

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

DISCUSSION ITEM

For Meeting of February 5, 2009

POWERPOINT PRESENTATION

UPDATE ON THE GOVERNOR'S PROPOSED 2009-10 BUDGET

Vice President Lenz will make an oral presentation on the Governor's proposed budget at the February meeting. Highlights of the Governor's proposals are described below.

Overall State Budget

The 2009-10 Governor's Budget assumes a State General Fund budget deficit of \$14.8 billion in 2008-09 that will increase to \$41.6 billion in the 2009-10 fiscal year unless action is taken to implement both expenditure reductions and revenue increases. The Governor is proposing to address the budget gap with current year and budget year recommendations that include:

- \$21 billion in expenditure reductions;
- \$15.8 billion in additional revenues;
- \$5 billion shifting lottery revenue from state funded programs to balancing the budget;
- \$358 million in borrowing; and
- \$4.7 billion from Reimbursement Warrants that will be used to meet the cash flow needs of the state through the 2009-10 fiscal year.

The Governor's budget assumes these actions, or comparable recommendations, will allow the Governor and the Legislature to balance the state budget and achieve a \$2 billion reserve by the end of the 2009-10 fiscal year.

Proposed 2009-10 University of California Budget

In understanding the budget proposed for the University for 2009-10, it is important to view it in the context of actions related to the 2008-09 budget. One year ago, the Governor proposed a budget for UC that included a \$98.6 million reduction to the base budget. The Governor subsequently proposed to restore this funding in his May Revise. However, when the final budget was enacted in September, the Governor and the Legislature reduced the UC budget by \$33.1 million. The final budget plan approved by the Board in October reflects that reduction. As part of the special session budget reductions, the Governor and the Legislature have proposed to cut another \$65.5 million, which would take us back to the proposal originally made last January by the Governor. While the special session proposals are not yet adopted, the Governor's Budget assumes the \$65.5 million reduction in 2008-09 will occur. However, the

Governor proposes to restore the \$33.1 million cut (treating it as a one-time reduction in 2008-09).

For 2009-10, the Governor assumes total funding of \$20.2 billion for the University of California. Of this amount, \$3.2 billion is from State General Funds; nearly \$2 billion is from student fee revenue that includes a 9.3 percent increase in mandatory systemwide student fees; and \$610 million is from UC General Funds. Similar to last year, DOF first fully funded the UC Compact assumptions, and then eliminated the entire amount of Compact funding as an “unallocated reduction” to the UC budget. This action will severely constrain the University’s ability to fund student access, compensation increases, or increases in costs for health benefits, energy, or other instructional budget priorities.

The Governor does propose funding for a small number of specific items as follows:

- backfill State General Funds for deleted lottery funds \$29.8 million
- fund increased debt service for lease purchase agreements \$28.4 million
- fund annuitant retirement benefits \$11.3 million
- restore State General Funds for Subject Matter
Projects (federally funded on a one-time basis in 2008-09) \$5.0 million
- reduce UC Merced funding (per agreement with DOF) (\$5.0 million)
- support 57 additional MD students in the PRIME program \$1.5 million
- fund an additional 50 undergraduate and 42 graduate
students in the nursing program \$1.1 million

Other actions proposed by the Governor are as follows:

Student Fees - The Governor’s budget recognizes an increase in mandatory systemwide student fees for UC of 9.3 percent in the 2009-10 fiscal year. The 9.3 percent is an average of increases proposed for the Education Fee (10 percent) and the Registration Fee (4.2 percent). These two fees, in addition to professional fees that will increase from 5 to 24 percent, will generate \$166.1 million for the UC in 2009-10, assuming a set-aside of 33 percent for undergraduate and professional school student financial aid and a 50 percent set-aside for graduate student aid. This action would raise annual resident undergraduate fees from \$7,126 to \$7,788.

Medical Centers - The UC Medical Centers are now assessing the impact of the proposed reductions to State and federal funded healthcare services. The proposed budget includes significant reductions in Medi-Cal payments and eligibility – a State and federal health care program for low-income Californians. The rate reductions alone will impact the UC Medical Centers by approximately \$14 million. Also significant are the reductions to program eligibility which would increase the number of uninsured Californians thereby increasing the cost of unreimbursed care at the UC Medical Centers. While a complete analysis is in progress, a conservative estimate is an additional impact to the UC Medical Centers of \$11 million.

UC Retirement - In the General Government portion of the Governor’s Budget, the Governor provided \$20 million for the State’s share of the funds necessary to restart the employer contribution to the UC Retirement System. This represents the first time in 19 years that the

State will provide funds for this purpose. This amount reflects approximately one-fourth of the State's full year cost under most restart scenarios currently being discussed by the University. Options for when and by how much employer contributions will be started will be addressed in a separate item at the February meeting of the Board.

Capital Outlay – The Regents' 2009-10 Budget for Capital Improvements requested \$842.4 million in State capital funds. This amount included funds for projects that were included in the University's 2008-09 Budget, but were not be funded in the absence of a new higher education bond act. The 2009-10 Budget proposes capital funding for the University at a reduced amount of \$480 million from two sources – Lease Revenue Bonds and previously approved General Obligation Bonds.

Lease revenue financing totaling \$449 million is proposed for the following nine projects:

- \$62.3 million for the Campbell Hall Seismic Replacement at Berkeley;
- \$14.9 million for the Music and Recital Instruction Building at Davis;
- \$39.4 million for Business Unit 2 at Irvine;
- \$75.2 million for the Science and Engineering Building 2 at Merced;
- \$65 million for the Engineering Building Unit 3 at Riverside;
- \$81.2 million for the Biological and Physical Sciences Building at San Diego;
- \$64.7 million for the Davidson Library Addition and Renewal at Santa Barbara;
- \$45.9 million for the Coastal Biology Building at Santa Cruz.

General Obligation Bond financing is available in the amount of \$30.9 million for the following three projects:

- \$0.5 million for equipment for the Telemedicine Facilities Phase 2 at Davis;
- \$2.3 million for equipment for the Structural and Material Engineering Building at San Diego;
- \$25.3 million for the Telemedicine and PRIME Facilities Phase 2 at Los Angeles;
- \$2.8 million for the Telemedicine and PRIME-US Facilities Phase 2 at San Francisco.

Cal Grant Funding – The Governor's budget proposes various reductions in the Cal Grant program as follows:

- (1) freeze the income ceilings (estimated \$1-2 million impact on aid awarded to UC students);
- (2) reduce maximum award at independent institutions (no impact on UC students);
- (3) eliminate new Competitive Cal Grant program awards (estimated \$6 million impact on aid levels to UC students);
- (4) partially decouple awards to public institutions from fee increases (estimated \$9 million impact on aid levels to UC students). Details about the partial decoupling are still being sought, but it will likely mean that UC Cal Grant recipients would receive awards for only 2/3 of the 9.3 percent fee increase, rather than for the full amount. In this way, the State would not be covering the 1/3 of the fee increase that augments UC's own institutional aid programs.

Collectively, the impact is estimated to be from \$14-16 million, which would increase the loan/work burden on students by about \$200. The budget proposal also calls for a \$2 million savings from decentralizing Cal Grant program administration to the segments, a major undertaking that UC has long supported exploring.

The [attached table](#) shows expenditures proposed in the Governor's Budget compared with the Regents budget plan approved at the November meeting. The Board will be asked to approve a final budget plan in July, or when the final State budget for 2009-10 is determined.

[\(Attachment\)](#)