u>
Total	28,147	28,831
Santa Barbara		
Undergraduate	19,361	19,593
Graduate	<u>2,937</u>	<u>2,934</u>
Total	22,298	22,527
Santa Cruz		
Undergraduate	16,133	16,540
Graduate	<u>1,450</u>	<u>1,448</u>
Total	17,583	17,988
General Campus		
Undergraduate	187,566	190,645
Graduate	<u>34,865</u>	<u>35,407</u>
Total	222,431	226,052

Appendix Display 8: Enrollment History, 1980-81 Through 2012-13

	<u>General Campus</u>		<u>Health Sciences</u>		Total
	Undergraduate	Graduate	Undergraduate	Graduate	
1980-81	88,963	24,704	697	11,755	126,119
1981-82	90,476	25,037	492	12,030	128,035
1982-83	92,771	24,470	370	12,102	129,713
1983-84	94,469	24,192	354	11,807	130,822
1984-85	96,613	24,996	344	11,752	133,705
1985-86	99,392	25,440	344	11,752	136,928
1986-87	103,506	26,229	347	11,694	141,776
1987-88	108,141	25,676	358	11,808	145,983
1988-89	112,377	25,676	364	11,903	150,320
1989-90	114,365	26,142	380	11,976	152,863
1990-91	116,546	26,798	412	12,125	155,881
1991-92	117,297	26,511	407	12,156	156,371
1992-93	115,133	26,374	410	12,318	154,235
1993-94	113,548	25,930	400	12,324	152,202
1994-95	113,869	25,546	400	12,235	152,050
1995-96	116,176	25,346	356	12,320	154,198
1996-97	117,465	25,318	315	12,289	155,387
1997-98	119,852	25,682	278	11,999	157,811
1998-99	123,227	25,629	292	12,252	161,400
1999-00	127,208	26,114	274	12,304	165,900
2000-01	132,026	26,666	274	12,279	171,245
2001-02	143,853	28,725	287	12,439	185,304
2002-03	152,320	30,738	321	12,809	196,188
2003-04	156,243	32,385	162	13,106	201,896
2004-05	156,066	31,872	127	13,338	201,403
2005-06	159,515	32,397	131	13,325	205,368
2006-07	166,966	32,882	202	13,596	213,646
2007-08	173,703	33,652	350	13,608	221,313
2008-09	180,210	33,939	462	13,714	228,325
2009-10	183,515	34,673	512	13,913	232,613
2010-11	185,442	34,851	504	14,075	234,872
2011-12	187,566	34,865	470	14,156	237,057
2012-13 (est.)	190,645	35,407	458	14,284	240,794

Appendix Display 9: UC Mandatory Student Charge Levels

	Student Services Fee	Tuition					Surcharge ²
		Undergraduate		Graduate Academic		Professional ¹	
		Resident	Nonresident	Resident	Nonresident		
1980-81	\$419	\$300	\$300	\$360	\$360	\$360	
1981-82	463	475	475	535	535	535	
1982-83	510	725	725	785	785	785	
1983-84	523	792	792	852	852	852	
1984-85	523	722	722	782	782	782	
1985-86	523	722	722	782	782	782	
1986-87	523	722	722	782	782	782	
1987-88	570	804	804	804	804	804	
1988-89	594	840	840	840	840	840	
1989-90	612	864	864	864	864	864	
1990-91	673	951	951	951	951	951	
1991-92	693	1,581	1,581	1,581	1,581	1,581	
1992-93	693	2,131	2,131	2,131	2,131	2,131	
1993-94	693	2,761	2,761	2,761	2,761	2,761	
1994-95	713	3,086	3,086	3,086	3,086	3,086	
1995-96	713	3,086	3,086	3,086	3,086	3,086	
1996-97	713	3,086	3,086	3,086	3,086	3,086	
1997-98	713	3,086	3,086	3,086	3,086	3,086	
1998-99	713	2,896	3,086	3,086	3,086	3,086	
1999-00	713	2,716	3,086	2,896	3,086	3,086	
2000-01	713	2,716	3,086	2,896	3,086	3,086	
2001-02	713	2,716	3,086	2,896	3,086	3,086	
2002-03 ³	713	3,121	3,491	3,301	3,491	3,491	
2003-04	713	4,271	4,751	4,506	4,751	4,751	
2004-05	713	4,971	5,451	5,556	5,801	4,751	
2005-06	735	5,406	5,922	6,162	6,429	5,357	\$700
2006-07	735	5,406	5,922	6,162	6,429	5,357	1,050
2007-08	786	5,790	6,342	6,594	6,888	5,736	60
2008-09	864	6,202	6,789	7,062	7,374	6,144	60
2009-10 ⁴	900	7,998	8,742	7,998	8,352	7,920	60
2010-11	900	9,342	10,200	9,342	9,750	9,252	60
2011-12	972	11,160	11,160	11,160	11,160	11,160	60
2012-13	972	11,160	11,160	11,160	11,160	11,160	60
2013-14 ⁵	1,032	11,832	11,832	11,832	11,832	11,832	60

¹ Charged to resident and nonresident professional degree students. Through 2010-11, excludes students paying Architecture, Environmental Design, Information Management, International Relations and Pacific Studies, Physical Therapy, Preventive Veterinary Medicine, Public Health, Public Policy, Social Welfare, and Urban Planning Professional Degree Supplemental Tuition.

² Before 2007-08, surcharges were only charged to professional degree students.

³ Mid-year increases were applied to spring academic term. Figures shown are annualized levels.

⁴ Mid-year increases were applied in January 2010. Figures shown are annualized levels.

⁵ Proposed to be approved by the Regents in November 2012.

Appendix Display 10: UC Average Annual Student Charges for Resident Undergraduate Students

	Mandatory Charges	Increase	Campus-based Fees ¹	Total Charges	Total Increase
1980-81	719	5.0%	57	776	5.4%
1981-82	938	30.5%	60	998	28.6%
1982-83	1,235	31.7%	65	1,300	30.3%
1983-84	1,315	6.5%	72	1,387	6.7%
1984-85	1,245	-5.3%	79	1,324	-4.5%
1985-86	1,245	0.0%	81	1,326	0.2%
1986-87	1,245	0.0%	100	1,345	1.4%
1987-88	1,374	10.4%	118	1,492	10.9%
1988-89	1,434	4.4%	120	1,554	4.2%
1989-90	1,476	2.9%	158	1,634	5.1%
1990-91	1,624	10.0%	196	1,820	11.4%
1991-92	2,274	40.0%	212	2,486	36.6%
1992-93	2,824	24.2%	220	3,044	22.4%
1993-94	3,454	22.3%	273	3,727	22.4%
1994-95	3,799	10.0%	312	4,111	10.3%
1995-96	3,799	0.0%	340	4,139	0.7%
1996-97	3,799	0.0%	367	4,166	0.7%
1997-98	3,799	0.0%	413	4,212	1.1%
1998-99	3,609	-5.0%	428	4,037	-4.2%
1999-00	3,429	-5.0%	474	3,903	-3.3%
2000-01	3,429	0.0%	535	3,964	1.6%
2001-02	3,429	0.0%	430	3,859	-2.6%
2002-03 ²	3,834	11.8%	453	4,287	11.1%
2003-04	4,984	30.0%	546	5,530	29.0%
2004-05	5,684	14.0%	628	6,312	14.1%
2005-06	6,141	8.0%	661	6,802	7.8%
2006-07	6,141	0.0%	711	6,852	0.7%
2007-08	6,636	8.1%	881	7,517	9.7%
2008-09	7,126	7.4%	901	8,027	6.8%
2009-10 ³	8,958	25.7%	938	9,896	23.3%
2010-11	10,302	15.0%	977	11,279	14.0%
2011-12	12,192	18.3%	989	13,181	16.9%
2012-13	12,192	0.0%	1,008	13,200	0.1%
2013-14 ⁴	12,924	6.0%	1,058	13,982	5.9%

¹ Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

² Mid-year charge increases were applied to spring academic term. Figures shown are annualized charge levels.

³ Mid-year charge increases were applied in January 2010. Figures shown are annualized charge levels.

⁴ Proposed to be approved by the Regents in November 2012. Assumes a 5% increase in campus-based fees.

Appendix Display 11: UC Average Annual Student Charges for Nonresident Undergraduate Students

	Mandatory Charges	Increase	Campus-based Fees ¹	Nonresident Supplemental Tuition	Increase	Total Charges	Total Increase
1980-81	719	5.0%	57	2,400	0.0%	3,176	1.3%
1981-82	938	30.5%	60	2,880	20.0%	3,878	22.1%
1982-83	1,235	31.7%	65	3,150	9.4%	4,450	14.7%
1983-84	1,315	6.5%	72	3,360	6.7%	4,747	6.7%
1984-85	1,245	-5.3%	79	3,564	6.1%	4,888	3.0%
1985-86	1,245	0.0%	81	3,816	7.1%	5,142	5.2%
1986-87	1,245	0.0%	100	4,086	7.1%	5,431	5.6%
1987-88	1,374	10.4%	118	4,290	5.0%	5,782	6.5%
1988-89	1,434	4.4%	120	4,806	12.0%	6,360	10.0%
1989-90	1,476	2.9%	158	5,799	20.7%	7,433	16.9%
1990-91	1,624	10.0%	196	6,416	10.6%	8,236	10.8%
1991-92	2,274	40.0%	212	7,699	20.0%	10,185	23.7%
1992-93	2,824	24.2%	220	7,699	0.0%	10,743	5.5%
1993-94	3,454	22.3%	273	7,699	0.0%	11,426	6.4%
1994-95	3,799	10.0%	312	7,699	0.0%	11,810	3.4%
1995-96	3,799	0.0%	340	7,699	0.0%	11,838	0.2%
1996-97	3,799	0.0%	367	8,394	9.0%	12,560	6.1%
1997-98	3,799	0.0%	413	8,984	7.0%	13,196	5.1%
1998-99	3,799	0.0%	428	9,384	4.5%	13,611	3.1%
1999-00	3,799	0.0%	474	9,804	4.5%	14,077	3.4%
2000-01	3,799	0.0%	535	10,244	4.5%	14,578	3.6%
2001-02	3,799	0.0%	430	10,704	4.5%	14,933	2.4%
2002-03 ²	4,204	10.7%	453	12,009	16.6%	17,137	14.8%
2003-04	5,464	30.0%	546	13,730	10.0%	19,740	15.2%
2004-05	6,164	12.8%	628	16,476	20.0%	23,268	17.9%
2005-06	6,657	8.0%	661	17,304	5.0%	24,622	5.8%
2006-07	6,657	0.0%	711	18,168	5.0%	25,536	3.7%
2007-08	7,188	8.0%	881	19,068	5.0%	27,137	6.3%
2008-09	7,713	7.3%	901	20,021	5.0%	28,635	5.5%
2009-10 ³	9,702	25.8%	938	22,021	10.0%	32,661	14.1%
2010-11	11,160	15.0%	977	22,021	0.0%	34,158	4.6%
2011-12	12,192	9.2%	989	22,878	3.9%	36,059	5.6%
2012-13	12,192	0.0%	1,008	22,878	0.0%	36,078	0.1%
2013-14 ⁴	12,924	6.0%	1,058	22,878	0.0%	36,860	2.2%

¹ Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

² Mid-year charge increases were applied to spring academic term. Figures shown are annualized charge levels.

³ Mid-year charge increases were applied in January 2010. Figures shown are annualized charge levels.

⁴ Proposed to be approved by the Regents in November 2012. Assumes a 5% increase in campus-based fees.

Appendix Display 12: UC Average Annual Student Charges For Resident Graduate Academic Students

	Mandatory Charges	Increase	Campus-based Fees ¹	Total Charges	Total Increase
1980-81	779	4.6%	45	824	5.1%
1981-82	998	28.1%	45	1,043	26.6%
1982-83	1,295	29.8%	51	1,346	29.1%
1983-84	1,375	6.2%	58	1,433	6.5%
1984-85	1,305	-5.1%	63	1,368	-4.5%
1985-86	1,305	0.0%	64	1,369	0.1%
1986-87	1,305	0.0%	82	1,387	1.3%
1987-88	1,374	5.3%	100	1,474	6.3%
1988-89	1,434	4.4%	125	1,559	5.8%
1989-90	1,476	2.9%	222	1,698	8.9%
1990-91	1,624	10.0%	482	2,106	24.0%
1991-92	2,274	40.0%	557	2,831	34.4%
1992-93	2,824	24.2%	608	3,432	21.2%
1993-94	3,454	22.3%	703	4,157	21.1%
1994-95	3,799	10.0%	786	4,585	10.3%
1995-96	3,799	0.0%	836	4,635	1.1%
1996-97	3,799	0.0%	868	4,667	0.7%
1997-98	3,799	0.0%	923	4,722	1.2%
1998-99	3,799	0.0%	839	4,638	-1.8%
1999-00	3,609	-5.0%	969	4,578	-1.3%
2000-01	3,609	0.0%	1,138	4,747	3.7%
2001-02	3,609	0.0%	1,305	4,914	3.5%
2002-03 ²	4,014	11.2%	1,327	5,341	8.7%
2003-04	5,219	30.0%	1,624	6,843	28.1%
2004-05	6,269	20.1%	1,606	7,875	15.1%
2005-06	6,897	10.0%	1,811	8,708	10.6%
2006-07	6,897	0.0%	1,973	8,870	1.9%
2007-08	7,440	7.9%	2,281	9,721	9.6%
2008-09	7,986	7.3%	2,367	10,353	6.5%
2009-10 ³	8,958	12.2%	2,505	11,463	10.7%
2010-11 ⁴	10,302	15.0%	602	10,904	-4.9%
2011-12	12,192	18.3%	606	12,798	17.4%
2012-13	12,192	0.0%	616	12,808	0.1%
2013-14 ⁵	12,924	6.0%	647	13,571	6.0%

¹ Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

² Mid-year charge increases were applied to spring academic term. Figures shown are annualized charge levels.

³ Mid-year charge increases were applied in January 2010. Figures shown are annualized charge levels.

⁴ Beginning in 2010-11, campus-based fee figures for graduate students do not include waivable health insurance fee.

⁵ Proposed to be approved by the Regents in November 2012. Assumes a 5% increase in campus-based fees.

Appendix Display 13: UC Average Annual Student Charges For Nonresident Graduate Academic Students

	Mandatory Charges	Increase	Campus-based Fees ¹	Nonresident Supplemental Tuition	Increase	Total Charges	Total Increase
1980-81	779	4.6%	45	2,400	0.0%	3,224	1.3%
1981-82	998	28.1%	45	2,880	20.0%	3,923	21.7%
1982-83	1,294	29.8%	51	3,150	9.4%	4,495	14.6%
1983-84	1,375	6.2%	58	3,360	6.7%	4,793	6.6%
1984-85	1,305	-5.1%	63	3,564	6.1%	4,932	2.9%
1985-86	1,305	0.0%	64	3,816	7.1%	5,185	5.1%
1986-87	1,305	0.0%	82	4,086	7.1%	5,473	5.6%
1987-88	1,374	5.3%	100	4,290	5.0%	5,764	5.3%
1988-89	1,434	4.4%	125	4,806	12.0%	6,365	10.4%
1989-90	1,476	2.9%	222	5,799	20.7%	7,497	17.8%
1990-91	1,624	10.0%	482	6,416	10.6%	8,522	13.7%
1991-92	2,274	40.0%	557	7,699	20.0%	10,530	23.6%
1992-93	2,824	24.2%	608	7,699	0.0%	11,131	5.7%
1993-94	3,454	22.3%	703	7,699	0.0%	11,856	6.5%
1994-95	3,799	10.0%	786	7,699	0.0%	12,284	3.6%
1995-96	3,799	0.0%	836	7,699	0.0%	12,334	0.4%
1996-97	3,799	0.0%	868	8,394	9.0%	13,061	5.9%
1997-98	3,799	0.0%	923	8,984	7.0%	13,706	4.9%
1998-99	3,799	0.0%	839	9,384	4.5%	14,022	2.3%
1999-00	3,799	0.0%	969	9,804	4.5%	14,572	3.9%
2000-01	3,799	0.0%	1,138	10,244	4.5%	15,181	4.2%
2001-02	3,799	0.0%	1,305	10,704	4.5%	15,808	4.1%
2002-03 ²	4,204	10.7%	1,327	11,132	4.0%	16,663	5.4%
2003-04	5,464	30.0%	1,624	12,245	10.0%	19,333	16.0%
2004-05	6,514	19.2%	1,606	14,694	20.0%	22,814	18.0%
2005-06	7,164	10.0%	1,811	14,694	0.0%	23,669	3.7%
2006-07	7,164	0.0%	1,973	14,694	0.0%	23,831	0.7%
2007-08	7,734	8.0%	2,281	14,694	0.0%	24,709	3.7%
2008-09	8,298	7.3%	2,367	14,694	0.0%	25,359	2.6%
2009-10 ³	9,312	12.2%	2,505	14,694	0.0%	26,511	4.5%
2010-11 ⁴	10,710	15.0%	602	14,694	0.0%	26,006	-1.9%
2011-12	12,192	13.8%	606	15,102	2.8%	27,900	7.3%
2012-13	12,192	0.0%	616	15,102	0.0%	27,910	0.0%
2013-14 ⁵	12,924	6.0%	647	15,102	0.0%	28,673	2.7%

¹ Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

² Mid-year charge increases were applied to spring academic term. Figures shown are annualized charge levels.

³ Mid-year charge increases were applied in January 2010. Figures shown are annualized charge levels.

⁴ Beginning in 2010-11, campus-based fee figures for graduate students do not include waivable health insurance fee.

⁵ Proposed to be approved by the Regents in November 2012. Assumes a 5% increase in campus-based fees.

Appendix Display 14: 2012-13 Total Charges for Undergraduates and Graduate Academics¹

	<u>Without Health Insurance</u>		<u>With Health Insurance</u>	
	Undergraduate	Graduate	Undergraduate	Graduate
Berkeley				
Residents	\$12,874	\$12,874	\$14,656	\$15,180
Nonresidents	35,752	27,976	37,534	30,282
Davis				
Residents	13,877	13,107	15,257	15,387
Nonresidents	36,755	28,209	38,135	30,489
Irvine				
Residents	13,122	12,962	14,046	15,050
Nonresidents	36,000	28,064	36,924	30,152
Los Angeles				
Residents	12,692	12,566	14,010	14,809
Nonresidents	35,570	27,668	36,888	29,911
Merced				
Residents	13,070	12,809	14,369	14,650
Nonresidents	35,948	27,911	37,247	29,752
Riverside				
Residents	12,960	12,789	13,683	14,646
Nonresidents	35,838	27,891	36,561	29,748
San Diego				
Residents	13,217	12,734	14,373	14,515
Nonresidents	36,095	27,836	37,251	29,617
San Francisco				
Residents	N/A	12,360	N/A	15,126
Nonresidents	N/A	27,462	N/A	30,228
Santa Barbara				
Residents	13,671	12,957	15,047	15,498
Nonresidents	36,549	28,059	37,925	30,600
Santa Cruz				
Residents	13,416	13,279	14,919	16,174
Nonresidents	36,294	28,381	37,797	31,276

¹Total charges include campus-based fees and/or health insurance as estimated in July 2012. Total charges also include mandatory systemwide charges (i.e., Tuition and the Student Services Fee totaling \$12,192), Nonresident Supplemental Tuition, disability, and other fees where applicable.

Appendix Display 15: 2012-13 Total Charges for Professional Degree Students by Program and Campus

	<u>Professional Degree Supplemental Tuition</u>		<u>Total Charges¹</u>	
	Residents	Nonresidents	Residents	Nonresidents
Applied Economics and Finance				
Santa Cruz	\$8,001	\$8,001	\$24,030	\$36,275
Architecture				
Los Angeles	8,000	8,000	\$22,809	\$35,054
Art				
Los Angeles	8,478	5,298	23,287	32,352
Biotechnology Management				
Irvine	12,000	11,160	27,050	38,455
Business				
Berkeley	38,548	28,850	53,731	56,278
Davis	23,240	23,340	38,727	50,972
Irvine	22,881	19,275	37,946	46,585
Los Angeles	32,384	26,426	48,165	54,452
Riverside	22,848	22,848	37,489	49,734
San Diego	27,117	19,761	41,783	46,672
Dental Hygiene				
San Francisco	13,206	13,206	28,457	40,702
Dentistry				
Los Angeles	24,160	21,116	40,942	50,143
San Francisco	27,576	27,576	42,827	55,072
Development Practice				
Berkeley	18,384	18,384	33,567	45,812
Educational Leadership				
Davis	4,200	4,200	19,587	31,832
Engineering (M.Eng.)				
Berkeley	32,400	23,760	47,583	51,188
Engineering Management				
Irvine	12,000	12,000	27,050	39,295
Environmental Design²				
Berkeley	6,000	6,000	21,183	33,428
Environmental Science and Engineering				
Los Angeles	7,200	7,656	22,009	34,710
Genetic Counseling				
Davis	9,000	9,000	24,050	36,295
Health Informatics				
Davis	6,420	6,420	21,807	34,052
Information Management				
Berkeley	6,800	6,800	21,983	34,228
International Relations and Pacific Studies				
San Diego	7,596	7,596	22,112	34,357

¹ Total charges include campus-based fees and health insurance as estimated in July 2012. Total charges also include mandatory systemwide charges (i.e., Tuition and the Student Services Fee totaling \$12,192); Professional Degree Supplemental Tuition; and Nonresident Supplemental Tuition, disability, and other fees where applicable.

² Pending Presidential approval of a reduction in the Environmental Design PDST for 2012-13 to \$6,000.

Appendix Display 15: 2012-13 Total Charges for Professional Degree Students by Program and Campus (continued)

	<u>Professional Degree Supplemental Tuition</u>		<u>Total Charges¹</u>	
	Residents	Nonresidents	Residents	Nonresidents
Law				
Berkeley	\$35,164	\$26,870	\$50,347	\$54,298
Davis	34,182	31,188	49,564	58,815
Irvine	31,755	26,004	46,805	53,299
Los Angeles	31,755	26,004	47,464	53,958
Medicine				
Berkeley	19,914	19,914	35,097	47,342
Davis	19,914	19,914	36,151	48,396
Irvine	19,914	19,914	35,055	47,300
Los Angeles	19,914	19,914	34,784	47,029
Riverside	19,914	19,914	34,619	46,864
San Diego	19,914	19,914	34,491	46,736
San Francisco	19,914	19,914	35,169	47,414
Nursing				
Davis	7,740	7,740	23,127	35,372
Irvine	7,740	7,740	22,790	35,035
Los Angeles	7,740	7,740	22,549	34,794
San Francisco	7,740	7,740	22,909	35,154
Optometry				
Berkeley	16,436	16,436	31,619	43,864
Pharmacy				
San Diego	19,638	19,638	34,154	46,399
San Francisco	19,638	19,638	34,832	47,077
Physical Therapy				
San Francisco	12,597	12,954	32,280	44,882
Preventive Veterinary Medicine				
Davis	5,742	6,198	21,129	33,830
Product Development				
Berkeley	22,000	16,000	37,183	43,428
Public Health				
Berkeley	7,232	7,232	22,415	34,660
Davis	7,200	7,656	24,545	37,246
Irvine	5,613	5,613	20,663	32,908
Los Angeles	7,200	7,656	22,009	34,710
Public Policy				
Berkeley	8,020	8,522	23,203	35,950
Irvine	5,952	5,952	21,002	33,247
Los Angeles	7,288	7,775	22,097	34,829
Social Welfare				
Berkeley	4,000	4,000	19,183	31,428
Los Angeles	5,730	6,150	20,539	33,204

¹ Total charges include campus-based fees and health insurance as estimated in July 2012. Total charges also include mandatory systemwide charges (i.e., Tuition and the Student Services Fee totaling \$12,192); Professional Degree Supplemental Tuition; and Nonresident Supplemental Tuition, disability, and other fees where applicable.

Appendix Display 15: 2012-13 Total Charges for Professional Degree Students by Program and Campus (continued)

	<u>Professional Degree Supplemental Tuition</u>		<u>Total Charges¹</u>	
	Residents	Nonresidents	Residents	Nonresidents
Statistics (MA)				
Berkeley	\$15,000	\$15,000	\$30,183	\$42,428
Theater, Film, and Television				
Los Angeles	9,534	9,534	24,343	36,588
Urban Planning				
Los Angeles	5,952	6,390	20,761	33,444
Veterinary Medicine				
Davis	15,216	15,216	33,251	45,496

¹ Total charges include campus-based fees and health insurance as estimated in July 2012. Total charges also include mandatory systemwide charges (i.e., Tuition and the Student Services Fee totaling \$12,192); Professional Degree Supplemental Tuition; and Nonresident Supplemental Tuition, disability, and other fees where applicable.

Index

- Academic support, 77-82
- Admission to UC, 40-41
- Administrative efficiencies, 24-26
- Agricultural Experiment Stations (AES), 67-68
- Agriculture and Natural Resources (ANR), 67-68, 74-75
- Annuitant benefits, 125, 132-133
- ARRA, 61-62
- Articulation agreements, 43
- ASSIST, 43, 72
- Auxiliary enterprises, 16, 122-123
- Blue and Gold Opportunity Plan, 111, 112, 114
- Bookstores, 123
- Budget cuts, 22-30
 - Campus actions to address budget cuts, 23-24
 - History of UC budget, 136-149
 - Systemwide actions to address budget cuts, 20, 22-24
- Budget request display, 150
- Cal Grants, 112-113, 118
- California Digital Library, 77-79
- California Institutes for Science and Innovation, 65-66
- California Master Plan for Higher Education, 7, 31-47, 59, 104-109, 137-141
- California State Summer School for Mathematics and Science (COSMOS), 73-74
- California Subject Matter Project, 73
- Campus actions to address budget cuts, 23-24
- Campus-based fees, 107-108
- Capital renewal, 101-102
- Clinical teaching support, 85
- Commission on the Future, 22, 24
- Community College Articulation Agreements, 42-43, 72
- Community College transfer eligibility and admission, 42-43
- Community College Transfer Programs, 72
- Compact, 13, 30, 34, 36, 90, 96, 128, 137-149
- Compensation, 125-133
- Continuation costs, 126
- Contract and Grant Administration, 20
- Cooperative Extension, 74-75
- Core academic support, 30
- Core funds, 10
- Costs,
 - Continuation costs, 126
 - Cost of attendance and student fees, 104-108
 - Cost of living adjustments, COLAs (see General Range Adjustment)
 - Energy costs, 95, 97, 133
 - Federal indirect cost reimbursement, 17
 - Course Materials and Services Fees, 108
- Debt service payments, 22, 124
- Deferred maintenance, 95, 101-102, 124
- Department of Energy Laboratory Management, 20, 134-135
- Diversity, 27-30
- Drew University of Medicine and Science, 76
- EAOP, 71
- Education Financing Model, 115-116
- Eligibility for admission, 40-43
- Employee benefits, 27, 128-130
- Endowments, 18-19
- Energy costs, 95-97, 133
- Enrollment,
 - General campus, 46
 - Graduate enrollment, 46-49
 - Health sciences, 52-56
 - Nonresident, 43-44
 - Summer sessions, 44, 57-58
- Equity compensation increases, 126
- Facilities needs, 95-97
- Faculty honors and awards, 5
- Faculty housing, 122
- Faculty salaries, 126-127
- Federal economic stimulus funds, 61-62
- Federal funding,
 - Financial aid, 114
 - Research, 61
- Federal indirect cost reimbursement, 17
- Federal research awards, 59-62
- Fees (see Student Tuition and Fees)
- Financial aid,
 - Cal Grants, 108, 112-113, 118
 - Federal funding, 114
 - Graduate student support, 118-120
 - Institutional support, 104
 - Other sources of support, 120-121
 - Pell Grant recipients, 111, 115
 - Policy, 103-109
 - Private support, 19-20, 114
 - Professional school student aid, 120
 - Undergraduate support, 115-117
- Freshman eligibility and admission, 40-41
- Funding Streams, 20-21, 91
- Funds,
 - Core funds, 10-15
 - Federal funding, 16-18, 59-62
 - Federal Economic Stimulus funds, 61-62
 - Medi-Cal funds, 15, 18, 84
 - Medicare funds, 15, 18, 84
 - "Off-the-Top" funds, 17, 20
 - State General Funds, 11, 62-63
 - State Special Funds, 18
 - UC General Funds, 12
 - University Opportunity Funds, 20-21, 114
- Furlough (see Salary Reduction Plan/Furlough Plan)
- General campus instruction, 31-50

- General Range Adjustment, 125-128
- Graduate and Professional School Preparation programs, 72-73
- Graduate student enrollment, 46-49
- Graduate student support, 112, 114, 119
- Graduation rates, 45-46
- Growth in nonacademic personnel, 92-94
- Health care reform, 86
- Health sciences enrollments, 52-56
- Health sciences instruction, 51-56
- History of student fees, 109-110
- History of UC budget, 136-149
- Housing, Student, Faculty and Staff, 122-123
- Information technology, 23-30
- Institute of Transportation Studies, 67
- Institutional support, 90-94
- Instructional equipment replacement, 31, 35, 43
- Invention disclosures, 64
- Kashmiri lawsuit, 110
- Labor research, 68-69
- Lease revenue bond payments, 124
- Libraries, 77-80
- Long range planning, 34
- Luquetta lawsuit, 103-110
- Maintenance of new space, 96-97
- Marginal cost of instruction, 34-35
- Market and equity compensation increases, 126
- Mathematics, Engineering, Science Achievement (MESA), 71
- Medi-Cal funds, 15, 18, 85
- Medicare funds, 15, 18, 85
- Merced campus, 36-42
- Merit salary increases, 125-128
- Multi-campus Research Programs and Initiatives (MRPIs), 66-67
- Nonresident enrollment, 43-44
- Nonresident Supplemental Tuition, 103-108
- Non-salary price increases, 133
- Nursing, 54-55
- “Off-the-Top” funds, 17, 20
- Online Instruction, 49-50
- Operation and maintenance of plant (OMP), 95-102
 - Support for new space, 96-97
- Opportunity funds, 17, 20-21
- Outreach (see Student Academic Preparation and Educational Partnerships)
- Parking, 123
- Patent revenue, 21
- Pell Grant recipients, 111, 115, 118
- Pension benefits, 130-132
- Persistence rates, 45
- Pharmacy, 51-52
- Price increases, 125
- Private support, 10, 19-20
- Professional Degree Supplemental Tuition, 103, 106-110
 - Financial aid, 113, 120
- PRograms In Medical Education (PRIME), 52-54
- Public health, 48, 52
- Public service, 69-76
- Puente, 71-72
- Purchased utilities, 97-98
- Rebenching, 21
- Research, 59-69
- Retirement contributions, 125-132
- Return-to-aid, 108
- Riverside Medical School, 55-56
- Salaries, 126-128
- Salary Reduction/Furlough Plan, 22, 125, 128
- Self-supporting degree programs, 57-58
- State Agency Agreements, 17, 62-63
- State General Funds, 11
- State Special Funds, 18
- Student Academic Preparation and Educational Partnerships, 69-71
 - Funding, 69
 - History, 70
- Student-Initiated Programs, 72
- Student-faculty ratio, 34, 39-40
- Student mental health services, 88-89
- Student services, 87-89
- Student Services Fee, 87-88
- Student Tuition and Fees, 103-110
 - Campus-based fees, 107-108
 - Comparison institutions, 108-109
 - Course Materials and Services Fees, 108
 - Fees vs. tuition, 105
 - History, 109-110
 - Nonresident Supplemental Tuition, 106-107
 - Professional Degree Supplemental Tuition, 105-106
 - Student Services Fee, 105
 - Tuition, 104
- Summer instruction, 44, 57-58
- Systemwide actions to address budget cuts, 20, 22-24
- Teaching hospitals, 15, 83-86
- Technology transfer, 63
- Telemedicine, 53
- Time to degree, 45-46
- Transfer eligibility and admission, 41-43
- Tuition, 12
- UC General Funds, 10
- UC Office of the President restructuring, 22, 91
- UC Retirement Plan (UCRP), 27, 130-133
- Undergraduate support, 115-118
- University Extension, 16, 57
- University Opportunity Fund, 16, 20
- Working Smarter, 24-27



University of California
Office of the President
Budget and Capital Resources
111 Franklin Street, 6th Floor
Oakland, California 94607-5200
510-987-0648
<http://budget.ucop.edu>

