Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

DISCUSSION ITEM

For Meeting of May 11, 2016

UPDATE ON THE 2016-17 STATE BUDGET

EXECUTIVE SUMMARY

The Governor will issue his May Revise proposal on or about May 13, after the May meeting of the Board of Regents. The President will provide a written report to the Board following its release to update the Board on any changes to the University’s proposed budget based on the Governor’s May Revise proposal. This item provides an update on two other budget items that have been resolved in recent days.

Conditions have been met for release of Proposition 2 funds appropriated by the State in the Budget Act of 2015-16 for the unfunded liability associated with the University of California Retirement Plan. With the Board’s action to adopt changes to the retirement plan at the March meeting, the University has successfully completed the requirements to allow release of these funds.

Conditions have also been met for release of enrollment growth funding included in the Budget Act of 2015-16. The University has provided sufficient evidence to demonstrate to the Director of Finance that it will enroll 5,000 more California undergraduate resident students by 2016-17 than it enrolled in 2014-15.

Executive Vice President and Chief Financial Officer Brostrom and Associate Vice President Obley will provide a presentation on these items at the May meeting.

BACKGROUND

The 2015-16 Budget Act included provisions that required action by the University in order to release funds appropriated to the University.

Retirement Program

In the budget framework agreed to by the President and the Governor last spring and endorsed by the Regents, the Governor committed to support one-time Proposition 2 funds totaling $436 million over a three-year period to be used to pay down the unfunded liability associated with the
University of California Retirement Plan (UCRP). This funding was contingent on the University implementing a retirement plan with a pensionable salary cap consistent with the State’s Public Employees’ Pension Reform Act (PEPRA), effective for new hires on or after July 1, 2016. The Board approved a new retirement program for employees hired on or after July 1, 2016 at the March meeting that includes adoption of the PEPRA pensionable salary cap, consistent with the agreement with the Governor. The Director of Finance is expected to release $96 million of Proposition 2 funds to the University for 2015-16. The next increment of $170 million is expected to be appropriated in the 2016-17 budget in a few months.

**Enrollment Funding**

The 2015-16 Budget Act included an appropriation of $25 million for enrollment growth, contingent on the University demonstrating to the Director of Finance that it had taken sufficient action by May 1, 2016 to enroll 5,000 additional undergraduate California residents by 2016-17 compared to the number it enrolled in 2014-15. The University submitted information to the Director of Finance on April 27 detailing its plan for meeting this goal. It is anticipated that the Director will release the $25 million in State General Funds within the next few weeks, consistent with the language in the Budget Act.

The University’s plan includes targeted increases in freshmen, transfer students, and summer enrollment sufficient to increase total enrollment by 5,080 in 2016-17 compared to 2014-15. All campuses are participating, with the most aggressive targets for new student growth established for the three most selective campuses – Berkeley, Los Angeles, and San Diego – as well as Riverside. Because the due date for complying with the budget language falls in the middle of the admissions process, the University submitted data on freshman admission offers and anticipated acceptance rates as well as targets for transfer and summer increases to demonstrate its intent to meet the 5,000 student goal. The University will ensure it stays on track to meet its goal even once the funding is released.

The $25 million to be provided by the State is one-half of the funding that would normally be provided by the State for enrollment growth of 5,000 students. Consistent with legislative intent expressed in the Budget Act, the University intends to fund the remaining half by freeing up funds through the elimination of need-based financial aid for nonresident undergraduate students beginning in 2016-17. This action should free up $14 million in 2016-17 to be used to help fund the remaining half of what normally would be funded by the State for enrollment growth. The remaining $11 million needed for enrollment growth will be “bridge-funded” with one-time funds until the amount redirected from elimination of need-based aid for nonresident students grows to a sufficient level (by 2017-18) to fully fund the remaining half of the enrollment growth funding needed to fully support the 5,000 student increase.

**Other Issues**

Executive Vice President and Chief Financial Officer Brostrom and Associate Vice President Obley will provide an oral presentation at the May meeting to update the Board on legislative hearings and any other actions occurring during the 2016-17 budget negotiation process. The Governor’s May Revise is expected to be released on or about May 13, which will be subsequent
to the May 2016 meeting. A separate communication updating the Board on the Governor’s proposals will be provided once information becomes available.