

# UNIVERSITY OF CALIFORNIA

## 1998-99 Budget Presentation



ASSEMBLY BUDGET SUBCOMMITTEE NO. 2

ON EDUCATION FINANCE

MARCH 25, 1998

# PRESIDENT RICHARD C. ATKINSON

University of California

Chair Scott, members of the committee, thank you for inviting me to join you today. I am very pleased to be here and to have this opportunity to discuss the University of California's budget and related issues facing higher education in California. I want to start by saying how much we welcome the State's continuing support for the University and for all of higher education.

We have distributed a packet of handouts which I will refer to in our discussion. It is not my intention to walk through the details of the University's budget as proposed in the Governor's budget; but rather to focus on several critical issues. While I will talk about a number of issues in my presentation, I want to be clear that our two highest priorities with respect to changes to the Governor's budget as introduced are: full funding for our enrollment, which will cost an additional \$23 million; and an increase in capital outlay funding from \$150 to \$250 million annually, which is dependent upon passage of a general obligation bond measure.

We look forward to working with you as we jointly address the most significant issue facing all higher education in this State: accommodating the projected increase in student demand. The problem we, along with our colleagues at CSU and the community colleges, face is how to provide an affordable and quality higher education to all the students who will be seeking a University education.

With your help, we have put a great deal of emphasis on providing access:

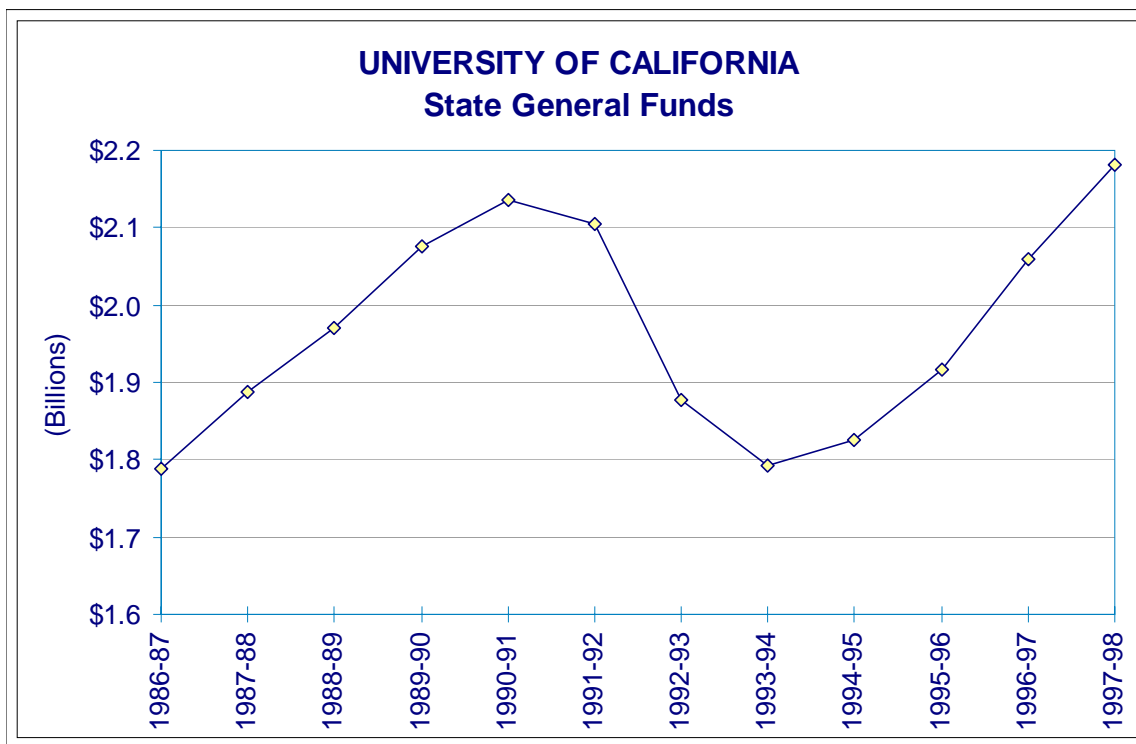
- Fees have not been increased since 1994-95.
- In 1998-99 fees for undergraduate students who are California residents will be reduced by five percent.

- We have exceeded our commitment to provide financial aid.
- We have a new MOU with the community colleges that sets as a goal a 30 percent increase in the number of transfer students coming to UC.
- With the funding proposed in the Governor's budget we will increase our outreach efforts to improve the academic preparation of K-12 students.
- Our faculty are teaching more than ever before, and we have been able to provide the classes students need to graduate. The graduation rates of our students have never been better.
- We are moving ahead with planning for a tenth campus in the San Joaquin Valley, and are expanding academic programs in the meantime.

I am proud of what we are doing to maintain access. I also recognize we need to do more. We cannot do this alone – we need to continue finding new ways to fulfill our mission. We need to continue to develop and nurture our partnerships with the K-12 schools, with business, and with CSU and the Community Colleges. We need to work together to ensure that Californians are academically prepared to succeed and to take on leadership roles.

While it is important that we provide access for these students, it is also our responsibility to maintain the quality of our academic programs. The State's economy is dependent upon a workforce trained to succeed in an economy that is increasingly high-technology based.

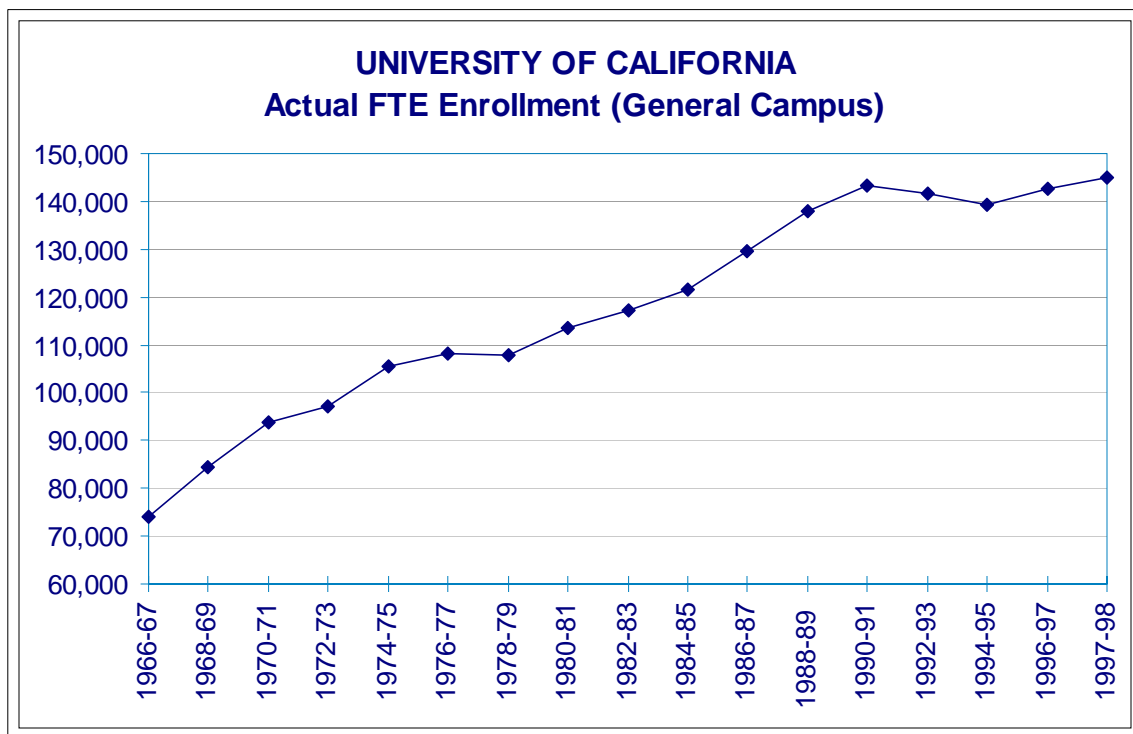
These are the issues I want to discuss today – access and quality.



During the 1980s, when our enrollments were increasing dramatically, we received significant increases in State general funds. Then we experienced a dramatic reduction in State funding during the early 1990s, even though our enrollments remained relatively stable. The 1990s were extraordinarily difficult years for the University.

We suffered unprecedented losses in State general funds, and at the same time we had to cope with inflation, fixed-cost increases, and workload growth.

Now, State funding for our budget is on its way back up, although the funding we lost in the early 1990s was not restored in terms of *real* dollars. We were able to use much of the increase in State dollars to restore salaries for our faculty and staff, freeze student fees for 3 years and reduce them by 5% for 1998-99, and fund some of our enrollment growth. However, we are still left with nearly \$500 million in cuts we had to make to campuses' base budgets. This funding has not been restored and continues to be a major problem.



Despite the dramatic decreases in State funding, we were responsible and did what we could to preserve access and quality. We took a number of actions – some temporary, some permanent, some obvious, some drastic – to ensure we could take the students and provide them with the classes they needed to graduate in a timely manner.

This graph shows what has happened to our general campus enrollment over time. With the exception of a slight dip between 1991-92 and 1993-94 (years of the greatest budget cuts), we have had steady increases in enrollment for the last thirty years.

The important point is that during a period of declining State resources we maintained our commitment to the State and the people of California: As a result, student outcomes have improved. More students are graduating, and graduating sooner.

If we are to continue to maintain access we need adequate resources.

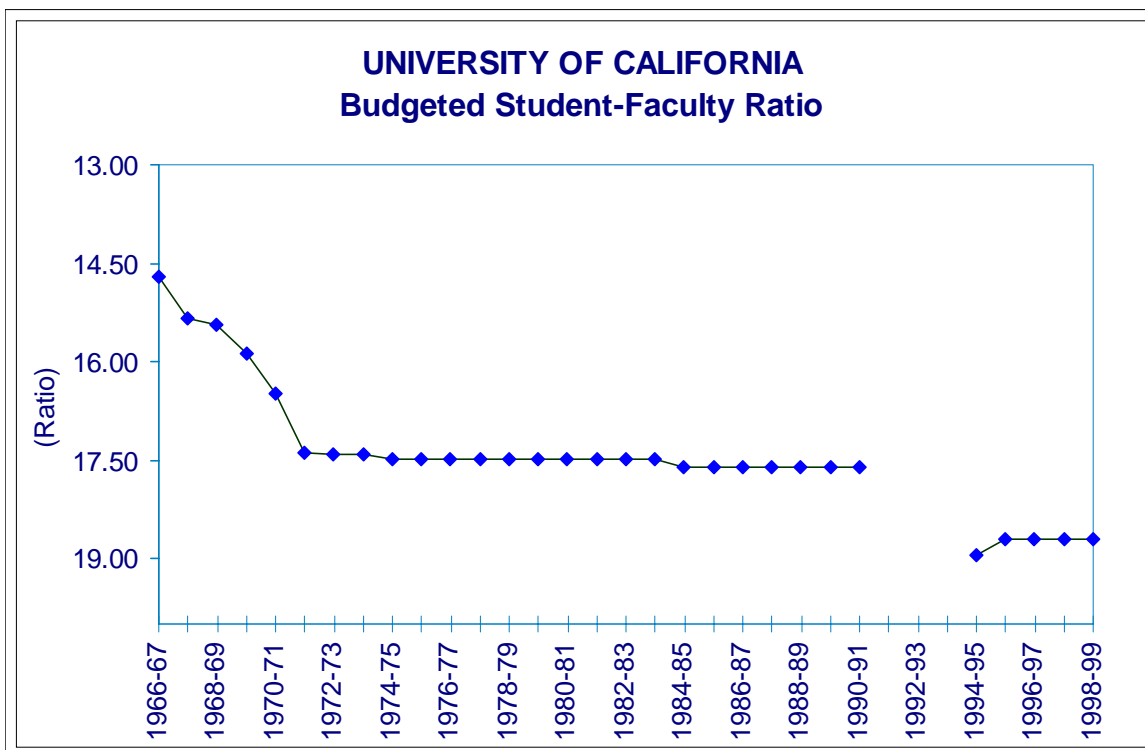
### Actual and Budgeted Enrollment and Faculty

	Actual Enrollment	Actual Faculty	Ratio		Budgeted Enrollment	Budgeted Faculty	Ratio
1990-91	143,344	7,981	18.0:1		142,079	8,067	17.6:1
1991-92	143,808	7,686	18.7:1				
1992-93	141,507	7,620	18.6:1				
1993-94	139,478	7,582	18.4:1				
1994-95	139,415	7,067	19.7:1		137,481	7,260	18.9:1
1995-94	141,522	7,232	19.6:1		138,000	7,380	18.7:1
1996-97	142,783	7,358	19.4:1		139,500	7,460	18.7:1
1997-98 (est)	145,000	7,540	19.2:1		141,000	7,540	18.7:1
<b>1998-99 (est)</b>	<b>147,000</b>	<b>7,690</b>	<b>19.1:1</b>		<b>143,800</b>	<b>7,690</b>	<b>18.7:1</b>

This chart compares budgeted and actual enrollment and faculty through 1997-98, and what we are projecting in 1998-99. The State currently provides funding to support 141,000 students on our 8 general campuses. We estimate that we have enrolled about 4,000 more students than provided for in the budget. Applications to UC are up over 6.5% from last year, with the greatest increase at the freshman level. Given the strength of enrollments, we fully expect to continue to exceed our budgeted enrollment.

The Governor's budget supports an additional 2,000 students under the compact, and 800 students above the compact in engineering and computer and information sciences. Even with this funding, we are projecting that we will enroll at least 3,200 students more than we have funding for. Based on the marginal cost, we need an additional \$23 million in our budget to support these students.

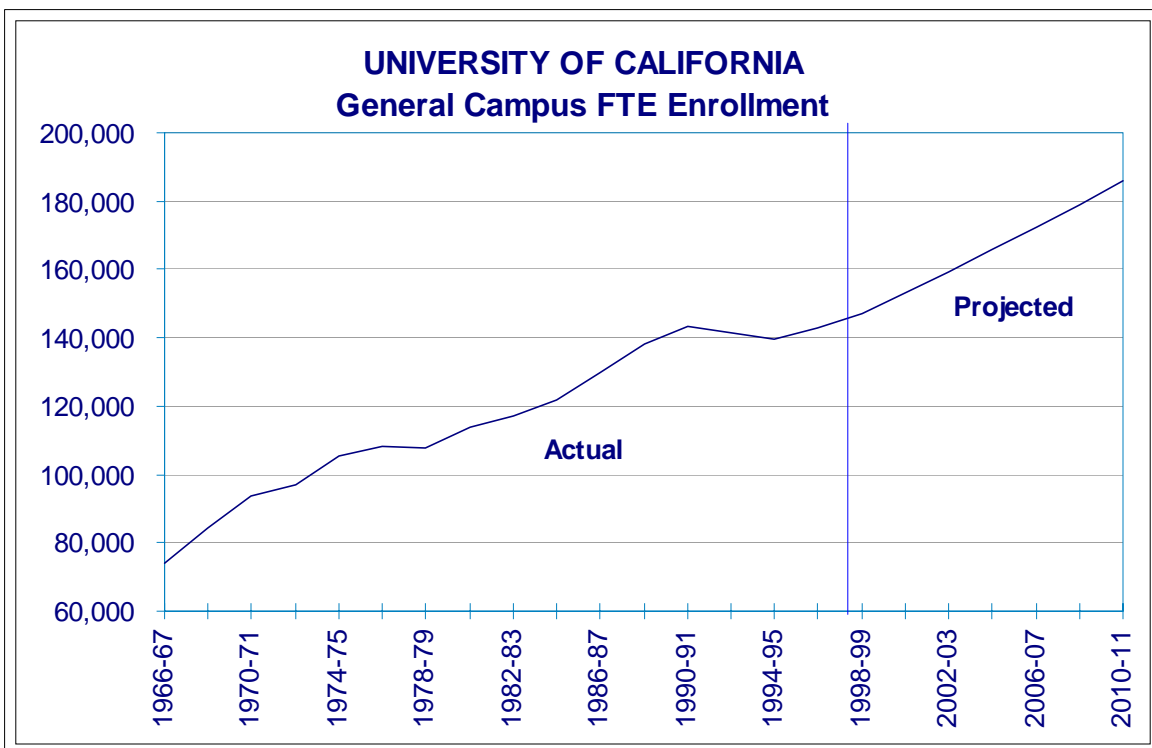
Based on the recognition that additional State general fund revenue may be available in May, we are seeking the support from both the Governor and the Legislature to provide us with the \$23 million.



It is not enough to simply take the students. We must be cautious how this affects the quality of our programs. One critical indicator which is often used to measure the quality of undergraduate and graduate programs is the student-faculty ratio. This graph shows what has happened over time. In the mid-60s we were close to a 14.5 to one ratio. By the 1970s, the ratio deteriorated to 17.8 to one and stayed there for almost twenty years, until the budget cuts of the early 90s.

In 1995-96, we reached an agreement with the State to phase in a new student-faculty ratio of 18.7 to one. Because we have enrolled more students than provided for in the budget, our actual student-faculty ratio is currently at about 19.2 to one. This affects quality.

Of our eight comparison institutions, we have one of the highest (worst) student-faculty ratios. The ratio at our public comparison institutions is 17:1; at our private comparison institutions it is 10:1. This is not good news by any means and we need to resist any further deterioration.



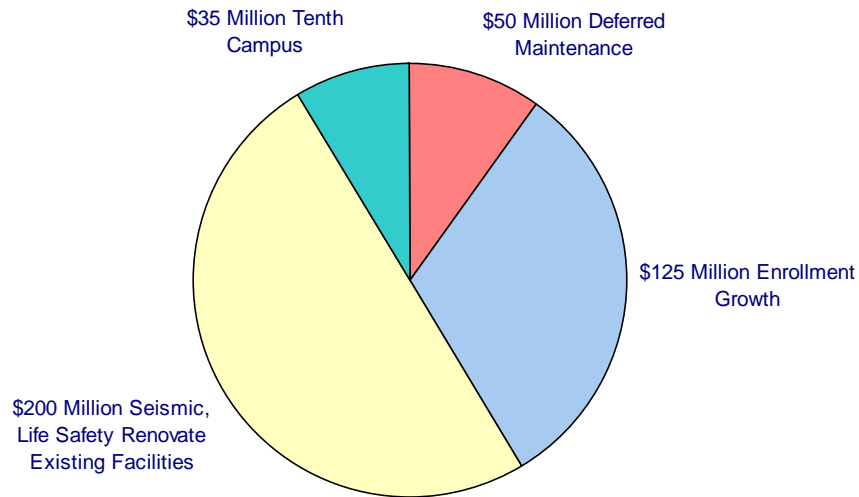
The University currently projects annual enrollment growth of about 2.5%, or an additional 45,000 students, by 2010. This mirrors the latest DOF estimates that public high school graduates will grow about 2.5% annually.

Whether you call this a Tidal Wave or not, this is a 30% increase. It is a lot of students for us -- 45,000 students is more students than we currently enroll at our San Diego, Santa Barbara and Riverside campuses combined!

At this level of growth all of our campuses will be at the enrollment targets established in their long-range development plans and we will have 5,000 students enrolled at the tenth campus in Merced.

These projections are conservative. We would not be surprised if our actual enrollment exceeds our projections, especially if our outreach efforts to improve the academic preparedness of K-12 students and our collaborative efforts with the community colleges to improve the number of transfers to UC are successful.

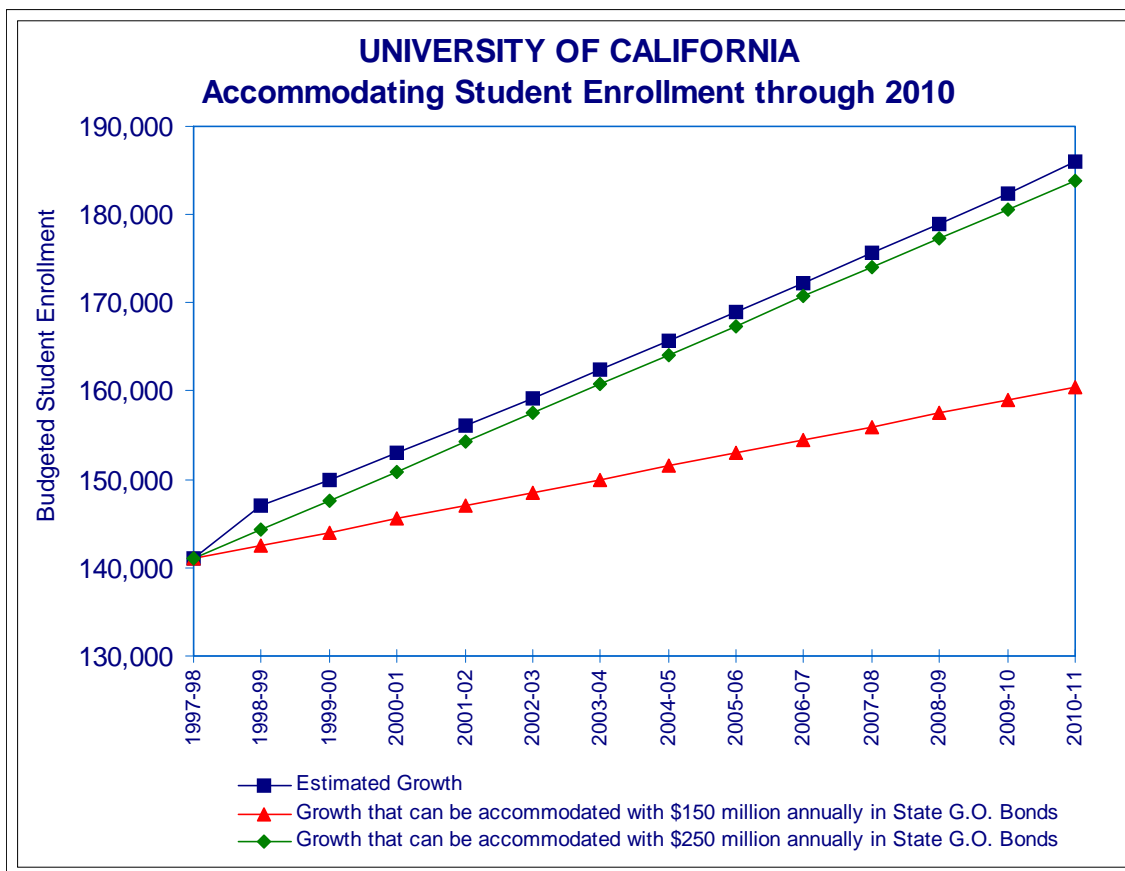
**UNIVERSITY OF CALIFORNIA**  
**Annual Capital Outlay Funding Needs**  
**\$400 Million A Year Through 2010**



If we are to accommodate the projected demand, we need adequate capital funding as well.

We estimate we will need about \$400 million in capital outlay funding annually through 2010 including:

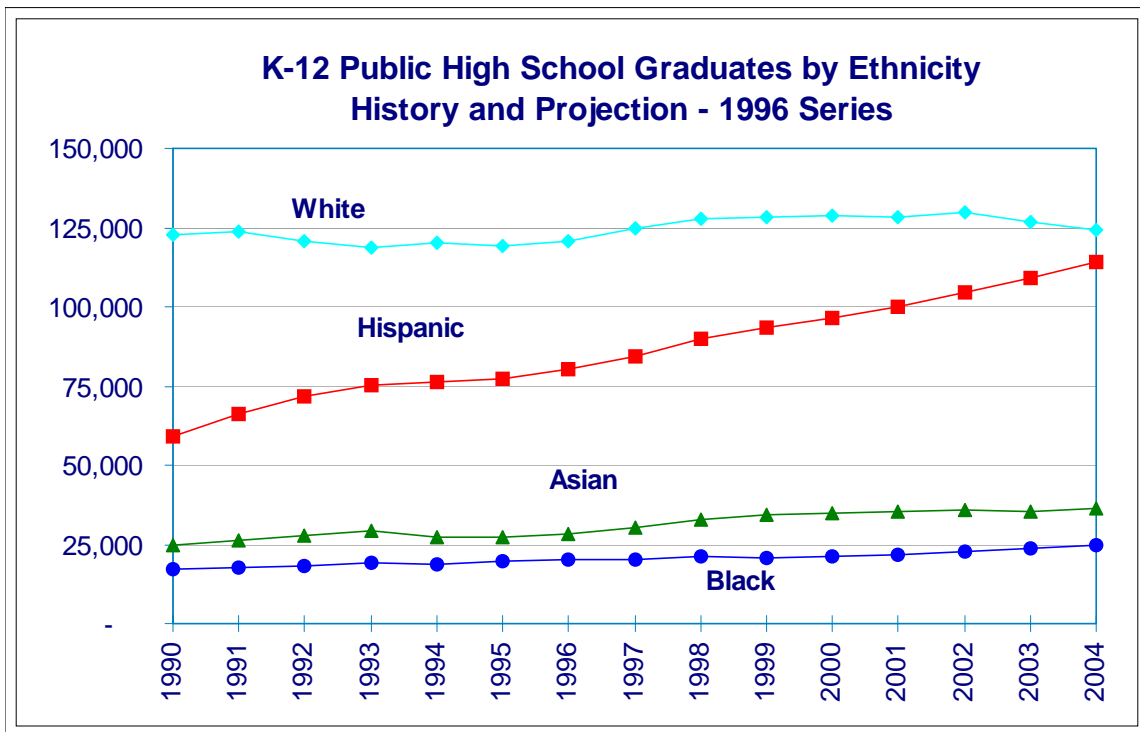
- \$200 million to address seismic, life-safety, infrastructure and renovation needs of our existing facilities;
- \$160 million for growth-related projects, including \$35 million for the development of the Merced campus
- a minimum of \$50 million for deferred maintenance and facilities renewal projects.



As you can see from this graph, we need at least \$250 million a year in State general obligation bonds if we are to accommodate the projected student enrollment.

The Governor's budget proposes to place a \$1 billion general obligation bond measure on the ballot for higher education. We need a higher level of State general obligation bonds than this if we are to accommodate projected enrollment growth as well as seismically retrofit and modernize our existing facilities. We, along with our colleagues at the community colleges and CSU, have urged the Governor and the Legislature to provide us each with \$250 million in State general obligation bonds a year.

We are disappointed that there was no agreement to place a bond measure on the June ballot and we will work hard this Spring to reach agreement on a measure for the November ballot.



It is not only the numbers of future students we need to be concerned about; equally important is the makeup of the student population. As this table shows, the number of Hispanic students graduating from public high schools will more than double over a short period of time.

We are strongly committed to improving access and are working hard to establish new paths to diversity and to ensure the academic preparedness of all students, especially those in disadvantaged circumstances. We have an ambitious set of short, medium and long-range strategies for improving the performance of K-12 schools and individual students.

We welcome the federal government's new High Hopes initiative which would create a \$140 million competitive grants program to fund partnerships between universities and junior high schools in low-income communities. This dovetails nicely with our outreach efforts.

I want, now, to turn to the University's budget as proposed to be funded in the Governor's budget. The Governor's budget would provide us with an 8 percent increase in State general funds. The Governor has honored the fourth year of the compact, restored the \$9.5 million cut included in last year's budget, "bought out" a 10 percent general student fee increase, and offset the revenue loss resulting from AB 1318, which provides for a five percent reduction in fees for under-graduates who are California residents. With the funding provided under the compact and as a result of AB 1318, we will be able to:

- Continue to accommodate projected enrollment growth averaging one percent (we project that this will leave us short of fully funding enrollment by 3,200 students in 1998-99);
- Provide salary increases for faculty and staff that would keep our commitment to restore competitive faculty salaries by 1998-99, continue to reward merit, and stay even with increases anticipated for State employees; and,
- Reduce fees for undergraduate students who are California residents by five percent.

The Governor's budget proposes to provide us with funding above the compact and AB 1318 that will allow us to move forward with a number of important initiatives, including expansion of outreach, increasing undergraduate enrollments in engineering and computer science programs, expansion of our successful research partnerships with industry, and development of academic programs and a tenth campus in Merced.

The following page includes a summary of the funding provided in the Governor's budget.

**1998-99 PROPOSED BUDGET INCREASE: STATE FUNDS**  
(\$ millions)

**Governor's  
Budget**

**OPERATING BUDGET--GENERAL FUNDS**

*Base Budget Increase Under the Compact and AB 1318*

Budget Increase Under the Compact (4%) -----	\$83.5
Restoration of Undesignated Cut -----	9.5
Increase to "buy out" general student fee increase -----	39.5
Increase to pay for 5% reduction in undergraduate resident student fees -----	22.5

Unavoidable Costs

Revenue bond payment-----	2.0
Annuitant health benefits-----	4.8

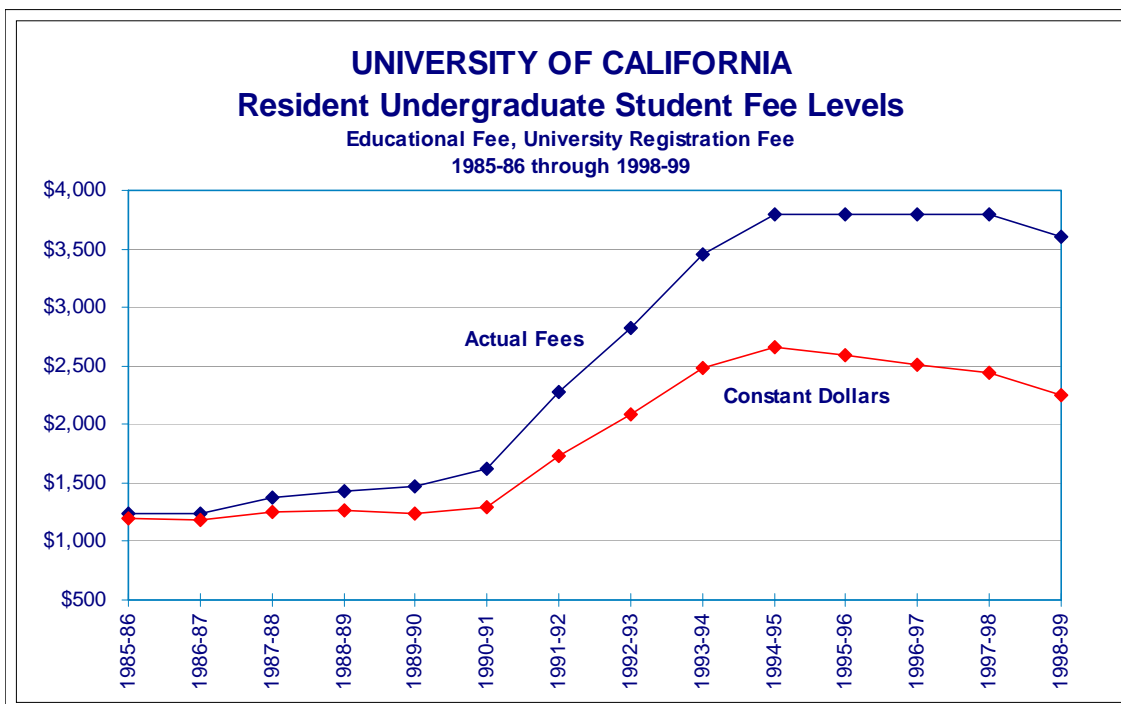
*Budget Changes Above (Below) the Compact*

Outreach -----	5.0
Electrical Engineering and Computer Sciences Enrollment -----	6.0
Industry-University Cooperative Research Program-----	5.0
Start-up funding for academic programs and planning for Merced campus -----	5.0
California Virtual University-----	1.0
Other (ITER Project, Arts Bridge Program, Teaching Internships for Math and Science) -----	3.4
Reduction of funding for California Subject Matter Projects -----	(12.2)

**Total Increase--State General Funds ----- \$175.00 (8%)**

**CAPITAL BUDGET -- GENERAL OBLIGATION BONDS**

Capital Outlay Improvement Program-----	\$151.0
<b>Total Increase--State General Obligation Bonds-----</b>	<b>\$151.0</b>



Historically, fees at the University were low because we had adequate State support. For many years, student fee levels were stable. With the decline in State support, fees rose sharply in the early 1990s. This chart shows that fee levels have risen from about \$1,200 per student in 1985-86 to about \$3,600 per student proposed for 1998-99. However, if you adjust for constant dollars (using 1984 dollars), fees in 1998-99 would be about \$2,200 per student.

There were no systemwide student fee increases in 1995, 1996 or 1997. In each of these years the State provided us with sufficient State general funds to avoid increasing mandatory systemwide fees.

In response to AB 1318, The Regents have taken action to *reduce* fees (effective in 1998-99) for California residents who are undergraduates by 5 percent.

We were able to reduce fees for 1998-99 because the Governor's Budget includes funding to "buy out" a fee increase at the same time it provides funding to offset the fee reduction, consistent with AB 1318 which was overwhelmingly approved by the Legislature.

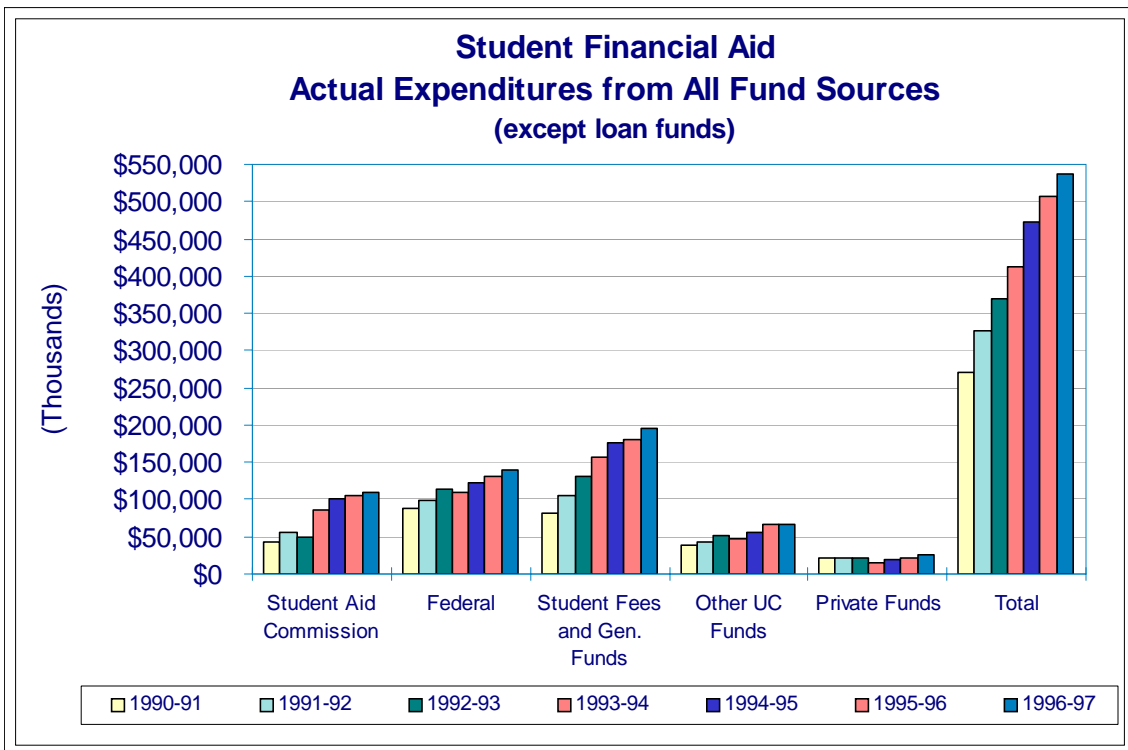
**UNIVERSITY OF CALIFORNIA**  
Student Fee Levels

Public Salary Comparison Institutions 1997-98 Fees	Undergraduate Residents
University of Illinois	\$4,340
University of Michigan	6,253
State University of New York	4,340
University of Virginia	4,786
<b>1997-98 Average Fees in Public Comparison Institutions</b>	<b>\$4,930</b>
<b>1997-98 UC Fees</b>	<b>\$4,212</b>
<b>1998-99 Estimated Average Fees for Public Salary Comparison Institutions</b>	<b>\$5,102</b>
<b>1998-99 UC Fees</b>	<b>\$4,022</b>

With no increases for three consecutive years, and a five percent fee reduction in 1998-99, our fees for California residents will be lower than all of our public comparison institutions.

In the current year, fees for undergraduate students who are California residents will be \$700 less than the average of our public comparison institutions.

In 1998-99, UC fees for California residents will be almost \$1,100 less than the average of our public comparison institutions.



As part of our strategy to maintain access, we have increased financial aid for our students.

This chart shows growth in financial aid from grants and gift funds over the last several years. Between 1990-91 and 1996-97 financial aid from grants and other gift fund aid from University sources grew by more than \$142 million, or nearly 120 percent.

We have provided large increases in the grant-funding over time, and have no intention of reducing our commitment even though fees have not been increased.

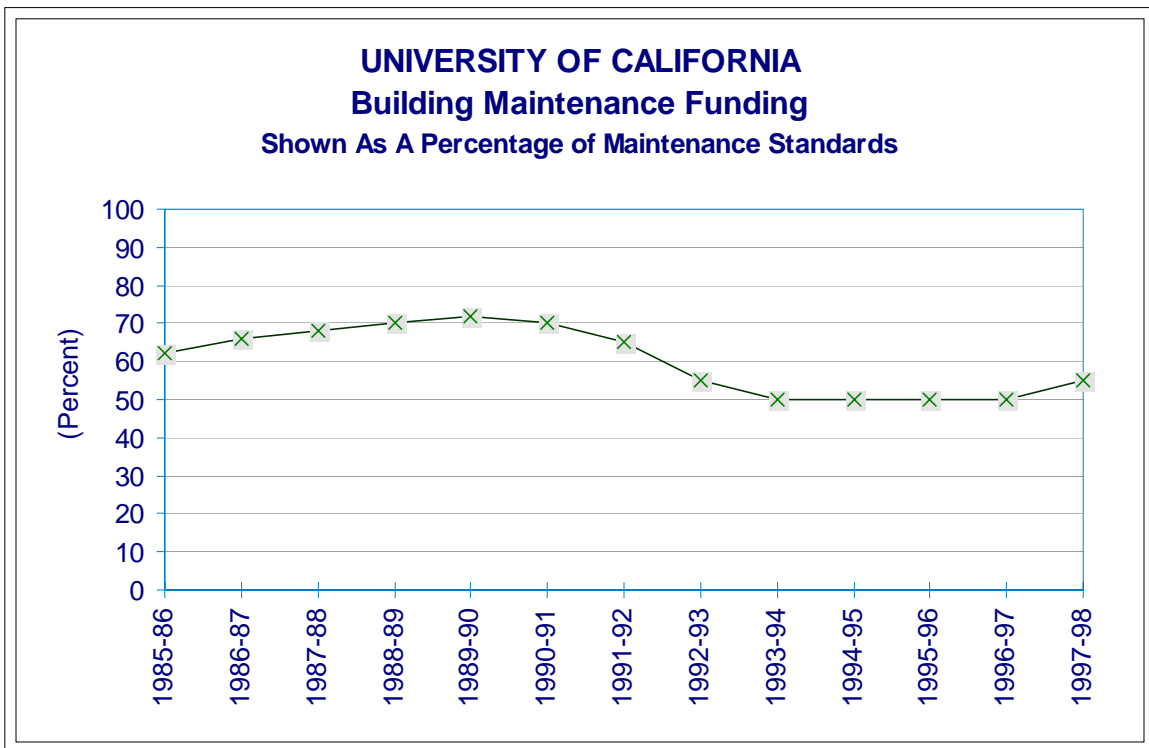
<b>University of California            1996-97 Student Financial Aid            by Type of Award and Fund Source            (in Millions)</b>						
Program	Student Aid Commission	Federal	University Funds		Private Funds	Total
			State General Funds and Student Fees	Other University Funds		
<b>Scholarships, Grants, Fellowships</b>						
Pell Grants		\$ 76.5				\$ 76.5
Cal Grant A	\$ 78.6					\$ 78.6
Cal Grant B	\$ 29.9					\$ 29.9
Other	\$ 1.1	\$ 46.7	\$ 192.1	\$ 65.8	\$ 22.6	\$ 328.3
<b>Subtotal</b>	\$ 109.6	\$ 123.2	\$ 192.1	\$ 65.8	\$ 22.6	\$ 513.3
<b>Loans (All Students)</b>						
Perkins Loans		\$ 25.3				\$ 25.3
FFELP/FDSLPL		\$ 388.6				\$ 388.6
Other		\$ 58.3	\$ 2.8	\$ 1.0	\$ 2.6	\$ 64.7
<b>Subtotal</b>	\$ -	\$ 472.1	\$ 2.8	\$ 1.0	\$ 2.6	\$ 478.5
<b>Work-Study (All students)</b>						
Federal		\$ 16.7				\$ 16.7
State	\$ 0.3					\$ 0.3
University			\$ 0.5	\$ 0.2		\$ 0.7
<b>Subtotal</b>	\$ 0.3	\$ 16.7	\$ 0.5	\$ 0.2	\$ -	\$ 17.6
<b>TOTAL</b>	\$ 109.9	\$ 612.0	\$ 195.5	\$ 66.9	\$ 25.2	\$ 1,009.5

In 1996-97, UC students received more than \$1 billion in financial aid from all sources. State and University funds are used primarily for grants and scholarships. Most federal money is in the form of loans. Pell Grants are the major exceptions.

Over half of our undergraduates (52 percent) and over two-thirds of our graduates (64 percent) received grants or scholarships in 1996-97. The average award was \$5,169 for undergraduates and \$7,580 for graduates. In fact, over half the financial aid our students receive is in the form of grants.

In addition to the \$1 billion indicated in the table, approximately 18,000 students received nearly \$234 million in financial support through appointments as research or teaching assistants, for an average amount of \$12,600.

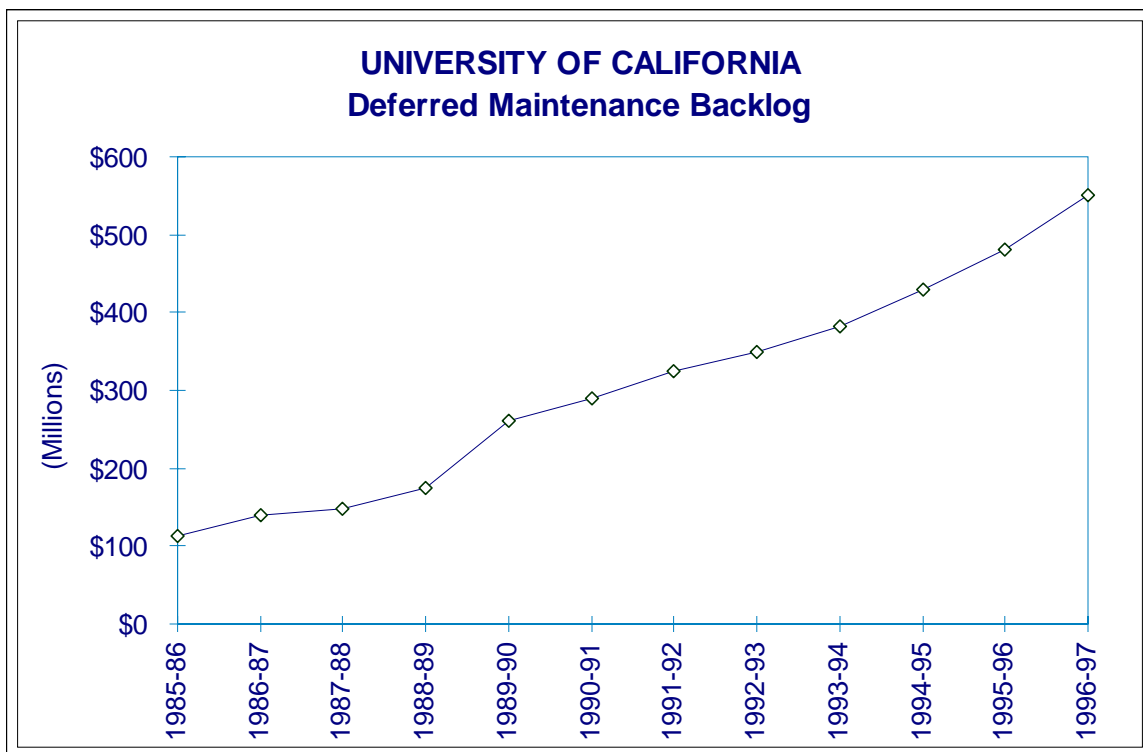
As I mentioned earlier, with the funding provided in the Governor's Budget to offset the 5 percent reduction in systemwide fees for California resident undergraduate students we will be able to maintain current levels of financial aid, even though fees are going down.



We are deeply concerned about the condition of our existing facilities. Ongoing building maintenance is underfunded by about \$50 million annually.

Two years ago we agreed with the Legislature on a multi-year plan to fully fund the shortfall over four years. In 1997-98 we increased funding for building maintenance by \$7.5 million. Our 1998-99 budget plan proposes to increase it by an additional \$6 million.

It is clear that it will take years to address the chronic underfunding of ongoing building maintenance. We will continue to dedicate more resources to building maintenance.

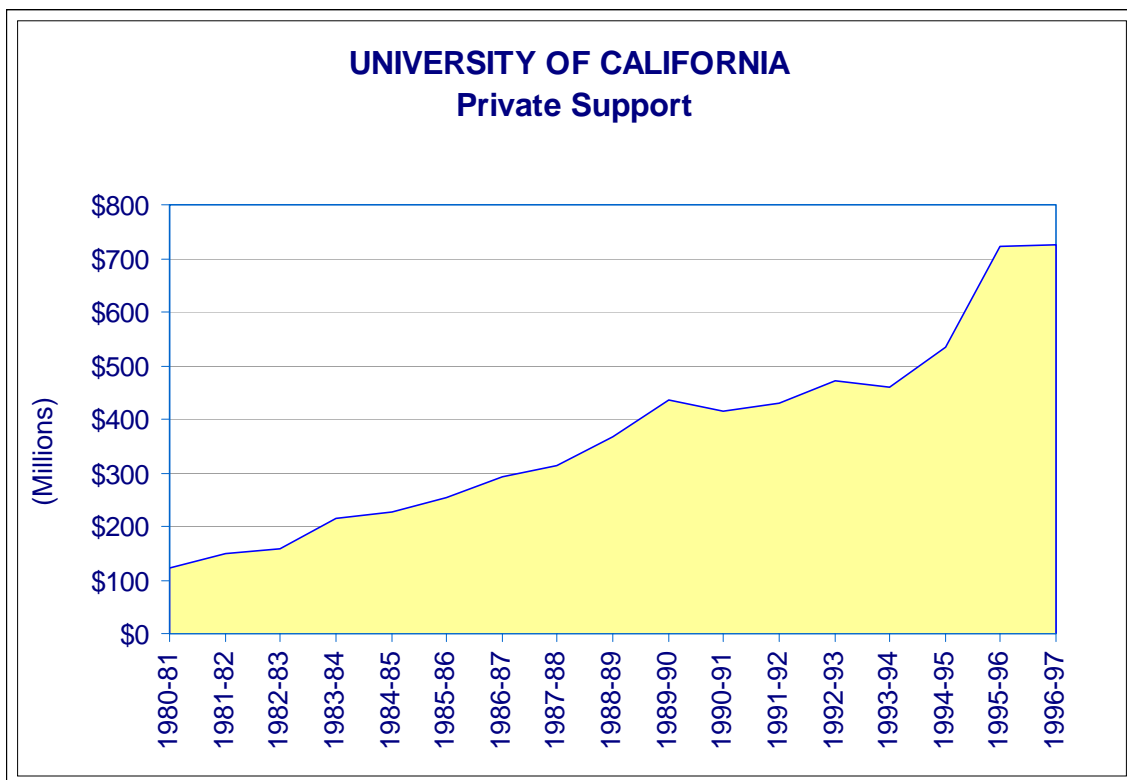


We have a deferred maintenance backlog that exceeds \$500 million.

There are many contributing factors, including the chronic underfunding of ongoing building maintenance, normal wear and tear, the age of our buildings, and the limited State funding that has been provided for deferred maintenance.

Because this is a crisis, the University is moving aggressively to address the problem. We are committing a portion of the increase in our non-State fund operating budget to pay for the long-term financing of at least \$50 million in deferred maintenance projects in 1998-99.

We anticipate using this strategy for several years.

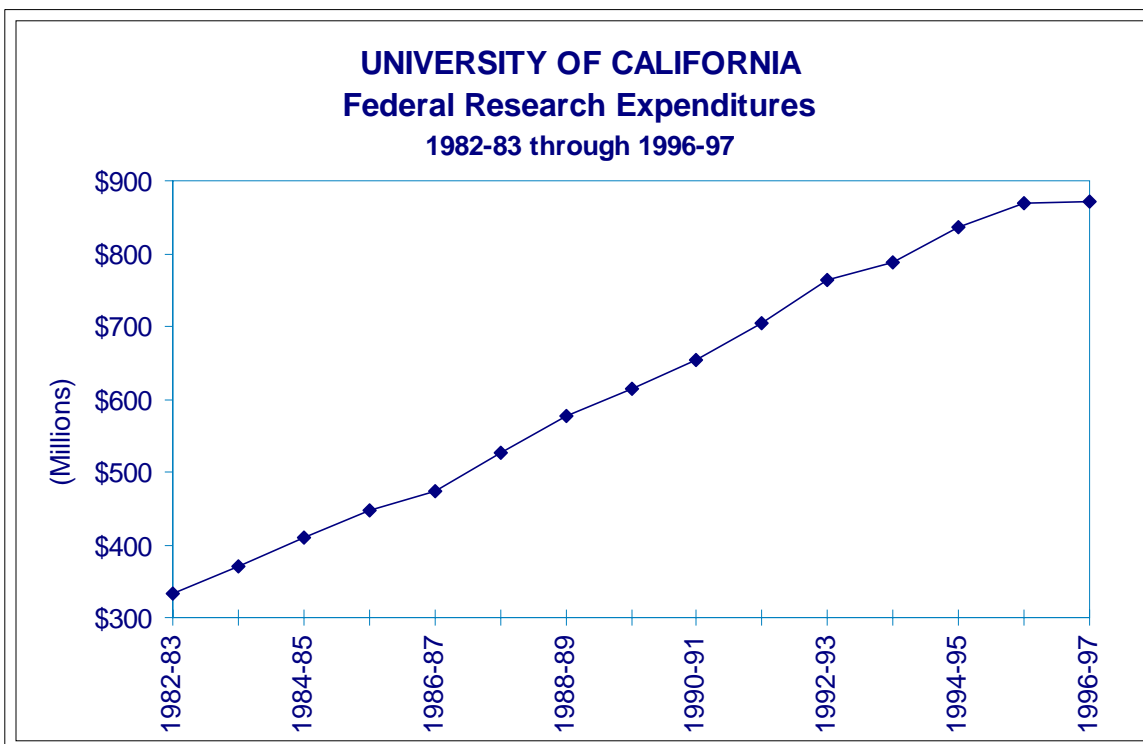


We recognize that we cannot rely on the State for all our funding needs.

Private funding is important. We have worked very hard to increase our support from private sources. As shown in this graph, we have been successful. Private giving has grown for about \$120 million in 1980 to over \$700 million in 1996-97.

We are grateful for the support from our friends and alumni.

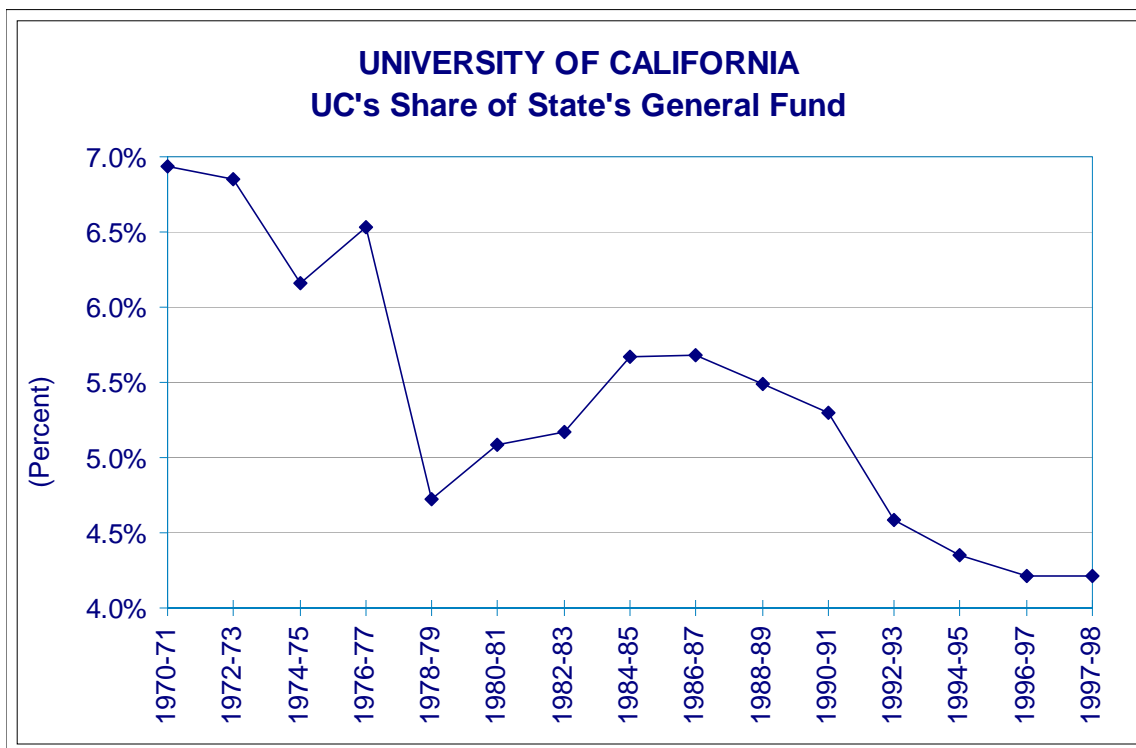
We plan to increase our efforts. There are, however, limits to what can be raised through private giving.



Federal funds are an important source of funding for UC. We are delighted with the increased bipartisan support to increase federal funding for research. This recognizes the strong link between University research and economic growth.

I am stunned that, as part of their recommendations on capital outlay, the Legislative Analyst has given such a low priority to research and graduate education at the University. This is directly counter to the actions taken by the federal government, private industry *and* the Legislature to support University research.

We are a research university. Research is integral to our academic programs; it is part of the educational experience of our students. Our ability to recruit and retain the faculty that help keep UC at the forefront of public universities across the nation is dependent not only upon operating funds, but our ability to provide space for the faculty, including offices and labs. We are vigorously opposed to the LAO's recommendations that place a low priority on research and graduate education, and urge you to reject these recommendations.



Earlier I talked about the cuts we endured and the fact that we struggled, and continue to struggle to accommodate student demand.

This chart shows that our share of the State's general fund had been declining up until recent years. It was particularly worrisome that it was declining at the same time as our enrollments were growing, leaving us deeply concerned with the question of whether we could accommodate student demand. With the compact and strong legislative support, our share of the State's general fund has stabilized.

Although the Governor vetoed AB 1415, which embodied this concept and recognized enrollment growth, he has indicated his willingness to work with us to develop a new compact. His budget includes a set of principles upon which he believes a new compact can be developed.

In our view it is critical that we reach an understanding with the State on funding higher education. Only then we will be able to continue to maintain access and quality.