

THE UNIVERSITY OF CALIFORNIA

OVERVIEW

California is a land of transformation. The shifts in technology, culture, and creativity that begin here ripple through the nation and the world.

The University of California system is both product and provider of this phenomenon – simultaneously shaped by and shaping California’s culture of innovation. The mission of the 10-campus system is teaching, research, and public service, but its impact is much broader than those words convey. The economy, health, and quality of life of California all are fundamentally enriched by the work done by faculty, students, and staff across the UC system.

In addition to providing instruction for more than 230,000 students annually and maintaining a multi-billion dollar research enterprise, the University of California engages in a broad spectrum of activities, including the operation of teaching hospitals, maintenance of world-class libraries, development of academic preparation programs, and management of national laboratories. Moreover, UC’s health enterprise is on the leading edge of improving Californians’ health and daily lives, making and translating medical discoveries into new treatments, training three of every five medical students in the state, and caring for a large portion of the nation’s uninsured and vulnerable populations.

Support from the State is vital, not only to UC’s core educational mission but to its broader impact. While state funding does not primarily support the \$5 billion that UC conducts in research and the nearly \$6 billion that UC provides in patient care alone, the University’s medical and research enterprises will no longer be able to thrive if UC’s core operations continue to suffer from further drastic budget cuts.

Key things distinguishing UC as an institution include:

- Its accomplishment both as a **world-class research university** and as an institution offering **high levels of access to lower-income students**
- Its unequaled **depth and breadth** of subject matter expertise
- Its focus on **serving California**

The first and enduring priority of the University is to sustain and nurture the excellence of its programs, so that UC continues to educate the workforce and incubate new jobs and research discoveries. To do that, the University is working on a range of objectives today, including:

- **Ensuring pathways for students:** UC is pursuing efforts to streamline and align major requirements for students transferring from California Community Colleges to UC campuses; exploring the feasibility of online coursework; developing ways of improving

students' ability to achieve timely graduation; continuing to build out the Merced campus to expand opportunity for California students; and further improving financial aid programs to ensure qualified students have the resources to attend.

- **Working efficiently:** UC's "Working Smarter" initiative aims to redirect \$500 million from administrative costs to the academic and research missions of the University within five years; UC's 2011-12 budget already includes \$100 million in such redirected savings. Strategic purchasing, energy savings, debt restructuring, the downsizing of the UC Office of the President, and a range of other programs are included. A temporary salary reduction for all employees in 2009-10 also helped conserve resources.
- **Stabilizing post-employment benefits:** Like institutions across the nation, UC is confronting the costs of pension and retiree health benefits. UC under President Mark Yudof has taken an aggressive stance, developing for the Regents' consideration in December 2010 a proposal to create a new "tier" of pension benefits for new employees and restructured retiree health. UC has reinstituted employer and employee pension contributions after saving the state \$2 billion during a 19-year holiday.
- **Pursuing innovative academic programs in key areas:** In every area of challenge facing California, UC is working on advances and solutions – from water supply and sustainable transportation, to K-12 education and alternative energy sources, to medical care in under-served regions of the state and further development of California as the center of the nation's green economy.

The funding challenge: As UC pursues all of these objectives, it is challenged by reductions in state funding. Despite the University's multi-varied activities, state funding is essential to its core academic operations and is what allows the University then to attract additional sources of funding. **State spending on a per-student basis (inflation-adjusted) has declined 51% in the last 20 years, forcing the University to make up a portion of that shortfall with tuition increases. And between 1980-81 and 2010-11, the University's share of the General Fund has declined from 5% to 3.6%, while the Department of Corrections' share has increased from 2.9% to 9.6%.**

KEY FEATURES OF THE UNIVERSITY

This document aims to provide key reference information about the University's operations, grouped into four subject areas:

- **UC Students** (page 4): UC continues to receive record volume of applications for admission reflecting strong student preparation and qualifications. Enrollment growth

has been constrained by state funding, but the University has preserved accessibility for lower-income students. Tuition increases have been unavoidable as state funding has declined, but new financial aid initiatives have been developed to preserve access.

- **UC Impacts on Californians' Lives** (page 13): UC remains an internationally acclaimed center of research activity that not only advances global knowledge but also has deep impacts here at home. Thousands of jobs and entire industries are tied to UC research, and the University's agricultural enterprise, health system, and national laboratories are making path-breaking contributions to our state and nation.
- **UC Budgetary Actions in a Time of Declining State Revenue** (page 24): Steady erosion of state funding in real terms over the last 30 years – and accelerating in recent years – poses a serious challenge to UC's mission. While UC has taken significant action to cut costs and achieve savings, achieving fiscal stability remains a critical priority.
- **UC as an Employer** (page 35): Recruiting and retaining high-quality faculty and staff are essential to maintaining an institution of quality and public contribution. However, cash compensation for most employees lags the market – with the largest compensation gaps at the senior-most levels – and cost drivers such as health benefits continue to increase. Health premiums and pension contributions are putting more pressure on both UC and its employees at a time when core funding is critically constrained.

UC STUDENTS

The University of California is unique in the nation in its ability to provide a high-quality education to an increasingly socioeconomically diverse student body. Despite fears of the impacts of rising fees on access, UC leads the nation's research universities in the number and proportion of low-income students it enrolls, offering one of the most generous and progressive financial aid programs in the country. A record number of students with high academic qualifications from all of California's communities seek to attend the University. UC continues to enroll record numbers of students while simultaneously increasing the diversity of the student body in spite of steady erosion in State funding.

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Despite Fee Increases, UC Leads the Nation in Enrolling Low-Income Students and Those Who Are First in their Families to Attend College

California's ongoing fiscal crisis has raised concerns that UC would be unable to sustain such a strong track record. Newly available data for Fall 2010 suggests the opposite.

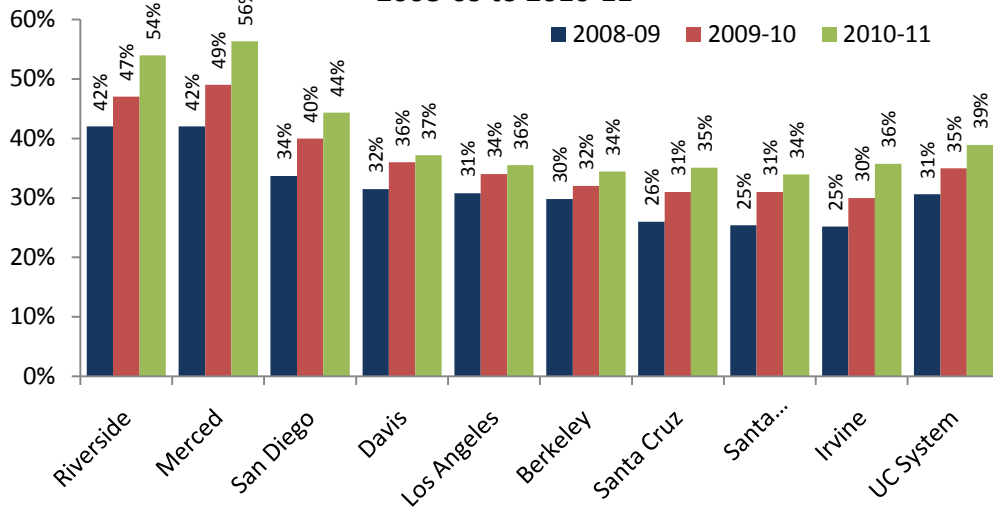
In Fall 2010, increasing proportions of UC's admitted freshman class were from low-income backgrounds, were among the first generation in their family to attend college, and were African American, American Indian, or Latino.

Record Levels of Pell Grant Recipients

Pell Grants are generally awarded by the federal government to students whose families have modest financial resources (typically parent incomes below \$50,000 or so). In Fall 2010, UC enrolled an estimated 70,000 Pell Grant recipients among new and continuing students – the largest number of Pell Grant recipients in the University's history. An estimated 39% of all UC undergraduates will receive Pell Grants in Fall 2010, up from 31% just two years ago. The increase reflects both the continued worsening of the economy for California families and the University's continued ability to remain accessible to low-income students.

Display 1, below, shows the percentage of Pell recipients at each UC campus and systemwide since 2008-09.

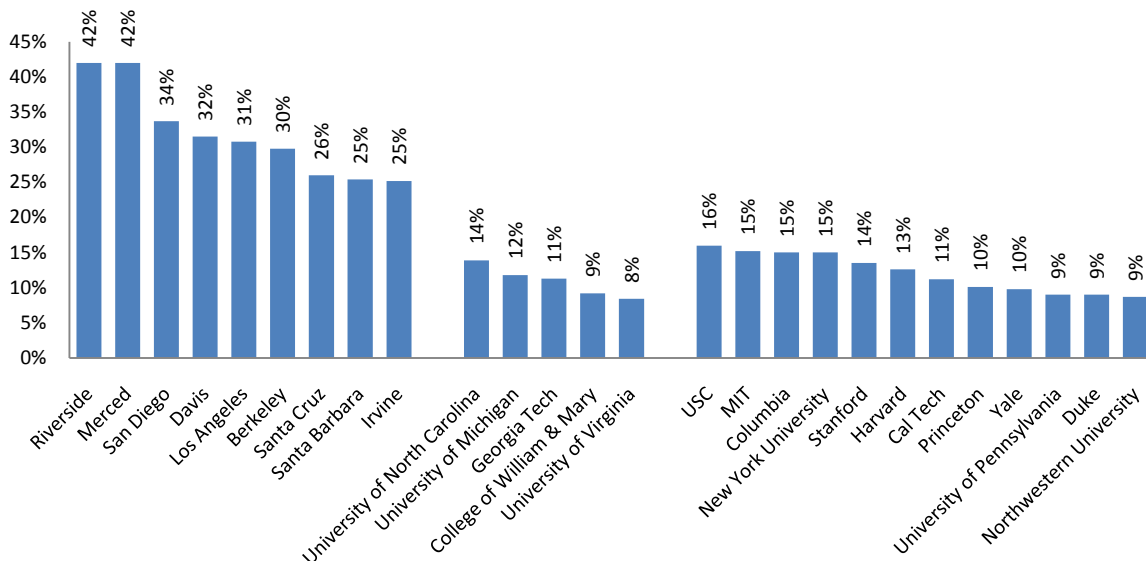
**Display 1. Undergraduate Pell Grant Receipt at UC Campuses,
2008-09 to 2010-11**



Source: Corporate Student System and campus estimates for 2010-11

To put these figures in perspective, it is helpful to compare Pell recipient rates at UC campuses with those at other top-ranked research universities. Display 2, below, shows comparative data from 2008-09 – the most recent year for which data about other universities are available.

**Display 2. Pell Grant Receipt at UC and Selected Top-Ranked National
Universities, 2008-09**



Source: IPEDS Student Financial Aid Survey

Percentages alone do not fully communicate the number of low-income Pell recipients served by UC. **Four UC campuses – Los Angeles, Davis, San Diego, and Berkeley – *each* enrolled more Pell Grant recipients in 2008-09 than did the *entire Ivy League combined*.**

These findings suggest that despite recent fee increases, the University's strong financial aid program has kept UC financially accessible to students from every income level.

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As State Funding for UC Declines and Costs Increase, Student Fees Have Risen

The University has experienced steady erosion of funding by the State. Despite significant increases in University costs and student enrollment, State funding is below the level provided in 2000-01.

Between 1980-81 and 2010-11, the University's share of the General Fund has declined from 5% to 3.6%, while the Department of Corrections' share has increased from 2.9% to 9.6%.

State spending on a per-student basis (inflation-adjusted) has declined 51% in the last 20 years, forcing the University to make up a portion of that shortfall with tuition increases. As a result, the student share over this period, net of financial aid, has tripled, from 13% to 41%.

UC Forced to Increase Fees in 2011-12

State funding for the University of California continues to be inadequate. The \$370 million increase in funding the state provided this year covers just over half the \$637 million the state cut from UC's budget last year.

Permanent state support for the University remains 10% below the level provided in 2007-08. At the same time, UC's enrollment of California residents has increased by 16,000 students, resulting in unfunded student enrollment of 11,570. In addition, UC faces more than \$200 million in mandatory cost increases in 2011-12 not funded by the state.

To help address inadequate state funding and preserve the quality of UC's instructional programs, the Board of Regents voted at its November 2010 meeting to raise mandatory systemwide fees by 8% (\$822) for all students for the 2011-12 academic year. The increase brings systemwide fees to \$11,124 a year (or \$12,150, on average, when campus-based fees are included).

UC Fees Still Comparable to Peer Institutions

As an overall measure of the University's position in the market, the University annually monitors fee levels relative to those charged by its four public comparison institutions. In addition, to facilitate recruitment of high quality academic doctoral students, UC regularly conducts surveys assessing the competitiveness of its graduate student financial aid offers relative to those of other doctoral institutions.

Table 1. 2010-11 University of California and Public Comparison Institution Fees

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
Public Comparison Institutions				
SUNY Buffalo	\$7,136	\$15,546	\$9,978	\$15,388
Illinois	\$13,508	\$27,650	\$13,498	\$26,764
Michigan	\$12,590	\$37,265	\$17,973	\$36,133
Virginia	\$10,628	\$33,574	\$13,870	\$23,866
UC	\$11,279	\$34,158	\$10,904	\$26,006

Despite the significant fee increases implemented after 2001-02 and including the 8% fee increase slated for 2011-12, **UC's average fees for resident undergraduate students (excluding health insurance fees) remain below the fees charged at two of the University's four public comparison institutions.** UC fees for *resident graduate* academic students remain lower than the tuition and fees charged at three of the University's four public comparison institutions.

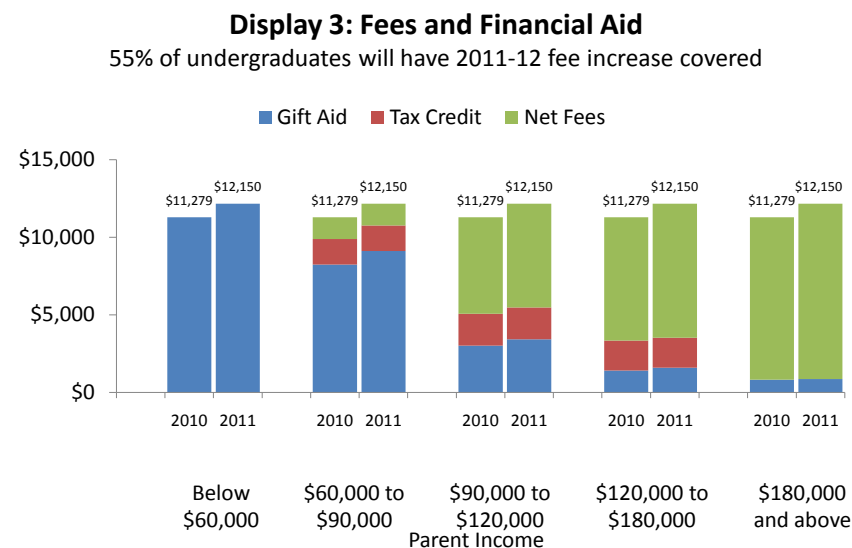
For nonresidents, UC's tuition and fees remain below only one of the four comparators at the undergraduate level and below two of the four comparators at the graduate level. Notably, in 2010-11 UC's fees remain significantly lower than those of its private comparison institutions (Harvard, MIT, Stanford, and Yale).

For 2010-11, UC fees for many resident professional students fall within the range of the resident tuition and fees charged by comparable public institutions. UC professional degree programs recruit students nationally and internationally as well as from within California, and they compete with private as well as public institutions of comparable quality. These and other factors are taken into consideration by the programs as they develop their three-year plans for professional degree fees.

UC's Strong Financial Aid Program Has Maintained Access for Students from Every Income Level

The University of California has among the most generous and progressive financial aid programs in the country, redirecting one-third of fee income to need-based aid. It is imperative that financial aid keeps pace with cost increases, providing access to students at every income level. The number of undergraduates who receive some sort of financial aid has more than

doubled since 1980. Today, two-thirds of all UC students – undergraduates and graduates – receive financial aid. **UC’s financial aid program, combined with expected increases in state Cal Grant awards, will provide enough funding to cover the proposed fee increases for approximately 99,000 undergraduates—55% of UC’s 181,000 undergraduates.**



Figures shown are averages per undergraduate.
Includes system wide and estimated average campus fees.
Assumes expanded higher education tax credits for 2011.

The state’s continued support of the Cal Grant program, together with UC’s own institutional aid program, is critical. Since 1980, the percentage of students with Cal Grants has grown from 16% to 29%, and the average value has increased from \$876 to \$8,418. The percentage of students with UC grants has grown from 17% to 43%, and the average value has increased from \$830 to \$5,331.

UC students – like all California students – are currently disadvantaged by the federal formula used to determine eligibility for Pell Grants and other need-based federal aid. The formula does not take into account the higher cost of living in California or other high-cost areas. UC has sought changes in this formula but has been unsuccessful to date.

The Blue and Gold Opportunity Plan for Needy Students

At the November Regents meeting, the Board acted on President Yudof’s recommendation to expand the Blue and Gold program, inaugurated by Yudof in 2009. The newly expanded program ensures that qualified California students who come from families with incomes under \$80,000—about one-third of UC undergraduates—have their systemwide fees fully covered by financial aid.

Fee Relief for Middle-Income Students

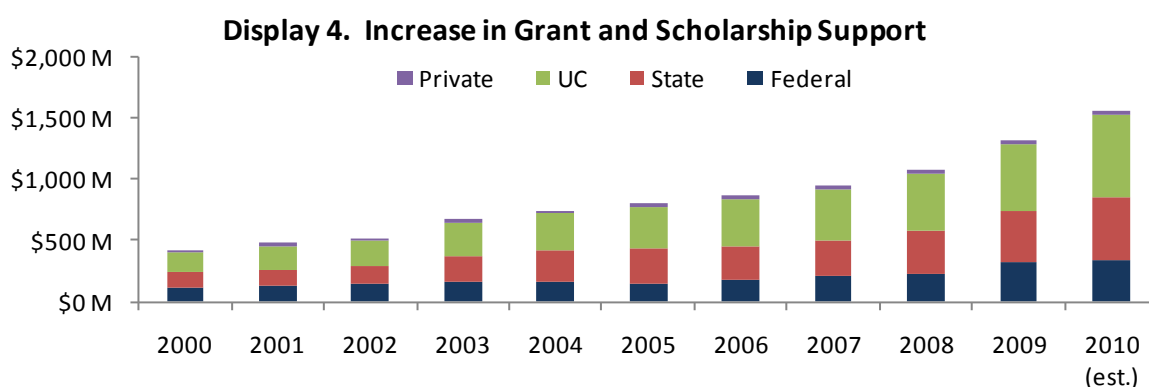
In addition, President Yudof proposed and the Regents approved in November extending the University's middle-income grant program to cover the 8% fee increase for one year for financially needy California undergraduates with household incomes of less than \$120,000.

Return to Aid

As it has historically done, UC will set aside a portion of the revenue generated by the fee increase for financial aid – 33% of the revenue from undergraduate and graduate professional fees, and 50% of the revenue from graduate academic fees. Taken together, the proposed fee increases would generate approximately \$180 million in annual revenue, of which nearly \$64 million would be set aside for financial aid, leaving approximately \$116 million to support UC's operating budget.

Expanded Access to Grants and Scholarships

While fees have increased in recent years, so too have the grants and scholarships available to UC students. Display 4, below, illustrates the substantial growth in grant and scholarship assistance awarded to UC undergraduates since 2000-01. Altogether, grants and scholarships more than tripled during this period, from about \$430 million in 2000-01 to over \$1.5 billion in 2010-11. Over 90% of awards were made to undergraduates with financial need.



Source: Corporate Student System

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California Students Continue to Apply to Attend UC in Record Numbers, at Both Freshman and Transfer Levels

For the Fall 2010 term, the University received a record number of applications. Overall application volume for Fall 2010 admission increased by 5.8% over Fall 2009, which includes a 2.4% increase at the freshman level, and a 17.5% increase at the transfer level.

The Fall 2010 University of California freshman admissions cycle took place in a challenging context that included the largest number of applicants in the University's history (100,428, compared to 98,119 for Fall 2009 and 95,444 for all 2008), budgetary constraints, and unfunded over-enrollments on most campuses (total systemwide unfunded enrollment of 11,570 FTEs). For the second consecutive year, **the University sought to reduce the enrollment of new students from high school**, although the planned reduction of 1,500 students is less than the 2,300 enrollment reduction implemented for the Fall 2009 term.

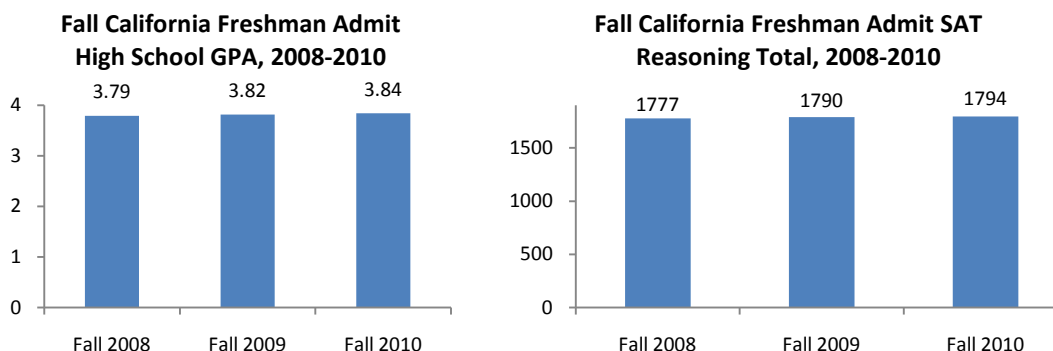
At the same time, the reduction in freshman enrollment will be offset by **a planned increase of 1,000 California community college transfer students** (from 2009-2011), an action taken to preserve the transfer option in difficult economic times.

The University of California **admitted 68,329 applicants** for the Fall 2010 term, including 58,777 California resident freshman applicants. **UC awards highest priority in freshman admissions to California resident applicants.** The number of admissions offers represents an increase of 2,064 offers compared to Fall 2009, with most of this increase occurring among out-of-state and international applicants. Universitywide, the rate of admission (admits/applicants) declined slightly for the Fall 2010 term, and most campuses also experienced a drop in their admissions rate. Illustrating the intense level of competition for admission this year, seven of nine campuses—all but Merced and Riverside—report the lowest admission rate in campus history.

Academic Qualifications of Incoming UC Students Remain Strong

The academic quality of UC freshman applicants, as measured by self-reported high school grade point average, admissions test scores and number of academic courses completed in high school, continues to rise over time. Display 5, below, shows changes in two measures of academic preparedness – average high school grade point average and average combined SAT-R scores – among the most recent cohorts of UC freshman admits. Nearly 23% of admitted students have been ranked by the University as being in the top 4% of their graduating senior year class.

Display 5. Academic Characteristics of California Residents Admitted as Freshmen, 2008-2010



Source: UCOP, Student Attairs, Office of Undergraduate Admissions, UCAP March-end 2008, 2009, 2010

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Enrollment Continues to Rise Despite Inadequate State Funding for Enrollment

The University of California currently enrolls more than 230,000 students. During early 2008, as part of its ongoing academic planning efforts, UC developed new enrollment projections through 2020-21. UC's long-term enrollment projections are based on consideration of four primary factors:

- projections of high school graduates from the California Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (consistent with the Master Plan, the University establishes eligibility criteria designed to identify the top 12.5% of the high school class, but in recent years about 7% to 8% actually enrolls);
- assumptions about community college transfer rates, consistent with the University's goal to continue to improve these rates; and,
- increases in graduate and professional enrollment required to meet workforce needs in academia, industry, and other areas.

The University's projections for the next decade, published in March 2008, included more modest growth as numbers of high school graduates stabilize, slowing to approximately 1% from 2010-11 to 2020-21, and reaching 265,000 in 2020-21. Undergraduate growth will expand opportunity to populations historically underserved by higher education, including low-income students, those who are the first in their families to complete a four-year degree, students from underserved communities, and transfer students. Meanwhile, accelerated growth in graduate enrollments, particularly in life and physical sciences, engineering and math,

and professional disciplines will fuel California's economy and provide social and economic mobility. To help the state remain competitive in a knowledge-based global economy, UC proposes to increase graduate enrollments by roughly 22,000 students by 2020-21, provided adequate resources are available.

Enrollment growth will enhance diversity, as UC will expand in regions and in fields where underserved populations can most benefit. Undergraduate growth will be greatest in the Central Valley and Inland Empire—regions that lag the rest of the state in college opportunity and support diverse and growing populations. At the graduate level, campuses will increase enrollments and develop new programs in areas that both attract and serve diverse populations.

Over the past two years, the proportion of first-generation college-goers increased from 37% to 39%. In the same two years, the proportion of students who are African American, American Indian, or Latino increased from 25% to 29%. Two UC campuses (Riverside and Merced) qualify as federally-designated Hispanic-Serving Institutions and UC Santa Barbara is expected to achieve that status very soon.

UC IMPACTS ON CALIFORNIANS' LIVES

In addition to educating students from all walks of life, the University contributes to the state's economic vitality and quality of life through its groundbreaking research, top-rated health care delivery, and discoveries in new technologies and industries. UC's agricultural programs ensure the safety of the state's water and food supply, while helping California agriculture grow in a global economy and farm more sustainably. As a public service to the nation, UC also provides stewardship of three national laboratories that protect national security as well as the environment. In all of these endeavors, the University's scientists and researchers are recognized around the world for the impacts of their work.

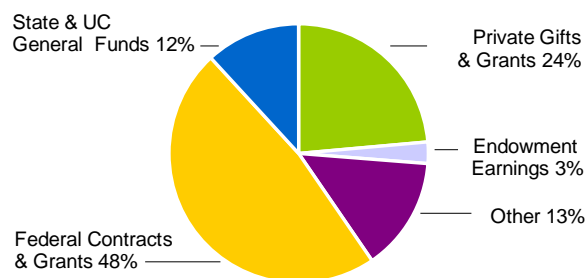
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UC Is One of the Leading Academic Research Enterprises in the World

UC's outstanding graduate students, postdoctoral scholars, faculty, and professional research staff work diligently in the name of science and progress, searching for cures, developing technologies, creating new knowledge, and training the next generation of innovative thinkers. UC researchers are finding new ways to fight drought, fire, and earthquakes; reduce traffic and greenhouse gas emissions; improve public health; and identify sustainable sources of energy. With over 800 research centers, institutes, laboratories and programs, UC research tackles some of the most pressing problems facing California and the world.

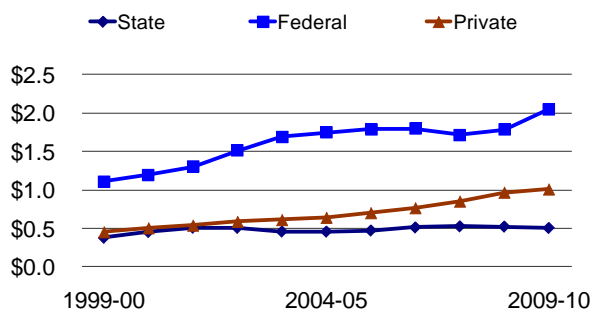
UC faculty were responsible for attracting **\$4.3 billion in extramural research awards** in 2009-10, averaging \$668,000 per principal investigator. The total represents an increase of nearly 16% over the previous year, much greater than the increases in extramural research awards in recent years. The sharp increase is largely attributable to a temporary influx of federal ARRA (American Recovery and Reinvestment Act) awards, many of which were grants for equipment or facilities. The University's success in attracting extramural funds to California is a critical element in the state's economic prosperity. As shown in Display 6, below, **nearly 75% of UC's research funding is drawn from federal and private sources.**

Display 6: 2009-10 Direct Research Expenditures by Fund Source



UC federal direct research expenditures increased rapidly with the doubling of the NIH research budget between 1998-99 and 2002-03, but slowed recently. Private support for research has doubled over the last 10 years, as illustrated in Display 7 below.

Display 7: Trends in Research Expenditures by Source (Dollars in Billions)



Benefits of UC Research Are Threatened by State's Disinvestment

The tremendous size, scope, and quality of UC's research enterprise are the result of California's long-term planning and investment, dating back to 1960 and the Master Plan for Higher Education, which established UC as California's primary academic research institution.

Over time, this investment has resulted in new technologies, new companies, and new industries – all within California. UC trains the highly skilled scientists, doctors, and engineers who shape California's knowledge economy and support its large technology, agricultural, and medical sectors. **The state's investment in UC has created one of the most competitive research enterprises in the nation, securing nearly \$8 in extramural funding for every state research dollar spent.**

UC's research capabilities, built over many years, reflect a long-term investment that will not disappear overnight. However, with continuing state disinvestment in higher education over the past two decades, and increasing competition for the best faculty and graduate students from national and international universities, UC's preeminence is threatened. UC's faculty are extremely successful at attracting federal and private funds to the state, but if they are lured away by institutions with a more reliable financial structure, their research dollars go with them. To sustain the research enterprise at UC and its beneficial impact on the economy, California must renew its investments in UC's faculty and research infrastructure.

UC Research's Far-reaching Impacts: Generating Ideas, Discovering New Technologies, and Creating Jobs and Industries

UC research has contributed to California's emergence as the intellectual and economic power that it is today. Almost all of the industries in which California leads the world – biotechnology,

telecommunications, digital media, computers and semi-conductors, and environmental technologies – grew out of university-based research. UC's world class faculty have attracted and trained graduates that make up one of the world's best educated workforces to meet the demands of the changing economy. In addition, UC researchers have made discoveries and inventions that have benefited the people and industries of California and, in many cases, become the basis for companies that provide jobs for Californians.

Technology Transfer

UC is an important generator of ideas and technologies, which can be measured in part by the number of inventions created, patented, and licensed by UC researchers with University resources. **For the past 13 years, UC has led the nation in developing patents, and its faculty and graduates are responsible for 9,343 active inventions** (as of June 30, 2009). During 2008-09 alone, faculty and researchers at the UC campuses disclosed a total of 1,482 inventions. A portion of these inventions are patented and licensed to companies that further develop them into processes and products that enhance the lives of Californians.

Development and Support of Critical Industries

UC research has played a crucial role in the development of some of the state's most successful industries. The modern **biotechnology industry** was born from the discovery of recombinant DNA technology by scientists at UC San Francisco and Stanford. Since then, UC faculty and alumni have founded one in every four biotechnology companies in California, and the state is home to approximately one-third of the U.S. biotechnology industry. The California biotechnology industry has grown to employ more than 40,000 people and accounts for nearly half of the industry's annual sales.

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The UC Health System Constitutes the 4th Largest Health Delivery System in California, Providing Top-Rated Patient Care, Community Health Programs, and Other Services

The University of California's health system includes 16 health professional schools and 10 hospitals on six campuses. The health professional schools include five schools of medicine, three schools of nursing, two schools of dentistry, two schools of public health, two schools of pharmacy, one school of veterinary medicine and one school of optometry. In addition, there is a two-year medical program at UC Riverside and a nursing program at UC Irvine.

Approximately 60% of medical school graduates in California are from UC schools of medicine.

No matter which metric is used, **UC's hospitals and professional schools rank among the top of their peers**. For example, UCSF ranks second, UCLA eighth, and UCSD twelfth in the nation in terms of federal research support their schools of medicine receive from the National Institute of Health. The passing rate for medical students from UC schools of medicine exceeds the

national average and UC schools of nursing, pharmacy, dentistry, public health, and veterinary medicine rank in the top ten nationally.

UC Health Provides Patient Care to Millions of Californians, Including Uninsured, Low-Income, and Vulnerable Populations

UC Health operates the nation's largest health sciences training program and the nation's second largest physician network. The expenditures associated with UC Health approximately 43% of the UC's total expenditures and approximately 48% of UC's employees are associated with UC Health. Moreover, UC Health constitutes the fourth largest health care delivery system in California, with 32,000 medical center employees who provide just under \$6 billion in patient care annually:

- UC hospitals and clinics handle **more than 3.8 million outpatient visits, 254,000 emergency room visits, and 140,000 inpatient admissions each year**, including a high proportion of the state's uninsured, low-income, medically vulnerable patients.
- **UC Health is one of the two largest Medi-Cal providers in California**, and 40% of UC patients are uninsured or covered by Medi-Cal.
- UC's hospitals perform **hundreds of clinical trials every year, resulting in new drugs and disease treatments.**

The University's medical centers are the largest single provider of specialty services and medical procedures in the state. Critical community-wide services, which are often unavailable elsewhere, are provided, including burn and cancer centers; high-risk obstetrics programs; neonatal intensive care units; cardiac care; and organ transplant programs. UC performs half of all solid organ transplants in California, treats one-fourth of intensive burn cases, and staffs or operates five Level 1 trauma centers.

UC Runs Community Clinics and Health Programs Across the State

UC works directly in communities across the state to improve the health of its citizens, especially the more than 6.6 million Californians who do not have health insurance. To improve access to healthcare, UC's community clinics and health programs utilize a variety of innovative tools and resources. Examples include:

- a mobile mammography van providing outreach to patients in non-traditional settings (e.g., beauty parlors);
- partnerships with homeless clinics; and
- provision of medical training in the Central Valley (where there are no medical schools) and other programs providing care to communities in need.

UC-affiliated clinics frequently serve groups and communities that are medically underserved, including non-English-speaking residents, the elderly, African Americans, veterans, immigrants,

and others. A wide range of dedicated services are also provided addressing issues such as Alzheimer's, HIV/AIDS, diabetes, and other chronic illnesses.

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UC Supports California's Agricultural Industry, Helps Ensure a Safe and Reliable Food Supply, and Benefits Communities and the Environment

For many decades UC has worked closely with California's agricultural industry. In the late 1800s, UC researchers discovered how to remove salts from the soils of California's Central Valley, turning what was once barren alkaline land into the most productive agricultural region in the world. Since then, UC has remained committed to supporting the industry by bringing to bear new technologies in crop management and pest control and helping it adapt to changing regulations while remaining competitive.

The UC Division of Agriculture and Natural Resources (ANR) is a statewide network of researchers and educators dedicated to creating and delivering the innovative, science-based information Californians rely on to produce a safe food supply, advance environmental quality, improve public health and nutrition, and stay competitive in world markets.

- The ANR network is 750 Agricultural Experiment Station scientists and Cooperative Extension specialists on the UC Berkeley, Davis, and Riverside campuses; 200 county-based Cooperative Extension advisors delivering programs in 58 of 59 California counties; 6 statewide special programs; and 9 research and extension centers.
- UC Cooperative Extension advisors live in local communities, bringing research innovations, new information, and practical solutions from UC directly to the people.

UC Research, Innovation, and Advanced Best Practices Support California Agriculture

- For nearly a century, **California farmers and ranchers have stayed competitive and sustainable through adopting cutting-edge research, new technologies and innovations**, and advanced best management practices developed on UC campuses and in the field.
- As a result, California agriculture is a more than \$35 billion industry, producing 350 commodities, accounting for 50% of the nation's fresh produce, and generating 1 million jobs.
- Growers have increased yields, improved water efficiency, reduced pesticide loads, become more sustainable, and implemented new food safety practices with UC's help.
- New varieties of strawberries, walnuts, citrus, grapes and other crops have helped California agriculture lead the nation, while improving food quality and nutritional value for consumers (80% of strawberries in the U.S. are UC-patented varieties).

UC Agriculture Serves Communities Across the State

UC's **4-H Youth Development Program serves over 100,000 youth** (ages 5-19) through after school, science literacy, and traditional club programs delivered in every county. About 5,000 UC-trained Master Gardener volunteers in 47 counties provide landscape professionals, homeowners, and backyard gardeners with research-based information and advice on plant selection, reduced pesticide use, water conservation, and implementing "green" practices.

Cooperative Extension Seeks Solutions to the State's Water Supply and Water Quality

UC researchers and Cooperative Extension advisors are **seeking answers and solutions to problems facing the California Delta and the state's water supply** – reduced water deliveries to farms in the Central Valley and residents in southern California, declining ecosystems, risk of levee failures, and competing demands for limited supplies. UC scientists introduced drip irrigation and other water conservation methods to California. These innovations help agriculture **reduce per acre water use, protect natural resources, and farm more efficiently**. UC is providing dairies in the San Joaquin Valley with science-based tools and practical methods to **meet new waste discharge regulations and implement cost-effective nutrient management** and monitoring practices on dairy lagoons.

UC Agriculture Improves Health and Wellness for Individuals

At-risk and low-income families are adopting healthier eating habits through **"hands-on" training in nutrition, food preparation, money management, and basic shopping skills** provided by the UC Expanded Food and Nutrition Education Program. Researchers on UC campuses and with Cooperative Extension are also making inroads into documenting the relationships between childhood obesity, diabetes and wellness. UC acted rapidly and proactively to deploy teams to the Salinas Valley beginning in late 2006 to conduct field research, monitoring, and testing following the food safety and consumer confidence crises tied to *E. coli* contamination of locally grown, leafy greens.

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In Service to the Nation, UC Helps to Manage Three National Laboratories to Address Issues in Homeland Security, Energy, Environment, and Health

The University of California is involved in managing three U.S. Department of Energy (DOE) National Laboratories. The three Laboratories are unparalleled federally-funded research and development centers whose programs and activities address national interests and concerns in areas such as national and homeland security, energy, environment, and health. The Laboratories also contribute to the nation's economic competitiveness through partnerships

with industry, and all are leaders in math and science education, helping to enlighten, educate, and train students and teachers at all levels.

UC Faculty and Research Are Integral to Laboratories' Founding and Cultures

All three Laboratories were founded by UC faculty and, as a result, were embedded in the University and its research culture. As a result, collaborations with University faculty and researchers have been integral to the scientific excellence of the Laboratories throughout their history.

The University has devoted the majority of the fee that it receives for managing LANL and LLNL to a program to fund collaborative research among scientists at the two Laboratories and faculty and graduate students at the UC campuses.

Lawrence Berkeley National Laboratory (LBNL)

- UC began managing Lawrence Berkeley National Laboratory (LBNL) in Berkeley, CA for the government in 1931
- Description: DOE Office of Science multidisciplinary lab for understanding complexity of biological and earth systems for energy solutions, characterizing and fabricating nanostructure materials, advancing physics and cosmology, conducting computational science of scale, and developing new scientific approaches to the understanding and prevention of disease; five DOE national user facilities
- Annual budget: \$824 million (est. for FY 2010, including ARRA funding), 4200 UC employees
- Nature of contract: DOE Management and Operating contract with UC
- The current contract, which has been extended for five additional years based on strong performance, is set to expire in 2015. The contract can be extended up to 2025.

Los Alamos National Laboratory (LANL)

- UC began managing Los Alamos National Laboratory (LANL) in Los Alamos, NM in 1943
- Description: DOE National Nuclear Security Administration (NNSA) national security science lab; NNSA site for plutonium research, development and production; nuclear design and engineering; supercomputing platform host site; 32 national user facilities
- Annual budget: \$2 billion (FY 2010), 9600 LLC employees
- Nature of contract: DOE Management and Operating contract with Los Alamos National Security (LANS), LLC, a team consisting of UC, Bechtel National, Washington Division of URS Corporations (formerly Washington Group International), and Babcock and Wilcox (formerly BWXT). The LLC is managed by a Board of Governors, of which there are three UC-appointed Executive Committee members, including the Chair, and two additional UC-appointed advisory members.

- The initial seven-year contract, which began in 2006, has been extended for two additional years, based on strong performance, and is now set to expire in 2015. The contract can be extended up to 2026, based on performance.

Lawrence Livermore National Laboratory (LLNL)

- UC began managing Lawrence Livermore National Laboratory (LLNL) in Livermore, CA in 1952
- Description: DOE NNSA national security science lab; NNSA site for nuclear design and engineering and high explosive R&D, supercomputing platform host site, high energy density physics with the National Ignition Facility (NIF) as science magnet; eight national user facilities
- Annual budget: \$1.6 billion (FY 2010), 6500 LLC employees
- Nature of contract: DOE Management and Operating contract with Lawrence Livermore National Security (LLNS), LLC, a team consisting of UC, Bechtel National, Washington Division of URS Corporations (formerly Washington Group International), Babcock and Wilcox (formerly BWXT), and Battelle Memorial Institute. The LLC is managed by a Board of Governors, of which there are three UC-appointed Executive Committee members, including the Chair, and two additional UC-appointed advisory members.
- The initial seven-year contract, which began in 2007, has been extended by one additional year, based on strong performance, and is now set to expire in 2015. The contract can be extended up to 2027, based on performance.

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UC Is Committed to Sustainability, Alternative and Renewable Energy, and Environmental Science Research

Research on sustainability crosses numerous disciplines, from environmental science and engineering, to public policy and social science. Energy is perhaps the largest sustainability category and one that receives a lot of attention. UC has made it one of its research priorities. In the last four years, **research funding to UC for energy-related projects nearly quadrupled from some \$33 million in 2006 to more than \$126 million in 2009. In 2009 alone, UC received more than 300 new awards for energy research projects.**

Lawrence Berkeley Laboratory, spearheaded by former Director Steven Chu (now the U.S. Energy Secretary), has become one of the country's leading research centers for **alternative and renewable energy sources.**

Research underway at UC into biofuels, wind, solar power, and other alternative energy sources will help California reduce its dependence on oil and other fossil fuels.

UC also conducts research on **sustainable transportation** that meets the needs of all segments of society while minimizing environmental, societal and economic costs.

Finding ways to conserve water and manage it in a sustainable manner are, along with energy, one of the top research priorities for UC. Water-focused research, outreach, education and resource centers are located at nearly every UC campus.

UC is **researching and developing more sustainable farming and timber harvest practices** to maintain the economic viability of these important business sectors, while improving environmental quality and conserving natural resources.

While much of UC's sustainability research has impacts beyond California's borders, UC is also committed to sustainability at home. Inspired by students' calls for action, the University's institutional commitment to campus sustainability began in June 2003, when the Board of Regents adopted green building and clean energy policy principles. In June 2004, the University issued detailed guidelines for the Policy on Green Building Design and Clean Energy Standards, establishing the University as **a leader in promoting environmental stewardship among institutions of higher education.**

- The University now has 32 Leadership in Energy and Environmental Design (LEED TM 1) certifications (total of new construction, renovation, and existing building certifications), the most of any university in the country.
- More than \$29.8 million in energy efficiency grant funding has been received since 2004, with approximately \$9 million received in 2009.
- Annual cost savings from energy efficiency projects implemented to-date are projected to reach nearly \$15 million.
- The Regents approved \$178 million in matching funding for energy efficiency projects from 2009-2011, matched by approximately \$61 million from utilities. This investment will result in projected net savings of \$17 million per year during the 15-year loan repayment period, and \$35 million annually thereafter.
- Nine out of ten campuses met the goal of diverting at least 50% of municipal waste from landfill, with the other campus making significant progress towards that goal.
- The University continues to be recognized in the top tier nationally in campus sustainability rankings.

Future steps:

- Campuses are to develop sustainable food service goals and complete feasibility studies to determine how best to apply the Policy's sustainable food service guidelines to franchised, contract-operated, and medical center food service operations.

- Campuses will implement climate action plans, largely by completing the energy efficiency projects identified through the strategic energy plan and funded by grants from utility companies.
- The University will continue to pursue purchasing initiatives and behavior changes that reduce resource consumption and thereby reduce operating costs in a time of budget constraints.

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UC Trains and Produces California's Workforce and the Nation's Ph.D.s, Provides Lifelong Learning, and Is a Vital Economic Engine in All Areas of the State

With **more than 1 million UC graduates**, California has one of the best-trained work forces in the world. **UC graduates more than 55,000 students a year, and awards 7% of the nation's Ph.D.s**, more than competitors like Stanford, Harvard, Yale and other Ivy League universities. UC offers education in 150 academic disciplines, and has more departments ranked in the top 10 nationally than at any other public or private university.

As a center for lifelong learning and continuing professional development, UC has the nation's largest continuing education program, with about 300,000 students each year enrolled in 17,000 extension courses around the state.

UCSF recently released a report which documents the **significant impact of the University of California, San Francisco (UCSF) on the economy through jobs and spending that support local businesses and the community**. Such information was last provided in 2003 when a report was released based on data from FY 2000-01, before the opening of the Mission Bay campus. The current report clearly indicates the advancement of the University in just under a decade. Based on data from FY 2008-09, the report reflects the direct and indirect economic growth generated by UCSF's \$3.3 billion enterprise, its 21,900 employees and the world-class research, patient care and education they support. Together, **they generate a \$6.2 billion impact on industry output in the Bay Area**, an increase from \$1.8 billion just eight years ago. The report demonstrates that UCSF is essential for a vital local and regional economy and plays a critical role in generating the excitement, energy and innovation that make San Francisco one of the great intellectual capitals of the world.

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UC's Excellence Is Renowned Around the World

The University of California is internationally renowned for the quality of its academic programs and consistently ranks among the world's leading institutions in the number of faculty and

researchers singled out for awards and distinctions, election to academic and scientific organizations, and other honors.

- 56 Nobel laureates – more than any other public university
- 60 Medal of Science winners
- 244 National Academy of Science members
- 373 American Academy of Arts and Sciences members
- 125 Institute of Medicine members
- 651 American Association for the Advancement of Science members
- 80 recipients of MacArthur Foundation “genius” grants since their start in 1981
- 1,463 Guggenheim fellowships since 1930 – more than any other university or college
- For 17 years running, UC has developed more patents than any U.S. University
- *Washington Monthly* 2010 college rankings that focused on how much an institution benefits the country — how well it performs as an engine of social mobility, fosters scientific and humanistic research, and promotes an ethic of service to the country – included eight UC campuses in the top 100, with the San Diego, Berkeley, and Los Angeles campuses sweeping the top of the list.
- The National Research Council reviewed 322 UC programs in science, math, engineering, social sciences, and humanities, ranking 141 among the top ten in their fields.

UC BUDGETARY ACTIONS IN A TIME OF DECLINING STATE REVENUE

Funding for the University of California has changed dramatically over the last three decades. Historically, state funding has been the largest single source of support for the University. While state support remains critical for achieving UC's core mission, a steady erosion of state funding, coupled with significant increases in University costs and student enrollment, threaten the University's ability to maintain its academic and research excellence, attract and retain top faculty and staff, and remain accessible and affordable for students. UC has taken strong actions to address budget shortfalls, including achieving over \$100 million in savings from operational efficiencies to redirect to teaching and research.

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The University Has Experienced Steady Erosion of State Funding Over the Last 30 Years, but State Funding Remains Critical to UC's Core Mission

Despite significant increases in University costs and student enrollment, **state funding is below the level provided in 2000-01**. The State of California has steadily disinvested in higher education at the same time it has increased its investment in prisons. **Between 1980-81 and 2010-11, the University's share of the General Fund has declined from 5% to 3.6%, while the Department of Corrections' share has increased from 2.9% to 9.6%.**

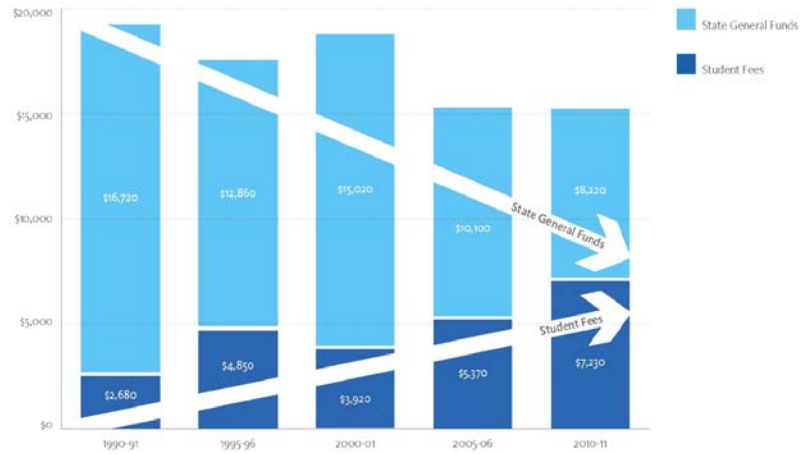
State General Funds remain extremely critical because they support the core instructional mission and make it possible to attract funds from other sources. **The historic investment from the state has helped develop one of the finest public university systems in the world.**

Adequate financial support for the University is essential if UC is to fulfill its missions of teaching, research and public service under the Master Plan. The current budget situation must be understood within the larger context of declining state support for the University in recent years. There are many indicators of this declining support. For example:

- **State spending on a per-student basis (inflation-adjusted) has declined 51% in the last 20 years, forcing the University to make up a portion of that shortfall with tuition increases.** As a result, the student share over this period, net of financial aid, has tripled, from 13% to 41% (see Display 8).
- In 1990-91, the State's corrections budget was slightly less than State support for UC. **Today, State funding for corrections nearly surpasses the combined State support of UC, CSU, and the community colleges** (see Display 9).

Display 8: Trends in Expenditures

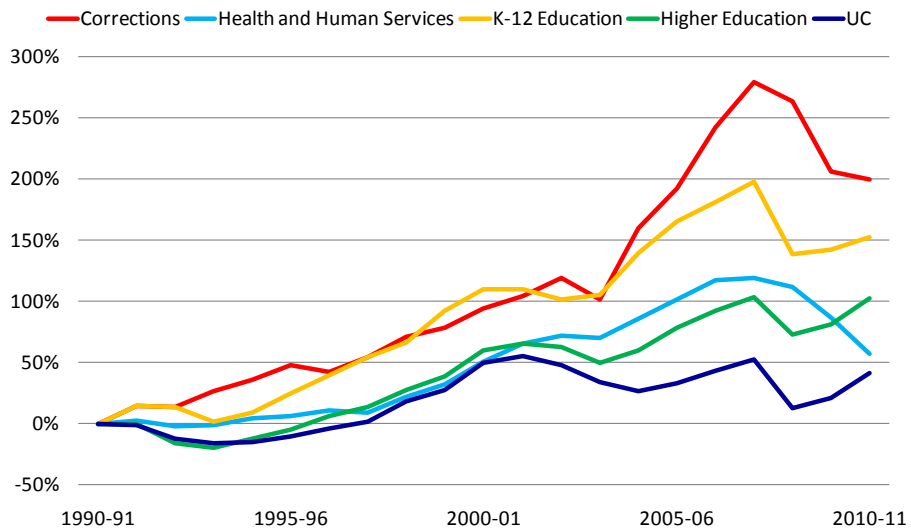
Per-Student Average Expenditures for Education



Student fee amounts are net of financial aid.

UNIVERSITY OF CALIFORNIA

Display 9: Changes in State Funding Over Time



The Roller Coaster Nature of Recent State Funding for UC Has Proved Challenging

As with the roller coaster nature of the overall state fiscal condition, the University faces incredible challenges in its ability to plan for enrollment growth, address compensation issues, or meet state priorities to address workforce needs.

The provisions of the Compact with Governor Schwarzenegger called for the state to provide increased funding for 2008-09, 2009-10, and 2010-11 of at least \$223 million each year. However, the state's ongoing budget deficit has prevented funding of the Compact. In 2008-09, the Governor first funded the Compact provisions and then proposed a 10% reduction from that higher budget. In this way, at least initially, the Compact protected UC from greater budget reductions in 2008-09. As the state's latest fiscal crisis grew during 2008-09, proposed budget cuts also grew. Permanent and one-time cuts to UC's budget for 2008-09 totaled \$814.1 million, although these reductions were offset by \$716.5 million in federal American Recovery and Reinvestment Act (ARRA) funds. For 2009-10, permanent and one-time cuts in state funding totaled \$637.1 million (from the level of state funding in 2007-08), essentially erasing the gains made over the earlier period of the Compact.

In 2010-11, the state restored a portion of the 2009-10 cuts (\$305 million), although one-third of this restoration was provided from additional one-time ARRA funds. The state also provided funds to support enrollment of 5,121 FTE students, reducing the University's unfunded enrollment by about one-third. Even with this funding, the University's 2010-11 permanent state allocation is more than \$1 billion below the level envisioned by the Compact.

The fiscal problems associated with the inability of the state to provide the funding called for in the Compact – including funding for 2.5% enrollment growth annually – and subsequent funding reductions have been further compounded for UC by unfunded cost increases for academic merit increases, collective bargaining agreements,

How ARRA Funds Are Helping UC

The American Recovery and Reinvestment Act (ARRA), signed by President Obama in February 2009, is providing support for UC in several ways.

- **State Fiscal Stabilization Funds:** ARRA includes funding for states to help maintain support for education. As of October 2010, UC has received \$822.5 million in State Fiscal Stabilization Funds to help offset State funding reductions and support UC's operating budget on a one-time basis.
- **Research Grants:** ARRA provides significant additional funding for federal research grants, particularly for biomedical, energy, and climate change research. UC researchers have been awarded more than \$1.1 billion in additional grant funding. Because many are multi-year, these research awards will have an impact beyond the 18-month term of ARRA. UC campuses and national laboratories are also benefitting from ARRA awards for construction of research facilities.
- **Medical Centers:** In addition to the expansion of research funds described above, UC's medical centers are benefitting from a major investment in clinical operations through an increase in the federal Medicaid matching assistance percentage, which increased Medicaid payments to the medical centers by \$55 million in 2009-10. ARRA also includes funding for investment in clinical information technology and community health.
- **Financial Aid:** ARRA is helping UC students and families pay for their education. For low-income students, it increased the maximum Pell Grant from \$4,731 in 2008-09 to \$5,550 in 2010-11, benefitting more than 52,000 UC undergraduates, and boosted funding for the Federal Work-Study program. In addition, the American Opportunity Tax Credit, which was created by ARRA, is benefiting more than 8 eligible students and parents who pay for required tuition, fees, books and course materials out-of-pocket in 2009 and 2010. More than 80,000 UC students are eligible for the tax credit.

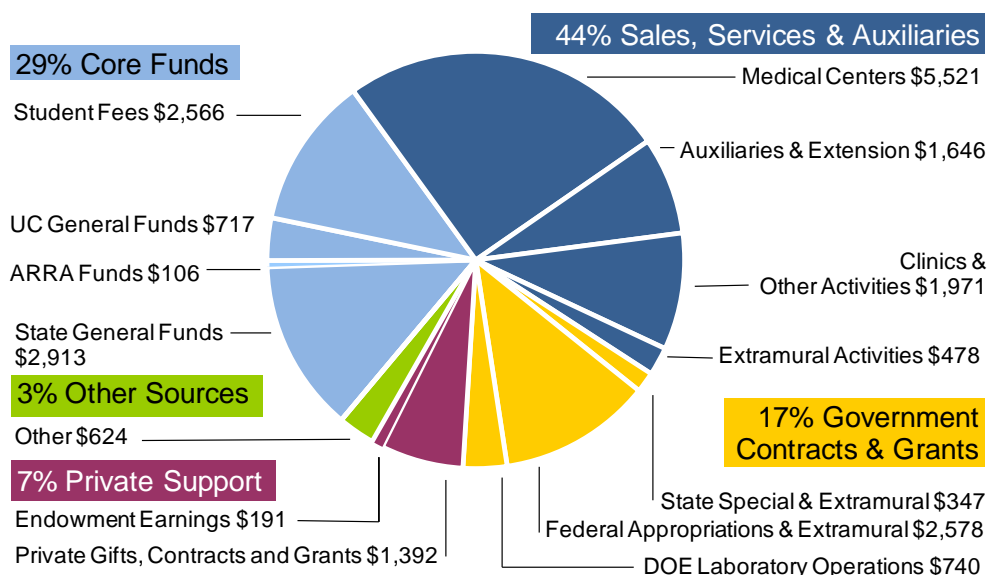
health benefits, purchased utilities, and, beginning in 2009-10, contributions to the UC Retirement Plan.

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UC's 2011-12 State Budget Request Seeks to Make Up Lost Ground

The **University's operating revenues, estimated to be \$21.8 billion in 2010-11** (see Display 10 below), **support the tripartite mission of teaching, research, and public service**, as well as a wide range of activities in support of and generated by these responsibilities, including teaching hospitals, the Lawrence Berkeley National Laboratory, University Extension, housing and dining services, and other functions. **State General Fund support for UC, \$2.91 billion in 2010-11, provides a critical base of permanent support for the University's core mission activities.**

Display 10: UC Budget Revenue for 2010-11 (Dollars in Millions)



Recently approved by the UC Board of Regents, the UC 2011-12 operating and capital budgets were developed in a context shaped by the State's enduring fiscal challenges and the University's efforts to respond to inadequate State funding. The University's plan calls for **restoration of State funding reductions, funding of the State's obligations to UC retirees, and additional State funding for recent enrollment growth and initiatives, as well as new revenue from student fee increases.** As part of its overall budget request, **UC is asking for an increase in state funds from 2010-11 levels totaling \$596.1 million, including:**

- **Permanent restoration of \$106 million** that is funded during 2010-11 on a one-time basis with federal **ARRA funds**;

- **Restoration of \$167.5 million associated with a two-year reduction proposed by the Governor in May 2009 for the 2009-10 budget;**
- Funding for the **state's share of the cost of restarting contributions to the UC Retirement Plan**, totaling \$171.8 million;
- Funding for the **state's share of cost increases associated with retiree health benefits**, totaling approximately \$10.5 million;
- Marginal cost of instruction **funding for students enrolled for whom the state has not yet provided support**, totaling \$115.7 million;
- **Additional enrollment funding to support growth** in medical and nursing education programs, totaling \$9.6 million; and,
- Permanent support of \$15 million to develop a **new medical school at the Riverside campus**.

Lack of State Funding Forces UC to Curtail Enrollment of California Students

The State's current fiscal crisis has dramatically altered the enrollment landscape. The State was unable to provide funding for enrollment growth that occurred during 2008-09 and 2009-10. **As a result, in 2009-10, UC enrolled more than 15,000 FTE students for whom the State had not provided enrollment growth funding.**

In response to the State's inability to provide the resources necessary to support enrollment demand, the **University has taken steps to curtail enrollment growth**. For 2009-10, UC planned to reduce the number of new California resident freshmen by 2,300 students as a means of slowing enrollment growth, and for 2010-11, the planned reduction was increased by another 1,500 students, for a total reduction of 3,800 students. Fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation, primarily at Merced.

In 2010-11, the State budget provided enrollment growth funding of \$51.3 million to support 5,121 FTE students at UC. Even with these new resources, **during 2010-11, the University is enrolling 11,570 FTE students for whom the State has not provided funding**. The University is requesting that the State provide full funding of UC enrollments during 2011-12 at a marginal cost rate of \$10,012 per student.

While acknowledging that access is important, the University cannot indefinitely accommodate larger numbers of students without adequate resources needed to provide them a UC-caliber education. The dilution of State funding over larger numbers of students results in a lower quality experience for all students. If the State is unable to fund the University's request for funding for 11,570 FTE students, the University will need to continue on a path toward bringing enrollments to a level more consistent with the resources provided by the State in order to preserve quality. To do so, **the University will continue to constrain the enrollment of new California resident freshmen in 2011-12 and later years.**

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UC Has Taken Strong Actions to Cut Costs and Achieve Savings in Order to Address Budget Shortfalls

In addition to dwindling state support, UC costs, including rising employee benefits, continue to rise amidst dwindling revenue options. UC is addressing the latter by **identifying \$500 million in annual administrative efficiency savings within five years**, engaging in various restructuring and cost cutting activities, and launching the Commission on the Future.

UC Achieves Savings from “Working Smarter,” Administrative Efficiencies

The state’s enduring fiscal challenges, the long-term decline in state support, and substantial mandatory cost increases are forcing the University to reexamine all aspects of operations and develop new strategies. It is in this context that efforts are being made centrally as well as at the campus level to reduce costs, both over the short term and the long term.

Growing out of the work of the Commission on the Future (see below), the University community has identified administrative and operational effectiveness as a key tenet of long-term viability. This consensus has evolved into **Working Smarter, an ongoing administrative efficiency effort that brings together systemwide, regional, and campus-level initiatives under one umbrella**, with one strong commitment from the top: the University is committed to achieving a level of administrative excellence equivalent to that of its teaching and research enterprises.

To reach this objective, the University will:

1. **redirect \$500 million of positive fiscal impact in five years from administrative costs to the academic and research missions of the University;**
2. **streamline operations** in order to address both state funding cuts and the need for commonality among campuses;
3. **implement operational efficiencies that enhance the quality of services** that support our students, faculty, and staff; and
4. **build a sustainable financial model** to carry the University forward.

To this end, **UC’s 2011-12 budget includes over \$100 million in savings from administrative efficiencies/streamlining that is being redirected to support the core operations of the University, teaching and research.**

Among these efforts, the University’s **Strategic Sourcing initiative has achieved \$260 million in cumulative cost savings** since its inception in 2004-05. Through the Statewide Energy Partnership Program, the University is pursuing \$262.6 million in energy conservation projects that are expected to generate \$18 million in annual energy savings after debt service.

UC Campuses Also Take Action

The campuses are also engaged full-throttle in individual streamlining efforts.

- Tiger Teams at **UC San Diego** have identified efficiency opportunities in areas like auxiliary operations and IT services, with key recommendations now being implemented.
- To improve service to their shared community, **UC Davis** and the City of Davis are currently consolidating fire departments on a pilot basis.
- In the area of purchasing, **UCLA's** strategic sourcing contracts are best-in-class, and the campus is extending its expertise to sister campuses in **Merced** and **Santa Barbara**.
- The Operational Excellence effort at **UC Berkeley** has advanced to the design phase, and execution teams are being formed from over 200 faculty and staff nominations received campus-wide.
- **UC Riverside** recently redesigned its administrative structure to increase effectiveness and generate much-needed budgetary savings.
- UC locations in **Berkeley, Davis, Irvine, San Francisco, and Santa Cruz**, as well as **Lawrence Berkeley National Laboratory**, have teamed up on a common human resources information system that introduces considerable functionality for management decision-making and workforce planning.

UC Takes Salary Cuts, Furloughs, Reductions in Staff

- **Salary Reduction/Furlough Plan:** In July 2009, the Regents approved a **salary reduction and furlough plan limited to one year that has saved \$136.5 million in General Funds** as of October 2010; more will be saved in the coming months as furloughs continue for some employee groups that started the program on a delayed schedule.
- **Senior Management Compensation Actions:** **The President and other senior members of the Office of the President (UCOP) and campus leadership reduced their salaries by 5% for one year**, effective July 1, 2009. This was two months ahead of the implementation of the furlough program, which in most cases imposed 9% to 10% pay reductions for all Senior Management Group (SMG) employees in 2009-10. In addition, **systemwide salary freezes for SMG members** were imposed.
- **UC Office of the President (UCOP) Restructuring:** During 2007-08 and 2008-09, UCOP undertook a **thorough restructuring and downsizing**. As of 2010-11, the **UCOP budget is 16% less** than it was in 2007-08 when restructuring began, declining from \$523.8 million to \$438.5 million over that period. **The number of FTE staff employed at the UCOP declined by nearly 600**, from 2,069 to 1,480. Roughly \$30 million of the budget reduction has been achieved through the transfer of programs to campuses. The remainder – \$55 million – has been the result of layoffs, consolidations and restructuring, new administrative efficiencies, expenditure reductions, and voluntary separations.

UC Launches Commission on the Future

In July 2009, Board of Regents Chairman Russell S. Gould launched a commission with a goal to shape a far-reaching vision to ensure excellence and access to UC in the future while addressing acute financial challenges resulting from the State's fiscal woes. A critical focus of the Commission, in addition to preserving the excellence of UC while facing economic realities, was to find ways to maintain and even expand UC's substantial contributions to California's economy and cultural life.

Co-chaired by Regents Chair Gould and President Yudof, the Commission was composed of members from across UC and outside of the University. Among those appointed to serve on the Commission were UC Regents, chancellors, Academic Senate leaders and faculty members, the UC Regents staff advisor, the UC Student Association president, and representatives from both the labor and business sectors.

The Commission initially used working groups to reach out to the entire UC community and an array of experts inside and outside the system to re-examine key questions, including:

- How can UC best meet the needs of California and at the same time maintain access, quality, and affordability in a time of diminishing resources?
- What educational delivery models will both maintain quality and improve efficiency for the University's future?
- What is the appropriate size and shape of the University going forward?
- How can traditional and alternative revenue streams be maximized in support of UC's mission?
- How can UC best utilize new models for research practices and collaboration, both within and outside the system?

Recommendations from the working groups as well as additional recommendations from faculty and staff were reviewed by the Commission at public meetings over the last year. The Commission endorsed recommendations covering the following five broad categories:

- **Teaching and Curriculum** includes recommendations to improve students' time-to-degree; explore the quality and feasibility issues regarding offering online courses; and identify best practices in conducting academic program reviews, taking into consideration budget information and tradeoffs.
- **Undergraduate Enrollment and Access** includes recommendations that recommit the University to the California Master Plan for Higher Education goals for freshman and transfer students, strengthen previous statements regarding financial accessibility for California's families, streamline and align major requirements for students transferring from California Community Colleges to UC campuses, and increase and cap nonresident undergraduate enrollment.

- **Research and Graduate Education** includes a sustained effort to meet the graduate student enrollment goals established in support of UC's research mission and greater emphasis on multi-campus research and training.
- **Fiscal Discipline and Administrative Reform** includes recommendations to implement the Regents' and President's initiative on systemwide administrative efficiencies and redouble efforts, along with other major research institutions in the country, to recover more of the infrastructure costs associated with conducting research via the federal government's indirect costing formulas. These two recommendations alone, if successful, would bring several hundred million dollars annually to UC.
- **Advocacy and Other Measures** includes recommendations for the continued expansion of public education and advocacy, as well as greater investments of time and resources in communicating UC's purposes, accomplishments, value and needs. Another major recommendation is for UC to lead efforts to persuade the federal government to provide special institutional support for research universities with exceptional demonstrated success at serving students from low-income families.

Each of these recommendations includes actionable, assigned next steps to ensure that recommendations are acted upon. Some recommendations have already been implemented, while others will require additional development and study. A final report of the Commission's recommendations was released in December 2010.

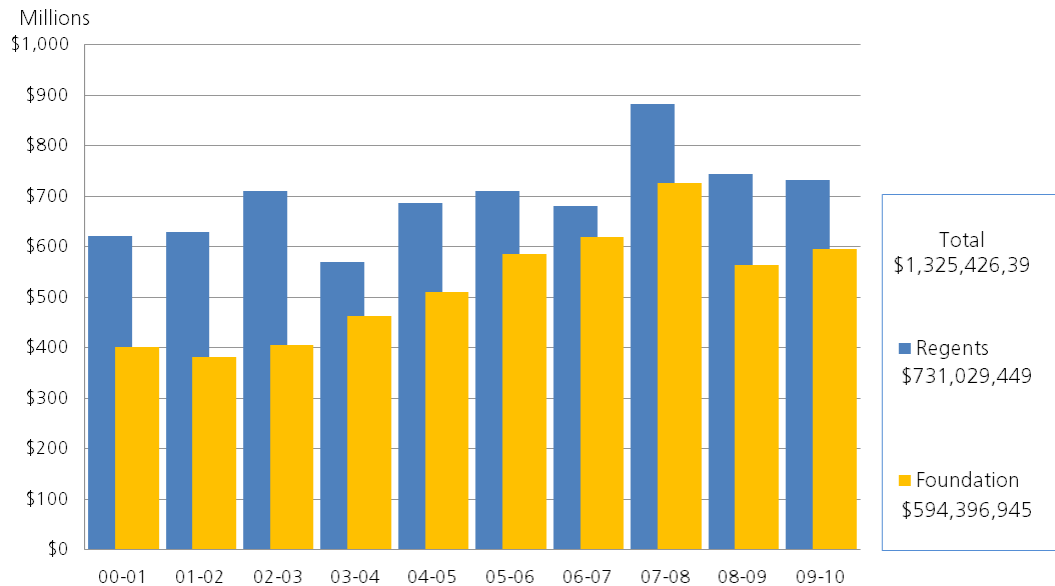
UC Seeks to Protect Private Support by Protecting Donor Privacy

Colleges and universities across the country establish foundations to foster private giving, manage gift and endowment funds, and provide other support in furtherance of the institution's mission. **Private support has become increasingly critical as state funding diminishes.** These foundations are separately incorporated entities with an independent board of trustees, and are organized as charities under Section 501(c)(3) of the Internal Revenue Code.

Each of the ten UC campuses has an associated Campus Foundation that is a separately incorporated, California non-profit, public benefit corporation governed by an independent board of trustees or directors composed of volunteers, not employees of the University.

- In recent years, almost half of all the private support raised by the University of California - and over 80% of all gifts to establish endowments - has been given through the Campus Foundations.
- As shown in Display 11 below, for each of the past five years, over \$500 million has been gifted to the UC Campus Foundations for the last several years:

Display 11: Gifts to UC Campus Foundations



- UC Campus Foundations do not expend any gift funds directly, other than for administrative costs. Gifts to the Foundations and payout from endowments they receive are transferred to the campus for expenditure from Regental accounts.

In each of the last two years, Senator Leland Yee has drafted legislation (SB 218 in 2009 and SB 330 in 2010) that would extend the California Public Records Act to charitable organizations that support CSU and UC. At UC, this legislation would encompass a wide array of organizations including: alumni associations, support organizations such as “Friends of the Bancroft Library” and the University Section Club, and, most significantly, the UC Campus Foundations.

As information on operations and charitable expenditures is already publicly available, the University's opposition to SB 218 and to SB 330 has always been due solely to concerns related to donor and volunteer privacy—and the resulting impact on philanthropic support for the University of California. In each of the last two years this legislation has been vetoed by the Governor, citing his concerns related to donor privacy and a potential decrease in private donations to UC and CSU.

UC has concerns with various aspects of donor privacy, whether or not the donor seeks anonymity. Prospective donors often have discussions with Campus Foundation trustees and other volunteers well before they opt to support the University. In these discussions, they may reveal certain aspects of their personal finances, personal and family medical history that is the impetus for their interest in particular areas of medical or scientific research, and any number of other personal details. Most donors do not seek anonymity, but they have every expectation that these discussions (often done via e-mail) would not be made public.

Anonymous donors have an even greater concern for their privacy. Some are motivated by religious reasons, while others are simply eager to avoid an exponential increase in charitable solicitations. Increasingly, some donors seek to be anonymous due to safety concerns, as news of their wealth may increase potential danger to them and to their families. Whatever the motivating factor, UC needs to be able to honor the request of donors who wish to remain anonymous.

UC and the UC Campus Foundation trustees have expended a great deal of time and effort seeking to address misconceptions and inaccuracies related to the Foundations. In addition, UC has put forward amendments to proposed legislation that would ensure that the public has pertinent information related to the UC Campus Foundations – without jeopardizing the personal privacy of donors and trustees.

UC AS AN EMPLOYER

Attracting and retaining quality faculty and staff to the University of California are critical to building and maintaining the excellence of UC's teaching and research programs.

Accordingly, UC seeks to provide excellent employment benefits and opportunities for all UC employees. However, cash compensation for most employees lags the market, while rising health care costs further erode effective compensation levels. UC post-employment benefits remain attractive, but the University must take steps to ensure the UC Retirement Plan remains viable for current and future employees.

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Compensation Costs Will Remain a Significant Issue as UC Competes with Other Public and Private Institutions for Top-Tier Academic Talent

With the cost to continue the academic merit salary increase program, the cost of collective bargaining agreements during 2011-12, changes in the costs and structure of the University's employee benefits programs, and the effect a national economic recovery is likely to have on recruitment and retention of high-performing faculty and staff for UC, compensation costs will remain a significant issue over the next several years. **If and when endowments at private institutions recoup their losses and other states restore funding for public institutions, it is expected that those institutions will move rapidly to restore academic programs by recruiting high-performing faculty away from other universities. UC may find itself struggling to retain its own high-quality faculty.** Similarly, economic recovery in California will generate new competitive opportunities for staff.

Cash Compensation for Faculty and Staff Lags the Market, though Benefits Offset Some of the Disparity

In support of the University's goal of achieving market-competitive pay and benefits for all employee groups and attracting and retaining excellent faculty and staff, UC periodically evaluates how total compensation for various employee groups compares against competitor institutions. UC Human Resources recently completed a university-wide study of employee total compensation. The 2009 study included UC's ten campuses, five medical centers and the Office of the President. Two consulting firms, Hewitt and Mercer, supported the study with comparative market data and statistical analyses capability. The objectives of the study were to:

- Provide a comprehensive, market-based evaluation of UC's competitive position on total compensation.
- Demonstrate how total compensation varies across different segments of the UC workforce.

- Provide a basis for assessing UC's total compensation programs in relation to human resource strategies.
- Help inform the University's short-term planning and longer-term human resources strategies.

UC Study Finds Cash Compensation Lags Overall, Benefits Ahead of Market

As with previous studies, the 2009 assessment found that, overall, cash compensation for many employee groups is below market, significantly so in many cases, but that UC's benefits are currently ahead of market. **Market positions have eroded, and are expected to worsen, due to lack of salary increases, rising employee medical benefit premiums, employee contributions to the UC retirement plan, and a systemwide furlough program which reduced faculty and staff pay for the 2009-10 fiscal year.**

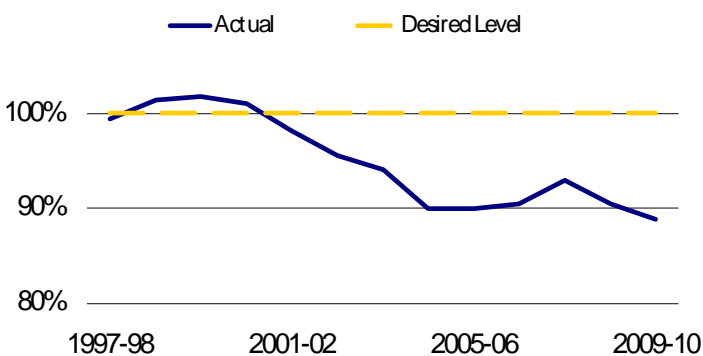
Different UC Staff Groups Experience Different Market Positions

The study further found:

- On average, cash compensation for **UC faculty** is 11% below market (see Display 12), and total compensation (cash plus benefits) is 4% behind comparable institutions.
- **Union-represented service workers are closer to the market average than all other categories of employees in the UC system**, and their total compensation (cash plus benefits) is 18% higher than their counterparts at other institutions.
- **The largest compensation gap affects senior management group members** (e.g., president, chancellors, deans, vice presidents, chief financial officers) whose cash compensation, on average, was 22% lower than their counterparts. Total compensation for top administrators, including university chancellors, was 14% below their counterparts at comparable institutions.
- Cash compensation for **managers, senior professionals and professionals and support staff**—both union-represented and non-represented—lags behind their counterparts as well. On average, the gap for these employees ranges from 13% to 19%.
- For UC medical centers, results show that cash compensation for **most UC medical center employees** is near or slightly above market, except for **staff physicians** whose pay is 18% below market.
- In total compensation, **all medical center employee groups**, except staff physicians, were above market by 4% to 17%.
- Consistent with healthcare industry practices, UC medical centers use performance-based (incentive) compensation programs to encourage and reward quality patient care and operational efficiency among employees at every level. UC medical centers are self-supporting enterprises and operating expenses, including employee compensation, are paid from operating revenues—no state funds are used.

Display 12: Faculty Salaries as a Percentage of Market

After one year of the faculty salary plan, the market lag of UC's faculty salaries improved from 9.6% to 7.1% in 2007-08. However, with no range adjustments in 2008-09 or 2009-10, the gap widened again to 11.2% in 2009-10, excluding the impact of the furlough reductions. Without a general salary increase in 2010-11, the gap is expected to widen further.



Display 13 shows the relative market position for UC employees. Market positions for large populations between -5% and +5% from the market average are considered “competitive.” Positions more than +/-10% are considered significantly above or below competitive levels. In addition, annual percentage increases in funding for UC staff salaries lagged increases in funding for salaries in the Western Region market in 9 out of the 13 years since 1997-98. In four of those years—including the last two (2009 and 2010)—UC was unable to provide any increases, resulting in significant market disparities.

Display 13: Market Position of UC Salaries

Campus Employees (includes Office of the President)	Market lead/lag <i>Cash only</i>	Market lead/lag <i>Cash + Benefits</i>
Ladder Rank Faculty (does not include ladder rank health sciences faculty)	-10%	-4%
Senior Management Group (e.g., president, chancellors, deans, vice presidents)	-22%	-14%
Other Academics (librarians)	-4%	+8%
Managers & Senior Professionals (e.g., managers and supervisors in Administration, Finance, Accounting, Human Resources)	-16%	-4%
Professional & Support Staff (non-unionized) (e.g., systems programmers, accountants, analysts, facilities specialists)	-13%	0%
Professional & Support Staff (unionized) (e.g., clerical staff, laboratory technicians, research technicians, skilled trades staff)	-19%	-2%
Union-represented Service Workers (e.g., custodians, food service workers, groundskeepers)	-1%	+18%
Medical Center Employees	Market lead/lag <i>Cash only</i>	Market lead/lag <i>Cash + Benefits</i>
Senior Management Group (e.g., chief executive officers, chief medical officers, other senior administrators)	+3%	+15%
Staff Physicians	-18%	-9%
Managers & Senior Professionals (e.g., managers and supervisors in Administration, Finance, Accounting, Health & Safety)	+5%	+17%
Nurses	-3%	+4%
Professional & Support Staff (non-unionized) (e.g., analysts, systems programmers, accountants, service coordinators)	-5%	+6%
Professional & Support Staff (unionized) (e.g., patient care assistants, clerical staff)	0%	+11%
<p><i>Notes: An independent analysis shows that total cash compensation for medical center CEOs (a subset of the Senior Management Group) is 26% below market. With incentive pay, CEOs' total cash compensation is 3% below market. Consistent with industry practice, UC medical centers use performance-based (incentive) pay plans to reward quality patient care and operational efficiency among employees at every level.</i></p>		

Employee Health Benefit Costs Will Continue to Rise

Employee health benefit costs are rising at a more rapid rate than anticipated (10% for calendar year 2010) and no State funds were provided for this purpose in 2008–09 or 2009–10, dramatically exacerbating an already difficult problem. **In the current environment, with limited new funding and growing cost pressures, it is expected that some of the increases in cost will continue to be borne by most employees.** The University will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market.

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UC is Taking Action to Ensure Retirement Benefits Remain Sound, Despite Increasing Liabilities.

The University of California Retirement Plan (UCRP) provides pension benefits for nearly 54,000 retirees and survivors and has nearly 115,000 active employee members, as of July 1, 2010. Prior to November 1990, contributions to UCRP were required from both the University as employer and from employee members. **In the early 1990s, the Regents suspended University contributions to UCRP after actuaries confirmed that the Plan was adequately funded to provide plan benefits for many years into the future. Over the 19 years during which employer and employee contributions were not required, the State saved over \$2 billion.**

As part of the benefit package, UC also provides medical and dental benefits for more than 50,000 eligible retirees and their dependents. Because accumulated future retiree health benefits costs are not pre-funded, as of July 1, 2010, UC has an unfunded liability for retiree health of \$14.9 billion (or roughly two-thirds of the University's total \$21 billion unfunded liability for its retiree health and pension programs). This amount represents the cost of benefits accrued to date by current faculty, staff, and retirees based on past service.

President Yudof Is Proposing Changes in Post-Employment Benefits

In April 2009, the President established the UC Post-Employment Benefits Task Force, charged with examining the University's pension and retiree health benefits policies and funding and exploring alternatives for a comprehensive long-term approach to retirement benefits and reducing long-term costs. The Task Force issued its final report in August 2010, recommending a number of changes to both the pension and retiree health programs designed to strike a balance between offering competitive benefits and achieving long-term financial stability.

The University of California faces a \$21 billion unfunded liability for its retiree health and pension programs. President Mark G. Yudof has proposed several measures to put UC's retirement programs on solid financial footing, while still ensuring attractive post-employment benefits. His recommendations were informed by an extensive consultation process with members of the UC community and have support from the leadership of the UC Academic

Senate, UC's staff advisors to the Regents, and the leadership of the Council of UC Staff Assemblies. The UC Board of Regents discussed the President's proposals in November and will vote on proposed changes in December. Changes for represented employees are subject to collective bargaining.

President Yudof's proposed changes seek to satisfy two critical objectives: Help address the financial challenges faced by the University of California, and preserve good post employment benefits in support of UC's commitment to excellence and in recognition of the vital role the faculty and staff play in the quality and delivery of UC's service to the public. The proposed changes are summarized as follows:

- **Retiree health:** Reduce UC's contributions to retiree health care premiums over time to a floor of 70% (currently at 89%); and change eligibility rules for some employees, depending on their age and years of service (effective July 1, 2013).
- **New category ("tier") of pension benefits for future employees:** Offer a modified program to faculty and staff who join UC on or after July 1, 2013; raise the minimum retirement age and retirement age for maximum pension benefits; eliminate the lump-sum cash-out and subsidized survivor benefits.

The total annual cost to UCRP for the new pension tier would be less than the current pension program, and contributions from UC and pension plan members would cover the cost. UC would contribute 8.1% and employees would pay 7%. Most other aspects of the pension program would mirror the current UCRP.

Financing for the UC Retirement Plan

The University will rely on a variety of ways to ensure the financing of a viable UC retirement plan into the future, including:

- **Increase employer and employee contributions to the UCRP.** UC's contribution would increase to 10% and employee contributions to 5% in July 2012. In addition, UC's contribution would increase by an additional 2% per year, beginning in 2013, until it reaches a level of 20% of annual payroll.
- Fund a portion of UCRP's annual required contribution with a variety of resources, including restructuring UC's debt and borrowing at low-interest rates from UC's pool of short-term investment funds.
- **Work to secure agreement from the State of California to resume paying its share of contributions to the UCRP.**

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Personnel Growth at UC Is Driven in Areas Not Funded by State Revenue

Growth in various university personnel groups is a topic that emerges periodically, especially during times of budget shortfalls. The current budget crisis has rekindled concerns that growth in “administration” is outpacing growth in student enrollments, and comes at the expense of faculty and instruction. UC recently conducted an analysis of UC full-time-equivalent (FTE) personnel growth comparing financial and payroll data between fiscal years 1997-98 and 2008-09. The analysis found where personnel growth has occurred and identified the primary factors driving such growth. Findings here are consistent with national trends, as well as with previous UC studies.

Drivers of Personnel Growth at UC

- In the past 11 years, total UC FTE personnel have increased 39%, from 109,500 to 152,400.
- While student enrollment has contributed to increases in both academic and non-academic personnel during this period, **increases have been driven primarily by expansion in teaching hospitals, research activity, and auxiliary enterprises—all of which are predominantly funded by non-state revenue:**
 - Teaching hospitals, research initiatives, and auxiliary enterprises fund an ever-increasing proportion of UC personnel costs—more than 73% of all UC FTE personnel—and are funded almost entirely from non-state sources (patient revenues, federal grants, dorm fees, etc.).
 - UC medical centers and teaching hospitals account for 52% of the increase in non-academic FTE since 1997-98; contract and grant funding for research grew to almost \$4 billion a year from less than \$2 billion, generating 8% of this FTE growth.
 - Auxiliary enterprises, such as residence halls and food services, also have contributed significantly to personnel increases systemwide, and represent 10% of FTE growth.

Restrictions on Personnel Funding

There is a common misconception that all UC funding is the same and can be used in any manner desired. The reality is that **the majority of UC’s personnel-related funding is restricted**, either legally or by operational necessity, and cannot be used arbitrarily to support any purpose. For example, teaching hospitals and auxiliary enterprises (e.g., residence halls and food service operations) are largely self-supporting, relying on the revenues they generate to sustain themselves. Uses of federal and other research grants are also restricted. These restrictions, in effect, prevent the use of hospital, research and auxiliary funds for other university purposes, such as to fund additional FTE or salary increases elsewhere.

Distribution of Personnel

The analysis showed that the proportion of academic and non-academic personnel remains constant, while the proportion of senior managers declines.

- **Academic personnel continue to make up the same relative percentage (26%) of total employee FTE as they did in 1997-98.** This reflects growth in instruction in combination with the expanding research enterprise. Conversely, the proportion of non-academic personnel, as a% of all UC personnel, has remained relatively constant (74%).
- **The number of Senior Management Group members has declined slightly, from 315 to 293, accounting for far less than 1% of all FTE.**