



## Proposed 2009-10 UC operating budget

At its November 2008 meeting, the UC Board of Regents will consider adoption of a 2009-10 operating budget for the University of California system. The document serves as a budget request to the State of California and kicks off the annual state budget process. The budget being submitted to the Regents is a working document, subject to Regental modification in the light of allocation decisions made by the state.

The new budget process begins as the UC system continues to face serious ongoing financial challenges. The state's per-student spending for education at UC, adjusted for inflation and enrollment growth, has fallen nearly 40 percent since 1990 – from \$15,860 in 1990 to \$9,560 today in current, inflation-adjusted dollars.

For 2008-09, the state reduced its operating support for UC by \$48 million, and Gov. Schwarzenegger has proposed another \$65.5 million in mid-year cuts. In addition, UC must achieve \$100 million in savings in 2008-09 to cover student enrollment growth and inflationary increases in fixed costs that the state budget did not fund. (UC currently receives approximately \$3 billion in state general funds each year.) UC also is reducing expenditures at the UC Office of the President, as described on page 3 of this document.

### Budget proposal a statement of need

UC recognizes the state's fiscal difficulties and intends to work constructively with the state's elected leadership on budget solutions.

At the same time, it is important for the university to put forward a statement of its actual financial needs if it is to deliver on its mission for the people of California. The 2009-10 budget request does so. The plan represents a normal workload budget based on priorities endorsed by the Regents and planning parameters provided by the compact with Gov. Schwarzenegger.

If all elements of the plan were funded – from state general funds, student fee revenue and other UC fund sources – it would produce a budget increase of \$815 million, or 15 percent, from all sources. (The state portion alone would be \$530 million, or 17 percent.) UC recognizes that it would be very difficult to achieve that level of funding given the current fiscal conditions facing the state and nation. But the plan addresses key needs that are important for policy makers and the public to understand.

### Elements of the plan

- **Enrollments:** Providing a place at the university for eligible students is one of the university's core obligations to the people of California. The plan seeks \$122 million in state funds to cover both the 2.5 percent enrollment growth in 2008-09 that went unfunded by the state and an additional 2.5 percent enrollment growth for 2009-10.

(If the state is unable to support this request, UC will need to consider options for bringing enrollments – already 10,000 above state-funded levels – more into line with resources over the next several years. The likely impact is that fewer students would be admitted to the campuses of their choice and more would be sent

into the referral pool. While this would not necessarily mean a major departure from the Master Plan, it may mean students with fewer UC campus choices might seek an education elsewhere.)

- **Core academic needs:** The plan requests \$31 million from the state for pressing needs in instructional technology, instructional equipment, building maintenance and libraries.
- **Faculty and staff compensation:** UC faculty salaries now lag those of comparable institutions by an estimated 7 percent, and similar or greater disparities exist for UC staff salaries. No state funding was provided for compensation increases in 2008-09, so no progress is being made on closing those gaps this year. The budget plan includes a 5 percent compensation program in 2009-10 for faculty and staff salary increases and health benefit cost increases, funded from multiple sources. The plan also requests additional funding to resume an effort to accelerate closing the faculty salary gap.
- **Retirement contributions:** For 18 years, there have been no employer or employee contributions into the UC Retirement Plan – a holiday estimated to have saved the state nearly \$2.3 billion in contributions. But with the funded status of UCRP projected to fall below 100 percent, the Regents have set July 2009 as the date to resume contributions, subject to collective bargaining where applicable. The budget plan requests \$228 million from the state for this purpose. The Regents will not set actual contribution levels until a later meeting, but the \$228 million assumes a 2 percent employee contribution (possibly a redirection of employees' existing Defined Contribution Plan payroll deductions) and a 9.54 percent UC contribution. UC would still need to identify resources from other fund sources for contributions for non-state-funded employees.
- **Initiatives:** The budget plan also includes initiatives for improving graduate student support, restoring instructional program funding cut in earlier budgets, restoring funding for labor research, providing start-up funding for a UC Riverside medical school, and providing operating funds for the California Institutes for Science and Innovation.

## Student fee assumptions

The Regents are not being asked to approve student fees at this time. Similar to last year, UC will delay action on student fees until more is known about the governor's budget proposals.

For planning purposes, the budget plan includes an assumption of revenue associated with a 9.4 percent increase in mandatory systemwide student fees (a 10 percent increase in the Educational Fee and a 4.2 percent increase in the Registration Fee). This amount is consistent with the compact with Gov. Schwarzenegger, which in times of fiscal distress allows for fee increases up to 10 percent – contingent upon state resources being provided for the basic budget at the level called for in the compact and no further erosion of the university's base budget. Such an increase would amount to \$662 per year for resident undergraduates and \$748 for resident graduate academic students.

With any fee increase ultimately approved, UC's intention would be to continue providing financial aid to mitigate the impact on families in need. UC sets aside one-third of the revenue from fee increases to provide grants for eligible students to offset the increase, and Cal Grants and federal grants provide assistance as well.

Professional school fees would increase under the budget plan from 5 percent to 24 percent, depending on the program. The plan also includes a 5 percent (\$1,000) increase in nonresident tuition for undergraduates. Due to continuing concerns about UC's ability to recruit high-quality graduate students and the need to keep graduate student support

packages competitive with those of other institutions, no increase in nonresident tuition for graduate students is proposed, for the fifth year in a row.

These preliminary assumptions about student fees are subject to change based on the state's fiscal condition and discussions of the Regents.

### **Savings at UC Office of the President**

Separately, the Regents at their November meeting will be presented with a revised 2008-09 operating budget for the UC Office of the President in Oakland. The UCOP budget includes both central administrative activities for the UC system and academic programs that are not part of central administration but historically have been counted as part of the UCOP organization.

The revised budget reflects further savings of \$8.7 million and 97 employees just since the 2008-09 budget was adopted by the Regents in May. In total, the UCOP budget has now fallen \$60 million, from \$290 million in 2007-08 to \$230 million in 2008-09 (a 21 percent reduction), and the workforce has dropped by 500 employees, from 1,873 to 1,373 (a 27 percent reduction). More than half of these reductions (54 percent) represent true savings for the university; the balance (46 percent) represent transfers of programs from UCOP to campuses and other locations more appropriate for administering these programs.

The UCOP budget adopted by the Regents in May reflected a 10 percent budget-cutting effort across all UCOP departments. Since then, the additional savings noted above have been achieved through a voluntary separation program for employees and an effort to consolidate a number of functions previously scattered across UCOP departments, from computer support to business processing.

The Office of the President also has implemented vacancy controls and new pre-approval requirements for purchasing and travel in order to further contain costs at the central office.

### **Capital improvements budget**

The Regents also will be voting at their November meeting on a capital improvements budget requesting \$801.7 million in state lease-revenue bond funding and \$40.7 million in existing general obligation bond funding for facilities projects addressing enrollment growth, seismic safety, infrastructure renewal, and telemedicine and medical education.