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Approved

COMMITTEE ON FINANCE
October 21, 2008

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA:

APPROVAL OF THE FINAL 2008-09 BUDGET PLAN FOR CURRENT OPERATIONS

The Committee recommends that the Regents approve the changes, as described in the Attachment, to the University of California 2008-09 budget plan.

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Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of October 21, 2008

APPROVAL OF THE FINAL 2008-09 BUDGET PLAN FOR CURRENT OPERATIONS

RECOMMENDATION

The President recommends that the Committee on Finance recommend to the Regents that changes to the University of California 2008-09 budget plan as described in this item be approved.

BACKGROUND

The Board approved a budget plan for the University for 2008-09 at the November 2007 meeting that reflected the resources needed from core operating funds to support a normal workload budget as well as several initiatives of importance to the University and the State. The Legislature has now adopted a final budget act and the Board is being asked to approve a final budget plan consistent with changes included in the final budget act and revised estimates of income. The budget plan for State funds is significantly changed from that approved last November. Executive Vice President Lapp will make an oral presentation on this item at the Board meeting.

The final State budget act provides a total of \$3.032 billion in State General Funds for the University's budget (excluding one-time funding for Merced and lease revenue payments). This is \$48.7 million less than the State General Fund budget for the previous year and includes a post-budget act cut of \$33.1 million to the University's budget. With expected cost increases that must be funded, it is estimated the University will need to redirect a total of \$148.7 million from existing resources, which is equivalent to a 4.9 percent reduction in State General Funds.

Attachment 1 is a display showing the revised budget plan for 2008-09. Described below are major elements of the proposed revenue and spending plan.

Proposed Revenue for 2008-09

The revised budget plan shows the \$108.7 million reduction proposed in the January Governor's Budget as well as the restoration of \$98.5 million proposed in the May Revise and ultimately included in the final budget act. An action taken in October to further reduce the University's

budget by \$33.1 million is also reflected. This action occurred after the final budget act had been passed. During negotiations on the budget, legislative leadership and the Governor agreed that the Department of Finance would take an additional \$340 million in reductions from State agencies once the budget was completed. This agreement is not reflected in the budget act itself, but will be reflected in the Final Change Book, a publication that shows each budget change to State-funded programs in more detail than the budget act. A portion of that reduction is being achieved through an Executive Order issued by the Governor to eliminate contract and temporary employees from the State-funded roster. The \$33.1 million reduction assigned to the University is the University's proportionate share of the remainder that must be saved from State agencies.

In addition, the plan adjusts the earlier estimate of \$20 million in UC General Funds to \$17.2 million to reflect more recent information about actual revenue from indirect cost recovery and nonresident tuition, as well as the loss of interest income due to a change in the way the State provides monthly distributions. The plan retains the \$160 million in student fee revenue, including \$12.1 million (net of financial aid) associated with increases in professional school fees. The revenue from the professional school fee increase will be allocated directly to the professional schools. Thus, for 2008-09, the University can expect increased revenue of approximately \$129.0 million.

Proposed Expenditures for 2008-09

Major elements of the proposed spending plan include the following:

- an assumption that at least \$28 million in savings is achieved through the restructuring of the Office of the President;
- professional school cost increases and enrollment growth – the \$12.1 million (net of financial aid) from increased professional school fees will be used to help fund cost increases at the professional schools;
- return to aid of one-third of the increased fee revenue to be used to provide financial aid for needy students – most needy students with family incomes of \$60,000 or less will receive grant aid to offset the fee increase and most needy middle income students with family income below \$100,000 will have one-half of their fee increase covered with grants;
- a second increment of new funding for student mental health, funded from the Registration Fee increase – with the \$8 million added to these programs in 2008-09, a total of \$12 million will have been infused into these programs over a two-year period;
- one-time funding of \$10 million for operational support for the California Institutes for Science and Innovation;
- continuation costs totaling \$32.4 million for salary increases incurred during the 2007-08 budget year (salary increases were effective October 1, so the one-fourth of the year that was not previously funded must now be funded);
- academic merit increases for the approximately one-third of the faculty who are eligible for these increases in the budget year (\$27.5 million);
- health benefit cost increases are expected to rise by \$29.6 million, significantly more than has been budgeted in recent years;

- enrollment growth of approximately 5,000 FTE (\$78.7 million based on the marginal cost of instruction) – campuses accommodated planned enrollment growth because to do otherwise would have given inadequate notice to students and their families who made plans based on an assumption enrollment slots would be available;
- a third increment of funding to augment graduate student support (\$10 million);
- purchased utilities have been underfunded for several years on many campuses – all campuses will experience 20 percent – 30 percent increases in gas and electricity costs in the coming year.

Not included in the expenditure plan for 2008-09 are several items that have been identified by the Regents as high priorities but which are being deferred in order to avoid making significantly higher cuts to existing programs that would be necessary in order to provide funding in the new fiscal year. These include salary increases for faculty and staff, additional funding for the second year of the four-year faculty salary plan, and funding to continue to restore support for instructional programs (student-faculty ratio). These items continue to be a very high priority and are under consideration for inclusion in the University's request for 2009-10.

The new expenditure plan from core operating funds for 2008-09 totals \$5.361 billion and, as stated earlier, will require \$148.7 million in funds redirected from existing programs.

(Attachment)

University of California
2008-09 Budget - Final Budget Plan
(dollars in millions)

REVENUE**2007-08 Operating Revenue**

State General Funds	\$	3,080.7	
UC General Funds	\$	576.8	
Student Fee Revenue	\$	<u>1,574.2</u>	
Total	\$	5,231.7	\$ 5,231.7

2008-09 New Revenue

State General Funds (January)	\$	(108.7)	
State General Funds (May revision)	\$	98.5	
Labor Research Line Item Veto	\$	(5.4)	
October 10, 2008 reduction	\$	(33.1)	
UC General Funds	\$	24.5	
Projected Reduction in UCGF (STIP loss)	\$	(7.3)	
Student Fee Revenue	\$	<u>160.4</u>	
Net New Revenue	\$	129.0	<u>\$ 129.0</u>

Total 2008-09 Operating Revenue \$ 5,360.7

EXPENDITURES

2007-08 Operating Expenditures \$ 5,231.7 \$ 5,231.7

UCOP Savings \$ (28.1) \$ **(28.1)**

2008-09 Campus Expenditures**Funded:**

Professional School Cost Increases and Growth	\$	12.1	
Student Financial Aid	\$	57.5	
Student Mental Health	\$	8.0	
California Institutes for Science and Innovation	\$	<u>10.0</u>	
Subtotal	\$	87.6	\$ 87.6

Partially Funded or Unfunded:

Continuation Costs of October 1, 2007 Salary Increases	\$	32.4	
Academic Merit Increases (1.78% of base) ¹	\$	27.5	
Health Benefit Cost Increases ²	\$	29.6	
Enrollment Growth Net of Financial Aid (5,000 FTE students)	\$	78.7	
Graduate Student Support	\$	10.0	
Purchased Utility Deficits	\$	<u>40.0</u>	
Subtotal	\$	218.2	<u>\$ 218.2</u>

Net Campus Reductions³ \$ (148.7)

Total 2008-09 Operating Expenditures \$ 5,360.7

- (1) In addition, campuses will likely use additional funds from internal redirection to provide faculty salary increases for retention purposes.
- (2) Estimated cost to maintain employer share at 87%. Additional reserve funds will be used on a one-time basis to offset increases in employee contributions and reduce the impact on take-home pay.
- (3) Does not include non-salary price increase of \$25 million.

Deferred for Consideration in 2009-10

Faculty Salary Market Adjustments	\$	20.0	
Academic and Staff Compensation (5%)	\$	<u>125.1</u>	
Total Expenditures for Future Discussion	\$	145.1	
