

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

## ACTION ITEM

*For Meeting of November 18, 2009*

### APPROVAL OF UNIVERSITY OF CALIFORNIA 2010-11 BUDGETS FOR CURRENT OPERATIONS AND FOR STATE CAPITAL IMPROVEMENTS

#### RECOMMENDATION

The President recommends that:

- (1) The Committee on Finance recommend to the Regents that the expenditure plan included in the document, *2010-11 Budget for Current Operations*, be approved with two additions: \$444,275 for nursing enrollments at the Davis campus, and \$10 million for planning for a new medical school at the Riverside campus.
- (2) The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings to the Regents that the *2010-11 Budget for State Capital Improvements* be approved.

#### EXECUTIVE SUMMARY

The *2010-11 Budget for Current Operations Summary of the Budget Request*, included in the meeting packet along with a larger document, *2010-11 Budget for Current Operations – Budget Detail*, provides the basis for the recommendation that the 2010-11 expenditure plan for current operations be approved. The *2010-11 Budget for State Capital Improvements*, also included in the meeting packet, provides the basis for approval of the State-funded capital plan for 2010-11. Vice President Lenz will make a detailed presentation on the proposed budget for both current operations and State-funded capital outlay.

#### Proposed 2010-11 Operating Budget Plan

Operating revenue, estimated at \$20.1 billion in 2009-10, 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 \$5.3 billion in 2009-10, these funds represent nearly 26 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 approximately \$2.6 billion currently, 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 2010-11 was developed in the context of the continuing uncertainty over the State's ability to fund basic costs. The State's fiscal crisis has led to dramatic reductions in State funds in a relatively short period of time. State funds to UC totaled \$3.2 billion in 2008-09 before the mid-year budget cuts were implemented; the State-funded budget now totals \$2.6 billion, a reduction of more than \$600 million, or 20 percent.

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 identified by University administrative leadership as critical to maintaining the twin pillars of access and quality. Display 5 of the *Summary* outlines the proposed increases in revenue and expenditures for 2010-11.

### ***Summary of Proposed Increases***

The University's plan calls for funding proposed new expenditures in core operating funds by achieving increases in revenue from State funds and non-State sources (UC General Funds and student fees) totaling \$1.4 billion. In addition, changes are proposed to other funds that support functions other than the core operating budget, as outlined below.

### **State General Funds**

State General Funds are proposed as follows:

- restoration of a one-time \$305 million budget cut approved for 2008-09 in the Special Session of the Legislature in February;

- \$155.8 million in funding for enrollment growth that has occurred since 2007-08, but has not been funded, a total of 14,000 FTE students, at the marginal cost level;
- \$109.8 million in funding for retirement benefit costs, including annuitant health benefit cost increases and funding for the State's share of the cost of re-starting contributions to the University's retirement plan;
- \$332.1 million for restoration of other funds cut in both the mid-year of 2008-09 and for 2009-10.

### **UC General Funds**

UC General Funds are expected to increase primarily through growth in indirect cost recovery on research contracts and grants.

### **Student Fees**

In a separate item, F1, the University is asking the Board to approve a mid-year increase in mandatory systemwide student fees for 2009-10 of 15 percent for resident undergraduates and professional school students and 2.6 percent for graduate academic students, although only half the increase will be implemented in 2009-10 because it will not start until the winter quarter/spring semester. Semester students will pay the entire increase when they submit their spring semester payment; quarter students will pay the same amount over two quarters. In addition, all students will be charged a further increase in mandatory systemwide student fees of 15 percent, in 2010-11. In addition, Item F2 requests approval of increases in professional school fees generally ranging from 7 percent to 22 percent (although one school is proposing a 65 percent increase), depending on the campus and program. The budget plan proposed for 2010-11 includes an assumption of revenue associated with each of these fee increases. The fee increase proposals reflect the University's concern about the State's ability to provide the full funding being requested in the budget plan. By restoring funds cut from the University's base budget, the State funding requested in the budget plan would only partially backfill the University's current budget gap – in other words, student fee increases would still be needed to help fund mandatory, but unfunded, cost increases. If the State is able to provide not only the full funding requested, but also funding in excess of this request to help fill the total budget shortfall, the fee increases as approved at the November meeting will be reviewed and a subsequent action to revise fee levels would be brought to the Board at a future meeting. 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 proposed budget plan represents an increase of \$1.4 billion, or 26.1 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).

## Other Funds

Changes projected for 2010-11 in major fund sources supporting non-core operating functions of the budget include the following:

- Private Giving and Endowment Earnings – projected to remain flat;
- Federal Contracts and Grants – projected to increase by 4.1 percent;
- Auxiliaries – projected to increase by 6 percent
- Teaching Hospitals – projected to increase by 6 percent

## Key Elements of the Expenditure Plan

Each of the proposed expenditure items is discussed in detail in the attached documents. Key elements are outlined below.

**Enrollment.** If enrollment funding is provided by the State, support will be available for the 14,000 students who have been enrolled over the last several years, but not funded by the State. Unfunded overenrollment has contributed to the concern over erosion in quality. Budget cuts have meant that class sizes have increased, students have fewer faculty with whom they can interact, breadth and depth of course offerings has been limited, and freshmen enrollments have been curtailed (by an estimated 2,300 FTE in 2009-10). Unfunded enrollment of the magnitude that currently exists significantly exacerbates the already difficult problem of providing sufficient access to academic program offerings. Funding would be used to ensure access to classes, improve student-faculty contact, re-establish breadth and depth of offerings, and enhance academic support.

If this funding is not provided, it will be necessary to further curtail enrollment of freshmen for 2010-11 by an additional 2,300 students, for a total of 4,600 over a two-year period. As the State's fiscal crisis continues over a multi-year period, it will be important to continue to bring enrollments more into line with available resources.

**Nursing.** In July 2007, the Gordon and Betty Moore Foundation announced \$100 million in founding support to launch the Betty Irene Moore School of Nursing at UC Davis. The Moore Foundation's vision for the School of Nursing was as a public-private partnership between the Moore Foundation and the State in which both would provide funding for the new school. Growth in nursing programs at other campuses is being funded in 2010-11 through federal dollars available from the Workforce Investment Act; however, these funds are temporary. Therefore, the University is requesting permanent funding for Davis nursing enrollment directly from the State, consistent with the agreement between UC Davis and the Moore Foundation. The School of Nursing plans to admit its first class of students in 2010-11, comprised of 25 master's level and 8 doctoral nurses, for a total of \$444,275.

**Riverside School of Medicine.** Responding to the State's need for more physicians in the workforce, the Riverside campus plans to establish a School of Medicine. Core funding of \$10 million in start-up funds will be used to develop academic programs and support the salaries of initial medical school staff and faculty. Specific start-up activities that will occur during this

budget year will include pursuing accreditation for the medical school curriculum and graduate medical education (residency) programs, establishing affiliations with community-based hospitals and clinics to support the distributed clinical mode, and pursuing private philanthropy.

**Retirement Benefits.** For 19 years, employer contributions have not been necessary because of the outstanding financial performance of the investment portfolio supporting the University's retirement system. This has saved the State more than \$2 billion over that period of time; the University has saved more in non-State sources. However, the funded status of the retirement program has declined as both annual payouts and accrued liability have risen. Furthermore, the national economic crisis has depleted the value of assets held in the UCRP, which is projected to be funded well below 100 percent on a market value basis in 2009.

The Regents voted to re-start contributions to the retirement plan beginning April 15, 2010. The employer contribution will equal 4 percent and employee contributions will total 2 percent (there will be no impact on take-home pay because these contributions will be made by redirecting mandatory employee contributions currently going into the Defined Contribution Program). Funding for the employer share is being redirected from existing resources. The Regents also specified that employer contributions for 2010-11 will be at least 4 percent. The State's share of this cost will be \$95.7 million. The cost for non-State funds will need to be funded from those sources.

**Restoration of State Budget Cuts.** As mentioned earlier, the temporary budget cut of \$305 million and other budget reductions of \$332.1 million (for a total of \$637.1 million) have resulted in a State budget that is 20 percent lower than the budget adopted last September before the mid-year cuts were implemented. If this funding is restored, these dollars would be used to reinvest in academic excellence by restoring programs to previous levels, including hiring more faculty, restoring course offerings, reinstating expanded service hours such as those for libraries and student services, and restoring instructional and academic support. Also, in such an instance and as stated earlier, fee increases approved at the November meeting would be revisited and a subsequent action to revise fee levels would be brought to the Board.

### **Proposed 2010-11 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.

The University has been without funding from a General Obligation bond since 2008-09. The University sought and received \$261.3 million to support a portion of its 2008-09 capital plan, including \$204.6 million in lease revenue bond funding; the University sought similar financing for 2009-10. However, the 2009-10 State Budget Act provided only \$30.9 million in existing general obligation bond funds, primarily to support medical education and telemedicine projects. Over the two-year period, less than one-third of the funding requested to meet high-priority needs was provided to the University, resulting in a backlog of essential projects that require funding.

However, even those projects that were funded were delayed when the State was unable to access the bond market or obtain new interim financing for the second half of 2008.

Appropriations for 68 UC projects totaling \$983 million were initially halted or suspended as a result of the freeze of loan disbursements. Of these, the University received an exemption from the freeze and partial funding to continue 11 projects. In April 2009, the University received funding from two General Obligation bond sales totaling \$62.8 million and \$164.8 million respectively as well as lease revenue bond sales totaling \$142.6 million. These funds allowed the 11 exempted projects to continue and 5 additional projects to restart. In addition, the University raised \$199.8 million in July 2009 through the sale of short-term commercial paper and purchased a privately placed State of California General Obligation bond that provided funding for 12 additional projects. Funding for the remaining 24 projects totaling \$413 million, including 7 to be funded from Lease Revenue Bonds, remain suspended.

It is the University's intention to pursue a four-year General Obligation bond for voter approval in 2010-11 that provides at least \$450 million per year for general campuses to meet enrollment, renewal, and seismic improvements, and modernization needs, and another \$100 million per year for health sciences programs to help address California's need for more healthcare providers and for improved clinical facilities.

Within this context, the University's 2010-11 capital budget proposal totals \$629.6 million for enrollment growth-related expansion, seismic and life safety improvements, essential infrastructure and renewal, and telemedicine and medical education. The capital budget proposal would meet two objectives:

- restore projects that were included in the Governor's proposed budget plans for 2008-09 and 2009-10, but were not funded;
- provide funding for additional projects included in the campuses' five-year capital plans that address critical needs for seismic and life safety, enrollment growth that has already occurred, and facilities renewal.

The University's 2010-11 request for State funds for capital improvements is presented in more detail in a companion document titled, *2009-15 State and Non-State Capital Improvement Program*.

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