UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

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Chair of the Assembly and the Academic Council
Faculty Representative to the Board of Regents
University of California
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April 8, 2008

PRESIDENT ROBERT C. DYNES

Re: Report on the Cuts Proposed by California Governor Arnold Schwarzenegger

Dear Bob,

I am pleased to send to you the Report on the Cuts to the University's budget as proposed by California Governor Arnold Schwarzenegger, which Academic Council endorsed at its March 26, 2008 meeting. UCPB's analysis, findings, and recommendations are contained in the body of the Report; I present the Report's recommendations directly below. We developed these recommendations as a result of UCPB's analysis and findings; they should be evaluated strictly in relation to these findings.

Recommendations:

As a result of these conclusions, the Academic Council respectfully requests that:

1. The President inform The Regents, that the University has been experiencing a damaging state General Fund shortfall before the new round of proposed cuts ("Resolution of the Academic Council on Returning UC to a Sound Fiscal Base," January 7, 2007); and that because these new cuts threaten the University with damage to educational quality and to its ability to contribute to the public good, the Academic Council calls on the Office of the President publicly to oppose the cuts.

2. The President, sharing our concerns with The Regents, engage in a systematic campaign to rebuild statewide support for public funding for the University of California; that UC coordinate this campaign with the California State University, the Community College system, and with their various constituencies, including any student, staff, and faculty organizations that share these concerns; and that UC work not only with the Governor's office, but also with the legislature and the public.

3. The President, sharing our concerns with The Regents, make a public commitment that, in the interest of avoiding yet another reduction to the current level of resources devoted to each UC student, the University will establish a minimum cost of instruction no lower than the current, already-reduced, 2007-08 level, and will take the necessary steps to sustain its public investment per student, adjusted annually to reflect actual costs. ("Minimum" indicates that the University will continue to work to return to the equivalent of 2001-02 levels of state investment per student.)

4. The President, sharing our concern with The Regents, make clear to all branches of government and to the public that in order to maintain these already-reduced levels of per-student support, the University will in the near future need to respond to cuts by limiting enrollments.

5. The President's Office publicly disclose the true level of fees required to fund The Regents' Fall 2007 proposed budget and thereby maintain the current quality of a UC education (estimated in this report to be around $10,500 by 2008-09).

It is the hope of the Academic Council that a fuller understanding of the implications of a ten percent cut (after first funding the planned increases under the Compact between UC and the Governor - a 3.6 percent first year net cut) will lead to restored support for the Master Plan's vision of accessible, high quality public higher education in California.

Sincerely,

Michael T. Brown, Chair
Academic Council

Copy: Academic Council
María Bertero-Barceló, Executive Director

Encl. 1

The Cuts Report

Adopted by the UC Academic Council
March 2008

Drafted and Submitted by
The University Committee on Planning and Budget
March 2008

Principal Authors:
Christopher Newfield, Andrew Dickson,
Abel Klein, & Bruno Nachtergaele

The Cuts Report
Academic Senate Committee on Planning and Budget (UCPB) [1]
Version of Report and Recommendations endorsed by Academic Council, March 26, 2008

This analysis focuses on the ten percent cut to the University of California's budget recently proposed by the Governor of California. For 2008-09, the Governor has proposed across-the-board cuts for all state agencies, including the three components of the state's public higher education system. The Governor has also proposed mid-year cuts for some agencies, including K-12, though not for the California State University or UC. While much discussion in Sacramento and Oakland has focused on responding to the immediate budget cut mandate, we seek to put these cuts in the context of recent budgetary history and assess the impact of such cuts on the university's ability to meet its fundamental public obligations or achieve its educational mission.

Our findings are as follows:

1. The proposed ten percent cuts are premised on the idea that state agencies have enjoyed years of excess revenue increases. This is not true for the University of California. The Higher Education Compact has meant that UC has grown far more slowly than constitutionally-protected state agencies, and more slowly than state per capita income. Uncorrected for inflation, UC's state revenues for 2007-08 have barely returned to their 2001-02 level. When corrected for inflation, these revenues are substantially below 2001-02.

2. The Governor's ten percent cut to UC's General Fund budget amounts to a first-year <u>net</u> cut of 3.6 percent.[2] The size of the cut, by comparison to The Regents' "Compact" budget proposal of November 2007, is $417 million. Uncorrected for inflation, this is the same size as the 2003-04 cut to UC's General Fund share ($410 million), more than four times larger than UC Merced's total budget, and is within $60 million of the budget for the Santa Cruz campus.[3]

3. The gap between The Regents' budget proposal in November and the Governor's proposed budget will require a first-year increase in fees of 45 percent.[4] This would raise the undergraduate Education and Registration fees to $9636, or about $10,500 including campus fees.[5] (See page 16.)

4. The proposed cuts block the implementation of every one of The Regents' and the faculty's priorities, even in their modest, multi-year ramp-ups.

5. The 2008-09 cut is unlikely to be a one-time event. Our Scenario 5, the Schwarzenegger Revision (Figure 6), projects a three-year cycle of cuts that total about 15 percent. The scenario projects a budgetary track that leads from the Compact pathway to the scenario that the Futures Report called the "public funding freeze." If this scenario comes to pass, there will be no future recovery of General Fund revenues. In addition to the billion dollars of General Fund monies lost in the first half of the decade, our scenario of a three-year cycle of reductions further cuts billion dollars in General Fund monies below the Compact level, for a total of two billion dollars in cuts in this decade.

6. The Schwarzenegger Revision accelerates the redefinition of the University of California away from a public university and toward a "public-private partnership" (PPP). The

University becomes dependent on high student fees for delivering its core educational mission even if it can obtain very large private sponsorships and philanthropic donations. The University becomes quasi-private or poor - or perhaps both at once.

7. The result of these actions will be significantly reduced investment in - and the lowered quality of - UC's core activities of teaching, research, and public service. These actions will lower the value the state receives from its (substantially reduced) investment in UC.

The Sections of the Report are as follows.

Section I is most useful for those not familiar with UC's recent budgetary history or with UCPB's analysis of it. Section II links the ten percent cut to a larger package of proposed legislation that could amplify the cut's effects. Section II takes the form of a scenario: note that a scenario is *not* a factual description of settled intentions and outcomes, but a probable *projection* from the established facts of recent trends. Section III gives a few examples of austerity-created everyday difficulties that The Regents' priorities seek to address, and describes the erase of these future improvements by the proposed cuts. This Report's crucial chart, Figure 6, appears on page 9. Section IV again summarizes the Report's findings. The Recommendations that UCPB affirmed as a result of these findings both appear at the end of this report on page 17 and in the cover letter that accompanies the Report.

I. UC Budgetary Trends

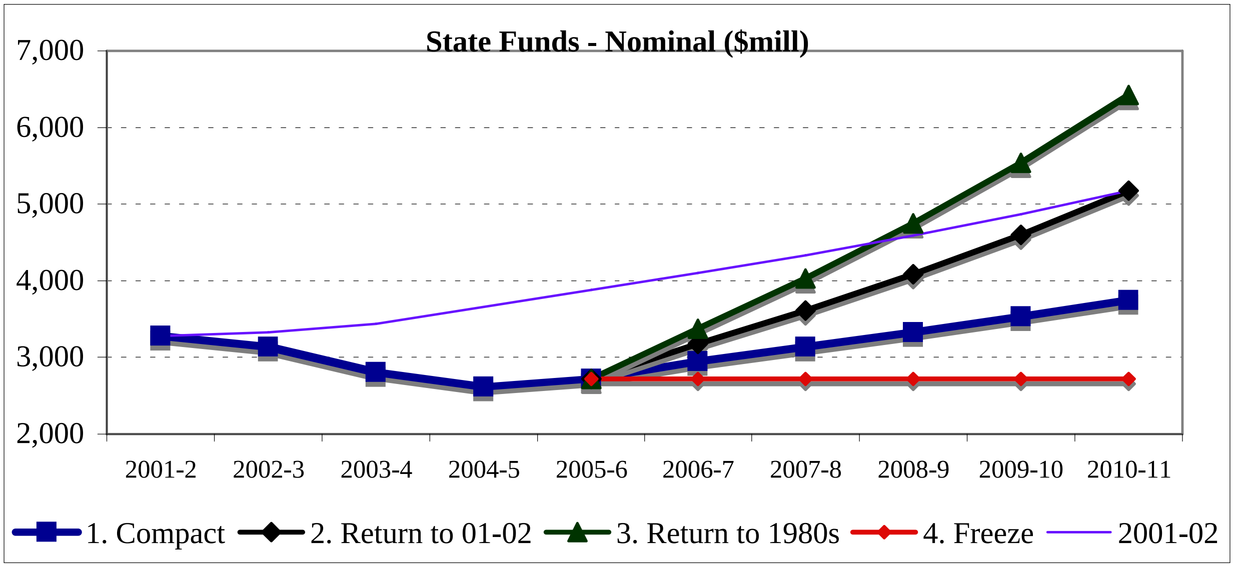
In 2006, UCPB prepared, and the Academic Council endorsed, its report, *Current Budget Trends and The Future of the University of California*,[6] known informally as the "Futures Report." Drafts of this report were widely disseminated within the Administration and campuses, as well as discussed at meetings with the campuses Executive Vice-Chancellors and with the Council of Chancellors. Its findings were presented to The Regents in May 2007. The Futures Report provided the first analysis of the long term implications of the Compact with Governor Schwarzenegger, and offered three other budgetary scenarios. The first scenario was a continued Compact. The second was a return to the "2001 Pathway," in which state General Fund revenues for UC grow at the same rate as personal per capita income during those years, allowing the University to recover gradually from the effects of the post-2001 cuts and the Compact's restrictions. The third was a "modified Master Plan" which projected a return to the equivalent of 1990 levels of state support that had been associated with UC's traditionally exceptional level of quality. Finally, we defined a "Public Funding Freeze," in which General Fund revenues are capped and the University moves steadily towards a private funding model.

The "Futures Report" reached six conclusions about the state of the UC budget:

- The state General Fund (GF) portion of the UC budget remains crucial to "UC Core Funds" - the funds that support daily campus operations and, in particular, teaching and public service. Even after repeated cuts it is still almost 50 percent of daily operations.
- State investment in UC has fallen during economic downturns, and risen slowly during expansions, but the increase during expansions has been insufficient to offset the downturns. Although State personal income and output have grown rapidly over the past quarter-century, investment in UC has been in decline.
- Since the early 1980s, higher education funding has suffered more than any other major sector of the state budget. It is the *only* sector to have experienced a *reduction* in real per capita revenues between 1984 and 2004.
- The Compact did not stop this decline, but rather locked it in. Between 2001-02 and 2004-05, the General Fund share of UC Core Funds fell from 60 percent to 45 percent. The Compact has limited UC's GF to that level, and even without the cuts, would maintain that limit. The combination of Cuts-and-Compact amounted to a permanent 25 percent cut in the state's support for the University's core operations, putting it about one billion dollars below levels extrapolated from 2001.
- The University's attempts to increase the non-state funding sources of research and philanthropy have been very successful. And yet these efforts have not (and cannot) raise an endowment that is large enough to replace annual revenues of one or two billion dollars - the amount necessary to replace cut state funding. Private research sponsorship cannot support operations on this scale either.
- The only feasible replacement for the lost billion or two billion dollars in state GF (compared to 2001 and1990 respectively) are repeated fee increases until fees reach the level of $15,000- $18,000 by 2010-2011, or double their 2007-08 levels.

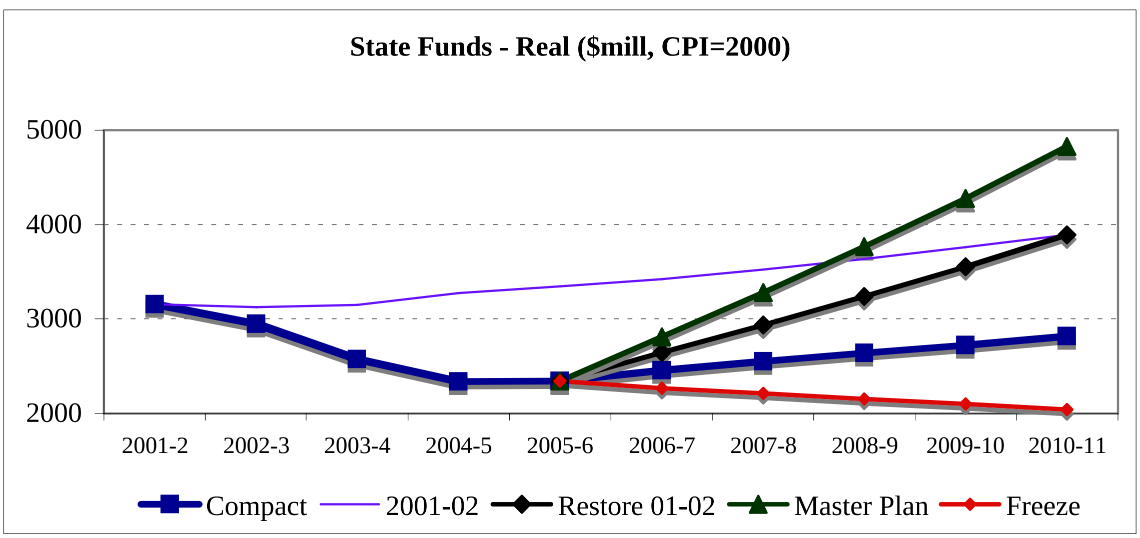
Some of these findings are graphically represented in Figures 1-3.

Figure 1: State General Fund Levels under Four Scenarios (Nominal Dollars)



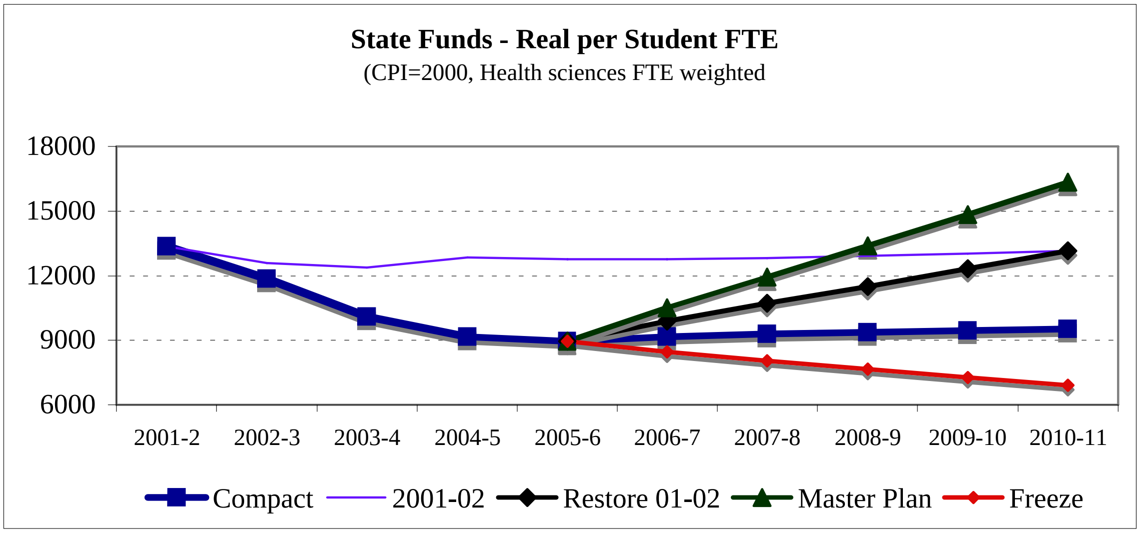
This figure (see legend in Figure 2) shows a recovery under the Compact over a ten-year period (purple line), but shows this by failing to correct for inflation and enrollment growth. The two rounds of billion-dollar cuts are evident at the end points - the 2001 Pathway is down a billion dollars from 1990's pathway, and the Compact is a billion dollars below 2001. The "funding freeze" - the red line - offers an even lower level of funding.

Figure 2: State General Fund Levels under Four Scenarios (Real Dollars)



Once inflation is factored in, we can see the failure of the Compact track to recover real 2001 funding levels even ten years later (Figure 3).

Figure 3: State General Fund Levels per Student FTE under Four Scenarios (Real Dollars)



Further correcting for student enrollment growth tells a more dramatic story of a major erosion in per-student funding (real dollars) in the first decade of the 2000s. Note that the Compact has not improved the state's contribution to per-student funding, but frozen this funding at much-reduced levels.

These findings contradict the premise of the Schwarzenegger cuts, which is that funding for all state agencies has been rising continuously beyond the level of revenues and, implicitly, of need. In reality, between 2001 and 2005 UC sustained its third major cycle of cuts in the past thirty years. In the years since, recovery has been partial at best.

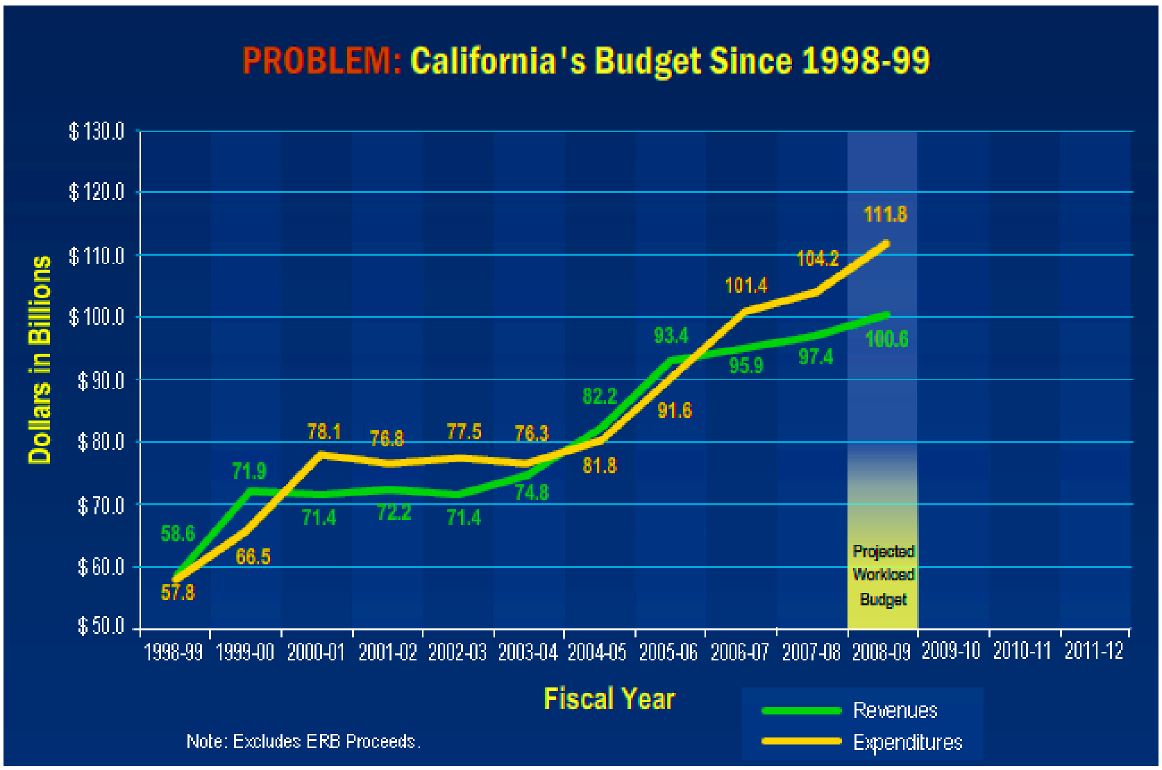
II. The Schwarzenegger Revision: A Fifth Scenario

On the basis of the Governor's budgetary proposal, we now generate a fifth scenario: the Schwarzenegger Revision. In this scenario, the Compact is replaced by a combination of two elements.

1. A ten percent reduction in the General Fund (GF), as proposed for 2008-09.
2. The success of the Governor's "Budget Stabilization Act," which is assumed to pass in the election of November 2008.

In the context of widespread concern about a weakening economy, the Governor criss-crosses the state with his Cuts-and-Caps message. At each stop, the Governor declares that "the spending formulas that we have in our state require us to spend and to increase spending by 7.3 percent." He shows a two-line chart in order to suggest that over the past decade state agencies have been getting more than the state can afford through good budget years and bad.

Figure 4: State Revenues vs. Expenditures, Governor's Office



The chart seeks to prove that expenditures break away from revenues after 2005-06 (the upper line in the final years shown by the chart). In fact, the chart has a number of flaws: is not corrected for inflation, for population growth, for growth in any agency's client base or legal mandate, or for the great variation in growth among different agencies. Most importantly for higher education, the Governor's chart does not acknowledge that the UC and the California State University (CSU) systems do not enjoy constitutionally-protected, formula-driven funding of the kind enjoyed, for example, by K-12 education. In fact, UC and CSU have grown at about 2/3rd the rate of the state average, even counting the good years of the late 1990s.[7]

Although the leaders of some state agencies contest the Governor's description of their resource levels, UC's leaders have historically taken a more restrained approach. Throughout the decade, UC administrators have refrained from suggesting that the combination of major cuts and low growth has lowered UC quality, despite available evidence of decline. In this scenario, renewed efforts by UC leaders to show the public value of all three segments of California higher education is not able to reverse conventional wisdom. Neither the public nor state government understand the extent to which UC quality continues to depend on public funding. Most accept the Legislative Analyst's Office's (LAO) view that cuts in state funding can be "offset by student fee increases."[8] First year cuts force University officials in this scenario, to replace missing GF by raising fees, as was also programmed into the Compact

One group of UC officials *had* in fact argued that the Cuts-and-Compact had hurt quality and competitiveness. These were the heads of the University's top professional schools. The Regents granted some professional schools fee increases to private-university levels, or approximately $40,000 by 2010-11. In this scenario, that move to replace lagging state funds with high fees reinforces the notion that public funding can indeed be replaced by a "user fee" in which the beneficiary of a college or advanced degree must pay most if not all of the costs.

Similarly, in the period leading up to the new cut, other administrators had been arguing publicly that existing fee increases had not hurt undergraduate diversity, and that a public-private partnership (PPP) for scholarships would protect diversity in the face of future fee increases. Since many government and University officials seem to agree that public funding can indeed be replaced with private funding and partnerships, voters in this scenario have no reason to think that the quality of public universities depends on traditional (higher) levels of public funding. In short, citizens who are guided by public statements from prominent political and university officials have no way to understand that further cuts to public funding will damage quality: the public is not hostile to higher ed, but been persuaded that an updated "partnership" between the private and public sectors can sustain and upgrade public systems without additional public investment.

In this scenario, the sum of these factors leads to voters passing the Budget Stabilization Act (BSA) in November 2008. It takes effect in the 2009-10 budget year, with the following major provisions.

1. A "Revenue Stabilization Fund" (RSF) is created, which captures all revenues above a historical average calculated by the Department of Finance. The benefit of this provision attracts bipartisan praise: it is a kind of savings plan that will obligate the state to impound a portion of extra revenues that flow to the state in boom years, and to have a savings fund to offset shortfalls in bad years. The Governor's explanation reads as follows: "This amendment will require that the state deposit excess revenues into the RSF. While the Governor has consistently chosen to bolster California's rainy day fund, the RSF will make these savings automatic - thus ensuring that California does not again fall into the trap of spending all its revenues in prosperous times."[9]

This provision has a less positive consequence for state higher education. The BSA declares that the state General Fund can be cut in bad years *and* held to an average increase in good years. This eliminates UC's traditional– albeit unsuccessful – strategy for mitigating the effects of "bad year" budget cuts for UC: budgetary "catch up" in good years. Since UC and CSU are, in this scenario, no longer able to have above-average increases in good years, the combination of cuts and capped increases insures that state funding for both systems lags even further behind the growth in both costs and in state per capita income.

2. Mandatory state General Fund cuts are written into law, according to this formula:

a. If a deficit is predicted, state agencies must reduce their spending by either two percent or five percent, depending on the deficit's projected size.
b. If the deficit is projected at one percent or less, agencies will reduce spending by two percent.
c. If the deficit is projected at greater than one percent, agencies will reduce spending by five percent.[10]

3. The Governor acquires the power to bypass a legislature that is unwilling to cut agencies to formula: he or she can now "waive state law and regulations in order to achieve the savings needed to bring California's budget into balance."[11]

In addition, there is no change in the Proposition 13 requirement of a two-thirds yes vote on all tax increases. The result is that the new BSA cuts are accompanied by no new revenues. The tax structure retains its current flaws, but now expenditures have a "cap" that can be imposed unilaterally by the executive branch.

The BSA is designed to force budgetary savings under all economic conditions, good, bad, or indifferent. In spite of major problems in the national and international financial sector, the state's economy, in this scenario, does not crash in the period 2008-2010, but enters a mild recession, stabilizes, and slowly recovers. Housing price "corrections" reduce sales and use taxes (SUT) and corporate tax are weak, but both come back in 2009 and 2010. As the LAO had predicted in 2008, personal income continues to grow at nearly five percent a year.[12] Still, almost one third of the state general fund comes from SUT, which stagnates for two years, and the state continues to have large numbers of elderly and poor citizens as well as a fair amount of job turnover. This means that the demand for public services grows at or above the growth of the state population.

Thus, in this scenario, the state is several billion dollars short each year for two years beginning in 2009-10. This puts the budget over the one percent deficit threshold and requires agencies to cut their budgets five percent each year. Finally, in 2011-12, the budget is balanced through previous cuts, and no further cuts are required that year.

Due to the combination of the Governor's proposed ten percent cut and the BSA, UC's General Fund budget is cut as follows:

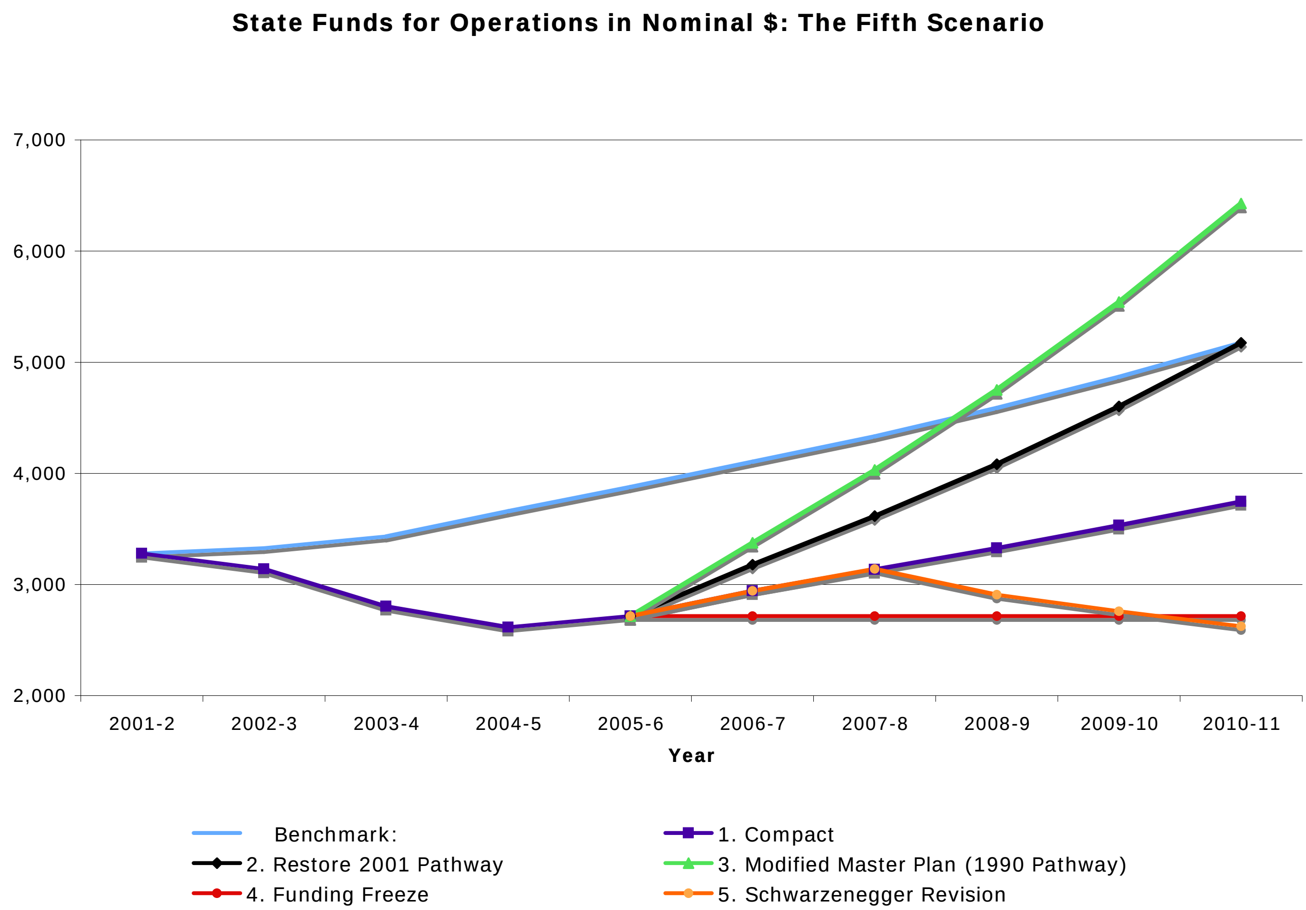
- 2008-09: 10% (3.6 % net)
- 2009-10: 5%
- 2010-11: 5%

Figure 5: Cut Scenario over Three Years

	"Compact" GF" Before Cuts Each Fiscal Year	Cut -across-the-board Then per BSA	Final GF to UC for each fiscal year
2008-09	$3.319 b	$331.9 m	$2.907 b
2009-10	$2.907 b	$145 m	$2.762 b
2010-11	$2.762 b	$138 m	$2.624 b

The budgetary pathway created by the "Schwarzenegger Revision" is shown in Figure 6, against a backdrop of the Compact and the other scenarios from the "Futures Report." Figure 6 replicates Figure 1, with the addition of the 5th scenario.[13]

Figure 6: The Fifth Scenario



The Schwarzenegger Revision serves as a direct mathematical bridge from the Compact to Scenario 4, the "Public Funding Freeze." Because the cuts are cumulative, the Fifth Scenario cuts an additional billion dollars from the state's General Fund support for UC.

The Schwarzenegger Revision leads to the effects the "Futures Report" described in the "Public Funding Freeze," also within a five-year period (in this case 2012-13):

- A $1 billion General Fund shortfall below the *Compact* level
- $2 billion shortfall below the 2001 Pathway (or about 60 percent of that pathway's levels)
- Further decline below the 1990 funding level appropriate to a high-quality "comprehensive university."
- A need to raise either a $25 billion endowment in unrestricted gifts, or, more realistically,
- A doubling of undergraduate tuition to the $15,000-$18,000 range
- Greater dependence on private, fee-based income to support UC's educational services
- The forced abandonment of the goal of excellence for all campuses (since some campuses are more dependent than others on state funding), and its replacement with stratification among (and within) campuses.

Dramatic changes are required simply to maintain the reduced Compact-based University of California. Any attempt to build the UC of 2025 imagined in The Regents' planning documents will require significantly higher fees - and rates of increase beyond the Compact's ten percent ceiling.

In short, the "Schwarzenegger Revision, as defined in this scenario, blocks any recovery of the public funding base that for decades has financially enabled the University's promise of equal access for all qualified students to a system comprised of ten top-quality, broadly equal campuses.

This Revision also forces the University once again to increase its reliance on private funds for its main campus operations. Fees are the only private funding source that is large enough to supply adequate quantities of operating monies. The Governor had singled out "public-private partnerships" (PPP) for praise in his State of the State message of January 2008, and in this scenario state leaders resign themselves to seeing UC as a PPP.[14] This means that its operations are "state assisted" via much-reduced state funding, while it depends on its student "customers" for the rest of core campus operations.

UC thus becomes increasing privatized, in three related senses.

A) The budget increasingly depends on fee money rather than public general funds;

B) Since this fee money cannot be acquired in amounts that would replace the state General Fund, permanent austerity forces UC to cancel many activities and services or to accept more limited or standardized versions of them via outsourcing to private vendors;

C) Administrators must increasingly subject individual programs to "market" criteria. Institutional power and resources flow towards wealthier, higher-revenue programs, and many academically valuable programs with small or negative revenue streams are cut.

Under the Compact, UC was suspended between two models: the top-quality, comprehensive public university and a narrower, more stratified, more expensive, "state-assisted" university. This scenario, the Schwarzenegger Revision, ends the suspense and pushes UC towards the more limited, privatized model.

III. Institutional Context and Administrative Response

In fact, UC administrators have had to plan for the Governor's proposed ten percent cuts (3.6% net cuts) since January 2008. At the winter meetings of the UC Board of Regents, EVP Katie Lapp and Vice President for Budget Patrick Lenz, without advocating or endorsing cuts, described the reductions that could achieve the ten percent goal (http://budget.ucop.edu/pres/200809/knljanregentsmtg08-09budget.pdf). They noted that the cuts amount to about $320 million on a GF base of $3.2 billion, yet leave the University over $417 million below the budget UC officials had initially proposed for 2008-09. UC's budget presentations identified a series of cuts and student fee increases that could be made in order to close a $417 million gap, defined as the gap between The Regents' and Governor's 2008-09 proposals.

Nearly all of the affected areas have been declared official Regental priorities, which largely overlap with Academic Senate priorities. Each of these priorities had emerged during the course of long discussions about the impact of years of cuts on the University's health. Faculty salaries, for example, became a priority after average UC salaries fell 10-15 percent behind those of comparator institutions; the same was true of staff salaries, and the other items described in Figure 7 below. Each was on the list because it represented an effort to remedy a current deficiency. Fulfilling the priorities is largely a matter of getting back to zero rather than sponsoring new initiatives that would increase the University's preeminence.

UC has been suffering for years from what one UCPB member has called a "hollowing out." From a distance, all appears normal; once one goes inside, the damage is clear. This hollowing-out has come to pervade the ordinary and yet vital activities that accomplish the enormous output of a university system with well over 200,000 students, each of whom is affected by the steady erosion of resources for everyday things. Faculty and staff have struggled mightily to maintain quality under much-reduced circumstances, but this is often a losing battle.

We offer a few examples of the problems the Regental priorities are designed to remedy, all taken from active teaching and research faculty around the UC system.

- "The most troubling example from my department concerns the joint impact of delayed replacement hires and cutbacks in temporary teaching funds. This started while I was chair about five years ago. The strict application of new formulas for assigning teaching assistants (TAs) meant that TA-intensive upper-division specialty courses for majors, involving labs, field trips and/or extensive quantitative assignments, could no longer receive TA support for yearly offerings. That combined with a shortage of faculty to teach our upper-division service courses meant that almost all of our upper-division courses for majors are now offered on an every-other-year basis. This has certainly eroded the quality of our major. I know that this problem is pervasive in the College of Biological Sciences, and I expect it has occurred across campus." (Campus A)

- "My new division is already strong in several up-and-coming areas of science - in terms of initial faculty hires, grants--especially National Science Foundation (NSF) grants, graduate student numbers, research concentrations, and overall undergraduate enrollments. Yet our unit has only one building on campus, and as of 2008, this building is full. That is, the labs, offices, and teaching spaces are full. The next science building is not expected until 2013. There is a gross mismatch between the capital budget for our division and its potential in research and teaching. A back of envelope calculation suggests that at the current rate of capital funding, it will take 250 years to build the academic buildings required by my growing division and others on campus." (Campus B)

- "Our lower-division courses have had to be made so large that faculty cannot possibly do all their own grading. In better budget times we hired readers to grade homework papers in our lower division courses-- we budgeted for four minutes of reader time per week per student. All told that comes to about $100,000 per year. Even with this amount of reader time, the reader can only grade maybe less than a third of the problems on the homework so to do a good job we would need maybe 12 minutes or 15 minutes per week per student (and that would be $300K-$400K). The readers were cut out in the early 1990s -- essentially it was a check off to who submitted homework). As chair in the late 1990s I worked hard to get the readers back and succeeded, but then in 2002 they were cut again. In my mind it is a scandal that we allocate nothing for this and even a small scandal that in good budget times we cannot find funds to grade more than a third of the problems. There are various work-arounds like class quizzes based on the homework, and even some computer-based ideas, but they are not giving the students the feedback they need." (Campus C).

- "Among our research faculty the high cost of living combined with the relatively low salaries have led to a severe retention problem. Newly tenured faculty who are starting families have to decide about the quality of life they can afford in California. They can command higher pay in a lower cost of living environment in other states. My division of our medical school has lost three Associate Professors in the basic sciences over a three year period largely because of quality of life/salary issues. Their loss doubly hurt because we not only lost their future research contributions to my campus and California but they also had not fully "repaid" their initial recruitment costs from their grant overhead. Top candidates can get offers of up to $1 million dollars in start up funds. A major portion of recruitment packages comes from the discretionary funds generated by the indirect cost recovery money the school gets from grants. Once hired, a new faculty member who obtains grants begins to generate indirect cost recovery (ICR) funds. It is not until they are well into their Associate Professor period, however, before they have generated enough ICR funds to cover their initial package. Therefore when a newly minted Associate Professor accepts an offer elsewhere, they leave behind a net financial hole to the school/department. The result is a depletion of other discretionary funds to try to assemble an attractive recruitment package to replace them, with all the lost opportunities that causes. Worse yet, if the package is inadequate, the department is not able to attract the top candidates and thus has to settle for lower quality candidates. This downward spiral is now increasingly common." (Campus D)

- "I have spent a lot of time on my campus's Planning and Budget committee so I know too much about this. Academic units had permanent budget reductions of three percent in 2002-03, 2.7 percent in 2003-04, and 5 percent in 2004-05. Support units had permanent budget reductions of four percent in 2002-03, 3.7 percent in 2003-04, and six percent in 2004-05. The campus administration made a decision to protect the academic units as much as possible, so we made smaller cuts to the academic units. But as a consequence of budget cuts, about 140 staff positions were eliminated or kept vacant. Cuts of such magnitude have impacted the campus as a whole. Though we have been well-managed throughout this difficult period, all department offices are now understaffed. My department, Mathematics, had one staff position for computer support for the faculty and graduate students. The position was eliminated. We now depend on computer support from the Dean's office. As a consequence, our faculty spends a lot more time dealing with computer problems." (Campus E)

- "My campus has built many new buildings over the past decade. It used to be a standard protocol that buildings which house science laboratories would be allotted a certain percentage of the building cost for the purchase of equipment items standard for the discipline that would occupy that building. These new building complements have virtually disappeared. Thus the faculty have to add this equipment costs on already over burdened grant applications. A related issue is a phenomenon known as "'value added engineering." As an example, we have a new building for the psychology department; many of the faculty are physiological psychologists and use animals in their neuroscience directed research. Thus one wing of the building is a vivarium. Because of delays in identifying all the funding sources for the building, the costs of the building went up. And thus something had to be cut from the building. The choice turned out to be a $250,000 cage washer that is mandated by the federal government to be present in a vivarium. Therefore the cost of the care washer is going to be absorbed by the animal users of the vivarium; this has the consequence of increasing the daily motel costs for animals by two hundred or so percent. These kinds of cuts directly affect our research, and lower the new capacities of the facilities, which is why we needed them in the first place." (Campus F)

- "We have a good English department that has carefully developed a national reputation in new media over many years.   Since the early 1990s, while this field was booming in our state and creating enormous fortunes we were only able to buy new equipment through retention funds - we would give it to a faculty member who had received an outside offer. We have no upgrade budget in an area driven by Moore's Law of 18-24 month doublings of speed and halvings of size.   The Dean has only a drop of money for this. We just got wireless connections in 2007 for one of the country's strongest digital humanities faculty. It cost $17,000, but we could not get it through the campus. We applied for instructional development funds and were rejected three times because of the size of their budget. We took the money from our "rainy day" fund, which we grew by cutting off faculty office phones.   This saved $6000 a year (or 11 percent of our total non-operating salary budget for a faculty of 31). Faculty now have to use their own cell phones in their offices. We also saved money when the head of the office staff did one year's scheduled office painting by herself.   She did it at night and on weekends because it was illegal, but that's the kind of thing we do to have equipment. We have never gotten a penny for furniture from anyone." (Campus G)

- "Yesterday our Comparative Literature program selected students for admission for 2008-2009. It is significant that we could not admit any international students for 2008-2009, although we received applications from 14. This was the result not of their qualifications but of financial constraints--international students must pay very high non-resident fees for several years, and because graduate students in the Humanities are not funded by faculty grants, as is typically the case in the sciences, these fees must be covered by Non-Resident Tuition Fellowships. These fellowships are extremely competitive and there are very few of them; their distribution to graduate programs is a loaves-and-fishes kind of enterprise. It goes without saying that this state of affairs seriously comprises the quality of the program in Comparative Literature, a field defined by the study of national traditions from all over the world." (Campus A)

- "We have a huge problem with deferred maintenance. Our campus's deferred maintenance backlog comes to more than $350 million. The state stopped providing funding for this purpose many years ago. Out of desperation, the campus chose to debt-finance $30 million (using indirect cost recovery as the repayment source, thus taking money away from research). Examples of projects include replacing the window wall systems and roofs in several main towers, chiller replacements in many buildings and electrical system replacements. Research in labs has been damaged and stopped due to leaking roofs and other forms of water intrusion. A bathroom in a Health Science tower had a plastic sheet taped to the ceiling to catch leakage from a steam line, which then drained via a plastic tube into one of the sinks, all suspended by duct tape. This lasted over a year before the leak was partially remediate by installing a more permanent catchment system that still drains into a sink. There is no money to fix the leak because there are more important things in the fifty-plus year old building that need fixing. This is for a campus that has historically housed some of the strongest departments in its fields in the world." (Campus D)

In spite of the kinds of systemic problems described above, faculty and staff have redoubled their efforts over the years to maintain high-quality educational outcomes. In addition, faculty and The Regents established specific development priorities to address these commonplace, systemwide experiences of everyday institutional obstacles to maintaining (and enhancing) the quality of UC's teaching and research. This is the context in which the Governor proposes ten percent cuts, and in which the UC administration is asked to implement them.

The financial fates of these priorities are listed on the next page:

Figure 7: Regental Priorities and UCOP Budget Cut Proposals[15]

Regental Goal	Regental 1 Year Cost Estimate ($m)	November 2007 Proposal for 08-09	January 2008 Proposal for 08-09
1. Faculty Salaries: 4-years to market Merit increases	$66 -	$66 $27.5	0 $27.5
1a. Staff salaries 1.0-1.5% above inflation each year/10 years	n/a	$122[16]	0
2. Research & Graduate Students (20% of student body by 2020)	$10 (grads) $5-15 (research)[17]	$10 $10	0 0
3. Return Student-Faculty Ratio to peer levels	$40[18]	$10	0
5. Investment in Essential Infrastructure -state capital projects 6. Additional Infrastructural Support 7. Invest in IT	600-$800 m rehab projects $800-$1000 research and non-state capital $150 m academic support (incl libraries $8[19]) $100 m IT	 $30.8m	 0
8. Fix K-12	$10	$5	0
10. Increase financial aid	$40 (33% return-to-aid)	0	0
13. Health Care Need 14. Telemedicine	$200 million (per new med school) N/A	0	0
Additional Student Mental H Non-Salary Costs Continuation		 $8 $25 $34	 0 0 0

The costs of the various Regental priorities in Column 2 make it clear that only the top of the list had been funded even in the original budget proposal for 2008-09. Each priority had been slated for a gradual ramping-up within the confines of the Compact's limits. Nonetheless, each and every priority item is zeroed out in UC budget proposals that respond fully to the Governor's proposed cuts.

The Futures Report showed that the University was already not tracking towards a full recovery. Only one year before the new round of cuts was proposed, in the winter of 2007, the Academic Council called for an additional $700 million to $1.1 billion over a two year period to get the University back to the place where it began the decade. Instead, a new round of cuts that would bring even that limited progress came to a complete halt. As UC's peer institutions are not facing similar cuts, the University may fall further behind its peers.

Student Fees: The proposed cuts are especially bad for those trying to minimize fee increases. Except for a one-time buy-out, UC has raised fees seven to ten percent per year in each year of the Compact (and more than that during the previous years of cuts). Such increases are built into the Compact. A seven percent fee increase was already planned for 2008-09 (absent an already highly-unlikely state buyout); The Regents already sent professional fees to "market" levels by 2010-11 for professional schools (about $40,000 per year).

Under Scenario 5, how high do fees need to go, beyond their 2007-08 level of $6636 (excluding campus fees for specific purposes)?[20] In 2006-07, the last year for which we have official data, UC enrolled 200,085 students outside of the health sciences. The University, facing political pressure, does not freeze enrollments (though it does seek to end overenrollments, in which UC has enrolled 4300 students in 2007-08 for which the state pays nothing). If enrollments increase by the Compact figure (approximately 5000 students per year, budgeted at 2.4 percent), UC will have nearly 210,000 non-health students in 2008-09.[21] For that year, the University needs to make up for a budget gap of $417 million from the proposed budget. In addition, the University has historically tried to mitigate the impact of fee increases on low-income students, and thus generally returns 33 percent of fee income to financial aid ("return-to-aid" or RTA).

Since other sources of income are hard to increase on short notice - if they can be increased at all - the recovery of $417 million in cuts is spread across 210,000 general campus students, graduate and undergraduate. This means that the average student will need to contribute about $2000 on top of the current average (undergraduate) fee of $6636.[22] But since UC seeks to reduce the impact of its fee increases with an RTA of 33 percent, the University will need to gross $3000 in order to net $2000 to replace lost General Fund monies. This would bring undergraduate fees to almost $9,636 for 2008-09, which means a one-year increase of about 45 percent. Add in campus fees, and the total per undergraduate student is about $10,500 for 2008-09.

IV. Findings

Findings:

1. The proposed ten percent cuts are premised on the idea that state agencies have enjoyed years of excess revenue increases. This is not true for the University of California. The Higher Education Compact has meant that UC has grown far more slowly than constitutionally-protected state agencies, and more slowly than state per capita income. Uncorrected for inflation, UC's state revenues for 2007-08 have barely returned to their 2001-02 level. When corrected for inflation, these revenues are substantially below 2001-02.

2. The Governor's ten percent cut to UC's General Fund budget amounts to a first-year net cut of 3.6 percent. The size of the cut, by comparison to The Regents' "Compact" budget proposal of November 2007, is $417 million. Uncorrected for inflation, this is the same size as the 2003-04 cut to UC's General Fund share ($410 million), more than four times larger than UC Merced's total budget, and is within $60 million of the budget for the Santa Cruz campus.

3. The gap between The Regents' budget proposal in November and the Governor's proposed budget will require a first-year increase in fees of 45 percent.[23] This would raise the undergraduate Education and Registration fees to $9636, or about $10,500 including campus fees.[24] (See page 16.)

4. The proposed cuts block the implementation of every one of The Regents' and the faculty's priorities, even in their modest, multi-year ramp-ups.

5. The 2008-09 cut is unlikely to be a one-time event. Our Scenario 5, the Schwarzenegger Revision (Figure 6), projects a three-year cycle of cuts that total about 15 percent. The scenario projects a budgetary track that leads from the Compact pathway to the scenario that the Futures Report called the "public funding freeze." If this scenario comes to pass, there will be no future recovery of General Fund revenues. In addition to the billion dollars of General Fund monies lost in the first half of the decade, our scenario of a three-year cycle of reductions further cuts billion dollars in General Fund monies below the Compact level, for a total of two billion dollars in cuts in this decade.

6. The Schwarzenegger Revision accelerates the redefinition of the University of California away from a public university and towards a "public-private partnership" (PPP). The University becomes dependent on high student fees for delivering its core educational mission even if it can obtain very large private sponsorships and philanthropic donations. The University becomes quasi-private or poor - or perhaps both at once.

7. The result of these actions will be significantly reduced investment in - and the lowered quality of - UC's core activities of teaching, research, and public service. These actions will lower the value the state receives from its (substantially reduced) investment in UC.

These findings have led us to the following recommendations:

1. The Academic Council Chair inform the President, with a request that the President inform The Regents, that the University has been experiencing a damaging state General Fund shortfall before the new round of proposed cuts ("Resolution of the Academic Council on Returning UC to a Sound Fiscal Base," January 7, 2007); and that because these new cuts threaten the University with damage to educational quality and to its ability to contribute to the public good, the Academic Council calls on the Office of the President publicly to oppose the cuts.

2. The President, sharing our concerns with The Regents, engage in a systematic campaign to rebuild statewide support for public funding for the University of California; that UC coordinate this campaign with the California State University, the Community College system, and with their various constituencies, including any student, staff, and faculty organizations that share these concerns; and that UC work not only with the Governor's office, but also with the legislature and the public.

3. The President, sharing our concerns with The Regents, make a public commitment that, in the interest of avoiding yet another reduction to the current level of resources devoted to each UC student, the University will establish a minimum cost of instruction no lower than the current, already-reduced, 2007-08 level, and will take the necessary steps to sustain its public investment per student, adjusted annually to reflect actual costs. ("Minimum" indicates that the University will continue to work to return to the equivalent of 2001-02 levels of state investment per student.)

4. The President, sharing our concern with The Regents, make clear to all branches of government and to the public that in order to maintain these already-reduced levels of per-student support, the University will in the near future need to respond to cuts by limiting enrollments.

5. The President's office publicly disclose the true level of fees required to fund The Regents' Fall 2007 proposed budget and thereby maintain the current quality of a UC education (estimated in this report to be around $10,500 by 2008-09).

We hope that full understanding of the implications of a ten percent cut - a 3.6 percent first year net cut - will lead to restored support for the Master Plan's vision of accessible, high quality public higher education in California. At the very least, we hope that the University will move forward with a plan that makes financial sense.

NOTES

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[1] Primary drafting was completed by UCPB Chair Christopher Newfield in collaboration with Cuts Subcommittee members Abel Klein of UC Irvine and Bruno Nachtergaele of UC Davis, and with much special assistance with analysis of Department of Finance and Office of the President budget data by Andrew Dickson of UC San Diego. Members of Academic Council made many valuable suggestions; special thanks to Jim Hunt of UC Berkeley for an especially thorough review of the entire manuscript. UCPB would also like to thank the two dozen or so members of the UC community who submitted examples of the real-world impacts of budget cuts on the educational activities for which they have direct responsibility. We regret that space did not permit the inclusion of all of them

[2] We calculate the percentage to be 3.6 percent: UC's 2007-08 GF share is $3.016 billion (Department of Finance 2008-09 Budget Section 6440 p 15 budget item 001). UC's GF share increases to $3.239 billion is the California Department of Finance's number for the 2008-09 General Fund as increased under the "Compact." A ten percent cut (on the total state appropriation, including 003 Lease-Revenue bonds, which we exclude from "Core UC Funds" - funds available for current campus operations) is $331.9 million, and the subtraction yields $2.907 billion (in 001 General Fund appropriations). The change from $3.016 in 2007-08 to $2.907 in 2008-09 amounts to a 3.6 percent cut.

[3] Data for both campuses comes from UC's Financial Report for 2005-06.

[4] We assume that UC will maintain its traditional practice of returning at least 33 percent of fees to financial aid (RTA).

[5]The DOF data comes from EVP Lapp's January 10, 2008 Presentation, slide 12. Our own calculations use a different methodology. When we run our calculations with EVP Lapp's numbers, fees must increase to $9,532, for a total fee increase of 43.6 percent. Although we are not entirely clear about the details of her methodology, the calculations of the resulting increases are very close.

[6] http://www.universityofcalifornia.edu/senate/reports/AC.Futures.Report.0107.pdf

[7] See Figure 4, "Growth in General Fund Spending by Program Area," *The 2008-09 Budget: Perspectives and Issues. Report From the Legislative Analyst's Office to the Joint Legislative Budget Committee* (2008), p 76 (http://www.lao.ca.gov/analysis_2008/2008_pandi/pandi_08.pdf#page=97).

[8] Ibid, p. 68.

[9] http://gov.ca.gov/sots/print/budget/

[10] Ibid.

[11] Ibid.

[12]California Legislative Analyst's Office, Analysis of the 2008-09 Budget Bill (February 2008) http://www.lao.ca.gov/handouts/FO/2008/SBFR_022608.pdf, slide 2.

[13] There are three somewhat different sets of calculations currently in circulation (DOF, LAO, and UCOP). As noted above, our calculation combines UCOP and DOF via EVP Lapp's presentation to the Board of Regents on January 10, 2008 (http://budget.ucop.edu/pres/200809/knljanregentsmtg08-09budget.pdf). We have revised the cut estimate in response to DOF data; Figure 6's source data is identified in this table, derived from Futures Report sources:

	2001-2	2002-3	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Benchmark	3,279	3,329	3,434	3,661	3,879	4,104	4,330	4,590	4,870	5,176
1. Compact	3,279	3,140	2,803	2,615	2,718	2,945	3,137	3,328	3,531	3,746
2. 2001 P					2,718	3,177	3,614	4,085	4,602	5,176
3. 1990 P					2,718	3,375	4,032	4,750	5,542	6,426
4. GF Freeze					2,718	2,718	2,718	2,718	2,718	2,718
5. S Revise					2,718	2,945	3,137	2907	2,762	2,624

[14] In his State of the State address in January 2008, the Governor said,

> Over the next 20 years, we have $500 billion worth of infrastructure needs to be met. As we head into this new century, we also need digital infrastructure to keep our economy growing. So how do we meet all these needs? There isn't enough money in the public sector to do all of it. We need to expand partnerships where government and the private sector work together to meet the needs of the people. These partnerships can often deliver infrastructure faster, better and cheaper.
>
> For instance, in British Columbia, public-private partnerships are common for building highways, bridges, rapid transit, water treatment. Everyone is happy. The political leaders are happy, business is happy, the public is happy, the economy is happy, the future is happy. (http://gov.ca.gov/speech/8445/).

[15] UCPB cost estimates are not identical to those of the Regents, but we omit those here.
[16] Lapp, Regents 01/08 breaks out faculty "acceleration" ($20m) and combines faculty and staff 5% increases). The $122 m figure is obtained by subtracting the known cost of a 2.5% COLA and 8 percent market adjustment for faculty (a bit under $66m) from the total faculty and staff salary cost in Lapp. These figures also include the cost of health benefits.
[17] These numbers were excluded from Regents L1 in the January 2008 version.
[18] Increased from $10m in January 2008 draft.
[19] This $8 m figure comes from the Budget for Current Operations 07-08, which also describes a "historic $33 million library budget shortfall" (206). This figure does not include normal inflation or very high recent rates of inflation in the price of serials.
[20] For sample fee breakdowns see Irvine (http://www.reg.uci.edu/registrar/soc/fees/undergrad.html); UCLA (http://www.registrar.ucla.edu/fees/gradfee.htm); and Davis: (http://www.ormp.ucdavis.edu/studentfees/documents/current/ugres_fees.pdf).
[21] Our estimate is 209,804, though this does not reflect typical levels of overenrollment, which will likely bring the actual enrollment figure in above 210,000. For the last enrollment figures (Fall 06), see "University of California: Statistical Summary of Students and Staff," Tables 1b and 1c, http://www.ucop.edu/ucophome/uwnews/stat/statsum/fall2006/statsumm2006.pdf; for official fee estimates across campuses, see http://www.universityofcalifornia.edu/educators/counselors/adminfo/fees.html.
[22] The figure is about $1986 (revenues needed divided by the number of non-health science students). The actual fees charged to different categories of students (graduate vs. undergraduate, resident vs. non-resident) will differ.
[23] We assume that UC will maintain its traditional practice of returning 33 percent of fees to financial aid (RTA).

[24]The DOF data comes from EVP Lapp's January 10, 2008 Presentation, slide 12. Our own calculations use a different methodology. When we run our calculations with EVP Lapp's numbers, fees must increase to $9,532, for a total fee increase of 43.6 percent. Although we are not entirely clear about the details of her methodology, the calculations of the resulting increases are very close.