

A photograph of the University of California tower, a tall, slender, light-colored stone structure with a pointed top and three arched windows near the top. The tower is set against a clear blue sky. In the foreground, there are green trees, a black lamppost, and a paved walkway with a metal railing. A person is walking on the path. The entire image is overlaid with a semi-transparent teal gradient.

UNIVERSITY
OF
CALIFORNIA

Budget for Current Operations

Summary & Detail

2014–15

UNIVERSITY of CALIFORNIA

**2014-15 BUDGET FOR CURRENT OPERATIONS
BUDGET SUMMARY**

MESSAGE FROM THE PRESIDENT

I began my tenure as the 20th President of the University of California with a promise to serve as its strongest advocate possible. To that end, I will do all I can to preserve this great University's commitments to public service, accessibility, and academic quality.

We are, indeed, grateful for the boost in State funding UC received from the Governor and Legislature in 2013-14. The multi-year budget framework the Governor proposes for UC promises predictability in State support – a very welcome change from the volatility we have experienced in recent years. This will help the University to prevent further deterioration in its programs and services. However, if UC is to maintain accessibility, affordability, and quality, California must begin reinvesting in the University's core teaching and research missions.

The 2014-15 budget UC proposes reflects the need to fund both ongoing mandatory costs and long-neglected priorities. Those include updating instructional technology, library collections, and laboratories; increasing support for graduate students; and recruiting and retaining outstanding faculty and staff.

This budget also requests modest increases in enrollment funding to grow the Merced campus and support California resident enrollment growth. Both are needed to uphold the promise of the Master Plan to serve all Californians willing to work hard to achieve a public higher education.

The University will continue to seek additional sources of revenue and to garner administrative efficiencies and cost-savings. Details of UC's progress in these ongoing endeavors are found in this budget document.

Still, in order to maintain UC's stature as a world-class university and allow UC to continue to act as an economic engine for the state of California, we must ask our elected officials to renew their commitment to public higher education.

I look forward to working with the Governor, the Legislature, and the people of California to expand the University of California's roles as an engine of economic and social opportunity, and as a global leader of research and innovation.

Janet Napolitano, President
October, 2013

KEY ELEMENTS OF THE UNIVERSITY OF CALIFORNIA 2014-15 BUDGET

The University of California's long tradition of excellence rests on three pillars: access, affordability, and quality. 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 enabled 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. Past support from the State has yielded an impressive return on investment: UC creates knowledge that results in new companies for California and fuels the economy, trains the state's knowledge-based workforce, and opens the door of opportunity for those seeking to advance their prospects. The University's efforts to maintain excellence is important for the future of the institution as well as the state of California.

The University's budget plan for 2014-15 reflects the need not only to address its ongoing mandatory costs, but also to begin reinvesting in the quality of core instruction and research programs while continuing to protect access and affordability. In its budget planning, the University has recognized that stabilizing UC's fiscal foundation requires a combination of moderate increases in State funding, aggressive cost reductions and efficiency improvements that leverage UC's economies of scale, and the active pursuit of alternative revenues so that the level of tuition for California students is as low as possible, and so that unpredictable and volatile changes in tuition can be avoided. Built from these elements, a stable fiscal foundation will allow UC to plan for the future; to make the long-term investments needed to sustain its stature as a world-class university; and to provide its faculty, students, and employees with a more certain future. With the passage of Proposition 30 in November 2012, an improving state economy, and the State's success in addressing a vast and seemingly intractable structural budget deficit, the University faces the prospect of a stable State funding environment for the first time in 5 years.

The Governor has proposed a multi-year funding plan that provides a 5% base budget adjustment in 2014-15, but makes that funding contingent on the University imposing no tuition and fee increases in 2014-15 and the following two years. While the Governor's proposal establishes a framework for more predictable State funding for UC, it provides no mechanism for the University to cost-adjust nearly half of its core budget. The \$142.2 million in State funds proposed as a base budget adjustment will not cover the University's mandatory costs in 2014-15, let alone other high-priority costs, including any reinvestment in academic excellence. The University's budget plan for 2014-15 acknowledges the need for alternative funds, efficiencies, and additional State funds above the base budget adjustment the Governor has proposed.

Key elements of the University's 2014-15 budget plan include:

- **Increased State support.** The budget plan includes a 5% base budget adjustment, or \$142.2 million, as called for in the Governor's multi-year funding plan, plus funding for annuitant health benefits. Sufficient funding to cover the University's mandatory and high-priority costs requires both moderate increases in State support and tuition and fees. In the absence of a tuition and fee increase, the budget plan proposes \$120.9 million in additional State funding above the 5% base budget adjustment as follows:
 - State share of employer contributions to the University's retirement program. The California State University and the California Community Colleges have received funding for the employer contributions to their retirement systems over and above funding provided for the normal operating budget. However, the State has not provided separate funding for the University's retirement system; the University has covered these costs out of its base budget. In 2014-15, these costs will increase to 14% of the University's total covered compensation. The budget plan requests an additional \$64.1 million in State funding beyond the 5% base budget adjustment to cover the State's share of the incremental increase in pension costs consistent with what the State already provides for employees in the California Community Colleges and the California State University.
 - Enrollment growth. The budget plan seeks \$21.8 million in additional State support for a 1% increase in funded enrollments. This will permit continued growth at the Merced campus and provide support for growth in California resident enrollment to allow the University to continue to meet its obligation under the Master Plan, as well as to address unfunded enrollments that currently exist on the general campuses and in health sciences programs.

- Reinvestment in academic quality. The plan indicates a need to invest an initial increment of \$35 million in what will necessarily be a multi-year reinvestment in the quality of UC's core academic programs. This investment is focused on several key areas where erosion of the academic program has been particularly evident: reducing the student-faculty ratio; enhancing support for faculty startup costs; reducing faculty and staff salary gaps; increasing graduate student support to competitive levels; and expanding resources for core instructional support needs, such as instructional equipment and technology, libraries, and building maintenance. State funds, in addition to University sources, will be needed to fund the first year of this initiative.
- **Addressing mandatory and other high-priority costs.** In addition to funding for employer contributions to the UC Retirement Plan, the 2014-15 budget plan includes funding for employee and retiree health benefit costs, the academic merit program, inflationary increases in non-salary costs, funding for deferred maintenance, and compensation increases that the University has committed to paying in 2014-15 under existing collective bargaining agreements. The plan also includes a modest increase in faculty and staff salaries.
- **Capital improvements.** In recognition of the change enacted in 2013-14 whereby the debt service for capital outlay projects is now included in the University's budget for purposes of calculating the base budget adjustment, the budget plan anticipates using a portion of the base budget adjustment to support debt service for a modest capital improvement program in 2014-15. This amount, however, falls far short of the campuses' needs for capital renewal, support for enrollment growth, and seismic upgrades.
- **Continuing efforts to achieve internal efficiencies, promote cost savings, and generate new revenue.** The budget plan assumes UC will continue to implement changes in business practices that yield savings and efficiencies as well as increase revenues where possible.

With internal efficiencies in mind, in her first month in office, President Janet Napolitano directed the launch of an Efficiency Review at the UC Office of the President (UCOP). Its objective is to identify areas where the central administration can reduce costs, increase transparency, streamline processes, eliminate duplication and improve the quality of service both for UCOP staff and its campus customers. Over the last five years, the organization has explored, with some notable successes, other efficiency measures. But President Napolitano cited continuing budget pressures as the imperative for further review of how UCOP can provide the highest quality service at the lowest possible cost to the campuses and its other stakeholders. Among the early focus areas for review are how to reduce information technology costs through data center consolidation and broader adoption of "thin" client technologies that reduce computer hardware investments; further business process improvements that both simplify functions and bring greater "common sense" to central processes; smarter real estate strategies that reduce lease and ownership costs; further consolidation of UCOP business units, perhaps by adopting new approaches to "shared service" models; further aligning UCOP procurement to current systemwide initiatives; and eliminating redundancies, inefficiencies, and outdated functions throughout the organization.

The University of California plays a unique role in the state. Many institutions, public and private, offer high-quality education. Many businesses contribute to fueling the economy. Many programs offer public service and broad access to the products of its research. The University of California, however, does all three at the same time as it provides a pathway to success for hundreds of thousands of students each year from all walks of life. 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.

The State of California is a critical partner in UC's effort to move forward. The funding proposed by the Governor for 2014-15 is a welcome first step. Providing sufficient support to offer the life-changing benefits a UC education provides and thus helping to secure continued economic growth is a solid investment in California's future.

2014-15 BUDGET PROPOSAL FOR CORE FUNDS

Display 1: 2014-15 Budget Proposal (Dollars in Millions)

2013-14 OPERATING BUDGET

State General Funds	\$ 2,844.4
Less General Obligation Bond Debt Service	200.4
State General Funds (excluding GO Bond Debt Service)	\$ 2,644.0
Total Core Funds (State General Funds, Student Tuition and Fee Revenue, and UC General Funds)	\$ 6,600.0

PROPOSED INCREASES IN REVENUE

State General Funds (as proposed in Governor's multi-year plan)

2014-15 Base Budget Adjustment (5%)	\$ 142.2
Annuitant Health Benefits	4.0
Subtotal	\$ 146.2

Additional State General Funds

State Share of UCRP	\$ 64.1
1% Enrollment Growth	21.8
Reinvestment in Academic Quality	35.0
Subtotal	\$ 120.9

UC General Funds

Nonresident Supplemental Tuition (related to new enrollment)	\$ 26.0	1
Indirect Cost Recovery	-	2
Subtotal	\$ 26.0	

Alternative Revenues/Cost Savings

Asset Management (STIP to TRIP)	\$ 35.0
Systemwide Contracts	30.0
Philanthropy	25.0
Subtotal	\$ 90.0

TOTAL NEW REVENUE AVAILABLE FOR 2014-15 **\$ 383.1**

PROPOSED INCREASES IN EXPENDITURES

Mandatory Costs

Retirement Contributions	\$ 73.0
Employee Health Benefits	20.3
Annuitant Health Benefits	4.0
Contractually Committed Compensation	16.3
Academic Merit Increases	30.0
Non-salary Price Increases	24.5
Subtotal	\$ 168.1

High-Priority Costs

Compensation Increases (3% all employees)	\$ 117.2	3
1% Enrollment Growth	21.8	
Deferred Maintenance	11.0	
High-Priority Capital Needs	15.0	
Subtotal	\$ 165.0	

Reinvestment in Academic Quality

Reduce Student-Faculty Ratio	TBD
Support Startup Costs for New Faculty	TBD
Reduce Faculty Salary Gap	TBD
Reduce Staff Salary Gap	TBD
Increase Graduate Student Support	TBD
Enhance Undergraduate Instructional Support	TBD
Subtotal	\$ 50.0

TOTAL EXPENDITURES COVERED BY AVAILABLE REVENUES **\$ 383.1**

Notes:

1. Assumes revenue from nonresident enrollment growth of 2,000 undergraduate students, net of instructional costs.
2. Assumes no change in 2013-14 levels of indirect cost recovery.
3. Represents a 3% overall compensation increase less 2014-15 increases already committed to under existing collective bargaining agreements.

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 2013-14, the University enterprise is generating \$25.6 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 243,000 students and maintain a multi-billion dollar research enterprise, it engages in a broad spectrum of activities that add to the quality of life on its campuses or 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.

Display 2 shows the distribution of major fund sources across the University's budget.

The University's annual budget is based on the best estimates of funding available from each of its primary revenue sources within core funds.

Core Funds

Core funds, totaling \$6.6 billion in 2013-14, 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. Core funds represent 26% of the University's total expenditures and are comprised of State General Funds (\$2.64 billion¹), student tuition and fee revenue (\$3.03 billion), and UC General Funds (\$929 million). The latter category includes Nonresident Supplemental Tuition revenue, cost recovery funds from research contracts and grants, patent royalty income, and fees earned for management of Department of Energy laboratories. Display 3 shows the distribution of core funds across major spending categories.

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 General Funds have been by far the largest single source of support for the University, but as of 2011-12, funds received from the State are less than the revenue received from tuition and fees. Despite significant declines, State General Funds remain a critical core investment, enabling UC to attract funds from federal, private, and other sources. The major budgetary challenges facing the University have centered on core funds.

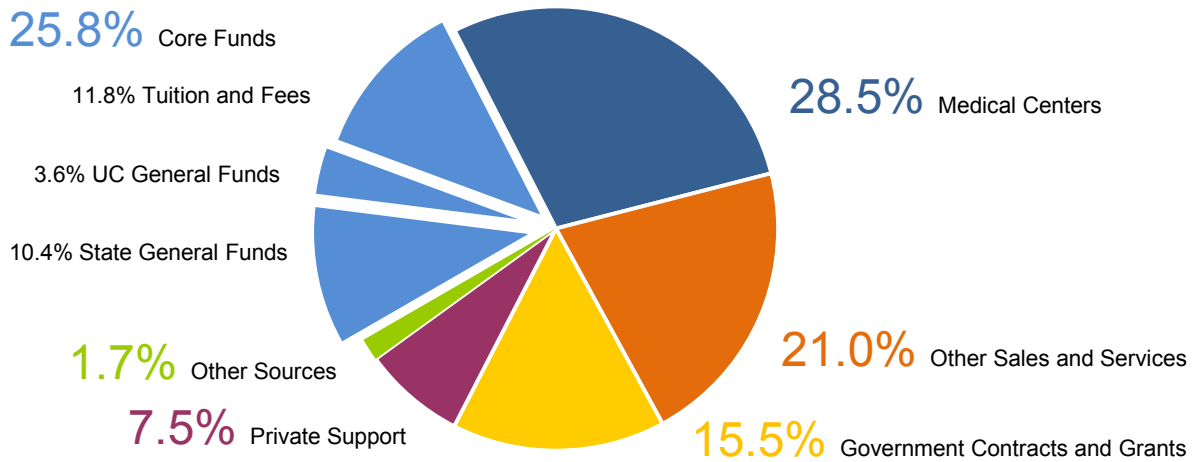
Non-Core Fund Sources

Other sources of funds augment and complement the University's core activities of instruction and research by supporting ancillary academic and business operations functions; public service to the state and its people; and a rich social, cultural, and learning environment on UC campuses. Non-core funds cannot be easily redirected to support core mission activities. In the case of gift, grant, and contract funds, uses are usually 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.

Medical Center Revenue is generated by UC's teaching hospitals through its patient-care programs and other activities, primarily from private healthcare plans and government-sponsored Medi-Cal/Medicare programs, all of which is used to support the ongoing needs, both capital and operating, of the medical centers.

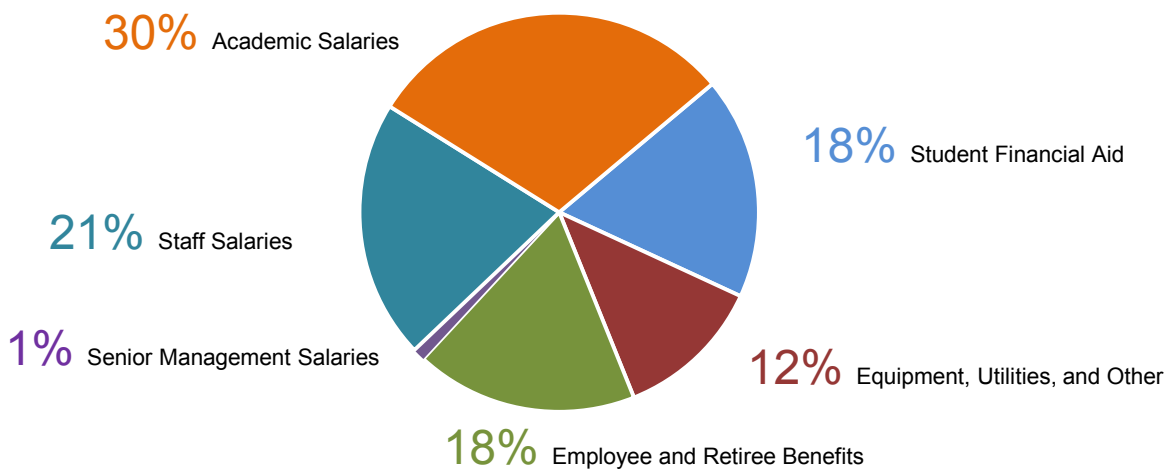
¹ This excludes General Obligation bond debt service that is in UC's base budget but which is not available for general operating budget purposes.

Display 2: 2013-14 Sources of Funds



UC's \$25.6 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 3: 2012-13 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.

Other Sales and Services Revenue is generated from a variety of self-supporting enterprises, including 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.

Other Sources. Revenue from indirect cost recovery, patent royalty income, and fees earned for management of Department of Energy (DOE) laboratories is included in the Other Sources category.

THE BUDGET CHALLENGE IN 2014-15

Despite the prospect of more stable funding from the State, the University faces challenges meeting its basic operating costs.

A year ago, the University faced a deeply uncertain future. The State's economy showed signs of rebounding, but unevenly, and it was unclear if the gains suggested by key indicators would sustain themselves. The future of the State budget – and indeed of the State – rested to a great extent on the outcome of Proposition 30, the Governor's revenue-enhancement initiative on the November 2012 ballot. Its failure would have triggered another round of massive cuts across State government that would likely have altered the landscape of California for many years.

With the potential failure of Proposition 30 threatening a precarious outcome for the State budget, UC was itself at a crossroads. Defeat of the ballot initiative would have triggered an immediate \$250 million mid-year cut in State support for UC, on top of nearly \$1 billion in cuts over the previous three years. With further deep cuts and the prospect of a disabled State unable to reinvest for years, the University would have faced stark choices that could have fundamentally recast the nature of the institution and severely curtailed its ability to serve the State.

This year the University finds itself in a very different situation. Proposition 30 was successful at the polls – with support from a broad spectrum of stakeholders, including the University and its students – and now, for the first time in five years, the University is presented with a more stable State funding environment and an opportunity to move beyond fiscal volatility and uncertainty. A more stable funding environment is critical if the University is to move forward and continue its contributions to the State's economy and the education of its young people.

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 be rapidly eradicated if necessary ongoing investment is deferred indefinitely.

Not only was the recent decline in State support severe, the volatility in State funding has also made it difficult for campuses to plan – yet thoughtful long-term planning is fundamental to a world-class institution like UC. Decisions to hire and tenure faculty; enroll students; maintain, expand, or add 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. Sufficient and predictable funding is needed on an ongoing basis if UC is to make the long-term decisions that are essential to operate a major research institution and maintain the quality of instructional, research, and public service programs for which UC has always been known.

UC's world-class faculty is its most precious asset. When the University hires a faculty member, it is seeking the highest quality academic talent to help teach the students and generate new knowledge, generally over a thirty- or forty-year career. In a volatile fiscal environment, campuses are hesitant to make such a long-term commitment not knowing whether there will be funding in the future to support that new faculty member. Moreover, the unpredictability and uncertainty that have characterized the campus environment over the last five years 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. Stable core funding is critical to reassuring the faculty that their academic careers are secure at the University of California.

Another aspect of the fiscal uncertainty is how students and their families in recent years have been hit with large, frequent, and unpredictable 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. 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.

The 2014-15 budget plan is built on the expectation that with improvements in the state economy and stabilization of the State budget, the University can begin to move forward with budgetary decisions essential for sustaining the University as a preeminent research institution and an economic engine for the state of California. However, while the Governor's multi-year funding plan offers the promise of stable and predictable State support, it does not provide sufficient resources to address the University's basic funding needs.

The University has always assumed in its budgetary planning that an adequate funding plan requires the combination of modest increases in State support and tuition and fees, or equivalent funding. The Governor's multi-year funding plan proposes base budget adjustments of 5% in 2013-14 and 2014-15 and 4% in 2015-16 and 2016-17, but makes this funding contingent on no tuition and fee increases for the four-year period.

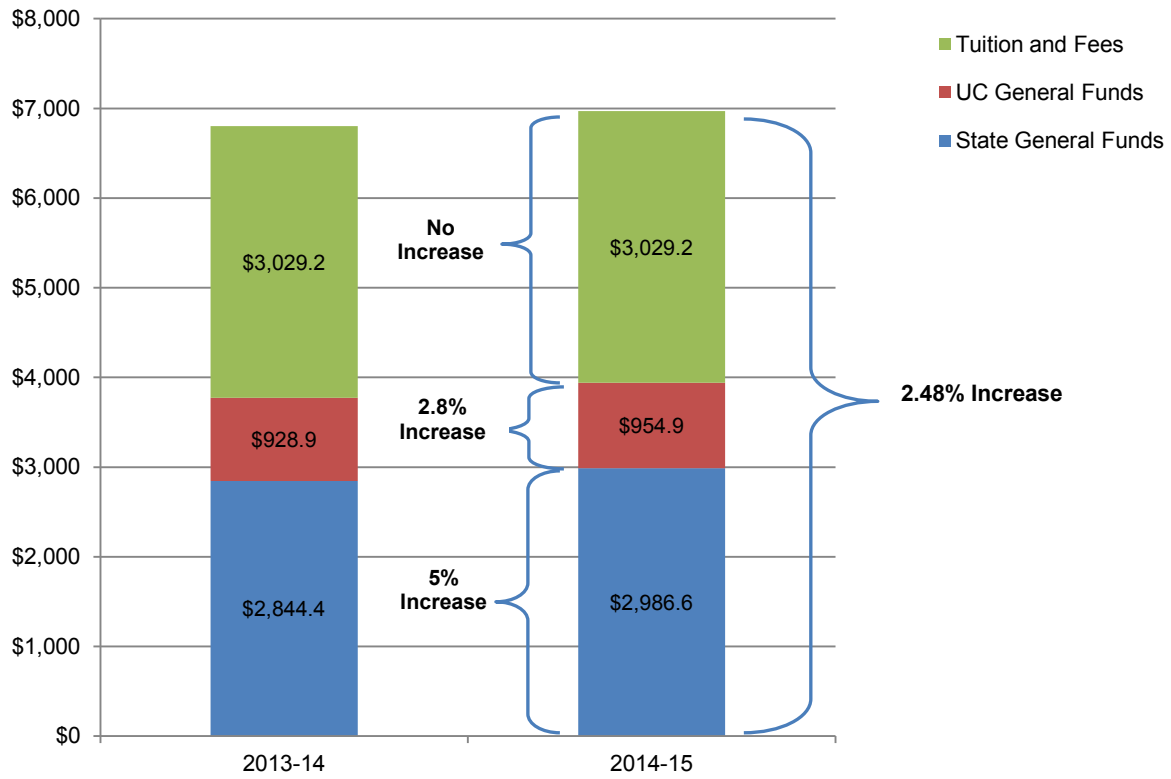
Historically, the State provided most of the funding for the University's core instructional and research programs. As State funds have declined and the University has increased tuition and fees to mitigate the impact of the reductions in State support, however, the overall composition of its core-funded budget has shifted. As of 2011-12, for the first time in the University's history, tuition and fees contributed more to the core budget than State General Funds. While State funds represented 84% of core fund expenditures in 1990-91, they represent only 40% in 2013-14; tuition and fees now comprise about 46%.

The major funding challenge facing the University in 2014-15 stems from this shift in the makeup of core funds. By providing an adjustment to only the State General Funds portion of UC's core budget, the Governor's plan provides no mechanism to defray cost increases in nearly half of the core budget. The Governor's multi-year funding plan effectively limits the overall increase in UC's core funds to 2.48%, as shown in Display 4. A proposed increase in core funds that barely covers inflation is not sufficient to meet the University's basic funding needs, particularly given large mandatory cost increases such as those associated with employer contributions to the retirement system and employee health benefit costs.

There are also other demands on the core budget beyond the funding shortfall inherent to the Governor's multi-year funding proposal. Changes adopted in the 2013-14 Budget Act allow the University to use operating funds to finance capital projects. These changes provide the University a much-needed mechanism to address critical capital improvement projects in the absence of a State General Obligation bond program to finance capital projects. However, these changes have also added a new set of funding priorities that were historically addressed outside the operating budget, but which now compete with operating budget needs for State funding.

The University faces significant capital funding needs, including seismic and life safety, capital renewal, infrastructure, and modernization improvements, as well as new facilities at the Merced campus that will allow continued enrollment growth to meet rising demand for a UC education in the Central Valley. These pressures require that a portion of the new funds provided by the State be directed toward capital priorities.

Display 4: Growth in Core Funds, 2013-14 to 2014-15, Assuming a 5% Increase in State General Funds, a Modest Increase in UC General Funds, and No Increase in Tuition and Fees (Dollars in Millions)



State General Funds and revenue from tuition and fees account for over 86% of the budget that supports UC's core instructional and research programs. A 5% increase in State General Funds, a 2.8% increase in UC General Funds, and no increase in Tuition yields an overall increase in core funds of 2.48%.

THE RELATIONSHIP OF STATE GENERAL FUNDS AND TUITION AND FEES

Steady disinvestment by the State has obligated UC to rely on tuition and fees to partially offset the loss of State funding.

State General Funds

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. The periods of recovery were welcome, but never fully brought State support back to prior levels. 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.

The text box to the right delineates the volatility that has characterized State support for UC over the last two decades. The net result of these swings is that State support for UC in 2013-14² is less than the amount provided in 1999-00 in non-inflation-adjusted dollars. If adjusted for inflation, State funding to the University has declined by over 30% since 1999-00, or \$1.2 billion. Over this same period, the number of California high school graduates has soared and, as shown in Display 5, UC has grown by nearly 77,000 new students and opened a tenth campus. Despite lagging State support, the University has met its commitment to preserve access for all eligible California residents by continuing to accommodate the growing numbers of students prepared for and seeking a UC-quality university education.

Student Tuition and Fees

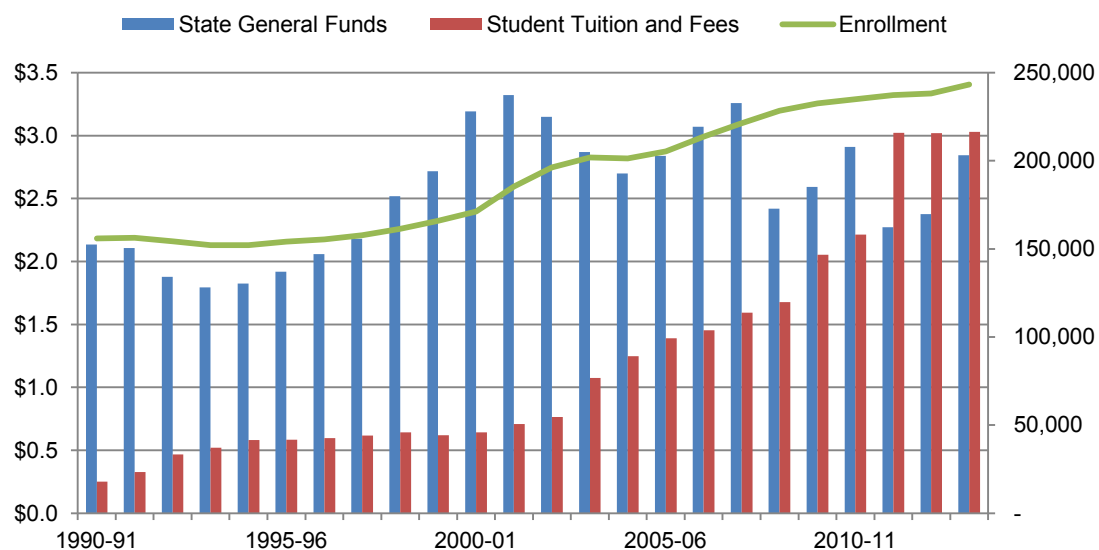
To help mitigate the impacts of the reductions in State funding, UC has been obligated to increase student tuition and fees. In 1990-91, tuition and fees were just \$1,624 for all California residents. In 2013-14, mandatory systemwide tuition and fees total \$12,192 for California resident undergraduates and graduate academic students, and mandatory charges are even higher for graduate

² For purposes of this comparison, General Obligation bond payments included in UC's 2013-14 base budget but which are not available for operating budget are excluded.

HISTORY OF STATE GENERAL FUNDS FOR UC

- In the early 1990s, the University lost the equivalent of 20% of its State support.
- Later in the decade, 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 significant reductions in State support during a time of rapid enrollment growth.
- 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. This allowed 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 and the onset of the global financial crisis led the State to renege on the 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 did not immediately contribute its fair share.
- After partially restoring earlier cuts to UC's budget in 2010-11, the State reduced support to UC by \$750 million in 2011-12. As a result, State support to the University was more than \$1.6 billion less than it would have been under the most recent funding agreement.
- 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. Nevertheless, even with the augmentation, UC's State appropriation had fallen nearly \$900 million, or 27%, since 2007-08.
- In 2013-14, the University is receiving \$256.5 million in new State funding for operating purposes, including a \$125 million tuition and fee buy-out for 2012-13. Additional one-time funding from debt restructuring will free up another \$100 million in State funds temporarily for 10 years and \$17 million for 7 subsequent years.

Display 5: Core Revenues and Student Enrollment Over Time (Dollars in Billions and Not Adjusted for Inflation)



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, student tuition and fees have risen to partially backfill the loss of State General Funds, and mandatory cost increases have not been fully funded.

professional students. Looking back over the last thirty years, as shown in Display 6, tuition and fee increases have been implemented to offset cuts in State support during four major economic downturns in the State. Tuition and fees increased 92% during the recession of the early 1980s, 134% in the early 1990s, 79% in the early 2000s, and 99% beginning in 2007-08 through 2011-12.

Despite periods of steep increases, tuition and fees have addressed only a portion of the reductions in State support. The rest of the gap has been addressed through cutbacks in programs and layoffs as well as sustainable efficiencies, cost savings, and new revenue generation where possible. The consequences of this net decline are evident in Display 7, as resources for educational programs for general campus students (undergraduate and graduate students combined) have declined on an inflation-adjusted per-student basis. The display highlights three significant trends in funding for the instructional mission:

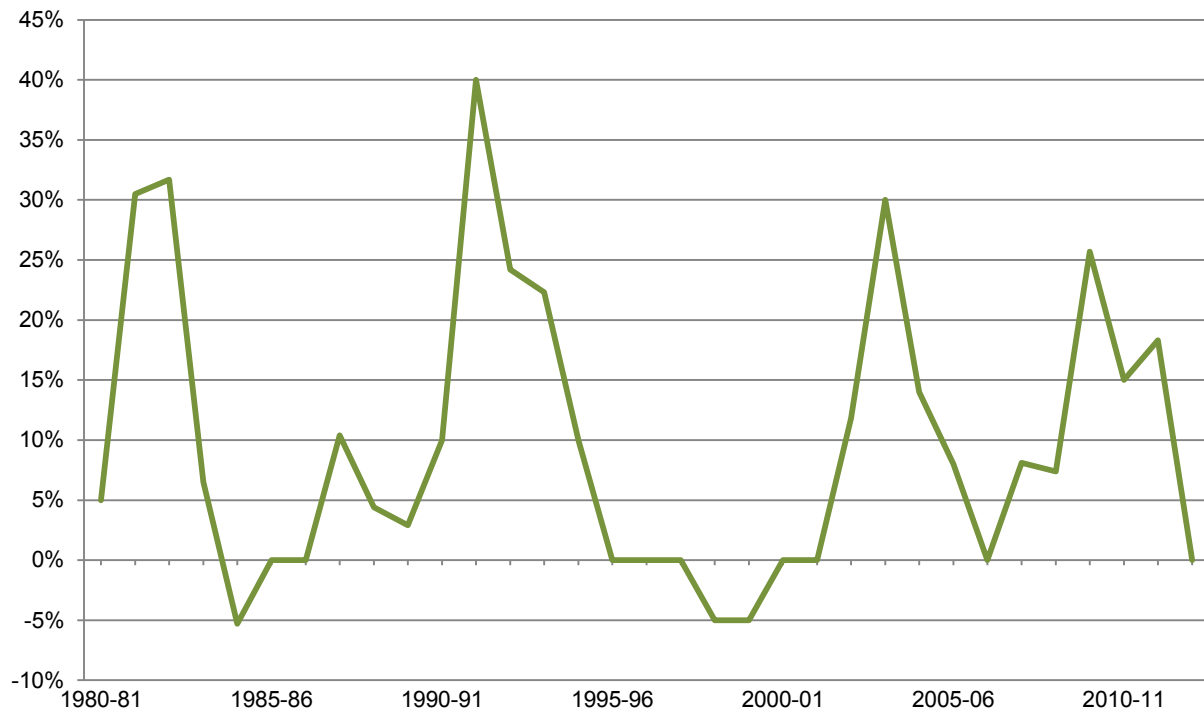
- The average expenditure per student for a UC education has declined by 13% over 24 years – from \$22,390 in

1990-91 to \$19,590 in 2013-14. Costs have not escalated, as many have asserted, but rather have declined on a per student basis.

- State funding per student declined significantly – by 53% in just under 25 years. In 1990-91, the State contributed \$17,520 per student – 78% of the total cost. In 2013-14, the State share declined to \$8,260, just 42% of the total funding for education.
- 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; in 2013-14, students are paying 45% of the cost of their education.

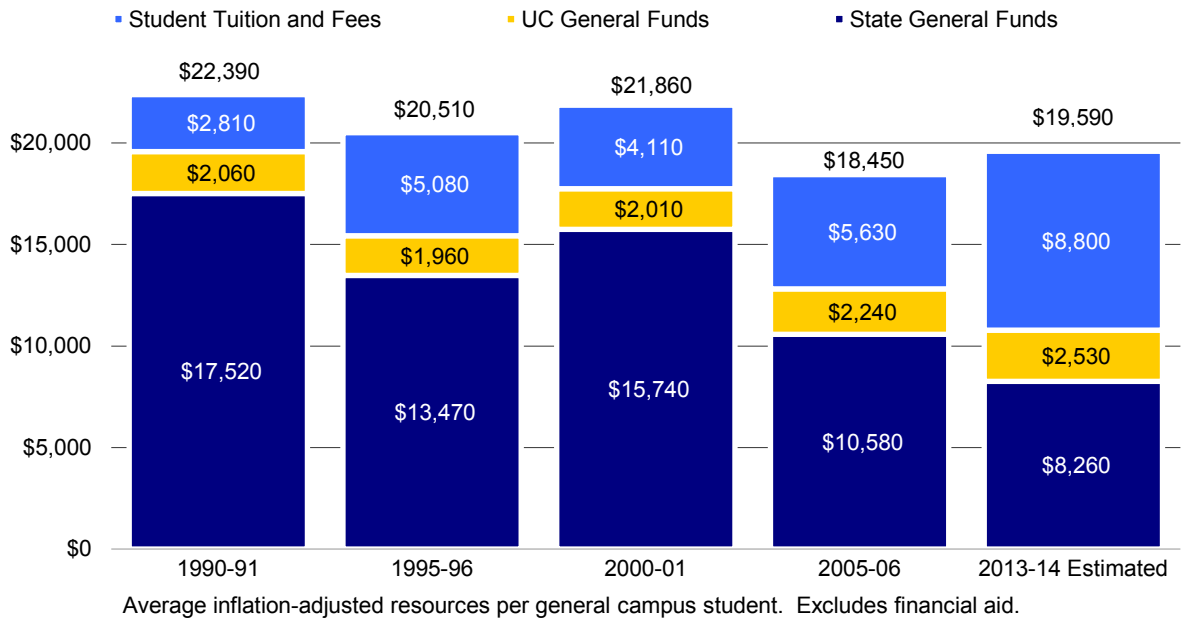
How the University has sought to maintain and build on its legacy of excellence must be appreciated against the backdrop of the decline and shifting composition of the funds that support the institution's core instructional and research programs.

Display 6: Year-to-year Changes in UC's Mandatory Charges Since 1980 (Not Adjusted for Inflation)



UC's tuition levels have been subject to chronic volatility, as tuition increases have always closely mirrored the State's fiscal condition. Tuition has increased to partially offset State budget cuts.

Display 7: Per-Student Average Expenditures for Education (2012-13 Dollars)



Since 1990-91, average inflation-adjusted expenditures for educating UC students have declined (UCRP employer contributions, which restarted in 2010-11, are excluded from this calculation); the State's share of expenditures has plunged even more steeply; and the student share, net of financial aid, has more than tripled.

THE UNIVERSITY'S THREE PILLARS OF EXCELLENCE

Through years of State disinvestment and fiscal upheaval, UC has protected access and affordability. Quality has been the primary victim of diminished resources.

The enduring excellence of the University of California has rested on three pillars: access, affordability, and quality. The University has fought to protect two of these three pillars – access and affordability – despite unprecedented budget cuts during the last two decades. As several key measures reveal, the University has not been able to protect the quality of its academic programs to the same extent, particularly during the last five-year period. In recognition of this threat to quality, the 2014-15 budget plan identifies the need to begin a multi-year reinvestment in the University's core academic programs. This has implications for the University's ability to continue to produce well-trained, productive citizens who are well-poised to contribute to the California economy.

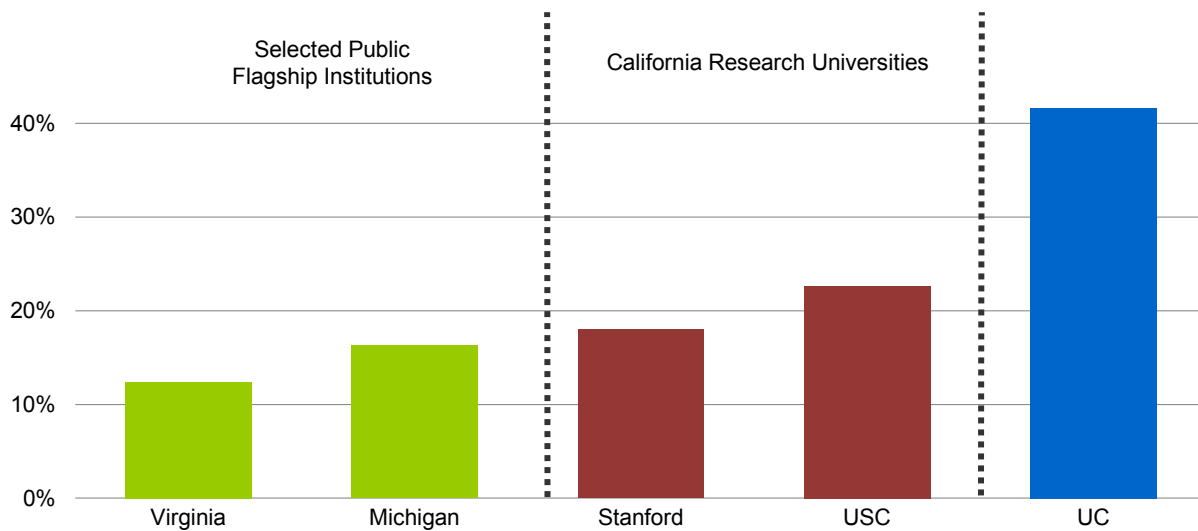
Access

The University continues to meet its obligation under the Master Plan and offer a place to all eligible resident freshman applicants. Applications have continued to rise significantly over the past twenty years even as State

funding has declined and tuition has climbed. Fall 2013 freshman applications rose to nearly 100,000, with the number of California freshman applicants growing by 6.2% over the previous year. In 2013-14, the University enrolled over 243,000 students.

The University also continues to provide access to all segments of the state's population. In Fall 2011, 40% of UC's undergraduate students were first-generation college students. For the first time, the number of Chicano/Latino applicants for the Fall 2013 freshman class exceeded all other applicant categories. One of the most striking measures of the University's success in protecting access is the number of Pell Grant recipients it enrolls. UC enrolls a far greater proportion of Pell Grant recipients than any of its comparator institutions, public or private, as shown in Display 8. The University's continued success in enrolling high numbers of low-income and first-generation college students is evidence that its efforts to protect affordability have been successful.

Display 8: 2011-12 Undergraduate Pell Grant Recipients



UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 42% during 2011-12, which was more than at any comparable public or private institution.

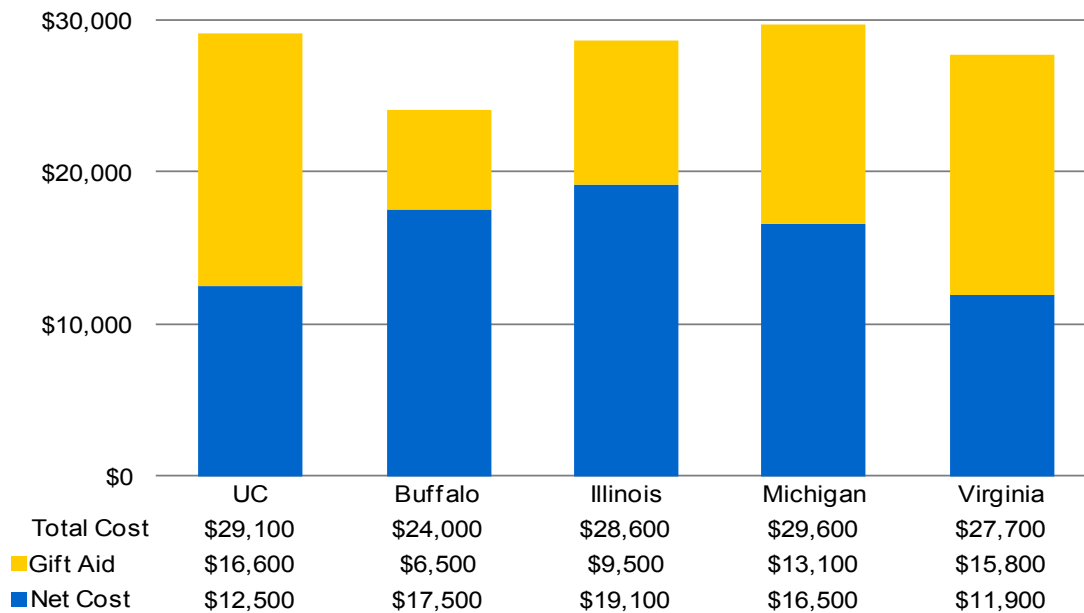
The University has maintained access for all eligible students despite the State's failure to provide enrollment growth funding. In 2013-14, the University will educate an estimated 7,600 FTE students for whom it has never received funding from the State.

Affordability

The University has also protected affordability even as tuition and fees have increased. As Display 6 illustrated, UC's tuition levels have been subjected to chronic volatility, reflecting the direct relationship between tuition and fee increases and the State's fiscal condition. While the University has implemented tuition increases to offset State budget cuts, these increases have backfilled only a portion of the reductions in State support. A policy of predictable and minimized tuition increases could help reduce the dramatic year-to-year fluctuations in tuition. In inflation adjusted-dollars, the average annual tuition and fee increase since 1980-81 has been about 5%.

While rising student loan debt levels have received considerable attention across the country, it is noteworthy that only about half of UC's 2011-12 graduating undergraduates had any student loan debt. Among the 52% of UC students who did borrow money to help defray college costs, the average debt of UC's 2011-12 graduating class was \$19,751, well below the national average for 2010-11 of \$26,600. In fact, at least half of UC's undergraduate students actually pay no systemwide tuition and fees because of the generous financial aid programs funded by the University and the State of California. Undergraduate need-based aid recipients at UC received an average of \$16,600 in gift aid in 2012-13, resulting in a net cost of \$12,500. The net cost of attendance for UC students in 2012-13 was lower than the net cost at three of its four public comparison institutions. As a percentage of total cost, UC undergraduates received more gift aid than their counterparts at three of four UC's public comparators, as shown in Display 9.

Display 9: 2012-13 Net Cost of Attendance for Undergraduate Aid Recipients



Undergraduate need-based aid recipients at UC received an average of \$16,600 in gift aid, resulting in a net cost of \$12,500. UC's net cost in 2012-13 was lower than the net cost at three of its four public comparison institutions.

While the University's financial aid programs have fully protected low-income students from rising tuition, and students from higher-income families can afford to pay what is still a reasonably priced cost of attendance compared to UC's competitors, there has been growing concern over the burden that rising tuition and cost of attendance has placed on middle-income students. Recent data indicate that borrowing among UC students from middle-income families has increased since 2007-08. As a result of these concerns within the University as well as at the State level, several initiatives to expand financial assistance, including to middle-income students, have been or are in the process of being implemented:

- The Middle Class Scholarship Program sponsored by Speaker Pérez will provide new funds to many California families who had not previously qualified for financial aid. The program will effectively reduce net tuition at UC by 40% for those families with annual incomes of up to \$100,000 and by 10% for those with incomes up to \$150,000. The program will be phased in over four years, beginning in 2014-15.
- The University's Blue and Gold Opportunity Plan covers Tuition and Student Services Fees for students whose families earn less than \$80,000. Over 70,000 undergraduates at UC are expected to qualify for the Plan in 2013-14.
- The University is exploring a wide range of innovative strategies to increase scholarship funding for UC students. With Regental support and collaboration among UC's campuses, the Office of the President, for example, has led the development of Promise for Education, an innovative "crowdfunding" effort designed to provide additional scholarship funds for need-based undergraduate scholarships for California students across the system.

The University's robust financial aid programs have continued to meet the evolving support needs of its students even as their share of the cost to attend the University has increased, although the volatility of tuition and fee levels has made it difficult for students and their families to plan financially for their time at UC.

Quality

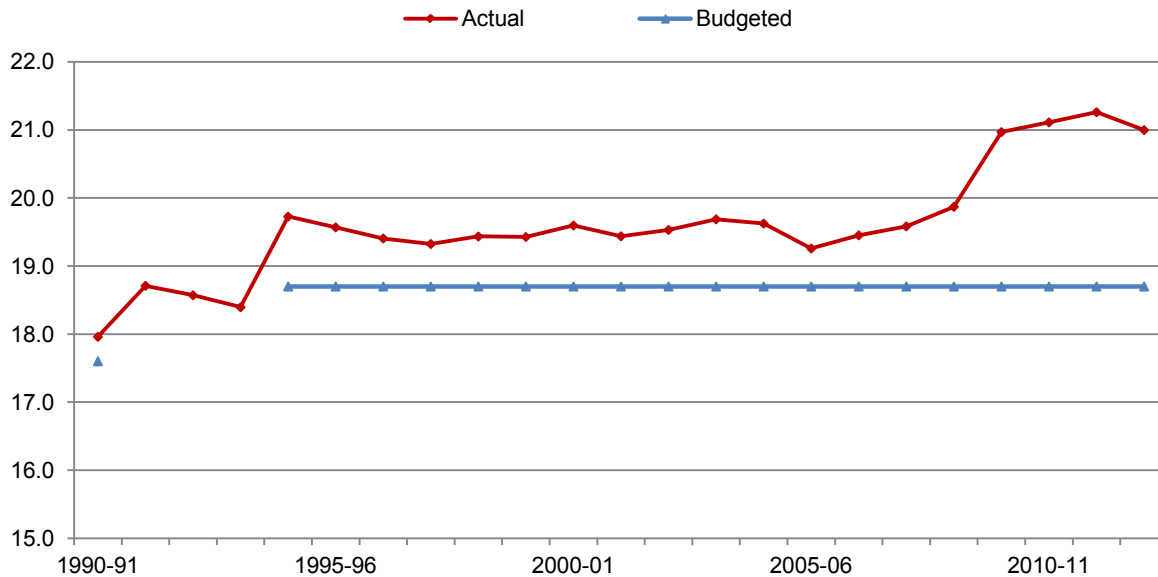
As a result of significant State budget reductions, the University has been challenged in its efforts to protect the quality of its core academic programs, particularly at the undergraduate level.

The University of California's unique strength among national university systems is excellence across all of its 10 campuses. By many measures, including graduation rates, time-to-degree rates, and success of its students from underrepresented minorities and low Academic Performance Indicator (API) high schools, the University maintains extraordinary success relative to other institutions with a similar makeup of students. Many of these measures may be lagging indicators, however, and the full impact of recent budget cuts is not yet evident.

By other measures, years of declining support from the State have had an already apparent impact on the academic excellence that has long been a hallmark of the University of California. One well-recognized measure of academic quality is the student-faculty ratio. Display 10 tracks the student-faculty ratio over the last twenty-three years. This ratio has risen at various times in the University's history, each time in response to significant budget cuts. The most recent recession was no exception, as campuses struggling to manage their budgets against the backdrop of uncertain funding were forced to delay hiring or made decisions not to fill vacant positions on a permanent basis. As a result, the student-faculty ratio has risen more sharply than in previous crises.

Since 1989-90, UC's enrollment has grown at nearly twice the rate of faculty. General campus UC student enrollment increased by nearly 60% since that time, growing from 140,507 students to 220,293, while general campus ladder-rank faculty increased by about 31% over the same period, from 7,161 to 9,367. In 2010-11 and 2011-12, the University hired 542 faculty and lost 805 from separations, decreasing overall by 263 faculty. Over the same period, UC enrolled over 4,400 additional students. More recently, as the budget situation has improved, campuses have begun to increase their faculty hiring, as shown in Display 11.

Display 10: Budgeted and Actual Student-Faculty Ratios



Actual student-faculty ratios have increased precipitously over the past 23 years. Because UC has prioritized access in its commitment to the Master Plan, enrollment has risen sharply and faculty hiring has not kept pace.

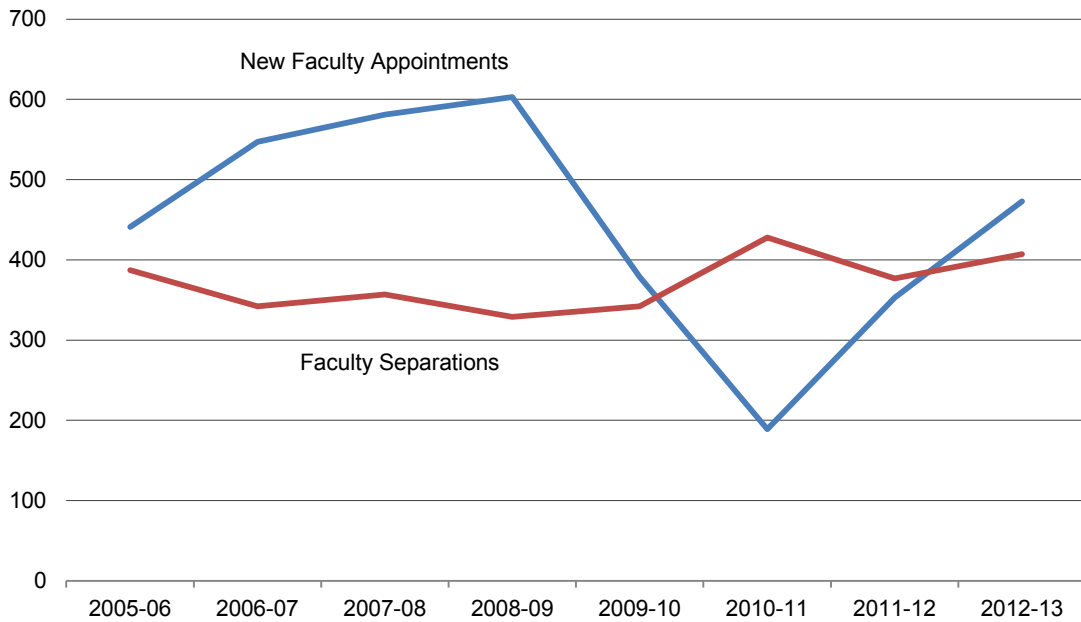
Another important measure of quality is the market competitiveness of faculty compensation. A little over a decade ago, UC's faculty salaries were on par with the market. Since then, faculty salaries have slipped to over 11% behind market, as shown in Display 12. UC will face increasing challenges as the national economy recovers and other institutions with which UC competes for talent expand their hiring.

Maintaining a world-class institution of higher education for the benefit of California requires that all three pillars of excellence remain strong. Maintaining excellence requires attracting and retaining the best faculty, high-quality graduate students, and a robust, diverse undergraduate student body. UC's ability to maintain its excellence has a direct bearing on the benefits students derive from working hard to qualify for and attend the University. Simply preserving access and affordability without also maintaining academic excellence is an empty promise to those who seek to attend UC.

Performance Outcome Measures

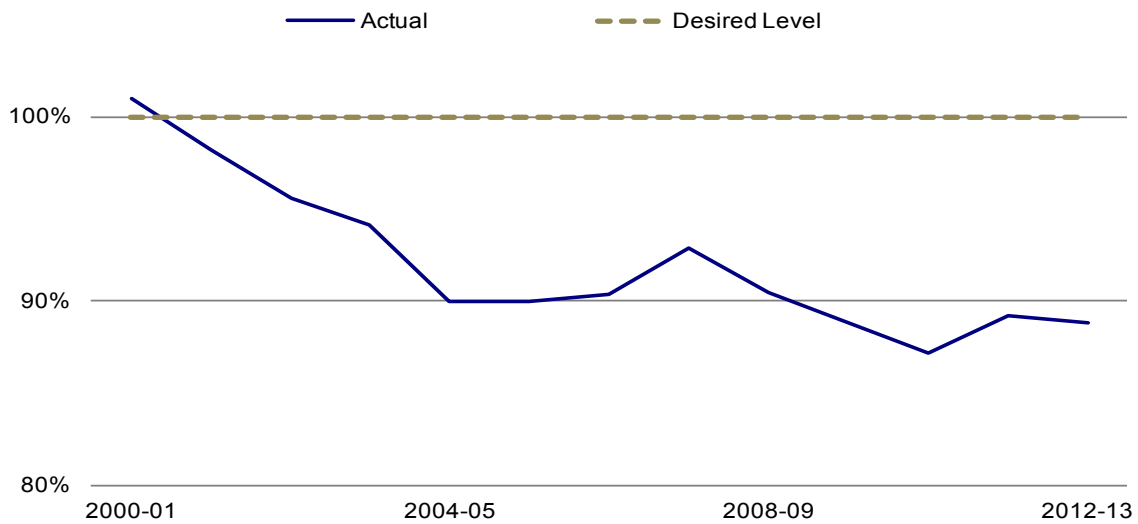
In evaluating the quality of instruction at UC, the University believes that added value is better measured in terms of outcomes rather than inputs. The Governor has placed a major emphasis on the need to develop performance outcome measures for both UC and CSU. The University is working with the Department of Finance to identify quantifiable performance outcome measures to benchmark its current performance and track its improvement over the coming years in areas specifically mentioned in AB 94, the bill requiring a report on performance outcome measures, adopted into law during the 2013 legislative session. These areas include information on transfers; student demographics; graduation rates; progress toward degrees; degrees completed; credits at graduation; and science, technology, engineering, and mathematics (STEM) degree completions. The University has performed remarkably well in virtually all of these measures, but it may be difficult to maintain these outcomes given the realities of per-student funding, the upward trend in the student-faculty ratio, and other challenges brought on by the recent fiscal crisis.

Display 11: Faculty Hiring and Separations Since 2005-06



Campuses have increased faculty hiring after two years during which more UC faculty separated from the University than were hired.

Display 12: Faculty Salaries as a Percentage of Market



Due to inadequate State funding over the last twelve years, faculty salaries at UC have declined relative to UC's comparison institutions. In 2012-13, UC's faculty salaries were 11.2% below those of UC's comparison institutions, and it is estimated that this gap will continue in 2013-14 despite the across-the-board 2% increase in academic personnel salaries in July 2013.

SUMMARY OF THE UNIVERSITY'S 2014-15 BUDGET PLAN

With the prospect of more stable funding, UC must begin to reinvest in its core academic program while continuing to protect access and affordability.

SUMMARY OF PROPOSED INCREASES IN REVENUE

The 2014-15 budget plan proposes \$383.1 million in revenue increases. These increases fall into four revenue categories.

State General Funds

The University's 2014-15 budget plan calls for a moderate base budget adjustment consistent with the Governor's multi-year funding proposal. The Governor's proposal also calls for no increase in tuition and fees in 2014-15. To help meet the University's mandatory and high-priority costs in the absence of a tuition and fee increase, the University's budget plan requests additional State funding to address the University's employer contribution to the retirement plan and to support modest enrollment growth.

The plan calls for \$267.1 million in new State General Funds, including:

- \$142.2 million from a 5% base budget adjustment, consistent with the Governor's multi-year funding plan;
- \$4 million for reimbursement of annuitant health benefit costs;
- \$64.1 million for the State's share of the University's contribution to the retirement system;
- \$21.8 million for enrollment growth of 1% to allow the University to continue to meet its Master Plan commitment; and
- \$35 million to help fund reinvestment in academic quality.

Student Tuition and Fees

Although the 2014-15 budget plan does not include an increase in mandatory student charges, consistent with the Governor's multi-year funding proposal, the University considers moderate and predictable tuition and fee increases to be an essential component of a viable budget plan, particularly over the longer term. It is anticipated that budget plans in future years will need to include moderate increases in student charges.

UC General Funds

Most campuses have sought to expand nonresident enrollment. The budget plan proposes \$26 million in new revenue (after netting out instructional costs associated with these students) from Nonresident Supplemental Tuition associated with a projected increase in nonresident enrollment of 2,000 students. Indirect cost recovery from federal research contracts and grants is expected to decline as a result of sequestration and other changes in federal funding for research, though these declines are expected to be partially offset by increases in higher federal indirect cost rates negotiated by several campuses with the federal government and some increases in funding from non-federal resources.

Alternative Revenue Sources/Cost Savings

The budget plan assumes \$35 million of revenue in 2014-15 from asset management strategies (such as the transfer of Short Term Investment Pool funds to the Total Return Investment Pool) and \$30 million from additional savings achieved through new systemwide procurement contracts. The plan also calls for \$25 million from new models of philanthropic giving. These initiatives continue the University's practice of resolving a portion of its funding needs through internal actions to reduce costs, promote efficiencies, and generate new revenue.

SUMMARY OF PROPOSED EXPENDITURES

The plan proposes \$383.1 million in expenditure increases for 2014-15. These increases fall into three categories of costs.

Mandatory costs are unavoidable increases which must be funded. For the 2014-15 budget plan, mandatory costs total \$168.1 million and include the following:

- \$73 million to support new employer contributions to UC's retirement plan. These costs are associated with another 2% increase in the employer contribution rate, from 12% in 2013-14 to 14% in 2014-15;
- \$20.3 million in employee health benefit costs to fund an overall increase of 5% in health benefit plans;
- \$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;
- \$16.3 million in compensation costs in 2014-15 related to contractual wage increases per collective bargaining agreements;
- \$30 million to continue the academic merit program, critical to retaining high-quality faculty; and
- \$24.5 million in non-salary price increases, representing a 2% increase over the prior year plus \$8 million for expected increases in electricity and natural gas costs above inflation.

High-priority costs are ultimately discretionary, but are essential to the ongoing operation of a major research university of UC's stature. The 2014-15 budget plan includes \$165 million in high-priority costs:

- \$117.2 million to cover 3% compensation increases for represented and non-represented employees. This total excludes the salaries of represented staff whose 2014-15 salaries are already committed to under existing collective bargaining agreements;
- \$21.8 million to address the costs of 1% enrollment growth, or about 2,180 students;

- \$11 million to address critical deferred maintenance; and
- \$15 million to support a modest capital improvements program.

Reinvestment in academic quality is a third category of costs focused on critical elements of the core academic programs that have been particularly affected by the budget cuts in recent years. Recognizing that immediate reinvestment in program quality is constrained by the current fiscal environment, the reinvestment plan is anticipated to extend over a number of years with the expectation that more resources will become available in future years.

The plan is focused on addressing several well-established and closely watched measures of academic program quality: reducing the student-faculty ratio; increasing revenue to cover faculty startup costs; reducing faculty and staff salary gaps; increasing graduate student support to competitive levels; and enhancing undergraduate instructional support by investing in new instructional technology, libraries, instructional equipment replacement, and building maintenance. Campuses will have flexibility to determine how much to spend in each of these categories, based on their own identified priorities.

Each of the expenditure items included in the budget plan is discussed in more detail in the following section of this *Summary*.

MAJOR EXPENDITURE CATEGORIES FOR 2014-15

Proposed expenditures address mandatory cost increases, other high priorities, and reinvestment in academic quality.

MANDATORY COSTS

UC Retirement Plan

The University of California Retirement Plan (UCRP) provides pension benefits for more than 61,700 retirees and survivors and has about 118,300 active employee members as of July 1, 2013.

Prior to November 1990, contributions to UCRP were required from both the University as the 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. Since that time, employer contributions have risen 3 percentage points for two years and 2 percentage points in each year thereafter; employee contributions have risen 1.5 percentage points each year. In 2013-14, the employer contribution is 12% and the employee contribution is 6.5%. At their July 2013 Board meeting, the Regents approved increasing the employer contribution by 2 percentage points to 14% beginning July 1, 2014. Employee contributions will increase to 8% (subject to collective bargaining for represented employees).

In December 2010, the Regents made 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 increased the early retirement age from 50 to 55 and the maximum age factor from age 60 to 65.

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 2013-14, the University is contributing \$320 million from core fund sources and \$1.1 billion from all fund sources to UCRP. Display 13 shows that as employer contribution rates rise over the next several years, UC contributions are expected to rise to \$393.1 million from core funds (\$1.3 billion from all fund sources) in 2014-15.

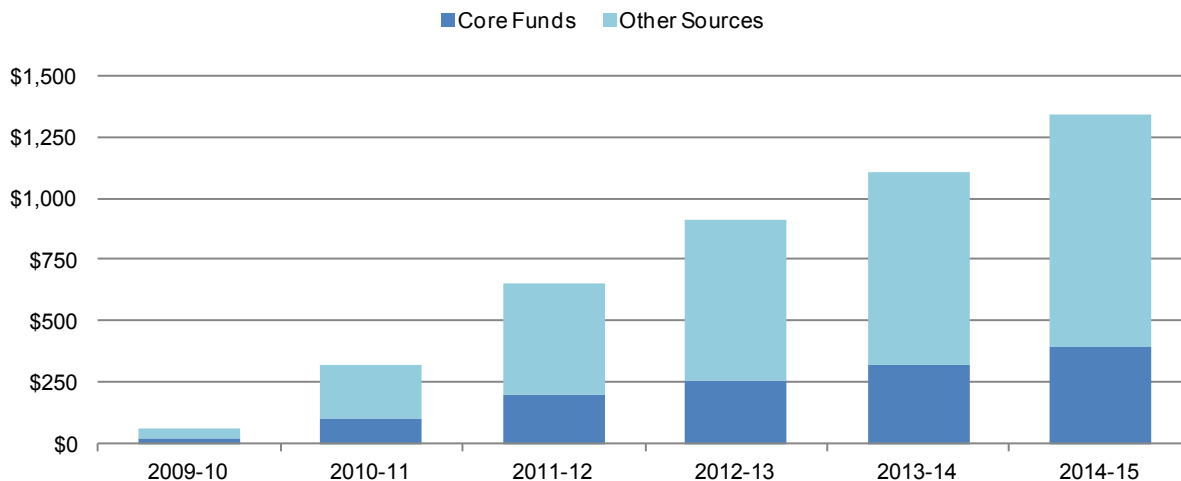
The request for \$64.1 million in State General Funds in the 2014-15 budget plan seeks to achieve parity with the California State University and the California Community Colleges. Employer contributions to the pension plan for employees in those systems are provided automatically by the State each year above the normal funding for operations. The State has not consistently provided separate funding for UC's pension costs; UC has been forced to pay these costs from funds that otherwise would have been used to help meet other operating budget needs. UC is requesting that the State fund its share of the 2014-15 employer contributions to UC's pension plan above UC's base budget adjustment.

Retiree Health Benefits

In 2013-14, more than 54,200 UC retirees and beneficiaries are eligible to receive or are receiving an estimated \$263 million of health benefits paid for by the University. The State has historically provided funding to the University equivalent to the per-employee funding provided for other State employees for the increased number of annuitants expected in the coming year. This cost is estimated to total \$4 million in 2014-15.

Because accumulated future retiree health benefits costs are not pre-funded, UC has an unfunded liability for retiree

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 \$393.1 million for core-funded programs and \$1.3 billion in total.

health representing the cost of benefits accrued to date by current faculty, staff, and retirees based on past service, estimated to be \$12.5 billion in 2012-13. 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 UC's aggregate annual contribution to the Retiree Health Program 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 credit is less than 50 as of June 30, 2013.

Employee Health Benefits

Until recently, employee health benefit costs had been rising at a rapid rate, typically between 8.5% and 11%. Since 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 budget cuts.

More recently, significant efforts have been made to limit the cost increases of health benefits to reduce the pressure on already strained operating budgets. In 2011, through negotiations with providers and the addition of new programs to the employee benefit plan portfolio, UC was able to limit health benefit cost increases to 7.1%. In 2012,

successful negotiations again resulted in an increase in these costs that was limited to 2.4%. Again, aggressive negotiating resulted in an increase of only 3.5% for current employees in 2013. Cost increases in 2014-15 are expected to increase by about 5%, or \$20.3 million.

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.

Faculty Merit Program

The University has maintained the faculty merit program each year through the fiscal crisis because of the importance of this program to the quality of the University. Faculty are generally eligible every three years for a merit

increase, which is intended to reward them for excellent teaching and research, as well as fulfillment of their public service mission. This program requires a rigorous peer review process before a merit salary increase is awarded. The cost of the faculty merit program is estimated to be \$30 million in 2014-15.

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 set of goods and services used to measure inflation. In particular, 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 the same levels they were in 2000-01. Campuses overall are paying more for these costs despite only modest increases in consumption. Yet, State funding for the University's budget has been insufficient to adequately address these costs. Even accounting for the efficiencies described earlier, 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 2014-15 expenditure plan includes \$24.5 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.

HIGH-PRIORITY COSTS

Compensation

Recent cuts to the University's budget have resulted in significant disparities in faculty and staff salaries compared to the market. In 2012-13, UC faculty salaries lagged the market by 11.2%, and a similar or greater problem exists for 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), is close to market.

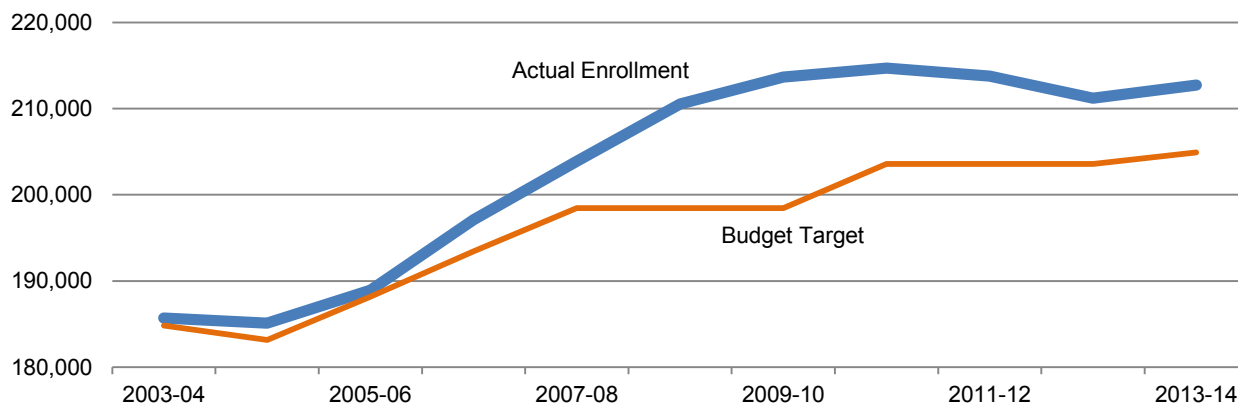
Changes in the costs and structure of the University's employee benefits programs will intensify pressure for salary increases over the next several years. Employee contributions to the retirement program total 6.5% of pay in 2013-14 and will rise to 8% in 2014-15, which will have a further impact on 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 or co-pays. 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 maintain its pre-eminent stature.

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 program for regular and predictable compensation increases. The budget plan in 2014-15 proposes a general salary increase of 3% 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.

Enrollment Growth

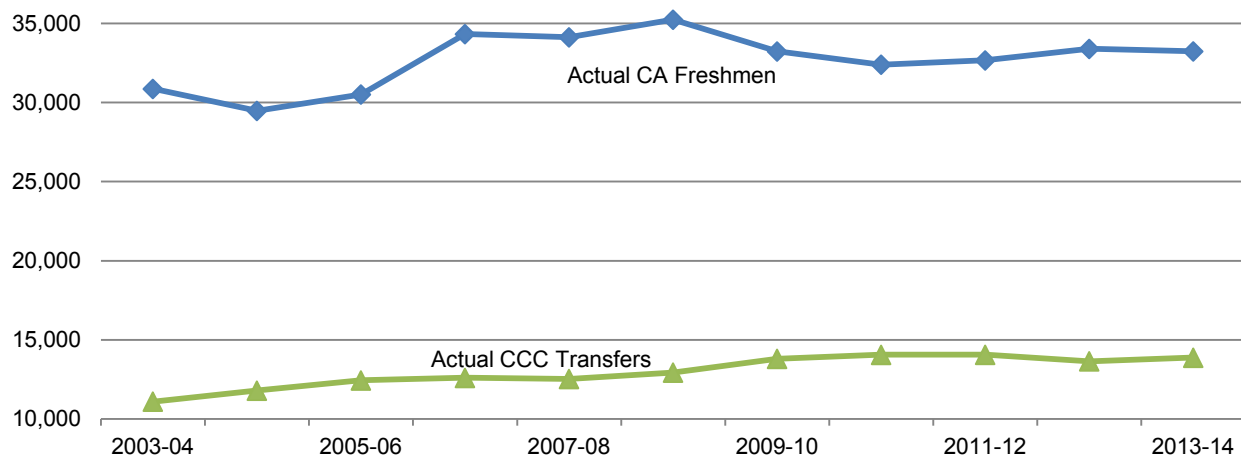
UC has long accepted its obligation, as a land-grant institution and in accordance with the Master Plan for Higher Education, to provide a quality education to all eligible California resident undergraduate students who wish to attend. In addition, the University has planned to rebalance the proportions of graduate and undergraduate students to better meet state workforce needs, particularly in the health science disciplines, as well as institutional needs. University projections indicated that enrollment growth of about 1% per year through this decade would accomplish these goals.

Display 14: State-supported FTE Student Enrollment



The Compact with Governor Schwarzenegger 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 2012-13, the State was unable to provide funding for enrollment growth.

Display 15: California Resident Freshman and California Community College Transfer Entrants



In order to slow enrollment growth, the University took actions beginning in 2009-10 to reduce numbers of new California resident freshmen offset by an increase in CCC transfers.

However, State funding has not kept pace with enrollment growth; there are about 7,600 students enrolled at UC in 2013-14 for whom the State has never provided funding.

In view of the changing financial circumstances of UC and the State, campuses were asked to develop new long-range enrollment plans through 2020-21, which are now being analyzed. Once agreement is reached with each campus on their individual plans, the finalized plan for the system will form the basis for enrollment planning going forward.

In the meantime, the University estimates that enrollment of California residents will increase by about 1% in 2014-15, including continued enrollment growth at Merced and moderate growth in undergraduate and graduate students on the general campuses and in the health sciences. Funding will also be used to support unfunded enrollments at the Betty Irene Moore School of Nursing at the Davis campus consistent with the provisions of their gift. However, if sufficient funding is not identified to adequately support the budget plan, campuses may instead opt

to hold enrollment of California residents steady in the coming year.

The Merced campus commenced its ninth year of operation in 2013-14 with total enrollment of over 6,500 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 cannot absorb, 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 measures.

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 the other campuses. In 2011-12, the University directed its own resources to fund enrollment growth on the campus. With State funding in 2013-14, the campus received permanent enrollment funding for both 2012-13 and 2013-14.

Deferred Maintenance

The need for an ongoing commitment to funding deferred maintenance gains urgency as the University's inventory of aging buildings continues to grow; nearly 60% of the University's State-supported facilities are more than 30 years old, as shown in Display 16. In addition, 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 provides some funding to support restoration of a modest deferred maintenance program.

Capital Improvements

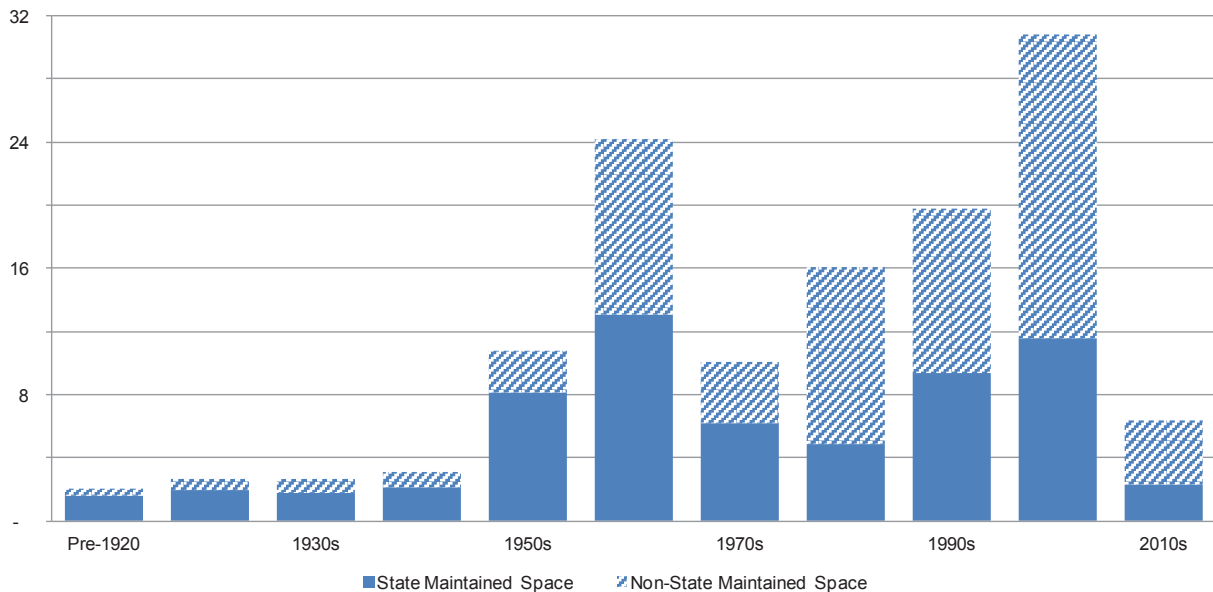
As mentioned earlier, the process for funding State-eligible capital projects has changed. The State's General

Obligation bond debt has been shifted to the University's base budget, and going forward it will be part of the base budget for calculating the State-funded base budget adjustment each year. Under the new process, a portion of UC's State funding can be used to fund or finance State-eligible capital projects. Additionally, under the debt restructuring provision of the 2013-14 Budget Act, the State transferred Lease Revenue bond debt to the University, along with the cash flow to meet the current level of debt service. The University has successfully restructured that debt and expects to realize savings of approximately \$100 million annually over the next 10 years on the debt service for these projects and approximately \$17 million annually for the subsequent 7 years.

The University is faced with a growing backlog of capital projects over the coming years. The University's projected need for capital improvements for State-eligible projects for the four-year period from 2014-15 through 2018-19 is \$3.3 billion. The new State process will allow the University to continue to address its highest priority capital needs until a new General Obligation bond can be brought before California voters. The State approval process is streamlined compared to the previous process – the Department of Finance and the Legislature will still review the projects being proposed for State funding, but there will be no need to go through the State Public Works Board for approval of important milestones. State approval will also happen in a more timely manner than has occurred in the past. The new process requires the University to submit a list of projects proposed for funding by September 1 of each year, and the Department of Finance has until April 1 to review and approve the list.

A proposed list of projects totaling approximately \$202.8 million was submitted to the State in August 2013 for the 2014-15 fiscal year. Of the ten proposed projects, four projects would respond to seismic life-safety needs; three projects would provide infrastructure improvements; one project would equip a building already under construction; one modernizes an Agricultural and Natural Resources facility; and one is a new building at the Santa Cruz campus to house the Ecological Evolutionary Biology program, one of the most impacted programs on the campus.

Display 16: State and Non-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 1990s and 2000s. Driving UC's deferred maintenance and capital renewal needs is the fact that many buildings were constructed in the 1950s and 1960s.

REINVESTMENT IN ACADEMIC QUALITY

As noted earlier, the University believes investments are needed in a variety of areas that have a direct impact on improving the quality of the University's instructional, research, and public service programs as well as the fiscal health of the system. 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, among other things, maintaining an outstanding faculty, measured in terms of individual achievements as well as adequate numbers to teach and train, and recruiting and educating outstanding undergraduate and graduate students. The areas identified for reinvestment in quality are critical elements in any academic institution's ability to maintain excellence and have all been identified by the Regents as high priorities for many years, prior to the onset of the most recent fiscal crisis.

Improving the Student-Faculty Ratio

While the University's budgeted student-faculty ratio has held steady at 18.7:1, the actual student-faculty ratio has deteriorated dramatically in the recent fiscal crisis, standing currently 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.

Supporting Startup Costs for New Faculty

As campuses begin to hire faculty once again, both to replace those who have retired or separated and to enhance innovation and quality, one of the major challenges they face is the cost of startup packages for new faculty. Startup costs include renovation of laboratory space; equipment; graduate student, postdoctoral scholar, and technical staff support; and other costs that are necessary for new faculty to establish their research teams and projects. In some disciplines – especially health sciences, life sciences, physical sciences, and engineering – startup costs frequently exceed \$1 million per faculty member. Since UC's top candidates have multiple job prospects and UC is in competition for these hires, candidates make decisions based on UC's ability to support cutting-edge research.

Addressing Faculty and Staff Salary Gaps

As noted earlier, faculty salaries lagged the market by 11.2% in 2012-13; there is a similar disparity in staff salaries. As the University's budget stabilizes, closing this gap is a high priority as the University competes for the best faculty and staff.

Augmenting Graduate Student Support

Graduate education and research at the University have long fueled California's innovation and economic development, helping establish California as one of the 10 largest economies in the world. The strength of UC's graduate programs is a key factor in attracting and retaining the highest-quality faculty. The University must ensure that the amount and duration of graduate student support remains competitive.

Enhancing Undergraduate Instructional Support

Historically, the State has recognized chronic shortfalls in funding for key areas of the budget that directly affect instructional quality – instructional equipment replacement, instructional technology, libraries, and ongoing building maintenance. The previous two Compacts with former Governors proposed an additional 1% per year base budget adjustment to help address these shortfalls. The University must begin reinvesting in these areas if it is to keep up with technical innovations in equipment, libraries, and instructional technology, and to address ongoing maintenance needs – all of which were chronically underfunded before the recent fiscal crisis and now are even less well-funded, given recent budget cuts.

STUDENT TUITION AND FEES

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

In 2013-14, student tuition and fees are expected to generate over \$3 billion for UC's basic operations and student financial aid. For students, much of this amount will be covered by grants and scholarships. Undergraduates, for example, had over \$1.2 billion of their systemwide tuition and fees paid by grants and scholarships from federal, State, UC, and other sources in 2012-13.

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 2013-14, Tuition is \$11,220 for all students. The Student Services Fee funds services 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 2013-14, 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 2013-14, Professional Degree Supplemental Tuition varies by program and student level from \$4,000 to \$38,548.

Considerable attention was paid to requested increases in professional degree fees over the last two years, and the Regents ultimately approved increases in only one discipline for 2013-14 – a modest increase for nursing programs – and fees associated with four new programs

starting in 2013-14. Going forward, the University is specifically concerned about the impact of the “no tuition increase” provision of the Governor's multi-year funding plan on programs that charge Professional Degree Supplemental Tuition. Over many years, UC's professional programs have experienced funding shortfalls, in large part due to decreases in State funding, as well as rapid increases in mandatory costs. While it may be important to moderate the steep rise that has occurred in some of the tuition levels charged by the programs, they must have adequate support to maintain quality. The University intends to pursue increases in these charges as needed to ensure retention of faculty and support for the programs.

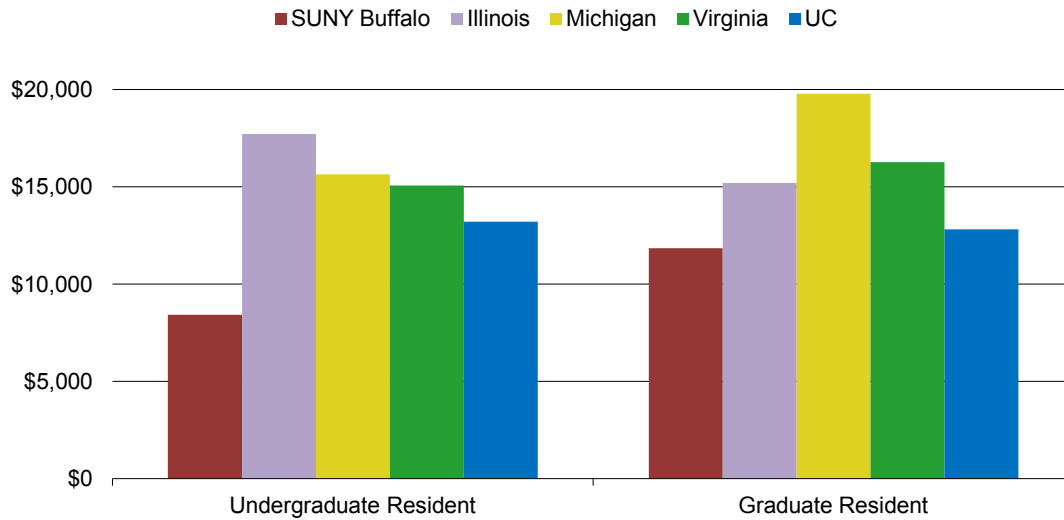
Nonresident Supplemental Tuition

In addition to mandatory systemwide tuition and fees, nonresident students pay Nonresident Supplemental Tuition in lieu of State support. For nonresident undergraduates, Nonresident Supplemental Tuition is \$22,878 during 2013-14. The supplemental charges for nonresident graduate academic and graduate professional students are \$15,102 and \$12,245, respectively. While no increase in Nonresident Supplemental Tuition is planned in 2014-15, all general campuses (except Merced) have sought to increase their numbers of national and international students without replacing funded California residents. UC's priority continues to be access for eligible California residents for whom the State has provided funding. Nevertheless, nonresident students help prepare all students to effectively live and work in an increasingly global marketplace. Moreover, the total charges they pay significantly exceed the cost of education, providing extra revenue that improves education for all students and enables campuses to maintain and increase enrollment for California resident students. Systemwide nonresident undergraduate enrollment represented only 9% of the undergraduate population in 2012-13, whereas between 30% and 40% of undergraduates at the University of

Display 17: 2013-14 Total Charges by Student Level and Residency Status

	<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>\$1,030</u>	<u>\$1,030</u>	<u>\$621</u>	<u>\$621</u>
Average Total Charges	\$13,222	\$36,100	\$12,813	\$27,915

Display 18: 2013-14 UC and Comparison Institution Tuition and Fees for In-State Students



In 2013-14, the University's average tuition and fees for California resident students remain below three of four public comparators for undergraduates and three of four comparators for graduate academic students.

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

Michigan and the University of Virginia are nonresidents.

For 2014-15, the University is estimating campuses will enroll an additional 2,000 nonresident students.

Campus-Based Fees

In addition to the charges described above, students also pay campus-based fees. Display 17 shows total charges for undergraduate and graduate academic students by residency status for 2013-14.

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 uses 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, UC's goal is to remain financially accessible to all academically eligible students so that financial considerations are not an obstacle to student decisions to enroll at UC. During 2011-12, 65% of all UC undergraduates, including non-need-based recipients, received grant or scholarship aid averaging \$15,784 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 2011-12, 42% of UC undergraduates were Pell Grant recipients, more than at any other comparably selective research institution.

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;
- UC's 33% return-to-aid policy;
- development and expansion of the Blue and Gold Opportunity Plan, which in 2013-14 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 provides some coverage of other cost increases as well. In 2012-13, grant scholarship assistance fully covered mandatory systemwide tuition and fees for over half of California resident undergraduates.

For many years, the enrollment of students from middle-income families 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 36% in 2011-12, 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. As noted earlier, out of concern about college affordability for middle-income families, the State Legislature passed the Middle Class Scholarship Program sponsored by Speaker Pérez, which will provide new funds to many California families that had not previously qualified for aid.

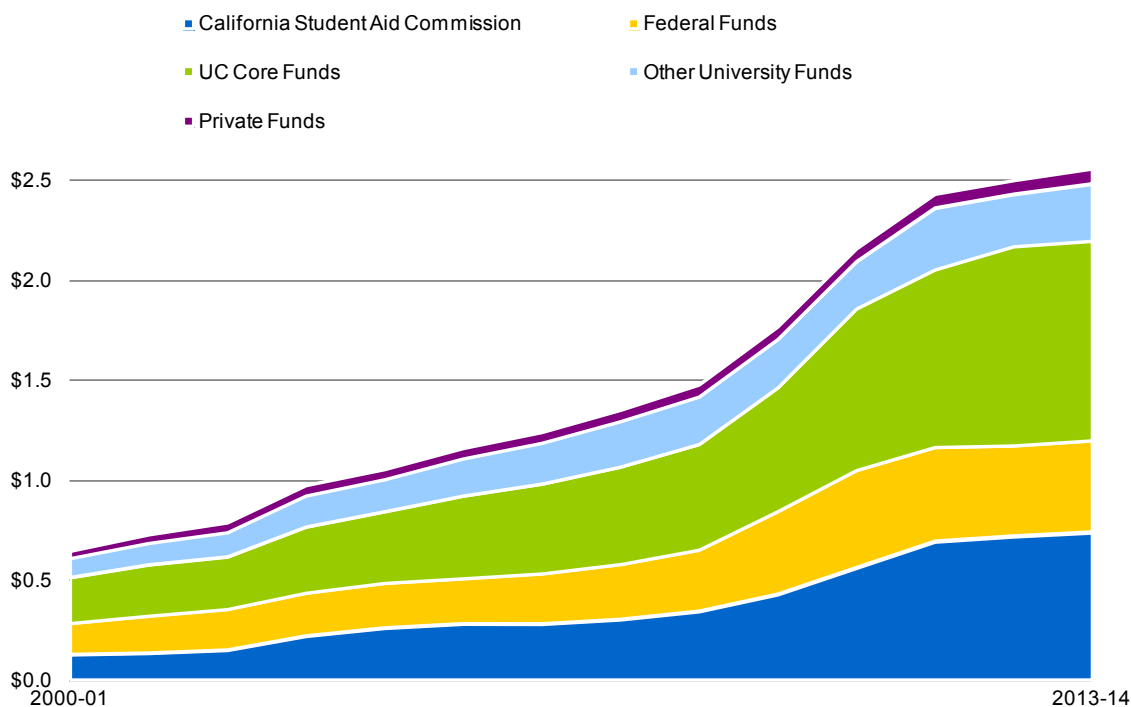
Graduate Aid

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 financially 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 \$33,300 per student during 2011-12. However, in recent years the financial aid packages awarded by UC have fallen short of packages offered by competing institutions. UC narrowed the gap

between its offers and those of competing institutions by nearly \$1,500 between 2010 and 2013. UC's net stipend amounts are still below competitors for international and nonresident students but are significantly higher for California residents. To help mitigate award gaps between UC and competitor institutions, 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.

Display 19: 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 2013-14, total gift aid is projected to reach nearly \$2.56 billion, over half of which is generated from UC sources.

THE UNIVERSITY'S LONGER-TERM FUNDING NEEDS

Securing revenue from a variety of sources is necessary if the University is to meet its long-term core funding needs.

A successful longer-term funding plan for UC requires four elements, including:

- stable and predictable funding from the State;
- leveraging of alternative revenue;
- achieving administrative efficiencies; and
- a moderate and stable tuition and fee increase plan.

Development of a longer-term view of the University's funding needs helps bring into focus the importance of all four elements in building a sustainable budget plan. A plan built on modest State funding augmentations without the complement of a moderate and predictable tuition and fee increase plan (or equivalent revenue from other sources) would require the University to redirect resources from other areas of the operating budget to cover its ongoing mandatory operating costs. After years of doing just that to address prior budget cuts, the University has few options left for redirecting resources without irretrievably damaging its core academic program. Continuing on a path of constant retrenchment would impede the University's ability to move forward and address critical priorities that cannot be left unattended indefinitely.

The University recently revised its long-term budget model, first presented to the Regents in March 2011. Since that time, the State budget situation has changed dramatically, many of the revenue and expenditure assumptions used in the original modeling are no longer applicable or require adjustment, and the basic financial data on which the modeling relied required updating.

Moreover, not only did the original modeling not take into account the Governor's proposed multi-year funding plan, it used 2007-08 as a baseline year and assumed restoration to 2007-08 funding levels. That assumption is unrealistic in the current State fiscal environment, though it should be noted that the Regents expressed concern about

the erosion of academic program quality at the University even before the onset of the recent economic downturn in 2008.

New modeling of the University's long-term funding needs focuses only on the four-year period between 2013-14 and 2016-17, corresponding to the horizon of the Governor's multi-year funding plan. From this narrower-focused modeling of the University's funding needs and revenue options, it is clear that while the Governor's proposed multi-year funding plan provides a welcome return to more predictable State funding for the University, the plan does not provide sufficient revenue to meet the University's basic costs through 2016-17.

The budget model projects that core-funded mandatory costs will increase \$564 million over the next four years. Assuming that employer contributions to UC's retirement system will increase from 12% of covered compensation in 2013-14 to 14% in 2014-15, to 16% in 2015-16, and then hold at 16% in 2016-17³, UCRP costs are projected to increase by \$244 million over the next four years, while employee and retiree health benefit costs are expected to increase by \$108 million over the same period (assuming average annual increases of 5% and 7%, respectively). Over the next four years, the academic merit program will cost an estimated \$120 million, and non-salary price increases an additional \$92 million.

High-priority costs are projected to increase by \$782 million through 2016-17. Nearly 70% (\$534 million) of this increase is related to compensation. Deferred maintenance costs are estimated at \$100 million, though this total does not capture all of the investment campuses have indicated they plan to invest over the next four years in deferred maintenance to address deterioration of their aging

³ Previous planning called for the employer contribution to increase to 18% of covered compensation in 2016-17. Projections assume 1% annual growth in personnel over the four-year horizon.

facilities. Enrollment growth is projected to cost \$88 million, assuming 1% annual growth through 2016-17, to fund continued growth at the Merced campus, provide support for growth in resident enrollment to meet the University's obligation under the Master Plan, and to address unfunded enrollments that currently exist on the general campuses and in the health sciences programs. Modest funding of \$15 million a year is also included as a high-priority cost to partially address critical capital needs, including seismic safety projects, capital renewal, and new construction at the Merced campus to accommodate its growing enrollment.

In addition, the University's long-term funding needs include \$200 million for reinvestment in academic quality. Recognizing that campuses have different priorities, deployment of these funds will be determined at the campus level, though reinvestment will focus on reducing the student-faculty ratio; supporting startup costs for new faculty; closing faculty and staff salary gaps; increasing graduate support; and enhancing undergraduate instructional support by increasing funding for areas such as instructional technology, instruction equipment, libraries, and ongoing maintenance of the facilities.

In total, the University faces a projected \$1.55 billion in identified mandatory, high-priority, and reinvestment in academic quality costs through 2016-17.

Under the Governor's multi-year funding plan, the University would receive \$576 million in new State General Funds to address a portion of the \$1.55 billion. This total includes base budget adjustments of 5% in 2013-14 and 2014-15 and 4% in both 2015-16 and 2016-17. It also includes separate funding for annuitant health benefit costs (above the base budget adjustments) as well as funding made available for operating needs from debt restructuring in 2013-14.⁴

In addition, the University has projected \$120 million in new revenue from asset management and procurement strategies over the four years. Positive fiscal impacts achieved from UC's *Working Smarter* Initiative have primarily addressed past cuts. Nonresident Supplemental

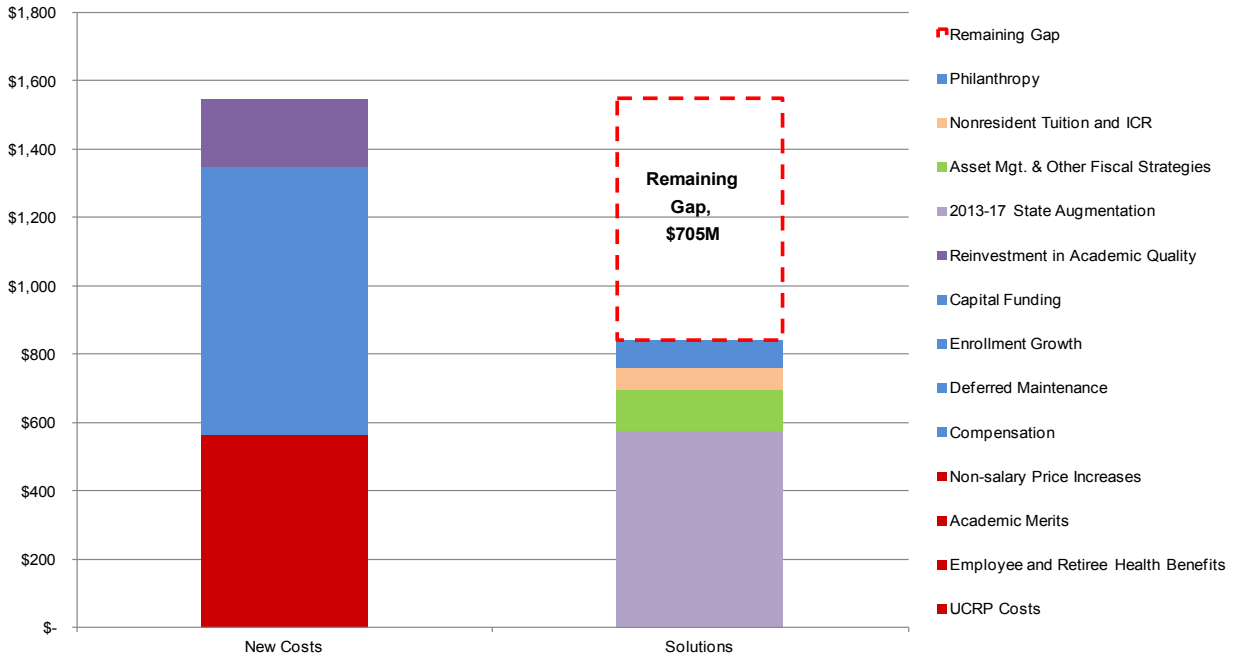
Tuition and indirect cost recovery combined are expected to generate \$65 million of new revenue. While nonresident enrollments are expected to increase substantially, particularly over the next two years, indirect cost recovery is expected to continue to lag significantly over the next several years as a result of sequestration and changes in federal funding for research. As a result, UC General Funds are expected to remain relatively flat in the aggregate. Finally, new models of utilizing philanthropy to free up other operating funds are expected to generate approximately \$20 million. Together with new State General Funds, these alternative revenues and financial strategies are projected to address nearly \$850 million of the \$1.55 billion needed over the next four years.

As Display 20 depicts, these funding solutions leave an estimated funding gap in 2016-17 of over \$700 million. Without substantial reinvestment by the State above the funding proposed by the Governor, the University has few options for closing a gap of this magnitude other than tuition and fee increases. As shown in Display 21, moderate tuition and fee increases (5% net of aid) in both 2015-16 and 2016-17 would reduce the gap to about \$350 million. A tuition and fee increase in 2014-15 would further reduce this gap to about \$190 million.

The University is exploring other solutions to close this longer-term shortfall, such as extending balance sheet strategies and pursuing alternative strategies for funding the UC Retirement System. In the absence of solutions to this budget gap, the University could be forced to examine highly undesirable strategies (both for the State and the University), such as abandoning its commitment to the Master Plan and reducing enrollment, or implementing additional budget cuts to core-funded programs. Difficult as these strategies are to contemplate, they may become necessary if adequate funding for the University's basic operating needs is not identified.

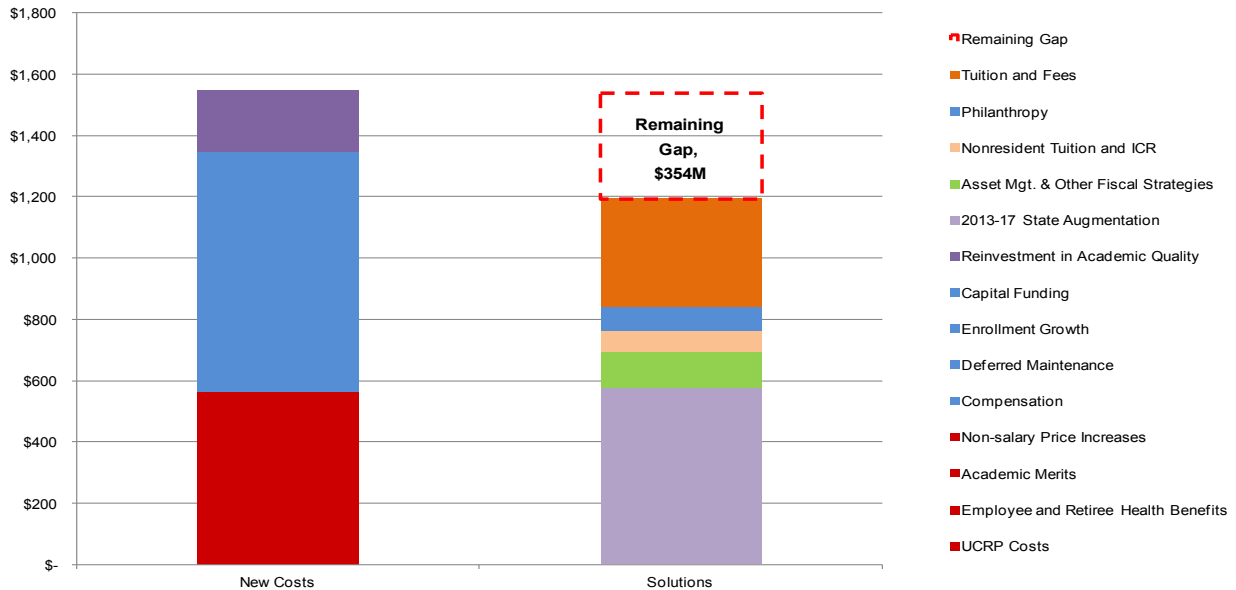
⁴ This total excludes funding redirected from the State augmentation in 2013-14 to UC Riverside's School of Medicine, Merced capital improvements, and the online education initiative.

Display 20: UC's Projected Four-Year Funding Gap Under the Governor's Multi-Year Funding Plan (Dollars in Millions)



The Governor's multi-year funding plan calls for increases to UC's State funding of 5% in 2013-14 and 2014-15 and 4% in both 2015-16 and 2016-17, contingent on tuition and fee increases over the four-year period. Under the plan, the University faces a projected four-year funding gap of over \$700 million.

Display 21: Tuition and Fee Increases in 2015-16 and 2016-17 Would Reduce By Half the Projected Four-Year Funding Gap (Dollars in Millions)



Moderate tuition and fee increases (5% net of aid) in both 2015-16 and 2016-17 would reduce by half the University's projected four-year funding gap under the Governor's multi-year funding plan.

UNIVERSITY of CALIFORNIA

**2014-15 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 2014-15 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 2014-15. 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 \$25.6 billion in operating revenues in 2014-15. 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 — University quality, administrative efficiencies, diversity, the cost of education, and core academic support.

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; the largest share 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 *2013-23 Capital Financial Plan*, provides information about the University's capital facilities needs.

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“After many years of economic volatility, the return of State investment to UC’s budget brings the promise of a more certain future not only to students, faculty, and staff, but all Californians.”

Janet Napolitano
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 243,000 in 2013-14 alone – but to touch the lives of every Californian:

- **UC educates the workforce** needed by high technology, business, agriculture, entertainment, health care, education, and other sectors of the economy.
 - **UC conducts research that fuels the State’s 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 collaborates with K-12 schools** to improve the quality of instruction and expand educational opportunities.
- **UC offers public venues for cultural opportunities**, with dozens of museums, concert halls, art galleries, botanical gardens, observatories and marine centers – academic resources that are also exciting gathering places for the community.

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 \$25.6 billion in 2013-14, 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 approximately the same level it did in 1999, when the University enrolled 77,300 fewer students. Accounting for inflation, enrollment growth that has occurred since 1990-91,

Display I-1: UC At-A-Glance

Founded in 1868, the University of California consists of:

- 10 campuses serving over 243,000 FTE students in over 750 instructional programs in 2013-14;
 - 5 academic medical centers providing 3.9 million outpatient clinic visits in 2012-13;
 - In 2012-13, a \$4.4 billion research enterprise, seeking new knowledge and solutions to critical problems;
 - Over 100 libraries housing 38 million print volumes in 2012-13, the second largest to the Library of Congress;
 - Nearly 5,800 buildings comprising over 132 million gross square feet in 2012-13; and
 - As of April 2013, approximately 195,000 people (headcount, or 141,681 FTE) who are employees across the system.
-

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. These include:

- 60 Nobel laureates – more than any other public university, including a 2013 winner of the Physiology or Medicine prize, Randy Schekman
- 63 Medal of Science winners
- 409 current, emeritus or retired National Academy of Science members
- 463 American Academy of Arts and Sciences members
- More than 200 Institute of Medicine members
- Nearly 1,000 American Association for the Advancement of Science members
- 85 recipients of MacArthur Foundation “genius” grants since the Foundation’s inaugural awards in 1981
- 1,503 Guggenheim fellowships since 1930 – more than any other university or college
- For 20 years running, UC has developed more patents than any university in the United States.
- *Washington Monthly* 2013 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 eight 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 50 American universities, as ranked by *US News and World Report* for 2013-14.
- The medical centers at Los Angeles and San Francisco were ranked fifth and seventh by *US News* in their 2013-14 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 2013, nine campuses were included in the top 150 and four of these were in the top 20.

and the precipitous decline in State funding, the value of the State’s support has greatly diminished. 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.

Over the last two decades, student tuition and fees and other sources of general funds, such as federal indirect cost recovery, have helped to mitigate the impact of declines in State support for UC, but overall core funding per student has declined by 13% in inflation-adjusted dollars since 1990-91. 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 important because they support the core instructional mission and make it possible to attract funds from other sources. Each year, UC draws over \$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, discussed in more detail in the *Research* chapter of this document.

The historic investment from the State has helped develop the finest public university system in the world. Protecting that investment is essential 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.

In recent years, State funds have been declining and tuition and fee revenue has been increasing to the point where the largest single source of revenue supporting the University’s basic mission is now no longer State funds, but student tuition and fee revenue.

Fortunately, the 2013-14 fiscal year marks the end of a half-decade of reductions in UC’s State budget and extreme fiscal volatility. With the successful passage of Proposition 30 in November 2012, the Governor proposed a multi-year funding plan for UC in his January budget proposal for

**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.

2013-14. His proposal calls for 5% base budget increases in 2013-14 and 2014-15 and 4% increases in 2015-16 and 2016-17. Planning for the University's 2014-15 budget is proceeding in the context of the Governor's multi-year plan. The Governor's proposal, however, calls for no tuition increases as a condition of receiving base budget adjustments. If no tuition increases are to be implemented in 2014-15 and the subsequent years of the Governor's multi-year plan, then another source of funds will be needed to help defray cost increases in over half the core budget. After years of addressing substantial budget cuts, it will be difficult to identify the source of funds to absorb these cost increases without further negative impacts to the academic program.

**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. For example, basic research at California's research universities served as the foundation for the biotechnology industry, and hundreds of biotechnology companies have been founded by UC faculty and former students. Indeed, UC's discoveries, technology, and graduates are contributing factors to the success of many knowledge-based companies.

Declining Educational Attainment of the Labor Force.

As the state's 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.

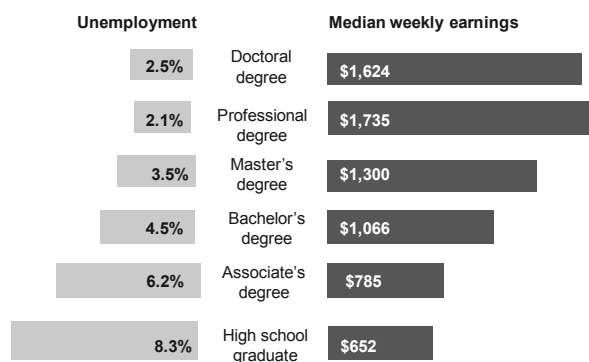
Most of these new professional and managerial jobs require at least a bachelor's degree and often a graduate degree. The California Postsecondary Education Commission's 2007 "Public Higher Education Performance Accountability Framework Report" documented that fields in critical need of highly educated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

In their 2009 report "Closing the Gap: Meeting California's Need for College Graduates," the Public Policy Institute of California (PPIC) noted the shortage of college-educated workers that California faces as, for the first time, retirees are not being replaced by more plentiful and better-educated younger workers, just as the 2006 CSU report had projected. According to PPIC, 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. In a related study, analysis conducted by the PPIC in their May 2007 report, "Can California Import Enough College Graduates to Meet Workforce Needs?," indicates that growth in the number of jobs requiring graduate degrees

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



Source: Bureau of Labor Statistics, 2012.

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.

will surpass one million by 2025, a 68% increase from 2005.

UC, CSU, and the California Community Colleges (CCC) play a critical role in addressing these challenges given the vast numbers of Californians that attend these institutions. And as indicated earlier and discussed further in the *General Campus Instruction* chapter of this document, UC has a unique responsibility in helping to meet the need for technically and analytically sophisticated workers given that UC alone is charged by the state with providing education at world-class research universities.

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 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 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 suggested in their "Closing the Gap" report that California would need to graduate another 60,000 students each year, a 40% increase over current levels (based on 2009 figures). Solutions suggested by the PPIC in this report 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 to 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.

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

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. Former President Yudof made increasing transfer enrollments a priority for UC, and UC has several initiatives to this end to increase the number of transfers from and improve articulation with the California Community Colleges. 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 investment in UC on the part of the State represents an investment in California and its citizens as well. 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. As discussed in the *Summary and Cross-Cutting Issues* chapter of this document, however, measures taken during the recent fiscal crisis have affected quality at the University and are unsustainable over the longer term if the institution is to sustain its legacy of excellence and contributions to the State.

“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.”

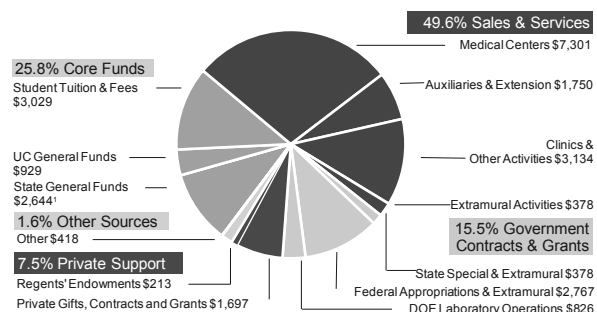
Peter Taylor
University of California
Chief Financial Officer

Sources of University Funds

The University’s operating revenues, estimated to be \$25.6 billion in 2013-14, support its 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 help augment and complement the University’s core activities of instruction and research. These provide 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 payouts; transfers from campus foundations; and other private gifts, grants, and contracts, funds a broad range

Display II-1: 2013-14 Sources of Funds (Dollars in Millions)



UC’s operating budget, totaling \$25.6 billion in 2013-14, consists of funds from a variety of sources. State support, which helps leverage other dollars, remains critical.¹

of activities typically restricted by the donor or contracting party. Private support comes from alumni and friends of the University, foundations, corporations, and through collaboration with other universities.

- **Other sources** 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 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

¹ An additional \$200.4 million has been added to the UC base budget for General Obligation bond debt service. Since this funding is paid directly by the State and is not available for operating needs, it is not included in the State General Fund total provided in Display II-1.

support services needed to perform these activities. Totalling \$6.6 billion in 2013-14, 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 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 provides \$2.644 billion² in 2013-14 of critical permanent base 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 was designated for specific programs or activities. The 2012-13 and 2013-14 Budget Acts eliminated most of the language designating funds for specific programs; however, the University continues to honor commitments made during budget negotiations to target funding for the UC Riverside medical school, online education, and financing for construction of the Classroom and Academic Building at the Merced campus. UC is also maintaining 2012-13 funding levels for most of the programs formerly supported by State Specific Funds.

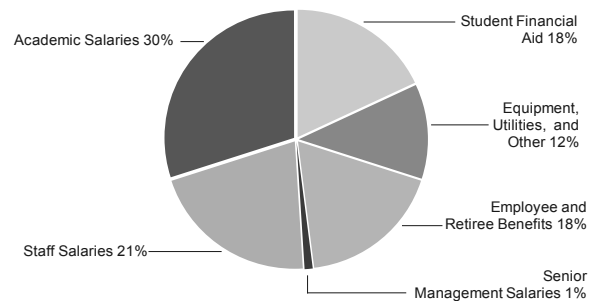
In addition to funding for basic operations, the State appropriation has also historically included funding for principal and interest payments associated with University facilities financed through lease-purchase agreements with the State Public Works Board. In 2013-14, the State budget provided a mechanism for the University to restructure the debt service associated with the lease-purchase financing of University facilities, creating an opportunity for the University to leverage its strong credit rating to reduce its debt service payments over the next 17 years. The additional State funding made available by the reduced debt service is being used to address operating needs.

Moreover, the 2013-14 budget package included statutory changes authorizing the shift of General Obligation bond debt service to the University's budget. When all debt service is included, total State General Fund support for the University is \$2.844 billion in 2013-14.

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.

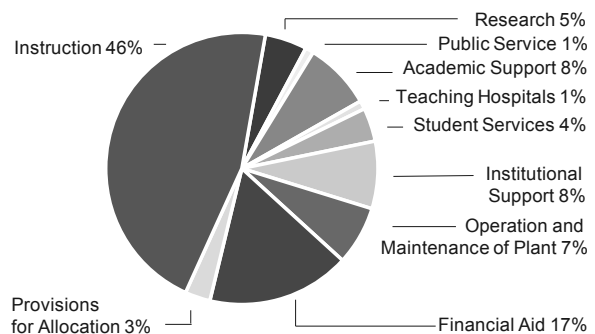
² See footnote on preceding page.

Display II-2: 2012-13 Core Funds Expenditures by Type



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

Display II-3: 2012-13 Core Funds Expenditures by Function



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

UC General Funds

In addition to State General Fund support, certain other fund sources are unrestricted and expected to provide general support for the University's core mission activities, based on long-standing agreements with the State. 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 \$929 million in UC General Funds during 2013-14. The largest sources of UC General Funds are Nonresident Supplemental Tuition, (\$520 million) and indirect cost recovery on federal contracts and grants (\$272 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 the University's operating costs for instruction, libraries, operation and maintenance of plant, student services, student financial aid, and institutional support. During 2013-14, Tuition is \$11,220 and will generate \$2.551 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 \$220.8 million during 2013-14.
- 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 \$257.8 million in 2013-14.

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

Historical Changes in State Funds Support

State funds represent a critical investment, 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 its 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 was cut \$750 million, leaving the University's State support 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 at the time 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 acknowledged its responsibility to contribute to UC's retirement costs, as it has always done for the California State University and California Community Colleges.

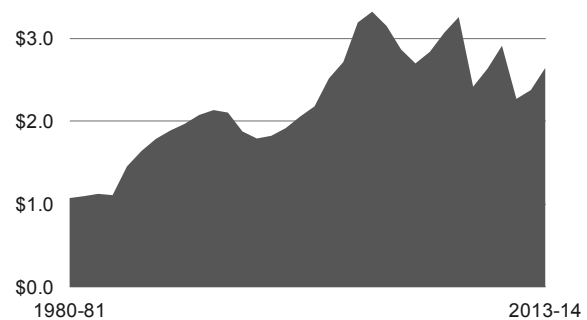
- With passage of Proposition 30, the Governor's revenue enhancement initiative, in November 2012 and an improving economy, UC faces the prospect of a more stable State funding environment for the first time in five years. The 2013-14 State budget provided the University with \$256.4 million in new State funding available for operating needs, including \$125 million for a deferred 2012-13 tuition buy-out, \$125.1 million for a 5% base budget adjustment, and \$6.4 million for annuitant benefit costs. The budget also included the shift of \$200.4 million of general obligation bond debt service to UC's base budget, as noted earlier. This funding is not available for UC's operating needs but increases the base budget from which future increases to UC's budget will be calculated.

The volatile and declining State funding over the last twenty years or more has coincided with a period of unprecedented growth in the number of California high school graduates. 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 2013-14 is 56% greater than 1990-91 levels, and UC has opened a tenth campus, while State support for UC has grown just 24% in non-inflation-adjusted dollars. This disparity is 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. Even with increases in State support in 2013-14, funding for UC represents just 2.8% 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 the Department of Corrections exceeds State support for UC, CSU, and the community colleges combined.

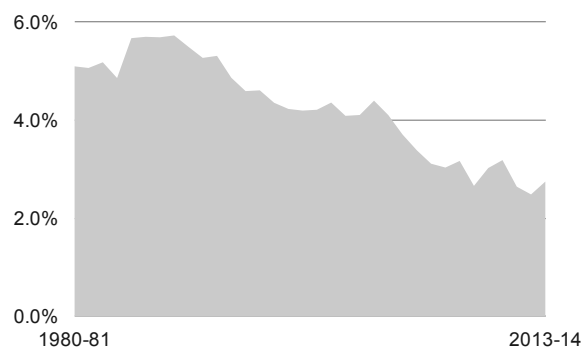
Another critical issue for the University is the degree to which funding has kept pace with the costs of providing

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



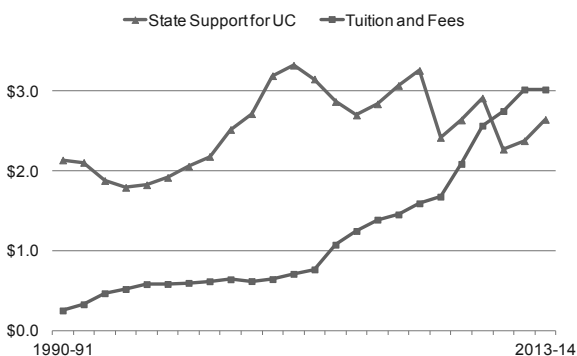
UC's share of the total state budget has declined markedly over the long term. In the late 1980s, more than 5% of the State General Fund was dedicated to UC. By 2013-14, the UC share has declined to 2.8%.

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.

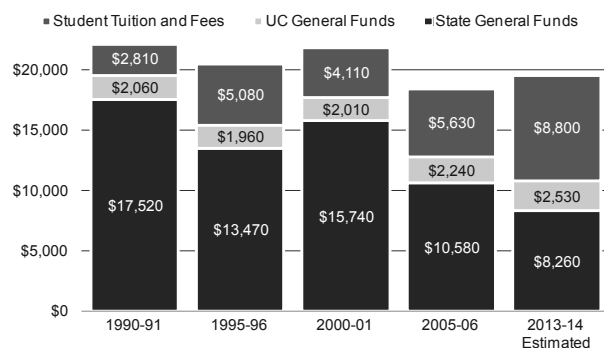
Underlying the level of core funding, however, is the shift in the distribution of that funding among State support, UC General Fund sources, and student tuition and fees. Display II-7 shows the core funding components of UC average per-student expenditures for education in HEPI-adjusted dollars and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

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



Over the last 23 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 (2012-13 Dollars)



Since 1990-91, average inflation-adjusted expenditures for educating UC students declined, the State’s share of expenditures plunged even more steeply, and the student share of core funds, net of financial aid, has more than tripled. Average inflation-adjusted resources per general campus student. Excludes financial aid.

- The average expenditure per student for a UC education has declined by 13% over 24 years – from \$22,390 in 1990-91 to \$19,590 in 2013-14.
- State funding per student declined significantly – by 53% over the 24-year period. In 1990-91, the State contributed \$17,520 per student – 78% of the total cost. In 2012-13, the State share declined to \$8,260, just 42% of the total funding for education.
- 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 45% of the cost of their education in 2012-13.

These findings raise a couple of additional points. Although the University has struggled to meet the challenge presented by a long-term 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 the magnitude experienced by the University in recent 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 costs have 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 fallen (in constant dollars), not increased. Tuition and fees paid by students have risen as funding from the State has declined. Most tuition 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% during the recession of the early 1980s, 134% in the early 1990s, 79% in the early 2000s, and 99% beginning in 2007-08 through 2011-12.

Historically, student tuition and fee increases have helped maintain quality, but they 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 half 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 on 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-paying patients.
- **Other operating revenues** are derived from non-patient care activities of the medical centers, such as cafeteria sales and parking fees.
- **Non-operating revenues** result from activities other than normal operations of the medical centers, such as interest income and salvage value from disposal of a capital asset.

Medical center revenues are used for 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 \$7.3 billion during 2013-14. 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 over \$1 billion in 2013-14.

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 and service fees. Income from University Extension, other self-supporting instructional programs, and other campus fees is projected to be \$687 million in 2013-14.

Educational and Support Activities

Income from sales and services of educational and support activities is projected to total \$3.1 billion in 2013-14. 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 and optometry 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 \$3.9 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 areas: 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 \$2.1 billion and accounting for nearly 51% of all University research expenditures in 2012-13. 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 nearly 80% of UC's federal research contract and grant awards in 2012-13. Federal funds for UC research have grown dramatically over the last two decades, and more recently UC has benefited significantly from temporary federal economic stimulus funding provided to federal agencies that support academic research. Despite much of this funding ending, UC managed to maintain about the same level of graduate research funding in 2012-13. In the last year, however, sequestration and other constraints on federal spending have reversed the long-term growth of UC's research enterprise; research spending at UC has declined modestly over the last year and is likely to continue to decline over the next several years.

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 \$108 million in 2013-14.

The remaining 80% of the federal reimbursement is split into two funds. The first 55% (estimated to be \$272 million in 2013-14) is budgeted as UC General Funds. It is used, along with State General Funds and student tuition and fee revenue, to help fund the University's basic budget.

The remaining 45% is the source of the University Opportunity Fund (estimated to be \$223 million in 2013-14). This is used to make strategic investments in University and campus priorities, such as enhancing faculty recruitment packages through laboratory alterations, equipment purchases, and support for graduate student researchers; providing innovative instructional programs; and augmenting 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.

Indirect cost recovery (ICR) 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 the 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. With less overall federal research funding, these increases in negotiated rates will help mitigate the impact of less indirect cost recovery.

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 \$826 million in 2013-14.

In 2012-13, it is estimated that UC students received over \$1.6 billion in federal financial aid, including \$451 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 30.2% of the total financial support received by UC students in 2012-13. 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 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

Display II-8: Estimated 2012-13 Federal Support for UC and UC Students (Dollars in Millions)

<u>Program Support</u>	
Research Grants and Contracts	\$2,122.8
Indirect Cost Recovery	\$713.8
DOE National Laboratory Operations	\$848.5
DOE Laboratory Management Fees	\$40.3
Other Contracts and Grants	\$217.1
<u>Student Financial Aid</u>	
Pell Grants	\$349.1
Other Undergraduate Grants and Scholarships	\$11.4
Graduate Fellowships and Scholarships	\$90.5
Student Loans	\$1,127.6
Work-Study	\$35.2
<u>Patient Care</u>	
Medicare	\$1,600.0
Medicaid	\$962.3
Estimated Total Federal Support	\$8,118.6

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 \$2.6 billion in 2012-13.

As previously noted, 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 2013-14.

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 its support for UC operations and campus investments. As State support, including capital investment, 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 2013-14 includes \$61.8 million in appropriations from State special funds. These include:

- \$30 million from the California State Lottery Education Fund, which is used to support instructional activities;
- \$11.2 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program;
- \$11.6 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 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 \$11.7 billion as of June 2013. This increase is attributable primarily to strong investment returns. Final values for combined endowments for 2012-13 will not be presented to the Regents until February 2014. Payments from the Regents' General Endowment Pool (GEP), computed as a trailing five-year moving average, resulted in distributions approximately equal to those from 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.

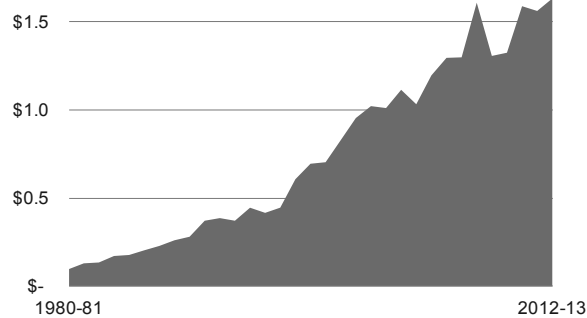
In 1998-99, the Regents approved a payout rate based on the total return of the GEP over the previous 60 months, with a long-term target rate set at 4.75%. This policy is intended to smooth annual payouts and avoid significant fluctuations due to market conditions.

Payouts from the Regents' endowments are permanently budgeted, while payouts from campus foundations are recorded as extramural (non-permanent) private grants. In 2012-13, the expenditure of the payout distributed on endowments and similar funds was \$243 million from the Regents' endowments and approximately \$170 million from campus foundations. For 2013-14, payout expenditures from Regents' endowments are projected to total \$256 million. Payouts from campus foundations in 2013-14 are expected to be slightly higher than those in 2012-13.

Private Support: Gifts and Grants

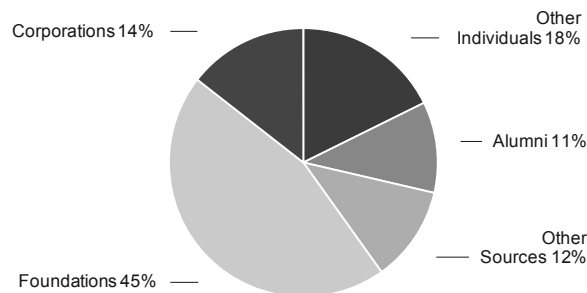
Private funds, even gift funds, are typically highly restricted by funding source and provide support for instruction, research, campus improvements, and student financial support, among other programs. In recent years, approximately 98% of new gifts received by UC are restricted in their use.

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



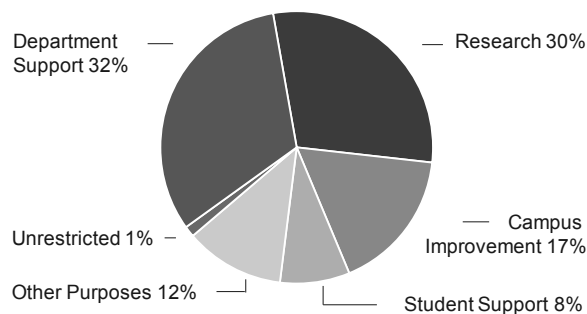
In both 2011-12 and 2012-13, gifts and pledge payments totaled \$1.6 billion, slightly more than the record achieved in 2007-08.

Display II-10: 2012-13 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: 2012-13 Private Gift and Grant Support by Purpose



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

Since 1990, the University has experienced large, steady increases in private gifts received. In 2012-13, new gifts and private grants to the University totaled \$1.6 billion, slightly more than the record total achieved in 2007-08,

before the recent economic downturn. Approximately \$314 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 2013-14, expenditures of private gifts and grants to the University are expected to be slightly higher than the expenditures in 2012-13.

The University is aggressively pursuing increased philanthropic giving as a means to help address budget shortfalls and expand student financial aid. Over the last four years, UC has launched two systemwide fundraising initiatives – Project You Can, an effort on all ten 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 2012-13, awards from private contracts totaled \$694 million, a 1.6% decrease over 2011-12. Over the last ten 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 \$24.1 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."³

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.

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 \$85.3 million in 2011-12, the most recent year for which data are available. While 1,963 inventions generated royalty and fee income, the 25 most profitable inventions collectively accounted for more than 70% 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 2011-12, 2,348 inventors received \$46.4 million.
- **General Fund Share:** In 2011-12, the portion of net income allocated to the UC General Fund was \$9.1 million, equal to 25% of the amount remaining after deducting payments to joint holders, legal expenses, and inventor shares (excluding inventions managed by LBNL).
- **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 \$2.8 million in 2011-12.
- **Income after Mandatory Distributions:** All income remaining after deductions and other distributions is allocated to the campuses. These funds, totaling \$27 million in 2011-12, are used by the chancellors to support education and research priorities.

³ *Memorandum of Understanding between the University and the State Department of Finance for Disposition of Receipts from Overhead on Federal Government Contracts and Grants*, 1979.

FUNDING STREAMS AND REBENCHING INITIATIVES

Historically, certain revenues were collected centrally by the UC Office of the President (UCOP) and redistributed across campuses to promote systemwide priorities. These included 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 fund cost increases, enrollment growth, development of new schools or programs, and for central administration and systemwide initiatives. Other funds, such as hospital and auxiliary revenues, Student Services Fee revenue, 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, and patent and investment income – is retained by or returned to the source campus. For support of central operations, the University has established a broad-based flat assessment on campus funds. Central operations are defined as UCOP administration, central services (both administrative and academic), and systemwide initiatives, such as multi-campus research programs 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 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 within the University 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 completed its deliberations in March 2012 and produced a set of recommendations for rebenching State General Funds. Among the Committee's recommendations were distributing State funds on the basis of weighted per-student enrollment and that rebenching be implemented over a six-year period. The 2013-14 fiscal year is the second year that State General Funds are being allocated based on the principles of rebenching.

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 2014-15: University quality, administrative efficiencies, diversity, the cost of education, and core academic support.

QUALITY AT THE UNIVERSITY OF CALIFORNIA

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; recruiting and educating outstanding undergraduate and graduate students, as well as graduating them expeditiously; and sustaining or enhancing those activities that receive positive evaluations from students and faculty with respect to the quality of education provided. Key indicators of instructional performance show that to date the University has managed to sustain and even improve outcomes for its students. Maintaining these outcomes, however, is a challenge the University must address, given the reality of diminished State resources.

A Distinguished Faculty

The quality of the University of California is founded on its distinguished faculty, who lead the world in research excellence and productivity as compared to those at other 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, 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 healthcare, and improvements in the quality of life.

In Fall 2012, 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 2012-13, 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 close to \$2 billion.

Current data reveal continuing faculty achievement at the same time that recruitment and retention challenges have increased:

- Faculty continue to perform at top levels marked by career awards for both established and early career faculty.
- Over the last two decades, student enrollment has grown at nearly twice the rate as faculty. Over the last five years, despite considerable enrollment increases since 2007-08, the size and composition of the faculty have remained relatively constant, with the notable exception of increases in the number of non-Senate faculty in the health sciences. In 2010-11 and 2011-12, the University experienced a decrease of 270 general campus ladder and equivalent rank faculty. While campuses have increased their faculty hiring in the last year, this growing imbalance between enrollment growth and little or no growth 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 2012, over 7% of ladder rank faculty were age 70 or above. In 2012, approximately 23% 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.
- In the last five years, UC hired 2,105 ladder rank faculty, or 22% of the current total. With nearly a quarter of UC’s faculty 62 years of age or older, the University will face a

major challenge hiring enough new faculty just to replace current faculty who will be retiring over the next decade.

- Average UC salaries remain lower than at peer universities, with competition for faculty particularly intense from private universities, where faculty 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 among the faculty have yielded limited progress.

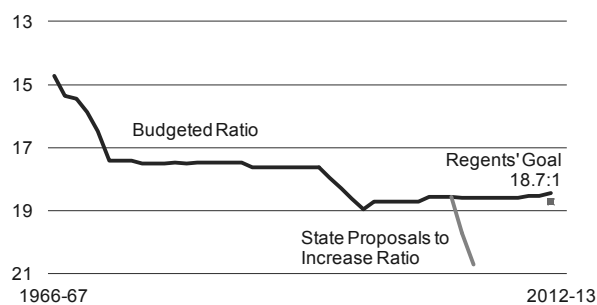
Since 1994, the University's *budgeted* student-faculty ratio has been 18.7:1. However, the *actual* student-faculty ratio has deteriorated dramatically in the recent fiscal crisis, currently standing at about 21:1. Improving the student-faculty ratio at the University has been among the highest priorities 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 fiscal crises. One of the University's quality initiatives is to decrease the student-faculty ratio over the next several years.

Display III-1: 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.

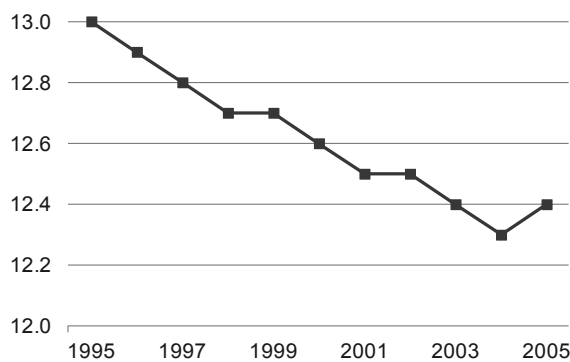
Maintaining the quality of the faculty is critical to both the University and the State. As mentioned above, due to the significant decline in State support during the last several years, campuses have recruited fewer new faculty. For the past two years, more faculty left UC than were hired. Instead, 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 campuswide academic leadership responsibilities being shared by a smaller faculty workforce. As the fiscal situation improves, campuses are increasing recruitment.

Timely Graduation

The University remains committed to ensuring that undergraduate students are able to complete their degrees on time and to 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.

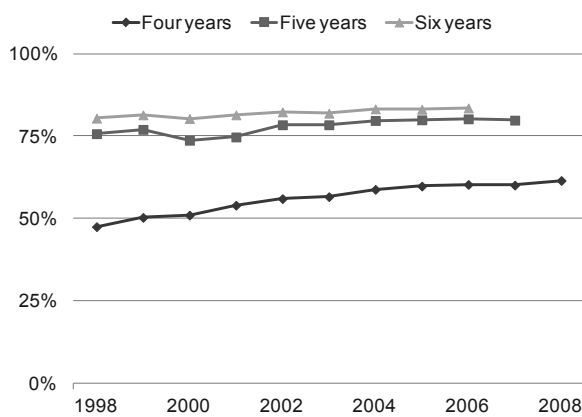
For UC undergraduates, the average number of terms enrolled has dropped from 13.4 enrolled quarters (where a four-year degree equals 12 quarters) for the 1984 freshman class to 12.4 for the 2005 cohort. Over 60% of UC freshmen graduate in 12 or fewer registered quarters; they are able to do this by taking 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, thereby making room for others.

Display III-2: Time to Degree among Freshmen by Cohort



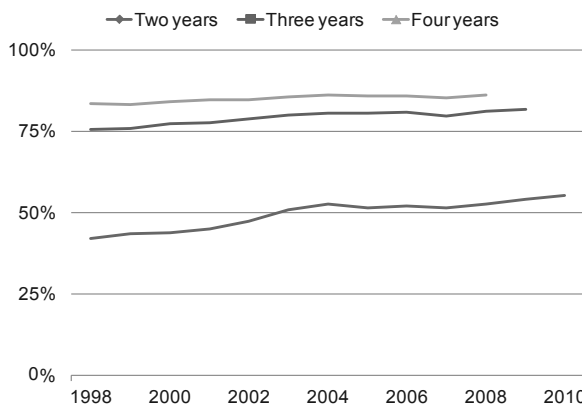
Time to degree, measured in quarters enrolled, has declined from 13.4 to 12.4 among recent freshman cohorts.

Display III-3: Graduation Rates among Freshmen by Cohort



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

Display III-4: 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.

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 over 60% graduate within four years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 80% of the 2006 entering freshmen earned a baccalaureate degree within five years and 84% 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, 93% persist to a second year and over 85% earn a UC degree within four years, taking on average seven quarters to complete their degrees. Transfer students' UC grade point averages upon graduation are about the same as those of students who entered as freshmen.

Among graduate academic doctoral students, a special study by the National Research Council found that the percentage of UC students finishing in six years (or eight years for arts and humanities) was overall higher than for UC's four comparison American Association of Universities (AAU) publics for three of five disciplinary areas, and that average time to degree for the academic doctoral degree is exactly the same – 5.7 years – for UC as for its eight AAU comparison institutions. Moreover, the number of doctoral degrees per UC ladder faculty member has increased from 0.4 in 2005-06 to 0.5 in 2010-11, a higher number than UC's public AAU comparison institutions.

Student Satisfaction

Undergraduates continue to be satisfied with their overall academic experience and the quality of faculty instruction. As students indicated in UC's biennial survey of undergraduates, UCUES, a very high percentage of students from 2006 through 2012 have been satisfied with their overall academic experience and with the quality of faculty instruction: 82% report that they are very satisfied, satisfied, or at least somewhat satisfied with their experiences at UC in terms of overall academic excellence and 89% in terms of quality of faculty instruction. Most importantly, the percentage has not decreased despite the

many changes campuses have had to make as funding has decreased.

Performance Outcome Measures

The University believes that quality is better measured in terms of outcomes than in terms of inputs in evaluating instruction at UC. The Governor has placed a major emphasis on the need to develop performance outcome measures for both UC and CSU. The University is working with the Department of Finance to identify quantifiable performance outcome measures to benchmark its current performance and track its improvement over the coming years. Currently, the University is developing methodologies to provide data (most of which are already collected and reported on by the University) on the following performance outcome measures, as required by of budget trailer language (AB 94):

- Number and percentage of transfer entrants;
- Number and percentage of low-income students;
- Number of Pell Grant recipients;
- Four-year graduation rates for the total freshman class and for low-income freshman entrants;
- Two-year graduation rates for the total transfer class and for low-income transfer entrants;
- Annual degrees completed for the total student population and for freshmen entrants, transfer entrants, graduate students, and low-income students;
- The percentage of first-year undergraduates who have earned sufficient course credits by the end of their first year of enrollment to indicate they will complete a degree in four years;
- Total State funds divided by total degrees awarded;
- Total State funds expended on undergraduate education divided by undergraduate degrees awarded;
- Average course credits at graduation for freshmen and transfers; and
- Degree completions in STEM for undergraduates, graduates, and low-income students.

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 focused on producing new sources of revenue. Whether through direct cost savings or new revenue, the overarching objective of *Working Smarter* is to redirect \$500 million in five years from administration to the academic and research mission of the University.

Many *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 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.

At the close of the third year in the five-year program, nine projects reported incremental savings or new revenue in

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.

Display III-5: 2012-13 <i>Working Smarter</i> Projects: Cost Savings and New Revenue (Dollars in Millions)	
Benefits Redesign (Family Member Eligibility)	\$35.00
UC Equipment Maintenance Insurance Program (UCEMIP)	\$0.63
Enterprise Risk Management (ERM)	\$32.03
Purchase Card Program	\$5.74
Liquidity Management (STIP/TRIP)	\$33.23
Parent Giving	\$15.00
Strategic Procurement	\$23.24
Connexus Travel	\$7.93
Statewide Energy Partnership	<u>\$18.53</u>
Total	\$171.33

the prior year, most of which accrue to non-core funds. This is summarized in Display III-5.

Benefits Redesign/HR-Compliance: Family Member Eligibility Verification is a project which, in the last 12 months, validated every single individual claimed as a dependent and covered by UC’s health benefits. By ensuring only eligible dependents were covered, the University expects a \$35 million annual reduction in employer costs. As part of the project, a more stringent set of verification measures was put in place and a systemwide Family Member Eligibility Verification process will be conducted every four years.

More on this project at:
<http://workingsmarter.universityofcalifornia.edu/projects/enterprise-risk-management/case-study/>

Connexus Travel is a centrally managed travel program offering online and agent-based reservation options and discounts to UC and CSU travelers. Across all locations, average utilization is 39% for all types of UC travel. To increase utilization, the project team recently redesigned the portal to strengthen the user experience. Over \$6 million of the reported \$7.9 million savings in the program are attributable to negotiated airline discounts.

More on this project at:
<http://workingsmarter.universityofcalifornia.edu/projects/connexus-travel-program/case-study/>

Enterprise Risk Management (ERM) takes a strategic approach to managing enterprise-wide risks. These include hazard risks such as workers’ compensation, a variety of liability risks and property. It does the same with other strategic, operational, financial, and reputational risks. UC

campuses continue to enhance their ERM programs through a collaborative effort. UCOP Risk Services supports campuses with investment in new systems and tools to facilitate the efficient management of risk.

UC’s cost of risk is made up of a variety of components, the largest of which is self-insured claims. The cost of individual claims accounts for about two-thirds of the annual total. The remaining third of the cost of risk goes toward expenses for claims administration, loss control, and loss prevention programs, as well as excess insurance premiums to cover the costs of individual claims above UC’s retention level. UC has been successful in managing its risk by investing in claims administration, loss control, and loss prevention programs. The “Be Smart about Safety” program in particular has positively impacted the loss experience, resulting in a reduction of the actuarial estimates of ultimate losses, which in turn has led to a reduction in the total cost of risk. A similar program, “Shoes for Crews,” is also being credited by Risk Services with reductions in workers compensation injuries and the cost of incurred claims.

More on this program at:
<http://workingsmarter.universityofcalifornia.edu/projects/enterprise-risk-management/overview/>

Liquidity Management is optimizing the allocation of campus working capital between UC’s Short Term Investment Pool and its Total Return Investment Pool, as well as to explore the possibility of a systemwide, coordinated approach to liquidity management. By reviewing historical trends and likely future needs for operating capital, and then making moderate adjustments, the University has generated an additional \$33.2 million in investment income during 2012-13.

More on this project at:
<http://workingsmarter.universityofcalifornia.edu/projects/liquidity-management/case-study/>

P200: Strategic Procurement is a Universitywide program coordinated at UCOP by Procurement Services staff who negotiate vendor contracts to leverage UC’s substantial combined buying power. The ultimate goal is to invest in people, processes, and technology to return \$200 million in new savings.

Because the new procurement system is not yet fully launched, *Working Smarter* has opted not to report negotiated contract savings. In 2012-13, participating UC locations received a combined total of over \$23 million from across the 138 UC-wide contracts, comprised of patronage incentive payments, volume incentives, early pay discounts, and e-commerce incentives. 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.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/e-sourcing/p200-program-overview/>

Parent Giving places increased emphasis on donations from parents of UC students. Several years ago, UC determined that parent giving at UC was falling short compared with other universities. UCOP provided initial funds and, working with counterparts at each of the nine undergraduate campuses, implemented the Parent Giving and Supplemental Development Fund to boost parent and alumni donations and support other giving models. These funds were matched on a two-for-one basis by the campuses. Due to significant budget cuts and expected maturity of the programs reducing reliance on that support, the funding was recently decreased.

In the first year of the program, systemwide parent giving rose to \$10.7 million from \$3.6 million the previous year. Parent Giving is expected to top \$15 million in 2012-13. These are preliminary results and based on conservative estimates.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/parent-giving/case-study/>

Purchase Card Program generated over \$5 million in direct savings, incentive payments, and signing bonuses in calendar year 2012. The program provided additional savings to the UC-operated national laboratories not reported here. While the Purchase Card is acknowledged as a more efficient payment vehicle than payment via hard

copy check, that process efficiency is not monetized in the *Working Smarter* reported results.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/purchase-card-program/case-study/>

The Statewide Energy Partnership is a portfolio of many hundreds of energy efficiency projects at campuses and medical centers. The University of California/California State University (UC/CSU) and Investor-Owned Utilities (IOUs) entered into an Energy Efficiency Partnership with a goal of achieving immediate, long-term peak energy and demand savings, establishing a permanent framework for a sustainable, long-term, comprehensive energy management program.

Notable highlights in the last reporting period include the completion of the largest single energy savings project at UCSF and the first large-scale energy upgrade project at UCSF Medical Center. In a ceremony at UCSF on February 19, 2013, PG&E (Pacific Gas & Electric Company) presented UCSF with a check for \$846,000. Events like this one are becoming increasingly common across UC, as grant-based incentives are paid out for completed projects that also result in significantly lower energy bills.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/statewide-energy-partnership/case-study/>

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 aims to replace emergency repair and certain original equipment manufacturer maintenance contracts with a central equipment maintenance insurance policy priced to cover a wide range of equipment at any UC location. Over the past year, participating UC locations saw direct savings of over \$600,000.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/equipment-maintenance/case-study/>

It is important to note that in the first three years of *Working Smarter*, 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 upfront 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 permanent savings or revenue and those projects that reinforce a focus on process efficiency.

This progress is encouraging: in the third year of the program, the University measured over \$170 million in positive fiscal impact (see Display III-5). Over the three-year period, *Working Smarter* projects have generated a total of \$460 million in savings. 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.

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.

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 fourth *Accountability Sub-Report on Diversity at the University of California*⁴ was presented to the Regents in January 2013. The report was presented as a special topic report and focused on the diversity by gender, race, and ethnicity of faculty at UC and provides information about four efforts to enhance that diversity. The report indicated that diversifying faculty is a national challenge for universities, including UC. Among UC and its eight comparison institutions, of all ladder- and equivalent-rank faculty only 7.8% are underrepresented racial and ethnic minorities, and 29.1% are female. However, UC is more diverse than its Comparison 8 institutions. UC's faculty is 30.5% female and 8.6% underrepresented racial and ethnic minority (American Indian, Black/African/African American, and Chicano/Latino/Hispanic), compared to an average of 28.1% female and 7.3% underrepresented racial and ethnic minority among UC's Comparison 8 institutions. The report

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

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

also indicated that new faculty hires at UC are more diverse than the faculty as a whole at UC, which indicates a positive trend in enhancing diversity among UC faculty. Information on efforts to enhance diversity of faculty at UC can be found at <http://ucop.edu/academic-personnel/programs-and-initiatives/index.html>.

UC is determined to create a welcoming environment for everyone and help nurture a culture of inclusiveness and respect throughout every campus and location in the system. 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. The Advisory Council commissioned a systemwide campus climate study in June 2011 in order to gather a variety of data and assess the quality of life at UC for students, faculty, and staff.

This major study will provide much-needed data and accountability measures. The study was conducted between October 2012 and March 2013 and included 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. Study findings will be presented to the Regents in January 2014 and made publically available at <http://campusclimate.ucop.edu>. UC has taken a leading role in creating more welcoming and inclusive campus environments and is the first higher education institution of its size to complete such a project.

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 Chicano/Latino population. In Fall 2012, the University community of approximately 365,000 students, faculty, and staff was 17% Chicano/Latino compared to

about 38% for California as a whole. African-Americans represented 5% of the University community compared to 6.6% 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 to 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 16 years, proportions of underrepresented minorities (Chicano/Latino, African-American, or American Indian) have increased among undergraduates by 33% compared to an increase of only 24% among ladder-rank faculty. In Fall 2012, 24.8% of UC’s almost 182,000 undergraduates were underrepresented minorities, compared to only 18.6% of 133,000 undergraduates in Fall 1996. In Fall 2012, 8.7% 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 UC’s Professional and Support Staff, and the least among its Senior Management Group, although UC now has its first female President and its top two leaders, the President and the Provost, are women. Despite some progress over the years, in 2012, the Senior Management Group (consisting of 182 employees) was 80% white and 59% male. Among the over 92,000 Professional and Support Staff, two-thirds are women across all racial and ethnic groups. In Fall 2012, 27% of all 102,500 non-academic staff were underrepresented minorities and 51% 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 17% of all staff in Fall 1996 compared to 23% in Fall 2012, followed by Chicano/Latino staff (13.5% in Fall 1996 compared to 19% in Fall 2012).

Faculty Diversity. The ladder-rank faculty at the University of California is more diverse, on average, than the faculty at American Association of Universities (AAU) public and private institutions. Of all faculty and academics (34,700 in Fall 2012 and 24,000 in Fall 1996), 9% were underrepresented racial and ethnic minorities in Fall 2012 compared to 6.7% in Fall 1996. In Fall 2012, 6% of faculty and other academics were Chicano/Latino (international and domestic), 3.8% were American Indian (international and domestic), and 2.3% were Black/African/African American (international and domestic); 23% of faculty and other academics were Asian or Asian American (international and domestic) in Fall 2012. Despite some gains overall, UC's over 9,800 ladder- and equivalent-rank faculty is still over 74% white and nearly 70% male. At the assistant professor level, UC's 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. Similar to graduate programs across the country, UC's graduate academic programs struggle with increasing racial and ethnic diversity. Just over 11% of all 31,400 graduate academic students were underrepresented minorities in 2012. This number has only slightly increased 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). In Fall 2012, an additional 14% were Asian American and 24% were international. In Fall 2012, men represented over 57% of all UC graduate academic students (an increase from 53% in Fall 2011), and across all racial and ethnic groups, men received more Ph.D.s in the physical sciences, mathematics, and engineering.

Graduate Professional Students. Underrepresented students are a small percentage (14%) of the almost 18,300 total professional degree students and nearly 26% are Asian/Asian American. Over the last 16 years, the number of underrepresented minorities in UC professional programs has decreased by nearly 24% (18.4%, or 1,300 students in Fall 1996 compared to 14%, or 2,500 students,

in Fall 2012). In Fall 2012, 52% of all graduate professional students were women.

Undergraduates. At the undergraduate level, UC has been very successful in expanding access to all Californians. At UC, undergraduate students have the highest proportion of underrepresented minorities among students. 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, while in 2012, 25% of UC's approximately 183,500 undergraduate students were underrepresented minorities, and nearly 38% were Asian American. Most notably, among new freshmen, underrepresented minorities have increased over 60% since 2000, from 16.5% (about 4,000 of approximately 24,000 new freshmen) in Fall 2000 to 27% (about 8,600 of approximately 32,000) in Fall 2012. Additionally, underrepresented minorities among transfer students have increased from 16.5% (about 1,750 of 10,600 transfer students) in Fall 2000 versus 23% in Fall 2012 (about 3,750 of 16,400 transfer students).

COST OF EDUCATION

The cost of education at UC is an ongoing area of interest for the University itself, the State, and the public. Trailer bill language to the 2013-14 Budget Act calls for the University to biennially report to the Legislature the total costs of education at UC, broken out by student level, by general campus and health sciences, and discipline, as well as disaggregated by fund source. The University is currently exploring methodologies to answer these questions.

Historically, the University has provided the State with data on the average cost of education, more accurately described as average expenditures on instruction. This methodology only includes general campus students and does not distinguish between undergraduate and graduate students or by discipline, but does show the pattern of disinvestment by the State in UC over time and that the student share of expenditures has risen but not replaced all of the funding no longer provided by the State, as shown in Display 7 of the *Summary* of this document.

CORE ACADEMIC SUPPORT

Several areas of the budget are critical to academic quality, but have been underfunded historically. 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-based 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 well over \$100 million.

The Compact Agreement with former 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 2014-15 budget plan includes \$50 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, but the budget has not yet identified a source of funds to cover this reinvestment.

“California has high expectations for its public research university, not only for quality, but for access and affordability. No other institution blends the three so successfully as UC.”

*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.

What attracts students to a research university is the opportunity to interact with faculty on the cutting edge of their field and to participate in, and even conduct their own, research. UC students are no different. In the most recent University of California Undergraduate Experience Survey (UCUES), 57% of respondents agreed or strongly agreed that attending a university with world-class researchers was important, and 82% of senior undergraduates had participated in research or other creative activities with faculty as part of their coursework. The close relationship between instruction and research, at both the undergraduate and graduate level, is the hallmark of a research university. Joint scholarly research activities of students and faculty conducted within a specific department (as opposed to interdisciplinary organized research, discussed in the *Research* chapter of this document) are part of the instructional program at the University. As such, instruction and research are inextricably linked at UC.

The University offers bachelor's, master's, and doctoral degrees in over 750 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 2012-13, conferred over 63,000 degrees.

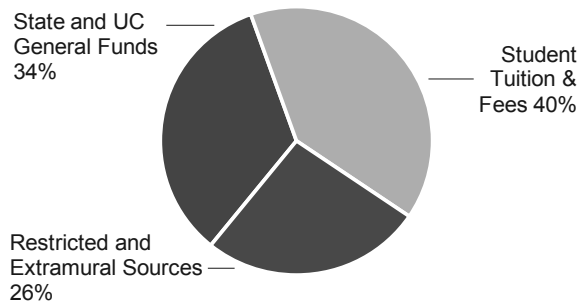
The general campus Instruction and Research (I&R) budget includes direct instructional resources associated with schools and colleges located on the nine UC general campuses.¹ I&R expenditures totaled \$2.7 billion in 2012-13, 74% of which comes from core fund sources (State General Funds, UC General Funds, and student tuition and fees). Additional resources for instruction are derived from self-supporting program charges, course materials and services fees, and other restricted sources.

Major budget elements and their proportions of the general campus I&R base budget are faculty and teaching assistant salaries and benefits, 55%; instructional support, 43%, 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. As a result, in 2013-14, UC is educating 7,600 students for whom the State has never provided funding.

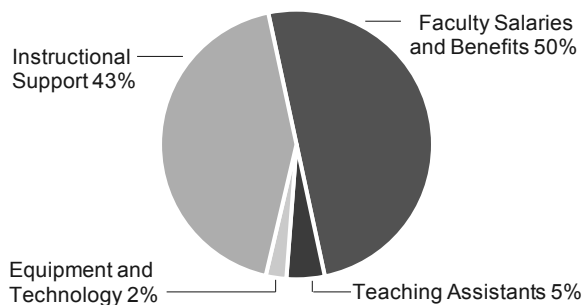
¹ The San Francisco campus exclusively offers health sciences programs, which are discussed in the *Health Sciences Instruction* chapter of this document.

Display IV-1: 2012-13 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 nearly 75% of funding for general campus instruction.

Display IV-2: 2012-13 General Campus Instruction Expenditures by Category



Half of expenditures in general campus instruction are for faculty salaries and benefits.

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. The University establishes eligibility criteria designed to identify the top 12.5% of the high school class and guarantees 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 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 the Merced campus. Both the overall need for enrollment growth funding and the need to continue expansion of Merced are discussed later in this chapter.

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 more than 50 years. Legislative reviews of the Master Plan have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students. Unfortunately, the State’s inability to provide sufficient resources to ensure access has placed the Master Plan commitment in jeopardy. The University cannot continue indefinitely to meet its Master Plan commitment without adequate resources.

As discussed in the *Historical Perspective* chapter of this document, many of the actions the University began taking during the fiscal crisis to continue its commitment to access under the Master Plan are of necessity short-term and not sustainable. If the University is no longer able to maintain the level of excellence in its academic program that has long been the University’s hallmark, then guaranteeing “access” will become an empty promise to the students who have worked hard to be eligible to attend. It is access to the quality of a UC education that these students seek.

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 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 enrollments have not kept pace as intended in the Master Plan or with comparable research institutions.

In 2013, as part of its ongoing academic planning efforts, UC began developing new long-term enrollment projections

CALIFORNIA'S MASTER PLAN FOR HIGHER EDUCATION

In exchange for the higher education segment agreeing to differentiate functions and admissions pools and to reduce programmatic duplication, State government and taxpayers agreed to fully fund higher education.

Differentiation of function

- UC (10 campuses) – high-cost doctoral education, expensive professional schools
- CSU (23 campuses) – bachelor's and master's level education
- CCC (112 community colleges) – lower division and basic skills education and workforce training

Differentiation of admissions pools coupled with principle of universal access

- UC and CSU are to take all eligible students in the top one-eighth and one-third, respectively, of California public high school graduates, reducing the number of undergraduates educated at the more expensive four-year institutions and diverting them to the community colleges.
- CCCs are to admit any student capable of benefiting from instruction.
- Any CCC student has the opportunity to become eligible for four-year instruction.
- UC and CSU give eligible CCC students priority in admission.

Affordability

- A commitment to the principle of tuition-free education to California residents has been replaced in the last few decades with moderate tuition accompanied by extremely robust financial aid policies.
- Student aid helps ensure finances are not a barrier to higher education and that financial aid is portable to any institution in the state.

Challenges to the Master Plan

- The State can no longer afford to fund the plan, not holding up its statutory requirement to fund adequate spaces for eligible students or to build physical capacity.
- The distinctiveness of segments' missions have blurred as the segments struggle with reductions in State support.
- The coordinating entity was ineffective and eliminated by the Governor, leaving the opportunity and challenge for the segments to coordinate on their own.
- Eligibility rates lag for underrepresented groups, presenting diversity challenges.

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 the last ten 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.

The University's previous long-term enrollment plans called for significant annual enrollment growth 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. While most university enrollment at other institutions in the country remained fairly constant, UC was growing by 5,000 students or more each year for more than a decade. This unparalleled growth has now subsided and more modest growth is anticipated in the coming years.

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. Projections of California and U.S. workforce needs for individuals with bachelor's and more advanced degrees indicate a growing attainment gap if California continues on its current course. Accelerated growth in graduate enrollments, particularly in sciences, engineering and mathematics, and professional disciplines would help to meet California's workforce demands, fuel its economy, and provide social and economic mobility.

While many of the goals of the past long-term enrollment plans 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 to UC during the last several

years, actual enrollment growth and admissions patterns have diverged from the projections for several reasons:

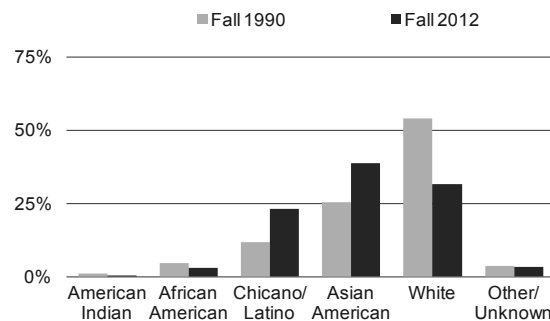
- Demand for undergraduate education at UC has grown in spite of budget cuts and tuition increases, due in part to greater than expected growth in the size of California high school graduating classes.
- In the absence of State support for California residents, UC campuses have been reaching out to and enrolling more undergraduate nonresidents. At the undergraduate level, the increase in nonresidents paying Nonresident Supplemental Tuition generates additional revenue that allows campuses to continue to serve California residents.
- Projections for growth in graduate and professional programs were optimistic and aspirational in the earlier plans. The greater use of Professional Degree Supplemental Tuition helped accommodate professional growth, but expansion of academic graduate programs has proceeded at a much slower rate than planned.
- Two major changes to UC's funding model have altered the landscape. The Funding Streams Initiative allows campuses to keep most revenues they generate and thus creates incentives for enrollment growth. Rebenching ties State funds to weighted student enrollment and approved enrollment targets. Both of these initiatives are briefly described in the *Sources of University Funds* chapter of this document.
- Continued deterioration of the state's fiscal situation has been accompanied by large reductions in State funding for the University.

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, the University is developing a new long-range enrollment plan through 2020-21. Based on initial proposals from the campuses, the University expects modest growth in California resident undergraduates, with many of those enrollments at the Merced campus. All campuses are concerned with aligning enrollments and resources, and many are proposing significant nonresident undergraduate enrollment growth as a means of preserving quality for all students. The campuses remain interested in increasing graduate academic enrollments, particularly those that have a low proportion of graduate academic doctoral students. Graduate professional programs, both State-supported Professional Degree Supplemental Tuition-charging programs and self-supporting programs, are anticipated to grow. These programs generate additional revenue for their academic departments, helping to support

Display IV-3: Characteristics of Fall 2012 Undergraduate Students

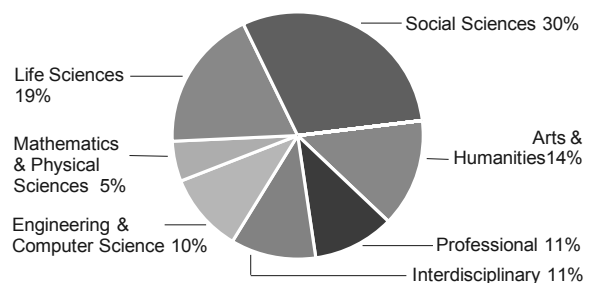
Headcount Enrollment	183,498
Female	53%
Underrepresented minority	25%
First-generation college students	41%
Full-time students	97%
California residents	91%
Domestic nonresidents	4%
International students	5%
Upper division	61%
Lower division	39%

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



Since Fall 1990, the proportion among UC undergraduates of Chicano/Latino students has doubled and the proportion of Asian American students has risen more than 150%.

Display IV-5: 2012-13 Bachelor's Degrees Conferred by Broad Discipline



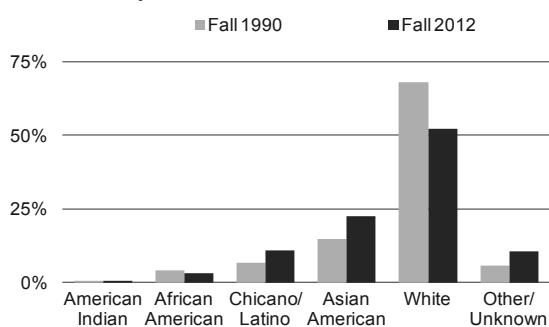
In 2012-13, UC undergraduates earned 49,000 bachelor's degrees. One-third was earned in sciences, technology, engineering, and mathematics. Social sciences remains the most popular discipline among UC undergraduates.

academic quality for all students. As the campuses and the UC Office of the President develop the new systemwide long-range enrollment plan, the University will endeavor to preserve access, affordability, and quality within the constraints of its resources.

Display IV-6: Characteristics of Fall 2012 Graduate Students

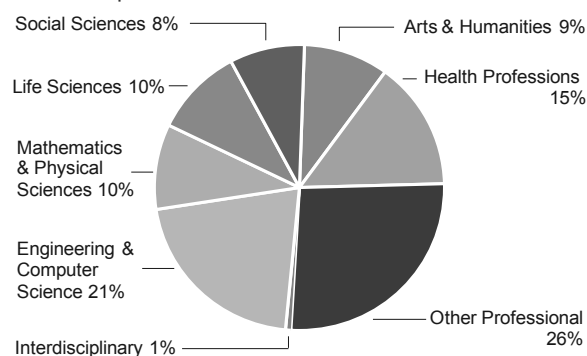
Headcount Enrollment	55,188
Female	46%
Underrepresented minority	12%
General campus majors	73%
Health science majors	27%
California residents	73%
Domestic nonresidents	10%
International students	17%

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



Since Fall 1990, the proportions of Chicano/Latino and Asian American students among UC graduates has risen more than 150% each.

Display IV-8: 2012-13 Graduate Degrees Conferred By Broad Discipline



In 2012-13, UC awarded 14,577 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	8,268
▪ Doctoral degrees	4,167
▪ Professional degrees	2,142

State Support for Enrollment Growth

Historically, the State provided 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 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 that the methodology is based on expenditures, the marginal cost rate does not capture the full costs of instruction.

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,

DILUTION OF STATE FUNDING

Accommodating enrollment without sufficient resources (as the student tuition and 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.

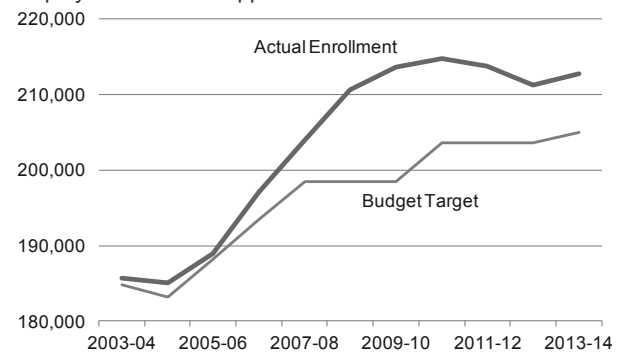
including growth of planned health science programs, was funded through an internal redirection of existing resources. As a result of this action and due to increased nonresident enrollment, the University’s enrollment has continued to grow since 2008-09.

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 enrollment was somewhat less than planned for freshmen (an average annual reduction of about 1,900 over the last four years) and the increase for transfers was somewhat more than planned (an average annual increase of 1,200 over the four-year period).

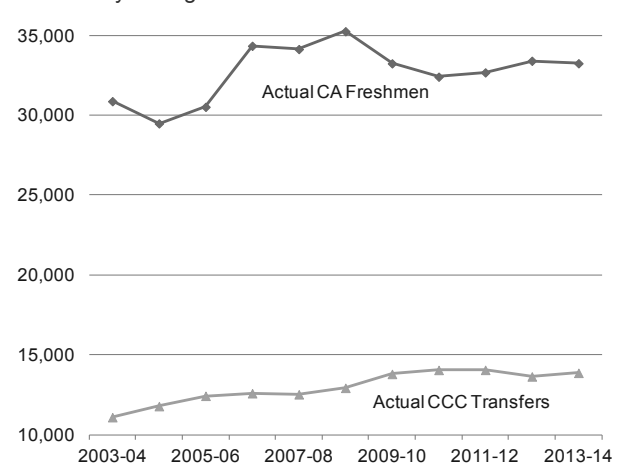
In 2010-11, the State budget provided \$51.3 million to support 5,121 FTE students at UC at a marginal cost rate of \$10,012, which was the last year the State provided funding specifically for enrollment. Since that time total enrollment of California residents has declined slightly.

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 four years between 2008-09 and 2012-13, 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.

The University's budget plan for 2014-15 includes a request for \$21.8 million in State funds above the base budget adjustment to support unfunded California residents, to contribute towards meeting California's workforce needs for additional highly educated graduate and professional students, to fund nursing and PRIME program expansion that has already occurred but not been permanently funded (discussed in the *Health Sciences Instruction* chapter of this document), and to continue enrollment growth at the Merced campus (discussed in more detail below). As described in the *Summary of the 2014-15 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 UC 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 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

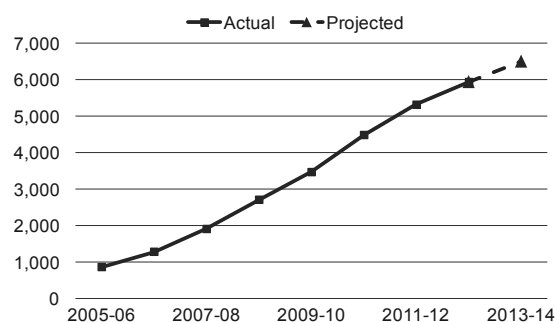
Student interest in the Merced campus has continued to grow since the campus opened eight years ago. It is anticipated that more than 6,500 students will be enrolled in Fall 2013. More than 18,000 students (freshmen and

transfers) applied for admission for Fall 2013, an increase of 14.2% over 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 UC Office of the President), the Merced campus has been able to 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 of the campus 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.

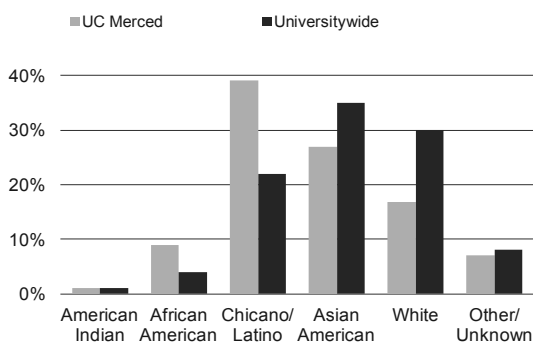
In 2012-13, 98% of the Merced campus' undergraduate class were California residents, and nearly 65% were members of underrepresented minorities. Close to one-third of the incoming undergraduate class came from the Central Valley region. Moreover, among freshmen, 59% receive Pell Grants and 65% are first-generation college students. These students will serve as role models for

Display IV-11: UC Merced FTE Student Enrollment



Enrollment at the Merced campus reached 5,939 FTE students in 2012-13. Interest in the Merced campus continues to grow.

Display IV-12: Fall 2012 California Resident Undergraduates by Race/Ethnicity



Among UC Merced undergraduates in Fall 2012, 49% are students from underrepresented groups.

others and help establish a college-going tradition in their families and communities.

Academic Innovation and Excellence

As a research university, the Merced campus is particularly focused on increasing the number of students in California who complete advanced degrees. In Fall 2013, the campus is enrolling more than 350 graduate students, and 88% of these are pursuing doctoral degrees. Graduate students work closely with distinguished Merced faculty on groundbreaking research across a wide array of disciplines.

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' 153 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.

Research

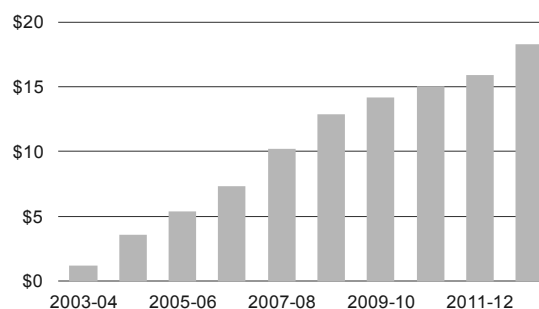
In terms of developing its research enterprise, the Merced campus continues to demonstrate remarkable achievement, attracting more than \$18 million in research award dollars in 2012-13.

Awards have been granted by a variety of federal, state, and private sources, including but not limited to the National Science Foundation, the National Institutes of Health, the U.S. Department of Agriculture, the Department of Energy, California Department of Water Resources, and a number

of private companies. Eighty-two percent of the total dollars awarded are federal. 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, the UC Solar Research Institute, and the Center for Information Technology Research in the Interest of Society. The newly created arm of the Blum Center for Developing Economies will increase the campus' direct research involvement with communities within the San Joaquin Valley. At the Merced campus, opportunities for undergraduates to become involved in research projects are a high priority. As with its 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.

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.

Partnerships with other UC campuses, Lawrence Berkeley National Laboratory and 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 \$924 million, and the economic impact of the Merced campus on the state totals nearly \$1.7 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 continued support for enrollment growth.

One of the Merced campus' greatest challenges for accommodating enrollment growth is sufficient and timely capital facilities development. The campus is faced with a growing gap between strong student demand for admission and the campus' limited capacity to provide the capital facilities and infrastructure needed to support that demand.

Development of the facilities necessary to accommodate 10,000 students, known as the 2020 Project, will require an investment of State resources. This investment is critical to the success of the Merced campus, its economic viability, and the ability of the University to provide access to all eligible resident students.

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 campus matures and as its research agenda continues to produce knowledge and innovations. 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.

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 2013 admission from nearly 100,000 California high school seniors, a one-year increase of 6.2%. 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 high school graduates for access to the University of California.

Admission Policies

The University strives each year to meet its commitment under the Master Plan to provide access to all eligible California high school graduating seniors who seek to attend UC. 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 and

2013 admission cycles 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 for California residents: 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 offered admission through the referral pool at one or more campuses with additional capacity. Currently, the Merced campus is the only campus offering admission through the referral pool.

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 2012-13 academic year alone, UC reviewed over 22,000 high school courses for UC and CSU eligibility. UC's "a-g" course lists, which include over 174,000 approved courses from 2,200 high schools, are widely used nationally and internationally; UC's A-G Guide 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. UC has increased the number of CTE courses meeting "a-g" standards to nearly 12,000 in 2012-13.

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.

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, UC'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's enrollment of new CCC transfer students has grown by one-third. In 2012-13,

UC enrolled 13,925 new California resident CCC transfer students, and the freshman-to-transfer ratio stood at 2.4:1. Reflecting the priority the University places on its transfer mission, then-President Yudof recommended increasing CCC transfer enrollments in recent years. Applications from California resident transfer students, however, have dropped by 6.2% over the past two years, possibly due to limited class availability at community colleges following budget cuts; therefore, the University maintained, but did not increase, its transfer enrollment targets for Fall 2013.

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 seven 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 also 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 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 14 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. A primary goal of the University, however, is that campuses ensure enrollment of nonresident students does not displace funded enrollment of California residents.

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 30% 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 revenue 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.

As noted previously, 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.

In 2010, the UC Commission on the Future recommended that UC actively pursue moderate increases in nonresident enrollment at the undergraduate level 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 19,200 undergraduate nonresidents, or approximately 11% based on preliminary estimates, expected for 2013-14, an increase of more than 3,300 over the prior year.

Nonresident demand and enrollment have risen at most campuses. At a special 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 raising nonresident enrollment. 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. Moreover, reducing nonresident enrollment would not guarantee one more place for a resident student. In fact, Nonresident

Supplemental Tuition enables the University to enroll more California residents because of the subsidy it provides. 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 2012, over 77,000 UC students participated in summer instruction, or nearly 15,900 FTE students.

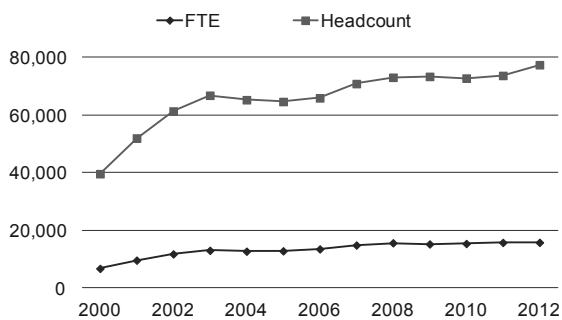
The key to achieving significant enrollment growth in the summer has been to offer summer instruction that is critical to student progress, along with essential student support services, access to libraries, and student financial aid. State funding for summer instruction has allowed campuses to provide 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 nearly 5,700 in 2012. 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 nearly 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 year term with summer, but rather are going year-round for two or more years. Students take 9.1 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.

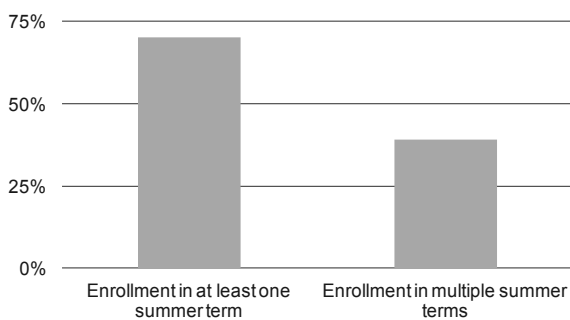
Declining State support has resulted in greater reliance on tuition and fee revenues, signaling a gradual return to a self-supporting model. As State funding has declined, the conversion to State-supported summer instruction has become more difficult to sustain.

Display IV-14: Summer Headcount and FTE Enrollment



FTE enrollment in summer instruction has grown by 133% since 2000.

Display IV-15: Summer Enrollment Patterns of UC Undergraduates



Among undergraduates who entered UC in 2007 and 2008, fully 70% enrolled in at least one summer term during their undergraduate careers, and approximately 40% enrolled in summer courses during more than one year.

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 an estimated 193,000 FTE in 2013-14, more than 290% over 49 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 an estimated 35,200 FTE in 2013-14, only 76%, 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 an estimated 15.4% in 2013-14. Graduate enrollments are expected to grow along with undergraduate enrollments over the next several years.

The graduate student percentage of total enrollment has remained essentially flat in recent years though graduate enrollments in raw numbers have risen. 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 that 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 tuition and fees in recent years have exacerbated these problems.

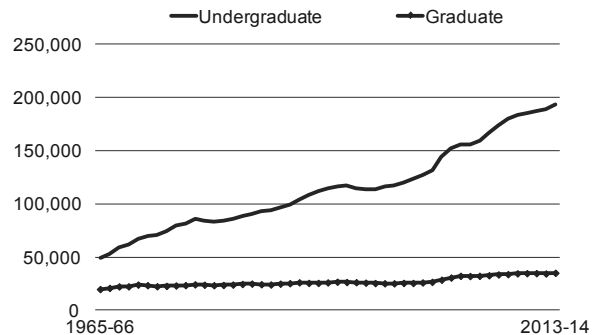
Graduate enrollments in high-quality UC programs are critical to the state's economic, as well as its social and cultural development. In addition, UC graduate students play a vital role as future faculty in higher education in California, and help enhance the quality of the instructional and research 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.

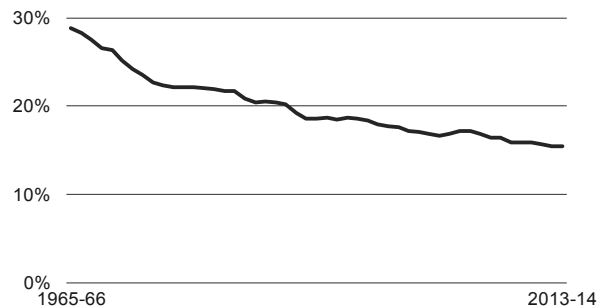
UC graduate programs directly contribute to California's R&D-intensive industry sectors by supplying highly trained alumni and attracting industry to California. Companies in knowledge-based industries tend to form clusters around major universities to take advantage of access to the pool of specialized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

Display IV-16: Undergraduate and Graduate General Campus FTE Enrollment



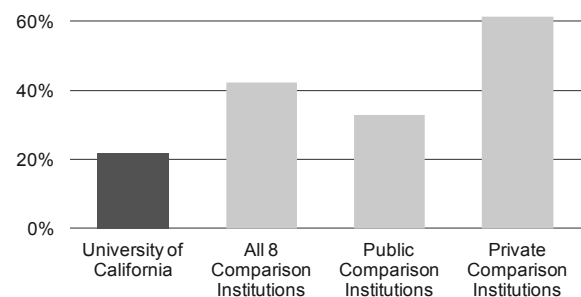
Since the 1960s, UC's undergraduate enrollment has grown rapidly, but graduate enrollment has not kept pace. While undergraduate enrollment has grown over 290%, graduate enrollment has grown less than 80%.

Display IV-17: 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 15% in recent years.

Display IV-18: 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.

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's 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 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 2012-13, UC attracted significant percentages of students with prestigious fellowships: 19% of NSF fellowship recipients and 27% of Ford fellowship recipients chose to attend UC. 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 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

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

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 — 74% 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 ensuring 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 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 of California has been actively engaged in providing online learning opportunities to students for decades, and in 2012-13, approximately 92,000 enrolled in close to 3,400 online courses.

Most of these online courses were offered through UC Extension, which provides continuing education opportunities rather than undergraduate or graduate degree

programs, as described in the *Self-Supporting Instructional Programs* chapter of this document. Recently, UC has begun to emphasize providing enrolled students with flexible and innovative learning opportunities that count towards degree requirements. Approximately 120 cutting-edge, academically rigorous courses are offered currently to undergraduates for credit, with many additional courses in development. Like UC's in-person classes, these online courses are offered by campuses primarily to their own students. Most are not yet routinely available systemwide.

Additionally, the University offers five online advanced degree programs. The programs include a Master of Public Health and a Master of Advanced Studies in Integrated Circuits at the Berkeley campus, a Master of Science in Engineering at the Los Angeles and Riverside campuses, and a Master of Advanced Studies in Criminology at the Irvine campus. UC's top-ranked graduate and professional programs also offer online executive education and are actively developing more online degree programs.

Building upon UC's experience in online education and based in part on the recommendation of the UC Commission on the Future, the University launched the Online Instruction Pilot Project in 2010. The first course was offered in January 2012 at the Merced campus and today the program (now known as UC Online Education, or UCOE) has produced over 25 online for-credit courses that have enrolled nearly 3,000 UC students.

Launched in January 2013, the Innovative Learning Technology Initiative (ILTI) is led by the UC Office of the Provost, the Academic Senate, and UCOE. Using \$10 million in State funds dedicated to online education at UC, this initiative will:

- Significantly expand the number of online undergraduate courses offered during the regular academic year, prioritizing online offerings that will ease enrollment bottlenecks and allow students to progress through their studies without delay.
- Develop the infrastructure that will enable any UC student to find and enroll in technology-enhanced courses across the system (i.e., cross-campus enrollment). A pilot effort in Spring 2014 will enable students at several UC campuses to enroll in select online courses at campuses other than their own. This effort will expand over several years to become a universitywide system that allows any UC student at any

campus to enroll seamlessly in a wealth of online course offerings.

Individual campuses also are developing innovative online approaches to enhance teaching and learning; for example:

- At the Los Angeles campus, traditional academic departments have partnered with the school of Theater, Film and Television to create online summer session classes that use sophisticated filmmaking techniques to make classes engaging and support students' learning.
- In 2012, the Berkeley campus joined Harvard and MIT as a lead partner in edX, a massive open online course (MOOC) provider. The Berkeley campus is supplying the technological innovation to facilitate grading in courses with very large enrollments such as are typical in MOOCs. The campuses at Irvine, San Francisco, and Santa Cruz have entered partnerships with Coursera to offer MOOCs.
- Earlier this year, the Irvine campus made freely available on YouTube the video recordings of every undergraduate lecture students take to complete a degree in its top-ranked chemistry program. The Irvine campus' School of Physical Sciences is extending the project to other

majors including mathematics, physics and astronomy, and earth system science.

- UC faculty have developed many classes based on a "hybrid" model that mixes multimedia online content with face-to-face interaction. The San Francisco campus offers a nursing degree that relies extensively on online education while also including traditional instruction. The Davis campus has created the Provost Hybrid Course Award, now in its second year, to support development of four to six hybrid courses yearly.
- UC also is using online learning to advance K-12 education. Launched last fall, UC Scout (the successor to a decades-old online initiative, UC College Prep, with similar purposes) provides cutting-edge honors and "a-g" courses for students and schools that lack access to such classes. More than 1,000 students have completed the courses, and another 1,000 are enrolled for the Fall 2013 term.

As UC moves forward with online education, it continues to evaluate what is most effective and how best to use the online environment to support and enhance student learning.

“UC educates 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 asthma, cardiovascular disease, 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 healthcare professionals; to improve healthcare outcomes through state-of-the-art research; and to deliver high-quality health services in California and worldwide.

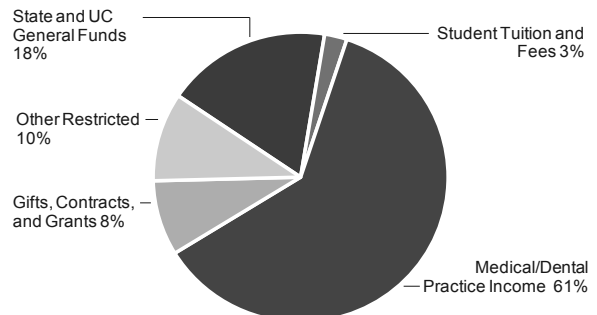
FUNDING FOR HEALTH SCIENCES

The 2013-14 budget for health sciences instruction is \$1.9 billion, of which \$403 million are designated as 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.

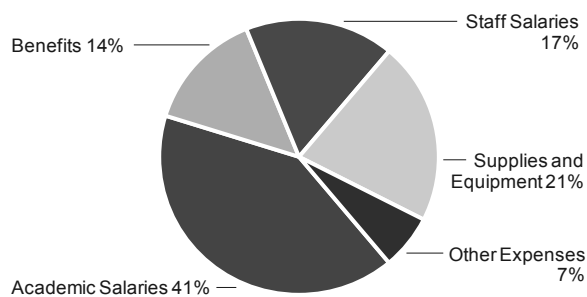
Because of the high costs associated with health sciences education, State support for these programs remains a critical resource. As a result of substantial multi-year budget cuts, however, other revenue sources have become

Display V-1: 2012-13 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: 2012-13 Health Sciences Instruction Expenditures by Category



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

more essential. Physician and other professional service fees, and increasingly, Professional Degree Supplemental 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. Although schools have accelerated efforts to address rising tuition by increasing scholarship funds, the collective impact of these rapid increases raises serious concerns about the unprecedented rise in educational debt for UC graduates, and continued efforts will be required to contain costs, maintain and enhance access, and reduce the debt load of UC graduates.

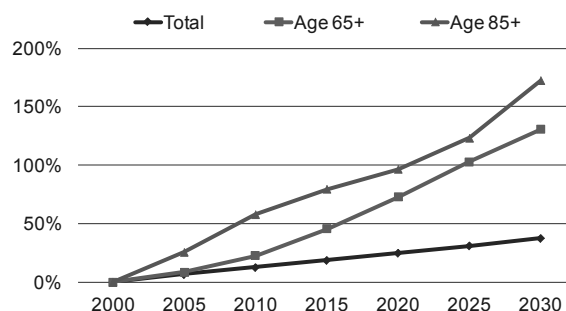
HEALTH SCIENCES INITIATIVES FOR 2014-15

For 2014-15, the University's health sciences budget priorities include securing permanent State support for two major health sciences instruction initiatives: PRograms in Medical Education (PRIME) and nursing. While enrollment growth in other health professions is also needed, the University is deferring these initiatives until the budget outlook stabilizes.

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 population will grow even more rapidly, with the population age 85 or older growing by 170% 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 very little new capacity in health sciences programs for more than four decades. In fact, only recently has the University increased medical student enrollment through PRIME and nursing enrollments through modest growth in existing programs and development of new ones.

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%.

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 healthcare professionals in most areas of the state and noted that gaps in access to care are widening.

In response to these findings, then-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 professions: 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, beginning with enrollment 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 some new programs be developed over time.

In recommending these 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 38 million residents. As the most populous and most ethnically and culturally diverse state in the nation, California faces unique challenges in improving access to care and health outcomes for its citizens. In both urban and rural communities, challenges associated with inadequate access to care and resulting health disparities stem from multiple factors, including geographic maldistribution of clinicians, lack of insurance, low socioeconomic status, limited English proficiency, and low health literacy. 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 substantial shortfall of physicians and other healthcare workers.

In 2004, UC launched a major new systemwide medical education initiative, PRograms In Medical Education (PRIME). PRIME offers innovative training programs focused 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. Because students who enter medical school with an interest in caring for underserved communities as part of their future careers are more likely than other students to practice in such communities, UC PRIME programs are also expected to help address regional health shortages.

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 healthcare.

PRIME-LC (Latino Community) at Irvine

Emphasizes Latino health issues, including increased proficiency in the Spanish language and Latino culture.

PRIME (Diverse Disadvantaged) at Los Angeles

Trains physicians to provide leadership and advocacy for improved healthcare 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 healthcare 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.

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 336 medical students who participated in UC PRIME programs in 2012-13, 60% are students who come from groups underrepresented 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 enrollment growth in PRIME have not been provided since 2007-08. However, in order to sustain 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 undermines much-needed efforts to address California's physician workforce needs by increasing the total number of medical students that UC trains.

As of 2013-14, UC will enroll 247 MD students and 61 master's students in PRIME for whom no State support has been received. UC's budget plan for 2014-15 includes \$21.8 million for systemwide enrollment growth and support of unfunded students. Full funding of unfunded PRIME enrollments totals \$6.2 million, which is planned to be phased in over four years beginning in 2014-15.

NURSING PROGRAM EXPANSION TO MEET WORKFORCE NEEDS

Virtually all Americans will require nursing care at some time in their lives. The recent nursing shortage raises concerns that must be addressed in California and nationwide, especially in light of national healthcare reform and the expected substantial increase in numbers of Californians who will have health insurance in 2014.

Notwithstanding recent efforts by former Governor Schwarzenegger'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 (743.1 versus the U.S. average of 920.9 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, including some areas of California, as some nurses delay retirement and others work longer hours.

Although the nursing workforce is showing signs of stabilizing, workforce analysts caution against assuming the nursing shortage has been fully addressed. In the future, as the economy recovers and the unemployment rate declines, an estimated 118,000 nurses are expected to leave the profession, which will leave still more 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. In recent years, the healthcare industry has seen increased demand for nurses with bachelor's degrees. To better understand why some newly licensed registered nurses were having difficulty finding employment, a third annual statewide survey of new nursing graduates at all degree levels was conducted in Fall 2012. Among respondents, 35% 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 plans to expand the program with an initial cohort of PhD students in Fall 2013.

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, some support was provided through temporary federal Workforce Investment Act (WIA) funds for enrollment in 2010-11.

A baccalaureate-level nursing program is also planned for the future. When full enrollment is reached in all Davis 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 nursing programs at other UC campuses. This condition was endorsed 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, which has not yet been provided.

Workforce Investment Act. Because of a strong demand for UC-educated nurses, the California Labor and Workforce Development Agency and the University developed a proposal in which, beginning in 2009-10, approximately \$12 million in new, one-time federal Workforce Investment Act funding would be provided over five years to enable UC to train and graduate a one-time increase in new California nurses.

Although UC's four participating campuses fulfilled their commitments to admit and train these new students, 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. UC was also informed that there was considerable uncertainty regarding the availability of any future WIA funding for the remaining two years of the formally approved plan. Ultimately, the University received only 51.2% of the funds committed by the State for this five-year initiative, resulting in a \$5.8 million shortfall. At this time, no additional Workforce

Investment Act funds are anticipated. UC's nursing campuses are working with each other and the UC Office of the President to align enrollment levels with available resources. If the State wants further enrollment growth in this area, sufficient resources must be provided to help support these programs.

Funding for Nursing Programs. The University has requested State support for 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 six years, no permanent State funding has been provided.

For 2014-15, the University's budget plan includes \$21.8 million to support unfunded enrollments. To permanently fund 150 unfunded baccalaureate level nurses and to provide funding for 136 graduate-level nurses would total \$3.6 million. 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.

THE 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 healthcare crisis due to a shortage of physicians, nurses, and allied health professionals. These shortages will worsen without expanded opportunities for growth in 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 also described in the *Teaching Hospitals* chapter.

The newly opened School of Medicine at Riverside, the first new public MD-granting medical school to open in California in over 40 years, will help meet healthcare needs in the state and in the Inland Empire region by expanding access, educating physicians who are likely to enter residencies and practices in the region and state, training a

culturally competent and diverse physician workforce, and undertaking research that will help improve the health of people living in the region.

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

- 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 accessible, 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 startup 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 2012-13, the University utilized funding from the County of Riverside, the UC 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.

In 2012-13, the UC Riverside School of Medicine secured the required preliminary accreditation from the Liaison Committee on Medical Education (LCME) to recruit and enroll its first class of 50 students in August 2013.

In 2013-14, the legislature and Governor redirected \$15 million from the University's base budget augmentation to fund start-up activities and to provide a secure base of recurring resources needed to open the new school. Permanent core support from the State will remain 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; and service by provision of clinical services to a medically underserved region and by expanding student pipeline programs. While this funding helps in starting the first phase of the establishment of the medical school, additional State funding will be required to support growth to 320 students by 2020-21, and additional funding will be necessary to support the full build-out of the medical school, currently targeted at 600 students.

State funding enables the school to hire the additional faculty necessary to deliver the curriculum to a greater number of medical students than the Riverside medical program has previously taught, develop the third- and fourth-year educational platform for medical students (which previously took place at the Los Angeles campus), and build new graduate medical education programs to provide the post-MD training required for physicians to become fully independent and board-certified. Toward this end, during 2013-14, the Riverside School of Medicine is continuing to expand both its basic science and clinical science faculty.

The school has additionally made significant progress on two of its other key strategies for retaining physicians in the Inland Empire – expanding student pipeline programs to prepare more of the region's students for careers in medicine and health, and building new residency training programs. These strategies address the two principal determinants of where a physician practices: where he or she grew up and/or finishes residency training.

With a \$3 million grant over two years from Kaiser Permanente Southern California, the Riverside School of Medicine is expanding existing and developing new student pipeline programs for students from the middle-school level through undergraduate college education. Together, these programs comprise a continuum of student enrichment and academic support programs of a pathway leading up to and into medical school.

The medical school is also working with its affiliated hospital partners to expand residency training slots in the Inland Empire. Receiving accreditation from the Accreditation Council for Graduate Medical Education

(ACGME) as a sponsoring institution allows the program to develop and manage multiple residency training programs. A new primary care general internal medicine program, offering 12 slots annually, was launched in July 2012 at the Riverside County Regional Medical Center in Moreno Valley. The school has also received accreditation to begin a primary care pediatrics residency track in collaboration

with Loma Linda University in 2014, supported in part by a grant from First 5 Riverside. Applications to launch a new family medicine program in the Coachella Valley, supported in part by the Desert Healthcare District, and a psychiatry program in the Riverside area have already been submitted.

“The opportunity for a UC education doesn’t end after college. Self-supporting graduate programs, University Extension, and summer sessions offer students of all ages and professions continuing opportunity for learning.”

*Aimée Dorr
University of California
Provost*

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 2012-13, University Extension expenditures, derived from student fee revenue, were \$243.9 million. As UNEX is a self-supporting unit, this revenue is used to cover all instructional and overhead expenditures.

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 over 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 areas such 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 global community.

Extension credit programs are reviewed and presented through policies established by the UC Academic Senate. While they do not offer degrees, Extension programs provide transferrable degree credit, professional development, and personal enrichment classes, as well as public service programs to matriculated and non-matriculated domestic and international students and corporate and non-profit agencies and organizations. Various undergraduate and graduate degree credit courses are available, either as equivalents of existing UC campus courses or structured as undergraduate classes but with content not found in an existing campus offering. Extension courses explore history, literature, and the arts in traditional and innovative ways, providing cultural enrichment to Californians. Extension also serves UC’s public service mission through organizing 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, 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.

Self-Supporting Instructional Programs

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. Declining State support has resulted in cuts to some summer programs and greater reliance on tuition and fee revenues, signaling a gradual return to a self-supporting model. Further discussion of State-supported summer instruction may be found in the *General Campus Instruction* chapter.

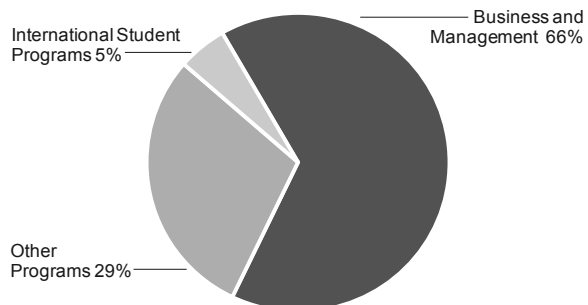
Funding for non-UC students remains in the summer sessions budget. In 2012, out of about 88,000 total students, 10,770 non-UC students registered for UC summer sessions, many of whom are regularly enrolled at California State University, California Community Colleges, or other institutions. Non-UC students may pay higher fees to help support the cost of their education, and are not eligible for financial aid. In 2012-13, approximately \$17 million of summer sessions expenditures were funded from non-UC student tuition and fees.

SELF-SUPPORTING DEGREE PROGRAMS

The University operates about 60 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 to 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 programs are administered through University Extension (though degrees are granted by the department), while others are administered directly by professional schools or academic departments.

Display VI-1: 2012-13 Self-Supporting Program Headcount Enrollment by Discipline



Approximately two-thirds 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.

When UC was receiving adequate State support to expand graduate academic and professional programs in response to state and societal needs, self-supporting programs at UC were directed towards working adults and other non-traditional student populations and were limited to part-time or alternatively scheduled programs. Given the decline in State support, the University revised its policy on self-supporting programs in 2011 and is again revising it this year. The policy revisions recognize that self-supporting graduate professional degree programs are now a necessary educational strategy to allow the University to serve a greater number of students above and beyond that which State resources will support. The 2011 policy no longer requires self-supporting programs to be part-time or alternatively scheduled. Among other things, the new policy will address the very limited circumstances under which a State-supported graduate professional program can convert to self-supporting status.

During 2012-13, more than 4,500 students (about 3,800 FTE) enrolled in self-supporting programs. These programs generated over \$130.9 million in revenue during 2012-13.

“UC’s world-class research creates an environment of high expectations and that brings distinction to everyone in the University and gives its students exceptional training to succeed in a constantly changing world.”

Steven Beckwith

University of California

Vice President for Research and Graduate Studies

Research

UC research plays a unique role in California: UC alone is charged by the state with developing world-class research universities that serve as its research arm. By focusing on this mission, UC has developed the largest number of highly ranked research campuses of any system in the world. UC campuses routinely place among the top five institutions internationally under many different ranking systems. UC’s graduate students, postdoctoral scholars, faculty, and professional research staff are among the best in the world in their respective fields. They are adept at producing works of art, finding solutions to the most pressing social issues, and pushing the boundaries of science and applying that knowledge to find new cures for disease, develop technologies that produce new industries, change the management of the environment, and train the next generation of innovators. UC has more winners of the Nobel Prize, more Pulitzer Prize recipients, and more members of the National Academies of Science, Engineering, and Medicine than any other university system.

Spanning the full spectrum of academic and professional disciplines, UC research and creative works are of enormous benefit to California. The University’s 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 urgent 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: UC performs about

8% of all academic research in the United States and secures eight times as much extramural funding for research as the State invests, providing substantial direct and indirect stimulus for the economy.

California’s support for UC’s research capabilities is a long-term investment that has done very well even during times of economic difficulty. However, these capabilities are now under threat by the State’s disinvestment in higher education over the past two decades and increasing global competition for the world’s best researchers. While UC faculty members have been extraordinarily successful at attracting federal and private funds to California, these funds will disappear if the faculty are lured away by institutions with more reliable financial structures or substantial endowments, or if the University is less able to attract pre-eminent researchers and graduate students from around the world. 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 knowledge- and innovation-driven economy.

THE RESEARCH MISSION AND ITS VALUE TO THE INSTRUCTIONAL PROGRAM

The research mission is a defining element of UC and is inextricably tied to the University’s instructional and public service programs. Research sets UC apart from other public higher education institutions in California, and offers unique opportunities to experience cutting-edge academic programs to those students who work hard to qualify. Indeed, UC’s unique strength among national university systems is its distributed excellence across all campuses: six of the nine eligible UC campuses are members of the prestigious American Association of Universities. The nation’s top undergraduate and graduate students alike pursue an education at UC because of the excellence of its faculty and reputation of its academic and professional

programs, which stem largely from the success of its research enterprise.

The strength and high quality of UC's research programs are built on the foundation of its world-class faculty. To be successful at UC, not only must faculty be effective teachers and mentors, but they must also be well-regarded researchers, scholars, and creators. Throughout his or her UC career, a faculty member's research and scholarly activity must demonstrate superior intellectual attainment on a consistent basis. Adherence to these goals has created a robust, enterprising research culture that touches almost all aspects of University life, brings in billions in federal funding to the University, and attracts the best students in the world to learn and work in California.

Students experience research both in and out of the classroom. For graduate students, research conducted in labs, field stations, art studios, and other settings are at the root of their development as researchers and scholars. In formal instruction, faculty research is an important foundation for the entire undergraduate curriculum, exposing undergraduate students to not only the basics of a discipline but also the overarching questions, the latest findings, and the methods by which scholarship is carried out. Outside of formal instruction, undergraduate students have the opportunity to conduct research and original inquiry. Indeed, the 2012 UC Undergraduate Experience Survey found that 82% of senior undergraduates had participated in research or other creative activities with faculty as part of their coursework. Research experienced directly and indirectly helps develop the critical thinking, communication, and problem solving skills, as well as domain-specific knowledge, that is required more and more for citizenship, for participation in increasingly diverse and international communities, and for employment in a knowledge- and innovation-driven global economy.

THE IMPORTANCE OF STATE INVESTMENT IN THE RESEARCH ENTERPRISE

To maintain and enhance its competitive advantage, UC's world-class research enterprise requires the best faculty and graduate students, state-of-the-art equipment and supplies, and well-maintained facilities. Although federal agencies directly provide for about half of UC research

expenditures (see Display VII-3), State funding investment is the basis for UC's research success and is 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 startup money to purchase equipment, staff laboratories, support graduate student research assistants, and maintain facilities to conduct cutting-edge research.

UC uses its State funds to attract exceptional graduate students, postdoctoral scholars, and professional researchers who work with the faculty. Each year, UC trains about 13,000 graduate student researchers and employs or hosts nearly 6,500 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.

The success of the University's researchers depends on access to high quality research facilities, many of which were financed using California state bonds. State funding, for example, provided the core support to build the California Institutes for Science and Innovation, four 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. (An extended discussion of the California Institutes for Science and Innovation appears at the end of this chapter.) Not only are such facilities used to conduct research, but they also serve an important pedagogical role as sites in which UC's world-renowned faculty train and mentor graduate, and sometimes undergraduate, students, who later enter the California job market and contribute to California's knowledge- and innovation-based economy.

UC researchers are very successful in bringing in external support for sponsoring their research. In 2012-13, UC won \$4.2 billion total in research awards, averaging about \$300,000 per award. 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.

IMPACTS OF UNIVERSITY RESEARCH

Strengthened by the State's long-term investment, UC research has 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 – agriculture, biotechnology, telecommunications, digital media, computers and semi-conductors, and environmental technologies – grew out of university-based research. UC's world-class faculty attracts and trains the graduates that make up one of the world's best-educated workforces. In addition, UC researchers produce creative works, 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.

Impacts on the Daily Lives of Californians

Continued State funding support is vital to support the breadth of research, which can best be provided by a comprehensive array of academic and professional disciplines found at a world-class research university like the University of California, needed by a knowledge- and innovation-driven economy. Indeed, UC's discoveries, development of new technologies, and creative works touch the lives of Californians and people around the world daily.

For example, UC medical research led to dramatic improvements in the diagnosis and treatment of diseases. 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. 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. In the not-so-distant future, genetic engineering technologies being developed at UC will help find cures for serious health problems, possibly such as cancer, Alzheimer's disease, cardiovascular disease, and arthritis.

In addition, 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 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.

UC's social science research is important to finding solutions to many of the problems affecting California's social and political well-being. Evaluation of Medi-Cal data is used to determine the impact of proposed health policy changes on the second largest and fastest growing component of the State budget in collaboration with the California Department of Health Care Services. Collaborative research between UC researchers and the California Air Resources Board is helping to develop a methodological framework required to evaluate the economic impacts of the cap and trade program and effects of environmental economics and policy. The development of an online, dynamic model of transportation, land use, and environmental quality in the Los Angeles Metropolitan Area allows UC economists, geographers, and environmental engineers to collaborate with planning organizations to forecast the effects of policy proposals related to land use, housing, transportation, and the environment. Other research on trade and economic development between California and Mexico helps forecast emerging trends in immigration, language acquisition, educational access that will impact the quality of life in the state.

Humanities research on the changing conceptions of work, how and where we work, what we think of as work, and changing conceptions of labor solidarity helps UC guide its students. California Studies interdisciplinary research asks what it means to be a Californian – culturally, economically, and politically – and what these concepts mean for California's citizens and the future of the state. Humanities research at the University of California has flourished across the system: many UC programs are at the top of

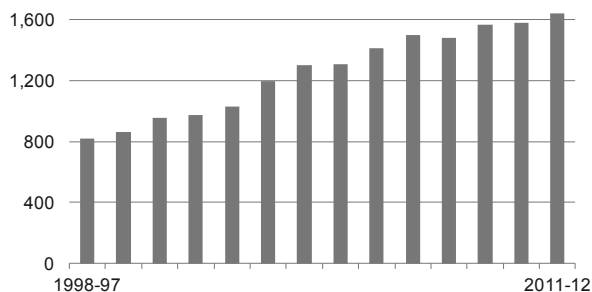
the National Research Council rankings for excellence in research. The UC Humanities Research Institute, a systemwide center based in Irvine, brings together the top thinkers from across the system to promote collaboration and develop new ways of linking humanities resources around the state, across the country, and internationally. Its collaborative approach to humanities research has brought in over \$1 million of external support from the Mellon and MacArthur Foundations who are interested in innovative approaches to research in the humanities.

Furthermore, interdisciplinary research conducted together by a mix of humanists, social scientists, and researchers in the physical and biological sciences are addressing real-world twenty-first century problems that do not fit neatly into any single academic discipline and require a more varied and comprehensive set of lenses. Much of the research connected to economic competitiveness requires large interdisciplinary teams. At the Los Angeles campus, for example, the Institute for Society and Genetics brings together researchers and professionals from a variety of disciplines to better understand the ethical, legal and societal impacts and applications of genetic and genomic research. The Institute sees public education as an important part of its work and has hosted numerous public outreach events. Additional examples of UC institutes addressing societal problems can be found at the end of this chapter.

From Research to the Marketplace and Job Creation

Investing in UC’s research enterprise helps stimulate the state economy not only through the application of new patents, but also through the formation of new jobs, companies, and industries. An important aspect of the University of California’s public service mission is to ensure that results of its research are used for public benefit. This transfer of knowledge into technology is accomplished in many ways: through educating students, publishing results of research, and ensuring that inventions of its researchers are developed into useful products for public use. For the past 20 years, UC has led the nation in obtaining patents; as of June 30, 2012, UC disclosed 1,638 new inventions (Display VII-1), the largest number among universities in the United States. In addition, UC’s faculty and graduates are responsible for 11,020 active inventions, an increase of

Display VII-1: UC Invention Disclosures



As of June 30, 2012, faculty and researchers at UC campuses disclosed a total of 1,638 inventions, a 3.6% increase over the prior year.

6.6% over 2010-11 levels. A portion of these inventions are patented and licensed to companies that further develop them into products that enhance the lives of Californians.

Because of the early stage of many UC technologies, they are often licensed to startup companies, which stimulate economic growth in the communities adjacent to UC campuses. In 2011-12 alone, 55 startup companies based on UC technology were founded nationwide, with 52 based in California. Since 1976, approximately 640 startup companies have been founded based on UC inventions, as shown in Display VII-2. Eighty-five percent of these startup companies were located in California and contributed 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, in 2011 UC created a \$3 million program to fund “Proof of Concept” proposals, which has been providing UC researchers the seed capital to make prototypes to attract investors who can further assist in the commercialization of UC research into viable products and services. Twenty-two “Proof of Concept” grants were awarded in 2012.

Display VII-2: Impact of UC Technology Transfer*

Royalty and Fee Income	\$98.4 million
UC Portfolio of Active Inventions	11,020
UC Portfolio of Active U.S. Patents	4,118
Number of Active Licenses	2,228
Companies founded based on UC technologies	~640

*as of June 30, 2012.

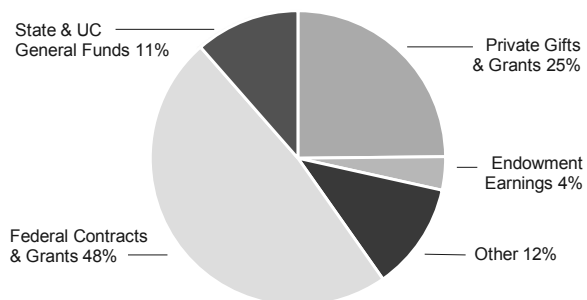
In addition to its use by startup firms, UC research has played a crucial role in the development of most of the state's successful industries. For example, the modern biotechnology industry was born from the discovery of recombinant DNA technology by scientists at the San Francisco campus and Stanford University. Furthermore, UC faculty and alumni have founded one-third of the biotechnology companies in California, and the state is home to approximately one-fourth of the U.S. biotechnology industry. In 2011, the biotechnology industry employed 269,997 people in California and generated \$114 billion in revenue.¹

For many decades, as a land-grant institution UC has also 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.

RESEARCH ENTERPRISE FUNDING

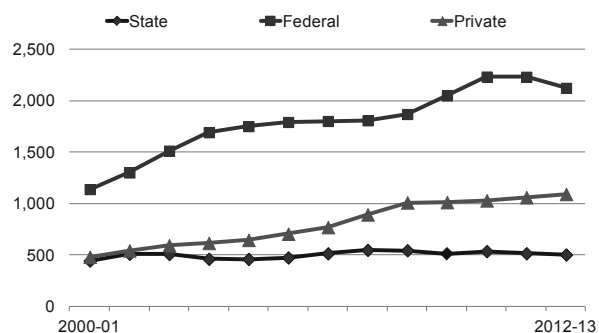
Direct research *expenditures* (contrasted with *awards* as discussed in the next section) totaled \$4.4 billion in 2012-13, a 2% decrease from the prior year.² Federal, State, and private sources are major providers of UC research funding. Federal agencies are the largest source of support for research, accounting for about half of all University research expenditures in 2012-13.³ Display VII-3 shows direct research expenditures by fund source for 2012-13, and Display VII-4 shows growth over time among the major providers. Display VII-5 presents trend data about research expenditures in the various disciplines.

Display VII-3: 2012-13 Direct Research Expenditures by Fund Source



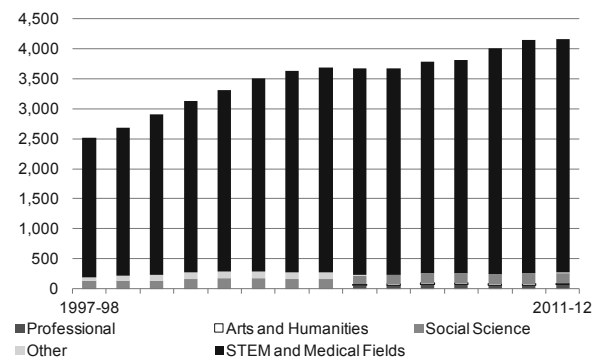
Nearly 75% of research funding is derived from federal agencies and private sources.

Display VII-4: Trends in Research Expenditures by Source (Dollars in Millions)



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

Display VII-5: Direct Research Expenditures by Discipline (Dollars in Millions)



Adjusting for inflation, expenditures for research in the medical fields have increased by 91% since 1998, compared to 47% for all other disciplines.

Federal Funds

UC is a leader among universities receiving research awards. The University was awarded \$2.5 billion in federal research funding alone in 2012-13. Awards from the National Science Foundation (NSF) and National Institutes

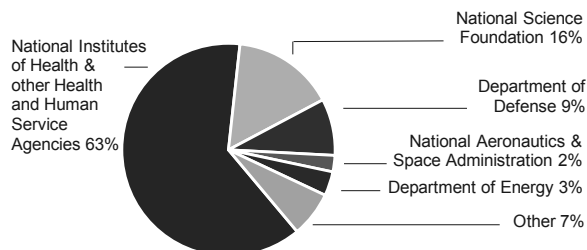
¹ 2013 California Biomedical Industry Report (<http://www.chi.org/industry-intelligence-and-analysis/>)

² This rate of growth differs from the rate of growth in extramural awards noted later, reflecting the multi-year nature of research grant awards.

³ In addition, approximately 10% of UC's research expenditures from non-federal funds originated as federal awards to other institutions and come to UC as subawards.

of Health (NIH) and other health and human services accounted for nearly 80% or \$1.95 billion of the University's federal research funding, with the Department of Defense (DOD), National Aeronautics and Space Administration (NASA), and Department of Energy (DOE) making up most of the rest. Historically, UC researchers competed successfully to win nearly 6% and 8% of the NIH and NSF R&D appropriations. Display VII-6 shows the distribution of federal research awards by agency.

Display VII-6: 2012-13 Federal Research Awards by Sponsor



Federal agency sources supply about 60% of all research awards. NSF and NIH and other health and human service agencies provide nearly 80% of federal research awards.

Federal funds are nearly all targeted at research in STEM (Science, Technology, Engineering and Mathematics) and medical fields (about 90% of the total each year during the past 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 to external research funding.

Owing 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. Display VII-7 provides a recent history of these funding fluctuations.

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 2013, UC researchers have been awarded \$1.1 billion in ARRA contract and grant funding for research and research infrastructure. Consistent with overall federal

Display VII-7: 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 9/11 terrorist attacks, 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 \$464 million in 2011-12. This reflected the slowly improving economic climate and suggested reinvestment in academic research and development.
2012-13	The sequester cuts about \$3.5 billion in federal academic research support nationwide, a reduction of about 7%. This translates to an approximate \$175 million decline in federal research funding for UC and an additional decline of \$25 million in non-research contracts and grants. This decline will be further compounded as the deadline for spending ARRA funding was September 2013.

research funding, the largest amounts of ARRA funding awarded came from NIH and NSF. Many awards were multi-year, but all ARRA funds were required to be expended by September 2013.

In the most recent fiscal year, the sequestration of the federal budget has produced a sharp downturn in support for research at UC, strongly accelerating the problems caused by the absence of ARRA funds. Federal research at UC is down by \$346 million or about 12% for the year. This very pronounced drop in funding has an immediate effect on UC's ability to support graduate students and post-doctoral scholars, as well as pay for facilities that were developed under the assumption of continued federal support from contracts and grants.

Private Funds

Research investment in UC by private organizations has kept pace with federal funds as an important source of research funding. From 2000-01 to 2012-13, private support for research doubled. Private foundations, industry, and partnerships with faculty at other institutions contributed 25% of total research expenditures in 2012-13. The global economic recession caused a decline in new corporate awards, as shown in Display VII-8, but corporate support increased again during 2011-12, decreasing slightly in 2012-13, showing that the business community is reinvesting in UC research. Non-profit research sponsorship has been increasing since 2010-11, with a 26% increase for 2012-13. Among the largest non-profit awards came from the Bill and Melinda Gates

Foundation (\$13 million), the Gordon and Betty Moore Foundation (\$15 million), the Simons Foundation (\$33 million), and Microelectronics Advanced Research Corporation (\$33 million).

State Funds

In 2012-13, 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.

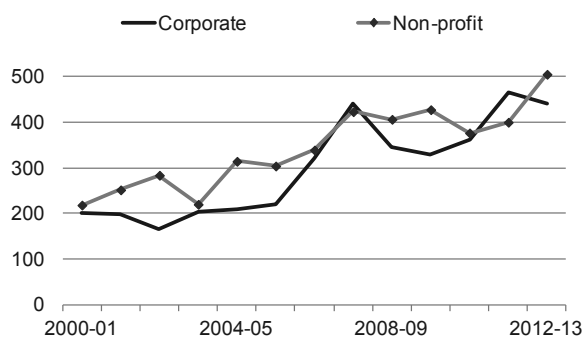
In 2013-14, State and UC General Funds are providing \$338.1 million for direct research, including:

- 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 are providing more than \$25 million in funding for a range of research initiatives, including a coordinated statewide program of tobacco-related disease research administered by the University (\$11.2 million for 2013-14), but available to researchers from other institutions on a competitive basis. Part of the State's tobacco tax supports the Breast Cancer Research Program (\$11.1 million). The State personal income tax check-off also supports the California Breast Cancer Research Fund (\$618,000) and the California Cancer Research Program (\$425,000).

California State agencies also provide contracts and grants to the University for research similar to federal awards. In 2012-13, expenditures from State agency sources were \$185 million. Major providers of State agency agreements are the departments of health care services, social services, transportation, food and agriculture, and education.

Display VII-8: Private Research Awards by Type of Sponsor (Dollars in Millions)



Corporate and non-profit sources account for nearly a quarter of all UC research awards. Corporate and non-profit awards are above pre-recession levels.

Department of Energy National Laboratories

UC oversees three Department of Energy (DOE) laboratories: the Lawrence Berkeley National Laboratory and two national security laboratories, Lawrence Livermore and Los Alamos National Laboratories. UC receives fees to manage the two national security laboratories and uses them to fund collaborative projects between UC and DOE laboratory researchers. The Lab Fees Research Program supports projects on a range of issues, including bioterrorism, nuclear nonproliferation, energy efficiency, and new energy resources. Collaborative research between UC and the DOE laboratories gives UC faculty and students 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 costs. The direct costs are those items that are easy to assign uniquely to a research project, such as the salaries of the researchers and equipment and materials that are uniquely used to conduct the research. Indirect costs cover the facilities and administrative expenses that are shared among many projects and thus are supported by the University.

At present, UC only recovers a portion of these indirect expenditures and has to subsidize the rest from other revenues. Its federal Indirect Cost Recovery (ICR) rates are estimated to run 5-18 percentage points below the true indirect costs of conducting research. Moreover, research projects funded by the State of California, corporations, foundations, endowments, and gifts often have policies that preclude payment of indirect costs at anything close to federal levels. 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 the Berkeley, Davis, Irvine, San Diego, San Francisco, Santa Barbara and Santa Cruz campuses have the potential to return an additional \$28 million annually in indirect costs above current rates.

PROTECTING THE STATE'S INVESTMENT

California's long-term investment and planning in support of 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 and undergraduate students, who will be the state's next generation of scientists, engineers, entrepreneurs, and leaders.

Numerous factors now threaten UC's research enterprise. The sequestration of the federal budget is anticipated to result in significant declines in federal research funding at UC, with immediate impacts on UC's ability to support graduate students and post-doctoral scholars, as well as pay for facilities that were developed under the assumption of higher revenue from contracts and grants. Not only is the cost of conducting cutting-edge research in science and engineering growing, but also the costs of compliance with extramural contract and grant requirements have risen rapidly as the federal government has added new regulations. In addition, the core support for the University's research staff and infrastructure has not kept pace with the amount of extramurally funded research. It is vital that the State protect and enhance its long-term investment to minimize harm to the University's ability to use its research enterprise to fuel the state economy and impact society.

SELECTED RESEARCH PROGRAMS

Demonstrating the vitality and strength of the UC research enterprise and its substantial contribution to the state and its economy, the rest of the chapter provides examples of currently or previously State-funded, key research programs.

California Institutes for Science and Innovation

In the early 2000s, the State, UC, and hundreds of pioneering 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 tackling 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.

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 startup 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 2012-13, the State provided \$4.8 million for support of the Institutes; this funding was supplemented by \$8.4 million from other UC sources, including both permanent and one-time sources. The Institutes continue to be a systemwide priority and, accordingly, base support for the Institutes will increase by \$7 million over this year and next. In 2013-14, total support for the Institutes is \$16.6 million: \$4.8 million in State support, and \$11.9 million in other UC funds.

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

By leveraging 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 UC faculty and their research. Below are some examples of the kinds of multi-campus research programs that use UC's unique combination of depth and breadth:

- 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 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 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 Institute is an initiative focused on the next generation of solar energy. Researchers from across the UC system 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 \$34 million annually in extramural funding, leveraging the core funding from the state's PTA account at a ratio of nearly 34:1. 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: the 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 strategically invest resources to reduce administrative overhead while focusing ANR programs and people on the future through its 2025 Strategic Vision. The 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 alternative funding sources to support its programs and to develop public-private partnerships.

Examples of research conducted by AES and CE scientists that help address challenges and inform policy include:

Innovation in Sustainable Agriculture. Scientists within ANR conduct research on conservation tillage and cropping systems to help foster resource-preserving and economically viable agriculture systems in California. These systems may contribute to greater production efficiencies, reduce negative environmental impacts, ease labor requirements, and result in more vibrant farm economies. For example, a long-term study from 1999 to 2011 found tillage costs were lowered an average of \$70 per acre (in 2011 dollars) using no-tillage compared to standard tillage in some crop systems while achieving statistically comparable yields. Other recent studies have shown no-tillage plus high-residue preservation practices reduce soil water evaporation in summer. Research on such practices can help improve water use efficiency, which is increasingly important as California agriculture confronts water shortages.

Innovation in Food Safety. Multi-state outbreaks of foodborne illness associated with the consumption of produce continue to occur in the United States. In an effort to resolve why many of these outbreaks have been traced to California commodities, CE specialists and CE advisors, working in partnership with Davis campus faculty, the Western Institute for Food Safety and Security, and the produce industry, have been conducting on-farm research on the biological sources and modes of transmission of pathogens such as *E. coli*. Such applied research has been the basis for considerable outreach to the produce industry regarding good agricultural practices that farmers can use to reduce microbial contamination of raw produce. In addition, this work has directly informed the content and metrics of the proposed Produce Safety Rule, which is a key part of the Food and Drug Administration's Food Safety Modernization Act.

Innovation in Natural Resource Management. ANR scientists are undertaking a three-part, multi-year, multi-disciplinary project focused on forest management and water yields, in collaboration with several non-profit agencies. The research assesses issues related to climate change, vegetation manipulation, and the forest water cycle in the Sierra Nevada Mountains of California. The Sierras harbor globally distinctive forest resources that deliver

hydropower and water supply to downstream users in California and elsewhere.

Innovation in Energy. Scientists within ANR are part of international collaboration involving four grants totaling \$12 million, jointly funded by the National Science Foundation and the Japan Science and Technology Agency. The ANR scientists' work focuses on furthering research on generating biofuels from algae. The ability to identify and characterize algae's compounds could lead to entirely new and potentially breakthrough approaches for increasing biofuel production and reducing pesticide use. Biofuels can have positive environmental impact, lessen dependence on foreign oil, and create green jobs.

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 the Institute for Labor and Employment (ILE) was first provided in 2000-01, when the state provided 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, 40% (\$2.4 million) was provided 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 has been reduced to \$1 million for each center. This temporary funding was entirely redirected from existing programs.

“UC goes beyond its campus borders to provide a variety of public service programs to the citizens of California.”

*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:

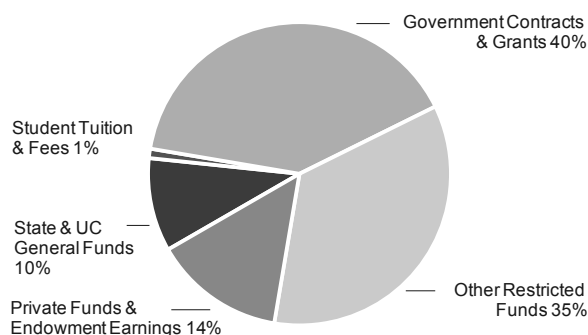
- Student Academic Preparation and Educational Partnerships,
- the California Subject Matter Project,
- COSMOS,
- Cooperative Extension,
- the Umbilical Cord Blood Collection Program, and
- the Charles R. Drew University of Medicine and Science.

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: 2012-13 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 2011-12 UC's 15 academic preparation programs reached students at more than 1,110 K-12 public schools and 112 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 65% 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 incomes of

¹ Data are from the most recent SAPEP legislative report (http://www.ucop.edu/operating-budget/_files/legreports/1213/2011-12sapeplegreport.pdf) and are from the 2011-12 year unless otherwise noted.

less than \$50,000, compared to about 50% of high schools statewide. In addition, 74% 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 2012, 10.6% of African-Americans and 14.4% 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, community-based organizations, and parents and families. For example, the University's K-20 (Kindergarten - University) Regional 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

² California Postsecondary Education Commission (CPEC) report: University Eligibility Study for Class of 2007. From 1983 to 2007, CPEC conducted six studies of the university eligibility of California high school graduates. The purpose of these studies was to estimate the percentage of California public high school graduates who meet the admission requirements of CSU and UC. The studies were conducted by collecting a sample of transcripts from high schools throughout the state. Statewide eligibility rates were estimated from this sample. The last eligibility study was conducted by CPEC in 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.

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. Alliances design systemic strategies for improving academic achievement and college and career readiness for the state's underserved student populations.

The University used these partnerships to implement the Transcript Evaluation Service (TES), which tracks

coursework progress and UC/CSU eligibility for 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.

A recent TES implementation study conducted by MPR Associates, Inc. presents evidence of the potential efficacy of TES, particularly for those schools that implement TES consistently for three or more years. The report also finds that UC application rates of graduates from TES schools increase in relation to years of participation, past the first two years. By year five, TES schools, on average, have experienced a 41% increase in graduates applying to UC compared to their base year.

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.

³ Detailed descriptions of each SAPEP program can be found in the most recent SAPEP legislative report, available at http://www.ucop.edu/operating-budget/_files/legreports/1213/2011-12sapeplegreport.pdf.

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 17%.

Consistent with budget act language, the programs in the SAPEP portfolio were not eligible for budget reductions in 2012-13 as the Governor’s revenue-enhancing initiative passed in November 2012 and no further cuts occurred to the University’s budget. These programs are also not eligible for budget reductions in 2013-14. The SAPEP budget is \$24.6 million in State and University funds in 2013-14.

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.

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 2011-12, programs leveraged the State and University investment of \$24.6 million by securing an additional \$37.2 million in support of K-20 efforts.

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 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 Scout** (formerly UC College Preparation), **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 more likely to complete the 'a-g' courses for UC/CSU eligibility. In 2011-12, 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 43% of non-participants; and
- Increased college attendance: 2012 high school seniors from UC's three largest college access and preparation

programs are enrolling in college at high rates in the first year after high school: EAOP (57%), MESA (60%) and PUENTE (63%).

Community College Transfer. SAPEP programs also promote transfer from community college to baccalaureate-granting institutions.

Community College Articulation Agreements are agreements between individual California 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 college course articulation and transfer information, provides counselors and students with detailed course transfer and articulation information to 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 California 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 2011-12, over 2.3 million different individuals used ASSIST to view articulation agreements over 14.7 million times. ASSIST stores over 110,000 community college-to-UC articulation agreements and nearly 205,000 CCC-to-CSU agreements;
- UC continues to simplify the transfer process for prospective students and counselors by implementing tools like the online UC Transfer Admissions Planner to help keep more students on-track to transfer successfully;
- Almost all of MESA's Community College Program participants transfer to a baccalaureate-degree granting college or university, and in 2011-12 100% of those students chose majors in math or science fields; and
- More than 81% of Puenta 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:

- Almost three-quarters (71%) 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 projects that provide rigorous training programs to enhance learning for all students. CSMP engages K-12 educators with faculty in all disciplines from UC, CSU, and independent higher education institutions to collaboratively design and deliver intensive institutes for education professionals that promote teachers' understanding of K-12 content and instructional strategies. CSMP includes projects in nine subject areas: arts, history-social science, international studies, mathematics, physical education-health, reading and literature, science, world language, and writing. The network reaches teachers and students across California through more than 90 regional sites located at university and college campuses statewide.

During 2011-12, CSMP served over 25,000 teachers and school administrators at more than 5,000 schools, nearly half of which were low-performing (based on the state's Academic Performance Index).

CSMP has worked with an external evaluator (SRI International) to understand the impact of professional development on teachers, professional learning communities, 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' learning (87%), engagement in activities (86%), and ability to explain their reasoning (64%).

State funding has remained at \$5 million since 2003-04 and an additional \$3.56 million is provided from the federal No Child Left Behind (NCLB) Act, Title II, Part A program. The federal funds figure includes 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 2013, 690 students, drawn from an applicant pool of over 2,800 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 2013-14 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 2013-14 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 related 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, described in more detail in the *Research* chapter of this document.). While both conduct research, CE is also ANR's outreach arm, extending ANR research to communities across the state.

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. Academic CE 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 websites.

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 multi-disciplinary 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 2013-14, the CE base budget is \$76 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 invest its resources to reduce administrative overhead while focusing on ANR programs and people in 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. 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. ANR continues to explore potential private-public partnerships to support CE programs, including funding of new, high priority positions to complement the agreements already established.

Following are just a few examples of scores of CE programs working to address challenges and inform policy:

Healthy Food Systems. Led by a CE farm advisor in Monterey County, plant pathology research garnered

national and industry recognition—receiving the 2013 Excellence in Extension Award given by the American Phytopathological Society. The research involves dozens of host crops, and many causal factors, such as fungi, bacteria, viruses, studies on disease development, and management options for growers. This research program prioritizes meeting the needs of the industry. For example, in response to the 2006 *E. coli* outbreak on California spinach, studies were conducted on *E. coli* and *Salmonella* ecology and survival under field conditions. CE resources on coastal plant pathology are being leveraged by Salinas Valley growers to assist in the identification of new plant diseases and control outbreaks.

Healthy Environments. Recent studies found widespread nitrate contamination in some of California's groundwater systems. ANR scientists quickly reacted by providing leadership in a joint university/agency/industry effort to reduce this agricultural pollution and maintain the vibrant statewide agricultural industry. ANR scientists are working with multiple agencies to create a curriculum and training to assist certified crop consultants and growers with their management of nitrogen fertilizers and irrigation water.

Healthy Communities. ANR manages the California 4-H Youth Development Program – one of the largest such programs in the nation – now celebrating its 100th anniversary as an innovative, research-based youth development program. In 2011-12, dedicated adult volunteers provided over one million volunteer hours, the equivalent of over 480 full-time positions, engaging youth (ages 5 to 19) in every California county across rural and urban areas. The program reaches youth through after-school and classroom enrichment programs, science literacy activities, and traditional livestock and leadership club 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 implementation of “green” practices. In 2011-12, over 5,400 UC Master Gardeners volunteered more than 356,500 hours, the equivalent of 171 full-time positions.

Healthy Californians. To address critical nutrition issues that are having global impact, ANR is launching the Nutrition Policy Institute (NPI). This unit will work closely with ANR's Youth, Families, and Communities Statewide Program, which implements CE education and research programs systemwide, integrating with ANR's Strategic Initiatives. NPI will provide nutrition policy leadership built from numerous ongoing research and education activities. This group will work in synergy with research and outreach efforts being conducted in Davis and Berkeley campus departments and colleges and throughout the UC system.

UMBILICAL CORD BLOOD COLLECTION PROGRAM

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 is provided, in part, through a \$2 fee for certified copies of birth certificates, with these fees projected 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 an affiliation agreement with the David Geffen School of Medicine at the Los Angeles campus for student clerkships. Students participating in the joint medical education program earn a Doctor of Medicine (MD) degree, which is granted by the David Geffen School of Medicine.

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 124 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 first quarter of 2015. 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’s libraries have been an exemplar of excellence in tough times, using technological innovation to expand access to its vast collection of scholarly materials to all. The world truly is a richer place because of UC’s libraries.”

*Aimée Dorr
University of California
Provost*

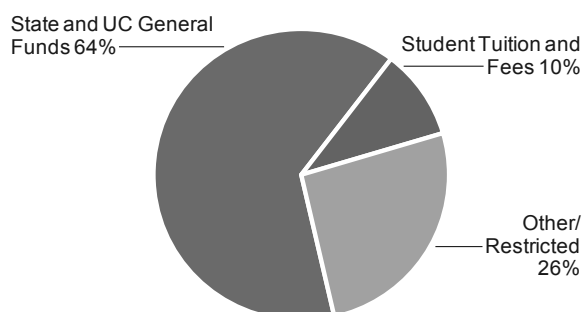
Academic Support – Libraries

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 91% of undergraduate students believed that having access to a world-class library was “essential,” “important,” “very important,” or “somewhat important.” 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

Display IX-1: 2012-13 Library Expenditures by Fund Source

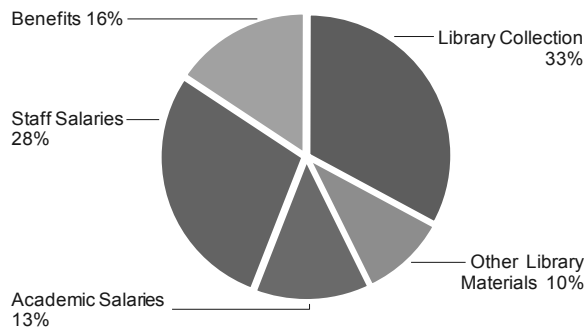


About three-quarters of the libraries’ budget are derived from core funds. Endowment earnings, private gifts, and other sources provide additional support.

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 and 5 million e-books available systemwide, the collection is surpassed only by the Library of Congress. In 2012-13, the economic value of the physical collection was estimated at \$1.1 billion and the special collections at \$354 million, or 5.2% of UC’s net capital assets. More than 2.9 million items were loaned by UC libraries in 2012-13, including over 222,000 intercampus library loans and copies. Use of the libraries’ digital collections continues to escalate, as more materials are available primarily or solely online. In 2012, more than 32 million journal articles were downloaded within UC.

Display IX-2: 2012-13 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, 2012-13

Number of Libraries	100+
Library Holdings	
Print volumes	38,000,000
Audio, video, and visual materials	21,245,000
Maps	2,200,000
Microcopy and microfilm	29,400,000
Average e-books on each campus	500,000
Digitized UC volumes in HathiTrust	3,700,000
Electronic-journals licensed collectively	53,500
Digitized items in campus collections	17,630,000
Library Use	
Digital articles downloaded	32,000,000
Total library loans	2,900,000
Intercampus loans	222,000
Regional facility loans	123,000

Note: Numbers rounded. Data reported by all 10 campuses and the CDL.

THE LIBRARY BUDGET

The total budget of the libraries is \$266 million in 2013-14. 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

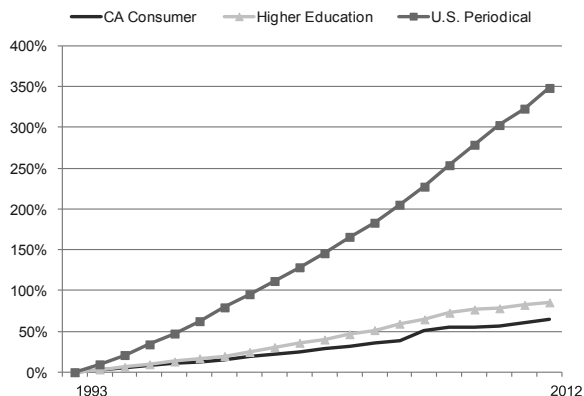
57% of library expenditures in 2012-13. Library materials, which include books, subscriptions, and licensing of digital materials, made up another 43%.

As the cost of library materials continues to outpace inflation, campus libraries face 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 34 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.

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.

Display IX-4: Consumer, Higher Education, and Periodical Price Increases



Over the last 20 years, the cost of periodicals has risen more than 348%, while the consumer price index has risen only 65% during the same period. This cost increase has not changed in the digital environment.

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.

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 13 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 53,520 online journals to students, faculty, researchers, and staff from all UC campuses. The CDL maintains the Online Archive of California, which includes 37,000 online collection guides and 339,000 digital images and documents from 309 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.

Display IX-5: Estimated Annual Savings from Library Innovations and Efficiencies (Dollars in Millions)

Resource Sharing	\$35.8
Regional Libraries Facilities	\$22.2
California Digital Library	<u>\$73.8</u>
Total	\$131.8

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.

“UC knows learning is not limited to the classroom and supports museums, clinics, and performance centers that serve their communities as well as the University.”

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.

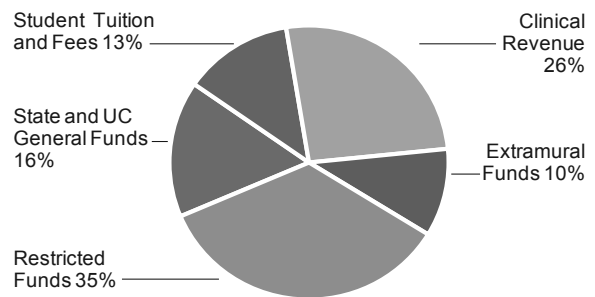
The 2013-14 budget for Academic Support – Other is \$1.2 billion. The State’s ongoing fiscal crises have resulted in significant reductions throughout the University’s budget. Academic and Institutional Support budgets were targeted by the State for specific cuts of \$36.5 million in 2003-04 and another \$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 northern (Berkeley, Davis, and San Francisco) and southern (Irvine and Los Angeles) occupational health centers 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

Display X-1: 2012-13 Other Academic Support Expenditures by Fund Source



Expenditures totaled \$1.2 billion in 2012-13. Clinics and other services are largely self-supporting.

activities on the campuses in its geographical area, thereby strengthening the University’s programs of teaching and research in these fields.

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.

“UC’s medical centers embody all three missions of the University – teaching, research, and public service – while providing Californians access to state-of-the-art healthcare.”

*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 17 health professional schools and 10 hospitals, collectively referred to as UC Health.

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 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. In 2006, UC led the initiative on behalf of the state to create a digital highway that would expand healthcare access to all corners of California. Officially launched in August 2010, the California Telehealth Network (CTN) has allowed campuses to deliver medical expertise and specialist knowledge to over 300 California healthcare providers in underserved areas around the state through a live interactive videoconferencing network. UC anticipates CTN will be connected to approximately 800 facilities over the next two years.

The medical centers are sites for testing the application of new information and the development of new diagnostic and therapeutic techniques. Four of the UC 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 for tomorrow’s health professionals, educational opportunities for community health professionals who participate in the University’s clinical teaching and

Display XI-1: UC Medical Centers At-A-Glance, 2012-13

The University’s five academic medical centers constitute the fourth largest healthcare system in California.

Licensed acute care inpatient bed capacity	3,121
Patient days	880,741
Outpatient clinic visits	3,991,333
GME residents trained	4,495
Total operating revenue	\$7.5 billion

continuing education programs, and healthcare 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 approximately 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 Medicaid- (known as Medi-Cal in California) 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

Changes in healthcare delivery, financing, and coverage are generating unprecedented pressures across the nation’s healthcare system. In order to thrive in this era of rapid change and respond to pressures by both public and private sectors to contain healthcare costs and to ensure revenue and funding sources remain stable, UC Health is working proactively to improve healthcare quality and

outcomes, increase market share to remain competitive and successfully leverage its collective strengths, decrease expenses, and improve alignment between the faculty practice groups and medical centers.

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 healthcare 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 21.6%, or \$1.6 billion, of medical center revenues in 2012-13. 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.

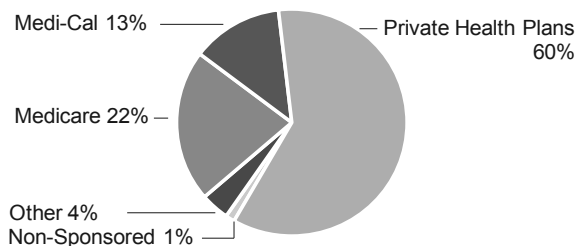
Medicare also provides teaching hospitals with Graduate Medical Education (GME) payments to help pay for the direct medical costs of providing medical education and for direct programmatic costs allowable under Medicare, such as salary and benefits for medical residents.

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 2012-13 were \$208.3 million, or 2.8% of medical center revenue.

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 with medical assistance programs consistent with federal standards.

Display XI-2: 2012-13 Medical Center Revenue by Source



In 2012-13, the medical centers generated \$7.5 billion from patient care and other activities. While 60% of medical center revenues are derived from private healthcare plan reimbursements, approximately one-third of medical center revenue comes from federal Medicare and Medi-Cal, jointly funded by the state and federal governments.

Medicaid programs are operated by states and use various mechanisms to pay hospitals. Medicaid/Medi-Cal provided 12.8%, or \$962.3 million, of medical center revenue in 2012-13. 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 healthcare needs, and persons who are eligible under both Medicare and Medi-Cal.

Hospital Quality Assurance 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. The upcoming Hospital Quality Assurance Fee is currently being negotiated for fiscal years 2014 and 2015.

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 was \$4.5 billion in 2012-13. Healthcare, including hospital services, is increasingly paid for by "managed care" plans that incentivize reduced or limited cost and utilization of healthcare 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 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), were historically 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, or 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. As of 2011-12, CTS funds were effectively eliminated.

County Funding Programs. California counties 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 healthcare for the indigent. The downturn in the state's economy also affected local county revenues, creating increased competition among local services for reduced funds and severely constraining the ability of local governments to adequately fund healthcare services to the uninsured. Measures enacted to mitigate the impacts have not provided full relief. In 2012-13, total county funding represented \$100.8 million, or 1.3% of total medical center revenue.

CURRENT CHALLENGES AND ISSUES

UC's 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 healthcare 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 health and welfare benefit costs;
- 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 and radiology technicians, resulting in increased use of temporary labor;
- implementing 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.

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 provision of care for the poor. The medical centers continue to grow and fulfill their missions, but the future presents challenges, including those associated with healthcare reform.

UNIVERSITY OF CALIFORNIA CARE

University of California Care (UC Care) is a self-funded, Affordable Care Act (ACA) compliant, health program designed as an option for UC's approximately 250,000 employees and their dependents. The program is structured based on tiered levels of a narrow network of providers. Tier 1 is predominately the UC Health System providers located at the five academic medical campuses. In instances where services are not available at a nearby UC facility or medical group, employees will be able to access other providers for covered services in a preferred provider network. UC Care will also include an activity-based wellness program promoting preventive care among employees with monetary incentives. Over the long term, the UC Care model will provide the University of California with the ability to more proactively manage healthcare costs and aim for better population health.

HEALTHCARE REFORM

The enactment of healthcare 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 healthcare delivery system by expanding health insurance coverage by the year 2019 to 32 million Americans who are currently uninsured. Healthcare 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.

Covered California. The California State Health Insurance Exchange, known as Covered California, 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 Health to lower expenses and incentivize quality in the delivery of healthcare. The University has several initiatives underway that address cost and quality issues. UC Health has also established a strong position to attract patient volume associated with Covered California Enrollees by contracting with Anthem Blue Cross. Through this partnership, the Anthem Blue Cross Health Plan will be well-positioned to be a dominant presence in Covered California. UC healthcare providers will be Tier 1 providers within Anthem's Exchange product and the only academic medical center with Tier 1 status participating in Covered California.

Graduate Medical Education. The ACA 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 healthcare services, particularly in primary care prevention areas. In turn, this will require additional healthcare providers, or, more realistically, changes to how healthcare is provided. This is an opportunity for UC Health to use its expertise in using innovative healthcare delivery systems to large populations.

UC Health as a Safety Net. UC Health'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. Healthcare 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. Entities must consider that UC Health's costs for delivery are higher than non-safety net institutions when paying for healthcare services.

"Student services on UC campuses seek to ensure that students are engaged in and outside the classroom. This engagement allows them to grow intellectually, socially, and culturally."

Judy K. Sakaki
 University of California
 Vice President – Student Affairs

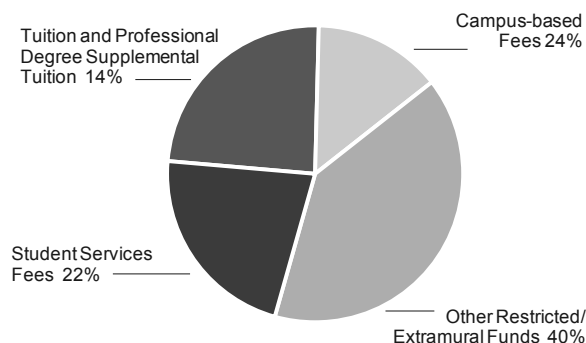
Student Services

Student services programs and activities contribute to the intellectual, cultural, and social development of students outside of the formal instructional process and enhance their ability to be successful inside the classroom. These services can have a significant influence on students' academic outcomes as well as 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 2013-14 the student services budget is \$702.8 million, most of which is generated from student fees. Student services include a variety of programs:

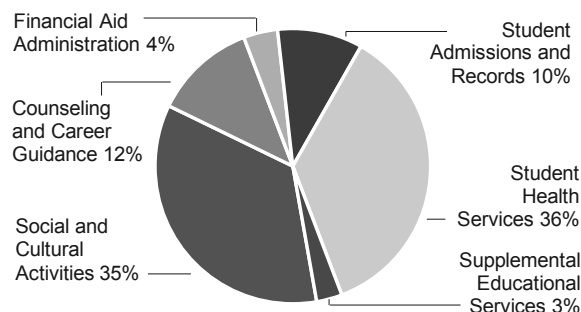
- **Campus admissions and registrar operations** include the processing of applications for admission, course registration, scheduling of courses, maintaining and updating student academic records, preparing of diplomas, and reporting of statistics.
- **Campus financial aid offices** counsel students 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.
- **Counseling and career guidance** assists students with personal concerns, academic performance, choice of major, assessing interests and aptitudes, and career opportunities.
- **Student health services** provide primary care and other services to keep students healthy, including general outpatient medical care; specialty medical care; mental health services; and health education, including wellness and stress reduction.
- **Academic support services** (supplemental educational services) offer individual and group tutorial services in writing, mathematics, and study skills, as well as preparation for graduate school exams.
- **Social and cultural activities** provide opportunities for students to participate in student organizations and recreational and sport activities, and various forms of art (music, dance, painting, etc.).

Display XII-1: 2012-13 Student Services Expenditures by Fund Source



Student fee revenue, including campus-based fee revenue, provides 60% of the funding for student services.

Display XII-2: 2012-13 Student Services Expenditures by Category



In 2012-13, 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.

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. At that time, Student Services were State-funded and have since been shifted to non-State funds, primarily Tuition and the Student Services Fee. 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 the summer.

Due to the University’s continuing budgetary challenges 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. Thus, 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 reduced budgets. In addition, because the Student Services Fee has not increased since 2011-12, programs funded by the Fee have not received cost increase money to help address mandatory and other cost increases for two years.

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. Often, these issues 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 were presented to the Regents in September 2006. The following was noted:

- consistent with national trends, UC students are presenting mental health issues (e.g., suicidal thoughts, 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 who have demonstrated at-risk behavior;
- 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 of concern, as well as students from vulnerable populations; 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 for this purpose. Much of the funding from the increase in 2007-08 has supported critical mental health and crisis response services, such as increasing Counseling Center staffing to meet the high demand for counseling intervention. Revenue from the second Student Services Fee increase has been used to develop programs that targeted vulnerable groups (e.g., foster youth, veterans); expand outreach; provide mental health internships for students, staff, and faculty; and develop interventions for students at high risk for alcohol and drug abuse.

Substantial progress was made in expanding mental health services. However, in 2009-10 a student mental health survey was administered to determine the impact of the Student Services Fee augmentations. Findings indicated that while the wait period to see a mental health professional had lessened, campuses were continuing

to see increased severity of student issues and greater demand for mental health services.

In response, the campus Student Affairs divisions and the Office of the President Student Affairs unit collaborated on a successful bid for a \$6.9 million student mental health grant funded by the California Mental Health Services Authority (CalMHSA) through Proposition 63. In 2011, each campus received \$500,000, with the remaining money set aside for systemwide initiatives such as training and forums, programming, the development and maintenance of a systemwide mental health website, 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.

In 2012, UC applied for additional CalMHSA funding, and in January 2013 was awarded \$877,224. Of this total, \$127,224 was retained by the Office of the President for system-level programming consistent with campus mental health staff priorities, and the remaining \$750,000 was distributed to the campuses. This funding provided UC an opportunity to further expand its response to Tiers II and III of the student mental health recommendations.

Student mental health issues remain a serious concern at the University. Further investment is needed in student mental health and wellness to ensure sustainability of current programs and services beyond the life of the grant, which comes to an end July 2014.

OTHER FUTURE NEEDS

Should the State's fiscal situation permit new initiatives, campuses have identified a number of critical needs for additional student services funding that would help to ensure higher retention and graduation rates.

- 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.
- 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.
- Instructional funding is needed to restore and enhance library hours, primarily for undergraduate students.
- 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.
- Additional funding toward the support of graduate and professional school students is desired, particularly related to Teacher Assistantships (TAs) and fellowships. Increased funding would not only provide much-needed support for graduate students, but would also provide undergraduates with more assistance (from TAs) in their educational pursuits.

“The promise of a more stable future allows UC to clarify steps to achieve its top priorities – access, affordability, and quality. Increasing efficiency while safeguarding the educational program is paramount.”

*Nathan Brostrom
University of California
Executive Vice President for Business Operations*

Institutional Support

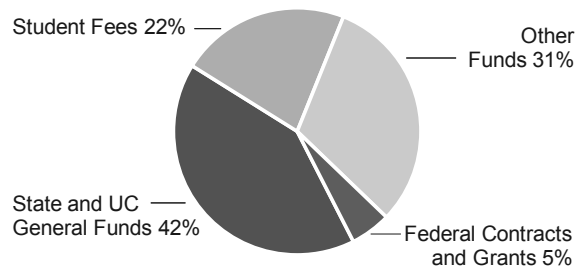
Institutional support services provide the administrative infrastructure for the University’s operations. Grouped into five broad categories, institutional support activities include:

- **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.

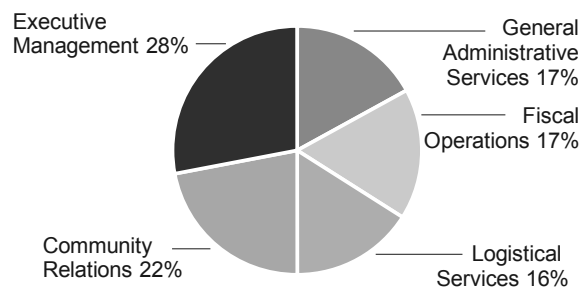
Despite these added expenses, institutional support expenditures as a proportion of total University expenditures have actually decreased over the last 30 years. Institutional support budgets are often one of the first areas of the budget to be reduced in difficult economic times. In response to budget cuts, 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: 2012-13 Institutional Support Expenditures by Fund Source



Core funds provide 64% of institutional support funding. Significant other sources include private funds, endowment earnings, and indirect cost recovery for contract and grant administration.

Display XIII-2: 2012-13 Institutional Support Expenditures by Category

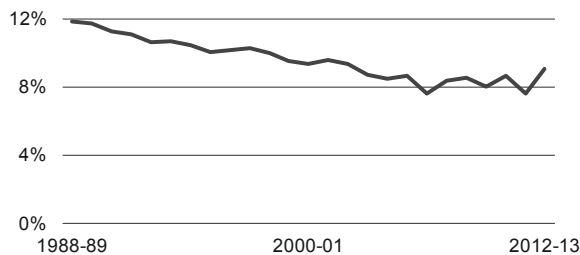


Logistical services, fiscal operations, and general administrative services comprise half of institutional support expenditures.

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 1988, spending on institutional support as a percentage of total UC expenditures has dropped from over 11% in 1988-89 to about 9% in 2012-13. The small increase in 2012-13 is related to insurance and worker's compensation increases.

- 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 UC Office of the President (UCOP). Additional savings were realized through campus administrative efficiencies as campuses have downsized in response to budget cuts. The *Historical Perspective* chapter of this document includes a discussion of systemwide efforts to reduce costs.

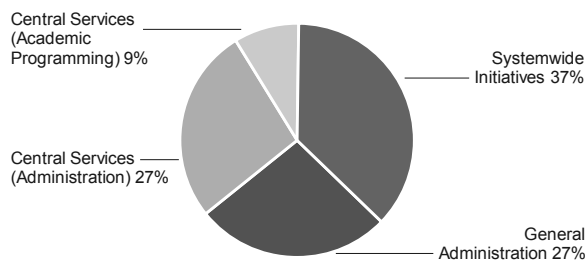
UCOP BUDGET

In order to simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue, beginning in 2011-12, the University adopted the

Funding Streams Initiative, whereby all funds generated on a campus stay on the campus and are no longer redistributed across the system by UCOP. 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.

Display XIII-4: 2013-14 UCOP Budget by Category



The total UCOP budget for 2013-14 is \$587.2 million, \$324.2 million of which is unrestricted.

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 2013-14 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:

General administration, which includes those responsibilities that UCOP performs on behalf of the entire University of California system, including the campuses,

¹ Available at <http://regents.universityofcalifornia.edu/aar/julf.pdf>.

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, such as systemwide budget management and external relations, management of the 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, and UC Press.

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, most of the UCOP budget supports central services provided for the benefit of the campuses, both administrative and academic, and systemwide initiatives. General administration, including the Academic Senate and Regents' Officers, is only 27% of total operations.

In 2013-14, the total UCOP budget increased slightly, by about 5%, from 2012-13, due in part to UCOP's central role in the development of new systemwide financial and personnel data systems. The total UCOP budget represents about 2.4% of the overall University of California budget, with less than one-fourth of the budget 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.

With internal efficiencies in mind, in her first month in office, President Janet Napolitano directed the launch of an Efficiency Review at UCOP. Its objective is to identify areas where the central administration can reduce costs, increase transparency, streamline processes, eliminate duplication and improve the quality of service both for UCOP staff and its campus customers. Over the last five years, the organization has explored, with some notable successes, other efficiency measures. But President Napolitano cited continuing budget pressures as the imperative for further review of how UCOP can provide the highest quality service at the lowest possible cost to the campuses and its other stakeholders. Among the early focus areas for review are how to drive down information technology costs through data center consolidation and broader adoption of "thin" client technologies that reduce computer hardware investments; further business process improvements that both simplify functions and bring greater "common sense" to the central processes; smarter real estate strategies that reduce lease and ownership costs; further consolidating UCOP business units, perhaps by adopting new approaches to "shared service" models; further aligning UCOP procurement to current systemwide initiatives; and eliminating redundancies, inefficiencies, and outdated functions throughout the organization.

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 recent 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.

During this time, the University has undergone structural changes that have created new entities to manage various elements of UC's operations, driving increases in personnel. These include the addition of a new campus (UC Merced), the reintegration of UCSF's Medical Center from the UC San Francisco/Stanford Merger (the UCSF campus, but not the medical center, is included in the 1997-98 data), increased investment in major outreach efforts to improve access for low-income and underrepresented students, a series of State-funded research initiatives that have started institutes at all but one campus, and campus decisions to directly hire custodial, grounds and food service workers in lieu of contracting with outside vendors. Almost three-quarters of the 141,681 full-time equivalent (FTE) personnel at the University in 2012-13 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.

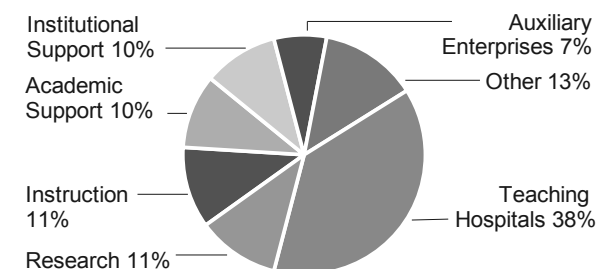
The high percentage of non-academic staff reflects the complexity of the institution; the extraordinary array of functions that support its tripartite mission of teaching, research, and public service; and in part the way that personnel are classified. In particular, non-academic personnel include thousands 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.

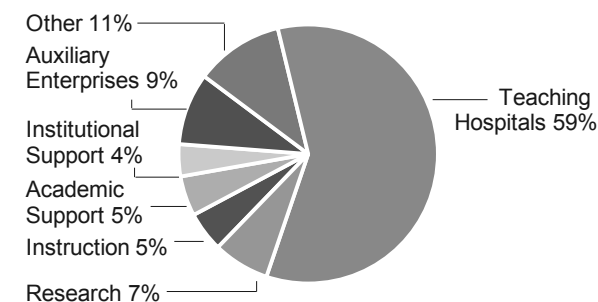
As shown in Display XIII-5, non-academic personnel are distributed broadly across the University. Over one-third are employed at the teaching hospitals; another third are employed in research, support faculty and instructional activities in the academic departments, or work in UC's libraries, museums 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

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.

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 of the 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 employees as they did in 1997-98. This reflects growth in instruction in combination with the expanding research enterprise. Academic employees include instructional faculty, professional researchers, librarians, and postdoctoral scholars. Growth in faculty FTE (39%), including ladder-rank, non-ladder rank faculty, and 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%; in addition, 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.

“World-class research and teaching require facilities of equal caliber to meet faculty instruction needs and serve the growth in student enrollment. We can’t let outdated buildings hamstring how we teach and learn.”

*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 facilities, grounds, and infrastructure, collectively known as operation and maintenance of plant (OMP). UC maintains over 132 million gross square feet of space in nearly 5,800 buildings at the 10 campuses, five medical centers, and nine agricultural research and extension centers, including classrooms, laboratories, animal housing facilities, libraries, and specialized research facilities. The State funds space according to use: space used for classrooms, laboratories, offices, and some research and support uses is eligible for State support. Over 63.4 million square feet (nearly 50%) is eligible to be maintained with State funds, while the rest houses self-supporting activities, such as the medical centers and auxiliary enterprises, OMP costs for which must be included in their budgets. OMP expenditures for State-eligible space totaled \$564 million in 2012-13.

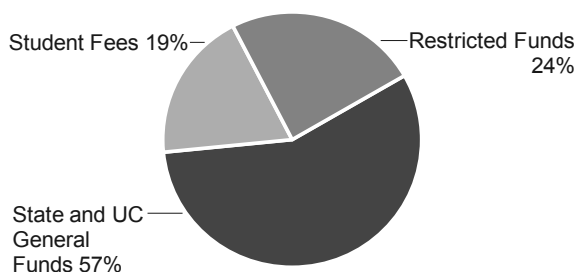
Operation and maintenance of plant funding falls into three categories: ongoing support for operation and maintenance of plant, including regular building and grounds maintenance, janitorial services, utilities operations, and purchased utilities; capital renewal, or the systematic replacement of building systems and campus infrastructure to extend useful life; and deferred maintenance, the unaddressed backlog of renewal resulting from chronic underfunding of ongoing OMP support and the lack of regular and predictable investment in capital renewal.

Between 2007-08 and 2011-12, the University was forced to cut funding for the operation and maintenance of facilities to help protect core academic programs. While some of this reduction was mitigated due to increased efficiency – which is good for the fiscal health of the University – much of the reduction resulted from negative austerity measures, such as cuts in building maintenance activities, scaled back or eliminated preventive maintenance programs, and

reduced custodial and grounds maintenance services. Recent budget cuts compound years of underfunding, particularly for basic building maintenance, and the historical absence of systematic funding of capital renewal. Chronic underfunding of basic maintenance shortens the useful life of building systems, particularly given the University’s vast inventory of aging facilities. Nearly 60% of the University’s State-eligible space is more than 30 years old, with 44% of that space built between 1950 and 1980, as shown in Display XIV-3. 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.

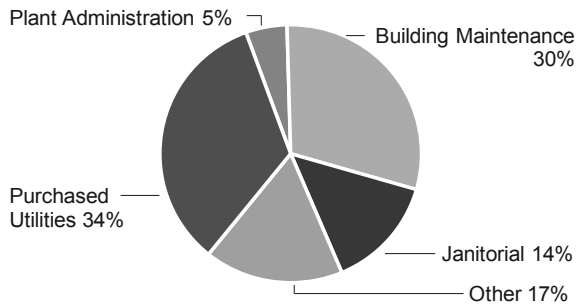
Based on workload standards developed in the early 1980s by UC and CSU, in conjunction with the Department of Finance and the Legislative Analyst’s Office, OMP funding of building maintenance and other facilities service functions at the University (excluding purchased utilities) was estimated to fall between only 60% and 70% of the standard. Since the recent fiscal crisis, the annual shortfall is estimated at over \$250 million.

Display XIV-1: 2012-13 OMP Expenditures by Fund Source



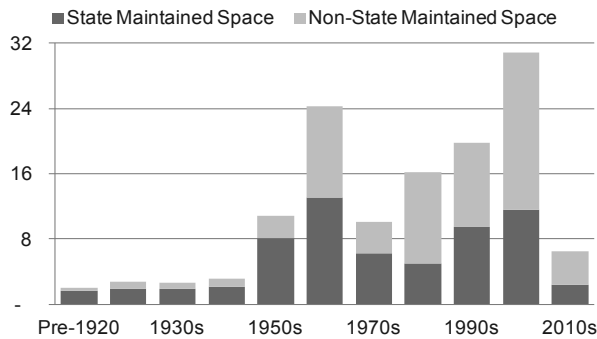
The bulk of OMP expenditures is supported by core funds (State and UC General Funds and student fees funds).

Display XIV-2: 2012-13 OMP Expenditures by Category



Purchased utilities for UC facilities account for approximately one-third of OMP expenditures. Building maintenance accounts for nearly another third.

Display XIV-3: All 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.

BUILDINGS AND GROUNDS MAINTENANCE

Funding for operation and maintenance of new space is an essential annual budget need; however, OMP is often one of the first areas to be cut in times of fiscal uncertainty and one of the last to be restored when times improve. Funding for OMP has not been stable or predictable since the mid-1990s, as described in Display XIV-7.

Starting in the mid-1990s, the State attempted to provide funding through various strategies in recognition of more than two decades of chronic underfunding of the University's OMP needs. In 1996-97 and again in 2002-03, the State planned to provide funding specifically to reduce UC's OMP funding shortfalls, but due to the State's recurring fiscal constraints, the State was unable to follow through on this plan. Increased funding for OMP has also been tied to UC's base budget, as in the Partnership Agreement with former Governor Davis beginning in 1999-00 and the Compact with former Governor Schwarzenegger

between 2008-09 and 2010-11, or to the marginal cost of instruction (as described in the *General Campus Instruction* chapter of this document) starting in 2006-07, but similarly, in times of fiscal crisis, funding for OMP has not been provided.

To help to fill these shortfalls in OMP, the University has on several occasions been forced to redirect its own resources to address its most serious OMP needs. 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, and 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.

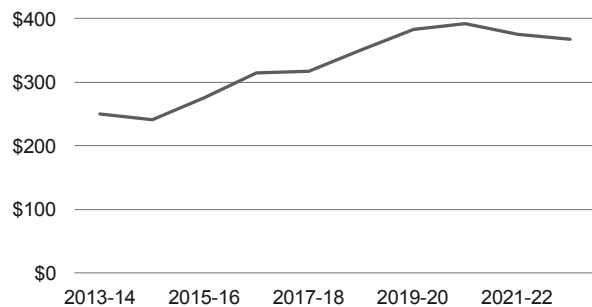
The University is now operating about 4 million square feet of core program space that is eligible for State support but unfunded by the State, representing approximately \$40 million of support that the State is not providing. Campuses have been forced to redirect other resources or reduce other OMP 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.

CAPITAL RENEWAL AND DEFERRED MAINTENANCE

In addition to requiring funding for new space and building and grounds maintenance, the University faces growing costs to renew its existing buildings and to support infrastructure. 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.

Over the next decade, many of the electrical, heating, ventilation, and air conditioning (HVAC); elevator and conveying; plumbing; and other systems in UC's 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-4. Campus infrastructure, including utility generation and distribution systems, roads, bridges,

Display XIV-4: 10-Year Projected Annual Capital Renewal Needs (5-year Smoothed Average, Dollars in Millions)



Between 2013-14 and 2022-23, the University's annual capital renewal needs for buildings are projected to increase significantly. This does not include a considerable portion of the ongoing capital renewal need that has been deferred because of the lack of funding.

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 University's operating or capital budgets, though such funding is proposed in the University's ten-year capital financial plan.

Estimates of funding needs for capital renewal and deferred maintenance are based on a Facilities Infrastructure Renewal Model (FIRM) developed by the University in 1998, which includes a detailed inventory of all State-maintained facilities at each campus, detailing infrastructure and buildings systems that need to be renewed on a predictable basis between 15 and 50 years, 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 over 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.

Similar to funding for OMP, 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-7.

In the long term, failure to invest adequately in capital renewal and ongoing maintenance presents growing risks to the University, ranging 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.

The University is implementing a new comprehensive Integrated Capital Asset Management Program (ICAMP) that will fully replace the current FIRM modeling program – which is limited to life cycle only – by the end of 2017. The FIRM process only models State-funded buildings and provides only a high level inventory of infrastructure assets. Given the age and current condition of University facilities, there is a critical need at the campus and system levels to make sound, data-driven capital renewal decisions based upon accurate information that identifies, prioritizes, and quantifies facility renewal needs and their associated risk. ICAMP will allow the University to understand the consequences of its decisions and thus to reduce risk. The new ICAMP program will perform initial real-time condition assessments on all University-related buildings as well as more detailed tracking of all infrastructure assets. The ICAMP process will identify and estimate facility-related condition-based deferred maintenance, reporting by the industry standard Uniformat II structure. All information will be maintained in the ICAMP program's state-of-the-art software, which will provide extremely consistent and reliable information.

PURCHASED UTILITIES

Since the energy crisis of 2001, the volatility of electricity and natural gas prices has had a severe impact on the ability of campuses to manage overall OMP costs.

Nevertheless, price swings in energy commodity costs have tempered in recent years primarily due to the abundance of natural gas made available through hydraulic fracking technology. Although energy commodity prices seem to have stabilized, longer-term forecasts identify a number of factors that will drive higher energy costs in the next few years. For 2014-15, the University estimates an increase in

purchased utilities costs of \$8 million, based on a projected increase above inflation of 4% for electricity and 2% for transmission and delivery of natural gas.

Cost Drivers. Pressures in the electricity supply chain are expected to increase costs significantly through 2020 due to “green” regulations, such as the implementation of the carbon emissions market (“cap and trade”) under California state law and a requirement that a third of the state’s energy generation be from renewable sources by 2020. Moreover, California, like many other states, will have to replace aging or out of date energy infrastructure including generating units and distribution and transmission lines.

In addition, natural gas experienced an all-time low price of \$3 per million Btu in 2011 and has since edged upward to an average of \$4.35 per million Btu. Market conditions indicate this price will increase to \$4.85 per million Btu by the end of 2014. Since most UC campuses have signed long-term contracts through 2018, the UC system should not see a major increase in the effective natural gas commodity cost. A pending rate case before the California Public Utilities Commission (CPUC) to allocate cost for PG&E’s pipeline could contribute to a marginal increase in UC’s costs for its northern California campuses.

Green Energy. In 2006, California passed AB 32, the Global Warming Solutions Act of 2006, which set into law the emissions reduction goal of attaining 1990 greenhouse gas (GHG) emission levels by 2020. The cap and trade program is one of the strategies California employs to reduce GHG emissions. Under cap and trade, an overall limit on GHG emissions from 85% of emissions sources is established and facilities subject to the cap will be allowed to trade permits (allowances) to emit GHGs.

Six UC campuses are obligated to participate in the cap and trade program because their emissions are in excess of 25,000 metric tons of carbon dioxide equivalent per year. Collectively, these campuses are required to surrender 625,000 allowances in the first year, one for each ton of carbon dioxide emitted. The estimated cost of compliance in 2014-15 is approximately \$9 million; however, there are pending amendments to the regulations before the California Air Resources Board that would freely distribute allowances to UC. As long as campus emissions

PURCHASED UTILITY TERMINOLOGY

Purchased utilities: commodities and services purchased from utilities such as electricity, natural gas, water, and sewage.

Carbon allowances: permits used in the State’s cap and trade program. Each allowance must be surrendered by obligated entities for every metric ton of carbon equivalent emissions.

Renewable energy content: the ratio of renewable energy in the energy commodity (e.g., electricity).

Electricity deliveries: the role of a distribution utility in furnishing the infrastructure to deliver third party generated energy.

Co-generation: on-campus sequential generation of electricity and steam for operations.

Commodity pricing/costs: the price paid for the generation component of electricity, excluding transmission and distribution services provided by the utilities.

Direct access: procurement of electric energy commodity from one party (typically an energy service provider) to be delivered by another party (usually the utility).

Biogas: methane produced from the decomposition of organic matter, sourced from the anaerobic digestion of agricultural waste, landfills, and wastewater treatment facilities.

Carbon (equivalent) emissions: the emission of carbon dioxide into the atmosphere, which is a major contributor to global warming.

Statewide Energy Partnership (SEP): a partnership between the University, and the four California investor-owned utilities (e.g., PG&E) to incentivize energy efficiency projects.

Fracking: oil and gas extraction via the fracturing of rock by a pressurized liquid.

do not increase, UC’s direct cost burden would be minimal, though campuses would still experience cost increases in their electric rates and some natural gas rates as suppliers pass costs to customers.

A second financial impact of green energy regulation is that all state utilities and energy service providers must meet a 33% renewable energy content requirement for all electricity deliveries by 2020. Besides having to construct renewable energy generating facilities, the transmission delivery system requires unprecedented upgrades to accommodate these often remotely located generation sources. Further goals will include small distributed

generation sources in the supply 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 costs by reducing other OMP expenditures – a difficult tradeoff during a time of declining State funding – 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.

Strategic Efforts to Manage Purchased Utility Costs and Reduce Carbon Emissions

The University has continued its efforts to obtain favorable commodity contracts 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, which mandates that the University reduce overall growth-adjusted energy consumption by 10% below 2000 levels by 2014, as well as to reduce greenhouse gas (GHG) emissions to 2000 levels without a growth adjustment by 2014 and to 1990 levels by 2020, ultimately reaching carbon neutrality as soon as possible.

The University has made remarkable progress in reversing the growth of greenhouse gas emissions. Most campuses have launched a portfolio of energy efficiency projects that will allow them to attain their 2014 GHG goal, and several campuses have voluntarily adopted more aggressive plans to accelerate meeting their 2020 GHG goal to as early as 2014. However, several campuses will require off-site renewable energy in order to attain their 2014 goal, and essentially all campuses will need large-scale, off-site solutions to achieve the 2020 goal.

Energy Efficiency. In addition to commodity rates, purchased utilities costs are affected by consumption levels. Without additional State funding, UC has sought to mitigate rising purchased utilities costs by moving aggressively to manage overall energy consumption. Though higher commodity rates for purchased utilities drove the steep rise in costs since 1999-00, UC's energy

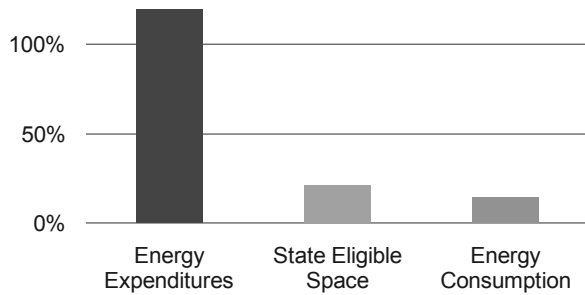
consumption increased at a slower rate than enrollment-driven growth in new space. The primary reason for UC's slowing energy consumption rate is a result of aggressive energy efficiency standards for new buildings and efficiency retrofits in existing facilities.

Between 1999-00 and 2009-10, the University's State-eligible space increased by 20% while energy consumption increased by only about 13%, as shown in Display XIV-5. 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 per square foot 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-6. Energy efficiency measures have helped to mitigate much of this increased energy demand.

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.

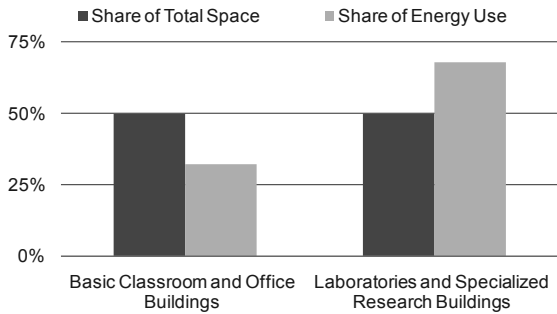
Many of the University's energy efficiency projects have been subsidized by the state's investor-owned utilities under the auspices of the Statewide Energy Partnership (SEP). The University has completed the implementation of an ambitious four-year partnership program (2009-12) to help meet its 2014 energy reduction goals. Results through December 31, 2012 indicate that the partnership completed 569 energy efficiency projects that generated \$51.5 million in incentive payments from the utilities to offset project costs, and delivered over \$27 million in annual energy savings to the campuses. Debt service for both State- and non-State-supported projects completed over the four-year

Display XIV-5: Growth in Energy Expenditures, State-Eligible Space, and Energy Consumption between 1999-00 and 2009-10



Over 10 years, the University’s total maintained State-eligible space grew by 20%, energy consumption by 13%, and commodity expenditures for electricity and natural gas by 120%.

Display XIV-6: 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.

program is expected to be about \$12 million annually for the 15-year term of the financing. As of December 31, 2012, the program reduced 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 209 million kWhs, 11 million therms, and 140,000 metric tons of greenhouse gas emission reduction.

The partnership program with the investor-owned utilities was extended through 2014 and the Regents authorized a \$102 million budget for additional projects that the UC system determined should be funded and implemented. Combined, the utilities have committed an additional \$20.8 million in incentive grants to help defray the cost of energy projects, contingent upon the University delivering on projected energy savings.

In addition to minimizing energy consumption through energy efficiency, and continuing and expanding on conservation programs, UC is pursuing two new strategies to control renewable and traditional energy costs while enabling the University to achieve its climate commitments.

Electricity. UC was able to take advantage of favorable market conditions in 2011 and 2012 that provided attractive commodity pricing, with several campuses continuing contracts with UC’s direct access provider through 2014 and others benefiting from shorter-term contracts.

Based on current projections, the electric transmission and distribution cost component furnished by the utilities is expected to increase by 6% above inflation in 2013-14; the commodity portion furnished by the third-party provider has stabilized at 5% below the equivalent utility cost.

To actively manage energy cost and to procure renewable energy at sufficient scale to negate its emissions, UC is developing a systemwide wholesale power procurement strategy that is cost-comparable to utility-supplied electricity, including comprehensive planning for energy acquisition over a 20-year period to stabilize pricing and mitigate carbon-driven costs, establishing legal and business mechanisms required to import and distribute wholesale power, and pursuing statutory and regulatory changes to enable the wholesale procurement and delivery of off-site power. UC’s goal is to become a direct wholesale market participant on January 1, 2015.

Natural Gas. Most campuses are 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. Going forward, UC will likely need to acquire biogas assets to fuel UC’s co-generation plants to help neutralize its carbon emissions.

A biogas initiative is essential to reduce carbon emissions from UC’s central plants. Given UC’s access to low-cost borrowing and its high demand for this commodity, the University could reduce procurement costs by 40% by removing the middleman from its procurement process. Master agreements have been executed with nationally and internationally known experts and developers of biogas generation facilities, and preliminary siting has been completed in pursuit of this new venture.

Operation and Maintenance of Plant

Display XIV-7: History of Programmatic Funding for OMP, Capital Renewal, and Deferred Maintenance

Pre-1994-95	The State provided nearly \$20 million annually for deferred maintenance.
1994-95 to 1997-98	The State provided \$8 to \$25 million annually.
1996-97	The Legislature proposed a funding plan to begin to eliminate over four years an estimated \$60 million funding shortfall for ongoing maintenance services, but the State was unable to contribute.
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.
1999-00	The Partnership Agreement with Governor Davis called for annual increases in OMP as part of a 1% increase to UC's State support. \$8.5 million was provided for OMP in 1999-00 and 2000-01.
2002-03	The State eliminated the remaining \$7.1 million in permanent deferred maintenance funding.
2002	UC allowed campuses to pledge a portion of their UC General Fund income to finance urgent capital renewal and deferred maintenance work. Only some campuses had sufficient revenues to participate. Bonds financed \$221.1 million for high priority capital renewal and deferred maintenance projects
2002-03 to 2004-05	The State provided no funding for new space. UC redirected \$7 million from existing resources to address critical OMP needs.
2005-06	The State provided \$16 million for new space and to partially backfill unfunded space from the previous two years.
2006-07 to 2007-08	The marginal cost of instruction calculation included OMP costs for the first time. The State provided \$17.5 million in 2006-07 and 2007-08 for new space.
2008-09 to 2010-11	UC redirected its own resources to OMP costs, totaling \$40.4 million over three years.
2010-11	The State budget provided \$6.4 million in OMP from enrollment growth-related funding.
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.

“The University recognizes the priority for access, affordability and the quality education that is critical to our students and the future economic growth of California. UC’s formula to continue its success for these three pillars of excellence lies in the recent reinvestment of State funding; reducing the cost of education; and establishing a moderate, affordable, and predictable tuition increase policy.”

Patrick J. Lenz
University of California
Vice President for Budget and Capital Resources

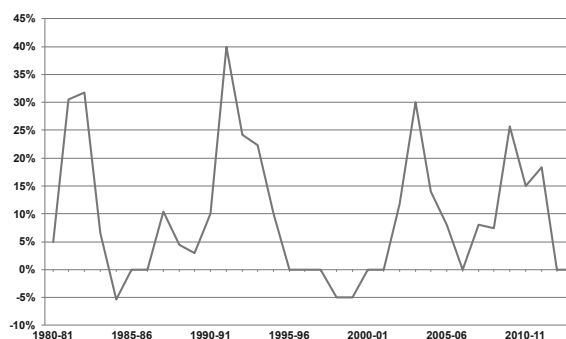
Student Tuition and Fees

Revenue from student tuition and fees is a major source of funding for the University’s core educational program; in 2012-13, these sources provided approximately \$3.52 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 46% of the cost of education. Since 1990-91, the State’s inflation-adjusted contribution per UC student has declined by 53%; and in 2011-12, 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 a little more than a third of the budget shortfall created by the fiscal crisis that began in 2008-09. Unfortunately, in periods of declining State support, student tuition and fee increases have been necessary for UC to sustain its mission to provide access to a high quality instructional program for the State’s most talented students. All tuition and fee increases since 1990-91 have been a direct result

Display XV-1: Year-to-Year Percentage Change in Mandatory Charges Since 1980 (Not Adjusted for Inflation)



UC’s tuition levels have been subject to chronic volatility, reflecting that tuition increases have always closely mirrored the State’s fiscal condition. Tuition has increased to offset State budget cuts.

of inadequate and erratic State support. As a consequence, UC’s tuition increases have been marked by chronic volatility, which has hurt students, their families, and the ten campuses. Adjusted for inflation, mandatory systemwide charge levels would be roughly the same as their current levels without the massive variability shown in Display XV-1 if UC had implemented approximately 5% increases each year since 1980-81 – which supports the idea of a moderate and predictable tuition increase plan at the University.

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;

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 <http://regents.universityofcalifornia.edu/governance/policies/3101.html>.

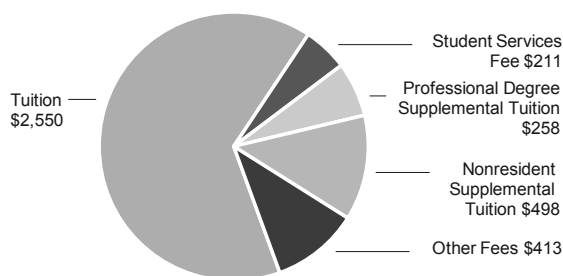
³ Although included in enrollment counts as students, medical and other health sciences residents are not assessed student charges.

Student Tuition and Fees

Display XV-2: 2013-14 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	\$505-\$1,704
Graduate	\$175-\$1,068

Display XV-3: 2012-13 Student Tuition and Fee Revenue (Dollars in Millions)



In 2012-13, student tuition and fees generated \$3.52 billion to support the University's core operating budget and student financial aid. Campus-based/other fees totaling \$413 million support specific programs outside the core budget, such as student government and transportation.

- 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 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 historic commitment of setting aside a percentage of student tuition and fee revenue for financial

⁴ Campus-based fee levels for undergraduate and graduate students do not include waivable health insurance fees.

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. In recent years, UC has set aside 33% of new fee revenue from undergraduate students to augment UC's "return-to-aid" funds.

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 2013-14, the University's average fees for California resident undergraduate students and resident graduate academic students are below the tuition and fees at three of its four public comparison institutions.

The Governor's proposed multi-year funding plan for UC calls for four years of no tuition and fee increases.

Consistent with the Governor's plan, the University did not implement a tuition and fee increase for 2013-14 and the budget plan for 2014-15 contains no increase in tuition and fees. However, half of the University's core operating budget derives its support from tuition and fee revenue. It is not sustainable to have no fund source identified for cost-adjusting half the operating budget for four years. Either tuition increases will be needed, or another source of revenue, such as State buy-out funds, must be identified.

For 2014-15, UC is requesting \$86.8 million from the State above the 5% base budget adjustment to help fund two critical cost elements in the budget plan – employer contributions to the University's retirement plan and 1% enrollment growth. If this additional State funding is provided, it would free up an equivalent portion of the State General Fund base budget adjustment that can then be used to help fund cost adjustments for tuition and fee-funded programs. This additional funding would only meet part of the requirements for tuition and fee-funded programs; other savings or additional revenue will need to be identified to meet the remainder.

Looking ahead, the University is examining alternative Tuition-setting scenarios, such as cohort-based fees and differential fees, as possible alternatives to traditional tuition and fee increases. In addition, in advance of the next increase in Tuition and the Student Services Fee, Assembly Bill 970 will be a factor in terms of notice and consultation. AB 970 established the Working Families Student Fee Transparency and Accountability Act, which requests that the Regents comply with prescribed public notice and student consultation procedures prior to adopting increases in mandatory systemwide charges. AB 970 passed into law in August 2012.

TYPES OF FEES

Tuition

Tuition, formerly called the Educational Fee, was first established in 1970, is charged to all registered students, and 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 2012-13, Tuition generated \$2.55 billion for operations. The Regents set Tuition levels annually as described in the

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.

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 2013-14, 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 2012-13, the fee generated \$211 million. The majority of these funds is 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 2013-14, the Student Services Fee is \$972 for all students.

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

PROGRAMS CHARGING PROFESSIONAL DEGREE SUPPLEMENTAL TUITION

In 2013-14, Professional Degree Supplemental Tuition is 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; games and playable media; genetic counseling; health informatics; health services – physician assistant studies; 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; technology and information management; theater, film, and television; translational medicine; urban planning; and veterinary medicine.

allow UC's professional schools to offset reductions in State support and maintain program quality.

Assessed in addition to mandatory student charges and, if applicable, Nonresident Supplemental Tuition, Professional Degree Supplemental Tuition levels during 2013-14 range from \$4,000 to \$38,548 depending on the program, campus, and student residency. In 2012-13, these charges generated \$258 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 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

⁵ <http://regents.universityofcalifornia.edu/governance/policies/3103.html>.

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 October 2012, Provost Dorr convened a systemwide Professional Degree Supplemental Tuition Task Force to give careful consideration to a number of issues related to these charges, specifically the policy governing the charges and the process through which campuses propose new charges and increases to existing levels. It is anticipated that policy revisions will be presented to the Regents in March 2014.

Given concerns about Professional Degree Supplemental Tuition levels and increases on the part of the Governor, legislators, and former President Yudof, no changes for programs charging Professional Degree Supplemental Tuition in 2012-13 were proposed for 2013-14, with the exception of the levels for UC's four Nursing programs. Nursing programs had proposed to implement in summer 2013 the second of three years of significant Professional Degree Supplemental Tuition increases after many years of keeping their levels artificially low at the request of then-Governor Schwarzenegger and reduced Workforce Investment Act funding; however, only an 8% increase for

Nursing programs was approved for 2013-14. The Regents also established new Professional Degree Supplemental Tuition charges, effective August 1, 2013, for programs in Games and Playable Media, Health Services – Physician Assistant Studies, Technology and Information Management, and Translational Medicine.

It is anticipated that at their March 2014 meeting, the Regents will be asked to establish a new Professional Degree Supplemental Tuition charge for one program at the Irvine campus. A determination will be made at a later date whether to request approval of increases in existing Professional Degree Supplemental Tuition charges for 2014-15 at the March meeting.

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 27,000 nonresident students, including both undergraduate and graduate international students and domestic students from other states, generated \$498 million in 2012-13.

Nonresident tuition levels in 2013-14 vary by student level and program: \$22,878 for undergraduate students, \$15,102 for graduate academic students, and \$12,245 for graduate professional students. The California Education Code provides direction to UC about setting Nonresident Supplemental Tuition levels.

Undergraduates who enroll as nonresidents typically pay Nonresident Supplemental Tuition every term that they attend UC; unless a student’s parents move to California or the student is deemed financially independent – a very high standard that is difficult to meet – the student is unlikely to satisfy the University’s undergraduate residency requirements. Domestic graduate students are generally presumed to be financially independent and typically establish residency after one year. International students cannot establish residency and hence pay Nonresident Supplemental Tuition every term (although graduate academic students are exempt from this charge for up to three years once they advance to candidacy).

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.

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 early part of 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.

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.

Display XV-4: 2013-14 Campus-based Fee Levels

<u>Campus</u>	<u>Undergraduate</u>	<u>Graduate</u>
Berkeley	\$672	\$672
Davis	\$1,704	\$917
Irvine	\$957	\$770
Los Angeles	\$505	\$379
Merced	\$968	\$637
Riverside	\$768	\$597
San Diego	\$1,079	\$587
San Francisco	n/a	\$175
Santa Barbara	\$1,554	\$800
Santa Cruz	\$1,205	\$1,068
Average	\$1,030	\$621

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; 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 2013-14 range from \$175 at San Francisco (graduates) to \$1,704 at Davis

⁷ The University's Policy on Compulsory Campus-Based Student Fees is available at <http://policy.ucop.edu/doc/2710528/PACAOS-80>.

(undergraduates); in 2013-14, average campus-based fees are \$1,030 for undergraduates and \$621 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-4 shows campus-based fee levels during 2013-14.

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 2012-13, Course Materials and Services Fees generated approximately \$23 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 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.

⁸ Campus-based fee figures are weighted by enrollment and do not include waivable health insurance fees, which average \$1,688 for undergraduates and \$2,734 for graduates in 2013-14.

Display XV-5: 2013-14 University of California and Public Comparison Institution Fees

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
Public Comparison Institutions				
SUNY Buffalo	\$8,426	\$20,366	\$11,855	\$20,335
Illinois				
Lowest	\$15,258	\$29,640	\$15,198	\$28,690
Highest	\$20,178	\$34,560		
Average	\$17,718	\$32,100		
Michigan				
Lower division	\$13,142	\$40,392	\$19,792	\$39,798
Upper division	\$18,168	\$45,602		
Average	\$15,655	\$42,997		
Virginia				
Lowest	\$12,676	\$40,062	\$16,270	\$26,276
Highest	\$17,466	\$44,852		
Average	\$15,071	\$42,457		
UC	\$13,222	\$36,100	\$12,813	\$27,915

In 2013-14, the University’s average fees for California resident students remain below three of four comparators for both undergraduate and graduate students.

Note: Comparison institution figures include tuition and required fees. 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 and Virginia represent the minimum base rate and the maximum charge for higher-cost programs.

Despite the significant fee increases implemented over the last ten years, in 2013-14 UC’s average fees for *resident undergraduate* students (excluding health insurance fees) remain below the fees charged at three of the University’s four public comparison institutions, as shown in Display XV-5. UC fees for *resident graduate academic* students also 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 level and below one of the four comparators at the graduate level. 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 2013-14 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 2013-14, UC charges for many resident professional students fall within the range of the resident tuition and fees charged by

comparable 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 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.

**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 called for UC to avoid a tuition increase, mandatory systemwide charges did not increase in Fall 2012. Professional Degree Supplemental Tuition increased by 0-35%.
2013-14	Due to the Governor's proposed multi-year plan, which calls for no tuition increases for four years, mandatory systemwide charges did not increase in Fall 2013. Professional Degree Supplemental Tuition for UC's Nursing programs increased by 8% and was held flat for 53 programs.

The Appendices to this document include historical tuition and fee levels for UC students by level and residency.

KASHMIRI AND LUQUETTA LAWSUITS

Two lawsuits against the University, *Kashmiri v. Regents* and *Luquetta v. Regents*, have impacted Tuition levels for all students.

The *Kashmiri* 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 2012-13, 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. A temporary Tuition surcharge of \$60 was assessed to all students for several years until the lost revenue was fully recovered and the judgment was fully paid off, which occurred in 2012-13.

The *Luquetta* lawsuit 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 March 2013 Regents' meeting, the Board approved an extension of the temporary Tuition surcharge of \$60 to cover the *Luquetta* judgment. Due to the accrual of post-judgment interest, losses associated with the *Luquetta* case total approximately \$50 million.

“We are committed to ensuring that students from all walks of life can afford a world-class UC education. That commitment to student access is a core University value – and a critical factor in UC’s success.”

*Judy K. Sakaki
University of California
Vice President for Student Affairs*

Student Financial Aid

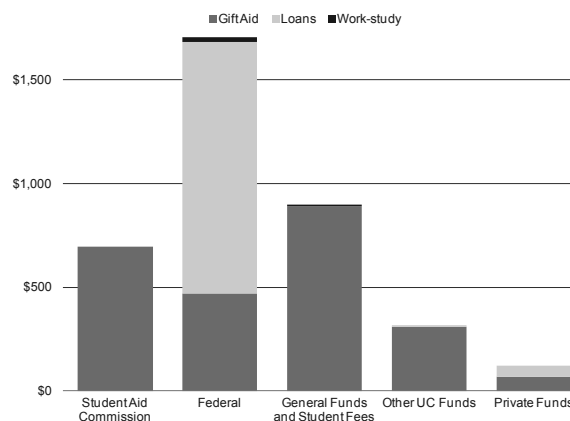
Guided by policy adopted by the Regents in 1994, the University’s financial aid program is closely linked to the University’s goals of student access and helping the state meet its professional workforce needs.¹ In 2011-12, UC students received \$3.7 billion in financial aid, of which \$1.2 billion (35%) 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 2011-12 academic year, 65% of UC undergraduates received grant/scholarship aid averaging \$15,784 per student; in fact, over 50% of all California resident undergraduates pay no systemwide tuition or fees. The University of California is nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students. In 2011-12, 42% of UC undergraduates were low-income Pell Grant recipients – more than at any other comparably selective research institution. In addition, more than half of UC’s 2011-12 graduating undergraduates had no student loan debt; and the 52% who borrowed had average debt of \$19,751, well below the national average for 2010-11 of \$26,600.

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 2011-12, 65% of graduate students

¹ The University of California Financial Aid Policy is available at <http://regents.universityofcalifornia.edu/governance/policies/3201.html>.

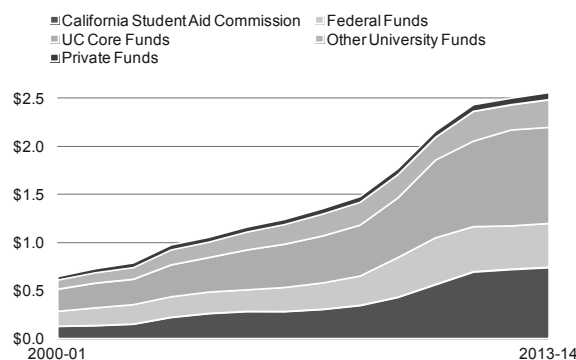
Display XVI-1: 2011-12 Financial Aid by Type and Source of Funds (Dollars in Millions)



	CSAC	Federal	General Funds, Fees	Other UC	Private
Gift Aid	\$694.1	\$469.3	\$891.3	\$308.9	\$67.9
Loans	\$0.0	\$1,210.4	\$0.0	\$6.9	\$53.9
Work-study	\$0.0	\$25.3	\$5.5	\$0.0	\$0.0
Total	\$694.1	\$1,705.0	\$896.8	\$315.8	\$121.8

State, federal, and UC sources each provide large amounts of gift aid (i.e., 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 \$2.56 billion in 2013-14, over half of which is generated from UC sources.

FINANCIAL AID INITIATIVES IN 2013-14

In 2013-14, the University is undertaking two noteworthy fundraising initiatives to raise additional revenue specifically for financial aid for UC students:

- **Promise for Education.** This approximately six-week “crowdfunding” effort, launched in September 2013, asked participants to make a promise and raise funds through the power of their social networks. Revenue generated will benefit undergraduate students from California who have a demonstrated financial need.
- **Project You Can.** Launched in 2009, this systemwide effort focuses ongoing fundraising at all 10 UC campuses on a united goal: raise \$1 billion for student support through 2014. As of the end of June 2013, the University had raised \$744 million. Revenue generated will benefit both undergraduate and graduate students.

received grant or fellowship support averaging about \$16,119 per student, in addition to substantial support from teaching assistantships and research assistantships. The competitiveness of support packages for UC graduate 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 were 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. For undergraduates, this return-to-aid augmentation to its student aid programs, together with Cal Grant award increases, has provided enough funding to cover recent 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 have also allowed the University to fully fund the Blue and Gold Opportunity Plan since its launch in 2009-10. 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 student’s need.

As noted above, to help mitigate the impact of tuition and fee increases on the competitiveness of UC graduate student support, the University has, in recent years, provided an amount equivalent to 50% of new systemwide tuition and fee revenue from graduate academic students to student financial support.

The University has 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 are expected to supplement financial aid resources by an amount equivalent to at least 33% of new Professional Degree Supplemental Tuition revenue, 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. In 2014-15, 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 discussed in the *Student Tuition and Fees* chapter, the University does not propose to raise mandatory systemwide charges in 2014-15 as the Governor's proposed multi-year funding plan for UC calls for four years of no tuition and fee increases. In addition, the University plans to freeze Nonresident Supplemental Tuition for graduate academic students for the tenth consecutive year and to freeze Nonresident Supplemental Tuition for graduate professional students for the eleventh 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 ten years.

While holding mandatory systemwide charges flat for all undergraduates gives students and their families a welcome break from tuition increases, doing so generates no new financial aid to help cover other rising costs for needy students. Costs associated with housing, books, transportation, healthcare, etc. increase every year. When there is no tuition increase, there is no resulting increase in federal, state, or institutional aid dollars to help offset those increases; they are passed along dollar-for-dollar to low-income students. In contrast, when tuition rises Cal Grants fully cover the increase for about 30% of UC undergraduates, and additional return-to-aid funds enable UC to cover the increase for another 25% of undergraduates. Moreover, return-to-aid funds allow UC to cover a portion of other cost increases, too, for low-income students. As a result, holding undergraduate tuition flat benefits higher-income students, while reducing aid to help lower-income students cover other rising costs.

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.

In 2013, UC conducted an extensive review of the University's systemwide undergraduate financial aid strategy and funding plan. All stakeholders reaffirmed the overarching goal of maintaining financial accessibility to the UC system for all California residents. The University will take action over the next few years to ensure that this goal remains achievable. Steps include ensuring that funding is available to keep expected parent contributions and student self-help manageable at every campus, as well as using fund sources other than tuition to minimize the tuition revenue needed for UC grants. Such steps are designed to result in a more robust aid strategy based upon a sound funding plan.

Each year UC prepares a comprehensive report for the Regents describing how undergraduate and graduate students finance their education.³ 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:

- 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; and

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 <http://ucop.edu/student-affairs/data-and-reporting/>.

- 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 2011-12, 58,600 UC students were awarded \$694 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 future 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 future proposed increases.

Beginning in 2014-15, CSAC will also administer the new Middle Class Scholarship Program (MCSP). The MCSP is designed to ensure that eligible students receive grant and scholarship assistance to cover a specified portion of in-state tuition (40% for students with family incomes less than \$100,000, falling to 10% for those with incomes up to \$150,000). The program is expected to provide over \$100 million in new grant assistance to over 30,000 UC families in 2017-18, once the program is fully phased in. Meanwhile, students will receive 35%, 50%, and 75% of the full award amount in 2014-15, 2015-16, and 2016-17, respectively.

Federal Aid Programs

UC students receive federal financial aid in four ways:

- Federal grants and scholarships worth \$469 million in 2011-12, which comprised 19% of all grants and scholarships received by UC students that year;
- Loans totaling \$1.2 billion in 2011-12;
- Work-study funds totaling \$25 million in 2011-12; 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

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 2013-14, 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 2013-14.

introduction in 1997; tax credits and deductions are described in greater detail at the end of this chapter.

While distinct from federal financial aid programs, federal research grants also provide financial support to many students, particularly those in graduate doctoral programs.

University Funds

University funds consist of two components: UC core operating funds and other University aid funds. The University designates \$897 million in UC core operating funds – student fee revenue, UC General Funds and State General Funds – for student financial support. Other University aid funds totaled \$316 million in 2011-12 and were provided through campus-based programs funded by endowment income, current gifts, and campus discretionary funds. Nearly all (98%) of the financial aid 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 2011-12, \$68 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 \$54 million from private lenders in 2011-12. 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 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 2011-12, 42% 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

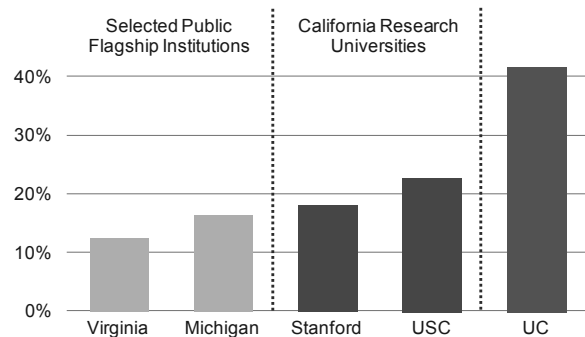
Display XVI-3: Undergraduate Student Financial Aid At-A-Glance, 2011-12 Academic Year	
Total Aid (Includes Summer)	\$2.7 billion
Aid Recipients	71%
Gift Aid	
Total gift aid	\$1.9 billion
Gift aid recipients	65%
Average gift aid award	\$15,784
Gift aid awards based on need	Over 92%
Student Loans	
Students who took out loans	46%
Average student loan	\$6,519
Students graduating with debt	52%
Average debt at graduation among borrowers	\$19,751
Student Employment	
Students who worked	47%
Students who worked more than 20 hours per week	8%

are disproportionately low-income; 49%, 51%, and 37%, respectively, of these students are either financially independent (who are generally low-income) or have parent incomes less than \$40,000. Collectively, students in these ethnic categories received 74% of all undergraduate gift assistance in 2011-12.

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 36% in 2011-12, which may reflect a decline in middle-income families statewide attributable to the recent 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 2014-15 academic year.

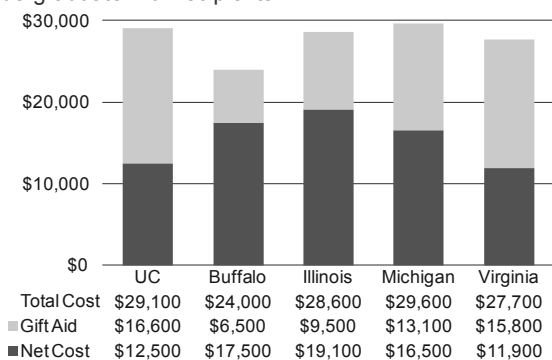
A general measure of the University's affordability is its average net cost of attendance, which represents the actual cost of attending UC for undergraduates after taking into account scholarship and grant assistance. In 2012-13 (the most recent year for which information is available), the University's average *total* cost of attendance (before financial aid) was higher than the total cost of attendance at three of UC's four public comparison institutions, as

Display XVI-4: 2011-12 Undergraduate Pell Grant Recipients



UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 42% during 2011-12, more than at any comparable public or private institution.

Display XVI-5: 2012-13 Net Cost of Attendance for Undergraduate Aid Recipients



Undergraduate need-based aid recipients at UC received an average of \$16,600 in gift aid, resulting in a net cost of \$12,500. UC's net cost in 2012-13 was lower than the net cost at three of its four public comparison institutions.

shown in Display XVI-5. After adjusting for gift aid, however, UC's *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 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 on the next page.

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.

**UC GRANT ASSISTANCE
UNDER THE EDUCATION FINANCING MODEL**

The Total Cost of Attendance

- Minus* A reasonable contribution from parents
- Minus* Grants from federal and state programs
- Minus* A manageable student contribution from work and borrowing
- Equals* University grant aid needed

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

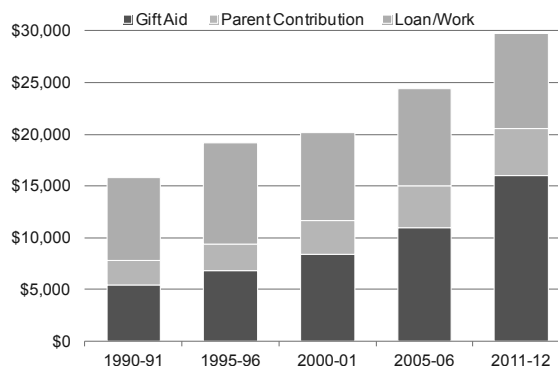
Display XVI-6 illustrates how undergraduate need-based aid recipients at UC have financed their cost of attendance from 1990-91 through 2011-12, and also illustrates several noteworthy trends:

- 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 2013-14, 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 2011-12 academic year, 16% of undergraduates received scholarships worth about \$4,600 on average.

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:

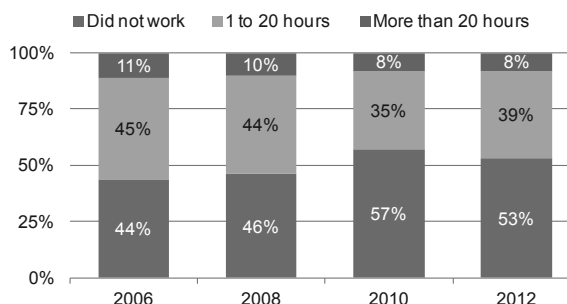
Display XVI-6: Cost of Attendance by Expected Source of Funding Among Undergraduate Need-Based Aid Recipients (2011-12 Dollars)



	1990-91	1995-96	2000-01	2005-06	2011-12
Gift Aid	\$5,434	\$6,857	\$8,392	\$11,000	\$16,016
Parents	\$2,351	\$2,568	\$3,284	\$4,000	\$4,565
Loan/Work	\$8,026	\$9,764	\$8,444	\$9,459	\$9,168
Total Cost	\$15,811	\$19,189	\$20,120	\$24,459	\$29,749

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, 2006-2012



University of California Undergraduate Experience Survey figures from 2006 to 2012 show only slight changes in students' work patterns during this period.

- **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 2013 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 the 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. The most recent survey of student employment, from Spring 2013, showed similar results: 50% of students reported that they did not work for pay, while 8% reported working more than 20 hours per week.
- **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 2011-12, 52% borrowed at some point while enrolled at UC; their average cumulative borrowing at graduation was \$19,751. In comparison to the students who graduated in 2001-02, the percent of students who borrowed in 2011-12 remains the same and the average amount borrowed has increased by about \$2,500 (inflation-adjusted).

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 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.

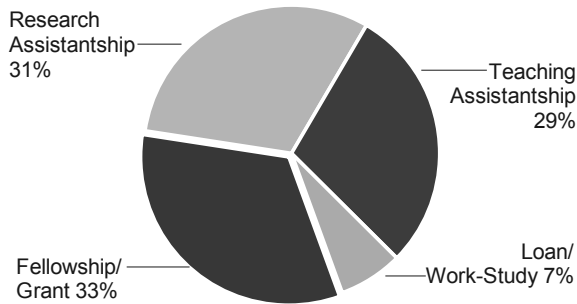
As shown in Display XVI-9, in 2011-12 33% of support for graduate academic students was in the form of fellowships and grants. Graduate academic students also serve as teaching and research assistants and hence receive significant funding from extramural faculty research grants and University teaching funds. Fellowship, grant, and assistantship support is viewed as more effective and loans as 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, 64% of the support for graduate professional students in 2011-12 was in the form of student loans and work-study and only 36% was in the form of fellowships,

Display XVI-8: Graduate Student Financial Aid At-A-Glance, 2011-12

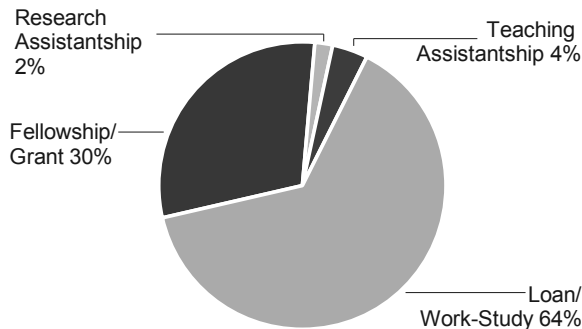
Total Aid	\$1.65 billion
From gift aid	31%
From loans/work-study	30%
From assistantships	38%
Aid recipients	89%
Gift Aid	
Gift aid recipients	66%
Average gift aid award	\$16,119

Display XVI-9: 2011-12 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: 2011-12 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.

grants, and assistantships, as shown in Display XVI-10. In 2011-12, the per-capita loan amount for graduate professional students accounted for over two-thirds of their assistance and was over eight times that of graduate academic students.

Graduate Academic Student Aid

As noted earlier in this chapter, 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.

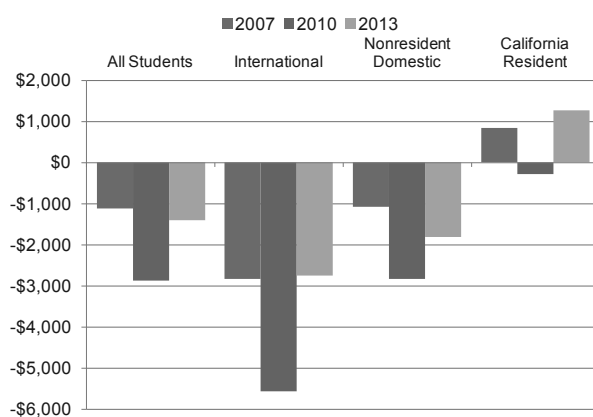
Over the past few years, the University has taken several steps to address the gap between graduate student support demand and supply. First, the University increased the percentage of new fee revenue from graduate academic students set aside for graduate student support, from 20% in 2004-05 to 50% currently. 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 practice 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



Preliminary 2013 data show an increase in UC's competitiveness with top non-UC institutions for financial support offers to academic doctoral students.

Surveys of students admitted to the University's academic doctoral programs suggest that UC narrowed the gap between its financial aid offers and those of competing institutions by nearly \$1,500 between 2010 and 2013, as shown in Display XVI-11. Results indicate that non-UC institutions still offer an average of \$1,400 more in net stipend amounts than UC institutions for all students. However, UC has significantly closed the gap for international and domestic nonresident students since 2010. UC's greatest competitive advantage is in offers to California resident students. The increase in competitiveness in 2013 is due to the flattening of net stipend averages for competitor institutions and moderate increases to UC net stipend awards.

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, a systemwide Professional Degree Supplemental Tuition Task Force has reviewed the policy, including sections of the policy that address financial aid for professional students. It is anticipated that policy revisions will be presented to the Board at their March 2014 meeting.

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.

⁴ <http://regents.universityofcalifornia.edu/governance/policies/3103.html>.

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 10% 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 2011-12, over 2,800 UC students took advantage of such exemptions, worth a total of \$34.5 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 2011-12, over 2,600 UC students qualified for exemptions worth \$49.5 million.

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 2012.

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.

“UC’s auxiliary enterprises not only provide added value to the communities they serve, but help support the University’s core mission of instruction, research, and public service.”

*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 making up the remaining 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. The 2013-14 budget for auxiliary enterprises is \$950 million.

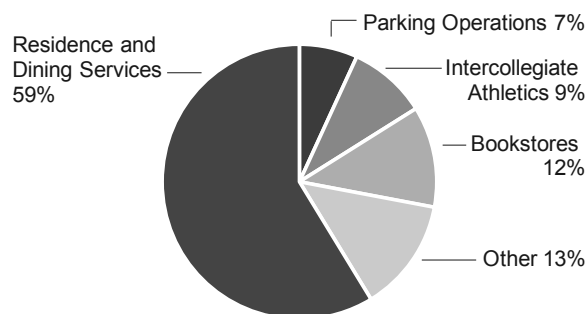
Auxiliary enterprises, as all functional areas of the University, have sought to reduce costs through increased efficiencies in administration and operations. Savings achieved in these programs are necessary to meet higher assessments being charged to auxiliaries for campus-wide operating costs and to cover rising pension contributions and other mandated cost increases such as for compensation 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 71,524 University-owned residence hall and single student apartment bed spaces and 5,281 student family apartments, for a total of 76,805 spaces in Fall 2013.

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

Display XVII-1: 2012-13 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, 2012-13

Student Housing:

Single student residence bed spaces	71,524
Student family apartments	5,281
Student housing occupancy rate	98%
Planned growth by 2013	4,427

Faculty Housing:

Faculty rental housing units	970
Planned growth by 2013	7
Mortgage loans provided	6,766
Faculty provided housing assistance	5,206

Parking:

Parking spaces	119,801
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those challenges. In accommodating demand, campuses 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, some campus residence

halls continue to be occupied at over 100% design capacity. In response, campuses have been accommodating more students by converting doubles to triples, as well as modifying study areas into temporary quarters. However, the removal of several buildings from inventory for remodeling or replacement with new structures has resulted in a decrease in the systemwide occupancy rate to 98% in 2012. Campuses continue to house all freshmen who meet enrollment and housing application deadlines.

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, as well as 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 2014-15.
- 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 119,801 spaces in 2013 for students, faculty, staff, and visitors. Campuses have successfully encouraged students, faculty, and staff through their Transportation Demand Management (TDM) programs to commute to campus via alternative modes. Alternative mode commuting reduces trips, parking demand 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 impact on off-campus intersections can be attributed to UC, and the less obligation UC has for paying for off-campus intersection improvement mitigations. TDM programs are funded, in part, by parking revenues; thus as TDM participation increases, parking revenue decreases, creating a challenge to continue and expand TDM funding.

INTERCOLLEGIATE ATHLETICS

Most UC campuses operate recreation and intercollegiate athletics programs exclusively as student services.

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.

“For years, the University has had to focus on implementing cuts strategically so as to protect the academic enterprise. UC is no less careful in judiciously spending increases. The University takes seriously its obligation to the State and its citizens.”

*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.

Restructuring of Lease Revenue Bond Debt Service

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 contracted with the State to design and construct facilities, provided the State Public Works Board (SPWB) with a land lease for the site on which buildings were constructed, and entered into a lease purchase agreement for the facilities with the SPWB.

Display XVIII-1: Lease Purchase Revenue Bond Debt Service (Dollars in Millions)

2008-09	\$156.6
2009-10	\$141.7
2010-11	\$199.5
2011-12	\$199.6
2012-13	\$211.2
2013-14 (budgeted)	\$221.4

Historically, annual lease payments were appropriated to the University from State funds and used to retire the debt. At the end of the lease term, ownership of the facilities automatically passed to the University. The budgeted amount was adjusted by the State during the year based on actual debt service payments. Consistent with past practice, the amount in UC’s base budget needed to cover the lease revenue bond debt service payments for 2013-14 was adjusted by the State Department of Finance to reflect the actual debt service the State was expecting to pay for the year. That amount was \$221.4 million.

However, the 2013-14 budget provided a mechanism for the University to restructure this debt and by doing so created an opportunity for the University to leverage its strong credit rating to reduce the debt service payments for the next 17 years. The University refinanced the debt in September 2013 and by doing so reduced the annual debt service by \$100 million for 10 years and by \$17 million for the subsequent 7 years. Thus, about \$100 million of the \$221.4 million in UC’s base budget that would have been otherwise used to cover the State’s debt service payments is now available to help cover operating costs in 2013-14. Language adopted as part of the 2013-14 budget package requires that all savings from debt restructuring be used to help address the unfunded liability in the University’s pension fund. Directing savings from debt restructuring to the pension fund will free up general funds that campuses otherwise would have had to pay into the retirement fund.

General Obligation Bond Debt Service

The 2013-14 Budget Act provides for the transfer of \$200.4 million to UC’s base budget to cover State General Obligation bond debt service related to University capital projects. This funding is a pass-through and not available for UC’s operating needs; however, the transfer increases UC’s base from which future budget adjustments are calculated.

“After years of uncertainty and belt-tightening, the State’s reinvestment in UC will allow the University to reinvest in its incomparable faculty and staff. Bringing compensation and benefits to market will be a key step in this reinvestment.”

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, adjustments to the University’s budget plan reflect these rising costs of doing business, rather than initiation of new programs.

Display XIX-1: Compensation and Benefits At-A-Glance, 2012-13

Number of Employees as of April 2013 (base FTE)	
Academic	41,813
Professional/Support Staff	90,141
Managers/Senior Professionals	9,539
Senior Management	188
Total	141,681
Salaries and Wages	\$11.4 billion
Employee Health Benefits	\$1.3 billion
UC Retirement Plan as of July 2013 ¹	
Active members (Headcount)	118,321
Normal Cost	\$1.5 billion
Retirees and survivors	61,715
Benefits payout for 2012-13	\$2.5 billion
Annuitant Health Benefits ¹	
Retirees and family members (Headcount)	54,259
Projected Cost for 2013-14	\$263 million

¹ Excludes retirees of Lawrence Berkeley National Laboratory.

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, 2010-11, and 2012-13. Academic employees continued to receive salary increases through the normal academic merit salary

review program, but they received no general range adjustments. Four 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 and escalating employee contributions to pension and medical benefits, has had serious consequences for UC faculty, staff, and their families. In 2011-12 and 2013-14, faculty and staff were eligible for general salary increases detailed later in this chapter.

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 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 four out of the eight 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 2014-15 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 employee groups 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 2014-15 includes an expectation of resources available through revenue increases and cost-saving measures in order to provide a compensation increase package for eligible employees.

COMPONENTS OF THE COMPENSATION BUDGET

Academic 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 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.

Contractual Wage Increases are established through collective bargaining agreements.

General Compensation Increases:

- **General Salary Program Increases** help cover rising benefit costs such as health insurance and the UC Retirement Program.
- **General range adjustments** for eligible employees reflect changes in the cost of living.
- **Market and equity adjustments** help bring individual salaries to market level for individual employees in jobs with significant external market gaps and/or internal equity issues, or address recruitment and retention challenges.

Other Compensation Related Items:

- **Pension Contribution Increases** are paid by both the employer and the employee.
- **Health and Welfare Benefit Cost Increases** are driven by rates negotiated with UC's health plan providers.
- **Retiree Health Cost Increases** are needed to cover similar cost increases in health benefits for annuitants.

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 core-funded employees.

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 6.5% of salary, and will increase further in the next few years to ensure the solvency of the retirement program. In addition, inflationary increases for health benefit costs may require employees to contribute a larger share toward their medical premiums. The 2014-15 budget plan includes a 3% general salary increase for all employees to help address the burden of increases in their share of health benefit and pension costs.

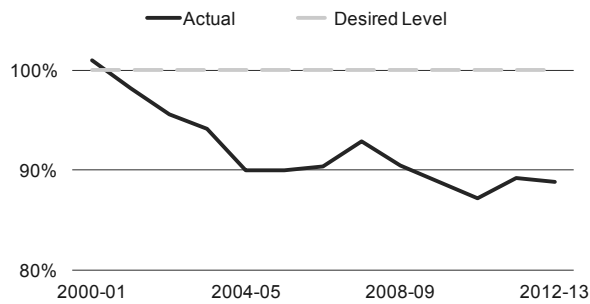
Faculty Salary Gap

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 to 11.2% in 2012-13.

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

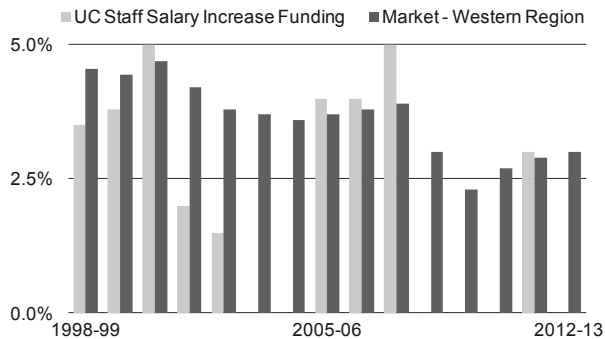
programs by recruiting faculty away from other universities. UC already finds itself struggling to retain its own high-quality faculty. Additionally, recruitment of new faculty, which has been significantly slowed due to the fiscal crisis, remains a concern. For the past two years, more faculty separated 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 twelve years, faculty salaries at UC have declined relative to UC's comparison institutions. In 2012-13, UC's faculty salaries were 11.2% below those of UC's comparison institutions, and it is estimated that this gap will continue in 2013-14 despite the across-the-board 2% increase in academic personnel salaries in July 2013.

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 six of those years, UC was unable to provide 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.)

Staff Salary Gap

Staff salaries in most workforce segments presents a similar competitive market problem for the University. Compared to market data, salary increases 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 UC staff salary increases have not kept pace. In fact, during six of the last 15 years, UC was unable to provide any compensation increases for staff.

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 UC's staff salary gap problem are the salaries of UC chancellors, which 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 universities in the United States and Canada), salaries for UC chancellors fall in the bottom third, despite the size, complexity, and stature of UC. The salary gap exists across the spectrum of UC's staff employees. In Fall 2005, in an effort to reduce the gap, the Regents adopted a plan calling for annual increases of 5% to 5.5% in staff salaries over a period of ten years. From 2005-06 to 2007-08, with funding from the Compact, UC slightly exceeded market salary increase budgets, but during 2008-09, 2009-10, 2010-11, and 2012-13, no staff salary increases were provided. Further implementation has been delayed due to ongoing funding shortfalls.

Similar to faculty, retention and recruitment of staff have 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. In September 2011, the University implemented a 3% merit pool for faculty, effective October 1, 2011, and for non-represented staff

FUNDING SHORTFALLS AND THE SALARY GAP FOR NON-REPRESENTED STAFF

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.

2013-14: General salary increases of 2% for academic personnel and 3% for non-represented staff were implemented.

employees retroactive to July 1, 2011. This increase did not include employees who are 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 address salary inequity issues for non-represented staff members. Fairness dictated that the University take this step. In 2013-14, non-represented staff received an average general salary increase of 3% despite the continuing State budget crisis. Faculty and non-represented academic personnel received a 2% increase in addition to the academic merit program in order to partially offset the increase in benefit costs for health care and pension.

Top senior management members were not eligible for the general salary increase again in 2013-14, bringing the total to six years in which senior managers have gone without a general salary increase.

Among represented staff, most received salary increases based on their unions' collective bargaining agreements. The union 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 and librarians) provided for continuation of the annual academic merit salary increase program, and generally paralleled the salary program for tenure-track faculty. Actual merit or other salary and benefit actions for UC's represented 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 has remained 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, state and national trends of dramatically increasing health insurance costs have in recent years limited UC's effectiveness in controlling these costs through aggressive management of medical and dental plans.

While UC's cost increases for its share of premiums for employee health benefits have begun to slow, State funding reductions have meant that no new funds have been available to cover the increases.

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 its 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.

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 costs 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 2013, plan changes were made that increased out-of-pocket costs (e.g., copayments and deductibles) for employees. This, in combination with

contract negotiations and moderating medical trends, resulted in an increase in UC's cost of only 2.4% – the lowest increase in many years. Further, 82% of employees incurred monthly premium increases of less than \$8 per month across all plans. The University is continuing to explore options to control employer health benefit costs over the coming years. While progress is being made in mitigating the trajectory of medical program cost, the Affordable Care Act (i.e., health care reform) adds to the complexity of cost management. Over the past several years, mandates to improve coverage and cover more members (e.g., children to age 26) have put upward cost pressure on the program. For 2014, in particular, new fees and taxes on medical plans will add 2-3% to plan cost.

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-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.

To continue to apply pressure in medical program cost management, two critical initiatives have been undertaken for 2014.

A comprehensive "request for proposals" was issued to the medical program market, seeking competitive bids on UC's 2014 medical program portfolio (excluding Kaiser). This action helps to ensure that UC secures the most cost competitive programs available in the market while positioning the medical benefit portfolio to provide

membership with distinct value in the short term as well as into the future.

The second key initiative for 2014 is the addition to the portfolio of a new UC Medical Center-based medical program (“UC Care”). UC Care has been in development for nearly two years and is built on a commitment to provide an attractive plan design and price point that encourages UC members to access care through UC’s own facilities and providers.

The overall projected increase in health and welfare benefits costs for the University during calendar year 2014 is a relatively modest 5.0%, 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 2014-15 is \$20.3 million from core funds.

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.

On June 26, 2013, in *U.S. v. Windsor*, the U.S. Supreme Court struck down certain provisions of the Defense of Marriage Act (DOMA) that barred recognition of same-sex marriages for purposes of any federal law or regulation, including many tax laws affecting benefits that prevented same-sex spouses from receiving the favorable tax treatment afforded to opposite-sex spouses with respect to those benefits. The U.S. Treasury Department and Internal Revenue Service recently issued additional guidance

regarding the Court’s ruling and UC Human Resources has completed its operational review of required changes.

UC has been a leader in providing equity for same-sex spouses and partners – offering health benefits coverage for same-sex partners since 1998 and UC Retirement Plan survivor benefits since 2001. The Supreme Court ruling will make several changes to the tax treatment of these benefits for married same-sex couples. Costs associated with implementing these changes are mostly related to programming of payroll and benefits systems and communications to employees. These costs are not expected to be significant.

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

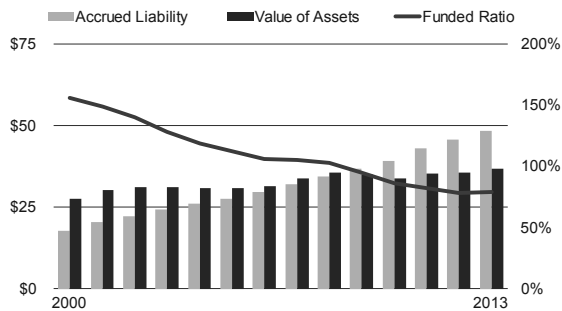
Pension Benefits

The University of California Retirement Plan (“UCRP” or “the Plan”) is a governmental defined benefit plan that provides pension benefits for more than 61,700 retirees and survivors and has more than 118,000 active employee members as of July 1, 2013. 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 \$2.5 billion in retirement benefits during 2012-13.

Prior to November 1990, contributions to UCRP were required from all employer fund sources and from 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.

Display XIX-4: 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 79% on an actuarial value of assets (AVA) basis by July 2013.

¹ Excludes retirees of Lawrence Berkeley National Laboratory

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 (17.7% 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 79% in July 2013. The accrued liability exceeds the actuarial value of assets by \$11.7 billion. 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 was 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 remained below the normal cost of annually accrued benefits (i.e., Normal Cost) as a percentage of salary (17.44%), these contribution rates slowed, but did not eliminate, the growth in unfunded liability. At their 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 began paying 7% as of July 1, 2013, as described below. At their July 2013 meeting, the Regents approved increases in employer and existing member contribution rates to 14% and 8% respectively, effective July 1, 2014.

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 future employer contributions to UCRP from rising to unsustainable levels.

Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases

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 age 60 to 65. In 2013-14, UCRP members hired on or after July 1, 2013 will be paying 7% of covered compensation. 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 2012-13, UC recorded an unfunded pension liability accrual of \$1.9 billion.

In 2013-14, the University is contributing \$320 million from core fund sources and \$1.1 billion from other sources to UCRP. As employer contribution rates rise over the next several years, UC contributions are expected to rise to \$393.1 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 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 \$281 million needed to fully fund the State’s 2013-14 share of UCRP. The budget plan for 2014-15 includes \$73 million for the increase in these costs for core-funded programs in 2014-15. Of this, \$64.1 million is the State’s share of UCRP employer contributions and the remaining \$8.9 million is related to programs funded from UC General Funds.

Display XIX-5: Actual and Projected Employer and Employee UCRP Contribution Rates¹

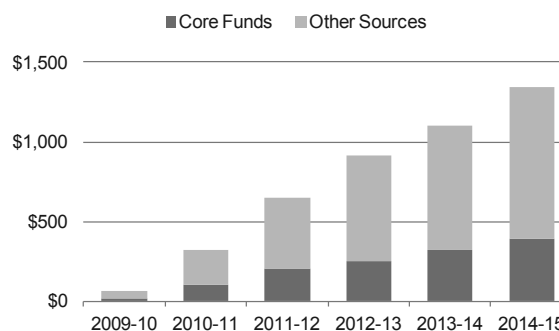
		Employer UCRP	Member STIP Note/ Bond Debt ²	Member UCRP
2010-11	Actual	4.00%	0.00%	2.00%
2011-12	Actual	7.00%	0.07%	3.50%
2012-13	Actual	10.00%	0.63%	5.00%
2013-14	Actual	12.00%	0.65%	6.50% ³
2014-15	Approved	14.00%	1.00%	8.00%

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-6: Actual and Projected Employer Contributions to UCRP by Fund Source (Dollars in Millions)



Employer contributions to UCRP restarted in April 2010. Contribution rates will be 14% of employee compensation by 2014-15, at a cost of about \$393.1 million to core-funded programs and \$1.3 billion in total.

Annuitant Health Benefits

As part of the benefit package, UC provides medical and dental benefits for about 54,200 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 2014, UC will pay 77% 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 2.67% for 2013-14. During 2013-14, UC’s costs for annuitant health benefits are estimated to exceed \$263 million from all fund sources.

Because future retiree health benefit costs are not pre-funded and because health care costs have risen rapidly, as of July 2013, UC has an unfunded liability for retiree health of \$12.5 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 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 2012-13, UC’s financial statements recorded a total liability of \$6.4 billion.

The University’s budget plan for 2013-14 includes \$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) increased about 2% from July 2012 to July 2013. 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 2014-15, UC’s electricity costs are expected to increase 4% above inflation and transmission and delivery of natural gas costs 2% above inflation. The budget plan includes \$24.5 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.

¹ Excludes retirees of Lawrence Berkeley National Laboratory.

“UC’s management of the U.S. Department of Energy laboratories provides the University valuable research opportunities as well as support for the educational enterprise. This relationship addresses U.S. priorities in national security, energy, environment, and basic science and contributes to the University’s stature and reputation for public service.”

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 high performance in 2011, 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.

DOE has requested an updated proposal to validate the indirect amount of \$1.14 million through the end of the award term.

DOE Management Fee

Performance management fees from LBNL are gross earned amounts before the University’s payments of unreimbursed costs. During 2012-13, 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 \$24.07 million for 2013. At their July 2013 meeting, the Regents approved an expenditure plan for the total of \$24.07 million, as shown in Display XX-1.

UC's projected fee income share from LANS and LLNS for 2013 became available the first quarter of calendar year

2013. 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: 2013-14 Expenditure Plan for Income from LANS and LLNS (Dollars in Millions)

Research Funds from LLC revenues 2013	\$15.28
UCOP Oversight	4.90
Supplemental Compensation	1.20
Contingencies (post-contract, other)	<u>2.69</u>
Total	<u>\$24.07</u>

“Though the University’s fortunes generally track the State’s or the economy at large, what never changes is UC’s commitment to access, affordability, and quality, UC’s three pillars of excellence.”

*Janet Napolitano
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. Until this past decade, each decade began with significant economic downturns followed by sustained periods of moderate, and sometimes extraordinary, economic growth. The first decade of this century was different – it, too, began with an economic downturn, but there was no sustained recovery. Instead, the State was cast into a second downturn within two years of emerging from the first – and this was the longest and deepest downturn of all. This chapter details the history of State funding of the University over the last several decades.¹

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 (fixed cost increases, inflationary increases, and workload changes). 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,

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.

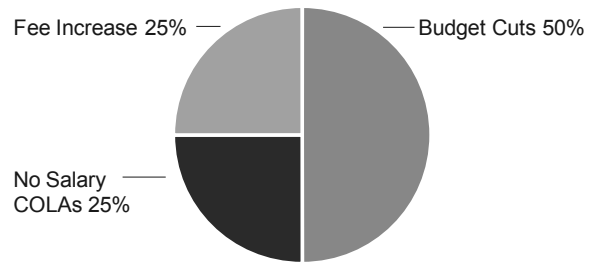
equivalent to roughly 20% of its State General Fund budget in 1989-90, as depicted in Display XXI-1. (By way of comparison to the most recent fiscal crisis, the proportion by which UC's budget was reduced over a four-year period in the 1990s is equivalent to the one-year proportional reduction in 2009-10).

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 students needing to take out 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 core-funded 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

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.

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 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.

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.

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, i.e., built-in cuts of \$10 million associated with expected efficiency savings
 - \$150 million a year for capital budget
 - Priority for life-safety and seismic projects, infrastructure, and educational technology
-

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

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: Major 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 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: Major 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

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.

The final 2001-02 budget was the first budget in seven years that did not provide full funding of the Partnership Agreement or the earlier 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, which included partial funding of the Partnership. Several initiatives representing high priorities for the Governor and the Legislature were also 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; in addition, UC funding available for debt financing for deferred maintenance projects was reduced from \$6 million to \$4 million to help 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 base 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.

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 a mid-year 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

Display XXI-7: Major State Funding Changes under the Partnership Agreement, 2002-03 (Dollars In Thousands)

<u>Partnership Funding</u>	
Annuitant Health and Dental Benefits	\$16,824
Enrollment Growth	\$69,201
<u>Reductions</u>	
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)
<u>Other Initiatives</u>	
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
<i>Total State Funding = \$3.15 billion</i>	

nearly every area of the budget were all approved in the final budget act; this included \$179 million in cuts, offset by increases in mandatory systemwide student fees, that otherwise would have been targeted at instructional programs.

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 for 2003-04 did include some funding increases (see Display XXI-8); however, 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

Display XXI-8: Major 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: Major 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

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 \$15 million associated with the unallocated reduction was ultimately approved as a permanent reduction. That reduction was ultimately 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. In 2004-05 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; in addition, 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 increases and other unfunded cost increases.

A NEW COMPACT WITH GOVERNOR SCHWARZENEGGER

As the State's economic recovery remained slow, the

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 adjustments 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, and 20% in 2004-05 and 10% in 2005-06 for graduate students, followed by 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
-

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.

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, which said that 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 determined that providing sufficient funding for programs and preserving 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, and time-to-degree rates; 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 to include a component for maintenance

Display XXI-11: Major State Funding Changes under the Compact, 2005-06 through 2007-08 (Dollars In Thousands)

2005-06 STATE FUNDING

Compact Funding

Base Budget Adjustment (3%)	\$76,124
Annuitant Health and Dental Benefits	\$521
Enrollment Growth	\$37,940

Reductions

One-time enrollment shortfall	(\$3,764)
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Other Initiatives

Labor Institutes	(\$3,800)
Science and Math Initiative	\$750
UC Merced (One-Time)	\$14,000
COSMOS	(\$1)

Total State Funding = \$2.839 billion

2006-07 STATE FUNDING

Compact Funding

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

Other Initiatives

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

Total State Funding = \$3.069 billion

2007-08 STATE FUNDING

Compact Funding

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

Reductions

UC-Mexico Research	(\$500)
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Other Initiatives

UC Merced (One-Time)	\$14,000
COSMOS	\$500

Total State Funding = \$3.257 billion

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 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; however, 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.

UC's 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

Display XXI-12: Major 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: Major 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

unrealistic and the State began a process of budget negotiations over a ten-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 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 was 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 for 2010-11 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

Display XXI-14: Major 2010-11 State Budget Actions
(Dollars in Thousands)

Augmentations

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

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 included 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 for 2010-11.

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 unfunded 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

Display XXI-15: Major 2011-12 State Budget Actions
(Dollars in Thousands)

Augmentations and Reductions

Restoration of One-time Cuts	\$106,000
Annuitant Health and Dental Benefits	\$7,089
Undesignated Reduction (January)	(\$500,000)
Undesignated Reduction (June)	(\$150,000)
Trigger Cut (December)	\$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 \$2.272 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

Reductions up to 21.3%

San Diego Supercomputer Center	\$690
Other SAPEP Programs (estimated)	\$4,056
COSMOS (estimated)	\$192

Reductions up to 5%

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

No Reductions

Labor Institutes	\$0
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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, through the referendum process, the extension of temporary tax increases that were set to expire in 2011-12. 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 unfunded 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.

2012-13: UC BEGINS TO SEE INCREASES IN STATE FUNDING

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 assumed 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 was approved by California voters in November 2012 and addressed about \$5.6 billion of the gap. (If the Governor's revenue-raising initiative had not been adopted in the November election, the budget called

Display XXI-17: Major 2012-13 State Budget Changes
(Dollars in Thousands)

Augmentations

UC Retirement Plan	\$89,135
Annuitant Health Benefits	\$5,168
Lease Revenue Bond Debt Service	\$11,648
<i>Total State Funding = \$2.377 billion</i>	

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 included no further cuts to the base budget and provided an augmentation of \$89.1 million toward the State's share of the employer contribution to the University's retirement plan. The budget also included 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 was \$2.377 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 provided UC with \$125 million in deferred tuition buy-out funding in the 2013-14 budget upon passage of the Governor's revenue-raising initiative passes in November. 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.)

2013-14: FUNDING IN THE CURRENT YEAR AND THE BEGINNING OF THE GOVERNOR'S MULTI-YEAR PLAN

When Governor Brown took office, the State faced a \$26.6 billion short-term budget problem and estimated annual gaps between spending and revenues of roughly \$20 billion. With submission of the 2013-14 State budget to the Legislature in January 2013, the Governor effectively completed his two-year effort to close the state's structural budget gap. His ability to close such a significant budget gap in a short period of time is due in part to the economic recovery at both the national and state levels, as well as the passage of Proposition 30 in November 2012. The

**ACTIONS TO ADDRESS BUDGET SHORTFALLS:
A SNAPSHOT FROM 2012-13**

The 2012-13 academic year marked the fifth year in which UC campuses implemented measures to reduce expenditures, avoid costs, and introduce efficiencies at the local level to address significant budget gaps. Academic and administrative units on the campuses had been assigned cuts ranging in general from 0% to 35%. By 2012-13, more than 4,200 staff had been laid off and more than 9,500 positions had been eliminated or remained unfilled since the beginning of the recent fiscal crisis. Over 180 programs had been eliminated and others consolidated for an estimated savings of over \$116 million.

Against this backdrop, it is important to note that at that time, the University was enrolling about 11,500 students for whom it had never received funding from the State. In addition, in 2011-12 and total faculty hires were more than 200 less than total faculty separations, yet enrollment had grown by more than 10,000 students since the fiscal crisis began. All campuses reported moving aggressively toward implementing shared service centers to reduce duplication and streamline processes. All campuses had curtailed faculty recruitment. No campus was applying across-the-board cuts; each used a consultative, deliberative process to determine how reductions should be allocated. All campuses applied disproportionate cuts to administrative programs in order to reduce the impact on academic programs. Campuses also reported taking a wide variety of other measures to avoid or reduce costs and raise new revenue to address budget shortfalls. Examples from campus reports include:

- Between April 2009 and April 2011, Berkeley reduced its staff workforce by more than 900, a 10% drop;
- Riverside reported that the average size of an undergraduate lower-division lecture class increased 33%, from just over 66 in Fall 2008 to over 88 in Fall 2011; and
- San Francisco eliminated Clinical Nurse Specialist programs in cardiovascular care and neonatal intensive care, as well as nurse practitioner programs.

Governor's highest budget priority for 2013-14 is education, as reflected in his funding recommendations for K-12, the California Community Colleges, the California State University, and the University of California. For UC and CSU, these recommendations are embodied in a multi-year funding plan that promises to provide some level of State funding stability for both university systems over the next four years.

Display XXI-18: Major 2013-14 State Budget Changes
(Dollars in Thousands)

Multi-Year Plan Funding

Deferred 2012-13 Tuition Buyout	\$125,000
Base Budget Adjustment (5%)	\$125,100
Annuitant Health Benefits	\$6,400
Lease Revenue Bond Debt Service	\$10,200

Other Initiatives

Shift of GO Bond Debt Service	\$200,400
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Redirections of Existing Funds

- UCR Medical School (\$15 million)
- Online Initiative (\$10 million)
- Debt Service, UCM (\$3.6 million)

*Total State Funding = \$2.844 billion**

*Of this total, \$200.4 million is for general obligation bond debt service.

The overall base budget for UC increased from \$2.377 billion in 2012-13 to \$2.844 billion in 2013-14. However, \$400 million of that total is debt service related to capital outlay and is not available for operating budget purposes. About half of the increase in UC's State General Fund allocation for 2013-14, or \$256.4 million, is available for unrestricted distribution to the operating budget. Consistent with the 2012-13 Budget Act, the budget for 2013-14 includes \$125 million to buy out the planned tuition and fee increase from 2012-13. For 2013-14, the budget also provides \$125.1 million for a 5% base budget adjustment, the first of four years of base budget adjustments under the Governor's multi-year funding plan for UC. Of this \$125.1 million, \$15 million is to be directed to the UC Riverside School of Medicine, \$10 million is to be used to advance online education, and \$3.6 million is to be used to fund the debt service for a \$45 million Classroom and Academic Office Building at the Merced campus. The budget also provides \$6.4 million for annuitant health benefit costs and a \$10.2 million adjustment for lease revenue bond payments. In addition, the budget shifts \$200.4 million of State General Obligation Bond debt service to the University's base; with this shift, the University will benefit from future base budget adjustments.

The State funds provided in 2013-14 are a welcome departure from past years' base budget cuts.

However, they are sufficient to fund only the cost increases on the State-funded portion of the budget – which is now less than half of the total core funds. These cost increases include employer contributions to the University's retirement program, faculty merit increases, health and welfare benefit increases, non-salary price increases, and other compensation increases (non-represented staff have only had one other general salary increase in six years). The University has committed to avoiding a tuition increase in 2013-14; thus, another source of funds must be identified to support cost-increase funding for the largest portion of the core-funded budget.

The University is fortunate to have the benefit of a new change in how debt service funding for capital outlay is being handled at the State level. With the shift of General Obligation Bond debt service to the University's base budget, all State-funded debt service for capital outlay is now contained in the University's base budget. As indicated above, this will be important for base budget increases in the coming years. Moreover, the State Lease Revenue bond debt has been shifted off of the State's balance sheet and onto the University's (General Obligation Bond debt service cannot be shifted from the State). The University refinanced the Lease Revenue bond debt in September 2013 – and by doing so reduced the annual debt service by \$100 million for 10 years and by \$17 million for the subsequent 7 years. Thus, about \$100 million of the \$221.4 million in UC's base budget that would have been otherwise used to cover the State's debt service payments is now available to help cover operating costs in 2013-14. The Legislature adopted budget trailer bill language requiring that the savings be used to address the University's UCRP unfunded liability. Because these are one-time funds, this will temporarily alleviate pressure on the University's operating budget and can help mitigate the fact that there is no source of funding identified for the cost increases associated with the tuition-funded portion of the University's core operating budget.

Display XXI-19 provides a brief outline of State budget actions since 2000-01.

Display XXI-19: 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. Given the passage of the Governor's revenue-raising initiative in November 2012, no further cuts occurred to the University's budget.

2013-14

The State began implementing the Governor's multi-year funding plan for higher education, increasing the University's base budget 5% and marking the end of a half-decade of base budget cuts and extreme fiscal volatility.

Appendix Display 1: Budget for Current Operations and Extramurally Funded Operations (Dollars in Thousands)

I N C O M E		
	2012-13 Actual	2013-14 Estimated
BUDGET FOR CURRENT OPERATIONS		
General Fund		
State of California	\$ 2,376,805	2,644,064
GO Bond Debt Service	0	200,385
UC Sources	848,466	928,889
Total General Funds	\$ 3,225,271	3,773,338
Restricted Funds		
State of California	\$ 75,031	61,831
U. S. Government Appropriations	23,586	23,000
Tuition, Student Services Fees & Professional School Fees	3,018,795	3,029,232
Extension, Summer Session & Other Fees	673,789	700,272
Teaching Hospitals	6,717,232	7,300,541
Auxiliary Enterprises	1,049,838	1,050,000
Endowment Earnings	218,659	213,080
Other	3,627,893	3,551,994
Total Restricted Funds	\$ 15,404,823	15,929,950
TOTAL BUDGET FOR CURRENT OPERATIONS	\$ 18,630,094	19,703,288
EXTRAMURALLY FUNDED OPERATIONS		
State of California	\$ 320,322	316,073
U.S. Government	2,806,929	2,743,275
Private Gifts, Contracts & Grants	1,602,228	1,696,690
Other	579,611	500,000
TOTAL EXTRAMURALLY FUNDED OPERATIONS	\$ 5,309,090	5,256,038
DEPARTMENT OF ENERGY LABORATORY (LBNL)	\$ 848,496	826,000
TOTAL OPERATIONS	\$ 24,787,680	25,785,326
E X P E N D I T U R E S		
	2012-13 Actual	2013-14 Budgeted
BUDGET FOR CURRENT OPERATIONS		
Instruction:		
General Campus	\$ 2,663,912	2,943,213
Health Sciences	1,924,802	1,951,578
Summer Session	17,044	17,044
University Extension	243,924	251,242
Research	669,559	771,876
Public Service	199,537	274,393
Academic Support: Libraries	245,306	283,687
Academic Support: Other	1,138,622	1,185,140
Teaching Hospitals	6,738,297	7,323,242
Student Services	698,415	708,533
Institutional Support	1,006,315	748,428
Operation and Maintenance of Plant	564,055	601,420
Student Financial Aid	1,247,763	1,298,617
Auxiliary Enterprises	1,049,838	1,050,000
Provisions for Allocation	222,705	94,490
Program Maint.: Cost Increases [GO Bond Debt Service]		200,385
TOTAL BUDGET FOR CURRENT OPERATIONS	\$ 18,630,094	19,703,288
EXTRAMURALLY FUNDED OPERATIONS		
Sponsored Research	\$ 3,460,562	3,473,039
Other Activities	1,848,528	1,782,999
TOTAL EXTRAMURALLY FUNDED OPERATIONS	\$ 5,309,090	5,256,038
DEPARTMENT OF ENERGY LABORATORY (LBNL)	\$ 848,496	826,000
TOTAL OPERATIONS	\$ 24,787,680	25,785,326

Appendix Display 2: University of California Income and Funds Available (Dollars in Thousands)

	2012-13 Actual	2013-14 Estimated
STATE APPROPRIATIONS		
General Fund	\$ 2,376,805	2,644,064
GO Bond Debt Service		200,385
Special Funds	<u>75,031</u>	<u>61,831</u>
TOTAL, STATE APPROPRIATIONS	\$ 2,451,836	2,906,280
UNIVERSITY SOURCES		
General Funds Income		
Student Fees		
Nonresident Supplemental Tuition	\$ 497,619	520,000
Application for Admission and Other Fees	37,765	37,900
Interest on General Fund Balances	1,916	3,500
Federal Contract & Grant Overhead	286,150	272,285
Overhead on State Agency Agreements	17,176	15,500
Other	13,739	15,000
Subtotal	<u>\$ 854,365</u>	<u>864,185</u>
Prior Year's Income Balance	<u>58,805</u>	<u>64,704</u>
Available in Subsequent Year	-64,704	
Total UC General Fund Income	\$ 848,466	928,889
Special Funds Income		
GEAR UP State Grant Program	\$ 5,000	5,000
United States Appropriations	18,586	18,000
Local Government	106,467	96,639
Student Fees		
Tuition [Educational Fee]	2,549,871	2,550,693
Student Services Fee [Registration Fee]	211,196	220,766
Professional School Fees	257,728	257,773
University Extension Fees	243,924	251,242
Summer Session Fees	17,044	17,044
Other Fees	412,821	431,986
Sales & Services - Teaching Hospitals	6,717,232	7,300,541
Sales & Services - Educational Activities	2,137,806	2,287,110
Sales & Services - Support Activities	777,469	750,000
Endowments	218,659	213,080
Auxiliary Enterprises	1,049,838	1,050,000
Contract and Grant Off-the-Top Overhead	107,519	110,250
DOE Management Fee	40,352	36,400
University Opportunity Fund	314,281	146,595
Other	143,999	125,000
Total Special Funds	\$ 15,329,792	15,868,119
TOTAL, UNIVERSITY SOURCES	\$ 16,178,258	16,797,008
TOTAL INCOME AND FUNDS AVAILABLE	\$ 18,630,094	19,703,288

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. 2010-11 and 2012-13 budgets were identical to 2009-10 and 2011-12 budgets, respectively.

	1997-98	2000-01	2008-09	2009-10	2011-12	2012-13
Direct Student Services Programs						
Community College Transfer Programs ¹	\$1,718	\$5,295	\$3,279	\$3,058	\$2,413	\$2,413
EAOP	4,794	16,094	8,914	8,416	7,356	7,356
Graduate and Professional School Programs	1,893	8,575	2,661	2,623	2,408	2,408
MESA Schools Program	4,169	9,355	4,861	4,394	3,806	3,806
MESA Community College Program	22	1,309	327	327	327	327
Puente High School Program	-	1,800	1,051	980	793	793
Puente Community College Program	162	757	450	419	340	340
Student-Initiated Programs	-	-	440	440	388	388
UC Links	-	1,656	694	622	622	622
Statewide Infrastructure Programs						
ASSIST	360	360	429	389	377	377
Community College Articulation	-	-	600	600	600	600
Longer-Term Strategies						
K-20 Regional Intersegmental Alliances ²	-	15,591	1,395	1,361	1,209	1,209
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	2,411
Other Programs						
Evaluation	-	1,386	1,180	1,077	855	855
Other Programs ³	203	3,887	936	829	652	652
Programs that have been eliminated or consolidated ⁴	4,750	9,717	-	-	-	-
Total	\$18,071	\$85,182	\$31,323	\$29,594	\$24,557	\$24,557
General Funds	\$16,996	\$82,243	\$19,323	\$17,594	\$12,557	\$12,557
University Funds	\$1,075	\$2,939	\$12,000	\$12,000	\$12,000	\$12,000

¹ Includes an additional \$2 million beginning in 2006-07 for the UC/Community College Transfer Initiative for Access and Success.

² Formerly School-University Partnerships.

³ Currently includes University-Community Engagement, ArtsBridge, and other programs.

⁴ 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 2013-14 (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	6,244,066	6,717,232	5,324,980	4,074,364	1,820,887	606,151	24,787,680
2013-14	6,602,185	7,300,541	5,384,021	3,970,179	1,909,770	418,245	25,584,941

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 2013-14 (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	2,376,805	848,466	-	2,549,871	211,196	257,728	6,244,066
2013-14	2,644,064	928,889	-	2,550,693	220,766	257,773	6,602,185

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

	2012-13 Actual	2013-14 Estimated
Berkeley		
General Campus	35,621	35,795
Health Sciences	<u>762</u>	<u>770</u>
Total	36,383	36,565
Davis		
General Campus	30,316	31,005
Health Sciences	<u>2,250</u>	<u>2,331</u>
Total	32,566	33,336
Irvine		
General Campus	27,303	28,885
Health Sciences	<u>1,499</u>	<u>1,495</u>
Total	28,802	30,380
Los Angeles		
General Campus	36,364	37,149
Health Sciences	<u>3,843</u>	<u>3,878</u>
Total	40,207	41,027
Merced		
General Campus	5,939	6,500
Riverside		
General Campus	20,280	20,598
Health Sciences	<u>58</u>	<u>89</u>
Total	20,338	20,687
San Diego		
General Campus	27,876	28,876
Health Sciences	<u>1,746</u>	<u>1,785</u>
Total	29,622	30,661
San Francisco		
Health Sciences	4,451	4,428
Santa Barbara		
General Campus	22,326	22,487
Santa Cruz		
General Campus	17,522	17,145
Totals		
General Campus	223,547	228,440
Health Sciences	<u>14,609</u>	<u>14,776</u>
Total	238,156	243,216

Appendix Display 7: General Campus Full-Time Equivalent Student Enrollment

	2012-13 Actual	2013-14 Estimated
Berkeley		
Undergraduate	27,683	27,848
Graduate	<u>7,938</u>	<u>7,947</u>
Total	35,621	35,795
Davis		
Undergraduate	25,924	26,598
Graduate	<u>4,392</u>	<u>4,407</u>
Total	30,316	31,005
Irvine		
Undergraduate	23,558	25,018
Graduate	<u>3,745</u>	<u>3,867</u>
Total	27,303	28,885
Los Angeles		
Undergraduate	28,609	29,260
Graduate	<u>7,755</u>	<u>7,889</u>
Total	36,364	37,149
Merced		
Undergraduate	5,633	6,147
Graduate	<u>306</u>	<u>353</u>
Total	5,939	6,500
Riverside		
Undergraduate	18,113	18,252
Graduate	<u>2,167</u>	<u>2,346</u>
Total	20,280	20,598
San Diego		
Undergraduate	23,822	24,751
Graduate	<u>4,054</u>	<u>4,125</u>
Total	27,876	28,876
Santa Barbara		
Undergraduate	19,513	19,673
Graduate	<u>2,813</u>	<u>2,814</u>
Total	22,326	22,487
Santa Cruz		
Undergraduate	16,136	15,686
Graduate	<u>1,386</u>	<u>1,459</u>
Total	17,522	17,145
General Campus		
Undergraduate	188,991	193,233
Graduate	<u>34,556</u>	<u>35,207</u>
Total	223,547	228,440

Appendix Display 8: Enrollment History, 1980-81 Through 2013-14

	<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	188,991	34,556	435	14,138	238,156
2013-14 (est.)	193,233	35,207	395	14,343	243,216

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	972	11,160	11,160	11,160	11,160	11,160	60
2014-15 ⁵	972	11,160	11,160	11,160	11,160	11,160	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 Consistent with the Governor's multi-year funding plan, UC's budget plan for 2014-15 contains no increase in tuition and fees.

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	12,192	0.0%	1,030	13,222	0.2%
2014-15 ⁴	12,192	0.0%	1,082	13,274	0.4%

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 Consistent with the Governor's multi-year funding plan, UC's budget plan for 2014-15 contains no increase in tuition and fees. 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	12,192	0.0%	1,030	22,878	0.0%	36,100	0.1%
2014-15 ⁴	12,192	0.0%	1,082	22,878	0.0%	36,152	0.1%

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 Consistent with the Governor's multi-year funding plan, UC's budget plan for 2014-15 contains no increase in tuition and fees. 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	12,192	0.0%	621	12,813	0.0%
2014-15 ⁵	12,192	0.0%	652	12,844	0.2%

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 Beginning in 2010-11, campus-based fee figures for graduate students do not include waivable health insurance fee.

⁵ Consistent with the Governor's multi-year funding plan, UC's budget plan for 2014-15 contains no increase in tuition and fees. 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	12,192	0.0%	621	15,102	0.0%	27,915	0.0%
2014-15 ⁵	12,192	0.0%	652	15,102	0.0%	27,946	0.1%

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 Consistent with the Governor's multi-year funding plan, UC's budget plan for 2014-15 contains no increase in tuition and fees. Assumes a 5% increase in campus-based fees.

Appendix Display 14: 2013-14 Total Charges for Undergraduates and Graduate Academics¹

	<u>Without Health Insurance</u>		<u>With Health Insurance</u>	
	Undergraduate	Graduate	Undergraduate	Graduate
Berkeley				
Residents	\$12,864	\$12,864	\$14,878	\$15,636
Nonresidents	35,742	27,966	37,756	30,738
Davis				
Residents	13,896	13,109	15,660	16,103
Nonresidents	36,774	28,211	38,538	31,205
Irvine				
Residents	13,149	12,962	14,508	15,554
Nonresidents	36,027	28,064	37,386	30,656
Los Angeles				
Residents	12,697	12,571	14,498	15,208
Nonresidents	35,575	27,673	37,376	30,310
Merced				
Residents	13,160	12,829	14,861	14,840
Nonresidents	36,038	27,931	37,739	29,942
Riverside				
Residents	12,960	12,789	13,683	14,646
Nonresidents	35,838	27,891	36,561	29,748
San Diego				
Residents	13,271	12,779	14,723	15,650
Nonresidents	36,149	27,881	37,601	30,752
San Francisco				
Residents	N/A	12,367	N/A	15,698
Nonresidents	N/A	27,469	N/A	30,800
Santa Barbara				
Residents	13,746	12,992	16,160	15,445
Nonresidents	36,624	28,094	39,038	30,547
Santa Cruz				
Residents	13,397	13,260	15,254	16,416
Nonresidents	36,275	28,362	38,132	31,518

¹ Total charges include campus-based fees and/or health insurance as estimated in July 2013. 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: 2013-14 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	\$24,310	\$36,555
Architecture				
Los Angeles	8,000	8,000	23,072	35,317
Art				
Los Angeles	8,478	5,298	23,511	32,576
Biotechnology Management				
Irvine	12,000	11,160	27,554	38,959
Business				
Berkeley	38,548	28,850	54,134	56,681
Davis	23,340	23,340	39,483	51,728
Irvine	22,881	19,275	38,450	47,089
Los Angeles	32,384	26,426	48,467	54,754
Riverside	22,848	22,848	37,594	49,839
San Diego	27,117	19,761	42,917	47,806
Dental Hygiene				
San Francisco	13,206	13,206	28,976	41,221
Dentistry				
Los Angeles	24,160	21,116	41,230	50,431
San Francisco	27,576	27,576	43,364	55,609
Development Practice				
Berkeley	18,384	18,384	33,970	46,215
Educational Leadership				
Davis	4,200	4,200	20,303	32,548
Engineering (M.Eng.)				
Berkeley	32,400	23,760	47,986	51,591
Engineering Management				
Irvine	12,000	12,000	27,554	39,799
Environmental Design				
Berkeley	6,000	6,000	21,586	33,831
Environmental Science and Engineering				
Los Angeles	7,200	7,656	22,233	34,934
Games and Playable Media				
Santa Cruz	28,900	28,900	50,605	53,493
Genetic Counseling				
Davis	9,000	9,000	24,554	36,799
Health Informatics				
Davis	6,420	6,420	22,523	34,768

¹ Total charges include campus-based fees and health insurance as estimated in July 2013. 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: 2013-14 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
Health Services – Physician Assistant Studies				
Davis	\$10,440	\$10,440	\$30,808	\$35,910
Information Management				
Berkeley	6,800	6,800	22,386	34,631
International Relations and Pacific Studies				
San Diego	7,596	7,596	23,246	35,491
Law				
Berkeley	35,164	26,870	50,750	54,701
Davis	34,182	31,188	50,280	59,531
Irvine	31,755	26,004	47,309	53,803
Los Angeles	31,755	26,004	48,588	55,082
Medicine				
Berkeley	19,914	19,914	35,500	47,745
Davis	19,914	19,914	40,363	52,608
Irvine	19,914	19,914	35,559	47,804
Los Angeles	19,914	19,914	35,008	47,253
Riverside	19,914	19,914	34,660	46,905
San Diego	19,914	19,914	35,619	47,864
San Francisco	19,914	19,914	35,706	47,951
Nursing				
Davis	8,358	8,358	29,207	41,452
Irvine	8,358	8,358	23,912	36,157
Los Angeles	8,358	8,358	23,279	35,524
San Francisco	8,358	8,358	24,071	36,316
Optometry				
Berkeley	16,436	16,436	32,022	44,267
Pharmacy				
San Diego	19,638	19,638	35,288	47,533
San Francisco	19,638	19,638	35,375	47,620
Physical Therapy				
San Francisco	12,597	12,954	28,295	40,897
Preventive Veterinary Medicine				
Davis	5,742	6,198	21,845	34,546
Product Development				
Berkeley	22,000	16,000	37,586	43,831
Public Health				
Berkeley	7,232	7,232	22,818	35,063
Davis	7,200	7,656	26,450	39,151
Irvine	5,613	5,613	21,167	33,412
Los Angeles	7,200	7,656	22,233	34,934

¹ Total charges include campus-based fees and health insurance as estimated in July 2013. 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: 2013-14 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
Public Policy				
Berkeley	\$8,020	\$8,522	\$23,606	\$36,353
Irvine	5,952	5,952	21,506	33,751
Los Angeles	7,288	7,775	22,321	35,053
Social Welfare				
Berkeley	4,000	4,000	19,586	31,831
Los Angeles	5,730	6,150	20,763	33,428
Statistics (MA)				
Berkeley	15,000	15,000	30,586	42,831
Technology and Information Management				
Santa Cruz	23,000	14,000	44,705	47,295
Theater, Film, and Television				
Los Angeles	9,534	9,534	24,567	36,812
Translational Medicine				
Berkeley (Jt. San Francisco)	30,330	30,330	46,400	49,971
Urban Planning				
Los Angeles	5,952	6,390	20,985	33,668
Veterinary Medicine				
Davis	15,216	15,216	33,843	46,088

¹ Total charges include campus-based fees and health insurance as estimated in July 2013. 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.

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