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*Chair of the Assembly and the Academic Council
Faculty Representative to the Board of Regents
University of California
1111 Franklin Street, 12th Floor
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July 22, 2008

**PRESIDENT MARK G. YUDOF
UNIVERSITY OF CALIFORNIA**

Re: UC Merced Budget Concerns

Dear Mark:

At its June 25, 2008 meeting, Academic Council endorsed three recommendations from the University Committee on Planning and Budget (UCPB), which address a number of concerns that Council has regarding the Merced budget—both now and going forward. **These recommendations are designed to target deficiencies in both Merced's capital and operating budgets, and are as follows:** 1) The following capital construction projects at Merced should be given highest priority among UC's capital projects; the Science and Engineering 2 building should be expanded, and accelerated if possible, and the Castle facility (at the former Castle Air Force Base), although not a substitute for building the campus, should be expanded; 2) All Merced students (through the first 5,000 students) should be fully funded at the higher cost of instruction appropriate for a new campus, which we estimate at about 50% above the campus's assumed enrollment support of about \$8,300 per student, which would total approximately \$12,500 per student; and 3) UCOP should work with the Merced campus to design a strategic growth plan that clearly articulates the total quantity of resources required for the campus to achieve equal quality with the other UC campuses.

Though Council has been quite impressed by the stellar achievements of this campus already (e.g., steadily increasing undergraduate enrollments with 18 undergraduate majors, the development of a strong base in graduate education, and a solid record of research grants per faculty capita), we are increasingly concerned about the budgetary storm clouds that we see looming on Merced's horizon. Its capital budget is most concerning, as Merced essentially has two buildings for teaching, research, and faculty offices. One of these buildings, the Science and Engineering Building (SE1) which houses the School of Natural Sciences and the School of Engineering, is full. That is, there is no more scientific laboratory space available, and new science and engineering faculty will be placed in an off-campus facility, the former Castle Air Force Base, a ten mile trip from campus. The lack of scientific laboratory space, and the undesirability of off-campus facilities, is presently having a deleterious impact on faculty recruitment, and will soon have the same effect on faculty research. Although another building, for Social Sciences and Management (SSM), is expected to be available

for the academic year 2011, this building would not have laboratory space suitable for natural sciences and engineering faculty. There is a plan for a second Science and Engineering Building (SE2) to be available for academic year 2012, but UCPB has examined CPEC demand data for office/laboratory space that show a shortfall of space from 2009 even with the opening of SE2 in 2012. Besides a simple shortfall in space at Merced, there is no room for flexibility that would be possible on campuses with many more buildings. Critically, though, what matters most to science and engineering research and teaching excellence is more than the total amount of space, but the kind of space -- Merced's scientific lab spaces are full. The proposed five-year state-funded capital improvement budget for Merced, of \$61.4 million, is unfeasibly low. At the rate of one new building every five years, it would take 250 years to build the academic core of the Merced campus.

Similarly, Merced is heavily and overly dependent on enrollment-based funding. Even with restrained spending, Merced will struggle to maintain a balanced budget in the upcoming years, and indeed it appears that to do so will depend on heavy borrowing, even while Merced is already making payments on its debts. While the Merced budget does have a supplemental allocation, this allocation is currently only \$14 million and will decrease to zero by 2010-2011. As noted above, Merced will have substantial growth-related infrastructure expenses over the next few years that will not be covered by the inadequate capital budget. These expenses will be a further drain on the operating budget. In general, it's clear that there will be increased staffing needs as the campus grows, not to mention increased instructional needs including increased remedial instruction. Moreover, investments will be needed to support academic initiatives and successes.

It is difficult to overstate the dire nature of Merced's budgetary situation going forward, which will have an increasingly negative impact on Merced's ability to attract the best and brightest faculty and graduate students, conduct UC-quality research, and grow its academic programs in a sustainable way. Towards the end of correcting this budgetary trajectory, the Academic Council is ready to assist in whatever way possible. For your information and reference, I have enclosed the recent memo from UCPB on this issue, which contains additional and detailed data on Merced's budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael".

Michael T. Brown, Chair
Academic Council

Copy: EVP Katherine N. Lapp
Academic Council
Martha Winnacker, Senate Director

Encl. 1



UNIVERSITY COMMITTEE ON PLANNING AND BUDGET
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June 18, 2008

MICHAEL T. BROWN
ACADEMIC COUNCIL CHAIR

Re: UC Merced Budget Concerns

Dear Michael,

For the past two years, UCPB has received reports from UC Merced's Committee for Academic Planning and Resource Allocation regarding Merced's budget. I write to convey UCPB's concerns.

UCPB takes for granted that Merced is a full-fledged campus of the UC system. The campus is fulfilling its mission to serve diverse students from all over the state, including many first generation college students. In terms of undergraduate admissions, statements of intent to register (SIRs) have increased for two consecutive years. The campus has already opened 18 majors, with the largest being Biology, Psychology, Management, Computer Science, and Mechanical Engineering. Merced is also developing a base in graduate education (already 7% of its students are graduate students). Research grants per capita are very strong (\$12.2 million in 2006-2007, or about \$170 K per faculty member).

In contrast to this early performance, and to the importance of its mission, the funding model for Merced, in particular the capital and operating budgets, appears to put it on a path toward long-term poverty and indebtedness. This memo will make some general points about Merced's budget and the relation to the systemwide budget, then focus more specifically on UCPB's analyses of Merced's capital and operating budgets.

Funding for the Merced campus represents a tiny portion of the systemwide budget. The proposed state-funded capital improvement budget, 2008-2009 to 2012-2013, for Merced is \$61.4 million, which is 2.7% of the systemwide capital budget of \$2.3 billion. Merced's 2007-2008 operating budget is \$76.9 million, which is about 0.4% of the systemwide operating budget of \$18.1 billion. It is clear to UCPB that even a modest increase in Merced's capital and operating budgets would have a large impact on developing excellence on this campus, while having little noticeable effect on the systemwide budget, even in the current period of budget cutting. Although some regard Merced's budget as a burden on those of other campuses, its entitlement to state funds is no different from theirs, and its share very modest.

Capital Budget

The Merced campus essentially has two buildings for teaching, research, and faculty offices. The Classroom and Office Building (COB), housing the School of Social Sciences, Humanities and Arts, has 49,315 assignable square feet (ASF) of instructional and research space. The Science and Engineering Building (SE1) houses the School of Natural Sciences and the School of Engineering, with 92,835 ASF. By all accounts, SE1 is full. That is, there is no more scientific laboratory space available, and new science and engineering faculty will be placed in an off-campus facility, the former Castle Air Force Base, a ten mile trip from campus. The lack of scientific laboratory space, and the undesirability of off-campus facilities, is already having an impact on faculty recruitment, and will soon have an effect on faculty research.

Although another building, for Social Sciences and Management (SSM), is expected to be available for the academic year 2011 (55,100 ASF), this building would not have laboratory space suitable for natural sciences and engineering faculty. There is a plan for a second Science and Engineering Building (SE2), with 50,800 ASF, to be available for academic year 2012.

Using numbers provided by Merced's capital planning office (draft estimates as of May 23, 2008), Figure 1 shows the supply of instructional and resource space by year, based on these buildings as well as 32,143 ASF at Castle. This figure also shows the demand according to CPEC calculations based on agreements between Merced and the Office of the President. This figure shows a shortfall of space from 2009. Even with the opening of SE2 in 2012, there would be a substantial space shortage, increasing in severity as the campus grows over the following two years. Figure 2 makes this point in terms of percentage CPEC adequacy. Two years after SE2 is opened, the campus would be at only 60% of CPEC.

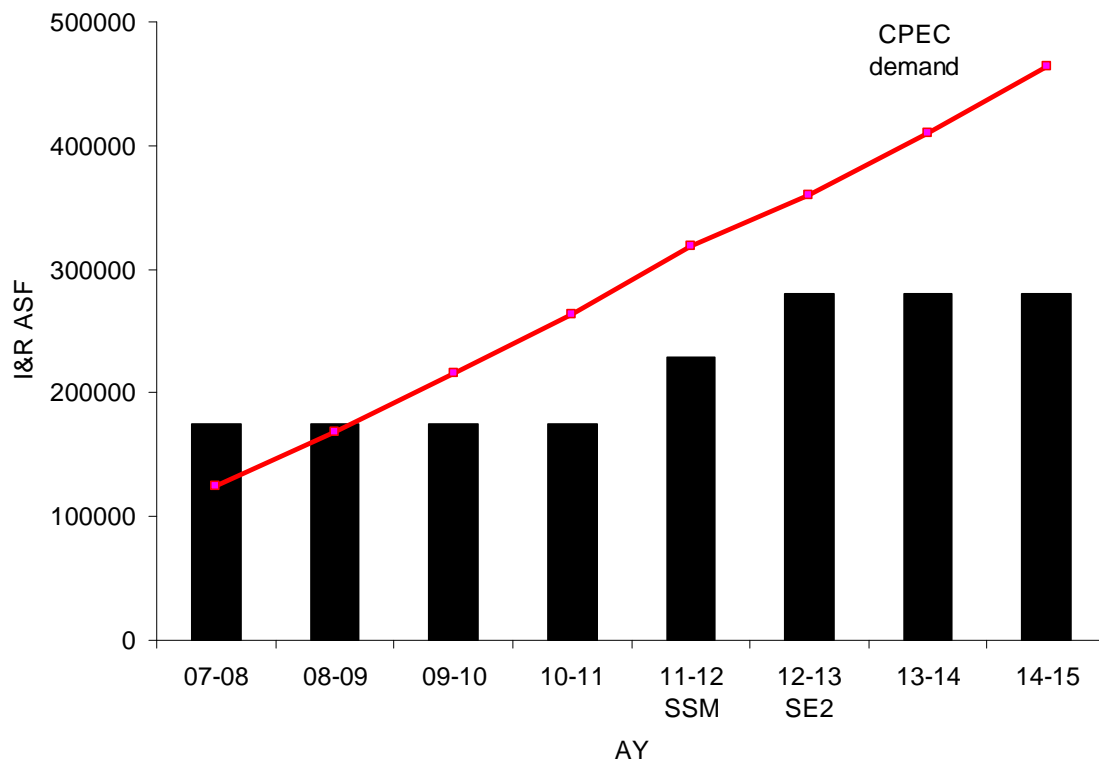


Figure 1. Supply (shown as bars) and demand (shown as line) of instructional and resource space at UC Merced, by year.

Although this CPEC analysis does make the point that Merced is short on space, it does not tell the full story. Given its current small size (two buildings for teaching, research, and faculty), there is no room for flexibility that would be possible on campuses with many more buildings. Also, what matters is not just the total amount of space, but the kind of space, and as noted, Merced's science and engineering labs are full.

The proposed five-year state-funded capital improvement budget for Merced, of \$61.4 million, is unfeasibly low. At the rate of one new building every five years, it would take 250 years to build the academic core of the Merced campus. As just 2.7% of the systemwide capital budget, there is insufficient capital funding for growth on this growth campus.

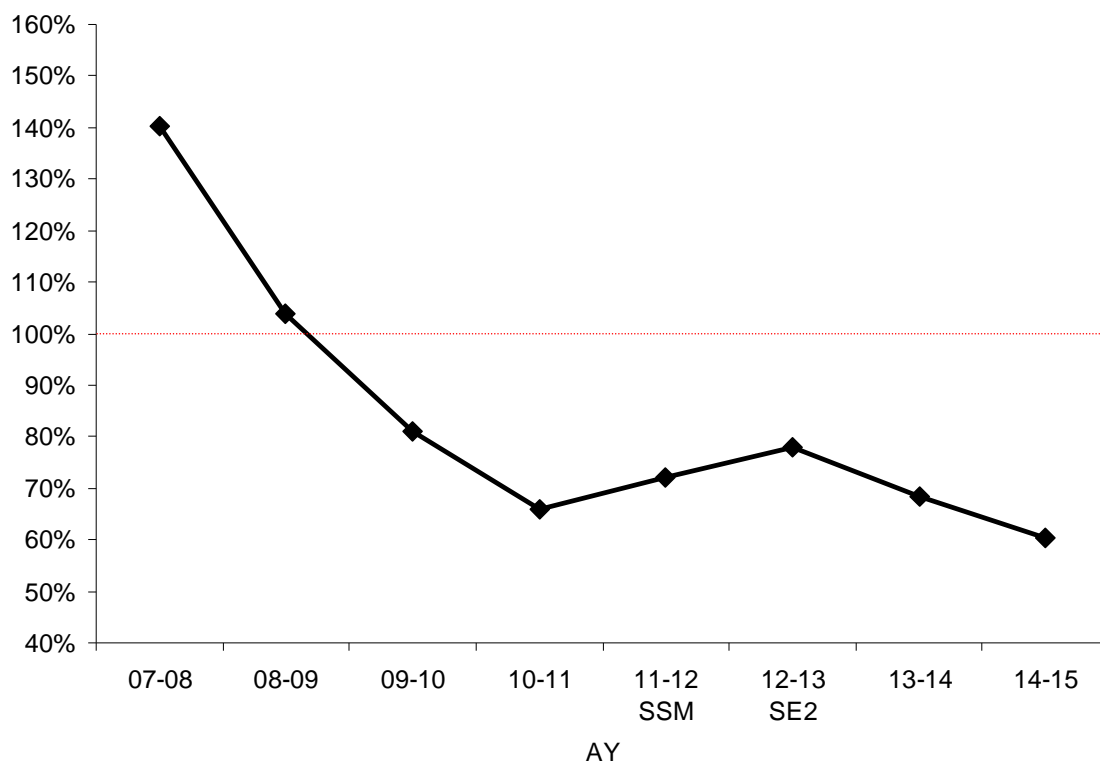


Figure 2. CPEC adequacy at UC Merced, by year.

As a short-term mitigation coming from operating funds, Merced will be refitting the inside of COB with additional lecturer offices, and adding a modular building of 10,375 ASF, providing further offices. In addition the campus will seek off-campus administrative space. Although these steps will provide some relief, they will not address the shortage of laboratory space, and they will require resources to cover construction and leasing.

To provide this needed on-campus laboratory space, Merced is seeking funds to increase the size of SE2 by an additional 36,700 ASF, and to move up the opening date to 2011. Merced is also seeking funds from the Office of the President to renovate an additional 25,000 ASF of Castle space for laboratories. Although splitting this new campus in two is not ideal, the Castle space would help

address immediate problems. UCPB's view is that these requests are high priority; they are very modest in relation to the great need for laboratory space.

With regard to capital funding, UCPB recommends the following to support Merced's growth as necessary for its establishment as a research university.

- The following capital construction projects at Merced should be given highest priority among UC's capital projects; the SE2 building should be expanded, and accelerated if possible, and the Castle facility, although not a substitute for building the campus, should be expanded.

Operating Budget

As shown in the Appendix (provided by UC Merced budget office, as of February 13, 2008), the financing model for Merced includes the following revenues: a \$10 million per year base allocation (line 2), a temporary, supplemental, allocation (line 18), plus enrollment support (line 3) and student fees (line 4), both linked to student numbers. The supplemental allocation is currently \$14 million and will decrease to zero by 2010-2011. With the relatively small base funding and the decreasing supplemental allocation (dropping by \$4 million next year), Merced is heavily dependent on enrollment-based funding. Even with restrained spending, Merced will struggle to maintain a balanced budget in the upcoming years (line 58), and indeed it appears that to do so will depend on heavy borrowing (line 21), even while Merced is already making payments on its debts (line 56). Despite the plans for rapid growth (e.g., the number of students will increase 50% from 2007-2008 to 2008-2009), Merced is also planning to leave faculty positions unfilled (line 64), make yearly campus-wide budget *reductions* (line 67), and defer faculty start-up (line 69).

As noted above, Merced will have substantial growth-related infrastructure expenses over the next few years that will not be covered by the inadequate capital budget. These expenses will be a further drain on the operating budget. Some examples include lease costs and move costs for modular buildings and off-campus administrative space; water, sewer, electrical, and IT connections for these new spaces; repayment of an \$8 million loan from the city of Merced for water and sewer service; increased security needs; start-up costs for the new child-care center. In general, it's clear that there will be increased staffing needs as the campus grows, not to mention increased instructional needs including increased remedial instruction. Moreover, investments will be needed to support academic initiatives and successes. One recent example is a \$4.36 million grant from California Institute for Regenerative Medicine (CIRM) for a stem-cell research facility, which will require matching funds.

UCPB has objected to "start and starve" budgeting for projects such as UC Riverside's proposed schools of medicine and of public policy. With Merced, we encounter the possibility that this unworkable model is being applied to an entire campus. Student numbers at this small scale are too volatile to provide reliable funding (e.g., new freshman numbers were 706 in 2005, 398 in 2006, 669 in 2007, and likely more than 800 in 2008). Thus the enrollment-based funding model needs to be modified in order to support what is supposed to be a new major research university.

On the operating budget, our recommendation is as follows:

- All Merced students (through the first 5000) should be fully funded at the higher cost of instruction appropriate for a new campus, which we estimate at about 50% above the campus's assumed enrollment support of about \$8300 per student, which would total approximately \$12,500 per student.

By “all” students we literally mean all Merced students. With these small numbers, there will be inevitable variations relative to any target, and partial funding of any students will be especially detrimental at a small campus.

By “appropriate” costs, we acknowledge that the marginal cost of instruction at a new campus with a few thousand students is different than the marginal cost of instruction at an established campus with tens of thousands. Assuming a constant base appropriation (line 2, Appendix), and a disappearing supplemental appropriation (line 17), more enrollment-based funding will be needed in an enrollment-based model. UCM’s draft budget assumes “enrollment support” (line 3) of about \$8300/student. The modification of an additional 50% per student would provide approximately \$20 million per year, or about the same amount as the lost supplemental appropriation plus anticipated annual borrowing (line 21). These funds would help cover Merced’s growth-related expenses such as infrastructure needs, and help avoid budget reductions and early indebtedness during a period of rapid growth.

In light of the need for more capital and operating funds for Merced, UCPB’s overall recommendation is the following.

- UCOP should work with the Merced campus to design a strategic growth plan that clearly articulates the total quantity of resources required for the campus to achieve equal quality with the other UC campuses.

We make these recommendations in an effort to keep UC Merced on track to become a fully-functioning member of a relatively unified system of comparable research campuses.

Sincerely,

Christopher Newfield
UCPB Chair

Copy: UCPB
Executive Director Bertero-Barceló