

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assembly Member Kevin McCarty, Chair****TUESDAY, APRIL 17, 2018
9 AM, STATE CAPITOL ROOM 447**

UNIVERSITY OF CALIFORNIA

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6400 UNIVERSITY OF CALIFORNIA

The Governor's Budget proposes about \$3.5 billion in General Fund support for the University of California (UC) in 2018-19. Overall revenue for UC in 2018-19 is estimated to be about \$35.6 billion. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget. It does not include a tuition increase currently being considered by the UC Board of Regents.

University of California Funding by Source

(Dollars in Millions)

	2016-17 Actual	2017-18 Revised	2018-19 Proposed	Change from 2017-18	
				Amount	Percent
Core Funds					
General Fund					
Ongoing	\$3,279	\$3,367	\$3,469	\$102	3.0%
One time	262	177	—	-177	-100
Carryover ^a	-45	5	39	34	639
Tuition and fees ^b	4,507	4,816	4,936	120	2.5
Lottery	38	42	42	— ^c	-0.1
Other core funds ^d	353	405	395	-10	-2.5
Subtotals	(\$8,394)	(\$8,813)	(\$8,882)	(\$70)	(0.8%)
Other Funds					
Medical centers	\$10,395	\$11,330	\$11,670	\$340	3.0%
Sales and services	6,670	7,134	7,345	211	3.0
Federal	3,649	3,735	3,776	41	1.1
Private	2,250	2,347	2,400	53	2.3
State	342	441	437	-4	-0.9
Other	1,031	1,049	1,071	22	2.1
Subtotals	(\$24,337)	(\$26,036)	(\$26,699)	(\$663)	(2.5%)
Totals	\$32,730	\$34,848	\$35,581	\$733	2.1%
FTE students^e	263,957	272,267	275,267	3,000	1.1%
Core funding per student	\$31,800	\$32,368	\$32,268	-\$100	-0.3%

^a Of the \$262 million one time provided in 2016-17, \$45 million was unspent. UC plans to spend \$5 million of the carryover in 2017-18 and the remainder in 2018-19.

^b Includes funds that UC uses to provide tuition discounts and waivers to certain students. In 2018-19, UC plans to provide \$1 billion (\$3,804 per FTE student) in such aid.

^c Amount is less than \$500,000.

^d Includes a portion of overhead funding on federal and state grants, a portion of patent royalty income, and Proposition 56 funding designated for graduate medical education.

^e 1 FTE represents 30 credit units for an undergraduate and 24 credit units for a graduate student. Student counts include resident and nonresident students.

FTE = full-time equivalent.

ITEMS TO BE HEARD

ISSUE 1: CURRENT YEAR BUDGET ISSUES

The Subcommittee will discuss five activities UC is pursuing as part of the 2017 Budget Act, which calls for the Department of Finance to release \$50 million General Fund to UC on May 1 if UC has made a good-faith effort to complete the activities.

PANEL

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

BACKGROUND

The 2017 Budget Act conditioned \$50 million of the base increase on UC meeting numerous expectations. The five expectations are listed below, along with some of the activities UC has undertaken in response to these requirements:

Budget Requirement	UC Activities
Complete pilot programs of activity-based costing at the Riverside campus in the College of Humanities, Arts, and Social Sciences, and at two other campuses in three departments each no later than May 1, 2018.	UC has completed the activities-based costing studies at all three campuses.
Attain a ratio at each of its campuses, except for the Merced and San Francisco campuses, of at least one entering transfer student for every two entering freshman students beginning in the 2018–19 academic year.	For Fall 2017, UC reports that five undergraduate campuses have a freshmen-to-transfer ratio of 2:1. UC Irvine reports a 2.1:1 ratio, UC Riverside reports a 3.2:1 ratio, and UC Santa Cruz reports a 2.7:1 ratio. Both the Riverside and Santa Cruz campuses have developed plans to eventually achieve the 2:1 ratio.
Take the actions of the Regents of the University of California and the University of California Office of the President that are directed by the California State Auditor in its audit report “Report 2016-130,” dated April 25, 2017, regarding the University of California Office of the President, by April 1, 2018.	UC reports that of the 10 recommendations directed by the State Auditor to the Office of the President, 3 have been completed and UC continues to work on the remaining seven. The following chart describes the recommendations and implementation status.
Adopt a policy that does not provide supplemental retirement payments for any new employee designated to be in the Senior Management Group no later than May 1, 2018.	The Regents adopted a new policy in March that does not provide supplemental retirement payments for any new employee designated to be in the Senior Management Group.
Disclose all revenues and expenditures, including carryover funds, and provide a full description of systemwide and presidential initiatives, including their sources of revenue and a justification of how they further the mission of the university, to the Legislature.	UC has developed a list of systemwide initiatives and programs, which was presented to the Legislature and Department of Finance in a December 2017 report.

The chart below describes the 10 Auditor recommendations for UCOP that is expected to be completed by this month, and activities undertaken to meet those recommendations. UCOP considers three recommendations completed.

Auditor Recommendation	UC Status
Document and review the restrictions on its funds and fund commitments to determine whether it can reallocate any of these funds to its discretionary budget for eventual reallocation to campuses.	UCOP identified more than 500 funds within UCOP budget; created new definition for restricted and unrestricted funds; presented to Regents in March
Develop a reserve policy that governs how large its reserves should be and the purposes for which they can be used.	Regents approved new reserve for UCOP in January; guidelines suggest a reserve of \$15 million or 3.5% of funds; President must notify some Regents before reserves are used
Implement a new budget presentation that includes a comparison of budgeted and actual current-year spending and discretionary and restricted reserves.	UCOP made some changes to budget presentation in July 2017; working on other changes for May Regents' presentation
Increase opportunities for campus stakeholder involvement in the development of the OP budget.	UCOP reconvened Executive Budget Committee, which includes leaders from every campus and Academic Senate.
Develop a method for weighing comparable public and private sector pay data when establishing OP salary ranges.	Working group developed a salary setting methodology for leadership positions and analyzed how to use comparable state positions. New policy scheduled to be voted on by Regents in May
Determine how to restructure salary ranges to make certain the ranges encourage employee development and pay equity.	UC is reviewing and analyzing positions and job classifications; new salary ranges required to be implemented by April 2019
Evaluate and identify needed changes in employee benefit policies to ensure there are safeguards to control costs	New limits on car allowances, meals, hotels, and other costs. Regents approved limits on senior managers' retirement benefits in March
Complete phase one of CalHR's best-practice workforce planning model by developing a strategic direction for its workforce plan	UCOP has presented a planning framework to Regents and has analyzed existing workforce data
Develop and use a clear definition of systemwide initiatives	UCOP has developed new categories and definitions, which were presented to Regents in March
Develop a comprehensive list of systemwide initiatives and presidential initiatives, including their purpose and cost	UCOP has compiled a comprehensive list of initiatives and their costs

STAFF COMMENT

Staff believes UC has completed three of the five requirements to achieve the \$50 million. But it is unclear how the Administration will determine if a "good faith effort" has been made on the two remaining activities, which may be the most important: increasing community college transfer at all undergraduate campuses, and implementing the State Auditor's recommendations regarding the Office of the President. The Subcommittee could consider the following issues as it discusses these activities:

UC is working to admit more community college students. But students could still face differing requirements at different segments. In a December letter to UC, the Administration noted that UC will not achieve a 2:1 freshmen-to-transfer ratio at all campuses, but noted that the plans put forth by the Riverside and Santa Cruz campuses "appear to be reasonable steps toward achieving the expected ratio." However, the Administration stated that because the ratios won't be achieved by 2018-19, UC should consider further work with the Community College Chancellor's Office to streamline the transfer process and adopt the Associate Degree for Transfer program where practical.

A memorandum of understanding (MOU) between UC and the California Community Colleges was signed last week that seeks to guarantee UC admission to all qualified community college students. The MOU also proposes efforts to streamline the transfer process and add and improve student preparation and student success programs.

Even prior to the MOU, UC has developed transfer admission guarantees, which exist between some community colleges and UC campuses in the same region, and transfer pathways, which allow community college students to satisfy general education requirements for 21 majors by taking a specified list of courses and achieving a minimum grade point average.

While the MOU does state that UC will seek to adhere to the criteria in the Associate Degree for Transfer (ADT) program, it does not appear that UC has agreed to accept all ADT programs. ADTs were created through 2010 and 2012 legislation, and guarantee a transfer student admission to a California State University campus as a junior if certain academic criteria are met.

So while UC is working to increase and improve transfer, community college students still face somewhat differing requirements to transfer to UC or CSU at a junior level. The Subcommittee may wish to ask the Administration whether it feels this UC effort is meeting its intention.

Systemwide initiatives and programs total more than \$333 million in state General Fund spending. How will UC determine whether this is the best use of state funds? Per the state audit and the 2017 Budget Act, UC has provided a list of systemwide programs and initiatives. These programs vary considerably in size, scope and history, with many created by the Legislature decades ago. While UC has created this list and is redirecting funding from a few of these programs to support 2018

enrollment growth, it is unclear how UC will review these programs going forward to determine if they remain a priority and are successfully carrying out their mission.

Auditor disagreed with UC's audit work at the six-month mark. UC provided an update to the State Auditor six months into its work to implement the recommendations. Staff notes there was disagreement between UC and the Auditor as to how far along UC was. The Auditor took issue with UC's work on comparing other public sector jobs with UC jobs in setting salaries. For example, noting a UC document concluded that many state positions, even those at CSU, are not comparable to UC. Additionally, the Auditor suggested UC needed to take additional actions related to reducing costs associated with travel, meetings, and employee benefits, and noted that UCOP's presentation of its budget to the Regents in July 2017 remained unclear and used estimates instead of real financial data.

A website maintained by the State Auditor that includes updates on UC's progress notes that it views only one of the 10 recommendations completed. The Subcommittee may wish to ask the Administration how it will determine this month whether UC has truly implemented the Auditor's recommendations.

ISSUE 2: GOVERNOR'S BUDGET PROPOSAL AND UC FUNDING REQUEST

The Subcommittee will discuss the Governor's proposal to increase General Fund support for UC by \$92.1 million, and UC's request for an additional \$105 million ongoing General Fund and \$35 million one-time General Fund above the Governor's proposed amount.

PANEL

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

BACKGROUND

The 2017 Budget Act provided UC with a base increase of \$131.2 million General Fund, set an undergraduate enrollment target of at least 1,500 students to be funded through the redirection of existing Office of the President funds, and included the \$50 million set-aside as described earlier in this agenda. The budget also created a separate line item for the Office of the President, which will be discussed in subsequent items in this agenda. Additionally, the budget provided UC with \$169 million one-time Proposition 2 funding to help address the unfunded liability in the UC Retirement Plan. This was the final installment of a total of \$436 million in one-time funds provided over a three-year period. The budget also provided \$5 million General Fund to enroll 500 additional graduate students, with budget language urging UC to prioritize the enrollment of resident graduate students and enroll at least as many resident graduate students as nonresident graduate students.

Regarding undergraduate enrollment, budget language required UC to work with the Administration and the Legislature to review Office of the President (UCOP) initiatives and expenses to identify funds that could be redirected to support undergraduate enrollment growth. After several meetings in the Fall, UC provided a report in December outlining \$15 million in state General Fund that will be redirected from the UCOP budget to support 1,500 more California undergraduates in Fall 2018. Of this amount:

- \$8 million will come from reductions to UCOP's operational budget;
- \$3 million will come from redirected lottery funds;
- \$2.5 million will come from providing smaller budget increase than otherwise planned for 2018-19 for some programs;
- \$1.5 million will come from eliminating state General Fund support for four programs based at campuses.

Based on discussions with the Assembly, UC is seeking to enroll 2,000 new California undergraduates in 2018-19, which would require \$20 million in new state funding. UC is seeking the additional \$5 million General Fund in its budget request.

In addition to new state revenue, UC increased tuition for the 2017-18 year. Tuition and systemwide fees grew by \$390 per student, or \$12,630 annually. The tuition increase allowed UC to collect almost \$60 million in net new revenue.

Governor's 2018-19 Budget Proposal

The Governor's Budget provides UC with an increase of \$92.1 million General Fund, an increase in state support for operations of about 3%. The Governor's Budget Summary notes the Administration will continue to monitor UC's efforts to reduce its cost structure pursuant to a 2015 agreement with the Governor, and to ensure UC's progress in implementing the State Auditor's recommendations regarding the Office of the President. However, there is no budget language directing UC to do anything specific with the new funding, and there is no enrollment target set.

UC Funding Request

The UC Board of Regents have not adopted a 2018-19 UC budget. They are expected to do so at the May meeting.

The UCOP budget proposal for 2018-19 suggests \$428 million in new expenses and proposals for generating the same amount of new revenue. The chart below displays proposed increases in costs and revenue needed to meet those costs.

Proposed Changes in Revenue	Cost (in millions)	Proposed Changes in Expenditures	Cost (in millions)
Cost Savings/Alternative Revenues. <i>Includes philanthropy, asset management, and redirection of nonresident financial aid</i>	\$79	Enrollment Growth Marginal Cost	\$66.20
State General Funds. <i>Includes enrollment growth, base budget increase</i>	\$113.10	Mandatory Costs. <i>Includes employer retirement costs, health benefits, utilities, and some compensation</i>	\$136.40
Fees. <i>Includes tuition and student services fee increase and increased revenue for financial aid</i>	\$136.60	Student Mental Health	\$4.70
UC General Funds. <i>Includes nonresident enrollment growth and tuition increase</i>	\$64.30	Student Success and Academic Excellence	\$50
Deferred Maintenance	\$35	High-Priority Costs. <i>Includes compensation, deferred maintenance</i>	\$132.70
		Financial Aid	\$47.10
		Luquetta Costs	\$9
Total Increase in Revenue	\$428	Total Increase in Expenditures	\$428

As noted in this budget, UC is considering a tuition increase for 2018-19, which would increase tuition by \$288 per student and generate about \$50 million in new net revenue. The UC Regents were scheduled to vote on a tuition increase at its January meeting, but has instead postponed the vote until May.

UC also is considering an increase of \$54 to the systemwide Student Services Fee. Finally, UC has been charging students \$60 per year as the result of the Luquetta v Regents class action lawsuit. That charge will be removed from students' bills during

the 2018-19 academic year. UC is asking the state to buy out all three of these charges: the tuition increase, the fee increase, and the Luquetta charge. State support of the Luquetta charge would allow UC to receive about \$9 million in new revenue for operations and provide a \$60 reduction in tuition for students.

UCOP has proposed the following budget request to the Legislature: \$105 million ongoing General Fund above the Governor's proposal, and \$35 million in one-time funding. The request is broken down in the chart below.

UC Request	Cost
Buy out of proposed tuition/fee increases and court case fee	\$70 Million
Increased funding to support overenrollment	\$25 Million
2018-19 Enrollment Growth (500 undergrads, 500 graduate students)	\$10 Million
Infrastructure Needs	\$35 Million (one-time)
Total	\$105 Million ongoing, \$35 Million one-time

Regarding over-enrollment, UC notes that it has exceeded state enrollment targets set in 2015 and 2016 by about 2,600 California undergraduates. Thus, it is asking for funding to support most of those students. (The State typically provides \$10,000 General Fund for every new California student.)

LAO Recommendation

The LAO notes that the Legislature faces two key decisions regarding UC's budget each year. The first decision regards which proposed cost increases are acceptable. At the universities, the largest of these costs relate to compensation and enrollment. After addressing these base issues, the Legislature then typically considers proposals for program expansions or new programs. After deciding which cost increases to support, the second decision regards how to fund them. Traditionally, UC cost increases have been implicitly shared between the state (through budget augmentations), resident students and their families (through tuition increases), and other fund sources (such as nonresident students).

Regarding costs, the LAO notes that faculty salaries are on average below the group of eight research universities it compares itself with, but they are above public research universities that the LAO uses as a comparator. The LAO notes that the Legislature could consider further savings from the Office of the President, and may wish to plan for enrollment growth in 2019-20. Additionally, the LAO expresses concerns with the \$50 million proposed to improve academic quality, as student outcomes continue to improve and this funding could be used by campuses for anything they wish, providing little accountability.

STAFF COMMENT

UC is seeking a significant increase. The Subcommittee may wish to consider the following issues as it considers UC's budget.

UC's cost increases are mostly discretionary. Some costs increases – such as contractually-bargained compensation increases, retirement contributions and health benefit costs - must be covered in 2018-19. But most of UC's proposed budget increases are not mandatory: faculty and administrative compensation, student success initiatives and replacement of the Luquetta lawsuit funding are discretionary. The LAO notes that the Legislature can determine which of these types of spending it supports.

Tuition buyout request includes tuition and additional items. UC's request for the State to buy out the tuition increase includes the proposed increase to basic tuition, but it also includes two other fees.

The Student Services Fee is currently \$1,128 and is charged to all registered students and funds services that are necessary to students but not part of the University's programs of instruction, research, or public service. The majority of the fee funds are spent on student services, including counseling and career guidance, cultural and social activities, and student health services. In addition, some Student Services Fee revenue is used for capital improvements that provide extracurricular benefits for students. The Subcommittee may wish to consider whether state support for this fee is warranted; staff is not aware of any past action in which the state supported this fee.

UC lost a class-action lawsuit, Luquetta v UC Regents, in 2010. The lawsuit was related to an increase of tuition for professional degree students in the middle of their program, and to pay back the students impacted, UC has been assessing every current student a \$60 fee. That fee is set to expire this year. Instead of allowing the fee to expire, UC is seeking to continue the funding level but asking the state to pay for it. State support for this would allow UC to receive an extra \$60 in revenue per student to use for campus operations. In addition, if the State does support the entire buy-out as proposed by UC, students would actually see a decrease in tuition next academic year of \$60.

Another tuition hike equates to a \$678 increase for students in two years and would add to state Cal Grant costs. If enacted, this would be the second tuition increase in two years for UC students, and equate to a \$678 increase for students in two years, or about a 6% increase. Additionally, the increase would add \$26.2 million to state costs for the Cal Grant program, which covers tuition for about 77,000 UC students.

UC Tuition and Student Services Fee

2012	2013	2014	2015	2016	2017	2018 (Proposed)	Change, 2016 - 2018	% Change, 2016 - 2018
\$12,132	\$12,132	\$12,132	\$12,180	\$12,240	\$12,630	\$12,918	\$678	6%

Great news: UC has significantly increased California undergraduate enrollment. But budget request unclear on enrollment for out years. After remaining stagnant and even declining in recent years, UC has increased California undergraduate enrollment substantially, growing by more than 10,000 full-time equivalent students in just two admissions cycles. This is a major access success story. UC has actually exceeded state enrollment targets, which called for an increase of 7,500 students in the 2015 and 2016 Budget Acts. As part of its budget request, UC is seeking funding to support students it enrolled beyond state enrollment targets. In addition, UC is seeking funding for enrollment growth in 2018-19.

UC California Undergraduate Enrollment

Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016	Fall 2017
172,757	172,162	174,681	173,642	180,389	184,732

UC's request, however, does not include enrollment growth for 2019-20. In recent budgets, the Legislature has provided enrollment funding and targets a year ahead of the admissions cycle, to allow UC to plan ahead and set enrollment targets before admissions decisions need to be made. The UC budget request would break that recent pattern and would not provide any direction for enrollment growth for Fall 2019.

UC may have missed the mark on resident graduate enrollment. As noted earlier, the 2017 Budget Act provided \$5 million General Fund to increase graduate student enrollment by 500 students in 2017-18. The language provided specific direction to UC to prioritize the enrollment of California graduate students, and stated that the university should enroll as many resident graduate students as nonresident graduate students.

Enrollment data for graduate students not enrolled in professional schools indicate that UC enrolled more nonresident than resident graduate students, however.

UC Graduate Student Enrollment

New Graduate Students	Fall 2016	Fall 2017	Change
CA Residents	6,488	6,770	282
Nonresidents	7,115	7,883	768
Total	13,603	14,653	1,050

Staff is not aware of UC making any policy or procedural changes to meet the budget language requirement. UC has indicated that because the enrollment funding came after the admissions cycle, it was unable to alter the mix of residents and nonresidents admitted.

CSU enrolled far more students than its state enrollment target, but isn't asking for extra funding. As discussed in a previous Subcommittee hearing, CSU exceeded its state-funded enrollment target by more than 7,000 full-time equivalent students in 2016-17. CSU is not asking for state support for these students, however. In comparison, UC has exceeded its enrollment target by about 2,600 students, and is asking for state funding. The Subcommittee may wish to consider whether it should treat this issue differently for each segment.

ISSUE 3: PROPOSITION 56

The Subcommittee will discuss the Governor's Budget proposal to reduce General Fund support for UC by \$40 million and replace it with \$40 million from Proposition 56 to support graduate medical education.

PANEL

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President
- Angela Gilliard, University of California Office of the President

BACKGROUND

In November 2016, voters approved Proposition 56, which increased excise taxes on tobacco products by \$2. The measure also prescribes how to distribute the revenues. While the measure specifies that the bulk of the revenue be spent on health care for low-income Californians, the measure also specifies \$40 million to UC for “the purpose and goal of increasing the number of primary care and emergency physicians trained in California. This goal shall be achieved by providing this funding to the UC to sustain, retain, and expand graduate medical education programs to achieve the goal of increasing the number of primary care and emergency physicians in the State of California based on demonstrated workforce needs.” Proposition 56 states funding must be prioritized for medically underserved areas and populations. Additionally, UC must annually review physician shortages by specialty across the state and by regions, and funds may be used to address these shortages. Lastly, Proposition 56 states that residency programs accredited by federally-recognized organizations and located in California are eligible to apply to receive funding.

According to information provided by UC, there are currently about 11,000 medical residents and fellows in California, with about 5,000 in UC-sponsored programs. This training is expensive: UC states that the average total cost to train a resident is about \$150,000 per year. State funding for these students comes mostly from the Song-Brown Program administered by the Office of Statewide Health Planning and Development (OSHPD). UC received about \$3.1 million from this program in 2016. Some state General Fund also supports this education, but it is difficult to pinpoint exactly how much. UC notes, for example, that some portion of a physician faculty's salary is supported by General Fund.

The 2017 Budget Act provided UC with \$50 million in Proposition 56 funds to replace a reduction of \$50 million General Fund.

Governor's 2018-19 Budget Proposal

Similar to last year, the Governor proposes a cut to UC of \$40 million General Fund, to be replaced with \$40 million in Proposition 56 funding. The Administration continues to state that at least \$40 million in General Fund support for UC is used for graduate medical education, although there is no specific earmark for this purpose.

LAO Assessment

The LAO's 2017-18 budget analysis notes that the Administration's use of GME funds may not meet the goals of the measure. While the measure does not require Proposition 56 revenues to supplement existing resources for medical education programs, the measure does state those funds are to be used "for the purpose and goal of increasing the number of primary care and emergency physicians training in California." LAO notes that using the Proposition 56 revenues to replace General Fund resources used for GME (at least according to Administration estimates) arguably does not meet this goal.

STAFF COMMENT

Like last year, the Subcommittee faces a difficult dilemma with this proposal, which centers around General Fund support for UC.

As discussed in the previous item, UC is seeking a significant increase in General Fund support to cover increasing costs and to increase enrollment. Undoing the Governor's proposal on this issue would require \$40 million in additional General Fund, which leaves \$40 million less to help support UC's budget request.

However, voters were led to believe that the passage of Proposition 56 would lead to expanding the number of primary care and emergency room doctors. UC has stated clearly that under the Governor's Budget scenario, it would not increase graduate medical education slots. The Governor's Budget proposal scores General Fund savings but essentially ensures status quo state support for medical residency programs.

Should the Legislature restore General Fund and provide \$40 million in Proposition 56 funding, UC has stated it will transmit the funds to a new organization that will convene stakeholders, develop grant methodology and administer the program.

ISSUE 4: OFFICE OF THE PRESIDENT

The Subcommittee will discuss the budget for the Office of the President.

PANEL

- Kieran Flaherty, University of California Office of the President
- Dave Baltaxe, University of California Office of the President
- Jason Constantouros, Legislative Analyst's Office

BACKGROUND

As the systemwide headquarters of the university, UC Office of the President (UCOP) serves two distinct functions: it provides certain central administrative services, and it manages systemwide initiatives that benefit a campus or multiple campuses. Examples of central administrative services include reporting at regents meetings, managing the university's retirement programs, and developing the university's budget. Examples of systemwide initiatives include the university's Education Abroad Program and online education platform. These initiatives are available to university students across multiple campuses.

The UCOP budget is about \$800 million for the current year, and includes nearly 500 revenue sources, including the state and federal governments, employs about 1,800 people, and includes 12 divisions. There are about 30 funds that comprise 95% of UCOP's budget. One significant source of revenue for UCOP has been the campus assessment, which charges campuses for UCOP operations and has been set annually by the UC Board of Regents. Campuses, which were allowed to use any funding source to pay the assessment, were charged a total of \$312.4 million in 2016-17 to support UCOP.

A break down of the 2017-18 UCOP budget is provided on the following page.

UC Office of the President 2017-18	Proposed 2017-18 Expenditures
<i>(in millions)</i>	
Central and Administrative Services	
Academic Affairs	\$30.04
Innovation and Entrepreneurship	\$61.93
Finance	\$40.85
Operations	\$118.58
President's Executive Office	\$2.61
Health Sciences	\$4.16
Governmental Relations	\$5.44
Public Affairs	\$14.18
Board of Regents	\$58.45
Total	\$336.24
Systemwide Academic and Public Service Programs	
Instruction	\$58.38
Research	\$172.28
Public Service	\$15.19
Academic Support	\$46.68
National Laboratories	\$4.27
Presidential Initiatives	\$9.77
Total	\$306.57
Agricultural and Natural Resources	\$102.27
UC Path	\$52.44
Grand Total	\$797.52

Source: UC Regents Item F-1, June 21, 2017

2017 Audit critical of UCOP budgeting practices. A 2017 report by the State Auditor found numerous concerns with UCOP's budget, including:

- UCOP accumulated more than \$175 million in undisclosed restricted and discretionary reserves, and advocated for more funding even while accumulating these reserves;
- UCOP did not track systemwide initiatives, their costs, or provide an assessment of their continued benefit to the university;
- UCOP lacked consistent definitions of and methods for tracking the university's administrative expenses.

Budget Act created new line item, specific state funding for UCOP. Based on a recommendation from the State Auditor, the 2017 Budget Act created a new mechanism for funding UCOP. A new line item in the state budget was created for UCOP, with the state providing \$296.4 million General Fund to UCOP and \$52.4 million

General Fund for the UC Path project (which will be discussed in the next agenda item.) Budget language stated that the funding would only be provided if the UC President certified that there would be no campus assessment and that overall campus revenues would be higher in 2017-18 than they had been in the previous year. This change was pushed by this Subcommittee in an attempt to allow for greater UCOP oversight and to ensure that campuses received more funding.

UCOP in the midst of multiple reforms. Since the audit, UCOP has launched several efforts to change UCOP budgeting practices, and to review UCOP's structure and services to determine if broader change is warranted. A UCOP budget proposal for 2018-19 is expected to be presented to the UC Board of Regents at their May meeting. Among the activities:

- UCOP developed a new budget process for 2018-19, which includes zero-based budgeting for travel, meetings and other services, better forecasting to predict projected expenditures, and the reformation of the Executive Budget Committee, which allows for campus input into UCOP's budget.
- As recommended by the Auditor, UCOP has agreed to end the practice of using undisclosed budget surpluses to support various activities. Instead, UCOP is creating the Strategic Priorities Fund to address temporary priorities and initiatives. This fund would include the President's Initiative Fund. UCOP notes that the combined funds it is folding into this new fund totaled between \$50 and \$60 million during the past two years; while the new fund would be budgeted at \$30 million.
- UCOP has changed the definitions it uses to describe funds as restricted or unrestricted. Restricted funds are now described as those funds that are subject to externally imposed restrictions, such as contracts, gifts and other special funds. Unrestricted funds are not subject to external requirements, but may be subject to designated programs if approved by the Regents. A review of UCOP funds recommended that 68 funds with a total balance of \$74.7 million as of June 30, 2017 be reclassified as unrestricted and undesignated.
- UCOP is reviewing salary data, market data, and state human resources practices to respond to Audit concerns. Among the goals are to develop a workforce plan, develop a comprehensive policy on executive compensation, and reset salary ranges for UCOP employees.
- As noted earlier in this agenda, UCOP has cataloged all programs and initiatives, and developed five categories: state/federal programs, campus programs, systemwide programs, systemwide initiatives, and presidential initiatives. This work should allow UCOP to better track these programs going forward.
- President Napolitano hired a consultant to review UCOP's size and structure to determine if major reforms were needed. A report released in January provided two options for significant change; both would move programs from UCOP to campuses or create new entities. For example, one option would break off the UC medical programs into a separate system; another proposal would move

some programs, such as the Agriculture and Natural Resources Division to campuses. President Napolitano announced some structural changes last week, including consolidation of four divisions into one External Relations and Communications division, and moving the Education Abroad office from UCOP into the Santa Barbara campus budget.

- At the request of the Assembly, the Regents hired a consultant to study redundancy between UCOP and campus administration. This had been a key request of the State Auditor, but due to UCOP interference with campus surveys the Auditor was unable to conclude this work. A report on this issue is expected later this month.

Governor's 2018-19 Budget Proposal

The Governor's Budget continues the separate line item for UCOP, and maintains state General Fund at the same level as the 2017 Budget Act. The budget would provide \$296.4 million General Fund to UCOP and \$52.4 million General Fund to UC Path. Budget language ties this funding to a requirement that the UC President certify that there is no campus assessment.

UC Request

UC submitted a Budget Change Proposal to the Department of Finance in the Fall requesting that the direct appropriation of UCOP and UC Path be rescinded. (As noted above, the Administration did not adopt the proposal.) UC argues that its constitutional authority should allow it to set its own administrative structure and costs. UC also notes that because campuses were able to use various funds to pay the campus assessment, including medical center funds, replacing the campus assessment with General Fund support could lead to less General Fund available to some campuses, particularly smaller campuses without medical centers. Direct General Fund support for UCOP in 2017-18 forced UCOP to distribute state General Fund to campuses in a different manner than it had previously, to ensure that smaller campuses did not lose funding.

STAFF COMMENT

During a June 2017 Regents meeting, President Napolitano stated that the Office of the President budget was in many ways more complicated than the budget of the U.S. Department of Homeland Security, which she previously led. This shouldn't be! The complex nature of UCOP's budget has limited transparency, prevented UCOP from reviewing or even tracking disparate programs and initiatives, and stymied Regental and legislative oversight.

The State Audit report portrayed numerous problems. Staff notes that UCOP appears to be spending significant attention and resources toward addressing the audit recommendations. The Subcommittee could consider the following issues as it discusses UCOP's budget and missions.

Direct state funding for UCOP allows for more oversight and could slow administrative growth. Singling out UCOP in the state budget provides more transparency by requiring the Administration and Legislature to review the UCOP budget and consider changes while also considering funding for campuses. The audit

indicated this increased oversight was warranted. While UCOP does appear to be making numerous positive changes, it is unclear at this point that a new and improved UCOP is fully in place. Thus continued oversight may be necessary. Staff notes that the campus assessment grew from \$277.7 million in 2011-12 to \$312.4 million in 2016-17. Had the Legislature focused on this issue during that period, it is possible to assume the choice would have been made to slow this growth and direct more resources to campuses, where students are being served.

The Governor's Budget holds UCOP funding flat, which may force UCOP to cut costs. The Subcommittee may wish to ask UC how it will address this issue.

Staff acknowledges that this new budget process is a disruption to previously established UC policy around distributing General Fund to campuses. Because there is a mismatch between the formula that was used to assess campuses for UCOP services and the per-student formula used to distribute General Fund, campuses are affected differently by the elimination of the campus assessment and a reduction in the overall amount of General Fund available to UC. However, UC changed its General Fund distribution last year to ensure campuses were held harmless, and this can be done again.

UCOP reviews indicate funding could be available for other purposes. UCOP's creation of a Strategic Priorities Fund includes a reduction in expenditures on previous activities. Additionally, UCOP's new definition of restricted funding indicates there may be more resources available for other purposes. And finally, the better tracking of systemwide programs and initiatives could allow for a more thorough review of these programs to determine their value to the state in contrast to other state-UC priorities.

The Subcommittee may wish to ask UC about whether these reforms will lower UCOP expenditures and therefore free up funding for other services related to enrollment and other student services.

Redundancy report could provide further information for Legislature to consider. The consulting firm Sjoberg Evashenk has been working on a report to answer unanswered questions from the state audit. The firm is expected to review whether there is unnecessary duplication between UCOP and campus administration and seek campus input into UCOP services to determine if they are providing needed support to campuses. This report may help UC and the state better determine the appropriate size and scope of UCOP. The report is expected to be released later this month and may help inform the 2018-19 UC budget discussion.

Further review of systemwide programs and initiatives will occur this year. UC appears to have fulfilled the April 2018 audit recommendation to catalog and categorize programs and initiatives. Further work is due by April 2019 to set spending targets for these initiatives, and to publish the results of a review of these initiatives and whether UCOP is able to reallocate some funds to campuses. This will be important work to help the state determine if state funds are being used for their best purpose.

UCOP item needs to be adjusted to account for redirected funding. Staff notes that the redirection of UCOP operational and programmatic funding toward 2018-19 enrollment growth likely means that the UCOP General Fund appropriation should be altered, and a similar increase in campus funding should be included.

March report indicates UCOP has spent 41% of its budget six months into the fiscal year. A key criticism of UCOP by the State Auditor was its handling of unspent funds from previous fiscal years. The Auditor criticized UCOP for not disclosing unspent funds as it presented UCOP budget proposals to the Regents. UCOP is addressing this issue, and a March presentation to the Regents provided information on actual vs budgeted 2017-18 expenses. The report notes that UCOP has spent about \$65 million less than it was projected to spend half way through the budget year. UCOP staff notes, however, that UCOP expenses typically accrue more later in the fiscal year, and therefore actual spending after 6 months may not be an indicator that UCOP will have a surplus at the end of 2017-18. More information will be presented at the May Regents' meeting.

ISSUE 5: UC PATH

The Subcommittee will discuss UC Path, a project to integrate numerous payroll and human resource functions into one system.

PANEL

- Mark Cianca, University of California Office of the President
- Jason Constantouros, Legislative Analyst's Office

BACKGROUND

The Payroll, Academic Personnel, Timekeeping, and Human Resources project, or UCPath, was conceived in 2009, and it became a part of its Working Smarter initiative, an effort led by the Office of the President to achieve administrative efficiencies systemwide by reducing costs or increasing revenues. The Office of the President anticipated that when fully operational, UC Path would replace its existing Payroll/Personnel System (legacy payroll system), which has evolved into 11 variations in use across the campuses. In its 2011 business case supporting the implementation of UC Path, which was created two years before the current university leadership took office, the Office of the President noted that the legacy payroll system was more than 30 years old and was at significant risk of breakdown because of its aging technology. The legacy payroll system also has serious limitations, including high maintenance costs, limited reporting functions, reliance on manual processing, and inadequate capability for the university's current payroll environment.

A 2017 review of the project by the State Auditor included several critical findings:

- The Office of the President currently projects UC Path's implementation cost to be \$504 million—\$334 million over its original estimate of \$170 million—but the full cost to the university is likely to be at least \$942 million.
- The Office of the President originally estimated that it would complete UC Path by August 2014, but it has delayed the implementation date by nearly five years, to June 2019.
- The \$753 million in cost savings, primarily from staff reductions, that the Office of the President anticipated would result from UC Path's implementation, will not materialize.
- Despite the significant departures from the original estimated cost, schedule, and savings for UC Path, the Office of the President has not consistently informed the UC Board of Regents of UC Path's challenges.
- Weaknesses in the Office of the President's project management contributed to UC Path's escalating cost and schedule delays. Specifically, it set aggressive schedules that are susceptible to delays caused by project scope changes or

staffing constraints, and it did not establish rigorous change management processes that would have allowed it to assess how changes to the project's scope would impact its cost and schedule.

The audit made several recommendations to the Regents and the Office of the President to improve the project process, including more frequent and detailed reports to the Regents at public hearings, and developing better planning and oversight of the project.

As discussed earlier, the 2017 Budget Act created a new, separate line item for the Office of the President, which includes funding for UC Path. This action changed the funding for the project from a campus assessment model to state General Fund support. The Budget Act provided \$52.4 million General Fund for UC Path.

UC will provide an update on UC Path implementation at this hearing. Previous Regents' reports and staff briefings indicate the following:

- The Riverside and Merced campuses are currently being served by UC Path, as is the Office of the President and the Associated Students of UCLA. UCLA and Santa Barbara are expected to begin using the system in September. Davis, Berkeley, Irvine and the Agriculture and Natural Resources division are targeted for a March 2019 launch, and the remaining campuses and other UC entities are scheduled for September 2019.
- UC now forecasts that the project will cost \$547.2 million, with additional campus costs of \$198.2 million.
- Operating costs for UC Path are projected to grow to \$67.7 million in 2018-19, \$73.2 million in 2019-20, \$76 million in 2020-21, and \$78.1 million in 2021-22.

Governor's 2018-19 Budget Proposal

The Governor's Budget continues the separate line item for UCOP and UC Path, and maintains state General Fund support at the same level as the 2017 Budget Act. The budget would provide \$52.4 million General Fund to UC Path and prohibit a campus assessment.

UC Request

UC submitted a Budget Change Proposal to the Department of Finance for the May Revise to remove the project from the UCOP budget item and return to the campus assessment model. UC notes that its plans call for an increase in operating costs from the \$52.4 million currently budgeted, to \$67.7 million. The increased costs are due to an increase in staff needed to expand the project to the campuses and programs scheduled to go online in 2018-19. UC Path will need to add 113 employees in 2018-19 to handle the increased workload, according to UC. UC notes that under the current budget model, the state General Fund is supporting some UC Path costs that are associated with non-General Fund programs, such as medical centers.

UC's proposal notes that if the Administration does not remove UC Path from General Fund support and return to a campus assessment model, it is seeking an additional \$15.3 million General Fund to support increased operational costs in 2018-19.

STAFF COMMENT

The UC Path project is clearly needed, as UC campuses currently operate multiple old and failing payroll systems. But the project has clearly been troubled by poor planning and lax Regental oversight. The Subcommittee could consider the following issues as it discusses the project.

Direct state funding for UC Path allows for more state oversight; forecasted costs continue to evolve. Based in part on the critical state audit, the Assembly pushed for a separate appropriation for UCOP and UC Path. This provides a mechanism for both the Administration and Legislature to more directly oversee the program, and given its troubled history, it may be advisable to maintain the current item as is, until the state feels comfortable with the progress and costs.

Staff notes that forecasted costs for this project continue to change. UC officials told the state Auditor in its 2017 report that total project costs would be about \$504 million, but that number grew to \$547.2 million in a March 2018 UC Path report. Out-year operational costs also changed: numbers provided in the March UC Path report differ from numbers UC will present at this hearing. In this case, projected operational costs will be slightly lower than stated in March.

Legislature could consider only covering UC Path costs associated with General Fund programs. UC does raise a valid concern that the current structure leads to the state General Fund supporting costs associated with non-General Fund programs. UC's five medical centers are the most obvious example: should the state support the costs associated with medical center payroll, or should medical center revenue be used instead? The Subcommittee may wish to ask whether UC could differentiate costs associated with the General Fund, and costs associated with other non-General Fund programs.

How will UC Path impact campus administrative costs? As the audit noted, this project was launched as a program that would improve efficiencies and cut costs. UC has abandoned the idea that this project will cut costs, but does suggest it will relieve some campus staff and administrative officials from tasks they once performed. However, UC suggests it is difficult to score those savings or redirect personnel, because the new project will likely not free up the work of entire offices or staff. The Subcommittee may wish to push UC to better study this issue, as savings or redirection could alleviate some operating costs.

ISSUE 6: REVIEW OF 2016 OUTREACH AND SUPPORT FUNDING

The Subcommittee will review UC's use of funding provided in the 2016 Budget Act to provide outreach and student support services for students from LCFF+ schools.

PANEL

- Seija Virtanen, University of California Office of the President

BACKGROUND

The 2016 Budget Act included \$20 million in one-time General Fund for support services for “low-income students and students from underrepresented minority groups,” including students who were enrolled in Local Control Funding Formula (LCFF)-plus schools. LCFF-plus schools are schools where more than 75 percent of the school’s total enrollment (unduplicated) is composed of students who are either English learners, eligible for a free or reduced-price meal, or foster youth. These schools are eligible for supplemental funding under LCFF. The additional funding in the Budget Act was designed both to increase the number of LCFF-plus and other low-income students who enroll at UC and to expand academic support services to ensure their academic success and timely graduation.

UCOP allocated the funding to campuses based on the number of students who graduated from LCFF-plus high schools who were enrolled on each undergraduate campus in Fall 2015. Students who entered as either freshmen or transfers were included in this count. In addition, funds were set aside for outreach services provided by UC San Francisco and for supplemental funding for particularly promising and innovative programs. The chart below displays the distribution of funds and the number of LCFF-plus students by campus.

Campus	Number of LCFF Plus Students	Initial Allocation	Final Allocation	Expenditure by December 2017	Carryforward by December 2017
Berkeley	2,474	\$1,552,000	\$1,552,000	\$1,552,000	\$0
Davis	3,326	\$2,086,000	\$2,086,000	\$1,701,013	\$384,987
Irvine	5,499	\$3,451,000	\$3,451,000	\$2,906,412	\$544,588
Los Angeles	4,226	\$2,651,000	\$2,951,000	\$2,651,738	\$299,262
Merced	2,190	\$1,374,000	\$1,776,100	\$485,453	\$1,290,647
Riverside	4,169	\$2,615,000	\$2,765,000	\$2,114,014	\$650,986
San Diego	2,782	\$1,745,000	\$1,830,400	\$1,381,522	\$448,878
San Francisco	n/a	\$300,000	\$300,000	\$265,735	\$34,265
Santa Barbara	2,658	\$1,667,000	\$1,729,500	\$887,801	\$841,699
Santa Cruz	2,485	\$1,559,000	\$1,559,000	\$1,484,069	\$74,931
Reserve: High-Potential Projects		\$1,000,000	\$0	\$0	\$0
Total for All Campuses	29,809	\$20,000,000	\$20,000,000	\$15,429,755	\$4,570,245

Prior to receiving the allocation of funds, each campus was required to provide UCOP with a spending plan indicating how these funds would be used, what outcome metrics would be tracked, and the timeline for implementation. The additional one-time funding could be used by campuses to expand current programs or launch new efforts, but could not be used to fund existing programs at their current scale.

Campuses were asked to use 20 to 40 percent of their funding for efforts to increase the application, admission, and enrollment of students from LCFF-plus schools. Examples of eligible funding include partnering with community-based organizations to raise awareness of UC, and better serve LCFF-plus students and their families, or using UC proprietary software other tools to identify students attending LCFF-plus schools who are close to achieving UC eligibility and providing college advising and academic enrichment programs to those students.

The remaining 60 to 80 percent is to be used to provide academic support services to enrolled students, focusing on those who are low-income, first-generation college, or otherwise educationally disadvantaged. Examples of eligible funding include additional academic support and learning assistance programs for students, including targeted support services in the fields of writing and science, technology, engineering, and mathematics; or training faculty, advisors, and peer mentors how to best support low-income, first-generation, and educationally-disadvantaged students.

Additionally, for the fall 2017 application cycle, in order for applicants to receive full consideration in the comprehensive review process, campuses received special rosters of all applicants to from LCFF-plus schools. For 2018, the UC application system will be redesigned to automatically identify these applicants on their UC applications, which is similar to how UC identifies students who qualify for the Eligibility in the Local Context Program. Additionally, UC is also redesigning its application fee waiver so that applicants who report low family incomes are automatically granted these waivers, rather than being required to apply for them. In addition to the one-time funding, AB 1602 (Committee on Budget), Chapter 24, Statutes of 2016, also required UC to provide direction to each campus regarding supplemental consideration in the admission process for pupils who are enrolled in LCFF-plus schools, and meet all the same admission requirements.

AB 1602 also required UC to report by November 30, 2017 and each year thereafter to the Legislature the number of students who attended a LCFF plus school and were admitted to UC, and the number of students who enrolled, disaggregated by campus. In November 2017, UC submitted the report, and provided information about the application, admit rate, and number of LCFF-plus enrollees system wide, by campus, and by race/ethnicity. Tables on the next page show some of that information.

Table 1. High School Graduates, Applicants, Admits, Enrollees by LCFF+ Status of High School, UC Systemwide

		LCFF+ Schools	All High Schools
2015	H.S. Graduates	141,639	425,730
	Applicants	22,532	89,760
	Admits	11,898	53,562
	Enrollees	7,172	29,683
	Application Rate	16%	21%
	Admit Rate	53%	60%
	Yield Rate	60%	55%
2016	H.S. Graduates	138,305	428,033
	Applicants	23,250	92,208
	Admits	14,305	62,304
	Enrollees	8,449	34,895
	Application Rate	17%	22%
	Admit Rate	62%	68%
	Yield Rate	59%	56%
2017	H.S. Graduates	n/a	n/a
	Applicants	25,428	98,195
	Admits	14,388	61,616
	Enrollees	8,161	34,183
	Application Rate	n/a	n/a
	Admit Rate	57%	63%
	Yield Rate	57%	55%

Table 2. Applicants, Admits, Enrollees from LCFF+ High Schools, by UC Campus

	Berkeley	Davis	Irvine	Los Angeles	Merced	Riverside	San Diego	Santa Barbara	Santa Cruz	
2015	Applicants	7,781	8,447	13,448	11,822	6,519	10,700	9,314	10,325	8,617
	Admits	1,175	2,547	4,258	1,760	3,413	4,328	2,127	2,794	2,317
	Enrollees	548	766	1,463	968	767	927	534	753	446
	Admit Rate	15%	30%	32%	15%	52%	40%	23%	27%	27%
	Yield Rate	47%	30%	34%	55%	22%	21%	25%	27%	19%
2016	Applicants	7,674	8,869	14,153	12,097	7,422	11,833	9,481	10,561	8,623
	Admits	1,102	3,038	4,419	1,981	5,071	6,109	3,240	2,758	2,529
	Enrollees	531	877	1,355	1,209	985	1,604	905	611	372
	Admit Rate	14%	34%	31%	16%	68%	52%	34%	26%	29%
	Yield Rate	48%	29%	31%	61%	19%	26%	28%	22%	15%
2017	Applicants	8,216	9,375	15,907	13,161	8,322	13,049	10,367	11,007	9,729
	Admits	1,345	3,213	3,586	1,742	5,476	5,202	3,161	2,939	2,237
	Enrollees	620	958	1,156	1,054	1,159	1,236	963	610	408
	Admit Rate	16%	34%	23%	13%	66%	40%	30%	27%	23%
	Yield Rate	46%	30%	32%	61%	21%	24%	30%	21%	18%

Source: LCFF+ designation based on 2015-16 enrollment data from the California Department of Education. Applicants, admits, and enrollees from UC Application Processing (UCAP) data, August 22, 2017 for fall 2017 admissions cycle and UC Data Warehouse, Undergraduate Admissions Data Mart for fall 2015 and fall 2016.

STAFF COMMENT

The legislative goal with this program was to increase admissions, enrollment and success of students from LCFF-plus schools.

It may be premature to conclude whether the added funding was effective in increasing admissions and enrollment of students from LCFF-plus high schools. While applications increased between 2015 and 2017, the number of enrollees decreased between 2016 and 2017. UC notes that enrollment growth overall was significantly larger in 2016 than in 2017, which may explain the decrease in 2017. UC also notes that Fall 2018 data may be a better indicator of the effectiveness of funding and policy changes, because some changes were made during or after the 2017 admissions cycle.

UC has not provided information as to whether the increased student support services on campuses were effective, which might be helpful to consider should the Legislature seek to fund this kind of activity in the future.

The Subcommittee may wish to discuss with UC whether this type of funding is helpful, or if there are other ways to support the goal of increasing applications, admissions and enrollment of students from LCFF-plus high schools.