

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE

ACTION ITEM

For Meeting of November 19, 2008

APPROVAL OF UNIVERSITY OF CALIFORNIA 2009-10 BUDGETS FOR CURRENT OPERATIONS AND FOR STATE CAPITAL IMPROVEMENTS

The President recommends that:

- (1) The Committee on Finance recommends to the Regents that the expenditure plan included in the document, *2009-10 Budget for Current Operations*, be approved.
- (2) The Committee on Finance concurs with the recommendation of the Committee on Grounds and Buildings to the Regents that the *2009-2010 Budget for State Capital Improvements* be approved.

EXECUTIVE SUMMARY

The *2009-10 Budget for Current Operations Summary of the Budget Request*, along with a larger document, *2009-10 Budget for Current Operations Budget Detail*, included as separate enclosures, provides the basis for the recommendation that the 2009-10 expenditure plan for current operations be approved.

The *2009-10 Budget for State Capital Improvements*, also included as a separate enclosure, provides the basis for approval of the State-funded capital plan for 2009-10. Vice President Lenz will make a detailed presentation on the proposed budget for both current operations and State-funded capital outlay.

Proposed 2009-10 Operating Budget Plan

Operating revenue, estimated at \$19.6 billion in 2008-09, funds the University's core mission programs of teaching, research, and public service, as well as a wide range of other activities, including teaching hospitals, the Lawrence Berkeley National Laboratory, University Extension, housing and dining services, and sponsored research.

The University's "core funds," including State General Funds, UC General Funds, and student fee revenue, provide permanent support for these core mission and support activities. Totalling \$5.4 billion in 2008-09, these funds represent nearly 30 percent of the University's total budget.

Much of the focus of the University's strategic budget process and negotiation with the State is dedicated to the uses of these fund sources.

The State portion of the University's core funds, totaling more than \$3 billion annually, is the largest single fund source providing core support for the University. Over the last two decades, student fees have helped to make up for declines in State support for UC, but overall funding per student has declined in inflation-adjusted dollars.

Other sources of funds include federal research funds, teaching hospital revenue, private gifts and endowments, and income from self-supporting enterprises. Use of these funds is restricted, which means they generally cannot be used to support activities other than those specifically designated. But such funds help augment and complement the University's core activities of instruction and research, providing support functions, public service to the State and its people, and a rich social, cultural, and learning environment on UC campuses. The University's annual budget plan is based on the best estimates of funding available from each of these sources.

The University's budget plan for 2009-10 was developed in the context of the continuing uncertainty over the State's ability to fund basic costs. While the State was able to provide significant new funding for the University during 2005-06 through 2007-08, the State faced significant revenue shortfalls and an unresolved budget deficit in 2008-09. For the University, the 2008-09 budget includes cuts of \$48.7 million compared to the prior fiscal year. Thus, no new funding was provided for the 5,000 FTE enrollment growth campuses accommodated or other mandatory cost increases incurred, such as health benefits, merit salary increases for faculty, maintenance of new space, utility costs, and non-salary price increases, all of which the University funded by redirecting dollars from existing programs. The total cost of these reductions is \$148.7 million.

Nevertheless, it is important that the University continue to promote awareness on the part of the State and others regarding the University's need for adequate support. While it is recognized that the State would have considerable difficulty fully funding the University's request, the budget plan developed and justified in the attached documents reflects the priorities endorsed by the Regents and the planning parameters provided by the Compact with Governor Schwarzenegger. It should be noted that one element, funding to restart employer contributions to the University's retirement plan, will require a significant increase from the State, and indeed from all fund sources supporting employees in the University. Display 4 on page 7 of the Summary outlines the proposed increases in revenue and expenditures for 2009-10.

Summary of Proposed Increases

The University's plan calls for funding proposed new expenditures by achieving increases in revenue from State funds and non-State revenue totaling \$815.4 million.

In keeping with the Compact, State General Funds are proposed as follows:

- a base budget adjustment of 4 percent to be used to fund increases for salaries, employee health and welfare benefits, and other costs;
- enrollment funding for growth of 2.5 percent, or 5,406 FTE students for 2009-10, at the agreed-upon marginal cost of instruction;

- additional funding for enrollment growth that occurred but was not funded during the 2008-09 year, totaling 5,408 FTE students at the marginal cost level;
- an additional base budget adjustment of 1 percent for funding increases to core academic needs;
- funding for annuitant health cost increases; and
- funding for the State's share of the cost of re-starting contributions to the University's retirement plan.

UC General Funds are expected to increase primarily through growth in indirect cost recovery on research contracts and grants and a 5 percent increase (\$1,000) in nonresident tuition for undergraduate students. Due to continuing concerns about the University's ability to recruit high quality graduate students and the need to ensure that the University's graduate student support packages are competitive with those of other institutions seeking the same high quality students, no increase in nonresident tuition for graduate students is proposed for the fifth year in a row.

At this time, the University is not asking the Regents to increase student fees for 2009-10. Instead, similar to last year, the University will delay action on student fees until more is known after the Governor's 2009-10 budget proposal is released. Recognizing the variety of factors that must be considered and the likelihood that State funds will not be available to fully support the University's core operating budget, the budget plan proposed for 2009-10 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) as well as increases in professional school fees ranging from 5 percent to 24 percent, depending on the campus and program. It would be the University's intention, as it has done in the past, to augment UC financial aid to mitigate the impact of cost increases, including fees, on needy students. Student fee revenue will also be generated through enrollment growth.

The increases in revenue described above will not be sufficient to fund all of the expenditure priorities identified in Display 4 and described in more detail later in this document. Additional funding above the new revenue requested from the State or generated through indirect cost recovery and student fee increases is needed to fund the following initiatives:

- an additional 2.5 percent for ladder rank faculty market adjustments that will help to continue to close the faculty salary gap by 2011-12;
- an increase for graduate academic student support, necessary to improve the University's competitive position to attract the best graduate academic students;
- the fourth increment of funding targeted at restoring cuts that occurred in instructional budgets during the State's fiscal crisis at the beginning of this decade;
- funding to continue labor research and education;
- start-up funding for a new medical school on the Riverside campus; and
- funding for operating support of the California Institutes for Science and Innovation.

Thus, the budget plan requires the identification of an additional \$69.8 million dollars to fully fund all priorities.

The budget plan also assumes continuation of one-time funding for Merced needed for start-up costs as the campus continues to ramp up enrollments, although the one-time funding is being

reduced from \$10 million in the current year to \$5 million in the budget year, in accordance with a phase-out plan for these funds by 2010-11.

The proposed budget plan represents an increase of \$815.4 million, or 15.1 percent, over the current year, when calculated on a base that includes programs funded from State and UC General Funds and student fees (Educational fee, University Registration fee, and the Fee for Selected Professional School Students).

Each of the proposed expenditure items is discussed in more detail in the attached documents.

Proposed 2009-10 State-Funded Capital Outlay Program

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

For 2008-09, the State did not propose a new General Obligation bond measure for higher education. Late in the budget process, the University sought lease revenue bond funding for a portion of its 2008-09 capital plan, which ultimately was approved. For 2008-09, six of the original projects proposed in November 2008 are funded using State lease revenue bonds. The University must seek similar financing for 2009-10. It is the University's intention to pursue a General Obligation bond for voter approval in 2010-11 for funding beyond 2009-10, including a separate health sciences bond to finance the design and construction of instruction and research facilities for programs in health sciences.

Within this context, the University's 2009-10 capital budget proposal totals \$842.4 million, including \$801.8 million in State lease revenue bonds and \$40.6 million in existing general obligation bonds for enrollment growth-related expansion, seismic and life safety improvements, essential infrastructure and renewal, and telemedicine and medical education.

The University's 2009-10 request for State funds for capital improvements is presented in more detail in the attached document titled, *2009-10 Budget for State Capital Improvements*.

(See separate enclosures)