

**Office of the President**

**TO MEMBERS OF THE COMMITTEE ON LONG RANGE PLANNING:**

**ACTION ITEM**

**For Meeting of November 19, 2014**

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

**EXECUTIVE SUMMARY**

The Budget Act of 2014 calls upon the University to submit a financial sustainability plan approved by the Board of Regents that is to include projections of revenue, expenditures, and enrollment, as well as projected goals for specified performance outcome measures, for the years 2015-16, 2016-17, and 2017-18 based upon a set of assumptions provided by the Department of Finance (DOF).

Under the assumptions provided by DOF, State funding would increase by four percent per year, consistent with the Governor's multi-year plan, and student charges – specifically, Tuition, the Student Services Fee, Nonresident Supplemental Tuition, and Professional Degree Supplemental Tuition – would remain fixed at 2014-15 levels.

This item requests approval of the plan developed by the University.

**RECOMMENDATION**

The President recommends that the Committee on Long Range Planning recommend to the Regents that the Three-Year Financial Sustainability Plan requested by the Governor be approved.

**BACKGROUND**

The University of California has long been recognized as one of the finest public research universities in the world. State investment over the years has yielded significant dividends for California in terms of economic activity attracted to the State, the development of a highly trained workforce, the provision of health care to its citizens, and other unquantifiable services to industry and other public sectors in the state. At a time when UC is emerging from the worst fiscal crisis in its history, the University faces challenges that could decide the long-term future of not just the University of California, but also the access and affordability of UC for future generations of students. It is within this context that the University has developed its response to the request for a three-year financial sustainability plan.

The 2014-15 budget act included language requesting UC and California State University (CSU) each to develop a three-year financial sustainability plan that would include projections of revenue and expenditures based upon assumptions provided by the Department of Finance (DOF). The assumptions provided by DOF in August specified that the four percent base budget adjustment proposed for 2015-16 as part of the Governor's multi-year plan would continue to be provided through 2017-18, but that UC should expect that all forms of tuition would continue to be held flat. The four percent base budget adjustment equates to only a 1.7 percent adjustment to the University's core operating budget, which is the primary source of funding for the University's educational programs.

The language also requests UC to develop a three-year enrollment plan as well as three-year goals for performance outcome measures that UC reported on in March, 2014. These performance outcome measures include the following:

- Graduation rates for freshmen, community college transfers, and low-income students;
- The number and proportion of undergraduate enrollment who are community college transfers;
- The number and proportion of undergraduate enrollment who are low-income;
- Degree completions for freshmen, community college transfer, graduate, and low-income students;
- The percentage of 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;
- The average number of course credits accumulated by students at the time they complete their degrees.

The requested performance measures also include information regarding the average costs of instruction and degree completion.

### ***The University's Plan***

Financial sustainability at the University means having sufficient resources to support its three pillars of success – access, affordability, and excellence. No plan consistent with DOF's assumptions could be meaningfully described as a "sustainability" plan. Maintaining academic excellence, expanding enrollment opportunities for California students, and preserving the affordability of a UC education for financially needy students require an investment of resources beyond those available under the DOF's assumptions.

The plan presented by the University under the DOF's assumptions meets the statutory requirement of the Budget Act of 2014. However, the plan depicts a future for the University that differs markedly from the University's achievements to date. Specifically, the plan is characterized by dramatic reductions in:

- The number of California residents enrolled at UC, leaving UC unable to honor the Master Plan;
- The number and percentage of UC undergraduates from low-income families;
- The diversity of UC undergraduates; and
- The number of transfer students enrolled from the California Community Colleges.

The University believes that California deserves better than the future proscribed by the assumptions provided by DOF. The University thus proposes an alternative plan, based upon a modified set of assumptions, with very different outcomes. Under the University's plan:

- Enrollment of California residents would increase, and UC would continue to honor its commitment to the Master Plan by finding a place for all eligible students;
- UC would remain a national leader in enrolling students from low-income families;
- The diversity of UC undergraduates would continue to increase; and
- UC could enroll and graduate a greater number of transfer students.

Consistent with the long-range financial model developed by the University and presented to the Regents at this meeting (Item L2, *Update on Long Range Financial Plan*), the three-year financial sustainability plan projects revenue and expenditures for 2015-16, 2016-17, and 2017-18 under both the DOF assumptions and the University's assumptions.

Both plans reflect continued efforts to maximize operational efficiencies and to control costs. The primary difference between the two plans is the inclusion in the University's plan of modest and predictable tuition and fee increases, consistent with the University's long-term stability plan for tuition and financial aid presented to the Regents at this meeting. (See item L3, *Approval of Long-Term Stability Plan for Tuition and Financial Aid*.) In the plan based on the DOF assumptions, revenue that would otherwise be generated from tuition and fee increases would be raised instead by enrolling a greater number of nonresident undergraduate students.

Both plans reflect expenditures that are critical to the University's ability to continue to provide the type of education students seek from UC. Students have many choices of institutions to attend. Student demand for UC remains strong precisely because of the quality of the education that UC offers. Any multi-year plan that does not provide sufficient resources to meet this expectation is not "sustainable."

The University strongly agrees with those who call for efforts that "bend the cost curve," including efforts to further enhance instructional delivery with new technologies. Aggressive actions to do just that are built into the three-year plan under both the University's and the DOF's assumptions. However, the University cannot cut its way to excellence. The University will continue to make every effort to keep costs down, to ensure that necessary increases in tuition and fees are modest, and to secure for generations to come the excellence of a University of California education.

The full plan is attached.

Key to Acronyms

CSU	California State University
DOF	California Department of Finance

[Attachment: Three-Year Financial Sustainability Plan](#)