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Governor's Budget Supports Student Enrollment Growth, Places Focus on Research and Innovation Critical to State

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The 2007-08 state budget proposal issued today (Jan. 10) by Gov. Arnold Schwarzenegger supports the University of California's service to California by funding growth in student enrollments, proposing a major research and innovation initiative, supporting faculty and staff salary increases, and proposing an infrastructure plan for facilities, among other things.

The governor's research and innovation initiative, one of the highlights of his overall budget plan, invests state funding in a number of UC research projects supporting the state's economic and environmental objectives. The initiative would support two "green technology" initiatives, support UC's bid to build a new supercomputer with uses in a wide range of fields, and provide operating funds for the California Institutes for Science and Innovation.

The governor's budget proposal fulfills his 2004 "compact," an agreement that spells out anticipated state funding levels and UC accountability measures over a multi-year period. However, the governor's budget again this year proposes to remove state funding for UC academic preparation and labor research programs.

Also, with the state still facing a \$4 billion structural budget deficit and the governor's budget proposing tight or reduced spending in many areas of state government to eliminate that deficit, the budget does not propose a student fee "buyout" in the 2007-08 year, as occurred in 2006-07.

As a result, increases of roughly 7 percent in mandatory systemwide student fees and 10 percent in select professional school fees would be necessary to balance the 2007-08 UC budget proposal adopted by the Board of Regents in November. The Regents will not be asked to set actual fee levels until their March meeting in order to allow time for consideration and input. Any fee increase proposal will be accompanied by a proposed increase in financial aid for needy low- and middle-income students to preserve the affordability of the University.

The governor's budget also does not include state funding the University had requested for reinstated employer contributions to the UC Retirement Plan.

"With the state still facing a major fiscal challenge, we are grateful for the support the governor has provided in his budget for some of our key priorities at the University of California – student enrollments, improved salaries for our hard-working faculty and staff, and research to keep California on the leading edge of global innovation," said UC President Robert C. Dynes. "This budget does not include everything we might wish for. We will certainly pursue continuation of state funds for our academic preparation and labor research programs, and we will need to give very careful consideration to the issues of student fees and retirement contributions. But overall, in a tight fiscal environment, I believe this budget represents a strong vote of confidence in the work that the University of California is doing for California."

Under the governor's budget, UC's state-funded operating budget would increase \$192 million, or 6.2 percent, to \$3.27 billion in the fiscal year beginning July 1, 2007. The Legislature will consider the governor's budget and make proposals of its own during the spring. The governor and Legislature typically adopt a final state budget in the summer.

Key features of the budget for UC

Student enrollments: The budget includes funding for an increase of 5,000 students (2.4 percent) at the University of California in 2007-08, consistent with the compact. This increase will allow UC to meet its commitments to undergraduate access under the Master Plan for Higher Education and continue to increase graduate enrollments as well.

Research and innovation initiative: The governor's budget proposes a research and innovation initiative to help keep California on the leading edge of global competitiveness. It includes: \$30 million in lease revenue bonds for the Helios Project, an initiative by the Lawrence Berkeley National Laboratory to create sustainable, carbon-neutral sources of energy; \$40 million in lease revenue bonds for UC Berkeley or UC San Diego in the event that either wins a global competition for the British Petroleum (BP) Energy Biosciences Institute, which will focus on the development of alternative fuels; \$20 million in general funds for operations of the California Institutes for Science and Innovation, four cross-disciplinary, public-private research institutes located at UC campuses and focused on scientific fields with great potential for economic development in California; and \$5 million in state matching funds in the event that Lawrence Livermore National Laboratory, Lawrence Berkeley National Laboratory, and UC San Diego win a National Science Foundation competition to build a "petascale" computer that will be the most powerful computer in the world and that, if sited in California, would give an enormous competitive advantage to California universities and businesses. Details of this initiative are at <http://gov.ca.gov/index.php?/press-release/5004/>.

Faculty and staff compensation: The governor's budget combined with other University revenues would provide a 5 percent pool for employee compensation increases, including merit-based and equity-based salary increases, health and welfare benefit cost increases, and related cost increases. (Distribution of salary funding is subject to collective bargaining requirements where applicable.) This increase is intended to begin closing the market pay gap affecting many UC faculty and staff.

UC Merced: The budget continues \$14 million in one-time funding for start-up costs.

Academic preparation: The governor's budget proposes removal of \$19.3 million in state funding for UC's academic preparation programs, which help improve the academic performance of educationally disadvantaged students in K-12 schools across the state. This action would leave the \$12 million in internal resources that UC currently provides for these programs. "These programs are critical to providing the pathways to college that a state like California depends upon for its economic and social vitality, and we will aggressively seek continuation of state funding for them," Dynes said.

Labor research: The governor's budget likewise proposes removing \$6 million in state funding for UC's labor research program. UC will seek continuation of the funding.

Retirement contributions: In their November budget proposal, the Regents requested \$60 million in state funding for the first phase of reinstating employer contributions to the UC Retirement Plan. Employer and employee contributions to the pension plan have not been required since the early 1990s due to the performance of its investments. However, it has been determined that the plan will become underfunded within the next several years unless contributions are resumed. The Regents have voted to resume employer and employee contributions beginning in July 2007, subject to the budget process, availability of funding, and collective bargaining.

The governor's budget does not provide the requested \$60 million for employer contributions to the plan. The University's next steps regarding the resumption of contributions, and the timing of those next steps, will be considered by the Board of Regents at future meetings. The president will recommend that employee contributions not be restarted until employer contributions are resumed as well.

Student fees

To fund the University's priorities in 2007-08, the budget proposal adopted by Regents included an option for either a student fee increase or equivalent state funding. The governor's budget does not include the equivalent funding, recognizing the state's fiscal situation.

As a result, balancing the UC budget proposal would require increases of roughly 7 percent in mandatory systemwide student fees and 10 percent in fees at selected law and business schools. However, the Regents will not be asked to set actual fee levels until their March meeting in order to allow time for consideration and input.

Currently, mandatory systemwide fees are \$6,141 for resident undergraduates and \$6,897 for resident graduate academic students. With the inclusion of campus-based miscellaneous fees, the total annual fee average is \$6,852 for resident undergraduates and \$8,938 for resident graduate academic students. Professional school fees vary by campus and discipline.

The governor's budget proposes an increase in the Cal Grant budget to help offset fee increases for eligible students.

In addition, any proposed increase in mandatory systemwide student fees will be accompanied by a proposed increase in UC grant assistance for needy low- and middle-income students. The president intends to recommend, as described in the Regents' budget, that the University return 33 percent of the income from any undergraduate fee increase to financial aid. Generally, this means that the University would be able to provide an additional UC grant, covering 100 percent of the fee increase, to on-time financial aid applicants who are considered needy under federal eligibility standards and whose family incomes are lower than approximately \$60,000 per year. In addition, the University would provide a grant covering 50 percent of the fee increase to other needy on-time financial aid applicants whose family incomes are below \$100,000 per year.

There also would be provisions for UC financial aid at the graduate and professional levels, with a 45 percent return-to-aid for graduate academic students, recognizing the need to provide competitive graduate student support and to cover collective bargaining agreements for teaching assistants; and a 33 percent return-to-aid for professional school students.

The governor's budget assumes the nonresident tuition proposals contained in the Regents' budget: a 5 percent (\$900) increase in nonresident tuition for undergraduates, and a freeze on nonresident tuition for graduate academic students for the third year in a row, as part of the University's effort to remain attractive to the most talented graduate students nationally and internationally. Out-of-state students must also pay mandatory systemwide student fees, and any increases in those fees, in addition to nonresident tuition.

Capital budget

The governor's budget includes a capital budget of \$574 million for UC facilities. This figure includes \$305 million in general obligation bond funds for UC construction and renovation projects intended to address enrollment growth, earthquake and life safety, and infrastructure renewal, as authorized by voter-approved Proposition 1D. It also includes \$199 million in general obligation bond funds, also contained in Proposition 1D, for facilities and equipment to expand UC medical school enrollments and improve health care for currently underserved populations and communities in California, through expanded use of tools such as telemedicine.

The balance of the 2007-08 funding is \$70 million in lease-revenue bonds for two projects that are part of the governor's research and innovation initiative described above.

The governor also proposed a state infrastructure package that would include \$2.7 billion in general obligation bond funds for UC over an eight-year period, with bond measures coming before the voters in 2008 and 2010. "Safe, modern facilities are critical to the work of a university, and our construction and renovation needs at UC are substantial," Dynes said. "We applaud the governor's vision in laying out this plan."