

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember Julia Brownley, Chair

WEDNESDAY, MARCH 28, 2007

STATE CAPITOL, ROOM 126

4:00 P.M.



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ITEM 6440 UNIVERSITY OF CALIFORNIA (UC)**ISSUE 1: SUPPORT BUDGET**

The issue for the subcommittee to consider is the UC's 2007-08 proposed budget.

BACKGROUND:

The University of California (UC) system includes nine general campuses and one health science campus in San Francisco. The UC, founded in 1868 as a public land-grant institution, is the primary State supported academic agency for research, with exclusive jurisdiction in public higher education over instruction in the professions of law, medicine, dentistry, and veterinary medicine. The UC currently serves an estimated 216,255 full-time equivalent (FTE) students including undergraduate, graduate and professional students.

The Governor's proposed budget for the UC includes \$3.3 billion in General Fund, which represents an increase of \$192.1 million, or 6.2 percent, above the revised 2006-07 budget. The UC's total annual budget is proposed at \$19.7 billion for 2007-08. This total includes funds for federal contracts and grants, teaching hospital revenue, self-supporting enterprises, private gifts and grants, student fee revenue, General Fund and funds from the U.S. Department of Energy to manage three national laboratories.

MAJOR BUDGET PROPOSALS

Support Budget Increase. The Governor's proposed budget includes a \$116.7 million increase, or four percent, for basic support budget. The UC indicates that it would apply most of these funds to support salary and benefit increases for faculty and staff.

Student Fees. The Governor's proposed budget includes \$104.7 million associated with the UC Board of Regents seven percent student fee increase for all students and 10 percent increases for law students at UCLA, UC Berkeley and UC Davis and business students at UCLA and UC Berkeley. (*Issue 2*)

Enrollment Growth. The Governor's budget proposes a \$54.4 million increase for a 2.5 percent enrollment growth to fund an additional 5,340 FTE students. (*Issue 3*)

Institutional Financial Aid. The Governor's budget continues the 33 percent set-aside from student fee revenue for financial aid for undergraduate and professional students but increases the set-aside for graduate students to 45 percent. (*Issue 4*)

Miguel Contreras Labor Program. The Governor's proposed budget eliminates \$6 million in General Fund for the Miguel Contreras Labor Program, which funds the Centers for Labor Research and Education at UC Berkeley's and UCLA's Institutes for Industrial Relations. (*Issue 5*)

UC Merced. The Governor's budget continues to provide \$14 million in one-time funds for costs associated with the UC Merced campus operations for a total funding of \$24 million.

Student Academic Preparation Programs and Educational Partnerships (SAPEP). The Governor's proposed budget eliminates \$19.3 million for academic preparation programs and educational partnerships. Budget bill language requires that the UC submit a report to the Legislature no later than April 1 on the use of State and University funds provided for these programs. This issue has been scheduled to be heard by the subcommittee on May 9, 2007.

Master's in Nursing Program. The Governor's proposed budget includes an increase of \$757,000 to restore funding reduced by the Legislature in the *2006-07 Budget Act* in support of the expansion of entry-level master's (ELM) nursing programs. Funding for this program in 2007-08 would total \$1.7 million. Budget bill language includes a reporting requirement for the program, which is due May 1, 2007. This issue has been scheduled to be heard in subcommittee on May 2, 2007.

Math and Science Teacher Initiative. The Governor's budget proposes \$1.1 million to support the six math and science research centers that have been established as math and science teacher recruitment centers to increase the number of math and science teachers. Budget bill language includes a reporting requirement for the program, which is due April 1, 2007. This issue has been scheduled to be heard in subcommittee on April 18, 2007.

Program in Medical Education (PRIME). The Governor's proposed budget includes \$570,000 for the next cohort of 38 students for the PRIME program. The *2006-07 Budget Act* included \$480,000 to support 32 FTE students enrolled in the program at UC Irvine. Total funding for the program in 2007-08 would be \$1 million to support the expansion of this program at other campuses. Budget bill language requires an annual report to the Legislature by March 15 on the progress of implementing the PRIME programs and the use of both State and non-state funds to support these programs.

Governor's Research and Innovation Initiative. The Governor's proposed budget includes \$95 million for this initiative. Of this amount, \$70 million are lease-revenue bonds funds to support the Helios Project (\$30 million) and the Energy Biosciences Institutes (\$40 million). General Fund support would be used to fund the California Institutes for Science and Innovation (\$20 million) and the Petascale supercomputer (\$5 million). This issue will be heard in subcommittee on May 2, 2007 under the UC's capital outlay budget.

Annuitant Health Benefits. The Governor's budget increases annuitant health benefits support by \$10.5 million. Existing law allows a person retired from State service to be rehired by the State as a retire annuitant and work up to 960 hours in a calendar year without the loss of retirement benefits. The increase in funding is to cover the cost increases in employee health benefits.

Lease-Purchase Payments. The Governor's budget increases lease-purchase payments by \$15.8 million. Lease purchase payments are annual payments that are made to retire the debt on lease revenue bonds that are issued by the Public Works Board (PWB) for construction projects at UC and CSU. These payments are based upon estimates that are provided by the Treasurer's Office, which keeps track of the bonds issued. DOF's Capital Outlay Unit provides the information on the adjustments, which are reflected in the proposed budget bill items for UC and CSU.

The table below summarizes the Governor's proposed General Fund changes for the UC in the current year and the budget year:

University of California General Fund Budget Proposal	
<i>(Dollars in Millions)</i>	
<i>2006-07 Budget Act</i>	\$3,076.7
Lease purchase adjustments	\$1.3
2006-07 Revised Budget	\$3,078.0
Baseline and Technical Adjustments	\$24.9
Proposed Increases	
Base increase (4 percent)	\$116.7
Enrollment growth (2.6 percent)	54.4
Augmentation for institutes of science and innovation	15.0
Funding for Petascale supercomputer	5.0
Other increases	1.3
Subtotal	(\$192.4)
Proposed Reductions	
Reduce General Fund support for outreach programs	-\$19.3
Eliminate General Fund support for labor research institute	-6.0
Subtotal	(-\$25.3)
2007-08 Proposed Budget	\$3,270.1
Change From 2006-07 Revised Budget	
Amount	\$192.1
Percent	6.2%

COMMENTS:**BASE BUDGET INCREASE****LAO Recommendation**

In view of their inflation estimate for the budget year, the LAO recommends that the Legislature provide a 2.4 percent COLA rather than the proposed four percent increase, thus reducing the base increase from \$116.7 million to \$70 million, resulting in General Fund savings of \$46.7 million.

Under the LAO's proposal, the University would still receive sufficient general purpose funding to compensate for increased costs. At the same time, the Legislature could use the identified General Fund savings of \$46.7 million to address other priorities in higher education or elsewhere in the budget.

UC

The University plans to use the four percent base budget increase for fixed expenditures such as compensation and benefits increases for faculty and staff and employer retirement contributions. UC faculty and staff salaries continue to be nearly 10 percent below the market rate. According to UC budget staff, an annual four percent salary increase is needed just to stay even with market salaries.

The 2007-08 Regents' budget includes a compensation package of five percent for faculty and staff funded from State, UC funds and student fees revenue. This package will narrow the competitive salary gap by approximately one percent. The five percent compensation package includes the following:

- A cost-of-living adjustment (COLA) effective October 1 for employees eligible for COLAs.
- Continuation costs for salaries, health and welfare benefits that were provided in the previous year, but effective for only part of the year.
- Funding for merit salary increases for eligible employees.
- Market-based and equity salary increases.
- Health and welfare benefit cost increases.

Salary continuation costs occur because the 2006-07 budget included salary increases funding for only nine months of the year since they were effective October 1, 2006. Thus, the 2007-08 budget includes the remaining three months of funding needed to support the annualized salary increases for 2006-07. Similarly, the 2006-07 budget provided funding for health and dental insurance increases effective December 1. Thus, the five-month continuation costs for

these benefits are included in the budget year.

In regards to merit salary increases, these are not automatic. They are awarded only once every two to three years following extensive review of individual achievements. Similarly, non-represented staff receives increases that are merit based.

Although funding is provided for health and welfare benefits cost increases, it is expected that some of the increases in cost will continue to be borne by employees themselves.

PROGRAMS IN MEDICAL EDUCATION (PRIME)

LAO Recommendation

The LAO withheld recommendation on the proposed \$570,000 augmentation for PRIME pending receipt and review of additional information.

UC

As the State's population becomes larger and more diverse, increasing numbers of California residents lack access to quality health care, resulting in a growing disparity between well-served and underserved communities. In both, urban and rural communities, inadequate access to care results in health care disparities stemming from factors including insufficient geographic distribution of clinicians, lack of insurance, low socio-economic status, limited English proficiency, and low health literacy. As the State is projected to experience a 15.9 percent (almost 17,000) shortfall of physicians by 2015, the University has engaged in a 10-year plan, which began in 2005-06, to increase UC medical school enrollments by 10 percent over an eight year period.

PRIME builds upon research showing that students who enter medical school with an interest in caring for underserved communities as part of their future career are more likely than other students to practice in such communities. The PRIME programs incorporate specific training and curriculum designed to prepare future practitioners to address health care disparities.

One of the five PRIME programs is on its second year of operation.

Launched in 2004 with grant funding, the Program in Medical Education for the Latino Community (PRIME-LC) is the first program designed to address a critical health care shortage in an underserved population.

The PRIME-LC program is a five-year program at the UC Irvine College of Medicine. It combines the Medical Degree and the Masters Degree programs to provide medical students with the training and experience required to meet the increasing demand of physicians and public health personnel who are sensitive to cultural and language barriers. PRIME-LC students are selected for admission to the program because of their academic achievement and demonstrated commitment to working with underserved Latino communities. The program provides its students with training in Spanish language and Latino culture as well as providing structured clinical experiences and research activities in the classroom, hospital and community. Program applicants come from all different backgrounds and ethnicities.

In its first year receiving State funding, the *2005-06 Budget Act* provided \$300,000 to support 20 FTE students in the PRIME-LC. For the current year, the *2006-07 Budget Act* provided \$480,000 to support a total of 32 FTE students. The Governor's budget proposes a \$570,000 General Fund augmentation for the program to enroll an additional 38 medical students for a total of 70 students. Total support for this program in 2007-08 would be \$1,050,000.

The University is proposing to fund the next cohort of 12 students at Irvine and to begin PRIME expansion on three other campuses: Davis- PRIME-RC (Rural California), San Diego-PRIME-HEq (Health Equity), and San Francisco-PRIME-US (Urban Underserved). The Los Angeles campus plans to include its PRIME proposal in the 2008-09 budget.

Budget staff notes that the PRIME report due by March 15 was received via email on Friday, March 23rd. Budget staff recommends that funding for the enrollment expansion of this program be considered again as the subcommittee hears the Proposition 1D funding to support the expansion of medical facilities including funds for telemedicine. Bond funds will be discussed at the May 2nd hearing when the subcommittee considers the capital outlay budgets for the UC.

ISSUE 2: ENROLLMENT GROWTH

The issue for the subcommittee to consider is the UC's enrollment growth funding as proposed in the 2007-08 budget.

BACKGROUND:

The Governor's proposed budget includes a \$54.4 million General Fund augmentation for enrollment growth at UC. This would increase the University's State-supported enrollment by 5,340 FTE students, or 2.5 percent, above the current-year level. The proposed augmentation assumes a marginal General Fund cost of \$10,876 per additional student, reflecting a new methodology proposed by the Governor for calculating the marginal cost of serving an additional student.

COMMENTS:**LAO RECOMMENDATIONS**

Fund 2 percent enrollment growth. The Governor's proposed enrollment growth funding of 2.5 percent is based on the Compact agreement. This increase far exceeds the projected 1.1 percent growth in the underlying college-age population as well as DOF's own projections of increases in the enrollment at the UC and CSU.

Reject the Governor's proposed marginal cost methodology. Enrollment growth funding is based on the marginal cost formula or the cost of supporting an additional student. The marginal cost methodology that the Legislature developed and approved as part of the 2006-07 budget more appropriately funds the increased costs associated with enrollment growth and preserves legislative prerogatives.

The LAO believes that the Governor's proposed marginal cost methodology has significant shortcomings:

1. Ignores Contribution of Student Fees. The proposed methodology does not account for new student fee revenue resulting from fee increases that is available to support a greater share of the marginal cost of instruction. In addition, the methodology does not recognize that General Fund and fee revenue are "fungible" resources that support the total marginal cost.
2. Overbudgets Faculty Costs. The Governor's proposal assumes faculty costs at the UC and CSU will increase on the average (rather than on the margin) with each additional full-time equivalent student.

3. *Limits Legislative Budgetary Discretion.* The methodology assumes that the Legislature will approve the annual base budget increase contained in the Governor's Compact each year. Moreover, it "shields" the marginal cost from policy decisions, such as changes to the share of education cost paid by students.

Budget staff would like to note that in 2004-05, the subcommittee approved budget bill language that directed DOF to revert to the General Fund any unused enrollment growth funding. For the current year, the language states that if UC does not meet its total State-supported enrollment goal by at least 257 FTE students, funding for unmet enrollment growth will be reverted. At the same time, there is no language regarding funding for enrollment growth if the UC enrolls more students above the enrollment target.

In regards to the Governor's marginal cost formula, Budget staff notes, as stated in the LAO's analysis, that the *Supplemental Report of the 2005 Budget Act* directed the LAO and DOF to jointly convene a new working group, including representatives from UC and CSU, to examine possible modifications to the 1995 methodology for the 2006-07 budget. Although the LAO and DOF worked collaboratively during the summer and fall of 2005, they were not able to reach consensus on a new methodology, and the Governor's budget proposal for 2006-07 included enrollment funding based on an entirely new methodology developed by the Administration. Legislative staff held several meetings with the group during the 2006-07 budget process but was unable to reach consensus with DOF staff. The subcommittee adopted the legislative marginal cost formula, but it was later vetoed by the Governor.

ISSUE 3: STUDENT FEES

The issue for the subcommittee to consider is the \$104.7 million in the Governor's proposed budget associated with the recently approved student fee increases.

BACKGROUND:

Last year, the Governor proposed and the Legislature approved \$75 million to "buy out" fee increases of eight percent for all students. Consistent with the Compact agreement, the UC Board of Regents had approved these fee increases at their November 2005 meeting. The State's "buy out" of the fee increases allowed the 2006-07 fees to remain at the 2005-06 levels.

On March 14, 2007, the UC Board of Regents approved a student fee increase for the 2007-08 academic year of 7 percent for all students and 10 percent increases for law students at UCLA, UC Berkeley and UC Davis and business students at UCLA and UC Berkeley. The Governor's proposed January 10th budget included the revenue generated associated with this fee increase.

The Governor's budget also assumes that the University will receive new student fee revenue resulting from two actions recently taken by the UC Board of Regents. Specifically, the Regents approved (1) a 5 percent increase in the tuition surcharge for nonresident undergraduate students, which would provide about \$5.5 million in additional fee revenue in the budget year and (2) a \$60 temporary surcharge for all students to cover a revenue shortfall resulting from a preliminary injunction against the university in a pending student fee lawsuit. This surcharge would increase from \$18,168 to \$19,068. The budget assumes that nonresident tuition for graduate students would remain at \$14,694.

The table below provides information on the UC's student fees in 2007-08:

UC Systemwide Fees^a				
Resident and Nonresident Full-Time Students				
	2006-07	Proposed 2007-08 ^b	Change From 2006-07	
			Amount	Percent
Resident Students				
Undergraduate	\$6,141	\$6,571 ^a	\$430	7%
Graduate	6,897	7,380 ^a	483	7
Nonresident Students				
Undergraduate	18,168	19,068	900	5
Graduate	14,694	14,694	-	-

^a Excludes a \$60 temporary surcharge recently approved by the Regents to cover a revenue shortfall from a preliminary injunction against the university in a pending student fee lawsuit.

When combined with average campus-based fees and the \$60 temporary surcharge, the proposed total student fee for a full-time student in 2007-08 would be \$7,347 for undergraduates and \$9,481 for graduates. In addition to paying system-wide and campus-based fees, professional school students and nonresident students also pay supplementary fees.

COMMENTS:

LAO RECOMMENDATION

Absent a State fee policy, the LAO recommends that the current share of educational costs borne by students through fees be maintained in 2007-08. The LAO estimates that this would entail a modest fee increase of 2.4 percent, which is their projection of inflation for the budget year.

The table below shows the LAO's recommended fees:

LAO Recommended Resident Fee Levels for 2007-08			
	Actual 2006-07	Governor's Proposed 2007-08	LAO's Proposed 2007-08
Undergraduate	\$6,141	\$6,571 ^a	\$6,288 ^a
Graduate	6,897	7,380 ^a	7,063 ^a
Special Fees:			
Veterinary Medicine	10,882	11,646	11,143
Dentistry	15,798	16,902	16,177
Business Management ^b	15,824	17,192	16,203
Law ^b	15,674	17,241	16,050
Medicine	13,440	14,380	13,763
Optometry	9,542	10,210	9,771
Pharmacy	11,098	11,874	9,771
Nursing	3,212	3,444	3,295
Theater, Film and TV	5,959	6,375	6,102
Public Health	4,000	4,281	4,096
Public Policy	4,000	4,281	4,096
International Relations/Pacific Studies	4,000	4,281	4,096
^a Does not include \$60 temporary surcharge to cover income losses associated with student fee lawsuit.			
^b Amount represents midpoint of range fees.			

According to the LAO, there are various ways for the Legislature to act on whatever decision it makes about fees. Although the Legislature does not formally set fees for UC and CSU, it can explicitly incorporate its expectations into the budget act and, if deemed necessary, adopt provisions that create incentives for the segments' governing boards to enact the fee levels assumed in the budget.

UC

According to the 2007-08 UC Regents' Budget, the University negotiated a Compact with the Governor which included an agreement about student fee increases over its six-year term. The Compact specified fee increases for undergraduate and graduate students for 2004-05 through 2006-07. After that, the Compact envisions fee increases equivalent to the annual increase in California per capita personal income or more (up to 10 percent per year) if fiscal circumstances require increases that exceed the rate of growth in per capita personal income to provide sufficient funding for programs and preserve quality. The Compact also calls for the University to develop a long-term plan for increasing professional school fees. Revenue from student fees will remain with the University and will not be used to offset reductions in State support.

The fee increases are needed to help fund the overall budget plan for the University.

ISSUE 4: INSTITUTIONAL FINANCIAL AID

The issue for the subcommittee to consider is the UC's student fee revenue "set-aside" for institutional financial aid.

BACKGROUND:

The Governor's budget continues the 33 percent set-aside from student fee revenue for financial aid for undergraduate and professional students but increases the set-aside for graduate students to 45 percent.

UC students receive scholarships, fellowships, grants, loans and work-study jobs to assist them in meeting the educational costs of attending the University, such as fees, living expenses, books and supplies, and transportation. Financial assistance comes from four sources: federal funds, University funds including set-aside from student fee revenues, State General Fund, endowments, and other non-State funds.

In 2004-05 (the most recent year for which final data are available), University students received almost \$1.9 billion in student aid.

Program	Student Aid Commission	Federal	University Funds			Total
			Student Fees and State General Funds	Other University Funds	Private Agency Funds	
Scholarships, Grants, Fellowships						
Pell Grants	\$ -	\$ 147.6	\$ -	\$ -	\$ -	\$ 147.6
Cal Grant A	84.5	-	-	-	-	84.5
Cal Grant B	150.3	-	-	-	-	150.3
Other	24.8	75.8	357.8	164.3	51.0	673.6
Subtotal	259.6	223.4	357.8	164.3	51.0	1,056.0
Loans						
Perkins Loans	-	40.0	-	-	-	40.0
FFELP/FDSLPL	-	705.4	-	-	-	705.4
Other	-	6.7	2.4	1.1	58.1	68.3
Subtotal	-	752.2	2.4	1.1	58.1	813.7
Work-Study						
Federal	-	26.6	-	-	-	26.6
State	-	-	-	-	-	-
University	-	-	1.8	0.8	-	2.6
Subtotal	-	26.6	1.8	0.8	-	29.2
Total	\$ 259.6	\$ 1,002.2	\$ 361.9	\$ 166.2	\$ 109.0	\$ 1,898.9

Totals do not add due to rounding

Financial aid totals include aid administered for a State-supported summer term at UC. Currently, federal policy restricts the University from offering federal grant assistance at an equivalent level for year-round students.

COMMENTS:

LAO RECOMMENDATIONS

In its Analysis of the *2004-05 Budget Bill*, the LAO made the following recommendations regarding institutional financial aid:

No Basis for Set-Aside. Neither the state nor the UC or CSU should budget for institutional financial aid by setting aside an arbitrary percentage of new fee revenue. This set-aside approach has no rational policy basis and has resulted in funding levels that are disconnected from identified needs.

No Accountability Measures. The fee set-aside approach also disregards basic budgeting standards for accountability and hinders legislative oversight. For example, when asked for information about the institutional aid set aside, the UC and CSU could estimate neither the number of need-based institutional aid recipients nor the average institutional aid award for the prior, current, or budget years. In lieu of this approach, the LAO continues to recommend the elimination of fixed percentage fee set asides. Instead, the UC and CSU should be required to provide the Legislature with evidence of their student aid needs and justification for any requested augmentation. In the absence of better information or more sophisticated forecasting tools, the LAO recommends that the Legislature address any shortfalls in undergraduate financial aid by augmenting the Cal Grant program. Since the Cal Grant program does not address graduate financial need, it would be appropriate for the Legislature to consider providing additional resources to the segments in this area, given growth in graduate students and proposed graduate fee increases.

UC

Undergraduate Student Aid. Consistent with the financial aid policy adopted by the Regents in January 1994, the University developed the Education Financing Model, which is used to determine undergraduate student aid funding needs, allocate undergraduate aid funds among the campuses, and guide the awarding of aid funds to undergraduate students. The model is based on the following principles:

- Total cost of attendance including fees, living and personal expenses, books and supplies, and transportation.
- Meeting the costs of attending the University requires a partnership among students, parents, federal and State governments and the University.

- Students should be expected to make some contribution toward their cost of attendance through work and/or borrowing.
- Students should have flexibility in deciding how to meet their expected contribution.
- Campuses should have flexibility in implementing the Model to serve their particular student population and are encouraged to supplement centrally distributed financial aid funds with their own resources.

The formula for determining the amount of grant aid needed is shown in the table below:

Education Financing Model	
<u>Start with Student Expense Budget:</u>	
<i>Less</i>	Reasonable Contribution from Parents
<i>Less</i>	Manageable Student Contribution from Working
<i>Less</i>	Manageable Student Contribution from Borrowing
<i>Less</i>	Federal and State Grant Aid
<i>Equals</i>	University Grant Aid Needed

Graduate Student Aid. In order to support its research mission and fulfill its mission to meet California's professional workforce needs, the University needs to attract top graduate students. At the undergraduate level, the Cal Grant program insulates many needy low and middle income families from the effects of system-wide fee increases. For graduate students, the burden of covering increases in both the University's fees and nonresident tuition fall upon other parties including the University, research grants funded by Federal and other extramural agencies, private foundations and students themselves.

Professional School Student Aid. In 1994, the Regents approved a fee policy for selected professional school students, among which provisions included that an amount of funding equivalent to at least one-third of the total revenue from student fees be used for financial aid. University financial aid funds awarded to professional school students is used for grant and fellowship awards. About two-thirds of aid awarded to graduate professional students is in the form of loans rather than fellowships or grants. A portion of University funds is used for loan repayment assistance programs (LRAPs).

UC budget staff will elaborate on the process used by the University to prepare a student's financial aid package.

As included in previous year agendas, Budget staff would like to note that historically, both the UC and CSU systems have been committed to setting aside a portion of student fee revenue for financial aid. As fees, along with the percentage of students having financial need, have increased over time so has the percentage of student fee revenue dedicated to financial aid increasing from 16 percent beginning in the late '70s to 33 percent beginning in 1994-95. In the 2004-05 budget, however, the Governor proposed, and the Legislature approved, a reduction from the 33 percent to 20 percent in return to aid.

Consistent with the Compact, the Governor's budget proposes that the UC and CSU set aside an amount equivalent to no less than 20 percent and no more than 33 percent of the revenue generated from student fees to be used for financial aid.

Budget staff would also like to note that the approved *Supplemental Report of the 2005-06 Budget Act* included language for the UC and CSU to do the following:

The LAO and DOF shall jointly convene a workgroup composed of UC, DOF, LAO, and other legislative staff during fall 2005 in order to define the support documentation—related to institutional financial aid—that will be expected to accompany future budget requests. The working group shall develop a list of specific data and supplemental information that shall accompany these requests, beginning with the development of the 2006-07 budget. At a minimum, these data and supplemental information shall allow for an assessment of (1) who would be affected by the proposed change (number of students by income level, financial need, age, and grade point average), as well as (2) the extent to which they would be affected (change in minimum, median, and maximum grant award, as well as work-to-loan expectations). For undergraduates, the support documentation also shall include, at a minimum, information on institutional aid-only recipients, Cal Grant recipients, and recipients of both types of awards.

Subcommittee members may want to ask the LAO and DOF on the status of this working group.

ISSUE 5: MIGUEL CONTRERAS LABOR PROGRAM

The issue for the subcommittee to consider is the proposed \$6 million elimination in the 2007-08 proposed budget to support the Miguel Contreras Labor program.

BACKGROUND:

The Governor's proposed budget eliminates \$6 million in General Fund for the Miguel Contreras Labor Program, which funds the Centers for Labor Research and Education at UC Berkeley's and UCLA's Institutes for Industrial Relations. Last year, both the Senate and Assembly restored funding for support of these institutes. Labor research studies funding, previously under the Institute for Labor and Employment (ILE), has been reduced from \$6 million in the 2000-01 budget to \$3.8 million in the 2004-05. The Legislature restored the program's initial funding of \$6 million in the 2006-07 *Budget Act*.

History. The ILE was established in 2000 as a multi-campus research program devoted to studying labor and employment issues in California. It expanded upon the existing Institutes of Industrial Relations (IIRs) at UC Berkeley and UCLA, which were founded in 1945 to encourage interdisciplinary research in the areas of labor and industrial relations, and upon the two Centers for Labor Research and Education housed in the IIRs on those two campuses. In 2004, the ILE was restructured as a result of final budget negotiations. The \$3.8 million in funding was divided in three ways. One third was allocated to the Labor and Employment Research Fund administered by the UC Office of the President for systemwide competitive research grants and it is overseen by a faculty Steering Committee drawn from all ten UC campuses. One third was allocated to the UC Berkeley campus and one third to the UCLA campus. The \$6 million provided in the current year would be allocated in the same manner.

What do the Labor and Employment Research Programs do? These programs fund research on a wide variety of topics critical to the state's economy and workforce. Recent examples include a statewide employer survey of human resource and training practices, studies of the public cost of low-wage work, changes in job quality and how wages and benefits affect the quality of care in In-Home Supportive Services. The research findings included in the many reports produced by these programs have provided valuable information to policy-makers at the state and local level on issues of importance to California's working families, including paid family leave, health care access, and improving incomes for low-wage workers.

On January 18, 2007, the UC Board of Regents approved that the Labor and Employment Program be named the Miguel Contreras Labor Program.

COMMENTS:

Although labor research and education receives only a small fraction of the UC's \$213 million General Fund total research funding, the 2007-08 budget proposal does not include any indication as to why funding for this program has been, once again, selected for elimination.

As this program has been a Legislative priority since the program was created in 2000, Budget staff recommends that when members take action on this item, they approve the funding restoration and the following budget bill language:

Provision X. Of the funds appropriated in Schedule (10, \$6,000,000 shall be used to support research on labor and employment and labor education throughout the University of California system. Of these funds, 60 percent shall be for labor research, and 40 percent shall be for labor education.

ISSUE 6: EXECUTIVE COMPENSATION REPORT

The issue for the subcommittee to consider is the compensation report required in the *2006-07 Budget Act*.

BACKGROUND:

The budget bill language included in the *2006-07 Budget Act* includes the following provisions in regards to UC executive compensation:

University of California. Item 6440-001-0001

25. It is the intent of the Legislature that UC report by January 15, 2007 on salary increases provided to employees for the 2006-07 academic year by employment classification, such as represented staff, non-represented, staff, academics, and senior management, and that this report include the degree to which salary increases were consistent with the plan presented in the university's Regents Budget request in November, 2005.

26. It is the intent of the Legislature that before changes are made to existing pension programs, the University of California report to the Legislature on how changes would affect employees by classification, such as represented staff, non-represented, staff, academics, and senior management.

27. It is the intent of the Legislature that University of California fundamentally reform its compensation policies and practices to more appropriately reflect its status as a public institution accountable to the State of California. It is the intent of the Legislature that the University of California submit an annual report by March 1 of each year through 2010-11 fiscal year to the Joint Legislative Budget Committee, legislative fiscal subcommittees, and the Department of Finance on the university's progress in reforming its compensation policies and practices consistent with the recommendations of the April 2006 Report of the Task Force on UC Compensation, Accountability, and Transparency, the Price Waterhouse Coopers report, and the Bureau of State Audits May 2, 2006 report. It is the intent of the Legislature that the report specifically include all of the following:

(a) Consistent with the task force's recommendation on reporting, annual reports provided to the Board of Regents on total compensation for specified University senior officials, including the President, Provost, senior vice presidents, vice presidents and vice provosts, associate and assistant vice presidents, university auditor, the university controller, principal officers of Board of Regents, chancellors, vice chancellors, national laboratory directors and deputy directors, medical center CEOs, professional school deans, and the top five most highly compensated positions at the Office of the President and at each campus, medical center, and Department of Energy Laboratory. Total compensation

information on employees not covered by this language is to be made available to the Legislature upon request. In its annual report of total compensation for senior officials, the university should use a standard reporting template, such as the template recommended in the April 2006 report of the task force, that lists all elements of total compensation, including base salary, benefits and perquisites, and all other forms of compensation provided by the University of California that accrue to the individual.

(b) Plans and actions taken by the University of California to reform compensation policies and practices to ensure that all of the following occurs:

- (i) Clear and appropriate policies are in place to define compensation.*
- (ii) University compensation remains competitive.*
- (iii) It is clear with whom the authority lies for making compensation decisions.*
- (iv) Policies include specific guidance about when exceptions are appropriate, who may grant exceptions, and through which mechanisms exceptions may be granted, so that exceptions do not become the rule.*
- (v) Conflicts among existing policies are eliminated.*
- (vi) Mechanisms are in place to ensure compliance with newly reformed policies and to reliably impose consequences when policies are violated.*

(c) Plans and actions taken by the University of California to update its human resources information system to ensure that campuses and the Office of the President are entering and capturing data in an accurate and systematically compatible manner that permits disclosure of compensation information in a full and timely way.

COMMENTS:

At the time that this agenda was written, Budget staff had not received copies of the Salary Increases report due January 15th nor the Executive Compensation report due by March 1st.