

THE UC BUDGET

MYTHS & FACTS

Why are there budget cuts when buildings are going up? Why do student fees have to be increased while we're doing well in attracting federal research funding? Why are some people being hired at high salaries when we're in a recession?

As the University of California confronts the challenges brought about by the global economic crisis, a number of questions about the University's budget tend to come up routinely. And it's no surprise. UC is a large institution

engaged in a wide array of activities, each with its own funding sources and market dynamics. The funding of UC is therefore complex.

To aid understanding, this document aims to provide members of the UC community with basic facts about how the University of California is funded. To illustrate a number of key issues, the document uses oft-repeated "myths" about the University's funding sources as a starting point.

MYTH: *UC doesn't really have a budget problem because it has so many different fund sources it can dip into.*

FACT: *UC's budget is made up of many different fund sources, but most of them are restricted to specific uses and cannot be used for other purposes. A federal grant for laser beam research can't be used to fund a deficit in the English Department. A payment for a surgery in a UC hospital can't be redirected to fund graduate students.*

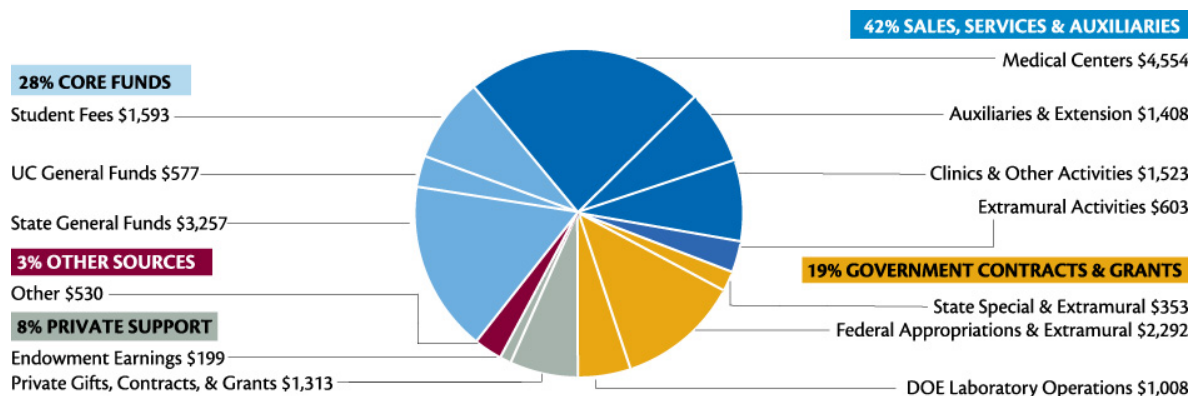
The University's total budget – for everything including sponsored research, teaching hospitals, University Extension, housing and dining services, the Lawrence Berkeley National Laboratory, and other activities – amounts to approximately \$19 billion.

But only a portion of that total is tied to the University's basic instructional program and the activities that support it. That "core funds" budget, which is about 28% of the University's total budget, consists solely of state funds, student fees, and

what are referred to as UC general funds (mostly nonresident tuition and a portion of the overhead from federal and state contracts and grants).

The below pie chart shows the \$19 billion total UC budget. The 28% slice on the left represents the "core funds" budget, while the rest of the chart consists of funding for other programs. Those other funds generally come with restrictions on their use and can't be used to replace cuts in state support for the academic program:

2007-08 EXPENDITURES FROM ALL FUND SOURCES
(dollars in millions)



MYTH: *The University's current budget problem is tiny when you look at the total resources of the University.*

FACT: UC's immediate state budget shortfall in its core funds budget, as of spring 2009, is \$450 million – which is 15% of the \$3 billion in state general funds UC receives.

Even before today's immediate budget challenge came along, UC had a huge problem: The State of California's per-student funding for UC education had fallen 40% just since 1990. In 1990, the state contributed \$15,860 per student, or 78% of the total cost of education. By 2007-08, that figure had fallen to \$9,560 per student, or 58% of the total cost. (Figures for both years are in 2007-08 constant dollars).

On top of that, UC now faces an immediate \$450 million gap in state funding. That gap consists of \$115 million in budget cuts over the 2008-09 and 2009-10 years, \$122 million in student enrollments not being funded by the state, and \$213 million in unfunded costs over a two-year period

for utilities, employee health benefits and other unavoidable inflationary costs. The gap amounts to 15% of the \$3 billion the state provides UC.

Campuses and the Office of the President are making a range of budget reductions to help close the immediate budget shortfall, trying to protect student instruction and student services from cuts to the greatest extent possible. Bonuses and incentive pay programs for senior managers also have been put on hold. More information about the budget-cutting efforts is at www.universityofcalifornia.edu/news/article/20776.

MYTH: *UC always seems to be building new buildings, so why is there a budget problem? That money should be redirected to salaries, or otherwise support ongoing program costs.*

FACT: Facilities are funded out of one-time funds dedicated specifically to facilities, typically from either voter-approved general obligation bonds or from lease-revenue bonds authorized by the Legislature and governor. These funds cannot be used for other purposes such as employee salaries or day-to-day operations.

The facilities UC has been building and renovating in recent years are needed to house the students and faculty who have come to the University in dramatic numbers over the last decade. Facilities funding is also being used to correct seismic deficiencies to protect faculty, students, and staff in an earthquake, as well as to upgrade dated infrastructure.

The UC facilities program also has been affected by the state budget downturn, just as the "core funds" budget has. The state budget recently passed by the Legislature and governor contains no state funds for new UC facilities projects through the 2009-10 year.



MYTH: *UC is doing so well at fundraising that it could easily raise salaries or reduce student fee increases by using some of those private gifts.*

FACT: Private giving adds greatly to what the University is able to accomplish for students and the people of the state, but again, the use of the funds is almost always restricted. Also, the current economic climate will make it difficult to maintain the growth in charitable giving that the University has seen over the past couple of decades.

UC works aggressively to get private donations to help maintain and enhance the quality of UC programs, given that the University competes for students and faculty with more richly funded private institutions. But private donations are not intended to replace public support for the core instructional operations of a public university such as UC.

As with other restricted funds, a gift can only be used for the designated purpose. A donor might specify that a gift is for support cancer research at one of our medical centers, or undergraduate scholarships at one of our campuses, or a host of other specific purposes. Only about 2% of private giving to UC is “unrestricted” in purpose.

Gifts for endowment, as well as existing endowment funds,

are similarly restricted by donors for specific purposes. If a gift is given to establish a faculty chair in nanotechnology, it has to be used for that purpose.

In addition, the legal terms of an endowment result in a further restriction – only the income/payout of an endowment (typically 4-5%) can be expended in any year, not the core balance or “corpus” of the endowment. It’s like being able to spend the interest on a bank account balance, not the balance itself. (Many donors give endowments because they are perpetual in nature and thus allow a gift to continue helping the University into the indefinite future. Also, over long period of time, the earnings on an endowment can increase the total value of the gift.)

MYTH: *The real problem is the salaries being given to UC senior managers.*

FACT: Senior management salaries represent less than 1 percent of the total payroll at UC. Salaries have been frozen for the 340 members of the Senior Management Group, and bonuses or incentive payments have been canceled or deferred as well.

In acknowledgement of the tight fiscal times, President Yudof and the Regents have put in place a broad pay freeze for existing senior management positions as well as on bonuses and incentive pay for employees making over \$100,000. (For employees making under \$100,000, any potential bonus payments are limited to \$1,000.)

UC has continued to hire personnel to fill certain mission-critical positions. For instance, the University recently hired a chief financial officer, at a salary well below the going rate for CFOs, to ensure strong financial management of the University and help lead the search for additional savings. Another individual was asked to fill two vice presidential positions, but to do it for the salary of one, which saved the University \$320,000.

Two other key points about compensation:

- *There is an important difference between a “raise” and a promotion into a position with broader responsibilities (as when a faculty member takes on the responsibilities of a dean, or an associate director is promoted to director). Most compensation actions coming to the Board of*

Regents are either new hires or promotions, of the kind just described, to fill vacancies.

- *Markets are a reality. The University needs to be able to pay market wages to attract and retain quality people. Markets are also different for different employment groups, and the University needs to be competitive in the markets that apply to each employment group. All groups deserve respect and a competitive wage, but the University will need to pay more for certain jobs than it does for others, just as all other employers do. (The University also uses market-based structures for paying certain groups of employees – for example, physicians who earn clinical income based on patient volume.)*

The University has been working to address market gaps at multiple levels of the institution. For example: As a result of a recent contract agreement between UC and AFSCME, salaries for UC service workers are now comparable to – and in some cases higher than – similar positions at CSU. The new contract raises average service worker salaries by 26% over five years, from \$30,000 to \$38,000.

MYTH: *Senior-level salaries are the cause of rising student fees.*

FACT: Rising student fees are the direct result of failing state investment in higher education. Financial aid resources are being expanded to help reduce the impact.

The primary reason student fees rise is related to the level of state funding UC receives – or doesn't receive – from the state. The decline in the state's funding for per-student education at UC – from 78% of the total cost of education in 1990 to 58% today – has been partially addressed by student fee increases. No one likes it, but it has been necessary to maintain the quality of the academic program and student services.

UC works to administer an aggressive financial aid program to reduce the impact of fee increases for many students. Last year, UC provided grant and scholarship assistance averaging \$10,300 per student to 54% of UC undergraduates. And UC remains a national leader in its enrollment of low-income students as measured by Pell Grant eligibility.

This year, UC is implementing the new Blue and Gold Opportunity Plan recently adopted by President Yudof and the Regents. This additional financial aid program ensures that grants will cover systemwide student fees for students with financial need and household incomes below the state median of \$60,000 per year.

In addition, the federal stimulus package adopted by President Obama and the Congress is increasing the maximum value of Pell Grants by up to \$619, and it is providing \$88 million in new higher education tax credit eligibility to UC families whose fees and other expenses are not already covered by grants and scholarships.

MYTH: *UC claims it can't give employees raises because of insufficient state funding, but salaries for many employees are not supported by state funds. The truth is, UC can give raises if it wants to.*

FACT: It is true that salaries for many employees are supported by non-state funds. However, the amount of funding UC receives from the state is the University's largest single source of salary funding. In order to maintain equity, UC does not base salary increases on funding source, as this would cause disparities among similarly situated employees. To illustrate: An assistant not paid for by state money would get a raise, while another assistant working down the hall with similar responsibilities would not get a raise, simply because his or her salary was supported by state funds! Thus, because the money UC receives from the state is the largest source of salary funding, it is the dominant factor in setting systemwide salaries for campus-based employees.

FOR MORE INFORMATION

- Complete information on the University of California budget is available at <http://budget.ucop.edu/rbudget/200910/2009-10BudgetforCurrentOperations-BudgetDetail.pdf>.
- Information on senior management pay restrictions and other cost-cutting measures launched by UC is available at www.universityofcalifornia.edu/news/article/20776.
- Information on private giving is available at www.ucop.edu/instadv/documents/2008.pdf.

