



2009-10 budget process for UC

At its November 2008 meeting, the UC Board of Regents approved a 2009-10 operating budget proposal for the university, which includes a resolution warning that freshman enrollments next year will be curtailed if the state does not provide sufficient funding, and also an amendment clarifying that the budget does not call for student fee increases but that such increases will be necessary in the absence of sufficient state funding for the university.

The operating budget adopted by the Regents functions as a budget request to the State of California and kicks off the annual state budget process. 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. Arnold 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 below.

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.

If all elements of the plan were funded – from state general funds and other UC fund sources – it would produce a budget increase of \$755 million, or 14 percent, from all sources. (The state portion alone would be \$739 million, or 24 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:** 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 provide support for enrollment growth, the Board of Regents has said it will need to curtail UC freshman enrollments next fall. UC currently enrolls 10,000 more students than it receives state funding for. Details about fall 2009 enrollments will be discussed at future meeting of the Regents.

- **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.

Revenue from the state or student fees

The budget also includes a request for funding from the state equivalent to the revenue that would be achieved through 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) plus increases in professional school fees.

This revenue, if achieved through a fee increase, would amount to \$662 per year for resident undergraduates and \$748 for resident graduate academic students. Professional school fees would also increase from 5 percent to 24 percent, depending on the program.

UC is seeking this funding from the State of California rather than through student fees. If the state does not provide the requested funding, the Regents will need to consider student fee increases for 2009-10.

If any fee increases are 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.

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 were 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 work force 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. These additional savings are reflected in the revised budget.

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 at their November meeting approved 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.