

# THE UC BUDGET

## MYTHS & FACTS

### UNIVERSITY *of* CALIFORNIA

As the University of California confronts the challenges brought about by the state's lingering economic crisis, a number of questions about the university's budget routinely come up. That's no surprise. UC is a large institution engaged in a wide array of research, education and public service activities. Each has its own funding sources and constraints on how those funds can be spent.

This document aims to provide basic facts about how UC is funded by addressing some of the frequently repeated "myths" about the university's budget.

**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 applied to other purposes. A federal grant for laser 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.**

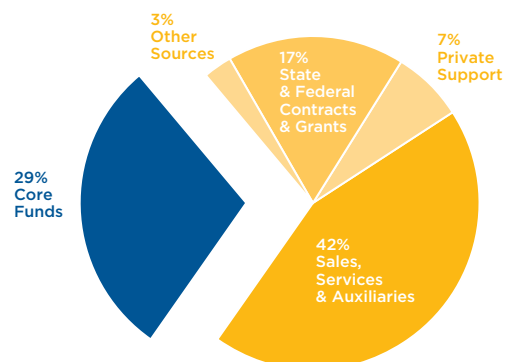
The university's total budget—for everything including sponsored research, teaching hospitals, University Extension, housing and dining services, the Lawrence Berkeley National Laboratory and other activities—amounted to approximately \$21.8 billion in 2010-11.

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 in 2010-11 was about 29 percent of the university's total budget, comes from three sources: state funds (46 percent), student fees (41 percent), and UC general funds (11 percent).

UC general funds include revenue from nonresident tuition, portions of the overhead on federal and state contracts and grants, Department of Energy lab management fees and overhead, a portion of the patent royalties earned on UC inventions, application and other fees and interest earnings.

Nearly three-fourths of UC's revenue is restricted by the funding source. UC cannot legally transfer funds from certain restricted sources, such as state and federal research grants, and use the money to make up for cuts in state funding. In other cases, revenue generated from sales and service operations, such as campus dining services, must be used to provide the goods and services being offered.

2010-11 Projected Revenue by Source



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

**FACT:** **UC's 2011-12 state-funded budget is \$2.37 billion—a reduction of 21.3 percent from the budget adopted the prior year.**

Even before today's immediate budget challenge came along, UC had a huge problem: The state's per-student funding for UC education has fallen nearly 60 percent since 1990. In 1990, the state contributed \$16,430 per student, or 78 percent of the total cost of education. By 2010-11, that figure had fallen to \$8,220 per student, or 47 percent of the total cost. (Figures for both years are inflation adjusted). The new state budget means that state support will fall even more during 2011-12.

For 2011-12 UC is facing a \$1 billion budget gap. That gap consists of \$650 million in funding cuts and \$362.5 million in mandatory cost increases not being funded by the state.

Campuses and the Office of the President are taking actions to help close the shortfall. All 10 UC campuses are cutting programs, deferring staff and faculty recruitment as well as eliminating jobs and laying off staff.

**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.**

UC's "unrestricted net assets" have declined from \$5.34 billion in 2008 to \$2.52 billion in 2010 due to state funding cuts, retiree health and pension obligations and downturns in the financial markets.

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:** *UC always seems to be building new buildings, so why is there a budget problem? That money could be redirected to salaries or other programs.*

**FACT:** **Funding for building construction and renovations is not available to fund employee salaries and other ongoing operating costs. Facilities are funded out of one-time revenue dedicated specifically to capital projects. Most UC buildings housing educational programs are paid for from either voter-approved general obligation bonds or from lease-revenue bonds the Legislature and governor authorize. Funding for facilities that house other campus operations, such as hospitals, housing, parking and athletics, typically comes from revenues generated by the operations themselves, and its use is restricted to support that specific operation. For example, funding for hospital construction comes from revenues generated by hospital operations.**

Recent construction of new buildings at UC campuses is needed to accommodate the extraordinary enrollment growth over the last decade, to correct seismic deficiencies to protect faculty, students and staff in an earthquake, and to upgrade outdated labs and classrooms and aging building systems. Current building projects generally reflect decisions that were made three to five years ago.

**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.**

As with other restricted funds, a gift can only be used for its designated purpose. A donor might specify that a gift is to support cancer research, or undergraduate scholarships, or a host of other specific purposes. Only about 2 percent of private gifts to UC is “unrestricted” in purpose.

Donors similarly restrict gifts for endowment funds. If a gift is given to establish a faculty chair in nanotechnology, for example, endowment earnings must be used for that purpose.

In addition, only the investment earnings of an endowment (typically 4 to 5 percent) can be used in any year, not the core balance of the endowment. It’s like being able to spend the interest on a bank account balance, not the balance itself.

While UC has been very successful in its fundraising, support from endowment earnings and private gifts remains relatively modest compared to many private universities. UC is taking steps to secure more unrestricted funding.

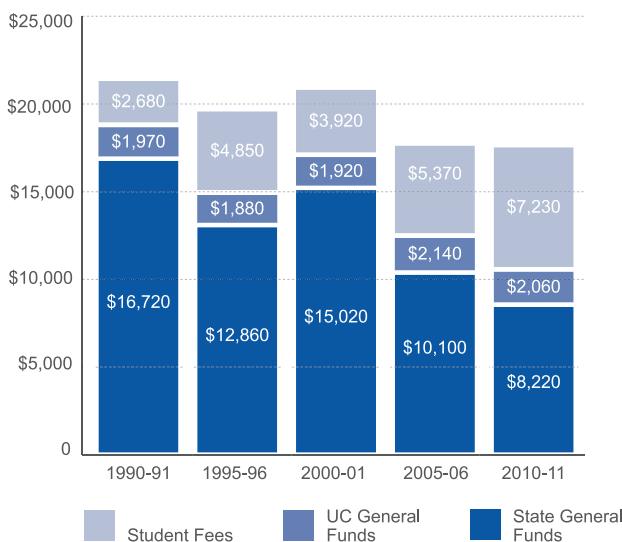
**MYTH:** *Senior-level salaries are the cause of rising student fees.*

**FACT:** **Student fee increases 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 funding UC receives—or doesn't receive—from the state. Nearly every fee increase for the last 20 years has been directly related to a reduction in state funding. 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 47 percent in 2010-11—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. In 2010-11 more than half of UC undergraduates received grant and scholarship assistance, averaging \$11,100 per student.

And UC remains a national leader in its enrollment of low-income students: More than one-third receive federal Pell Grants. In 2009, UC created the Blue and Gold Opportunity Plan. This financial aid program ensures that grants will cover systemwide fees for California resident undergraduate students with financial need and household incomes of \$80,000, starting in 2011-12. In addition, UC will cover the tuition and fee increase for one year for financially needy students with family incomes of \$80,000 to \$120,000.



**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.**

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 service workers are now comparable to and, in some cases, higher than similar positions in the California State University system.

**FOR MORE INFORMATION**

<http://budget.universityofcalifornia.edu>

UC Office of the President  
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