

THE UC BUDGET

MYTHS & FACTS

UNIVERSITY *of* CALIFORNIA

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.*

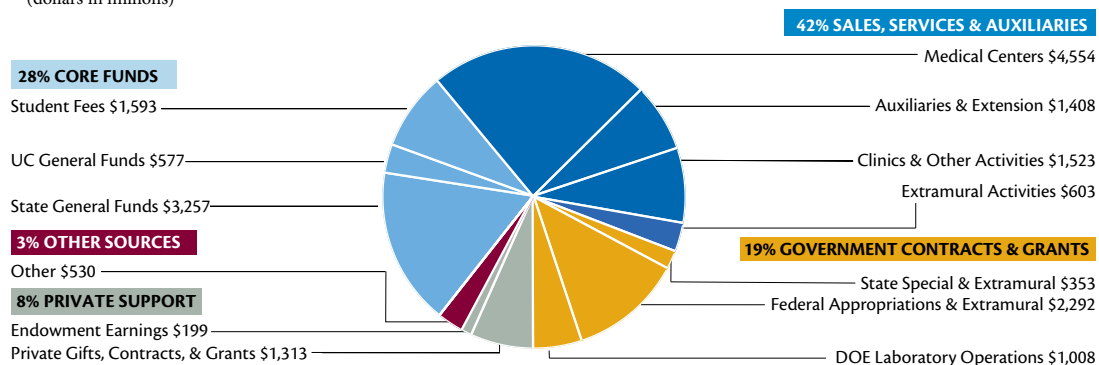
FACT: **UC's budget is made up of many different fund sources, but most of them are restricted to specific uses and cannot be used for other purposes. A federal grant for laser beam research can't be used to fund a deficit in the English Department. A payment for a surgery in a UC hospital can't be redirected 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 percent 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 percent 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 cut to its core funds budget, as of spring 2009, is \$813 million. UC's 2009-10 state budget is \$2.6 billion — a 20 percent reduction from the budget adopted last fall.**

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 percent since 1990. In 1990, the state contributed \$15,860 per student, or 78 percent of the total cost of education. By 2007-08, that figure had fallen to \$9,560 per student, or 58 percent of the total cost. (Figures for both years are in 2007-08 constant dollars).

On top of that, UC now faces an immediate \$1.15 billion gap in state funding. That gap consists of \$813 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.

Campuses and the Office of the President are making a range of budget reductions to help close the immediate budget shortfall.

On Sept. 1, an employee furlough program will begin and stay in effect for 12 months. The plan, expected to make up for about 25 percent of the \$813 million state budget cut, is based on a sliding scale — employees who earn more will experience the greatest number of furlough days. The furloughs will amount to pay reductions of between 4 and 10 percent, depending on the employee's salary range.

All 10 UC campuses are cutting programs, staff and faculty recruitment to fill another 40 percent of \$813 million budget cut.

Before UC Regents approved the furlough plan on July 15, steps were taken to freeze the salaries of senior managers and to cancel or defer bonuses and incentive payments (with the exceptions of clinical incentive plans and the incentive plan for personnel in the Treasurer's Office). The Office of the President reduced its budget by more than \$60 million and its staff by 27 percent.

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 to 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 percent 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 percent) 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 periods of time, the earnings on an endowment can increase the total value of the gift.)

MYTH: *UC has a \$5.3 billion reserve fund it could tap to get through the current fiscal downturn.*

FACT: **UC does not have billions of dollars in uncommitted funds that it can use to make up for massive reductions in state support. The funds that are reported in the university’s financial statements as “unrestricted net assets” — terminology required to be used under generally accepted accounting principles — are dollars kept in thousands of funds and accounts that, for the most part, each individual campus controls for very specific uses. These funds and accounts include revenue from clinical services performed by doctors and dentists, money set aside for construction, renovation and maintenance of buildings, debt repayment and other purposes.**

Any funds that are not subject to externally imposed restrictions on their use must be classified as unrestricted for financial reporting purposes. The term “unrestricted assets” does not mean uncommitted. In fact, substantially all of these net assets are allocated for academic programs, research initiatives, capital projects or other purposes. In many cases, transferring funds to other uses would be illegal. For example, funds set aside to compensate physicians for patient services they have performed cannot be diverted to add more language courses at a campus.

However, UC is evaluating every one of the more than 76,000 accounts and funds to make sure dollars are being spent consistent with the university’s evolving priorities and needs. If a campus finds it can legally and responsibly transfer money between programs, that decision will be made at the campus level. And campuses will be making these decisions throughout this fiscal crisis.

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 senior management group, and bonuses or incentive payments have been canceled or deferred as well.**

Senior managers are subject to the furlough program, which will go into effect on Sept. 1. The furlough days are based on a sliding scale ranging from 11 to 24 days, with those making the highest salaries taking the greatest number of furlough days. The unpaid furlough days amount to pay reductions of 4 to 10 percent. Senior managers, regardless of the level of their pay reduction, will only be allowed to take off a maximum of 10 days.

UC has continued to hire personnel to fill certain mission-critical positions. For example, 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.

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). Most compensation actions coming to the Board of Regents are either new hires or promotions to fill critical vacancies.

The university needs to be able to pay market wages to attract and retain quality people. Job markets are different for different employment groups. All groups deserve respect and a competitive wage, but the university will need to pay more for certain jobs than it does for others.

The university has been working to address market gaps across the institution. For example, salaries for UC services workers are now comparable to, and in some cases, higher than similar positions in the California State University system.

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.

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

FACT: **Rising student fees are the direct result of falling 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 percent of the total cost of education in 1990 to 58 percent 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 percent of UC undergraduates. And UC remains a national leader in its enrollment of low-income students as measured by Pell Grant eligibility.

FOR MORE INFORMATION

www.universityofcalifornia.edu/budget

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