S. Kang

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September 3, 2008

ACADEMIC COUNCIL CHAIR CROUGHAN

Dear Mary:

I write in response to then-Academic Council Chair Brown's letter of July 22 regarding the recommendation from the University Committee on Planning and Budget to increase and accelerate funding for UC Merced's capital and operating budget issues.

Since the inception of the Merced campus, the University of California has sought support from the Governor and the State legislature for the resources necessary to ensure its success as a first-rate education and research institution. A fundamental requirement for the University going forward with this project was that the new campus must be adequately funded and supported from funds in addition to what was needed for the existing campuses.

I am informed that when the Office of the President first developed cost estimates for the initial phase of development of the campus, they reviewed the budgets for the Santa Cruz and Santa Barbara campuses to determine the funding levels each had attained at a critical mass of 5,000 students, in cost-adjusted dollars, and concluded that they received the equivalent of about $10 million in core State support (in 1995-96 dollars), in addition to other normal operating budget revenue from enrollment growth (marginal cost funding), student fees, and UC General Fund income. As a result, the Office of the President negotiated with the State to provide the Merced campus with $10 million per year beginning in 1998-99 so as to provide the core funding needed to support the campus similar to the core support our other smaller campuses had been provided. It should also be noted that this funding was provided long before any students were slated to arrive, recognizing the need to support the build-up over time of the operating functions required to launch the new campus.

Despite extensive efforts to estimate accurately the amount of needed support, building a campus in these times, particularly given the requirements related to Long Range Development Plans, Environmental Impact Reports, and significant legal costs, proved to be more expensive than originally planned. Thus, the University began to seek annual one-time additional funds in 2002-03 to supplement permanent funding; annual one-time funding eventually built up to $14 million by 2005-06. The State has

supported this temporary funding each year, for which we are very grateful. In addition, the State has provided $308 million in capital funding for building the facilities for the campus, all of which, until the last two years, was appropriated in addition to what was normally provided to our general campuses.

This brief history is intended to point out that the Office of the President sought to calculate needs for the campus carefully, attempting to ensure that the new campus was treated similarly to other campuses, but also that support for the Merced campus was not funded from resources that otherwise would have gone to the existing campuses.

Unfortunately, the situation for the Merced campus is caught up in the turmoil of the State's fiscal crisis, which is affecting all of our campuses. This year, the State faces a $15.2 billion budget deficit, and the UC campuses will have to absorb at least $105 million in budget reductions to fund enrollment growth, compensation, health benefits, student financial aid, and rising energy costs. In addition, the legislature has deleted all UC capital construction projects from the State budget in an effort to limit future debt service payments costs to the State General Fund. We are making a concerted effort to get a few of these projects funded from lease revenue bonds for 2008-09. The State does not intend to support a General Obligation bond measure in November, and funding through the lease revenue bond alternative is highly uncertain for 2009-10. Thus, the outlook for achieving additional State funding for UC support or our capital budget is not very optimistic without a viable resolution to the State budget deficit.

Despite these fiscal challenges to the University, the Office of the President and our campuses have made a concerted effort to provide UC Merced with additional funding. In the 2008-09 budget, UC Merced will receive $6.3 million for enrollment growth funding at a time when the State has not provided any funding for enrollment growth. The University had to redirect this funding by cutting all other campus budgets. In addition, the Office of the President has worked with the Merced campus to provide the following:

- $1 million in Presidential matching funds for a child care center, which the campus will not have pay back, to be used for the facility;
- a $2 million loan for a child care center facility;
- a $3.69 million loan for infrastructure and furnishings;
- a $3.1 million loan for CIRM match, which the campus will repay to the extent it is able to raise funds for the match;
- a $500,000 augmentation on the Classroom and Office Building; and
- a $5 million, or less if needed, operating budget as an operating budget line of credit.

The UC Merced support budget and capital facility issues continue to be crucial to ensuring the success of the newest campus in the UC community. I value and appreciate the recommendations of the University Committee on Planning and Budget regarding these issues in support of UC Merced.

With best wishes, I am,

Sincerely,

Mark G. Yudof
President

cc: Chancellor Kang
Interim Provost Grey
Executive Vice President Lapp
Vice President Lenz