

UNIVERSITY  
OF  
CALIFORNIA

---

# Budget for Current Operations

Summary of the Budget Request

## 2016-17

## MESSAGE FROM THE PRESIDENT

For more than a century, the University of California has provided an unparalleled educational experience for generations of students. A UC education has ensured a bright, prosperous future for countless graduates. It has enriched the State of California through groundbreaking research and innovations, and a highly skilled workforce.

Past investments by the State of California in its prized public research university system have made all this possible. This spring, Governor Jerry Brown reaffirmed his commitment to public higher education by reaching a historic budget agreement with the University of California. The funding provisions of the agreement were endorsed by the Legislature in the 2015 Budget Act.

The new state budget provides the University with new revenue that translates into much needed fiscal stability. It allows University leadership to cap resident tuition at its current level for another two years. It gives students and their families time to plan and budget for college costs. And it preserves the access, affordability, and quality that Californians expect of UC.

The entire University of California community will seek continuing support from the Governor and the Legislature for our vibrant University and its students. In the spirit of our longstanding partnership with State leaders, UC is committed to doing its part.

We will not stop looking for more ways to increase efficiency and cut costs. We will adopt and implement the State's Public Employee Pension Reform Act's pensionable salary cap for new employees hired on or after July 1, 2016, building on UC's previous pension reforms. We will enhance the student experience by further simplifying the transfer process for California Community College students, improving academic advising, eliminating course bottlenecks, and positioning our students to graduate in a timely manner.

We also will tackle an objective critical to all stakeholders in the state: increasing the enrollment of resident undergraduates at the University of California. This challenging task will require collaboration and careful planning with our partners. But we at UC are committed to getting this done – for California and its students.

The University's 2016-17 operating budget outlines in detail our financial priorities and commitments for the upcoming academic year, and how we intend to uphold them. It is the roadmap that will lead us from a challenging and uncertain period into one of stability and continued growth.

Janet Napolitano, President  
November 2015

## THE BUDGET FRAMEWORK WITH THE GOVERNOR GUIDES DEVELOPMENT OF THE 2016-17 BUDGET FOR THE UNIVERSITY OF CALIFORNIA

Recognizing that access to quality higher education is a crucial investment in the State's future, the University of California and the State have long partnered to provide a high-caliber educational experience for all students who work hard and qualify, irrespective of social background or economic situation. Most states expect their public universities to offer a good education at an affordable price. But California's expectation has been much higher, and rightfully so. State investment in the University of California has enabled world-class faculty to offer an education comparable to those at elite private universities to generations of California's most qualified students who go on to contribute to the economic, social, and cultural vitality of the state. This proud tradition of public higher education excellence sets UC and California apart from other major research universities and other states. UC's and the State's shared commitment to excellence rests on three pillars: access, affordability, and quality.

The *Washington Monthly* ranks institutions on their contributions to the public good, evaluating factors such as social mobility, research, and public service. In its 2015 college survey, the *Washington Monthly* recognized UC for its role as an engine of social mobility and for its research and public service, noting, "As it has in previous years, the University of California system dominates our national university rankings, with a combination of research prowess and economic diversity among undergraduates." The recently published *College Access Index*, a *New York Times* measure of economic diversity and social mobility at top colleges, awarded six of the top seven spots to University of California campuses, reflecting the University's high proportion of low-income students, affordable price, and ever-improving graduation rates. At 42%, the University has a much higher proportion of Pell Grant recipients in its undergraduate population than any other major research university in the country. Enrolling at UC is a life-changing pathway to economic success for tens of thousands of students every year, which in turn contributes to the economic prosperity of the state.

The State's past support for the University has yielded an impressive return on investment, and both the State and UC share the goal of protecting that investment. Although the depth and breadth of the "great recession" earlier in this decade was a challenge to UC and many other State entities, the years of financial volatility have subsided.

The current stable financial outlook allows the University an opportunity to increase access to its educational programs and rebuild academic excellence. UC has built its 2016-17 budget plan on a foundation of renewed partnership with the State that acknowledges the University's imperative to continue pursuing efficiencies and alternative revenue strategies to help address a major portion of its budgetary needs. UC is grateful for additional State investment to help meet these needs and maintain the University's financial health.

The budget framework announced by Governor Brown as part of his May Revision to the 2015-16 budget provides much appreciated financial stability. It also includes several programmatic initiatives and efficiencies that reflect a shared goal of enhancing the educational experience at UC. Specifically, the framework calls for:

- **A commitment to additional annual increases in State funding.** In 2013, the Governor proposed regular annual increases in direct appropriations to the University of 5% in 2013-14 and 2014-15 and 4% in 2015-16 and 2016-17. The Governor has now committed, subject to agreement with the Legislature each year, to extend the 4% increases for two additional years, through the 2018-19 fiscal year, giving the University predictability in its long-term fiscal outlook. This amounts to a total increase in State funds of more than \$500 million in UC's base budget over the next four years.
- **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 10 campuses. The Governor's May Revision proposed an additional \$25 million in one-time Cap and Trade funds to address energy efficiency projects. (The deferred maintenance funding was appropriated to the University in the State Budget Act of 2015; the Legislature is expected to act on the Cap and Trade funding after it convenes in January.) These one-time funds cannot be used for other purposes.

- **Modest and predictable tuition increases.** UC has agreed to continue to freeze Tuition at 2011-12 levels for the 2015-16 and 2016-17 academic years, a total of six years with no tuition increases. Beginning in 2017-18, the framework provides for predictable Tuition increases, pegged generally to the rate of inflation. It also provides that the Professional Degree Supplemental Tuition (PDST) plan adopted by the Regents at their November 2014 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 to address a portion of UC's pension obligations: \$96 million in 2015-16 (which was approved as part of the 2015-16 budget), followed by an additional \$170 million in each of the following two years. This funding will come from Proposition 2 funds, which the State Constitution specifies must be supplemental, above contribution rates approved by the Regents, and used to help pay down the UCRP's unfunded liability. This funding is contingent upon implementation of the State's Public Employee Pension Reform Act's pensionable salary cap, effective for new hires on or after July 1, 2016. The UC Retirement Options Task Force, in consultation with the Academic Senate, staff and other stakeholders, is examining options for implementation of the cap and will make recommendations to the President for her recommendation to the Regents for approval in the spring. The approved retirement benefit plan 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 ways to streamline the transfer function and increase transfer enrollment. As part of the framework agreement, 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. The first 10 pathways were completed in June 2015. These pathways will be consistent across all nine undergraduate campuses, as consistent as possible with the 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 intent of the Master Plan for Higher Education, UC will increase the proportion of its California resident students who enter UC as transfers (conditioned on there being a sufficient pool of qualified applicants), achieving by the 2017-18 academic year its goal of having one-third of entering students start as transfers, both systemwide and at every undergraduate campus (with the exception of UC Merced). The President has also asked the Academic Senate to consider 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 discussions that led to the budget framework, UC and the Governor identified 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 upper-division units required to complete a major can be reduced without compromising quality, with a goal of not exceeding one academic year's worth of coursework (generally the equivalent of about 45 quarter units). This type of review has already been conducted at UCLA in some disciplines and will be completed on all undergraduate campuses by July 1, 2017.
  - development of three-year degree pathways for 10 out of the top 15 majors at each campus by March 1, 2016. Merced, which has far fewer majors than the other campuses, will develop three-year degree pathways for three out of its top five majors, which is proportional to expectations for other UC campuses. UC has committed to promoting these accelerated pathways for use by students where appropriate, with a goal that 5% of all UC undergraduate students will access these accelerated tracks by the summer of 2017.
  - enhanced use of summer session to lessen time-to-degree. Enrollment in one or more summer sessions has been shown to be a key element allowing UC students to complete their degrees more quickly. As a way to encourage more UC students to enroll in summer session, three campuses will pilot alternative pricing models in summer 2016. The models focus on expanded availability of summer session financial aid, a cap on the number of units for which a student is charged fees (allowing free enrollment for units above the cap), and low summer housing rates for continuing students who enroll in summer courses.
  - information on how UC's online initiative has prioritized development of online versions of gateway or potential bottleneck courses.
  - reexamination by the Academic Senate of current policies for Advanced Placement courses and the College Board's College-Level Examination Program tests.



- guidance for advisors to better assist students in planning their time at UC and successfully completing their degrees within four years or fewer if they are native freshmen, two years if they are transfer students, or three years if they are native freshmen on a three-year pathway.
- **Continued innovation in the use of technology and data analytics to understand instructional costs and improve student outcomes.** A number of innovative new approaches are currently being piloted at UC campuses, including, but not limited to, the following:
  - expansion of predictive analytics and other technologies to identify students at risk of academic difficulty and monitor their progress. All campuses will describe their data and technology efforts, how this information is used, and how use of the data helps close achievement gaps.
  - piloting activity-based costing in the College of Humanities, Arts and Social Sciences at UC Riverside. UC Riverside is seeking to serve as a U.S. pilot for this new approach. Two other campuses are conducting scoping studies to determine the feasibility and cost of expanding this pilot.
  - use of adaptive learning technology to help students master challenging coursework, by tailoring instruction to individual needs, which helps students stay on track for graduation. UC Davis is leading a multi-campus pilot to investigate this technology.
  - investigating expansion of on-line certificate and Masters' degree programs to address critical workforce needs in California. UC convened industry and academic leaders this fall to discuss areas of significant need where UC can contribute by providing online programs.

The University's 2016-17 budget plan has been developed in the context of this framework and is based on the continued long-term financial modeling begun several years ago to help plan for the long-term financial sustainability of the University. Consistent with the strategic priorities underlying the University's longer-term financial planning, the 2016-17 budget plan is built on an unwavering commitment to protect UC's longstanding excellence while recognizing the limitations presented by the funding environment within which the University and other state agencies operate.

This *Summary* document, which is the first chapter of the larger, *2016-17 Budget for Current Operations – Budget Detail*, summarizes the current status of the University's operating and capital budgets and proposed changes for 2016-17. The remainder of this document provides explanatory detail for the major areas of the University's operating budget, including sources of funding and program expenditure areas. The University's capital budget program is described in more detail in the *2015-25 Capital Financial Plan* document.

---

## KEY ELEMENTS OF THE 2016-17 BUDGET PLAN

**Cost Savings/Alternative Revenues.** Efficiencies and cost savings have been critical elements in the University's long range financial planning in recent years. The 2016-17 budget plan again assumes aggressive savings and increased revenue from a variety of sources, including centralized procurement, asset management, increased unrestricted philanthropy, and new approaches to insurance and risk management to help generate new revenue and reduce operating expenses. These actions will generate \$109 million for the core funds operating budget in 2016-17.

**4% Increase in State Support.** The budget plan assumes a 4%, \$125.6 million, base budget increase in State General Funds, as proposed in the Governor's multi-year funding plan for the University.

**Undergraduate Enrollment.** The 2016-17 budget plan assumes that enrollment of UC California resident undergraduate students will increase by 5,000 in 2016-17 compared to total enrollment in 2014-15, consistent with the State's proposal in the 2015-16 Budget Act. UC intends to demonstrate to the Director of Finance by April 30, 2016 that it has met this goal. This will release an annual appropriation of \$25 million in State funding to the University to help support enrollment growth. This level of funding is sufficient to support half of the 5,000 students. UC will fund the remaining \$25 million through the alternative revenue and funding strategies outlined later in this document.

**Additional State General Funds.** The University is requesting additional State General Funds above the 4% base budget increase for two purposes in 2016-17:

- **Graduate Enrollment.** The University's enrollment plan will boost California undergraduate enrollment by 10,000 students throughout the nine general campuses by the 2018-19 academic year (discussed below). Half of that growth will come in 2016-17, with 2,500 more students added in each of the following two years. As a research university, UC must also increase graduate enrollment, both to provide opportunities for students to pursue graduate degrees and meet California's workforce needs and to help with the instruction of undergraduate students. The University's budget plan includes \$6 million in additional State funds at the agreed-upon marginal cost of instruction to support growth of 600 graduate students in 2016-17.
- **Deferred Maintenance.** The University's budget plan includes a request for \$25 million in one-time funds for deferred maintenance (in addition, the plan assumes \$25 million in permanent support from other sources for this purpose). The University's deferred maintenance backlog and need for capital renewal is significant and growing faster than the University can address. The State provided one-time funds in 2015-16 for this purpose; UC is requesting a second increment of one-time funds for 2016-17.

**Nonresident Supplemental Tuition Increase/ Nonresident Enrollment Growth.** The budget plan assumes an 8% increase in Nonresident Supplemental Tuition, consistent with the framework agreed to with the Governor. The plan also includes enrollment of an additional 1,200 nonresident students in 2016-17, a reduction in the level of growth from the prior year. The increase in nonresident tuition and nonresident enrollment will yield \$68.7 million in new revenue (net of costs to educate these students) to help support the budget plan.

**Financial Aid for Nonresident Undergraduate Students.** The University will begin to phase out financial aid provided through the University Student Aid Program (USAP) for nonresident undergraduate students. Continuing nonresident students who already receive this aid will not be affected by this change. However, new nonresident undergraduate students will not be eligible for financial aid from USAP, which is funded from return-to-aid from Tuition. This will generate \$14 million for the budget plan in 2016-17 and will be used to help fund the enrollment growth plan.

**Student Services Fee Increase.** The budget plan assumes an increase of 5% in the Student Services Fee. Half of the revenue generated, net of financial aid, will be used to increase student mental health services.

**Tuition.** There is no Tuition increase planned for 2016-17.

**Mandatory Costs.** The University faces mandatory cost increases of \$145.3 million, including expenses such as employer contributions to the University's retirement system, employee and retiree health benefit programs, compensation increases already approved in the collective bargaining process, the faculty merit program essential to retaining high performing faculty, and inflationary costs for non-salary items (such as instructional equipment and purchased utilities).

**Investment in Academic Quality.** The 2016-17 plan calls for \$50 million in strategic investments in core academic programs that will restore faculty ranks, increase graduate student support, expand cutting-edge technology essential to instructional delivery in the classroom of the 21<sup>st</sup> century, and rebuild other areas where the impact of recent budget cuts on the quality of the academic program have been most pronounced. Enhancing academic excellence through targeted reinvestment in critical programmatic areas is central to any comprehensive strategy for meeting State goals for improved graduation rates and other performance outcome measures. Decisions on programmatic uses for this funding will be made at the campus level, based on campus priorities.

**Other High-Priority Costs.** In addition to mandatory costs, the plan includes \$194.4 million for high-priority costs necessary for the operation of a major research university. These include compensation increases for faculty and non-represented staff, renewed investment in deferred maintenance, and support for a modest capital program as described below.

**Capital Outlay.** For 2016-17, the budget plan assumes \$15 million will be needed to support debt service on projects already approved by the Regents and the State. The University has received approval from the Department of Finance – after review by the Joint Legislative Budget Committee – for 26 projects for a budgeted total of \$706.7 million across fiscal years 2013-14, 2014-15, and 2015-16. Of these approved projects, 11 address seismic/life-safety problems, 6 support modernization, 3 respond to previous growth, 4 fall under the infrastructure category, and 1 project provides equipment. For the 2016-17 Budget for State Capital Improvements, the University submitted one project to the State in September 2015 – the Merced 2020 Project. Funds set aside in the 2016-17 budget plan will be used to support debt service for projects coming on line in 2016-17.

**Dream Loan.** State legislation adopted in 2014 called for UC (and CSU) to establish a revolving loan program for undocumented students that was to be funded from a combination of additional State funds and matching funds from University sources. In addition to increases in financial aid associated with new enrollment growth, the 2016-17 budget plan includes permanent funds of \$5 million, half from the University's base budget adjustment from the State and half from internal University sources, for this purpose.

### Other Requests Not in the Core Funds Budget Plan

**Proposition 2 Funds for UC's Retirement Plan.** The budget framework agreed to with the Governor includes a provision for \$436 million in Proposition 2 funds to help address the unfunded liability of the University's retirement program, provided the University adopts a cap on pensionable salary similar to the State's Public Employees' Pension Reform Act of 2013. The University will enact this change by July 1, 2016 and thus will expect to receive the 2015-16 and 2016-17 increments of Proposition 2 funds, \$96 million and \$170 million respectively.

**Cap and Trade Funds for Energy Projects.** As part of the agreement on the 2015-16 budget, the Governor agreed to support \$25 million in one-time funds from Cap and Trade revenue to support energy projects that can help the University increase energy efficiency and meet its carbon neutrality goals. The University is requesting a second increment of \$69.1 million in one-time Cap and Trade (or Proposition 39) funds in 2016-17 for this purpose.

**Institute for Transportation Studies.** A total of \$9 million, to be phased in over three years in \$3 million increments, is requested from the Public Transportation Account to augment State funding for the Institute for Transportation Studies, created by the State in 1947 to address the State's transportation needs in a research-based environment. With branches on four UC campuses, the Institute is recognized as the world's premier center of transportation research, bringing together UC researchers from more than 30 disciplines and annually hosting more than 250 graduate students, with about 100 Masters and Ph.D. students graduating each year. The Institute plays a major role in addressing the state's congestion, land use, energy, air quality, freight, travel behavior, planning, and engineering challenges. Funds would be used to bolster the infrastructure of the Institute to accept more research opportunities (many of which are now turned away because of inadequate staffing); improve dissemination of research results so experts in the field have access to the most up-to-date information in five areas the State has identified as critical (climate change, urban sustainability and air quality, infrastructure and energy, transportation system performance/optimization, and taxation and finance); and increase research in emerging areas within the transportation field.

**Innovation and Entrepreneurship Initiative.** This initiative aims to leverage the scale and diversity of the University of California's 10 campuses, five medical centers and three affiliated national labs to build a vibrant and innovative entrepreneurial culture across the system that will create direct benefits to the state and nation. The University has developed a highly competitive research environment to further stimulate creativity and innovation at all campus locations. UC has also developed an investment program to support UC entrepreneurs and increase opportunities to grow California's economy. The opportunity is now ripe for California to capitalize on UC's unique combination of world-class research and vibrant entrepreneurial culture and solve some of the State's most pressing problems while significantly stimulating its economy. The University of California will work with the Legislature to develop jointly a statewide innovation and entrepreneurship program that addresses areas of strategic importance to the State.



## Summary

---

### 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

##### *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**

---

## UC'S PARTNERSHIP WITH THE STATE: INVESTING IN STUDENTS, PURSUING OPPORTUNITIES FOR EXCELLENCE

Access, affordability, and quality are the University's pillars of excellence. The partnership between the University and the State is built on an enduring commitment to protect and sustain these three pillars of excellence for future generations of Californians. Preserving access ensures that the doors of opportunity a UC education provides are open to all students who work hard to become eligible and attend. Maintaining affordability ensures that financial need is not a barrier for students to attend UC. Preserving quality is essential if current and future students are to receive the same opportunities and benefits that previous generations of Californians have enjoyed by attending California's world-class research university. The University's 2016-17 budget plan is designed to protect and enhance all three pillars of excellence.

### Access

The University continues to meet its obligation under the Master Plan to offer a place to all eligible resident freshman applicants even as applications continue to rise. Fall 2015 California freshman applications totaled 102,944, growing from 99,761 the year before, a 3.2% increase. Throughout the recession, UC continued to offer admission to all qualified undergraduates. Total California resident undergraduate enrollment is estimated to be approximately 175,000 in 2015-16 and remains close to historic highs.

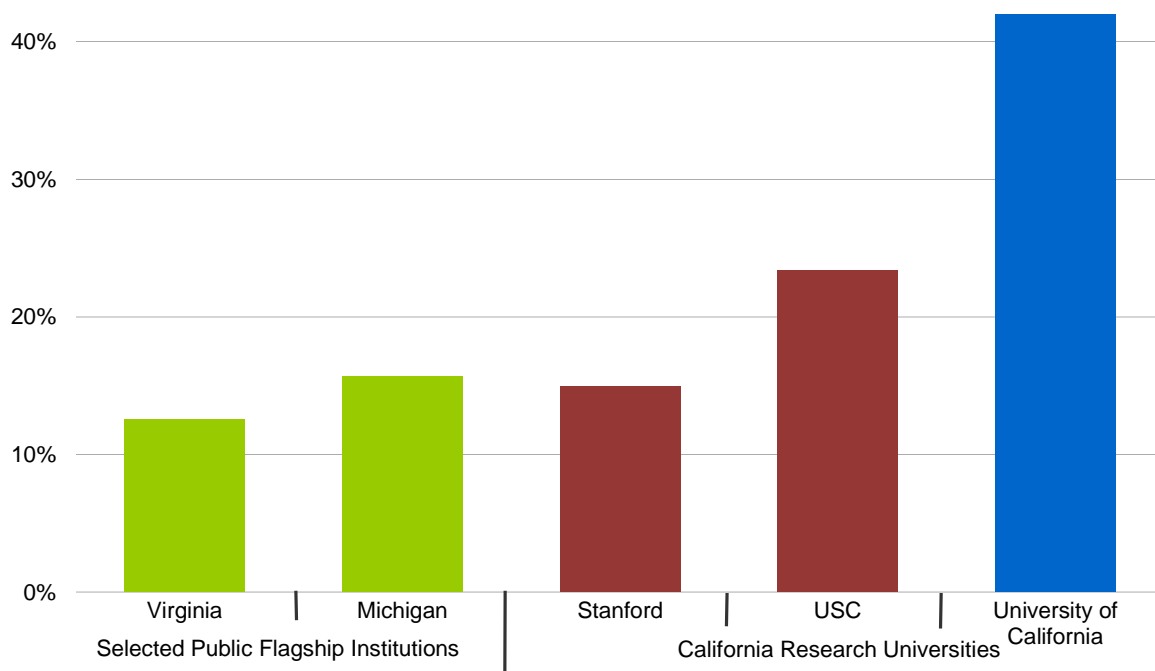
Moreover, eligible California resident students from across the socio-economic spectrum continue to enroll at the University of California. In Fall 2014, more than 40% of UC's undergraduate students were first-generation college students. This is higher than the average at other Association of American Universities (AAU) public institutions (27%) and more than double the average at AAU private institutions (18%). For the first time, the number of Chicano/Latino applicants for the Fall 2013 freshman class exceeded all other applicant categories and that trend has continued. UC enrolls higher proportions of students from underrepresented groups – UC's proportion is 24%, while other public AAU institutions average 14% and private AAU institutions average 16% – and endeavors to partner with the State to continue to improve access for traditionally underrepresented groups.

One of the most striking measures of UC's success in providing access for students from low-income backgrounds is the proportion and number of enrolled undergraduate students who receive Pell Grants. Pell Grant recipients generally come from families with incomes of \$60,000 or less. UC enrolls a far greater proportion of Pell Grant recipients (42%) than any of its comparator institutions, public or private, as shown in Display 1. The University's continued success in enrolling high numbers of low-income and first-generation college students demonstrates that the efforts of the University and the State (which provides critical support through the Cal Grant program) to protect affordability have been successful. More important, a UC education transforms the lives of thousands of students every year, providing opportunities for many that were never afforded their parents. The partnership of the University and the State makes this dream a reality.

### Affordability

Access and affordability of a UC undergraduate education are inextricably linked. A multi-faceted approach that includes contributions from students, their families, the State and federal governments, private scholarships, and UC has preserved access to UC for students from low-income backgrounds even as tuition and fees have increased. While the University has implemented tuition increases in the past to offset State budget cuts that resulted from the deep economic recession, the State, through its Cal Grant program, and UC, through its own institutional aid programs, have continued to work together to ensure aid remains available for the most financially needy undergraduates. Moreover, tuition has not risen for five years and will continue to remain flat through 2016-17, consistent with the budget framework agreed to with the Governor.

Display 1: 2013-14 Undergraduate Pell Grant Recipients



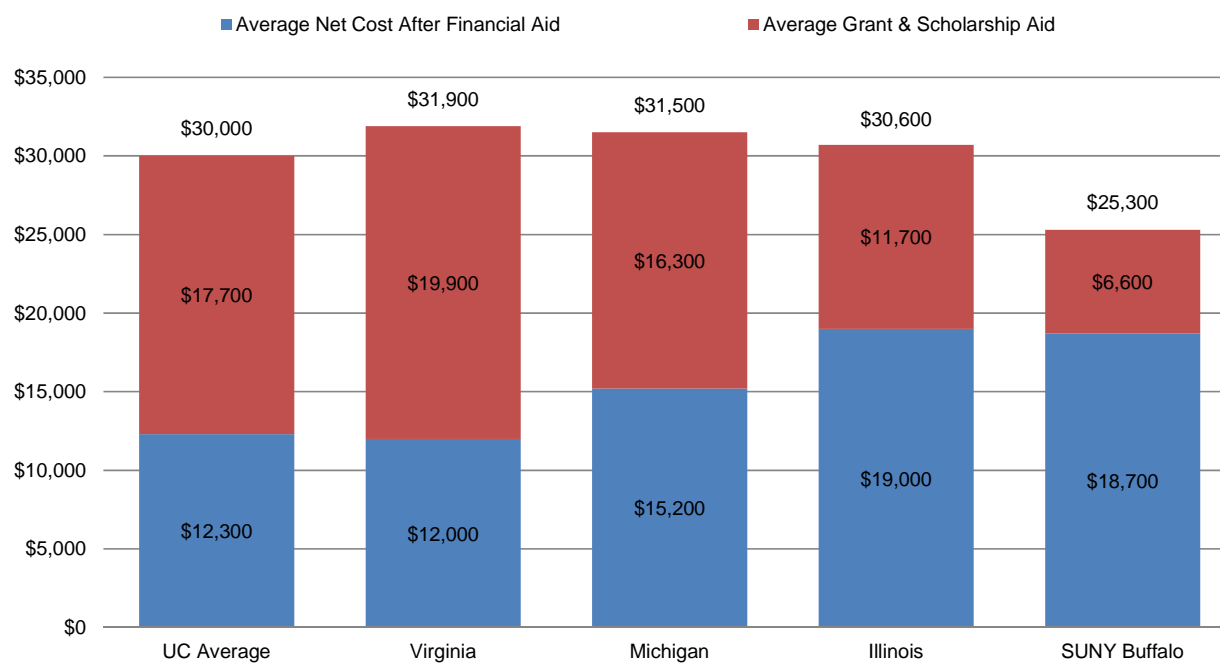
UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 42% during 2013-14, which was more than at any comparable public or private institution. Four of UC's campuses each have more Pell grant recipients than the entire Ivy League combined.

---

Financial aid for UC undergraduates is premised on the principle that all academically eligible students should be able to attend UC irrespective of financial circumstances. When determining financial aid packages for individual students, the University considers the total cost of attending a UC campus, not just the cost of tuition and fees. For income-eligible students, federal Pell Grants and/or the State Cal Grant programs fully cover the cost of tuition; when combined with UC's robust institutional financial aid program, the total cost of attending UC is manageable for most students, and lower than at comparable universities. In fact, for the approximately two-thirds of undergraduate students who receive grants and scholarships, the average award is \$17,700, significantly exceeding the mandatory tuition and fees cost of \$12,192. In addition, students who may not qualify for Pell Grant or Cal Grant often are eligible for other State aid and/or the University's institutional aid programs:

- The State's Middle Class Scholarship Program will effectively reduce net tuition for undergraduates at UC by 40% for those families with annual incomes of up to \$100,000 and by incrementally lesser amounts down to a 10% net tuition reduction for those with incomes up to \$150,000. The program began in 2014-15 and will be fully phased in over four years. The program has been revised for 2015-16 to include a family asset cap of \$150,000.
- The University's Blue and Gold Opportunity Plan covers Tuition and Student Services Fees for undergraduates whose families earn less than \$80,000. More than 82,000 undergraduates at UC are expected to qualify for the Plan in 2015-16.
- The University and the State's commitment to affordability stands out. Rising student loan debt levels have received considerable attention across the country; in California, just over half of UC's 2013-14 graduating undergraduates carried some student loan debt, while 69% of college seniors who graduated from public and private nonprofit colleges had student loan debt in 2013. Among the 55% of UC students who did use student

Display 2: 2014-15 Net Cost of Attendance for Undergraduate Aid Recipients



Undergraduate need-based aid recipients at UC received an average of \$17,700 in gift aid, resulting in a net cost of \$12,300. UC's net cost in 2014-15 was lower than the net cost at three of its four public comparison institutions.

loans to help defray college costs, the average debt of UC's 2013-14 graduating class was \$20,600, which is well below the national average for 2012-13 of \$29,400. The University often uses a measure called "net cost of attendance" to determine what a student and his or her family must actually pay after accounting for financial aid. The net cost of attendance for UC financial aid recipients in 2013-14 was lower than the net cost at three of the University's four public comparison institutions, as shown in Display 2.

The University's robust financial aid programs have continued to meet the evolving support needs of its students even as their share of the cost to attend the University has increased. UC is committed – with the ongoing support of the State – to maintaining affordability for all its students.

For graduate academic students, the University's policy is intended to attract a diverse pool of highly qualified students by providing a competitive level of support relative to the cost of other institutions. This competitive context reflects the fact that graduate student enrollment is tied most directly to the University's research mission and helps the State meet its academic and professional workforce needs. Graduate awards must be sized not only to make the University financially accessible, but also to compete with awards prospective students receive from other institutions. Graduate academic students received support from fellowships, grants, and assistantships averaging about \$36,500 per student during 2013-14. Fifty percent of tuition and fee increases are returned as aid to graduate academic students. Yet, while UC narrowed the gap between its offers and those of competing institutions from \$2,874 in 2010 to \$1,406 in 2013 (nearly a \$1,500 improvement), in recent years the financial aid packages awarded by UC continued to fall short of packages offered by competing institutions. Expanding resources for graduate academic student support is a high priority for the University.

For graduate professional students, UC ensures that an amount equivalent to 33% of tuition and fee increases is provided to qualifying students in financial aid grants. Even so, about two-thirds of aid awarded to graduate professional students is in

the form of loans, primarily from federal loan programs. Many of the University's law and business programs provide loan repayment assistance programs, and since 2009-10, students in all disciplines may avail themselves of an income-based repayment plan for federal student loans, with loan forgiveness available to those who graduate into public service careers.

### Quality

The University of California's unique strength among national university systems is excellence across all of its 10 campuses, as reflected in its students, faculty and researchers. By many measures the University has had extraordinary success relative to other institutions with a similar composition of students. Student outcome and scholarly production metrics are very high – among the highest in the nation. Display 3 highlights the outcomes that help make the University one of the world's most successful public institutions.

By other measures, years of fiscal crisis already have had a tangible impact on the academic excellence that has long been a hallmark of the University of California. One well-recognized measure of instructional quality is the student-faculty ratio. Display 4 tracks the budgeted and actual student-faculty ratio over the past 23 years. This ratio has risen at various times in the University's history, each time in response to significant budget cuts. The most recent recession was no exception, as campuses struggling to manage their budgets against the backdrop of uncertain funding were forced to delay hiring or made decisions not to fill vacant positions on a permanent basis. As a result, the actual student-faculty ratio rose more sharply than in previous periods of economic downturn.

Over the past two decades, student enrollment has grown at a much faster rate than faculty. Since 2007-08, enrollment has increased nearly 10% while ladder-rank faculty numbers have barely changed (increasing just 1.3%) over the same period. Faculty numbers actually declined in 2010-11 and 2011-12. Since that time, UC has been slowly replenishing faculty ranks; totals of ladder-rank faculty, however, still remain below those of 2009-10. More recently, as the budget situation has improved, campuses have begun to increase their faculty hiring, as shown in Display 5.

A high-quality educational experience for students is directly related to having the opportunity to learn from and collaborate with top faculty. The market competitiveness of faculty compensation is an ongoing concern. A little more than a decade ago, UC's faculty salaries were on par with the market. Since then, faculty salaries have slipped 12% below market, as shown in Display 6. UC is facing increasing challenges as other institutions with which UC competes for talent expand their hiring.

Maintaining a world-class institution of higher education for the benefit of California requires that all three pillars of excellence remain strong. That excellence requires attracting and retaining top faculty, high-quality graduate students, and a robust, diverse undergraduate student body. UC's ability to maintain its academic excellence has a direct bearing on the benefits students derive from attending the University. Simply preserving access and affordability without also maintaining academic excellence is an empty promise to those who seek to attend UC.

UC's 2016-17 budget plan includes the second increment of a multi-year investment in its academic program that calls for additional faculty hiring, addressing lagging faculty salaries, expanding graduate student support, and building and maintaining the technology infrastructure essential to the core instructional programs of a top research university. This investment is critical to UC's ability to continue to provide the high-quality education to which tens of thousands of students each year seek access.



## Display 3: UC Outcomes Demonstrate a Record of Success

**Undergraduate Success**

- UC's four-year graduation rate for freshmen has risen significantly over the past 12 years — from 46.0% for the 1997 entering cohort to 62.5% for the 2010 cohort. The most recent six-year graduation rate is 84.0%. Low-income (Pell) students graduate in six years at essentially the same rate (83%) as non-Pell students (85%).
- Transfer entrants have demonstrated similar gains, with the two-year graduation rate increasing from 37.3% for the 1997 entering cohort to 55.0% for the 2012 cohort. The most recent four-year graduation rate is 87.5%. The 4-year graduation rate for transfer students is as high as the six-year rate for native freshmen.
- UC is actively engaged in efforts to continue to improve undergraduate outcomes. Increasing summer enrollment, for example, is critical to supporting timely graduation, with 9% of freshman entrants graduating in the summer of their fourth year. More full-time students are enrolling during summer session, an increase of 22% over the past decade.
- Data show that higher education remains one of the best investments an individual and the State can make. For example, within five years of graduating from UC, more than 50% of Pell Grant recipients have higher individual earnings than their entire families' income prior to their enrollment. Overall, incomes of UC bachelor's degree recipients double between two and ten years after graduation.
- UC undergraduates report significant growth in their academic skills over the course of their college education. Ninety-five percent of seniors who earned a bachelor's degree reported good to excellent skills in understanding their field of study upon graduation, compared to just 33% in their first year at UC; 94% of seniors reported strong analytical and critical-thinking skills, up from 54% as freshmen; and 91% of seniors reported good to excellent writing skills, up from 54% in their freshman year. More than 80% of seniors complete a research project or paper as part of their coursework, and more than 40% assist faculty in their research.

**Rankings/Ratings**

- The *Washington Monthly* considers social mobility, research and public service. Using these criteria, in its 2015 rankings:
  - Four UC campuses are among the top 10 institutions in the nation
  - Six rank among the top 20
- UC campuses rank among the top 20 best universities in the world according to the Academic Rankings of World Universities (ARWU) by the Shanghai Ranking Consultancy. Factors considered in these rankings include quality of the faculty and research output.
- The College Scorecard highlights five UC campuses that are among the top 10% of all four-year institutions in the nation on graduation rates and median earnings (Berkeley, Davis, Irvine, UCLA, and San Diego) and similar outcome measures are strong across the UC system.
- The *New York Times*' College Access Index 2015 underscores UC's role as an upward mobility machine. Six of the top seven institutions in the College Access Index are from the University of California, with UC Irvine in the top slot.
- The *U.S. News and World Report*, in its 2016 ranking system for institutions, focuses on academic reputation, financial resources, and selectivity in admissions. Its assessment on these metrics placed UC campuses among the very best public universities in the country:
  - For more than a decade, UC Berkeley continues to be the number one public institution
  - Five UC campuses are among the top 10 public institutions in the nation; six in the top 11

**Graduate Success**

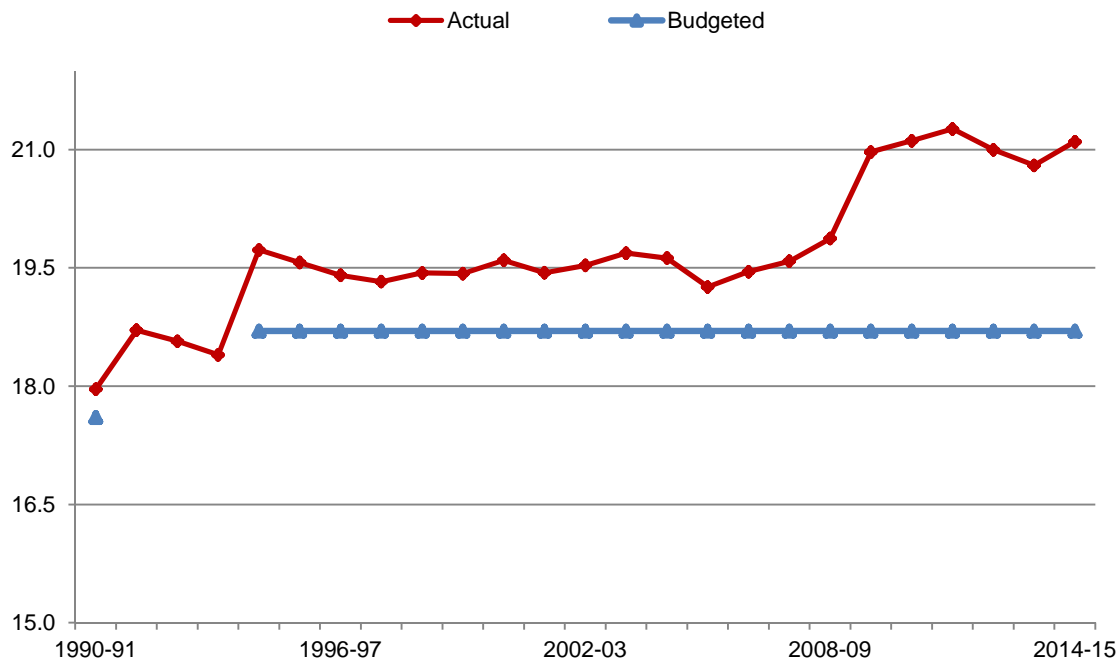
- UC confers more doctoral degrees per tenured/tenure-track faculty than the average at public Association of American Universities (AAU) peers, and is on par with private AAU peers.
- In 2015, 18 UC graduate students received Sloan Research Fellowship awards, which recognize early-career scientists and scholars whose achievements and potential identify them as rising stars. And the University has 264 Fulbright Award recipients. More than 20 UC Ph.D.s have gone on to receive Nobel Prizes.

**UC Health**

- UC has the nation's largest health sciences instructional program with more than 14,000 students and 17 health professional schools in seven fields.
- UC's health professional schools are ranked highly by U.S. News & World Report, including the nation's top schools of pharmacy (UCSF) and veterinary medicine (UC Davis). Both public health schools are ranked in the top 10 (UC Berkeley is No. 9 and UCLA is No. 10); all three nursing schools are ranked nationally (including UCSF at No. 2); and five UC medical schools are ranked nationally for research and primary care (including UCSF, No. 3 for research and primary care, and UCLA, No. 7 for primary care).
- Nearly 50% of medical students and medical residents in California are trained by UC.
- UC Health is the fourth-largest health care delivery system in California. UC Health provides 25% of care for extensive burn cases in California and 50% of all transplant surgeries in the state.

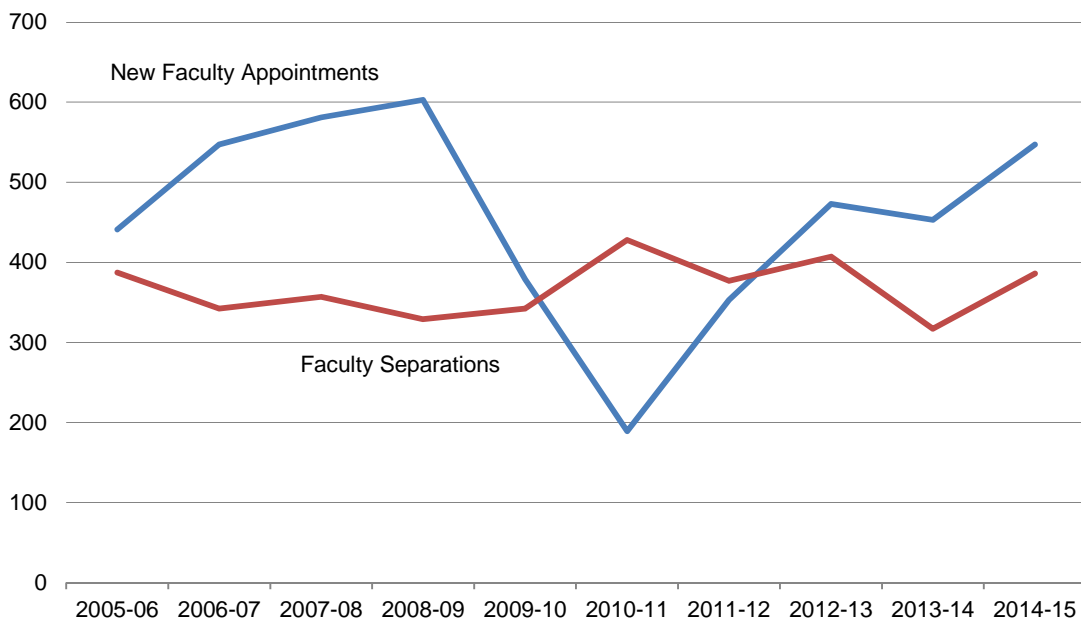
## Summary

Display 4: Budgeted and Actual Student-Faculty Ratios



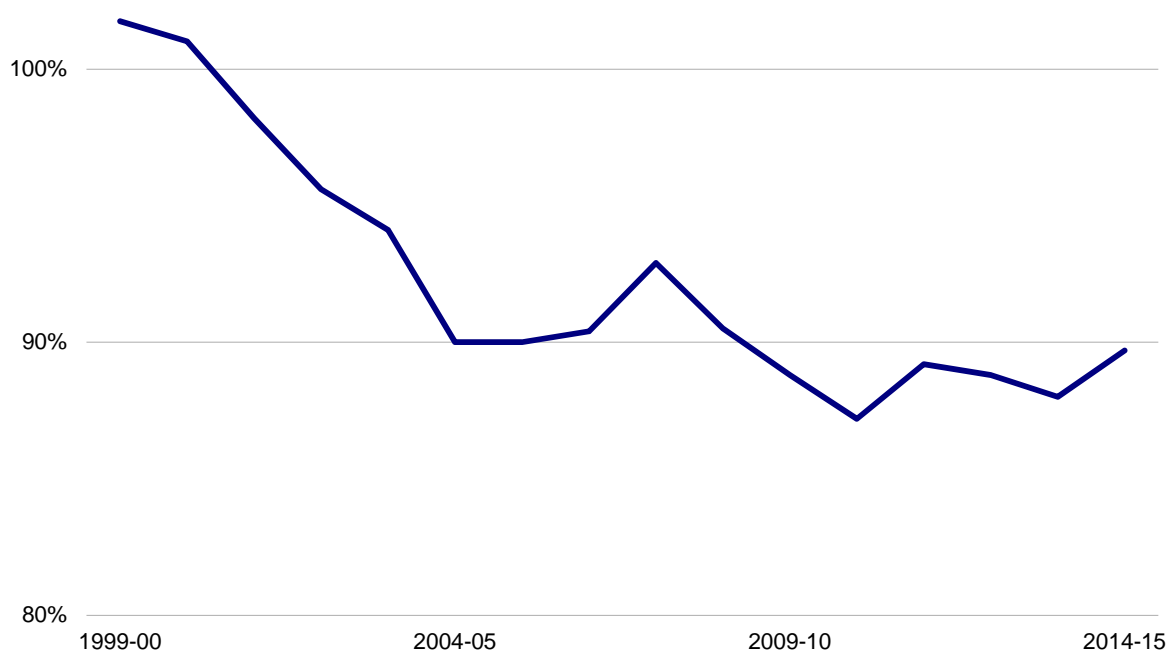
Actual student-faculty ratios have increased precipitously since the early 1990s.

Display 5: Faculty Hiring and Separations Since 2005-06



Campuses have increased faculty hiring after two years during which more UC faculty separated from the University than were hired.

Display 6: Faculty Salaries as a Percentage of Market



Faculty salaries at UC have declined relative to UC's comparison institutions. In 2014-15, UC's faculty salaries were 10.3% below those of UC's comparison institutions, and it is estimated that this gap will continue in 2015 despite the 3% increase in academic personnel salaries in July 2015.

### UC's Commitment to California's Prosperity

The University's long-term financial goals aim to sustain the University's unique role in serving students at the same time as they help improve the State's economic well-being. Together, the University of California and the State have offered access to a high-quality education for hundreds of thousands of students from all walks of life. UC also offers a wide variety of public service programs, from agriculture to student preparation, and improves the quality of life of Californians through research and patient care. Over the last century and a half, the University of California has also been a major economic engine for the state, providing new knowledge and innovation as well as social mobility to generations of Californians. Research – primarily funded through competitive federal grants – has not only fueled the state's knowledge-based economy, underpinning California's economic competitiveness during a time when many parts of the country are economically challenged, but also has provided opportunity for students who will become California's next generation of leaders. From agriculture to information technology, from medicine and biotechnology to the entertainment industry, University of California students, faculty, and researchers drive innovation and economic growth in the most dynamic and transformative sectors of the state's economy, producing the advances in science and technology that spawn new companies and economic expansion while educating a versatile and highly trained workforce to meet the evolving demands of new industries and a changing society.

In 2011, UC commissioned a study of its economic contribution to the State, quantifying what has been long known: UC touches the lives of all Californians and is a major economic engine. The study found that UC generates about \$46.3 billion in economic activity in California and contributes about \$32.8 billion to the gross state product annually. Every dollar a California taxpayer invests in UC results in \$9.80 in gross state product and \$13.80 in overall economic output.

In addition, UC researchers reported more than 1,700 new inventions in 2014, and during that same year, UC inventions launched over 70 start-up companies in California and generated \$118 million in royalty and fee income. UC has more than 12,500 active U.S. patents from its inventions – more than any other university in the country – and 840 startups have been founded on UC patents since 1976. These start-ups are overwhelmingly based in California and provide jobs for Californians across the State. UC attracts about \$8 billion in annual funding from outside California. The State's invaluable investment in the University over the years has yielded an impressive return. UC creates knowledge that results in new companies for California and fuels the economy, trains the state's knowledge-based workforce, and opens the door of opportunity for those seeking to advance their prospects.

### **State General Funds – Which Provide Core Support for the University's Basic Mission – Are Projected to be Stable After a Decade of Volatility**

Since 1990-91, State funding for the University of California has been marked by dramatic reductions due to recurring fiscal crises, followed by reinvestments that were often temporary. These periods of recovery were essential to maintain the University, but never fully brought State support back to prior levels. While many parts of the University, such as the medical centers and research enterprise, have flourished in recent years, the University's core academic programs have suffered as national and international economic crises resulted in declining support for State priorities, including education.

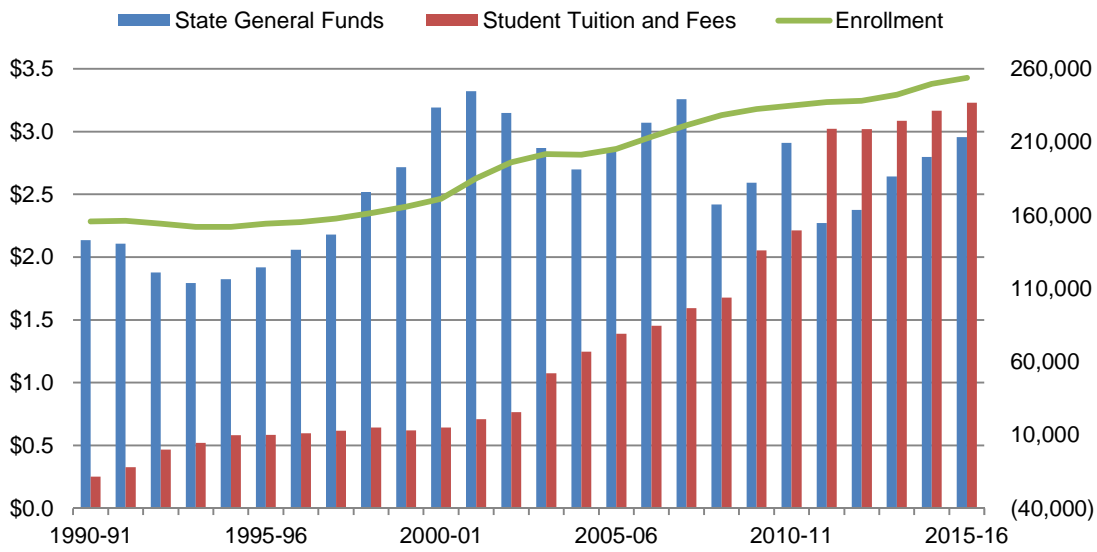
Display 7 shows the dramatic swings in State support for UC over the past two decades. Over this same period, the number of California high school graduates has soared and, as shown in Display 8, UC has grown by more than 92,600 new students and opened a tenth campus. Beginning in 2010, the University resumed employer contributions to its retirement system after a 20-year hiatus. A total of \$1.4 billion is being contributed in 2015-16, including more than \$400 million associated with programs funded from core funds. The State has not covered its share of these costs (\$359 million of the \$400 million), as it does for the California State University and California Community Colleges. As a result, the University has had to redirect resources to cover these mandatory costs that would otherwise be spent on other areas of the operating budget. During this period, the University has met its commitment to preserve access for all eligible California residents by continuing to accommodate the growing numbers of students prepared for and seeking a UC-quality university education.

The Governor's multi-year funding plan for the University provides much-needed predictability with regard to State funds, a welcome change from the fiscal crises that characterized earlier years. State funds provide the core support that allows the University to attract a myriad of other fund sources to support the education and research enterprise. State investment makes it possible for UC to operate the academic environment that entices so many Californians to its doors and that helps fuel the economy with new knowledge-based industries, which in turn create jobs and prosperity for the state.

### **Student Tuition and Fees are Also Critical to Maintaining Excellence**

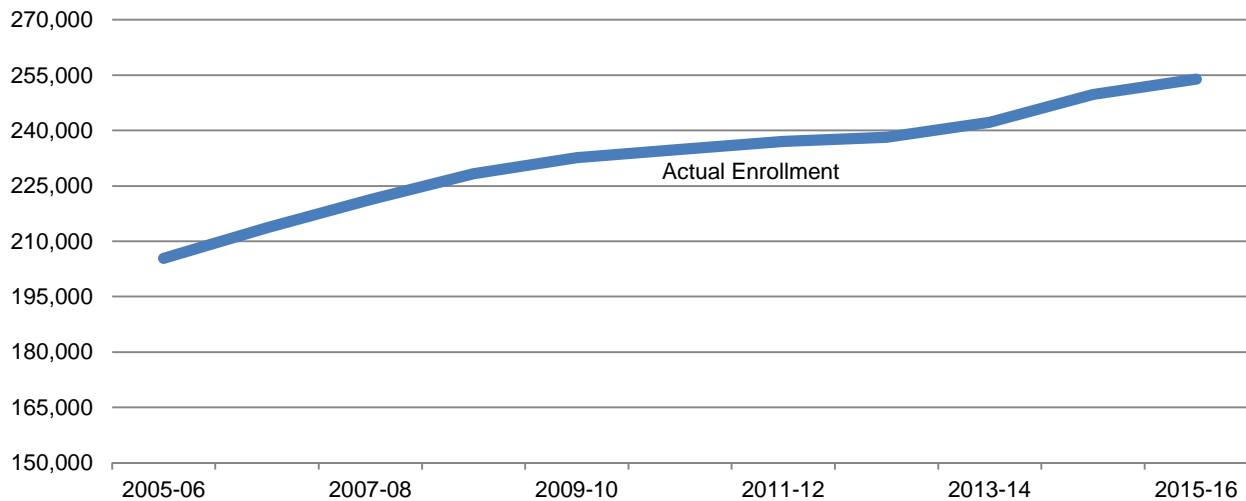
Tuition charged to all students has enabled the University to partially mitigate the impacts of reduced funding from the State during fiscal crises. In 2015-16, mandatory systemwide tuition and fees total \$12,240 for California resident undergraduates and graduate academic students, and total charges are higher for graduate professional students. Looking back over the past 30 years, as shown in Display 9, tuition and fee increases have offset cuts in State support during three major economic downturns. As such, the volatility in tuition has closely mirrored the State's fiscal condition. In 2015-16, tuition comprises a little over 44% of the University's core funds budget.

Display 7: Revenues and Student Enrollment Over Time (Dollars in Billions and Not Adjusted for Inflation)



Since 1990-91, student enrollment has increased by nearly 60%, primarily driven by the University's continuing commitment to accommodate all eligible California resident undergraduates. Student tuition and fee increases have addressed only a portion of the reductions in State support and rising mandatory costs.

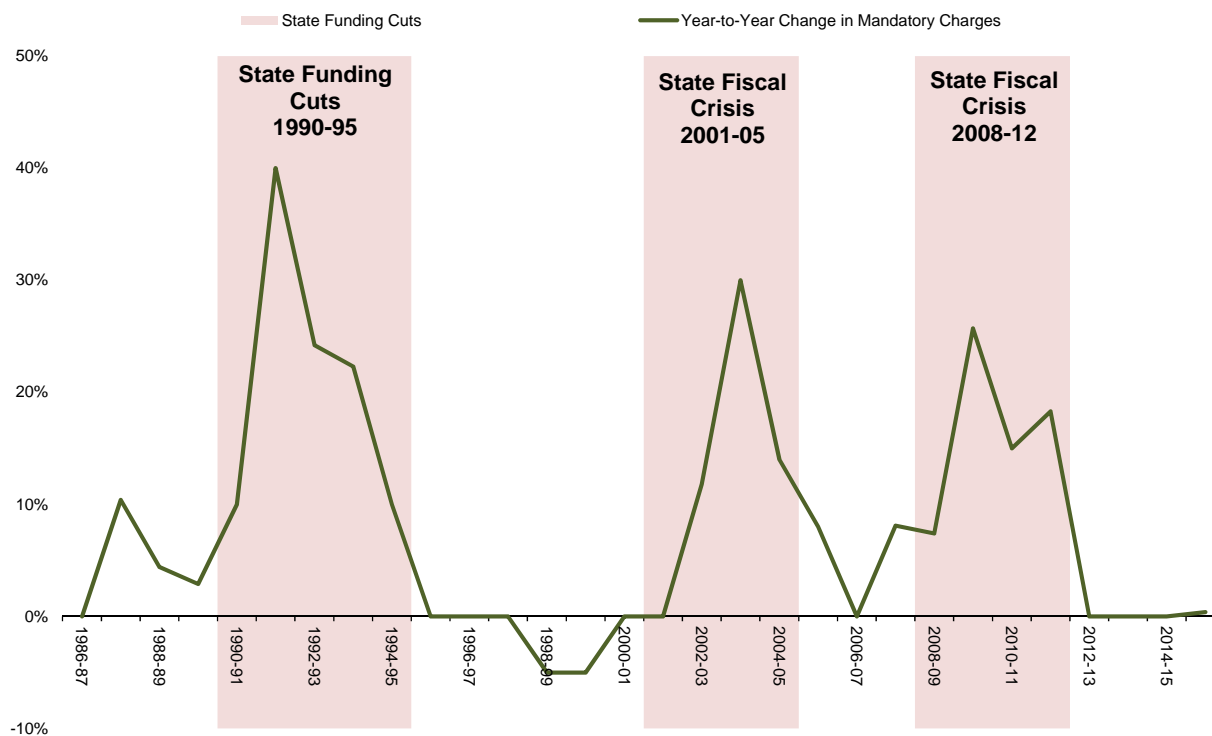
Display 8: Total Student Enrollment (FTE)



The Compact with Governor Schwarzenegger called for enrollment growth of 2.5% annually through 2010-11 to accommodate Tidal Wave II and expansion of graduate enrollments. Enrollments grew more rapidly than expected; and were largely unfunded by the State once the fiscal crisis began.



Display 9: Year-to-year Changes in UC's Mandatory Charges Over the Past Thirty Years (Not Adjusted for Inflation)



UC's tuition levels have been subject to chronic volatility, as tuition increases have always closely mirrored the State's fiscal condition. Tuition has increased to partially offset State budget cuts, as reflected in the highlighted years.

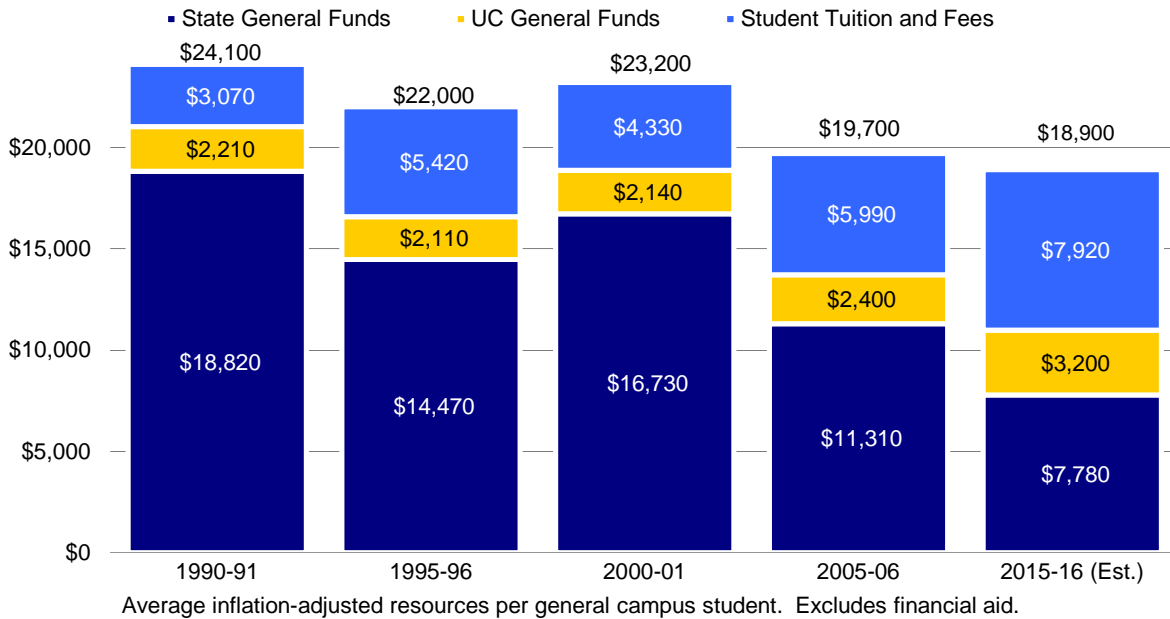
Despite steep increases, tuition and fees have addressed only a portion of the reductions in State support and rising mandatory costs. The rest of the gap has been addressed through sustainable efficiencies, cost savings, and alternative revenue generation as well as cutbacks in programs and layoffs.

Consistent with the framework agreed to with the Governor, the University will not implement tuition increases in 2015-16 or in 2016-17. By 2016-17, tuition will have remained flat for 6 years.

The consequences of the cuts in State support are evident in Display 10, as resources for educational programs for general campus students (undergraduate and graduate students combined) have declined on an inflation-adjusted, per-student basis. The display highlights three significant trends in funding for the instructional mission:

- The average expenditure per student for a UC education has declined by 22% over 25 years – from \$24,100 in 1990-91 to \$18,900 in 2015-16. Spending has not escalated, as many have asserted, but rather has declined on a per-student basis.
- State funding per student declined significantly – by 59% over that same time period. In 1990-91, the State contributed \$18,820 per student – 78% of the total cost. In 2015-16, the State share declined to \$7,780, just 41% of the total funding for education, while the student share has increased. However, with recent investments by the State, the amount of State General Funds per student is on the rise from previous lows.
- UC General Funds are helping to fund a larger share of expenditures for education. Remaining fairly flat through two decades at approximately 10% of the total expenditures, UC General Funds (with Nonresident Supplemental Tuition as the largest fund source within this fund group) now contribute 17% of the total.

Display 10: Per-Student Average Expenditures for Education (2015-16 Dollars)



Since 1990-91, average inflation-adjusted expenditures for educating UC students have declined (UCRP employer contributions, which restarted in 2010-11, are excluded from this calculation); the State's share of expenditures has plunged even more steeply; and the student share, net of financial aid, has more than tripled.

### SOURCES OF UNIVERSITY REVENUE

In 2015-16, the University enterprise will generate \$28.5 billion<sup>1</sup> from a wide range of revenue sources for support of the University's operations (the majority of these resources is designated for specific purposes and not available for the core mission). Not only does the University provide instruction each year for more than 253,000 students and maintain a multi-billion dollar research enterprise, it also engages in a broad range of activities that add to the quality of life on its campuses and provide substantial public benefit, including the operation of teaching hospitals, maintenance of world-class libraries and museums, development of academic preparation programs for California high school students, management of national laboratories, and provision of housing and dining services.

Display 11 shows the distribution of major fund sources across the University's budget.

The University's annual budget is based on the best estimates of funding available from each of its primary revenue sources within core funds.

#### Core Funds

Core funds, totaling \$7.3 billion in 2015-16, provide permanent funding for core mission and support activities, including faculty salaries and benefits, academic and administrative support, student services, operation and maintenance of plant, and student financial aid. Core funds represent 26% of the University's total expenditures and are comprised of State General Funds (\$2.9 billion<sup>1</sup>), student tuition and fee revenue (\$3.2 billion), and UC General Funds (\$1.1 billion). The latter category includes Nonresident Supplemental Tuition revenue, cost recovery funds from research contracts and grants, patent royalty income, and fees earned for management of Department of Energy laboratories. Display 12 shows the distribution of core funds across major spending categories.

#### Non-Core Funds

Other sources of funds augment and complement the University's core activities of instruction and research; support ancillary academic and business operations functions; allow UC to provide public service to the state and its people; and support campus learning environments that enhance the vitality, diversity, and robustness of a UC education. Non-core funds cannot be easily redirected to support core mission activities. In the case of gift, grant, and contract funds, uses are usually contractually or legally restricted; funds can be used only for purposes stipulated by the donor or granting agency. For other sources, such as hospital and auxiliary revenues, operations are market-driven and face many of the same cost and revenue pressures occurring in the private sector. Revenues are tied not only to the quality of the services and products being provided, but also to the price the market will bear.

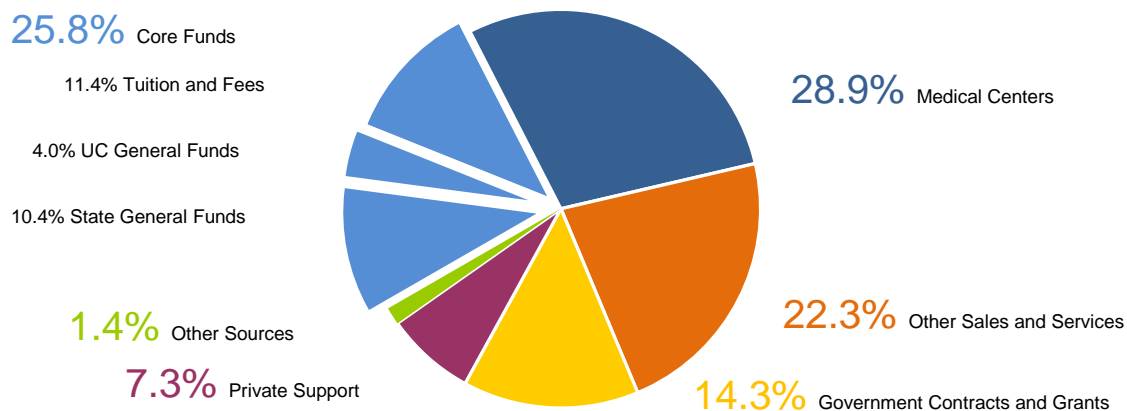
**Medical Center Revenue.** UC's teaching hospitals generate revenue through their patient-care programs and other activities, primarily from private healthcare plans and government-sponsored Medi-Cal/Medicare programs, all of which is used to support the ongoing needs, both capital and operating, of the medical centers.

**Other Sales and Services Revenue.** A variety of self-supporting enterprises generate revenue as well, including auxiliary enterprises such as housing and dining services, parking facilities, and bookstores; University Extension; and other complementary activities, such as museums, theaters, conferences, and publishing.

---

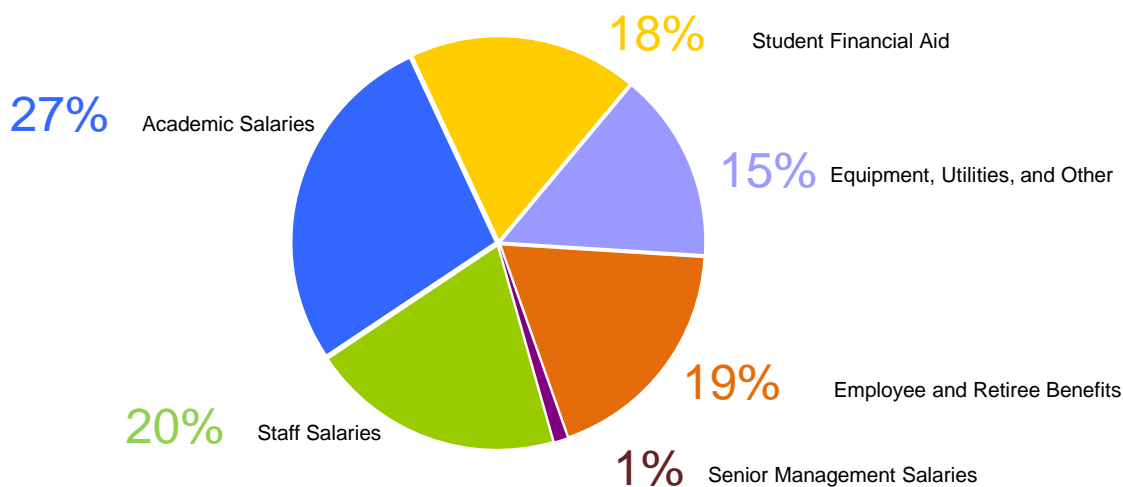
<sup>1</sup>This excludes General Obligation bond debt service that is in UC's base budget but which is not available for general operating budget purposes.

Display 11: 2015-16 Sources of Funds



UC's \$28.5 billion operating budget consists of funds from a variety of sources. State support, which helps attract other dollars, remains crucial and together with tuition and fees and UC General Funds provides the core support for the University's basic operations.

Display 12: 2014-15 Expenditures from Core Funds



**Government Contracts and Grants.** Federal, state, and local governments directly fund specific research programs, as well as student financial support.

**Private Support.** Endowment earnings, grants from campus foundations, and other private gifts, grants, and contracts fund a broad range of activities, but are typically restricted by the donor or contracting party.

**Other Sources.** Revenue from the DOE National Laboratory Management Fee, a portion of contract and grant administration funds, and the portions of federal indirect cost recovery and patent revenue that, by agreement with the State, are not included as part of Core Funds are categorized as "other sources."

### SUMMARY OF THE UNIVERSITY'S 2016-17 BUDGET PLAN

#### Proposed Increase in Revenue

The 2016-17 budget plan proposes \$481.3 million in revenue increases to match expenditure needs. These increases fall into four revenue categories.

**Cost Savings/Alternative Revenue Sources.** The budget plan assumes \$40 million in funding related to strategies to manage liquidity and \$30 million from savings achieved through new systemwide procurement contracts in 2016-17, as well as \$15 million associated with the new self-insurance initiative, *Fiat Lux*, and \$10 million in additional funding available to the operating budget from new models of philanthropic giving. These initiatives continue the University's practice of resolving a portion of its funding needs through internal actions to reduce costs, promote efficiencies, and generate new revenue.

The plan also assumes phase-out of the need-based aid currently provided to nonresident undergraduate students. While currently enrolled nonresident students receiving this aid will not be affected, beginning in 2016-17, the University will begin to phase out this aid component. It is expected the University will save \$14 million in 2016-17 that can be used to help fund the enrollment increase planned for the budget year.

**State General Funds.** The plan includes a 4% base budget increase, or \$125.6 million in new State General Funds, as proposed in the Governor's multi-year funding plan. The plan assumes receipt of \$25 million in permanent State funding in 2015-16 associated with enrolling an additional 5,000 undergraduate California residents in 2016-17 as compared to 2014-15 levels. It also includes a request for \$6 million from the State to support graduate enrollment growth to complement and support dramatic increases in undergraduate enrollment. Finally, the plan proposes \$25 million in one-time funds for deferred maintenance, similar to the funding provided in the 2015-16 budget.

**UC General Funds.** Most campuses have expanded their nonresident enrollment to help backfill reductions in State support. The budget plan proposes \$68.7 million in new revenue from Nonresident Supplemental Tuition (net of instructional costs associated with these students) based on an 8% increase in nonresident tuition and a projected increase in nonresident enrollment of 1,200 students. This constitutes reduced growth in nonresidents from the prior year. The plan assumes no change in indirect cost recovery from federal research contracts and grants due to a combination of several factors: there are continuing declines in research funding, which are offset by increases in higher federal indirect cost rates recently negotiated by several campuses and some increases in funding from non-federal resources.

#### Major Expenditure Categories for 2016-17

The budget plan includes a \$481.3 million increase in expenditures. Proposed expenditures address mandatory and other high-priority cost increases, enrollment growth to allow the University to continue to provide increased access for California students, and investment in core academic programs, as summarized below.

**Enrollment Growth.** UC is dedicated to the mission of access for California residents consistent with its founding as the state's land-grant institution and in accordance with the Master Plan for Higher Education. Moreover, as a research university, UC must have sufficient graduate enrollment to meet the state's economic development and workforce needs for Ph.D. graduates, help advance knowledge through its research mission, and work with faculty and undergraduate students as part of the education continuum. The 2016-17 budget plan envisions growth at both the undergraduate and graduate levels.

The University strongly shares the Legislature's interest in providing increased access for Californians and is committed to taking the actions necessary to meet the State's enrollment goal. Because the state's proposal for increasing enrollment over two years came after the 2015-16 admissions process was essentially complete, most of the increase will need to be accomplished in a single year, 2016-17.



The 2016-17 budget plan assumes \$25 million is appropriated in 2015-16 and continues in 2016-17 as a permanent augmentation to fund half the cost associated with the 5,000 undergraduate student enrollment growth. The Budget Act suggests several ways UC can fund the other \$25 million needed for this enrollment level, including using Nonresident Supplemental Tuition revenue and eliminating financial aid provided to nonresident undergraduate students from Tuition return-to-aid funds.

Under the budget plan, the University will eliminate financial aid provided through the University Student Aid Program to nonresident undergraduate students. This change will be phased in so that current students receiving this aid are not affected by this change. The remaining half of the enrollment will be supported with funds redirected from this program. Until this redirection is more fully phased in, bridge funding will be allocated from the \$25 million in one-time funds that are to be provided in 2015-16 once the University has shown that it will enroll the full 5,000 student increase.

As the State's research university, UC is also concerned with enrollment of graduate students to complement and support dramatic undergraduate growth. As faculty are added to meet the increased enrollment demand, graduate students must increase to support faculty in the research mission of the University and to help with the teaching and mentoring associated with additional undergraduates. Therefore, the University is requesting an additional \$6 million above the base budget increase to support in the enrollment of 600 more graduate students by 2016-17.

Actions taken for 2016-17 have implications for future years – as new classes of students coming in are larger than classes graduating, total enrollment grows. The University intends to sustain expanded access in 2017-18 and beyond, enrolling 2,500 new California resident undergraduate students each year in 2017-18 and 2018-19 such that, at the end of four years, total California resident undergraduate enrollment will have increased by 10,000 students, providing access to thousands more students each year than otherwise would have occurred. The multi-year enrollment plan being developed by the University will reflect this intention for future years.

**Mandatory Costs.** The University must pay a variety of cost increases each year, regardless of whether new funding is provided to support them. Below is a description of the major mandatory cost increases projected for 2016-17.

- **UC Retirement Plan.** The University of California Retirement Plan (UCRP) provides pension benefits for more than 65,365 retirees and survivors and had about 121,200 active employee members as of July 1, 2015.

Prior to November 1990, contributions to UCRP were required from both the University as the employer and from employees as members. As it did with all other state agencies, the State provided funding for employer contribution associated with State-funded employees. In the early 1990s, the Regents and the State agreed to suspend employer and employee contributions to UCRP after actuaries confirmed that it was adequately funded to provide for service costs for many years into the future.

In the nearly 20 years during which employer and member contributions were not required, the State saved more than \$2 billion. However, the funded status of UCRP declined as future service costs accrued and the accrued liability rose. Furthermore, the recent national economic crisis diminished the value of UCRP assets. The funded ratio is 81% as of July 2015.

The University restarted contributions to UCRP in April 2010. The employer contribution rate increased by two to three percentage points per year until 2014-15, when it was stabilized at 14 percent. Employee contributions rose 1.5 percentage points each year and stabilized in 2014-15 at eight percent for most employees (some represented employees contribute nine percent of pay and members of the new 2013 tier contribute seven percent of pay).

In December 2010, the Regents reformed retirement plan benefits to reduce long-term costs and approved a new tier of pension benefits for employees hired on or after July 1, 2013, which increased the early retirement age from 50 to 55 and the maximum age factor from age 60 to 65.

In 2012-13, the State augmented the University's budget with \$89.1 million intended to be used toward the State's share of the employer contribution to UCRP. Since that time, the State has not provided targeted funds for its share of the annual employer's contribution to UCRP, as it does for other State agencies. In 2015-16, the University is contributing \$407.5 million from core fund sources and \$1.4 billion from all fund sources to UCRP.

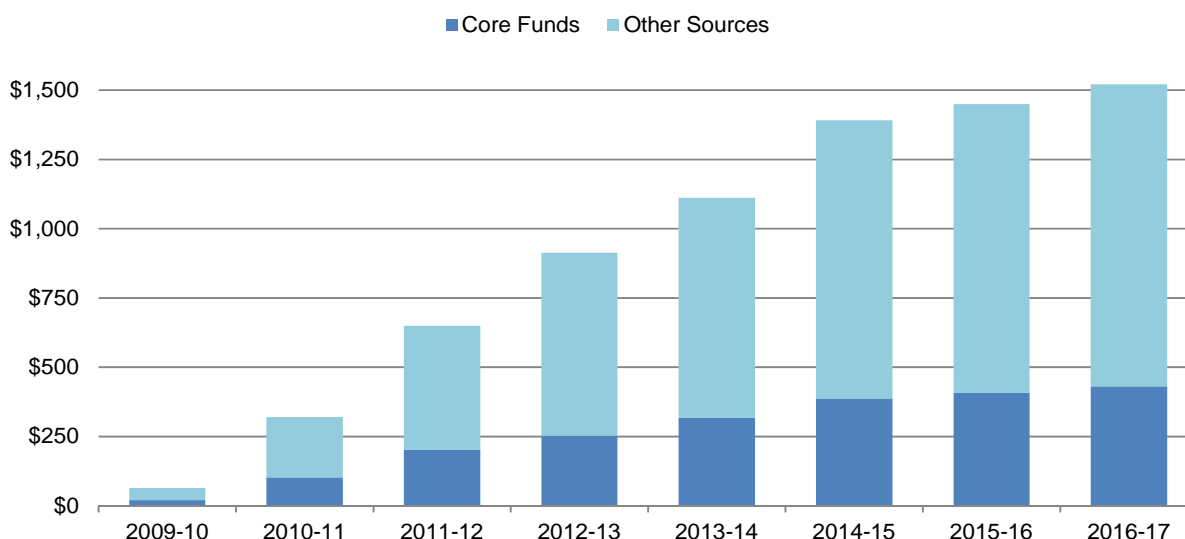
The 2016-17 budget plan includes \$24.1 million for increases in core-funded employer contributions to the retirement

system. With no expected change in the 14% current employer contribution rate, this increase represents only new costs associated with anticipated employee growth in faculty and other academic staff and compensation increases. Display 13 shows how employer contributions to the retirement system have leveled off since 2014-15 as the contribution rate remains at the current 14% level. UC's employer contributions are expected to rise to \$431 million from core funds and \$1.4 billion from all fund sources in 2016-17.

UCRP's unfunded liability is being addressed through several actions approved by the Regents. In addition to increasing the contributions, the University also has borrowed to supplement the employer and member contributions to meet the Annual Required Contribution (ARC or "modified" ARC), which is the amount needed to fund annual costs plus interest on the unfunded liability. Without future borrowing and assuming a 7.25% investment return, the Plan is estimated to be 100% funded by the year 2045. Additional borrowing is proposed for 2015-16, 2016-17, and 2017-18 in a separate item being brought to the Board for approval at the November meeting. This would shorten the time for the Plan to reach 100% funded by five years (or 2040).

As noted above, part of the budget framework agreed to with the Governor in May 2015 calls for the University to add a cap on pensionable salaries consistent with the cap established in the Public Employees' Pension Reform Act adopted by the State in 2013, in return for \$436 million in Proposition 2 funds over three years: \$96 million in 2015-16, followed by an additional \$170 million in each of the following two years. A task force is developing recommendations for the President that will conform to this requirement. A proposal will be brought to the Board of Regents so that retirement benefit changes can be implemented on July 1, 2016. Because these changes will be prospective and only affect new employees hired on or after July 1, 2016, they will not impact the cost increases anticipated for 2016-17. Proposition 2 funds being directed to the unfunded liability cannot be used to offset cost increases or otherwise relieve the impact of employer contributions on UC's operating budget. The 2016-17 budget plan assumes the University will implement the salary cap as requested and that the second increment of Proposition 2 funds, \$170 million, will be provided, consistent with the framework with the Governor.

Display 13: Actual and Projected Employer Contributions to UCRP by Fund Source (Dollars in Millions)



Employer contributions to UCRP restarted in April 2010. Contribution rates will remain at 14% of employee covered compensation in 2016-17, at a cost of about \$431 million for core-funded programs and \$1.4 billion in total.

- **Employee Health Benefits.** Until recently, employee health benefit costs have risen rapidly, typically between 8.5 percent and 11 percent annually. Because no State funds have been provided for this purpose since 2007-08, campuses have redirected funds from existing programs to address these cost increases.

Significant efforts have been made in the past several years to limit health benefit cost increases and reduce pressure on already strained operating budgets. Through negotiations with providers and other measures, UC was able to limit health benefit cost increases to 7.1 percent in 2011, 2.4 percent in 2012, 5 percent in 2013, and five percent in 2014.

Overall health benefit costs in 2016-17 are expected to increase by about five percent, or \$28.4 million.

In addition, employees have been required to bear a larger responsibility for the rising costs of these benefits, partially offsetting any salary increases they may have received in recent years. In 2002-03, the University adopted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical premium increases on lower-paid employees. While UC pays approximately 87 percent of monthly medical premiums for employees on an aggregate basis, the University covers an even larger portion of the premium for those in the lower salary brackets. In the current environment, with limited new funding and continuing cost pressures, it is expected that some of the cost increases will continue to be borne by most employees.

- **Retiree Health Benefits.** In 2015-16, more than 60,302 UC retirees and beneficiaries are eligible to receive or are receiving an estimated \$287 million of health benefits paid for by the University. The State has historically provided funding to the University equivalent to the per-employee funding provided for other State employees for the increased number of annuitants expected in the coming year. In the 2014-15 budget, the State stopped funding these costs separately, adding them to the expenditures to be covered within the base budget increase provided under the Governor's multi-year funding plan. The annuitant health costs are estimated to increase by \$4.2 million in 2016-17.

Because accumulated future retiree health benefits costs are not pre-funded, UC has an unfunded liability for retiree health representing the cost of benefits accrued to date by current faculty, staff, and retirees based on past service, estimated to be \$17.3 billion in 2015-16. In December 2010, to reduce long-term costs and the unfunded liability for retiree health, the Regents approved changes to retiree health benefits that included reductions in UC's aggregate annual contribution to the Retiree Health Program, and a new eligibility formula for all employees hired on or after July 1, 2013, existing employees with fewer than five years of service credit, and existing employees whose age plus service credit is less than 50 as of June 30, 2013.

- **Contractually Committed Compensation.** Salaries increases for represented employees are governed by collective bargaining agreements with each represented bargaining unit. These agreements call for compensation increases totaling \$26.9 million in 2016-17.
- **Faculty Merit Program.** The University has maintained the faculty merit program each year – even through years of fiscal crisis – because of the importance of this program to the quality of the University. Faculty are generally eligible to be considered every two to three years for a merit increase, which is intended to reward them for excellent teaching and research, as well as fulfillment of their public service mission. This program requires a rigorous peer review process before a merit salary increase is awarded. The cost of the faculty merit program is estimated to be \$32 million in 2016-17.
- **Keeping Pace with Inflation.** To maintain the quality of the instructional program and all support activities, the University must regularly replace, upgrade, or purchase new instructional equipment, library materials, and other non-salary items. The University must also purchase utilities to provide energy to its facilities. Just as costs for salaries and benefits for employees rise, the University's non-salary spending is affected by inflation. Throughout the recent recession, inflationary pressures remained relatively soft. However, as the state economy has improved, cost pressures have begun to build. Based on the Department of Finance recent projections, the University's 2016-17 expenditure plan includes \$29.7 million for non-salary price increases, consisting of a 2.0% general non-salary price increase, as well as an adjustment to cover projected increases in purchased utility costs above inflation.

**Investment in Academic Quality.** As noted earlier, the President has made it a top priority to invest in the academic infrastructure of the University for the benefit of UC students, faculty, and researchers focusing on areas that directly impact the quality of the University's instructional, research, and public service programs as well as the fiscal health of the system. While there are no agreed-upon standards in the higher education community for determining quality, there are clear metrics that are commonly used when rating great universities. They include, among other things, maintaining an outstanding faculty, measured in terms of individual achievements as well as adequate numbers to teach and train, and recruiting and educating outstanding undergraduate and graduate students. The areas identified for investment in academic quality are critical to maintaining excellence and have all been identified by the Regents as high priorities for many years, prior to the onset of the most recent fiscal crisis. Consistent with the University's long-range plan, the University 2016-17 budget proposal proposes \$50 million for this investment for the following types of programs:

- **Enhancing Undergraduate Instructional Support.** The previous two compacts with former Governors proposed an additional 1% per year base budget increase to help address chronic shortfalls in key areas of the budget that directly

affect instructional quality – expanding cutting-edge technology essential to instructional delivery in the classroom of the 21<sup>st</sup> century, restoring library collections, and more adequately supporting ongoing building maintenance. The University must continue reinvesting in these areas if it is to keep up with technical innovations – all of which were chronically underfunded before the recent fiscal crisis.

- **Improving the Student-Faculty Ratio.** During the recent fiscal crisis, the University's student-faculty ratio deteriorated dramatically, standing currently at about 21:1 (well below the budgeted ratio of 18.7:1. Improving the student-faculty ratio will allow the University to offer smaller class sizes where possible, improve the quality of the educational experience and adequacy of course offerings, and help students complete requirements and graduate more quickly. A lower student-faculty ratio increases opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service. Reducing the student-faculty ratio is also important as the University seeks to make further improvement in performance outcomes, such as graduation rates and time-to-degree, as requested by the State in budget trailer bill language.
- **Supporting Startup Costs for New Faculty.** As campuses begin to hire faculty once again – to replace those who have retired or separated, to hire those needed to help meet growing enrollment demand, and to generate research that will enhance innovation and quality – one of the major challenges they face is the cost of startup packages for new faculty. Startup costs include renovation of laboratory space; equipment; graduate student, postdoctoral scholar, and technical staff support; and other costs necessary for new faculty to establish their research teams and projects. In some disciplines – especially health sciences, life sciences, physical sciences, and engineering – startup costs can exceed \$1 million per faculty member. Since UC's top candidates have multiple job prospects and UC is in competition for these hires, UC's ability to provide facilities and staff to support cutting-edge research has a direct impact on the quality of faculty campuses are able to recruit..
- **Addressing Faculty Salary Gaps.** A recent study on ladder-rank faculty compensation concluded that faculty salaries lagged the market by 10.3% in 2014-15. As the University's budget stabilizes, closing this gap is a high priority as UC competes with other institutions across the country for top faculty. The faculty salary lag is discussed in more detail below in the Compensation item.
- **Augmenting Graduate Student Support.** Graduate education and research at the University have long fueled California's innovation and economic development, helping establish California as one of the 10 largest economies in the world. The strength of UC's graduate programs is key to attracting and retaining the highest-quality faculty. The University must ensure that the amount and duration of graduate student support remains competitive.

**High-Priority Costs.** In addition to the categories above, additional cost increases are required in several other areas as part of the normal cost of operating a major research university:

- **Compensation.** The recent fiscal crisis made it difficult for the University to keep pace with the market with respect to faculty and staff salaries. As noted above, recent studies show UC falling further behind its comparator institutions. The rapid increase over several years to 8% of pay in employee contributions to the retirement program has further impacted employee take-home pay, as have increases in health benefit costs. Although the benefits provided by UC are an important component of the packages offered to candidates, the salary component itself must be competitive to attract and retain quality faculty and staff employees if the University is to maintain its preeminent stature. Consistent with UC's longer-term financial planning, the 2016-17 budget supports a salary program for faculty and staff consisting of a 3% pool to be allocated based on merit and other factors, with a total cost of \$129.4 million for non-represented staff and faculty. Actual salary and benefit actions for represented employees are subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act.
- **Deferred Maintenance.** The University maintains 135 million gross square feet of space at the 10 campuses, five medical centers, and nine agricultural research and extension centers. Nearly half of this space – 64.8 million square feet – is eligible for State support, including space used for classrooms, laboratories, offices, and some research and academic support activities. Nearly 60% of the University's State-eligible space is more than 30 years old, with 43% of that space built when the University was in a period of rapid expansion between 1950 and 1980, as shown in Display 14. The University faces an immense and growing deferred maintenance backlog as the electrical, heating and ventilation, elevator, plumbing, and other building systems in these aging buildings and supporting campus infrastructure reach the end of their useful life. The 2016-17 budget plan includes \$25 million in one-time funds requested from the State and an additional \$25 million in permanent funding from resources included in the budget plan to build up the permanent base of funding for deferred maintenance. This is the second increment in a multi-year ramp-up of funding for deferred maintenance.

- **Capital Improvements.** The process for funding State-eligible capital projects changed in 2013-14. The State's General Obligation bond debt has been shifted to the University's base budget, and it is now included as part of the base budget for the purpose of calculating the State-funded base budget adjustment each year. Under the new process, a portion of UC's State funding can be used to fund or finance State-eligible capital projects.

The University faces a growing backlog of capital projects over the coming years. The projected need for capital improvements for State-eligible projects for the five-year period from 2015-16 through 2019-20 is \$2.9 billion. The new State process allows the University to continue to address its highest-priority capital needs until a new General Obligation bond can be brought before California voters. The State approval process is streamlined compared to the previous process – the Department of Finance and the Legislature will continue to review the projects being proposed for State funding, but there will be no need to go through the State Public Works Board for approval of important milestones. The new process requires the University to submit a list of projects proposed for funding by September 1 of each year, with the Department of Finance providing to the University a final list of approved projects no earlier than April 1.

The package submitted to the State reflects a rigorous review process and includes the highest priority systemwide projects. As a first review in its capital program planning, each campus develops a 10-year *Capital Financial Plan* – a strategic plan of specific projects prioritized to meet the campus mission, academic, and support needs – that fits within the context of physical and funding opportunities and constraints; this Plan is reviewed and accepted by the Regents each November. Then, to the extent that this approval will allow funding to be redirected from an already constrained operating budget, a list is developed based on campus priorities, which subsequently undergoes a strenuous review based on systemwide priorities.

Under the new process, the State has approved 26 projects, from fiscal years 2013-14 to 2015-16, totaling more than \$706 million. The approved projects include seismic/life safety projects, infrastructure renewal, additional classroom and lab space to accommodate past enrollment growth, and continuing projects that require funding for completion.

For 2016-17, the University is proposing one capital outlay project, the State-funded portion of the Merced 2020 Project. This project requests \$400 million in State capital outlay funds to construct 414,400 Assignable Square Feet in academic and student support space. The Department of Finance will notify the University of approval of this 2016-17 capital outlay project no earlier than April 1, 2016. This proposal represents only a small portion of the University's total funding need for State-eligible capital improvements projects. Funds set aside in the 2016-17 budget plan will be used to support debt service for projects coming on line in 2016-17.

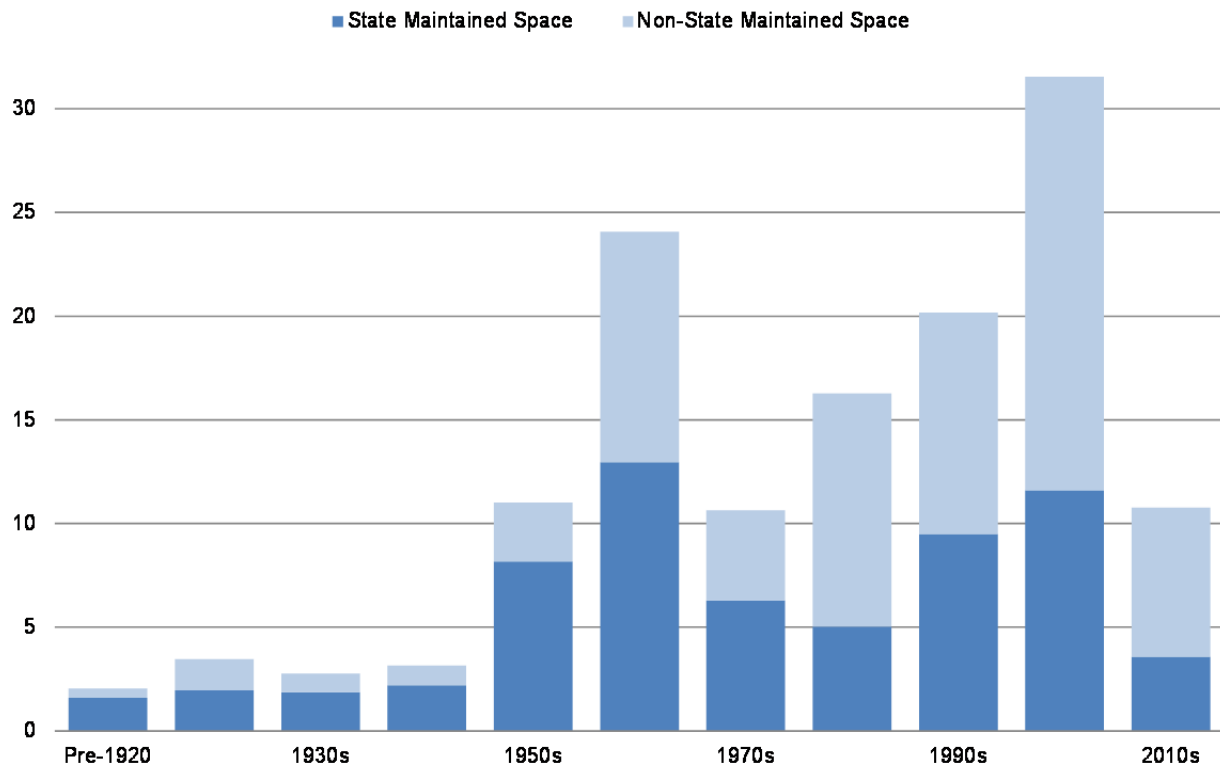
The University maintains a continuing commitment to pursue gifts and other potential sources to supplement State funding for construction. The University has capital needs for student-life and auxiliary programs that do not qualify as State-supportable and, therefore, must be addressed with non-State resources only. In this context, the University has intensified its efforts to make the most efficient use of existing facilities, to carefully define and analyze facility needs, to evaluate competing needs and set priorities that maximize the value of available funds, and to continually improve management of project design and construction.

**Dream Loan.** SB 1210 (Lara) was adopted during the 2014 legislative session under the University's sponsorship. It called for UC (and CSU) to establish a revolving loan program for undocumented students which was to be funded from a combination of additional State funds and matching funds from University sources. While the State has not provided additional funds for this purpose, the University believes it is an important program and must be implemented. The University will phase in the program, starting in 2015-16, with temporary resources. In addition to increases in financial aid associated with new enrollment growth, the 2016-17 budget plan includes \$5 million, half from State General Funds and half from internal University sources, for this purpose.

## Summary

---

Display 14: State and Non-State Maintained Space by Decade of Construction (Gross Square Feet in Millions)



The University's physical plant expanded rapidly in the 1950s and 1960s and again in the 1990s and 2000s. Driving UC's deferred maintenance and capital renewal needs is the fact that many buildings were constructed in the 1950s and 1960s.

---

---

## MAJOR REPORTING REQUIREMENTS FOR 2015-16

### Performance Outcome Measures

UC has historically reported on measures of institutional quality that have been of interest to the Governor, Legislature, University leaders, and the general public. Six years ago, the University began systematically publishing an annual Accountability Report ([www.universityofcalifornia/accountability](http://www.universityofcalifornia/accountability)) with an increased emphasis on outcome measures.

The Accountability Report contains much of the information requested by the Legislature and Governor in trailer bill language attached to the 2014-15 budget (AB 94). That language asks the University to submit an annual report on specified outcome measures by March 1. The University submitted its first report in March 2014.

The report requires data on the following outcome measures:

- Number and proportion of transfers from the California Community Colleges (CCC);
- Number and proportion of low-income students enrolled annually;
- Four-year graduation rates for students and separately for low-income students;
- Two-year graduation rates for CCC transfer students and separately for CCC low-income students;
- Degree completions for freshman, CCC transfer, graduate, and low-income students;
- The percentage of students on track to complete a degree in four years;
- The amount of resources received divided by the number of degrees awarded;
- For undergraduate students, the amount of resources received divided by the number of degrees awarded;
- Average number of course credits at graduation;
- Number of degree completions in science, technology, engineering, and mathematics (STEM) fields, disaggregated by undergraduate, graduate, and low-income students.

The University's March 2015 report demonstrates the University's continued improvement in each of these outcome measures, including steady increases in the number of CCC transfers it enrolls, graduation rates for freshmen and CCC transfers, and the number of students graduating with degrees in STEM fields. In terms of enrolling low-income students, the University far surpasses the proportion of these students enrolled in other AAU institutions, both public and private. Most UC students graduate within a normal range of units required for degree completion.

### The Governor's Three-Year Financial Sustainability Plan

Provisional language associated with the 2015-16 Budget Act requests UC (and CSU) to submit three-year financial sustainability plans that are to include projections of revenue and expenditures and enrollment by level of student for 2016-17, 2017-18, and 2018-19 using assumptions provided by the Department of Finance. The Department of Finance instructed the University to assume continuation of the Governor's plan to provide UC with a 4% base budget increase for each of the fiscal years, and to also assume no tuition increase for 2016-17, consistent with the framework agreed to with the Governor. After 2016-17, tuition increases are to be pegged generally to inflation. DOF also assumes \$171 million will be provided from Proposition 2 funds for UCRP unfunded liability in 2016-17 and \$169 million for the same purpose in 2017-18. The assumptions provided by the Department of Finance are silent on enrollment growth. In addition, the University is to supply goals for each year associated with the performance outcome measures included in the annual reporting requirement described above. The University's plan is being provided to the Board for approval at the November meeting.

### Other Reports

Other reporting requirements in the 2015-16 Budget Act request an update on the implementation of the budget framework agreement with the Governor, a report on legally allowable funds for instruction, and a report on the use of funds for student support services for students from underrepresented minority and low-income backgrounds.



## **THE PATH FORWARD**

The State's historic support for the University has yielded an impressive return on investment. The University of California offers life-changing opportunities to hundreds of thousands of students each year. In addition, the academic enterprise provides a benefit to the State on a wide variety of fronts, from the highly trained and talented workforce it contributes to the California economy, to health care for hundreds of thousands of patients, and other assistance to thousands of stakeholders through its wide-ranging public service programs. Similarly, the research enterprise provides a return on investment to the State in myriad ways, from creating the breakthroughs that launched California's most iconic industries in, for example, aerospace, agriculture, biotechnology, computers and telecommunications; to supporting dedicated research faculty who attract federal and private research funding equivalent to four to five times what they are paid in salary and benefits; and to creating new businesses and jobs based on UC patents that spawned over 840 startups, a majority of which are located in the communities adjacent to UC campuses. Emerging from the great recession that challenged UC and many State entities whose funding was cut to balance the State budget, both the State and UC are committed to and share the goal of protecting this historic investment for the benefit of students and California.

After years of financial volatility, the University faces a fairly stable financial outlook that will provide an opportunity to increase access to its educational programs and rebuild academic excellence. The University has built its 2016-17 budget plan on the foundation of a renewed partnership with the State – the University must continue to pursue efficiencies and alternative revenue strategies to help address a major portion of its budgetary needs and it welcomes the provision of additional State investment to also help meet these needs and keep the University financially healthy. The University is strongly committed to increased access for California resident undergraduate students and has developed an enrollment strategy that will meet the State's expectation as expressed in the 2015 State Budget Act. The resources proposed in this budget plan will help the University meet this commitment as well as address several additional high priorities of the Regents.