

## **Office of the President**

### **TO MEMBERS OF THE COMMITTEE ON FINANCE:**

#### **DISCUSSION ITEM**

*For Meeting of March 19, 2014*

### **UPDATE ON THE UNIVERSITY OF CALIFORNIA 2014-15 BUDGET**

At the January 2014 Regents meeting, Vice President Lenz and Executive Vice President Brostrom provided an update on Governor Brown's proposed 2014-15 budget that was released on January 9, 2014. Vice President Lenz will re-cap some of the issues outlined in the Governor's proposed UC budget and discuss the recommendations of the Legislative Analyst's Office (LAO) as it pertains to UC's 2014-15 budget.

#### **Governor's Proposed 2014-15 Budget for UC**

The Governor's proposed 2014-15 UC budget provides the second-year revenue to continue his commitment to a multi-year funding plan for the University of California. In the 2014-15 fiscal year, this plan would provide an additional \$142.2 million from the State General Fund, representing a five percent increase, for total State funding of \$2,986.2 billion (however, \$221.3 million of these funds are related to debt service and not available for operating purposes). The Governor's proposed funding increase assumes that UC will continue efforts to achieve savings through administrative efficiencies and is predicated on no tuition increases in the 2014-15 academic year. In addition, the budget proposes that the Regents adopt a three-year sustainability plan that sets targets for key measures, within resource assumptions provided by the Department of Finance (DOF). The Governor's Office contends that this requirement will foster greater transparency in the budget decisions facing the systems, as well as responsible planning within sustainable State funding. All three segments of higher education will be expected to implement reforms to improve student success and to realize institutional efficiencies. With savings achieved in this way, in combination with the State General Fund increases and further efficiency savings (e.g. UC's *Working Smarter* initiative and the California State University's [CSU's] Systemwide Administrative Efficiencies initiative), the Governor's Office expects the universities to maintain current tuition and fee levels through at least the 2016-17 fiscal year.

The Governor is also proposing \$50 million for competitive Innovative Awards to incentivize UC, CSU and the California Community Colleges to increase the number of degrees, reduce the time to degree, and ease the transfer for California Community College students. UC already exceeds its national comparison institutions in time to degree; however, any funding that would

increase the number of baccalaureates and improve transparency for community college transfers would be welcome.

In addition, UC students will benefit from the new Middle Class Scholarship Program to be implemented in the fall of 2014 that will provide a 40 percent reduction in tuition and fees for families with incomes up to \$150,000 once the program is fully implemented beginning in the fall of 2018. While less than 50 percent of UC students pay full tuition and fees at UC, the Middle Class Scholarship Program will provide greater assistance to students who may not qualify for financial aid or who get little grant aid.

The budget plan provides no additional funding for the UC Retirement Plan or any of the one-time proposals UC had recommended to DOF. Nor does the plan propose cap and trade funding for UC's energy initiative.

### **Legislative Analyst's Recommendations**

The LAO is recommending that the Legislature reject the Governor's proposed 2014-15 budget plan for the University of California because the funding is allocated without being linked to a specific purpose. Instead, the LAO is recommending that the Legislature adopt a "workload" budget and performance outcome measures tied to the additional State funding. Prior to the severe budget reductions faced by UC from 2007-08 through the 2011-12 fiscal years, Governors proposed and the Legislature often adopted a "workload" budget that recognized mandatory costs and often other high-priority budget issues such as enrollment growth. The LAO is asking the Legislature to return to a workload budget framework and provide UC with \$118 million to address inflationary costs, \$64 million for the employer contribution to the retirement program, and \$4 million for UC retiree health benefits. This would provide UC with a total increase of \$186 million, a 6.5 percent increase.

The LAO is recommending that the additional \$186 million be funded in part with State General Fund revenue and in part with a "share of cost" commitment through an increase in student tuition. The LAO proposes a State General Fund commitment of \$108 million and a "share of cost" tuition increase of 3.8 percent. The 2014-15 tuition increase would generate \$78 million (net of financial aid). While the overall LAO budget recommendation for UC is \$44 million higher than the Governor's January proposal, the actual cost to the State General Fund is \$34 million less with the proposed tuition increase.

In addition, the LAO is proposing that the Legislature take a multi-year approach to address student access in higher education and long-term enrollment planning. The LAO is in agreement with longstanding higher education concerns that State budget decisions on enrollment funding are concluded long after UC and CSU have enrolled students for the fall semester. The late nature of the final agreement in the budget deliberations makes it nearly impossible for UC and CSU to alter their enrollment decisions after the State budget is signed. UC endorses this aspect of the LAO recommendation, which acknowledges that UC would be better served by a multi-year enrollment strategy from the State.

However, the LAO is not proposing any additional enrollment funding for UC in the 2014-15 or 2015-16 academic year, while recommending two percent enrollment funding for CSU in 2014-15 and no enrollment funding in 2015-16. The LAO notes that CSU is currently 20,000 students short of meeting its Master Plan enrollment commitment, while UC is enrolling all eligible students as called for in the Master Plan. The LAO recommendation, then, would fully fund CSU enrollments, but effectively leave approximately 7,500 students unfunded by the State at UC, at a cost of \$75 million. In addition, the Governor's budget proposes three percent enrollment growth for the California Community Colleges that would add 34,000 new full time equivalent students in the 2014-15 academic year. A portion of these community college students will soon be seeking access to transfer to UC and CSU. This LAO recommendation is of deep concern to UC.

The LAO is also recommending that the Legislature adopt performance outcome measures (POMs) associated with additional funding provided by the State to the University of California. As part of the 2013 Budget Act, UC is reporting on a number of performance measures including, but not limited to, four-year graduation rates, two-year graduation rates, the number of low-income students, number of transfer students, number of degrees completed annually, and number of degree completions in science, technology, engineering, and mathematics (STEM) fields. On February 26, the Senate Education Committee and the Senate Budget and Fiscal Review Committees jointly heard from the Department of Finance, the LAO, higher education experts, and the three segments of public higher education on these issues. It is clear that the Legislature has an interest in agreeing upon the appropriate POMs to use for UC, CSU, and the California Community Colleges and associating them with additional funding provided to each segment. It is unclear which specific POMs might apply to each segment, how the POMs would be related to that segment's Master Plan mission, the comparison indicators given the student populations served by each segment, and whether funding would be contingent upon future progress made on any of the adopted POMs.

Finally, the LAO is raising concerns about transparency and accountability in the new capital facility approval process that was implemented for UC in the 2013 Budget Act and the impact of UC's success in achieving the debt restructuring efforts. As a result of debt restructuring, UC now uses an abbreviated State process for capital facility projects that were previously funded with voter-approved General Obligation (GO) bonds or State-approved lease-revenue bonds (LRBs). Per the Governor's recommendation in his January budget, CSU will be adopting this new capital process as well. The LAO is raising concerns about the Legislature's role and oversight, as well as the UC system's accountability for the proposed projects under the new process. UC is currently recommending projects that have been included each year in the Five-Year Capital Outlay for State Funds that is approved annually by the UC Regents. In addition, the State has had ample notice of UC capital facility projects, campus by campus, that are part of the annual report to the Regents on the campuses' Ten-Year Capital Financial Plans. UC requested and received approval for \$87 million in capital facility projects as part of the 2013-14 UC budget and is requesting an additional \$277 million in project approval as part of the 2014-15 UC budget. As a result, UC's believes the LAO's concerns about transparency, oversight, and accountability are unwarranted.

Finally, the LAO is recommending that the Legislature reject the Governor's \$50 million proposal for a new Innovative Awards program that would providing funding for UC, CSU, and

California Community College local campuses and colleges to increase the number of baccalaureate degrees, reduce the time to degree, and ease the transfer process for community college students. This one-time funding would provide grants for new and innovative ideas that would be reviewed by an appointed commission with funding being allocated after the proposal deadline of January 9, 2015. The LAO believes that this new program sends the wrong message in appropriating one-time funding for improvements that the segments should be making with their proposed funding from the State. The LAO also believes that the Governor's recommendation is inconsistent with Senate Bill 195 (Liu, Chapter 367 – 2013) that would establish between six and 12 goals based on the distinct missions of each higher education segment. The LAO indicates that the Legislature should consider the one-time funding needs within each of the UC, CSU, and California Community College budgets in lieu of this recommendation.