

**Office of the President**

**TO MEMBERS OF THE COMMITTEES ON FINANCE AND LONG RANGE PLANNING:**

**ACTION ITEM**

*For the Meeting of May 21, 2015*

**ENDORSEMENT OF FRAMEWORK CONTAINED IN THE GOVERNOR'S REVISED BUDGET FOR 2015-16 AND BEYOND AND APPROVAL OF AUTHORITY FOR ADDITIONAL INCREASE IN NONRESIDENT TUITION**

**EXECUTIVE SUMMARY**

At the November 2014 meeting, the Regents adopted the University's Long-Term Stability Plan for Tuition and Financial Aid and the 2015-16 Budget for Current Operations. These documents laid out the revenue needed to achieve the University's key goals for the five-year period from fiscal year 2015-16 through fiscal year 2019-20 and a combination of actions – including predictable increases in State funding, significant new operational efficiencies to be undertaken by the University, and modest annual increases in tuition – that would provide that needed revenue. In January 2015, the Governor released his initial budget for 2015-16. That budget proposed an ongoing augmentation to UC's budget of \$119.5 million (the amount previously set forth in his multi-year funding plan for the University), contingent on the University not increasing either resident or nonresident tuition and other restrictions, along with a one-time increase of \$25 million for deferred maintenance.

Also at the November meeting, the Governor proposed a committee be formed to study the University's operations, with the goal of identifying additional efficiencies while maintaining or improving access, quality, and outcomes. The Select Advisory Committee on the Cost Structure of the University was established at the January 2015 meeting and has conducted its work over the past four months. This work included meetings during which the President of the University and the Governor heard presentations from higher education experts from both within and outside the University – including UC faculty. Committee staff also heard presentations from campuses, met with leaders of the Academic Senate, and consulted with additional faculty, students, staff, and internal and external experts. These collaborative efforts identified a number of best practices, some of which are already taking place or planned at individual UC campuses that UC can expand to increase success in such areas as reduced time-to-degree and enhancing transfer, as well as other items identified by experts.

At the conclusion of this process, and in conjunction with the Governor's revised budget, which was released on May 14, 2015, the President and the Governor agreed on a proposed framework

that will result in increased revenues to provide fiscal stability for the University, as well as a two-year freeze in resident tuition and, over time, programmatic improvements and increased operational efficiency.

Over the last several months, as the Select Advisory Committee's work was under way, the University has also been engaged in productive discussions with members of the Legislature. One of the topics of these conversations has been the appropriate level of undergraduate nonresident tuition. The Legislature has put forth several proposals for nonresident tuition increases higher than the increase approved in November. In order to allow these conversations to continue, this item proposes that the President be authorized to raise the level of nonresident undergraduate tuition up to eight percent annually, pending additional conversations with the Legislature.

This item requests that the Regents (1) endorse the elements of the proposed framework agreed upon by the President and the Governor and described in greater detail in the remainder of this item, and (2) authorize the President to increase undergraduate nonresident tuition by up to eight percent annually through 2019-20.

### **RECOMMENDATION**

The President of the University recommends that the Committee on Finance recommend to the Regents the following actions for 2015-16 and beyond:

- A. Endorse the framework for long-term funding agreed upon by the President and the Governor.
- B. Authorize the President to implement increases in Nonresident Supplemental Tuition for undergraduate nonresident students of up to eight percent annually for the years 2015-16 through 2019-20.

### **BACKGROUND**

At the November 2014 meeting, the Regents adopted the University's Long-Term Stability Plan for Tuition and Financial Aid and the 2015-16 Budget for Current Operations. These documents identified several key goals underpinning the University's long-range financial planning and tuition strategy:

- Reduced tuition volatility and an increased ability for families to plan for future tuition levels.
- Continued commitment to affordability and maintenance or enhancement of UC's robust financial aid policies.
- Enhancement of academic quality and the student experience – including improvement in student outcomes.
- Continued commitment to access for California students.

The Long-Term Stability Plan proposed a combination of actions – including regular increases in State funding, significant new operational efficiencies to be undertaken by the University, and modest annual increases in tuition of up to five percent – that would provide the revenue needed to achieve these goals for the five-year period from fiscal year 2015-16 through fiscal year 2019-20. In January 2015, the Governor released his initial budget for 2015-16. That budget proposed an augmentation to UC’s budget of \$119.5 million and \$25 million for deferred maintenance. The Governor’s budget also proposed that the \$119.5 million increase was contingent on the University not increasing either resident or nonresident tuition and adopting reforms put forth by the Select Advisory Committee on the Cost Structure of the University.

Also at the November meeting, the Governor proposed a committee be formed to study the University’s operations. The Select Advisory Committee on the Cost Structure of the University was established at the January 2015 meeting and has conducted its work over the past four months. This work included meetings during which the President of the University and the Governor heard presentations from higher education experts from both within and outside the University – including UC faculty. Committee staff also heard presentations from campuses, met with leaders of the Academic Senate, and consulted with additional faculty, students, staff, and internal and external experts.

At the conclusion of this process, and in anticipation of the Governor’s revised budget, which was released on May 14, 2015, the President and the Governor agreed on a proposed framework that will result in increased revenues to provide fiscal stability for the University, as well as a two-year freeze in resident tuition and, over time, programmatic improvements and increased operational efficiency. Key features of this framework include the following:

- **State commitment to additional annual increases in State funding.** In 2013, the Governor proposed regular annual increases in direct appropriations to the University of five percent in 2013-14 and 2014-15 and four percent in 2015-16 and 2016-17. The Governor has now committed, subject to agreement with the Legislature, to extend the four percent increases for two additional years, through the 2018-19 fiscal year, giving the University much-needed predictability in its long-term fiscal outlook. This amounts to a total increase of \$507.3 million in UC’s base budget over the next four years.
- **Additional one-time funding to address high-priority costs.** The Governor’s January budget proposed one-time funding of \$25 million to support high-priority deferred maintenance needs across the University’s ten campuses. The May Revision proposes an additional \$25 million in one-time cap-and-trade funds to address energy efficiency projects. These are one-time funds that cannot be used for other purposes.
- **Modest and predictable tuition increases.** UC has agreed to freeze resident tuition at 2014-15 levels for the 2015-16 and 2016-17 academic years. Beginning in 2017-18, the framework provides for predictable tuition increases, pegged to the rate of inflation. It also provides that the Professional Degree Supplemental Tuition (PDST) approach adopted by the Regents at the November meeting will remain in effect, except that PDST for the University’s four law schools will remain at 2014-15 levels through 2018-19.

- **Shared commitment to addressing UC's long-term pension liability.** The Governor has agreed, subject to the Legislature's approval, to provide a total of \$436 million in one-time funding over three years, beginning with \$96 million in 2015-16, to address a portion of UC's pension obligations. This funding will be provided from Proposition 2 debt funds, which cannot be used for University operating costs or to pay the current costs of the University's pension contributions. In return, the University has agreed to bring to the Regents by July 1, 2016 a new pension tier which would provide, at the employee's election, either a defined benefit plan that caps the amount of salary used to calculate benefits at a level consistent with the State's 2012 pension reform law (currently \$117,020) plus a supplemental defined contribution (DC) plan for certain employees, or an optional fully DC plan. The specific terms of new plans will be developed in consultation with UC faculty and staff. The restructured pension plan, the final form of which will be subject to Regental approval, will not apply to current employees. For represented employees, it will be subject to collective bargaining.
- **Enhanced commitment to the transfer function.** In May 2014, the University's Transfer Action Team recommended a number of actions to streamline the transfer function and increase transfer enrollment. As part of this framework, UC is committing to specific timeframes for implementing several key recommendations. Specifically, UC has agreed to complete transfer preparation pathways for 20 of its top majors over the next two academic years. These pathways will be consistent across all nine undergraduate campuses, will be as consistent as possible with the California State University (CSU) pathways created for Community College Associate Degrees for Transfer, and will specify clearly any differences between the CSU and UC pathways. In addition, consistent with the Master Plan for Higher Education, UC will increase the proportion of its students who enter UC as transfers, achieving by the 2017-18 academic year its goal of having one-third of entering students start as transfers (with the exception of UC Merced). The President will also ask the Academic Senate to examine adoption of the state's Common Identification Numbering (C-ID) system to further simplify identification of similar courses across campuses in each of the segments.
- **Innovations to support student progress and improve time-to-degree.** In discussions with experts and campus visits that were part of the Select Advisory Committee process, UC and the Governor identified a number of promising practices that can be expanded across the UC system to increase student success and reduce time-to-degree. These include:
  - Reviews of major requirements to determine whether the number of units required to complete a major can be reduced without compromising quality with a goal of reaching 45 units. This type of review has already been conducted at UCLA and will be completed on all remaining undergraduate campuses for three-quarters of majors by July 1, 2017.
  - Identification of course sequences that will enable students to complete their degrees in three years (potentially including up to three summer sessions). UC

will identify pathways for ten of the top 15 majors at every campus by March 1, 2016.

- Enhanced use of summer session to aid time-to-degree. UC has identified alternative pricing models (for example, financial incentives to take more units during summer session or to complete a degree in summer rather than returning for the next fall term) as a means of encouraging students to enroll in summer session. The University will pilot such alternative pricing models at three campuses by summer 2016.
  - Continued development of online courses, with an emphasis on hybrid and “flipped” courses and on expansion of access to gateway courses that can slow student progress if not offered at the correct point in a student’s academic career or if sufficient capacity is not available.
  - Enhanced use of Advanced Placement and other opportunities for earning credit for coursework or experience outside UC. The President will ask the Academic Senate to reexamine current policies regarding Advanced Placement and the College Board’s College-Level Examination Program tests.
  - Enhanced advising services to support students in planning their time at UC and successfully completing their degrees within four years.
- **Continued innovation in the use of data analytics to understand instructional costs and improve student outcomes.** Better integration and use of data on costs, course offerings, and student performance have the potential to improve the effectiveness and efficiency of the University’s operations. A number of innovative new approaches are currently being piloted at UC campuses and the University is committed to expanding these pilots, including, but not limited to, the following:
    - Expansion of “predictive analytics” for identifying students at risk of academic difficulty and monitoring their progress. This approach is currently being implemented at UC Irvine and other campuses are planning or will initiate similar efforts.
    - Piloting of “activity-based costing” in the College of Humanities, Arts and Social Sciences at UC Riverside and, following a scoping study, in three departments at two other campuses. Activity-based costing allows institutions to better understand the cost components associated with the delivery of specific courses and has been used at a number of universities outside the United States. UC Riverside is seeking to serve as a U.S. pilot for this new approach.
    - Use of “adaptive learning technology” to help students master challenging coursework, by tailoring instruction to individual needs, which helps them stay on track for graduation. UC Davis will lead a multi-campus pilot of this technology.
    - Expansion of online certificate and master’s degree programs to address critical workforce needs in California. This summer, UC will convene industry and academic leaders to discuss areas of significant need where UC can contribute by providing online programs.

This historic agreement between the Governor and the University of California delivers significant new revenue that, when fully realized, will exceed the previous State funding peak in 2007-08. The University will continue to provide progress reports and updates to the Governor's administration as these proposals are implemented. Taken together, this multi-year package of revenue enhancements, cost control measures, and innovative practices will set the University on a stable financial and operational footing, ensuring UC's continued service and leadership for the State of California.