

The Regents of the University of California

**COMMITTEE ON FINANCE
COMMITTEE ON LONG RANGE PLANNING**

November 19, 2015

The Committees on Finance and Long Range Planning met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members present: Representing the Committee on Finance: Regents Davis, Island, Kieffer, Makarechian, Ortiz Oakley, Reiss, and Ruiz; Ex officio members Lozano and Napolitano; Advisory members Hare and Ramirez; Staff Advisors Acker and Richmond

Representing the Committee on Long Range Planning: Regents De La Peña, Elliott, Gorman, Kieffer, Lansing, Makarechian, Oved, and Reiss; Ex officio members Lozano and Napolitano; Advisory members Brody, Hare, and Schroeder; Staff Advisors Acker and Richmond

In attendance: Regents Blum, Pattiz, Pérez, Sherman, Torlakson, and Zettel, Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice Presidents Henderson and Peacock, Vice Presidents Brown, Budil, Duckett, Humiston, and Sakaki, Chancellors Block, Blumenthal, Dirks, Gillman, Hawgood, Katehi, Khosla, Leland, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 12:50 p.m. with Committee on Finance Chair Ruiz presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of the Committee on Long Range Planning of July 22, 2015 were approved.

2. APPROVAL OF UNIVERSITY OF CALIFORNIA 2016-17 BUDGET FOR CURRENT OPERATIONS

The President of the University recommended that the Committee on Finance recommend to the Regents that the budget plan included in the document, 2016-17 Budget for Current Operations, and summarized in Attachment 1, be approved.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee on Finance Chair Ruiz began the discussion by stating that the University embraces the opportunity to enroll additional California resident undergraduates. It would work with the campuses to address any challenges that might arise.

President Napolitano noted that the University's operating budget plan for 2016-17 was built on the budget framework for UC announced by the Governor as part of the May Revision to the State budget. The University would receive four-percent base budget increases for four years, additional one-time funding to address high-priority costs such as deferred maintenance, and Proposition 2 funding to address the unfunded liability in the UC Retirement Plan (UCRP). In return, the University would continue to freeze in-state tuition in 2016-17. This means that tuition will have remained flat for six consecutive years for California undergraduates. After that, there would be modest and predictable tuition increases pegged generally to the rate of inflation. With generous return to aid, 57 percent of California resident undergraduates at UC currently were paying no tuition. Forty-five percent of all UC undergraduate students graduate with no loans. For those who do graduate with debt, the total averages around \$20,600, 30 percent lower than the national average. UC is committed to expanding the number of California undergraduates. UC intends to increase enrollment of California resident undergraduates by 10,000 by 2018-19. This increase will be funded in part through State funds allocated for this purpose, in part through one-time University funds, and in part through reductions in UC financial aid for future out-of-state undergraduates.

In order to obtain Proposition 2 funds set aside for UC in the State budget, the University must implement the State's Public Employee Pension Reform Act's (PEPRA) pensionable salary cap. This cap would affect only new employees hired on or after July 1, 2016. The UC Retirement Options Task Force, in consultation with the Academic Senate, staff, and other stakeholders, was examining options for implementation of the cap. The Task Force was also considering alternatives such as an optional stand-alone defined contribution plan, or a defined benefit plan with a supplemental defined contribution plan.

The negotiated budget framework included a number of programmatic elements pertaining to undergraduate education, 14 in total, including the creation of systemwide transfer pathways for 20 of the most popular majors for transfer students, and the execution of a comprehensive review of courses necessary for graduation in the most popular 75 percent of UC majors. Some of these programs appropriately fall within the purview of UC faculty, some require oversight by UC administrators, and others require the careful guidance of both groups. Both faculty and administrators would oversee a program to expand summer session offerings. The goal is to create more affordable opportunities for UC students who wish to enroll in summer session classes, especially as a means of completing degrees more quickly. The following summer, three campuses would have pilot programs expanding the availability of summer session financial aid, capping the number of units for which a student is charged fees, or offering lower housing rates for students who enroll in the summer. Another program was the development of three-year degree pathways for some of the top majors at each campus. Content and coursework for these majors would remain the same as in the traditional

four-year pathway. Students who wish to complete their degrees in three years would have a clear roadmap for doing so. The University anticipated that these accelerated pathways would be available to students by summer 2017.

The University's 2016-17 budget emphasizes efficiencies and cost savings. President Napolitano drew attention to two particular aspects of the budget. The first was "rebenching," UC's initiative to ensure that State funding is allocated equitably among campuses on a weighted, per-student basis. UC students would receive the same level of support from the State regardless of which campus they attend. The rebenching process was originally scheduled to take place over six years. President Napolitano was recommending, however, that this process be accelerated and completed one year early. UC would achieve its rebenching goal with the allocations it makes for 2016-17. The second aspect was dedication of a portion of State funding for the current and following year to buy down the over-enrollment of California resident undergraduates. Throughout the fiscal crisis, UC campuses maintained their commitment to the California Master Plan for Higher Education by enrolling all eligible qualified California students despite considerable financial constraints. Several of the campuses that are over-enrolled are also those that historically have had less than adequate resources. UC campuses currently experiencing over-enrollment would receive one-half of this funding for over-enrollment in the current year, and the remainder in the 2016-17 fiscal year.

Executive Vice President and Chief Financial Officer Brostrom stressed that the current budget proposal was grounded in UC's three core values of access, affordability, and quality, which in combination distinguish UC from other universities, public and private. UC campuses enjoy high rankings nationally. Nevertheless, UC remains accessible to Californians regardless of income or background. Over 40 percent of UC undergraduates are first-generation college students, a number which had grown from 19 percent only 15 years earlier. Over 55 percent of UC undergraduates pay no tuition. Nearly half of UC students take on no debt, and for those who do, the average balances are below the national average.

Mr. Brostrom referred to a recent article in the *New York Times* that included a college access index showing the percentage of Pell Grant recipients and the net price for middle-income students. Six of the top seven universities in this index were UC campuses. Private liberal arts colleges do a good job of supporting low-income students, but there it is a question of several hundred students. The UC system has over 82,000 low-income students. At the same time, as one example, Pomona College has 100 times more endowment funding per student than UC Irvine has.

Mr. Brostrom discussed a chart showing how UC has become more efficient over time, reducing expenditures on a per-student basis. The expenditures come from State appropriations, from student tuition and fees, and UC general funds, which include indirect cost recovery and nonresident tuition. Since 1990 there had been an approximately 20 percent reduction in spending per student, and a significant shift in funding for education. In 1990-91, 80 percent of the core fund total was provided by State funds. Currently less than 40 percent is provided by the State, and a greater

percentage comes from tuition. Some of that tuition funding is provided by the State in the form of Cal Grants. Mr. Brostrom explained that UC's core funds, about \$7.3 billion, represent about one-quarter of the UC budget. The remaining three-quarters of the budget are accounted for by the UC medical centers, research contracts and grants, auxiliaries such as dormitories and dining halls, and private philanthropy.

The budget framework agreed to with the Governor provided a solid base for planning for the next four years. It included four percent base budget increases, more than \$500 million over four years, one-time funds to address deferred maintenance and energy projects, and \$436 million in one-time funding from Proposition 2 for the UCRP unfunded liability over three years, contingent on implementation of the State PEPR cap. As part of the framework, UC agreed to keep in-state tuition level for the next two years. The Student Services Fee would increase by about \$50 and provide significant revenue for student mental health services. There might be increases in Professional Degree Supplemental Tuition and in Nonresident Supplemental Tuition.

The Legislature incorporated most of the framework agreement elements in the State Budget Act of 2015: the four percent base budget adjustment, the first year of one-time monies from Proposition 2, and an additional \$25 million beginning in 2015-16 if UC demonstrates that it will enroll 5,000 more California undergraduates by 2016-17, over the 2014-15 base.

Mr. Brostrom drew attention to the Dream Loan Program, established in statute a year earlier but never specifically funded. The legislation was sponsored by the University and carried by State Senator Ricardo Lara. It called for the establishment of a revolving loan program for undocumented students. The State has not identified specific funding for this purpose, but UC plans to use a portion of its base State appropriation to fund this program.

Associate Vice President Debora Obley emphasized that UC's 2016-17 operating budget plan would expand access for California resident undergraduates and assumed no tuition increase. The University is committed to meeting a portion of its increased budget need by continuing to pursue asset management strategies, efficiencies, and new revenue. The budget plan addressed UC's mandatory and high-priority costs and invested in academic quality. As part of the plan to enroll more California undergraduates, with an increase of 10,000 by 2018-19, there would be meaningful growth at every campus. There would be significant increase in community college transfer enrollments, moving toward the goal of achieving a ratio of two freshmen to one transfer student. Graduate student enrollment would increase as well. Ms. Obley underscored the importance of graduate students in teaching. She noted the \$25 million from the State, referred to earlier, that would support one-half of the undergraduate enrollment increase. UC would fund the remaining \$25 million by reducing financial aid funds for future nonresident undergraduates. UC would eliminate this financial aid in 2016-17. In order to avoid a negative impact on already enrolled students, this action would only affect new students and would need to be phased in over four years. UC expected to generate \$14 million in savings from this action in the first year. Additional savings in future years would be used to fully fund the

enrollment increase. Until then, UC would use a portion of the \$25 million it receives in 2015-16 as temporary bridge funding.

The University would fund a major portion of its expenditure needs through internal actions to generate cost savings or alternative revenues. The budget plan proposed \$40 million in new revenue as campuses shift more funding from shorter-term investments to longer-term investments with higher yield. The University's centralized procurement and captive insurance programs would also generate revenue. UC planned to generate \$10 million in new funding either through increased philanthropy or more unrestricted philanthropy.

The University intends to achieve undergraduate enrollment growth of 5,000 by 2016-17 and thus would receive \$25 million in State General Funds. UC was requesting an additional \$6 million to support graduate enrollment growth. UC was also planning on additional one-time funds, enrollment funding from the prior year, and funds for deferred maintenance.

Among other revenues, the University was expecting almost \$9 million from an increase in the Student Services Fee. One-half of this revenue would be directed to increasing student mental health services. UC was anticipating about \$55 million in tuition related to enrollment growth, and an increase of almost \$70 million in nonresident tuition.

Ms. Obley then enumerated budget expenditures. Mandatory cost increases were consistent with past years: contributions to the retirement system, health benefits for employees and annuitants, compensation increases related to collective bargaining agreements, funding for faculty merit increases, and increases on non-salary items such as equipment and supplies. Additional expenditures included \$56 million for 5,000 California resident undergraduates and 600 graduate students, compensation increases for faculty and staff, debt service on capital outlay projects, financial return-to-aid funding, and \$5 million for the Dream Loan Program referred to earlier by Mr. Brostrom. The University would be setting aside a pool of \$50 million available to the campuses for improving the student-faculty ratio, modernizing instructional technology, and supporting graduate students and new faculty.

(For approval see below.)

3. **APPROVAL OF THREE-YEAR FINANCIAL SUSTAINABILITY PLAN**

The President of the University recommended that the Committee on Long Range Planning recommend to the Regents that the University of California Three-Year Financial Sustainability Plan shown in Attachment 2 be approved, as requested in the California State Budget Act of 2015.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Associate Vice President Debora Obley outlined the University's Three-Year Financial Sustainability Plan. A report on this Plan is required by the State Budget Act, and this would be the second such report. UC is asked to submit a Plan that provides its estimates for revenue, expenditures, and enrollment for the coming three years; in this instance, through 2018-19. The University is required to follow the assumptions provided by the California State Department of Finance as planning parameters. For this report the Department of Finance asked UC to assume the four-percent base budget adjustment, but did not include an assumption regarding enrollment growth. To be consistent with its own planning, UC has developed this Three-Year Financial Sustainability Plan incorporating the enrollment plan discussed in the previous item. The plan assumes enrollment growth of 5,000 California undergraduates and 600 graduate students by 2016-17, and 2,500 California undergraduates and 700 graduate students in both 2017-18 and 2018-19.

Funding components of the Plan include tuition increases and State funding consistent with the framework agreement reached with the Governor. The Plan assumes no tuition increase for 2016-17, and moderate tuition increases thereafter, generally pegged to inflation, estimated to be three percent. The University assumes that the State will pay its share of the enrollment growth cost. Because the assumptions provided by the Department of Finance did not include enrollment growth, an alternative approach was included in the appendix to the Plan, but Ms. Obley emphasized that this alternative approach did not reflect UC's preferred path forward and its strong commitment to access for California resident undergraduates.

Regent Torlakson commended the University for its plans to increase undergraduate enrollment by 10,000 additional students. The K-12 system and the community colleges were making significant efforts to improve graduation rates and college readiness. He noted that there was frustration and anger among parents and young people about California resident students not being accepted at UC campuses. In 2007, out-of-state and foreign students made up about five percent of the UC student population; in 2014, this had grown to about 15 percent. He recalled that in 1980, State funding paid for about 90 percent of UC's budget, while the State now paid about ten to 15 percent. He noted that Proposition 30 was soon due to expire.

Regent Island asked about over-enrollment at UC, the number of students for whom UC received no State support, and the cost for these students. Mr. Brostrom responded that the number was roughly 7,500 students. UC assigns a marginal cost of about \$10,000 per student, for a total cost of about \$74 million in the current and next years.

Regent Island referred to a chart shown during the discussion of the previous item and asked about a figure of \$18,900 for per-student expenditures in 2015-16. Mr. Brostrom responded that this chart indicated only those expenditures per student from core funds – State General Funds, tuition and fees, and UC general funds. The University tries to leverage other sources as well to support education. About two-thirds of the medical centers' income is returned to support the medical schools.

Regent Island asked about the cost per student at the present time. Mr. Brostrom responded that the University had studied the costs of instruction the previous fall, for various categories of students. The average cost for undergraduate education was approximately \$23,000 per student. Regent Island asked if this amount had remained constant over time. Mr. Brostrom responded that the cost had remained roughly the same, but was being met by different sources.

Regent Island asked if in fact there were 5,000 UC-eligible students ready to enroll. Ms. Obley responded that the University believes that there is sufficient student demand to meet this enrollment goal.

Committee on Finance Chair Ruiz asked if this chart, showing expenditures on a per-student basis, represented only undergraduates. Mr. Brostrom explained that the chart reflected all students. He remarked that the percentage of graduate students had declined over time. The cost per graduate student is much higher than for an undergraduate.

Regent Elliott expressed approval of the University's phasing out of financial aid for nonresident students, but misgivings about further expansion of nonresident enrollment. By 2018-19, UC would add 10,000 California resident undergraduates, and roughly 2,000 more graduate students. He asked how many nonresident students UC was expecting. Ms. Obley responded that the Three-Year Financial Sustainability Plan assumes gradual reduction in growth of nonresident enrollment, with 1,200 in 2016-17, 1,000 in 2017-18, and 800 in 2018-19.

Regent Elliott requested a chart showing nonresident enrollment growth. Mr. Brostrom responded that this could be provided. He noted that when the University reduces nonresident enrollment, it must consider overall rates of growth and if this action will reduce overall totals.

Regent Ortiz Oakley observed that an enrollment growth goal of 10,000 students was an ambitious number. He asked if the University had the capacity to grow even more, should the Legislature wish to dedicate more resources to enrollment growth. Mr. Brostrom responded that the Plan seeks \$25 million in additional enrollment funding. Providing sufficient classroom space and housing was an important concern. A general obligation bond by the State would help alleviate some of the University's needs.

Regent Ortiz Oakley envisioned that an increase of 10,000 California resident students was an opportunity to examine UC admissions practices and to increase diversity, particularly at UC's flagship campuses.

Regent Kieffer asked what increase in UC faculty was expected in conjunction with the student enrollment increase. Ms. Obley responded that the assumed student-faculty ratio is 18.7 to one. Campuses would take various approaches to absorb the increased enrollment. She anticipated that campuses would take some temporary measures, such as hiring lecturers while searching for permanent faculty. Mr. Brostrom added that the ratio and situation vary by campus. The plans on individual campuses for faculty hiring, if

taken together, would likely add up to more than the 500 additional faculty built into the budget model.

Regent Kieffer suggested that UC examine how the governing boards of its competitors, other public institutions with reduced State support, are approaching these issues, and what their projections are for the future. He cautioned that increasing student enrollment without adding full-time faculty would work against the quality of the institution. Teaching students is not the same as factory production. Mr. Brostrom responded that UC has built some faculty hiring into its budget plan for the 10,000 student enrollment growth. Budget monies were also being allocated for reinvestment in academic quality, meant to support graduate students and faculty, and hiring of new faculty.

Regent Reiss seconded the idea that increasing enrollment was also an opportunity to increase student diversity. She suggested that there be a report on the diversity of the new student enrollment. She asked how many and what percentage of UC nonresident undergraduate students require financial aid and do not pay full tuition. She asked if nonresident students currently receiving financial aid would lose that support. Mr. Brostrom responded that both the percentage of UC nonresident students receiving financial aid and the dollar amount of that aid were small. The amount of aid was about \$40 million, but nonresident tuition revenue was more than \$700 million. The phasing out of this financial aid would not affect current students, who would continue to receive support; it would only affect new nonresident students, beginning in 2016-17.

Regent Reiss recalled that many UC faculty were reaching retirement age. She suggested that the Committee on Educational Policy discuss the campuses' plans for the faculty pipeline, both to address new student enrollment and to replace retiring faculty, over the coming five to ten years.

Regent Reiss noted that for decades, the State had not invested in higher education as required by the California Master Plan for Higher Education, while the University tries to meet its Master Plan commitments. She requested a figure for the percentage of California high school graduates eligible for UC admission who are offered admission by UC. She noted that the total K-12 student population might be declining. If this were the case, then UC might achieve its Master Plan goal in the coming five to 15 years without adding much more than 10,000 new California undergraduates. Mr. Brostrom responded that the University would provide data on faculty hiring and student numbers. Overall high school completion rates have been increasing.

Regent Oved observed that students at UC face shortages of available classes, teaching assistants, and study and research spaces. Some students do not have enough money to pay for rent or food. He asked where the University would accommodate 5,000 new undergraduates and 600 graduate students. Politicians in Sacramento had pushed the University toward increasing enrollment while knowing it is beyond UC's capacity. While ending financial aid for nonresident students, the University should consider the fact that not all nonresident students are wealthy. Regent Oved expressed concern about

over-enrollment, beyond UC's capacity, and the erosion of quality of education at UC. He urged the Regents to work with students to find solutions.

Regent Pérez echoed earlier questions about how increased enrollment would affect student diversity. He stressed that UC's flagship campuses are especially attractive to out-of-state students. Growth in nonresident enrollment, if it follows past trends, would decrease the number of spots for in-state students, especially at the flagship campuses. This creates hurdles for student diversity. Five hundred additional faculty would be a significant infusion and represented an opportunity for faculty diversity, an area in which the University had done a poor job.

Regent Makarechian asked if the student numbers being discussed included the Merced campus. Mr. Brostrom responded in the positive. There were currently about 6,800 students at UC Merced; campus enrollment would likely reach 10,000 in 2021-22. He anticipated that enrollment growth at Merced would be slower initially but increase in later years.

Regent Makarechian asked about the growth in the number of students at the other campuses. Mr. Brostrom responded that there would be meaningful growth at every campus. UC did not yet have target numbers for the 2016-17 year.

Regent Makarechian stated that every campus other than Merced would take on a significant number of additional students. He expressed his view that in fact, every out-of-state student was paying for an additional California resident student and providing capacity. Out-of-state students were not a burden and were not closing UC to California residents. Mr. Brostrom responded that this had been a way, when State funding was cut, for UC to maintain enrollment of in-state students.

Regent Davis praised President Napolitano for pursuing equitable allocation of State funds among campuses in the rebenching process.

Staff Advisor Acker emphasized the importance of infrastructure to support student success. She asked if the campuses would decide on the staff-student and staff-faculty ratios. Mr. Brostrom responded that, per the rebenching process, UC allocates funds to the campuses on a per-student average. Campuses receive this money and decide how best to allocate it to address their needs.

Regent Gorman requested feedback from the campuses about how the allocation of UC resources and rebenching affect housing and student mental health services. There might be a significant and differential impact on the campuses.

Regent-designate Ramirez suggested that a more detailed discussion take place at a future meeting about plans to increase graduate student enrollment, including the departments and disciplines represented – science, technology, engineering, mathematics, or humanities – and diversity. She stressed that there are disparities among campuses and graduate programs.

Upon motion duly made and seconded, the Committee on Finance approved the President's recommendation in item 2 above and voted to present it to the Board.

Upon motion duly made and seconded, the Committee on Long Range Planning approved the President's recommendation in item 3 above and voted to present it to the Board.

Student observer to the Committee on Finance Jordan Davis encouraged the University to increase diversity and transfer enrollment. UC must consider how it will house 5,000 new students in the next year. Campuses sometimes underestimate the real cost of housing in their communities. She expressed concern about student homelessness, about which more data are needed. Food instability among students is another important issue that needs to be addressed.

Regent Pérez cautioned that the University often speaks of the percentage of students who do not pay tuition, but not about the total cost of attendance, including housing and food. Regent Makarechian noted that the UC Accountability Report includes information on the overall cost, including cost of housing. Although UC campuses are located in high-cost areas, UC's overall cost is lower than that of the University of Michigan, for example.

Student observer to the Committee on Long Range Planning Maximilian Cotterill attributed many crises experienced at UC to underfunding by the State and to a lack of dialogue with students. For UC students who work multiple jobs, share small living quarters, live in cars and tents, or skip meals, the tuition increases being contemplated for future years would not be modest. He urged the Regents to engage in more dialogue with students. The University needed a strategic plan to develop more affordable housing for students.

The meeting adjourned at 2:20 p.m.

Attest:

Secretary and Chief of Staff

2016-17 Budget Plan for Core Funds (Dollars in Millions)**2015-16 OPERATING BUDGET**

State General Funds	\$3,161.1
Less General Obligation Bond Debt Service	(205.6)
State General Funds (excluding GO Bond Debt Service)	<u>\$2,955.6</u>
 Total Core Funds (State General Funds, Student Tuition and Fee Revenue, and UC General Funds)	 \$7,307.3

PROPOSED INCREASES IN REVENUE**Cost Savings/Alternative Revenues**

Asset Management	\$ 40.0
Systemwide Contracts	\$ 30.0
Fiat Lux / Risk Captive	\$ 15.0
Philanthropy	\$ 10.0
Repurposed Funds Formerly Used as Aid to Nonresident Undergraduates	\$ 14.0
Subtotal	<u>\$ 109.0</u>

State General Funds

Undergraduate Enrollment Growth	\$ 25.0
Graduate Enrollment Growth	\$ 6.0
4% Base Budget Increase	\$ 125.6
Subtotal	<u>\$ 156.6</u>

Fees

Student Services Fee Increase (5%)	\$ 8.7
Mandatory Charges - Enrollment Growth	\$ 55.2
Revenue for Financial Aid	\$ 33.1
Subtotal	<u>\$ 97.0</u>

UC General Funds

Nonresident Supplemental Tuition	\$ 68.7
Indirect Cost Recovery	-
Subtotal	<u>\$ 68.7</u>

One-Time Resources

Prior Year Enrollment Funding	\$ 25.0
Deferred Maintenance	\$ 25.0

TOTAL INCREASE IN REVENUE

\$ 481.3

PROPOSED INCREASES IN EXPENDITURES

Enrollment Growth	\$ 56.0
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Mandatory Costs

Retirement Contributions	\$ 24.1
Employee Health Benefits	\$ 28.4
Annuitant Health Benefits	\$ 4.2
Contractually Committed Compensation	\$ 26.9
Faculty Merit Program	\$ 32.0
Non-Salary Price Increases	\$ 29.7
Subtotal	<u>\$ 145.3</u>

Investment in Academic Quality

\$ 50.0

High-Priority Costs

Compensation	\$ 129.4
Deferred Maintenance	\$ 50.0
High-Priority Capital Needs	\$ 15.0
Subtotal	<u>\$ 194.4</u>

Financial Aid

Dream Loan	\$ 5.0
Other Financial Aid	\$ 30.6
Subtotal	<u>\$ 35.6</u>

TOTAL INCREASE IN EXPENDITURES

\$ 481.3

University of California Three-Year Financial Sustainability Plan

Introduction

The University of California has maintained a remarkable track record of access, affordability, and excellence during periods of both economic growth and crisis. Most recently:

- UC campuses represent six of the seven top-ranked institutions according to the *New York Times* College Access Index 2015, which ranks universities on factors such as enrollment of low-income students, graduation rates, and net cost for needy students.
- Six of the top 13 national public universities are UC campuses according to the *U.S. News and World Report* 2016 college rankings, which are based on academic reputation, institutional resources, and selectivity in admissions.
- Four UC campuses rank among the top 20 best universities in the world according to the Academic Rankings of World Universities (ARWU), which is developed by the Shanghai Ranking Consultancy and considers factors such as faculty quality and research output.

This success is attributable to a historically strong and robust partnership between the State and the University. Despite shifting economic circumstances and competing priorities, the State of California continues to provide substantial support to the University's core budget. Combined with the State's commitment to the Cal Grant program, State support remains critical to the University's ability to serve California resident students.

The University, in turn, has continuously sought to serve more students while maintaining and enhancing the quality of instruction that it delivers at a lower overall cost per student. Examples of these cost-saving efforts include employing alternative instructional delivery models, streamlining paths to graduation, achieving administrative efficiencies, and adopting lower-cost models for procurement and insurance strategies. The University's financial aid programs, together with State and Federal programs, ensure that over one-half of California resident undergraduates have their systemwide tuition and fees fully covered by gift aid.

The University is determined to sustain this tradition of providing a world-class education to an increasingly diverse and talented cross-section of California students.

Context for the University's Sustainability Plan

The Budget Act of 2015 calls upon the University to develop a sustainability plan and associated projections and goals for the years 2016-17, 2017-18, and 2018-19, based upon a set of assumptions provided by the Department of Finance. The relevant statutory language appears in Appendix 1 of this report.

Financial sustainability at the University means having sufficient resources to support all three goals of access, affordability, and excellence.

The long-term funding framework established by the Governor and the University represents an integrated strategy to support all three pillars. The framework provides no specific funding level for California resident enrollment growth. Rather, the framework calls upon the University to explore strategies for increasing the number of students that it serves through other means – for example, by reducing students' time-to-degree. Such efforts may, indeed, enable the University to serve more students over time. By themselves, however, they are unlikely to significantly expand access to UC for graduating classes of high school students and California Community College transfer students in the near term.

The Budget Act of 2015 includes a provision to allocate an additional \$25 million to the University, beginning in 2015-16, to support enrollment growth of 5,000 California undergraduates by 2016-17 compared to 2014-15 levels. (The funding is contingent upon the University demonstrating by May 2016 that it will likely meet that target for 2016-17.) Together with other University resources, this funding will allow campuses to hire faculty members, to expand academic support services, and to provide other critical services associated with enrolling 5,000 more California resident students next year.

The University has developed a sustainability plan that incorporates both the funding and the expected 2016-17 enrollment growth reflected in the Budget Act of 2015 while also sustaining expanded access in future years. The University's plan also includes modest growth in graduate student enrollment, consistent with UC's role as the primary research enterprise for the State and recognizing the essential contributions that graduate students make to undergraduate education.

In addition, to meet the statutory requirement of the Budget Act of 2015, the University also developed an alternative sustainability approach that adheres to the Department of Finance assumptions although it does not reflect the University's intentions for the coming years. Consistent with those assumptions, the alternative approach reflects no State funding for enrollment growth in 2016-17 or subsequent years, resulting in limited growth in California resident undergraduate enrollment and no graduate enrollment growth. The alternative approach appears as Appendix 2 of this report.

Both the University's plan and the alternative approach based on Department of Finance assumptions reflect continued efforts to maximize operational efficiencies and to control costs. The primary difference between the University's plan and the alternative approach is the inclusion in the University's plan of projected enrollment growth and an associated – and essential – increase in State support for those additional students. Both the University's plan and the alternative approach reflect expenditures that are critical to the University's ability to continue to provide the type of education students seek from UC.

SECTION A. FINANCIAL PLAN

In developing its long-range financial plan, the University has looked carefully at the basic cost drivers of the institution and the resources available to cover those costs.

Expenditure Assumptions of UC's Financial Plan

The University's financial plan for 2016-17, 2017-18 and 2018-19 includes projected expenditures based on the following baseline expenditure assumptions:

- The plan includes an increase of 5,000 California resident undergraduate students and 600 graduate students in 2016-17 compared to 2014-15, followed by sustained enhanced access with annual increases of 2,500 resident undergraduates and 700 graduate students per year.
- Employer contributions to the University's retirement system will remain at the current 14% of compensation over the three-year period. (Note that while the framework calls for the University to receive one-time support over three years totaling nearly \$500 million to reduce the unfunded liability of its retirement plan, those funds will not impact annual employer contributions during this period.)
- The University assumes average annual increases in health benefit costs for active employees and retirees of 5.0% during the period covered by the plan.
- The financial plan assumes non-salary price increases of 2% in each of the next three years, with a slightly higher estimated rate of increase for energy-related purchased utilities.
- The plan assumes that \$96 million will be directed over the three-year planning horizon to the Faculty Merit Program. This program is a rigorous peer review of each faculty member every two to three years

to ensure that UC retains the best faculty for teaching and research. The program remains a cornerstone of UC's compensation program to recruit and retain high-quality faculty.

- The financial plan assumes compensation increases over the next three years equivalent to 3% each year, including represented and non-represented academic and non-academic staff. The latest faculty compensation study concluded that UC's faculty salaries are nearly 12% behind market. The proposed compensation increases are not expected to close UC's salary lag but to keep UC salaries from slipping further behind those of UC's principal competitor institutions.
- The plan includes permanent funds to meet a portion of the University's deferred maintenance needs. Addressing the deterioration of UC's aging buildings and supporting infrastructure is a very high priority of the President and the Regents, as the deferred maintenance backlog represents a growing life-safety and economic risk to the institution.
- The plan provides funding for the operating budget to support a modest capital program, consistent with the provisions set forth in AB 94 trailer bill language. This funding is essential to allow the Merced campus to build new facilities that will allow the campus to continue to grow and to address critical life-safety and other capital needs at the other campuses.
- The plan includes annual investments in critical elements of the academic program. These include improving the student-faculty ratio; funding for startup packages for new faculty, which is a major obstacle for many campuses seeking to hire new faculty; augmenting graduate student support to ensure that the level of support offered by UC is sufficient to attract top graduate students; and enhancing undergraduate instructional support (including instructional technology, libraries, instructional equipment replacement, and building maintenance).

Projections of Available Resources

The University's financial plan proposes to address its expenditure needs over the next three years through a combination of the resources shown below.

State General Funds and Student Tuition and Fees

The University's plan includes the following revenue projections, which reflect elements from both the funding framework, the Budget Act of 2015, and the State's historic practice of supporting expanded access at UC for California resident students:

- annual 4% base budget adjustments in State funding, consistent with the framework;
- \$25 million annually of State funding to support an additional 5,000 California resident undergraduate students beyond 2014-15 levels, consistent with the Budget Act of 2015, along with marginal cost funding for graduate enrollment growth and sustained, moderate California resident enrollment growth in future years;
- annual increases of 5% in the Student Services Fee, with one-half of the revenue (net of aid) to be set aside for enhanced student mental health services; and
- beginning in 2017-18, annual increases in Tuition pegged generally to inflation.

The plan does not address projected increases in Professional Degree Supplemental Tuition (PDST). Any increase in PDST revenue resulting from enrollment growth in programs that charge PDST and/or to increases in PDST levels would cover cost increases associated with those programs and hence would not affect other aspects of the University's budget plan.

Cost-Saving Measures, Efficiencies, and Alternative Revenue Sources

The University's financial plan assumes that the following further operational efficiencies and alternative revenues will also be available to help meet its funding needs.

- The plan assumes \$60 million of increased revenue over a three-year period available for operating budget purposes from philanthropy. While the University has been successful in increasing philanthropic giving, the vast majority of gifts to the University are restricted and not available to enhance the core operating budget. Achieving this goal will require the University not only to continue to increase existing levels of philanthropic support, but also to implement innovative new strategies to increase the flexibility of these funds.
- Nonresident Supplemental Tuition will continue to play an important role in the University's finances. Additional revenue is projected from increases in undergraduate Nonresident Supplemental Tuition of 8% in 2016-17 and 5% in subsequent years. The University's plan also includes a reduction in the growth of the University's nonresident undergraduate population each year.
- The plan also assumes that the University will secure additional funding for operating budget purposes from liquidity management strategies.
- In recent years, the strategic sourcing initiative, also known as procurement reform, has delivered substantial cost savings (much of which accrues to non-core funds). The financial plan assumes that the University will secure an additional \$30 million in permanent core fund savings from this systemwide initiative in 2016-17 alone.
- Although many campuses have experienced declines in federal research funding due to sequestration and other changes in the way federal research funding is awarded, a number of UC campuses have managed to partially mitigate the impact of these declines recently by renegotiating higher indirect cost recovery rates from the federal government, as well as by securing more nonfederal research funding. As a result of these efforts, the financial plan assumes that indirect cost recovery will remain flat during the next three-year period, despite potential decreases in federal funding for research.
- Under the plan, funding from the University's University Student Aid Program awarded to financially needy nonresident undergraduate students would be redirected to support enrollment growth. (This change would apply only to future cohorts of nonresident undergraduate students, not to students currently enrolled at UC.)

Other Efforts to Improve Student Access and Outcomes

Under the framework, the University has committed to a number of key reforms that have the potential, over time, to improve student success, to expand the University's capacity to serve students, and to reduce elements of the University's cost structure. These include, but are not limited to, the following:

- an enhanced commitment to the transfer function, reflected in both enrollment goals and efforts to clarify and streamline the transfer function;
- innovations to support student progress and improve time-to-degree, such as reviewing the number of undergraduate upper division major units required for graduation across the system, identifying three-year degree pathways, and piloting alternative pricing models in summer sessions;
- continued development of online undergraduate courses, with funding priority for bottleneck courses;
- supporting the innovative use of data to identify students at risk, to explore different methods for assessing costs of instruction, and to support student learning; and

- developing new options for benefits under the University of California Retirement Plan (UCRP) for future hires that incorporate the pensionable salary cap reflected in State’s Public Employee Pension Reform Act (PEPRA) for defined benefit plans.

Collectively, these far-reaching reforms represent a University-wide effort to rethink key elements of the educational and support services provided by the University to students and how those services may be delivered more effectively. Working closely with the Academic Senate, the administration has convened task forces throughout the University that are working simultaneously to make progress in each of these areas.

Differences between the University’s Plan and the Alternative Approach Using Department of Finance Figures

As noted earlier, an alternative approach that is consistent with Department of Finance planning assumptions is included as an appendix to this plan in order to meet the statutory requirements of the Budget Act of 2015. In contrast to the University’s plan, the alternative approach assumes no State support for enrollment growth and hence projects no material growth in California resident undergraduates or graduate students. The University does not intend to follow that approach; instead, the University intends to significantly expand enrollment. The alternative approach based on Department of Finance parameters assumes that University Student Aid Program funding currently received by nonresident undergraduate students would instead be redirected to provide additional financial aid for California resident students.

Projections of Available Resources and Expenditures in 2016-17, 2017-18, and 2018-19

	<u>Cumulative Change from 2015-16 Base (\$M)</u>		
	University's Plan		
	2016-17	2017-18	2018-19
Revenue			
State General Funds	\$157	\$319	\$488
Tuition and Fees (Gross)	97	250	406
Redirection of Nonresident Aid	14	28	42
Nonresident Suppl. Tuition (net of instr. costs)	69	121	173
Other Alternative Revenue	95	160	210
Deferred Maintenance (One-time)	25	25	0
Enrollment Pre-Funding (One-time)	25	0	0
Total	\$481	\$903	\$1,319
Expenditures			
Employee & Retiree Benefits (incl. UCRP & health)	\$56	\$111	\$168
Academic Merit Program	32	64	96
Compensation	156	297	443
Non-Salary Price Increases	30	54	78
Resident Enrollment Growth	56	88	120
Deferred Maintenance and Capital Program	65	100	120
Financial Aid	36	89	144
Academic Quality	50	100	150
Total	\$481	\$903	\$1,319

Source: UC Budget Office

SECTION B. ENROLLMENT PLAN

B.1 ENROLLMENT

Under the University’s plan, UC will be able to enroll substantially more California resident undergraduates over the next 3 years.

Under the University’s plan, the enrollment of California undergraduates would increase by 5,000 over 2014-15 levels by 2016-17 and would continue to grow by 2,500 California undergraduates in each of the following 2 years. By 2018-19 – the last year included in the plan – UC will enroll 10,000 more California resident undergraduates than it did in 2014-15.

Graduate and professional student enrollment, essential for California’s economy and societal needs and to support the additional undergraduates who would be enrolled under the University’s plan, would grow by 600 students in 2016-17 and by 700 students in subsequent years, for a total growth of 2,000 during this same period.

In contrast, enrollment growth among nonresident undergraduates would steadily decline for several years. Year-to-year growth in nonresident enrollment would fall from 1,200 in 2016-17 to 800 in 2018-19, as compared to budgeted growth of 2,000 for 2015-16.

Enrollment Projections Under the University’s Plan

FTE Enrollment	2014-15	2015-16	University's Plan		
			2016-17	2017-18	2018-19
CA res UG	175,034	175,052	180,034	182,534	185,034
Nonresident UG	25,053	28,532	29,732	30,732	31,532
Graduate/ Prof	49,792	50,952	51,552	52,252	52,952
% Nonresident UG (excludes summer)	13.4%	15.2%	15.3%	15.5%	15.7%

Note: 2015-16 are estimates. Figures are FTE and include summer, except for the nonresident calculation.

B.2 ENROLLMENT — UPPER DIVISION CCC TRANSFERS

Under the University’s plan, the number of transfer students will increase.

Supporting California Community College transfers is fundamental to the University’s mission. From 2008-09 through 2011-12, UC increased both the proportion and the number of new transfer students enrolled. This trend has reversed in recent years due to lack of funding for new enrollment as well as declining transfer applicants—which reflect enrollment reductions at the community college level during the state’s economic crisis. It is expected that demand from community college transfer applicants will begin to grow again, as a result of substantial new funding directed to the California Community Colleges in recent years.

In recognition of the importance of providing access for CCC students to the UC system, President Napolitano launched a transfer initiative to identify ways to broaden access, ease the transfer pathways, and improve educational outcomes for transfer students. Under the University’s plan, which allows for increased enrollment of new California students, UC would be able to make progress on these goals.

Upper-division transfer students enrolled annually from the California Community Colleges (CCC)

Academic Year FTE	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	University's Plan		
							2016-17	2017-18	2018-19
Number	32,523	34,041	33,807	33,615	34,086	34,344	35,756	36,980	37,531
% of all undergrads (FTE)	19.2	19.8	19.4	18.9	18.5	18.2	18.4	18.7	18.7

Note: 2015-16 are estimates. Excludes the summer term. Source: UC Corporate Student System. Upper-division CCC transfer students are those who enter UC from a California Community College with junior or senior standing. Postbaccalaureate teaching credential students are not counted as undergraduates.

B.3 ENROLLMENT — LOW-INCOME UNDERGRADUATES

Under the University's plan, UC's commitment to access for low-income students will be undiminished, although enrollment of low-income Pell-eligible students may decline slightly as a result of changes in the economy.

The University's track record for enrolling low-income students is unmatched by other research universities and is a strong engine for social mobility and economic equity in the state. Growth in Pell grant recipients over the past decade at UC reflects a combination of admission policies that seek out highly talented students from disadvantaged backgrounds, a robust financial aid program which keeps UC financially accessible for low income students, the poor economy (which lowered families' income and hence made more students eligible for Pell grants), and changes to the federal Pell program that expanded eligibility to more students.

Trends in the number of Pell-eligible students can reflect both changes in the economy and changes to Pell program requirements. As a result, change in the enrollment of Pell grant recipients *over time* is an imperfect measure of accessibility for low-income students. For example, UC projects that the proportion of Pell-eligible students will decline slightly at UC (and nationally) in the coming years. This change is due in part to the ongoing economic recovery, which should result in higher family incomes generally. This is good news and does not reflect any reduction in the University's financial accessibility for students from low-income families.

Enrollment of Undergraduate Pell Grant Recipients

Academic Year FTE	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	University's Plan		
							2016-17	2017-18	2018-19
Number	68,933	71,565	73,147	74,984	76,183	76,452	78,890	80,349	81,392
% of all undergrads (FTE)	41%	42%	42%	42%	41%	41%	41%	41%	40%

Note: 2015-16 are estimates. Excludes the summer term. Source: UC Corporate Student System.

B.4 ENROLLMENT — UNDERREPRESENTED MINORITY UNDERGRADUATES

Under the University's plan, UC will be able to enroll more California resident undergraduates, who are more likely to come from underrepresented groups. This enrollment growth will provide greater opportunities for populations like Latino students, who are growing rapidly in number and whose levels of academic preparation are also rising.

Undergraduate students from underrepresented minority groups (African American, Latino, and American Indian) have been steadily increasing in numbers and in share at UC even as, in the past few years, enrollment growth has slowed in response to the lack of funding for new enrollment. Under the University's plan, UC will be able to increase access for California students, and underrepresented students are likely to increase in both number and proportion over current levels.

Enrollment of Underrepresented Minority Undergraduate Students

Academic Year FTE	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	University's Plan		
							2016-17	2017-18	2018-19
Number	37,411	40,552	43,100	45,702	49,089	50,362	54,140	57,347	60,404
% of all undergrads (FTE)	22%	24%	25%	26%	27%	27%	28%	29%	30%

Note: 2015-16 are estimates. Excludes the summer term. Source: UC Corporate Student System.

SECTION C. PERFORMANCE METRICS

Introduction

The text and tables on the following pages display the outcomes the University projects would be associated with the financial and enrollment assumptions reflected in the University’s plan. Most of these metrics move very slowly. For example, degree completions associated with enrollment growth generally will not be reflected until after two years for transfer entrants, and after four years for new freshmen. Similarly, program enhancements designed to increase graduation rates cannot show immediate results because the cohorts that benefit from these programs are often early in their student careers. In some cases, it is even possible that indicators will move in the opposite direction for several years after a positive change is implemented because earlier cohorts will continue to exhibit outcomes based on conditions that existed in previous years.

The University carefully tracks graduation rates and degree completions and works at all levels to produce improvements in these metrics.

C.1 STUDENT SUCCESS — FRESHMAN AND TRANSFER GRADUATION RATES

Graduation rates for both freshman and transfer entrants at UC have been rising steadily in recent years. UC expects the rate of increase to slow because several campuses have reached rates that leave little room for dramatic improvements, and the improvements that will be achieved will come more slowly. In addition, as noted earlier, most of the students who will graduate during this three-year period are already enrolled and new improvements in the academic programs on the campuses will have a limited effect on their graduate rate or time to degree.

Nonetheless, UC’s campuses continue to aggressively pursue new ideas and programs to improve student success. As a result of these efforts, UC projects that four-year graduation rates for freshman entrants and two-year graduation rates for transfer entrants for both Pell and non-Pell students will increase by about 1% per year.

In comparing graduation rates below for Pell grant recipients and non-Pell recipients, note that while freshman four-year and transfer two-year rates show differences between Pell and non-Pell students, these gaps largely disappear when comparing six year (freshman) and four-year (transfer) rates. Put another way, Pell-eligible students graduate at roughly the same rate as non-Pell students, but their average time-to-degree is longer. These differences are associated with family education levels and high school preparation levels that are lower for Pell grant recipients, on average, than they are for students without Pell grants. Six-year freshman graduation rates and four-year transfer graduation rates are not included in the performance metrics requested for this report but can be found online at accountability.universityofcalifornia.edu/2015/chapters/chapter-3.html.

Graduation Rates

	Entering cohort	F'06	F'07	F'08	F'09	F'10	University's Plan			
							F'11	F'12	F'13	F'14
4 yr grad rate, freshman entrants		60%	60%	61%	63%	62%	63%	64%	65%	66%
4 yr grad rate, Pell freshman entrants		51%	52%	54%	57%	56%	57%	58%	59%	60%
	Entering cohort	F'08	F'09	F'10	F'11	F'12	F'13	F'14	F'15	F'16
2 yr grad rate, Up Div CCC transfer entrants		52%	54%	55%	55%	56%	57%	58%	59%	60%
2 yr grad rate, Pell Up Div CCC transfer entr		44%	47%	48%	51%	52%	53%	54%	55%	56%

Graduation rates include UC-intercampus transfers. Students who graduate in the summer term are included with the prior year. Low-income Pell students are those who received a Pell grant during their time at UC.

C.2 STUDENT SUCCESS — DEGREE COMPLETIONS

Differences completions are expected to increase steadily.

Degree completions have risen steadily at UC, particularly among undergraduates from low-income households. Degree completions are influenced by changes in the total number of students enrolled, as well as by completion rates. As with graduation rates, degree completions are lagging indicators that will not show dramatic change during the three-year horizon of this plan.

Degree Completions

	2010-11	2011-12	2012-13	2013-14	2014-15	University's Plan			
						2015-16	2016-17	2017-18	2018-19
Freshman entrants	31,673	32,778	32,608	31,866	33,123	34,312	35,478	36,177	36,270
Up Div CCC transfer entrants	13,093	14,191	14,717	14,651	14,745	14,893	14,936	15,013	16,416
STEM freshman entrants	11,745	12,403	12,921	12,496	14,558	15,080	15,593	15,900	15,941
STEM Up Div CCC transfer entrants	3,381	3,724	3,961	3,831	4,482	4,526	4,540	4,563	4,990
Pell recipients	19,437	21,634	23,154	21,469	23,999	24,658	25,250	25,632	26,423
STEM Pell recipients	6,366	6,874	7,578	7,027	8,775	9,016	9,232	9,372	9,661
Graduate (excludes self-supporting)	13,717	14,290	14,579	14,322	13,976	14,260	14,543	14,827	15,410
STEM Graduate (excl self-supporting)	7,240	7,694	7,950	8,012	8,167	8,333	8,498	8,664	9,005

2015-16 is an estimate. Source: UC Corporate Student System. Graduate degrees exclude self-supporting programs.

C.3 ADDITIONAL METRICS — FIRST-YEAR UNITS

About half of new students take 45 units or more in their first year at UC and we do not anticipate changes in this metric.

In fall 2012, 51% of freshman entrants and 44% of transfer entrants took 45 units or more their first year. UC analysis of this indicator shows that whether or not a student has completed 45 units at the end of his or her first year is a poor predictor of eventual graduation or time-to-degree. Many students are eventually awarded units for courses taken elsewhere that have not yet been recorded at this point or earn units in later years through summer enrollment or by enrolling in a greater number of units during the academic year.

Percentage of undergraduates who take 45 units in their first year at UC

	F'13	University's Plan				
		F'14	F'15	F'16	F'17	F'18
% of freshmen completing 45 qtr units	51%	51%	51%	51%	51%	51%
% of UD CCC transfers completing 45 qtr units	44%	43%	43%	43%	43%	43%

Source: UC Corporate Student System. Transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units. Includes the trailing summer term.

C.4 ADDITIONAL METRICS — UNITS AT GRADUATION

Efforts to review major requirements may, over time, reduce UC students' total units at graduation.

A UC bachelor's degree requires a minimum of 180 quarter units (120 semester units). Transfer students use units transferred from community college to complete their degree requirements. Students pursuing majors with high unit requirements (such as engineering/computer science) and those pursuing multiple majors graduate with higher units, on average, than those in other majors.

As noted earlier, the University is engaged in a systemwide effort to review the major unit requirements for its most popular undergraduate majors with the goal of streamlining those requirements where possible. This effort, which is to be completed by July 1, 2017, is likely to result in declines in students' total units at graduation for future cohorts of graduating students, as shown in the display below.

Average number of UC quarter units at degree completion

	2013-14	University's Plan				
		2014-15	2015-16	2016-17	2017-18	2018-19
Freshman entrants	187	187	187	187	185	183
Upper-div CCC entrants	97	97	97	97	95	93

Source: UC Corporate Student System. Only UC units are shown. AP/IB/transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units.

C.5 ADDITIONAL METRICS — CORE FUND EXPENDITURES PER DEGREE AWARDED

Dividing total funding by degrees awarded does not result in a useful metric.

In its March 2014 Performance Indicators Report, the University described its concerns with using a ratio of total funding to degrees awarded as an indicator of institutional performance. Such a ratio is a poor indicator of either productivity or quality, for example, because it cannot distinguish between reduced expenditures attributable to cost-cutting measures that should be applauded (e.g., operational efficiencies) and cost reductions that can reflect a genuine erosion of quality (e.g., a higher student-faculty ratio).

The University fully supports the goals of transparency and accountability in higher education. The University's *Annual Accountability Report*, for example, contains dozens of indicators that collectively provide insight into virtually every aspect of the University's mission – including student access, affordability, and success; undergraduate and graduate enrollment trends; faculty and staff demographics; student learning outcomes; research activities; and health sciences and services (along with many others). The most recent edition of the report is available at accountability.universityofcalifornia.edu.

Estimated Total Core Funds Expenditures (\$M) and Degrees Awarded

	University's Plan		
	2016-17	2017-18	2018-19
State General Funds	\$3,112	\$3,275	\$3,444
Tuition and Fees	3,326	3,479	3,635
NRST	927	995	1,061
Other UC General Funds	292	301	310
Total Core Funds	\$7,658	\$8,049	\$8,451
Degree Completions	66,276	67,344	69,548

Source: UC Budget Office

C.6 ADDITIONAL METRICS — CORE FUNDS FOR UNDERGRADUATE DEGREES AWARDED

Estimates of core fund support for undergraduate education are now available.

In its *Expenditures for Undergraduate and Graduate Instruction and Research Activities* report, published in February 2015, the University developed a methodology for allocating core fund expenditures for education between undergraduate and graduate instruction. For purposes of this sustainability plan, figures in that report have been adjusted to reflect projected changes in core funds and enrollment. Estimated core funds for undergraduate education are shown below, along with projected undergraduate degrees awarded, for the years 2016-17 through 2018-19. Expenditure figures are in millions of dollars.

Estimated Total Core Funds Expenditures for Undergraduate Instruction (\$M) and Undergraduate Degrees Awarded

	University's Plan		
	2016-17	2017-18	2018-19
State General Funds	\$1,408	\$1,481	\$1,556
Tuition and Fees	\$1,505	\$1,573	\$1,643
NRST	\$419	\$450	\$479
Other UC General Funds	\$132	\$136	\$140
Total Core Funds	\$3,465	\$3,640	\$3,819
Undergraduate Degree Completions	51,733	52,517	54,137

Source: UC Budget Office

APPENDIX 1

Provision 3 of Item 6440-001-0001 of the Budget Act of 2015 states the following:

2. (a) The Regents of the University of California shall approve a plan that includes at least all of the following:

(1) Projections of available resources in the 2016–17, 2017–18, and 2018–19 fiscal years. In projecting General Fund appropriations and student tuition and fee revenues, the university shall use any assumptions provided by the Department of Finance. The Department of Finance shall provide any assumptions no later than August 1, 2015.

(2) Projections of expenditures in the 2016–17, 2017–18, and 2018–19 fiscal years and descriptions of any changes to current operations necessary to ensure that expenditures in each of those years are not greater than the available resources projected for each of those years pursuant to paragraph (1).

(3) Projections of resident and non-resident enrollment in the 2016–17, 2017–18, and 2018–19 academic years, assuming implementation of any changes described in paragraph (2).

4) The university’s goals for each of the measures listed in subdivision (b) of Section 92675 of the Education Code for the 2016–17, 2017–18, and 2018–19 academic years, assuming implementation of any changes described in paragraph (2). It is the intent of the Legislature that these goals be challenging and quantifiable, address achievement gaps for underrepresented populations, and align the educational attainment of California’s adult population to the workforce and economic needs of the state, pursuant to the legislative intent expressed in Section 66010.93 of the Education Code.

(b) The plan approved pursuant to subdivision (a) shall be submitted no later than November 30, 2015, to the Director of Finance, the chairpersons of the committees in each house of the Legislature that consider the State Budget, the chairpersons of the budget subcommittees in each house of the Legislature that consider appropriations for the University of California, the chairpersons of the committees in each house of the Legislature that consider appropriations, and the chairpersons of the policy committees in each house of the Legislature with jurisdiction over bills relating to the university.

[California Education Code, Title 3, Division 9, Part 57, Chapter 6, Article 7.7, Section 92675: Reporting of Performance Measures](#)

(a) For purposes of this section, the following terms are defined as follows:

(1) The “four-year graduation rate” means the percentage of a cohort that entered the university as freshmen that successfully graduated within four years.

(2) The “two-year transfer graduation rate” means the percentage of a cohort that entered the university as junior-level transfer students from the California Community Colleges that successfully graduated within two years.

(3) “Low-income students” means students who receive a Pell Grant at any time during their matriculation at the institution.

(b) Commencing with the 2013-14 academic year, the University of California shall report, by March 1 of each year, on the following performance measures for the preceding academic year, to inform budget and policy decisions and promote the effective and efficient use of available resources:

- (1) The number of transfer students enrolled annually from the California Community Colleges, and the percentage of transfer students as a proportion of the total undergraduate student population.
- (2) The number of low-income students enrolled annually and the percentage of low-income students as a proportion of the total student population.
- (3) The systemwide four-year graduation rates for each cohort of students and, separately, for each cohort of low-income students.
- (4) The systemwide two-year transfer graduation rates for each cohort of students and, separately, for each cohort of low-income students.
- (5) The number of degree completions annually, in total and for the following categories:
 - (A) Freshman entrants.
 - (B) Transfer students.
 - (C) Graduate students.
 - (D) Low-income students.
- (6) The percentage of first-year undergraduates who have earned sufficient course credits by the end of their first year of enrollment to indicate they will complete a degree in four years.
- (7) For all students, the total amount of funds received from all sources identified in subdivision (c) of Section 92670 for the year, divided by the number of degrees awarded that same year.
- (8) For undergraduate students, the total amount of funds received from the sources identified in subdivision (c) of Section 92670 for the year expended for undergraduate education, divided by the number of undergraduate degrees awarded that same year.
- (9) The average number of course credits accumulated by students at the time they complete their degrees, disaggregated by freshman entrants and transfers.
- (10) (A) The number of degree completions in science, technology, engineering, and mathematics (STEM) fields, disaggregated by undergraduate students, graduate students, and low-income students.
 - (B) For purposes of subparagraph (A), "STEM fields" include, but are not necessarily limited to, all of the following: computer and information sciences, engineering and engineering technologies, biological and biomedical sciences, mathematics and statistics, physical sciences, and science technologies

APPENDIX 2

Alternative Approach Submitted Pursuant to the Budget Act of 2015 and Department of Finance Planning Assumptions

The tables in this section are included in order to satisfy the University's requirement, under the Budget Act of 2015, to submit a three-year sustainability plan that is based upon assumptions provided by the Department of Finance.

The assumptions provided by the Department of Finance included no additional funding for California resident enrollment growth – either in 2015-16 (as provided in the Budget Act of 2015) or in subsequent years. As a result, the alternative financial approach, enrollment strategy, and student outcomes depicted below differ from those in the University's plan in several ways. Specifically,

- Under the alternative approach, UC's enrollment of California resident students would remain largely unchanged from what it is today.
- Because UC's enrollment of California resident students would remain relatively flat under the alternative approach, UC would enroll a smaller number and a smaller percentage of students from underrepresented minority families and from low-income families compared to student enrollment under the University's plan.
- UC would not be able to grow enrollment among graduate students, who are critical to the University's research enterprise and to meeting State workforce needs.
- Absent enrollment growth, several categories of enrollment-related expenditures would be lower under the alternative approach. However, with no anticipated increase in State support beyond an annual budget adjustment of 4% in State General Funds, other aspects of the University's budget plan would be affected as well. For purposes of this approach, the impact is shown as annual shortfalls in spending to address the University's deferred maintenance needs compared to the University's plan.
- Rather than redirect revenue currently used for nonresident financial aid to support California resident enrollment growth, the University would consider other users for such funds, such as providing additional financial aid to California resident students.

The same assumptions regarding alternative revenue sources, cost-cutting initiatives, and cost drivers unrelated to enrollment growth that were included in the University's plan would apply to the alternative approach as well.

Projections of Available Resources and Expenditures in 2016-17, 2017-18, and 2018-19

	Cumulative Change from 2015-16 Base (\$M)		
	Alternative Approach		
	2016-17	2017-18	2018-19
Revenue			
State General Funds	\$124	\$254	\$388
Tuition and Fees (Gross)	36	154	275
Nonresident Suppl. Tuition (net of instr. costs)	69	121	173
Other Alternative Revenue	95	160	210
Total	\$324	\$689	\$1,046
Expenditures			
Enrollment Growth	\$7	\$13	\$20
Employee & Retiree Benefits (incl. UCRP & health)	47	96	146
Academic Merit Program	32	64	96
Compensation	114	231	349
Non-Salary Price Increases	29	52	76
Deferred Maintenance and Capital Program	33	80	115
Financial Aid	13	53	94
Academic Quality	50	100	150
Total	\$324	\$689	\$1,046

Source: UC Budget Office

Enrollment Projections Under the Alternative Approach

FTE Enrollment	2014-15	2015-16	Alternative Approach		
			2016-17	2017-18	2018-19
CA res UG	175,034	175,052	175,702	176,352	177,002
Nonresident UG	25,053	28,532	29,732	30,732	31,532
Graduate/ Prof	49,792	50,952	50,952	50,952	50,952
% Nonresident UG (excludes summer)	13.4%	15.2%	15.7%	16.1%	16.5%

Note: 2015-16 are estimates. Figures are FTE and include summer, except for the nonresident calculation.

Upper-division transfer students enrolled annually from the California Community Colleges (CCC)

Academic Year FTE	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Alternative Approach		
							2016-17	2017-18	2018-19
Number	32,523	34,041	33,807	33,615	34,086	34,344	34,254	34,307	34,425
% of all undergrads (FTE)	19.2%	19.8%	19.4%	18.9%	18.5%	18.2%	18.1%	18.0%	18.0%

Note: 2015-16 are estimates. Excludes the summer term. Source: UC Corporate Student System. Upper-division CCC transfer students are those who enter UC from a California Community College with junior or senior standing. Postbaccalaureate teaching credential students are not counted as undergraduates.

Enrollment of Undergraduate Pell Grant Recipients

Academic Year FTE	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Alternative Approach		
							2016-17	2017-18	2018-19
Number	68,933	71,565	73,147	74,984	76,183	76,452	76,571	76,648	76,708
% of all undergrads (FTE)	41%	42%	42%	42%	41%	41%	40%	40%	40%

Note: 2015-16 are estimates. Excludes the summer term. Source: UC Corporate Student System.

Enrollment of Underrepresented Minority Undergraduate Students

Academic Year FTE	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Alternative Approach		
							2016-17	2017-18	2018-19
Number	37,411	40,552	43,100	45,702	48,976	50,407	52,689	54,938	57,174
% of all undergrads (FTE)	22%	24%	25%	26%	27%	27%	28%	29%	30%

Note: 2015-16 are estimates. Excludes the summer term. Source: UC Corporate Student System.

Graduation Rates

	Entering cohort	F'06	F'07	F'08	F'09	F'10	Alternative Approach			
							F'11	F'12	F'13	F'14
4 yr grad rate, freshman entrants		60%	60%	61%	63%	62%	63%	64%	65%	66%
4 yr grad rate, Pell freshman entrants		51%	52%	54%	57%	56%	57%	58%	59%	60%
	Entering cohort	F'08	F'09	F'10	F'11	F'12	F'13	F'14	F'15	F'16
2 yr grad rate, Up Div CCC transfer entrants		52%	54%	55%	55%	56%	57%	58%	59%	60%
2 yr grad rate, Pell Up Div CCC transfer entr		44%	47%	48%	51%	52%	53%	54%	55%	56%

Graduation rates include UC-intercampus transfers. Students who graduate in the summer term are included with the prior year. Low-income Pell students are those who received a Pell grant during their time at UC.

Degree Completions

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Alternative Approach		
							2016-17	2017-18	2018-19
Freshman entrants	31,673	32,778	32,608	31,866	33,123	34,312	35,478	36,177	36,270
Up Div CCC transfer entrants	13,093	14,191	14,717	14,651	14,745	14,893	14,936	15,013	15,080
STEM freshman entrants	11,745	12,403	12,921	12,496	14,558	15,080	15,593	15,900	15,941
STEM Up Div CCC transfer entrants	3,381	3,724	3,961	3,831	4,482	4,526	4,540	4,563	4,583
Pell recipients	19,437	21,634	23,154	21,469	23,999	24,658	25,250	25,632	25,660
STEM Pell recipients	6,366	6,874	7,578	7,027	8,775	9,016	9,232	9,372	9,382
Graduate (excludes self-supporting)	13,717	14,290	14,579	14,322	13,976	14,260	14,543	14,827	15,110
STEM Graduate (excl self-supporting)	7,240	7,694	7,950	8,012	8,167	8,333	8,498	8,664	8,830

2015-16 is an estimate. Source: UC Corporate Student System. Graduate degrees exclude self-supporting.

Percentage of undergraduates who take 45 units in their first year at UC

	Alternative Approach					
	F'13	F'14	F'15	F'16	F'17	F'18
% of freshmen completing 45 qtr units	51%	51%	51%	51%	51%	51%
% of UD CCC transfers completing 45 qtr units	44%	43%	43%	43%	43%	43%

Fall 2014 is an estimate. Source: UC Corporate Student System. Transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units.

Average number of UC quarter units at degree completion

	Alternative Approach					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Freshman entrants	187	187	187	187	185	183
Upper-div CCC entrants	97	97	97	97	95	93

Source: UC Corporate Student System. Only UC units are shown. AP/IB/transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units.

Estimated Total Core Funds Expenditures (\$M) and Degrees Awarded

	Alternative Approach		
	2016-17	2017-18	2018-19
State General Funds	\$3,080	\$3,209	\$3,344
Tuition and Fees	3,265	3,384	3,504
NRST	927	995	1,061
Other UC General Funds	292	301	310
Total Core Funds	\$7,565	\$7,889	\$8,219
Undergraduate Degree Completions	66,276	67,344	67,684

Source: UC Budget Office

Estimated Total Core Funds Expenditures for Undergraduate Instruction (\$M) and Undergraduate Degrees Awarded

	Alternative Approach		
	2016-17	2017-18	2018-19
State General Funds	\$1,392	\$1,454	\$1,517
Tuition and Fees	\$1,476	\$1,532	\$1,589
NRST	\$419	\$450	\$481
Other UC General Funds	\$132	\$136	\$141
Total Core Funds	\$1,392	\$1,454	\$1,517
Degree Completions	51,733	52,517	52,574

Source: UC Budget Office