UNIVERSITY OF CALIFORNIA

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November 15, 2010

CHANCELLORS
EXECUTIVE VICE PRESIDENT BROSTROM
SENIOR VICE PRESIDENT DOOLEY

As you know, on October 8, 2010, Governor Schwarzenegger signed the 2010 Budget Act. I am now prepared to provide allocations for 2010-11, based on the State Budget Act and earlier actions by The Regents to raise student fees.

Overview of the 2010-11 Budget

Following the dramatic cuts in State support implemented in the 2009 Budget Act, I was very pleased with the Governor's commitment to higher education during this year's budget process. In his January budget, the Governor proposed an augmentation for UC totaling $370.4 million, as follows:

- restoration of $305 million that was cut on a one-time basis during 2009-10;
- $51.3 million to support enrollment of 5,121 FTE students; and
- $14.1 million to support increases costs for annuitant health benefits.

In addition, the Governor continued funding of $5 million to support the Merced campus. While this funding falls short of the University's original request for full restoration of earlier cuts as well as funding for enrollment growth since 2007-08, and for covering the cost of the re-start of contributions to the UC Retirement Plan, the Governor's proposal represented a step in the right direction – reinvesting in the University of California.

The final budget act includes the Governor's original proposal for UC with one significant change. Instead of restoring the $305 million in one-time cuts on a permanent basis, the State is providing $199 million in State General Funds on a permanent basis and $106 million in additional one-time ARRA funds.

While this funding is very welcome, I urge you to use caution in expending restored funds. There is considerable uncertainty associated with both the recent news of the size of the State's continuing deficit as well as the priorities of the incoming administration. I note, as well, that we are required by provisional language in the Budget Act to report on the use of restored funds. Vice President Lenz and his staff will be in touch with your budget leadership to ensure appropriate responses are developed.

The Budget Act also includes two new provisions for redirection within the UC budget. First, the Budget Act requires UC to redirect $10 million to support the development of the UCR medical school. Second, the Act requires UC to redirect $600,000 to support the statewide reapportionment database at the Berkeley campus.

In addition to the State budget actions, at their November 2009 meeting, The Regents approved 2009-10 mid-year increases in the Educational Fee of 15 percent for undergraduate and graduate professional students and 2.9 percent for graduate academic students. The Regents approved further increases in the Educational Fee of 15 percent for 2010-11 for all students. These increases are intended to help the University address State funding reductions and cost increases.

Forthcoming Changes in Funding Streams

As you know, the Office of the President has been engaged in lengthy discussions with campus leadership about changes to the way funds flow between campuses and the Office of the President. While this process has taken longer than I had hoped, I am pleased at the level and quality of consultation on this topic. A formal proposal for changes that would allow source campuses to retain all funds, direct the flow of State funds, and establish an assessment mechanism for funding systemwide activities and initiatives is forthcoming. It is my hope that this proposal can be fully implemented for the 2011-12 fiscal year, but certain changes in fund flows will begin shortly.

Block Allocation and Undesignated Reductions

In past years, we have provided a single inflation adjustment for salary, benefit, and non-salary cost increases based on new State funding, projected new UC General Funds, and revenue from student fee increases. This year, we are providing separate allocations of new student fee revenue, less funding set aside for return-to-aid, and funding for annuitant health cost increases.

Revenue from November 2009 Fee Increases

In the past, revenue generated from increases in the Educational Fee were allocated on the basis of General Funds base budgets, with each location receiving the same percentage increase in its budget. This practice was based on the principle that Educational Fee increases were approved to address shortfalls in State funding. This practice also meant that fee increase revenues generated by students at certain campuses were, in effect, redirected to other campuses. In recent years, an adjustment to allocations has been made to moderate these shifts. Going forward, under the forthcoming proposal for changes to funding streams, campuses would retain revenue generated by their students from future fee increases. Given the likelihood that we will move forward with these changes, but recognizing the need to address the State budget reductions that occurred in 2009-10, we are allocating the new fee revenue according to a compromise developed by systemwide and campus budget leadership. This compromise provides each campus with a permanent allocation equivalent to 90 percent of the amount produced by the better of two models: the "old" model based on General Funds budgets and the "new" model based on fee revenue generated.

State Support for Annuitant Health Cost Increases

The State funding for annuitant health benefit cost increases is being allocated according to the distribution of General Funds base budgets, consistent with past practice.

Restoration Shortfall and One-time ARRA Funds
Because the State funding cuts totaling $305 million during 2009-10 were allocated on a one-time basis, the restored funding of $199 million requires no action. Because the $106 million remaining from the 2009-10 cut was provided in ARRA funds, it is necessary to allocate another one-time reduction in State General Funds that will be offset with ARRA funds. The distribution of the cuts and ARRA funds are based on the use of the ARRA funds to cover payroll costs during September 2010 on campuses that enroll undergraduates, consistent with regulations regarding the use of ARRA funds. This action is revenue-neutral to campuses for 2010-11. If the $106 million is not restored in the 2011-12 budget, permanent cuts will be allocated based on the distribution of these cuts in 2009-10.

Technology Transfer Operational, Intellectual Property Policy, and Legal Support
We are allocating a one-time undesignated reduction in General Funds totaling $4 million associated with the non-case-related technology transfer operational, intellectual property policy, and legal support provided at the Office of the President during 2010-11. These costs were previously funded from patent royalty income, but activities funded were general research support functions not tied to specific patent revenue streams. In December 2006, acting on a request from the Vice Chancellors for Research, then-Provost Hume agreed to disassociate these costs from the patent income source. For the past several years, lacking a permanent solution, the Office of the President (UCOP) has used one-time reserves to cover the ongoing costs of policy support. Those reserves are no longer available for this purpose. Assuming that the proposed assessment for systemwide activities is in place for 2011-12, these costs will be funded using that mechanism in the future.

The net new funding being provided is not sufficient to cover all earlier State funding reductions and new costs. Consistent with the campus budget discussions we had earlier this year, I expect campuses to manage the new funding and budget shortfalls with broad flexibility to meet their most pressing needs. As I have mentioned in the past, I encourage you to avoid making across-the-board cuts and instead to make strategic decisions that reflect academic planning priorities and administrative efficiencies. While campuses are being given broad discretion to reduce budgets and redirect funding, the science and math teacher initiative and student mental health programs should be spared disproportional cuts. The University Student Aid Program should be protected from reductions.

Enrollment-Related Workload and Fees

As I mentioned, the Budget Act includes funding to support 5,121 FTE students.

Given its small size, it is again necessary to make special accommodations for the rapid enrollment growth occurring at UC Merced. In 2008-09 and 2009-10, other campuses redirected funding on a one-time basis to support the enrollment growth that occurred at the Merced campus in 2008-09. (In 2009-10, permanent funding was also provided through a redirection of savings from UCOP restructuring to support the growth that occurred in 2009-10.) For 2010-11, we will provide the Merced campus with permanent funding to support both the growth that occurred in 2008-09 (700 FTE) and the growth that occurred during 2010-11 (675 FTE students). As a result, it will no longer be necessary for other campuses to redirect funding for Merced at this time. Once again, I want to express my gratitude for your support of the Merced campus over the last two years.

Remaining funds will be allocated to other campuses in accordance with the enrollment growth targets established several years ago for space planning, which were consistent with the University's 1999 enrollment plan. As such, growth funding will be allocated largely to the campuses with significant planned growth in the earlier targets. Even though we have not received funding for PRIME and nursing program enrollment growth in recent years, these programs remain a priority for the University. Campuses should use a portion of restored State funding and/or the enrollment funds to continue support for the planned expansion of these important programs.

Because of the lack of State funding for enrollment growth during 2008-09 and 2009-10, even with the funding provided this year, the University is enrolling more than 11,000 California resident students for whom the State has not provided funding. In keeping with direction from The Regents to curtail enrollment growth, and my earlier decision to reduce freshman enrollment for 2009-10 and 2010-11, current estimates indicate that enrollment growth has indeed been slowed during 2010-11. Discussions of enrollment plans for 2011-12 will occur over the next several months. In the meantime, campuses will once again need to absorb the costs of unfunded enrollments during 2010-11.

Fee revenue generated from enrollment above 2007-08 budget targets is being allocated as General Funds in lieu of Educational Fee. Revenue associated with the enrollment growth funded by the State as well as increases in nonresident enrollment are being allocated permanently. Fee revenue generated from the remaining enrollment above the new enrollment targets is being allocated on a one-time basis. The amount allocated is based on 2010-11 fee levels, less funding for financial aid. These amounts will be adjusted to reflect actual revenue at mid-year and again at year-end to reflect actual enrollments.

UCR Medical School

The Budget Act requires the University to redirect $10 million from State General Funds to support start-up costs at the UC Riverside medical school. While I am providing $2 million on a one-time basis to the campus from systemwide reserves to support this need, the campus should use a portion of restored State funding or other resources to comply with this requirement.

Faculty Hiring Incentive Program

In 2002, President Atkinson made a commitment to provide a five-year advance on faculty FTE (salary and benefits) to campuses that hired current or former President's Postdoctoral Fellows into ladder-rank faculty positions. There is no limit to the number of hires per campus eligible to receive the incentive. Each year the incentive funds are held back from regular allocations to the campuses for faculty FTE. In the past eight years, this initiative has been extremely successful, with 87 hires to date. This program is being continued for hires in 2011-12.

Research

California Institutes of Science and Innovation

In 2008-09 and 2009-10, we provided $10 million in one-time funding to support the California Institutes for Science and Innovation and committed to identifying permanent funding for the future. Because of the high priority the Chancellors and I place on these programs, I am assigning campuses one-time unallocated reductions and returning these funds as designated allocations to support the Institutes. Allocation amounts are consistent with one-time allocation

amounts provided last year. Vice President Beckwith intends to conduct an in-depth review of the productivity and financial circumstances of each Institute over the next several months. Future funding options, including potential inclusion in the proposed systemwide assessment, will be evaluated as part of his review.

Labor Research
In 2008-09, the Governor vetoed $5.4 million for the University's labor research and education programs. Because of the importance of these programs, we provided $4 million of temporary support from University funds to continue this work under the assumption that State funding would be restored to these budgets in 2009-10. Funding has not been provided in the State budget during either 2009-10 or 2010-11. In 2009-10, the University provided each center with $1 million. In 2010-11, we have continued this funding on a temporary basis. The Berkeley and Los Angeles campuses should develop plans for ramping down these programs unless another source of support can be identified.

Statewide Database
The 2010-11 budget act requires that the University redirect $240,000 from State General Funds and another $360,000 from other funding sources to support operations of the Statewide Database and Election Administration Research Center at the Berkeley campus. The Budget Act states that the funds shall be used for the Center's activities, including oversight of database construction, management, and outreach and further states that the Center's funding shall be exempted from any cuts, charges, or diversions. The Berkeley campus should redirect funding from its base budget as needed to comply with this requirement.

Public Service

The University's Student Academic Preparation and Educational Partnership (SAPEP) programs are important both to the students they serve and to the preparation of the state's workforce. In recent years, these programs have been targeted for significant reductions. While in most of these instances the University was successful in getting funds restored, the instability created by repeated attempts to reduce the budget for SAPEP programs has been significant. At the same time, an extensive accountability framework has been implemented that allows us to measure quantifiable outcomes for each program, contributing to our ability to demonstrate their effectiveness. For the last several years, the State budget has provided $19.3 million in State funds and required $12 million in University funds for SAPEP programs.

Following the dramatic reductions in State support during 2009-10, Budget Act language gave the University the flexibility to reduce funding for SAPEP programs. Campuses were allowed to assign budget reductions to SAPEP programs, but the University asked campuses not to cut individual programs by more than 10 percent. For 2010-11, language in the budget act requires that UC maintain funding for SAPEP programs at least at 2009-10 levels. Campuses are asked to work with the Budget and Capital Resources unit at UCOP to finalize and report budget actions.

Maintenance of New Space

In 2010-11, the University is placing nearly one million square feet of new State-supportable facilities into service for core operations of instruction, research, and academic and administrative support.

In recent years, it has been the practice of the University to provide funds for operation and maintenance of new space using a portion of State funding for enrollment growth. However, the State provided no new marginal cost of instruction funding during 2008-09 and 2009-10. Without new State funding in 2008-09, the University redirected $9.7 million of savings from UCOP restructuring to provide permanent funding for maintenance of new core I&R space. Due to the unpredictability of new State funding for enrollment growth, we made a decision during 2009-10 to change the way funds for maintenance of new space are allocated. Going forward, funds for maintenance of new space will no longer be allocated separately from other State funds for enrollment growth. Instead, the full marginal cost of instruction amount will be allocated to campuses based on planned FTE enrollment growth.

To help campuses transition away from this funding source, the Office of the President redirected savings from debt restructuring at UCOP to cover maintenance of new space on a one-time basis in 2009-10 and will do so again in 2010-11. In 2009-10, $11.1 million was redirected and allocated for approved new space. In 2010-11, one-time funding of $19.5 million is being allocated based on campus shares of enrollment growth from 2001-02 through 2014-15. This assumes no budgeted enrollment growth after 2007-08 except at UC Merced. Allocations to the San Francisco campus and Agriculture and Natural Resources for 2010-11 are based on new space approved for funding in 2009-10.

Fees and Financial Aid

Mandatory Systemwide Fees

As I mentioned, at their November 2009 meeting, The Regents approved 2009-10 mid-year and 2010-11 increases in the Educational Fee for all students. A portion of this revenue is being used to support the University Student Aid Program, consistent with the University's return-to-aid policy. Remaining revenue generated from this increase on fall/winter/spring enrollments, net of financial aid, is being allocated on a permanent basis as a block allocation as described above.

Professional School Fees & Financial Aid

Increases in fees for professional degree programs to cover cost increases and new initiatives were also approved by The Regents in November 2009. Consistent with earlier actions, an amount equivalent to at least 33 percent of the additional revenue generated by these increases in professional school fees is to be used for financial aid.

Elimination of the Special Fee for Law and Medicine

At their November 2009 meeting, The Regents approved the elimination of the Special Fee for Law and Medicine and the incorporation of the $376 charge as part of the professional degree fees for law and medicine. Campuses should record increases to professional degree fee revenue accordingly. A reduction in General Funds is assigned to campuses to account for the loss of the revenue associated with the Special Fee.

Temporary Educational Fee Increase and Financial Aid

Consistent with Regental action, an extension of the $60 surcharge will remain in place until all costs associated with both the *Kashmiri* lawsuit injunction and judgment have been fully covered. As was the case in 2009-10, the amount set aside for financial aid will be 33 percent for undergraduates and professional degree students and 50 percent for graduate academic students.

Undergraduate Financial Aid
In recent years, funding for the undergraduate University Student Aid Program (USAP) has included an amount equivalent to 33 percent of the increase in student fee income associated with fee increases, as well as budgeted undergraduate enrollment growth during the academic year. A portion of new undergraduate fee revenue should be used to provide grant assistance for needy middle-income students with family incomes of less than $100,000 to help cover about half of the student fee increases. Undergraduate USAP funds are to be awarded according to the principles of the Educational Finance Model (EFM).

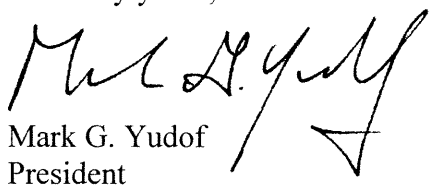
Graduate Financial Aid
Funding for graduate academic need-based aid (graduate USAP) includes 50 percent of the increase in student fee income associated with fee increases as well as budgeted graduate enrollment growth during the academic year. The University intends to use a portion of new graduate academic fee revenue to implement the final installment of a five-year, phased program to restore $5.4 million in undergraduate fee revenue that was temporarily budgeted for graduate student support in 2003-04. In addition to need-based aid, campuses may use designated portions of the graduate USAP allocation for TA fee remissions, RA fee remissions, and non-need-based fellowships.

Enclosed Schedules

Enclosed are the preliminary allocations for your campus by category with an explanation of the changes. If you have any questions about these matters, please get in touch with Vice President Patrick Lenz or his staff.

With best wishes, I am,

Sincerely yours,



Mark G. Yudof
President

Enclosures

cc: Provost Pitts
Senior Vice President Stobo
Vice President Lenz
Vice President Beckwith
Vice President Sakaki
Vice Provost Carlson
Vice Provost Greenstein
Associate Vice President Obley
Executive Vice Chancellors
Vice Chancellors for Planning and Budget
Campus Budget Directors