

## AGENDA

### ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

**Assembly Member Kevin McCarty, Chair**

**WEDNESDAY, MARCH 29, 2017  
4 PM, STATE CAPITOL ROOM 126**

#### UNIVERSITY OF CALIFORNIA

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**6400 UNIVERSITY OF CALIFORNIA**

Based on the Governor's Budget, projected enrollment growth, and tuition increases for both California and nonresident students, UC's proposed 2017-18 budget would include about \$8.5 billion in core operational funds.

**UC Core Funds** (in millions)

Fund Source	2015-16 Actual	2016-17 Revised	2017-18 Proposed	% Change
General Fund (Ongoing)	\$3,135	\$3,279	\$3,362	7%
General Fund (One Time)	\$124	\$262	\$169	36%
<b>General Fund (Subtotal)</b>	<b>\$3,259</b>	<b>\$3,541</b>	<b>\$3,531</b>	<b>8%</b>
Resident Tuition and Fees	\$3,211	\$3,371	\$3,523	10%
Nonresident Supplemental Tuition	\$833	\$976	\$1,050	26%
<b>Tuition (Subtotal)</b>	<b>\$4,044</b>	<b>\$4,347</b>	<b>\$4,573</b>	<b>13%</b>
Lottery	\$38	\$36	\$36	-5%
Other	\$318	\$286	\$334	5%
<b>Total</b>	<b>\$7,659</b>	<b>\$8,210</b>	<b>\$8,474</b>	<b>11%</b>

As the Subcommittee discusses specific budget issues for UC during this hearing, it can consider the following over-arching issues:

***State support, including financial aid for UC students, has increased significantly.***

After major cuts during the Great Recession, state funding for UC has recovered. The Governor's Budget summary notes that since the passage of Proposition 30 in 2012, state support for UC has increased by \$817.8 million. In addition to direct funding to UC, Cal Grant and Middle Class Scholarship funds for UC students are expected to total about \$917 million in 2017-18, according to the Legislative Analyst's Office.

***Tuition revenue has increased significantly due to enrollment growth and tuition increases.***

The UC Regents voted in January to increase resident tuition by 2.5% for the 2017-28 academic year, or about \$282 annually per student. A systemwide student services fee also has increased during the past three years. Additionally, the Regents have approved increases to nonresident supplemental tuition of 8% in 2015-16, 8% in 2016-17, and 5% for 2017-18. In addition, UC increased resident enrollment in 2016-17 and plans to again in 2017-18; while nonresident enrollment has grown significantly.

***UC continues to struggle to handle costs.*** Cost pressures continue for UC despite increased funding. This is in part due to enrollment growth, as direct state support per-student remains below historic levels. Pension costs require about \$433 million in core fund spending 2016-17, while debt service on bond financing requires about \$350 million. UC continues to push for increased employee compensation, which is about 80% of UC's core budget expenditures, and to lower its student-faculty ratio, which is about 21:1. Building maintenance costs also pressure campus budgets. Some campuses, most notably Berkeley, currently report operational deficits.

## ITEMS TO BE HEARD

### ISSUE 1: RESIDENT ENROLLMENT UPDATE AND UC FUNDING REQUEST FOR FURTHER ENROLLMENT GROWTH

The Subcommittee will discuss estimated resident enrollment at UC for Fall 2017 and UC's proposal to increase resident enrollment for the 2018-19 academic year. UC is requesting \$25 million General Fund to add 2,500 resident students.

#### PANEL

- Kieran Flaherty, University of California
- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office

#### BACKGROUND

The 2016 Budget Act provides UC with \$18.5 million ongoing General Fund if it increases resident enrollment by 2,500 students in the 2017-18 academic year, when compared to the 2016-17 academic year.

Campuses are making admission decisions this month for Fall 2017. But based on enrollment targets provided to the campuses in January by the Office of the President, UC projects it will meet this goal. The chart below provides resident full-time equivalent student enrollment numbers by campus, according to UC.

<b>Campus</b>	<b>2014-15 Actual</b>	<b>2015-16 Actual</b>	<b>2016-17 Estimated</b>	<b>2017-18 Projected</b>	<b>2017 Increase Over 2016</b>
Berkeley	22,445	22,475	23,814	24,549	735
Davis	24,877	24,358	24,862	24,968	106
Irvine	23,176	22,232	23,511	23,865	354
Los Angeles	24,583	24,121	25,177	25,353	176
Merced	5,807	6,398	6,959	7,459	500
Riverside	17,889	17,938	18,953	19,381	428
San Diego	21,368	22,085	22,880	22,974	94
Santa Barbara	18,838	18,650	19,156	19,199	43
Santa Cruz	15,698	15,385	15,794	15,985	191
<b>Totals</b>	<b>174,681</b>	<b>173,642</b>	<b>181,106</b>	<b>183,733</b>	<b>2,627</b>

Budget language requires the Department of Finance to certify by May 1 that UC is on track to meet its enrollment target.

**UC Proposal**

UC is seeking \$25 million ongoing General Fund in the 2017 Budget Act to again increase resident enrollment by 2,500 California residents in the 2018-19 academic year. This funding would be in addition to the \$131.2 million General Fund increase proposed by the Governor.

**LAO Recommendation**

The LAO generally recommends the Legislature set enrollment targets for UC (and CSU), and that the targets are set for the academic year after the Budget Act.

**STAFF COMMENT/QUESTIONS**

***Good news for California students.*** After reducing resident enrollment in Fall 2015, UC has reopened its campuses to increased California enrollment. As UC President Janet Napolitano told the Subcommittee in its March 9 hearing, Fall 2016 enrollment marked the largest one-year increase in California enrollment since World War II. This coincided with the first year of incentive enrollment funding for UC first championed by the Assembly.

Enrollment increases vary by campus for Fall 2017, with the biggest percentage gains at Merced (7.2% growth over 2016), Berkeley (3.1% growth over 2016) and Riverside (2.3% growth over 2016.) Overall, FTE growth at UC will be 1.5% over 2016.

The funding request for the 2017 Budget Act is based on the marginal cost of \$10,000 per student, which is calculated by a previously agreed-upon formula that considers costs associated with adding a student to a campus. Staff notes that this formula was created about a decade ago, and there has been no effort by the administration, Legislature or UC to revisit these costs.

In the 2015 Budget Act, the state provided \$5,000 per student in direct support, but also suggested revenue sources the UC could redirect to provide the additional funding, such as nonresident supplemental tuition and financial aid for nonresident students. Thus, the Assembly believes it met UC's need for \$10,000 per student. The 2016 Budget Act provides \$7,400 per student in direct funding, but UC is again using funding previously used for nonresident financial aid to bring the funding level to \$10,000 per student.

**Potential Questions**

- Which campuses would likely see the most resident undergraduate enrollment growth in 2018-19?
- Can UC continue to increase California undergraduate enrollment beyond 2018-19? What are the challenges in increasing enrollment long term?
- What is the long-term enrollment goal for UC Merced?

**ISSUE 2: REGENTS' NONRESIDENT ENROLLMENT POLICY**

The Subcommittee will discuss the UC Regents proposed Policy on Nonresident Student Enrollment. This policy is required as part of incentive funding for UC provided in the 2016 Budget Act

**PANEL**

- Kieran Flaherty, University of California
- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office

**BACKGROUND**

The 2016 Budget Act provided UC with \$18.5 million ongoing General Fund if it increased resident enrollment by 2,500 students in the 2017-18 academic year and if the UC Regents adopted a policy "that specifies a limit on the number of nonresident students enrolled."

***Nonresident enrollment has grown at most UC campuses.*** Nonresident student enrollment at UC has become an increasing concern for the Legislature and California public. As the charts below indicate, almost every UC undergraduate campus has significantly increased the number of nonresidents during the past five years. In 2012, only three of the nine undergraduate campuses had nonresident enrollment percentages in double-digits; now it is six.

Overall, the percentage of nonresident undergraduates in the UC system has grown from 9% of the student body in 2012 to 16.5% of the student body in the current academic year.

UC Undergraduate Enrollment	2012	2013	2014	2015	2016	Change, 2012 to 2016	% Change, 2012 to 2016
CA Resident	166,269	166,254	168,624	168,134	175,447	9,178	6%
Nonresident	16,929	21,754	26,188	30,732	34,721	17,792	105%

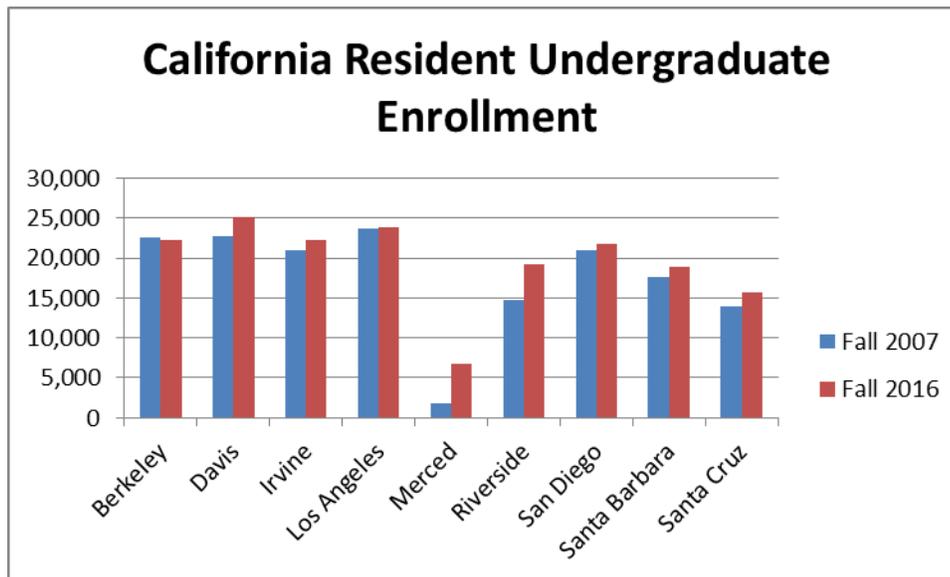
Campus	% Nonresident, 2012	% Nonresident, 2016
Berkeley	19%	24%
Davis	5%	15%
Irvine	7%	19%
Los Angeles	16%	23%
Merced	0%	0%
Riverside	2%	3%
San Diego	12%	23%
Santa Barbara	6%	12%
Santa Cruz	2%	8%

***UC's rationale for increased nonresident enrollment.*** UC cites two key reasons to increase nonresident enrollment. One is that international students and American students from other states increase diversity of viewpoints and living experiences, benefitting California students' education. The other more significant reason is revenue. Nonresident students pay the same tuition and fees as resident students, but also pay nonresident supplemental tuition (NRST). For 2017-18, this amounts to \$28,014. Thus, while a California student will pay \$12,630 annually in tuition and systemwide fees in 2017-18, a nonresident student will pay \$40,644.

UC estimates it costs about \$22,000-\$24,000 to educate a student. Nonresident students provide a campus with about \$16,000-\$18,000 in revenue that can be used for discretionary purposes. UC notes that the growth in nonresident students has occurred during and after a period in which state funding was reduced. Extra funding from nonresident students has allowed UC campuses to hire more faculty, address deferred maintenance needs and alleviate other cost pressures, according to UC. As the funding chart on page 2 of this agenda indicates, UC expects to collect more than \$1 billion in NRST in 2017-18.

***Legislative concern regarding nonresident enrollment.*** Legislative concern regarding nonresident enrollment has centered around its impact on resident enrollment. For example, at UCLA, overall resident enrollment grew by 348 students between 2012 and 2016, while overall nonresident enrollment grew by 2,628 students. At Davis, overall resident enrollment increased during this same period by 735 students, while nonresident enrollment grew by 2,978 students.

Over a longer period, enrollment data indicates that resident enrollment growth has been slowest at the UC campuses with the highest percentages of nonresident enrollment. The graphic on the next page displays California resident undergraduate enrollment at the 9 UC undergraduate campuses in both Fall 2007 and Fall 2016. It is clear that at the three UC campuses with the largest nonresident student populations – Berkeley, Los Angeles, and San Diego – resident enrollment growth either declined (at Berkeley) or rose much more slowly than many other campuses. This is during a period in which California freshmen applications to UC rose by 39%.



### UC Proposed Policy

At its March meeting, the UC Regents discussed a proposed policy to limit nonresident student enrollment. UC has provided the following summary of the proposal:

- Reaffirms UC's commitment under the Master Plan to offer a space on at least one campus to every eligible California resident applicant.
- Requires UC to enroll at least the number of CA resident undergraduates funded by the State.
- Confirms that nonresidents will be enrolled in addition to, not instead of, funded California resident students.
- Caps nonresident enrollment at 20% of total undergraduate enrollment for the entire system and at every campus that currently enrolls less than 20% nonresidents.
- Caps nonresident enrollment the current percentage for the campuses that currently enroll more than 20% nonresidents.
- Confirms that all admission decisions must conform to applicable policies of the Regents and the Academic Senate.
- Calls for the policy to be reviewed every 5 years to determine its effectiveness in supporting excellence across all campuses and enhancing the academic experience, access, and affordability for California resident students, within the context of State support for UC

**STAFF COMMENT/QUESTIONS**

The Assembly has expressed concern regarding the current proposal. A March 17 letter written by Assembly Budget Committee Chairman Phil Ting and Assembly Budget Subcommittee No. 2 Chairman Kevin McCarty, and signed by 17 Assembly members, urged the Regents to reconsider the proposed policy.

Staff also notes that some UC Regents and administrators have sought legislative input on this proposal. UC appears eager for feedback before finalizing a new policy. Among the legislative concerns are:

***The cap is not really a cap.*** While the proposal freezes the growth of nonresident students at Berkeley, Los Angeles and San Diego, it would allow for significant growth at other campuses. Analysis done by the Legislative Analyst's Office shows that this proposal could still add more than 9,700 nonresident students to UC, based on projected resident enrollment growth in 2017-18. While it is very unlikely that UC could add that many more nonresidents quickly, that number does not appear to meet legislative intent to limit nonresident student enrollment growth.

***The high percentage of nonresident students would remain at the flagship campuses.*** The proposal would lock in higher nonresident student enrollment at the three campuses most sought after by Californians. This might not alleviate access concerns for many California students.

***State funding has recovered from the Great Recession.*** As the state cut funding for UC between 2008 and 2011, UC increased nonresident students as one way to find new revenue. This is understandable. However, since the passage of Proposition 30 in 2012, and including just the proposal in the Governor's Budget for 2017-18, the Department of Finance notes that state General Fund support for UC has grown by about \$818 million. State revenue has recovered enough that it appears reasonable to expect UC to lower its reliance on nonresident students.

Potential Questions

- Why does UC believe it still needs significant nonresident enrollment growth?
- Could the flagship campuses gradually reduce nonresident enrollment?
- What does UC believe the impact would be on its campuses if it froze nonresident enrollment at current year levels?

### ISSUE 3: UC FUNDING REQUEST: GRADUATE STUDENT ENROLLMENT GROWTH

The Subcommittee will discuss the UC request to provide \$9 million General Fund to support an increase of 900 graduate students.

#### PANEL

- Kieran Flaherty, University of California
- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office

#### BACKGROUND

According to the LAO, UC is enrolling about 37,000 graduate students in the current academic year. This includes students in master's degree programs, doctorate programs and professional schools, such as law schools.

	2015-16 Actual	2016-17 Estimated	2017-18 Proposed
UC Graduate Student Enrollment	36,225	37,236	37,851

UC notes that graduate students play a significant role throughout the university and state, including:

- Supporting faculty in their instructional and research duties. UC notes that UC graduate students create almost 600 new inventions per year.
- Becoming faculty. Nearly a quarter of UC and CSU tenure-track faculty members have a doctoral degree from UC.

UC states that as it has increased undergraduate enrollment, it has not kept pace with graduate enrollment. The proportion of graduate students to undergraduates has declined from over 30% to under 20%, according to UC data.

#### UC Request

UC requests \$9 million General Fund above the Governor's Budget amount for UC to support the enrollment of 9,000 new graduate students. If funded, the Office of the President would ask campuses to submit proposals for graduate student growth. In determining how to set graduate enrollment targets, the Office of the President would review a range of criteria including campus needs, current proportion of graduate students and amount of undergraduate growth.

**STAFF COMMENT/QUESTIONS**

It appears clear that as UC increases undergraduate enrollment, graduate enrollment must increase as well. Graduate students perform critical tasks in many facets of the campus. Increasing graduate student enrollment at UC may also help meet the Assembly's goal of increasing diversity among higher education faculty in California.

However, staff notes that UC made a similar budget request last year, which was not included in the final budget agreement. LAO enrollment data suggests UC increased graduate student enrollment by more than 1,000 students without any additional state funding.

Additionally, graduate students in professional schools typically pay a significant amount of tuition, and it remains unclear whether state support is needed for that type of student.

Potential Questions

- What types of graduate students – master's degree, doctoral degree, professional schools – would UC add with this funding?
- How does the lessening proportion of graduate students at UC campuses impact the campuses?

**ISSUE 4: UC FUNDING REQUEST AND TRAILER BILL LANGUAGE: DEFERRED MAINTENANCE**

The Subcommittee will discuss the UC request to provide \$35 million one-time General Fund to address deferred maintenance issues and a Department of Finance trailer bill proposal to allow UC to fund deferred maintenance projects through bond funding.

**PANEL**

- Kieran Flaherty, University of California
- Sandra Kim, University of California
- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office

**BACKGROUND**

Maintenance of buildings remains a key problem for all higher education segments. Last October, UC provided the Department of Finance a list of deferred maintenance projects on state-supported buildings with estimated costs totaling just under \$3.17 billion for inclusion in the Governor's Five Year Infrastructure Plan. The submission included over 4,600 individual projects.

The State has recently sought to address this issue. The 2015 Budget Act provided UC with \$25 million one-time General Fund to support deferred maintenance projects. The 2016 Budget Act provided \$35 million in one-time General Fund to UC.

The Governor has made no similar proposal this year.

Additionally, the 2013 Budget Act provided UC with authority to use its main General Fund appropriation to service debt on bonds for academic facilities. UC provides project proposals to the Department of Finance, and the Legislature has the authority to review these projects each spring. Under current law, UC is not allowed to finance deferred maintenance projects with this authority.

**UC Request**

UC requests \$35 million in one-time General Fund to address deferred maintenance projects.

**Governor's 2017-18 Budget**

Trailer bill language would amend the statute allowing UC to use General Fund to support capital outlay debt to also allow UC to support deferred maintenance projects in this manner.

**STAFF COMMENT/QUESTIONS**

UC is hoping to match \$35 million in state funding for deferred maintenance with \$50 million in financing, should the trailer bill language be approved.

Within the \$50 million in financing, UC proposes to spend \$35 million on projects and another \$15 million to conduct a thorough assessment of academic facilities at each campus. The LAO has raised concerns regarding this cost. UC states that the funding would support four employees at each campus to conduct its assessment, which it can't conduct with current personnel levels.

Potential Questions

- Can UC provide a list of the projects that would be funded with the \$35 million?
- What types of projects are being prioritized, given the \$3 billion need?
- Issuing bonds to support capital outlay projects can be a cost-effective method, given the long life span of buildings. Deferred maintenance projects tend to be much smaller in scope and life span; does it make sense to borrow to support these kinds of projects?

**ISSUE 5: PROPOSITION 56 FUNDING FOR UC**

The Subcommittee will discuss the Governor's Budget proposal to reduce General Fund support for UC by \$50 million and replace it with \$50 million from Proposition 56 to support graduate medical education.

**PANEL**

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Public Comment

**BACKGROUND**

In November 2016, voters approved Proposition 56, which increases excise taxes on tobacco products by \$2. The measure also prescribes how to distribute the revenues from the increased tax.

While the measure dedicates the bulk of the new revenue to Medi-Cal expansion, it also calls for \$40 million annually to go to UC for physician training to increase the number of primary care and emergency physicians in California. Funding is intended to support graduate medical education, or residency training, at both UC and other health care systems. UC would administer the funding and could distribute some of the money to other systems.

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 Governor's 2017-18 Budget**

The Governor's Budget proposes allocating \$50 million to the University of California (UC) from Proposition 56 for graduate medical education. The administration also reduces General Fund support for UC by \$50 million. The administration estimates that at least \$50 million in General Fund support for UC is used for graduate medical education, although there is no specific earmark for this purpose. The administration is providing \$50 million from Proposition 56 to reflect that revenues will begin to be generated in the final quarter of the current fiscal year.

**LAO Finding**

In an analysis published last month, the LAO notes that the portion of Proposition 56 that allocates funding for UC's graduate medical education does not include explicit language prohibiting the use of new funding from supplanting existing funding. However, the measure does state that the new funds are to be used "for the purpose and goal of increasing the number of primary care and emergency physician training in California."

The LAO concludes that using Proposition 56 revenues to replace General Fund resources used for graduate medical education arguably does not meet this goal.

**STAFF COMMENT/QUESTIONS**

The Subcommittee faces a difficult dilemma with this proposal, which centers around General Fund support for UC.

Much of the discussion regarding UC's budget in the past several years has been regarding undergraduate enrollment. Most of the increased General Fund support for UC sought by this Subcommittee has been targeted at that issue. UC is again seeking increased General Fund support for undergraduate enrollment as discussed earlier in this agenda.

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. Similar to the need to expand access to undergraduate education to produce more bachelor's degrees, the state also clearly needs more physicians. A report published in *Policy Studies in Family Medicine and Primary Care* entitled, "California: Projecting Primary Care Workforce," noted that the state needs an additional 8,200 primary care physicians by 2030, for example.

It is unclear how the Governor's Budget proposal would lead to an increase in physician training; it simply trades one revenue source for another. This scores General Fund savings but essentially ensures status quo state support for UC medical residency programs. In fact, UC has indicated it will use the \$50 million from Proposition 56 for core operations.

The Subcommittee has received letters opposing the Governor's Budget proposal from the California Medical Association, the California Hospital Association, Loma Linda University Medical Center, Cedars-Sinai, Children's Hospital Los Angeles, the Lucile Packard Children's Hospital at Stanford, and Stanford Health Care.

Potential Questions

- Can UC or the Department of Finance provide more specific budget information as to how much state General Fund is used to support graduate medical education?
- Will this proposal expand physician training?
- What is the administration's response to the LAO's conclusion that this action does not meet the goal of Proposition 56 to expand physician training?
- Would UC distribute some funding to other health care systems to expand physician training under the Governor's Budget proposal? How would that process work?

**ISSUE 6: REVIEW OF OUTSIDE COMPENSATION POLICY**

The Subcommittee will review the UC Regents' Senior Management Group Professional Activities Policy. The 2016 Budget Act required UC to review their policy and consider several changes.

**PANEL**

- Kieran Flaherty, University of California

**BACKGROUND**

The Budget Act of 2016 directed UC to review its Regents policy governing outside employment by senior management. Budget language required UC to report back to the Legislature by Jan. 1, 2017 on discussions or changes to the policy regarding the following issues:

- Require that outside employment does not create conflicts of interest or conflicts of commitment, whether those are actual or perceived;
- Require that outside employment is properly approved;
- Require that outside employment is consistent with, and furthers, the public mission of the university;
- Specify appropriate consequences for violations of policies and procedures;
- Report outside employment publicly on an annual basis.
- In cases of outside employment for executives, require annual public discussion and approval.

This issue was the focus of an April 4, 2016 joint hearing between this Subcommittee and the Assembly Committee on Higher Education, amid concerns that the then-Chancellor of UC Davis had accepted a position on the board of DeVry Education Group without proper approval, and had also earned more than \$300,000 serving on the board of college textbook publisher John Wiley & Sons. A review of UC and California State University policies and practices regarding this issue raised several concerns, including whether there was sufficient review of proposed outside employment, whether the universities considered whether the potential employment was beneficial or harmful to the university's reputation; whether there were appropriate penalties for violating policies, and whether there was sufficient transparency regarding executives' outside employment.

**UC Policy Changes**

UC submitted a report to the Legislature in January stating that their Outside Professional Activities policy had been amended by the Regents at their July 2016 meeting. Below is a summary of the changes:

***Disclosure, Review, Justification and Approvals.*** In the former Outside Professional Activities (OPA) policy, the Approving Authority is defined as the person or office to whom an individual reports. The change added another, higher level of approval so that the requestor's manager would review the proposed activity, and if appropriate, sign off

on the request, passing it to the next higher level manager for further review and approval.

In addition, the policy has been clarified to reinforce the requirement that executives must obtain approval for all OPA, whether compensated or uncompensated. Forms have been improved to include more information, and the executive must submit a statement describing the benefits that accrue to the University for any proposed OPA.

**Reporting Requirements.** Another amendment to the policy implements a mid-year report to be presented to the Regents' Committee that oversees compensation, so that Regents would receive details on new activities that were approved since January each year. The regular end-of-year report will continue to be produced and presented publicly to the Regents.

**Actual or Perceived Conflicts of Interest and Reputational Risk.** The new policy allows for disapproval of the request if there is a "perceived" conflict of interest. In addition, language has been added to the policy that addresses the potential for reputational risk, intended to address affiliations that could diminish the reputation of the institution or system.

**Limitations on Compensated OPAs.** The policy has been changed to limit the number of concurrent compensated activities from three to two.

**Violations.** Violations of the Outside Professional Activities policy will be subject to corrective action, consistent with how the University addresses any policy violations. The action taken will depend on the nature and severity of the conduct. Remedies may include, but are not limited to, issuance of a letter in the personnel file, mandatory training, consideration in the performance review and related salary actions including loss of or reduction in a merit or equity increase, reassignment, demotion, removal from the Senior Management Group position where there is an underlying academic appointment, or termination of employment.

#### STAFF COMMENT/QUESTIONS

The policy changes appear to address many legislative concerns. Requiring the approval of two supervisors, instead of one, is a positive change, as is the requirement that the executive describe how an outside job benefits the university. The requirement that approving supervisors must consider a perceived conflict of interest and reputational risk to the institution also are improvements.

The new policy, and likely the publicity surrounding this issue last year, appears to be having an impact. At the December 2016 Regents meeting, it was noted that the number of senior managers who accepted compensated outside positions during the previous six months had dropped from 17 the year before to 11 last year. UC administrators also announced that two requests by executives had been turned down based on the new policy.

Nonetheless, legislative oversight of this issue should remain vigilant.

**ISSUE 7: REVIEW OF INNOVATION FUNDING FROM 2016 BUDGET ACT**

The Subcommittee will review how UC used \$22 million one-time General Fund provided in the 2016 Budget Act to support innovation and entrepreneurship activities. Details of the program and spending requirements were also described in AB 2664 (Irwin.)

**PANEL**

- Kieran Flaherty, University of California

**BACKGROUND**

The Budget Act of 2016 provided UC with \$22 million in one-time General Fund support to expand programs and support services for entrepreneurs affiliated with the 10 UC campuses. Pursuant to the Budget Act, AB 2664 (Irwin), which was signed by the Governor on Sept. 30, 2016, further described how the funding should be distributed.

The legislation called for each campus to receive \$2.2 million to support expansion or acceleration of economic development in the state, such as the following:

- Business Training;
- Mentorship;
- Proof-of-Concept Grants;
- Work Space;
- Laboratory Space;
- Equipment.

Campuses were asked to submit detailed plans to an advisory committee created by the Office of the President. UC has provided the following chart to indicate how the funding has been distributed. Spending can be broken down into five categories: incubator space, which provide office space for entrepreneurs; Proof-of-Concept grants, which provide funding to determine if an innovation can be taken to scale; Events, Networking, Education and other Mentoring, which provides outreach and support to students and faculty about entrepreneurship; Staff and Administration; and Information Technology Infrastructure.

Campus	Incubator (including capital improvements, mentoring)	PoC Grants and other Awards/Prizes to Teams	Events, Networking, Education, Other Mentoring	Staff: Administrative: Coordination, Marketing, Concierge	IT Infrastructure	TOTAL
Berkeley	\$557,000.00	\$132,500.00	\$963,194.00	\$392,499.00	\$154,807.00	\$2,200,000.00
Davis	\$1,027,500.00	\$297,500.00	\$800,000.00	\$75,000.00		\$2,200,000.00
Irvine	\$700,000.00	\$1,000,000.00	\$200,000.00	\$300,000.00		\$2,200,000.00
LA	\$0.00	\$1,365,000.00	\$685,000.00	\$150,000.00		\$2,200,000.00
Merced	\$1,502,353.00	\$330,000.00	\$292,647.00		\$75,000.00	\$2,200,000.00
Riverside	\$1,150,000.00	\$330,000.00	\$420,000.00	\$300,000.00		\$2,200,000.00
San Diego	\$320,000.00	\$925,000.00	\$508,000.00	\$447,000.00		\$2,200,000.00
San Francisco	\$400,000.00	\$775,000.00	\$725,000.00	\$100,000.00	\$200,000.00	\$2,200,000.00
Santa Barbara	\$1,702,000.00	\$240,000.00	\$192,450.00		\$65,550.00	\$2,200,000.00
Santa Cruz	\$1,070,000.00	\$250,000.00	\$700,000.00	\$180,000.00		\$2,200,000.00
<b>TOTAL</b>	<b>\$8,428,853.00</b>	<b>\$5,645,000.00</b>	<b>\$5,486,291.00</b>	<b>\$1,944,499.00</b>	<b>\$495,357.00</b>	<b>\$22,000,000.00</b>
Pct of \$22M	38.31%	25.66%	24.94%	8.84%	2.25%	

### STAFF COMMENT/QUESTIONS

As noted during budget and policy discussion last year, UC is a clear leader for innovation and economic growth in California. According to the UC, it is now the world's academic leader in the number of research inventions, with 1,700 reported in 2014. The UC continues to be the launching platform for numerous startup companies that stimulate the economic and job growth in California.

The state has long sought to support UC in this mission. In 2000, the state created the California Institutes for Science and Innovation (Cal-ISIs) through the budget and legislation (AB 2883, (Villaraigosa), Chapter 79, Statutes of 2000) to speed up business growth in the state, develop research and innovations to meet California's needs, and train future scientists. The state provided start-up funds of \$400 million for the Cal-ISIs and the UC provide a 2-to-1 match from a combination of business and federal sources.

Staff notes that UC appears to have met the intent of the funding while allowing each campus to build on existing programs, or develop new programs based on campus concerns. UC will provide more detail on this funding at the hearing.

### Potential Questions

- Did UC set campus or systemwide goals for this funding?
- How will UC and the state measure outcomes of this program?
- What are UC's biggest ongoing needs to continue supporting campus entrepreneurs?
- Can UC use this funding to leverage other outside funding to continue supporting these types of activities?
- If more state support were available in the future, how would UC use new funding for these type of activities?

**ISSUE 8: REVIEW OF EQUAL EMPLOYMENT OPPORTUNITY FUNDING**

The Subcommittee will review how UC used \$2 million one-time General Fund provided in the 2016 Budget Act to support best practices in equal employment opportunity.

**PANEL**

- Kieran Flaherty, University of California
- Susan Carlson, University of California

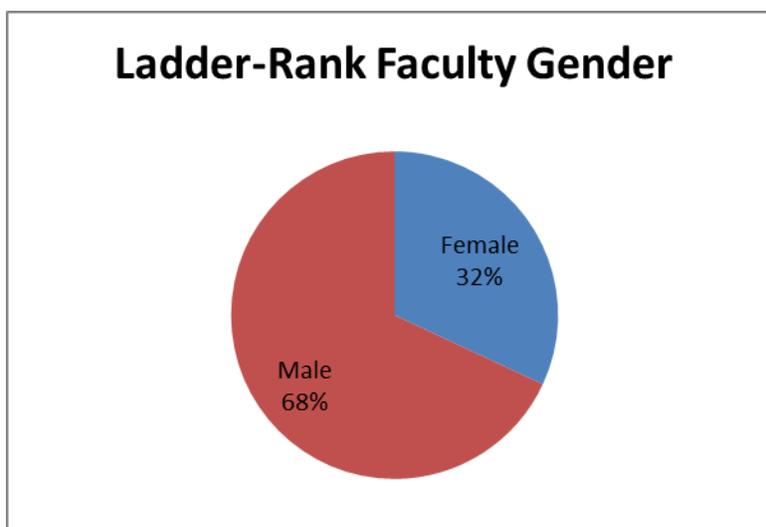
**BACKGROUND**

The Budget Act of 2016 provided UC and the other two public segments with one-time funding to support efforts to support equal employment opportunity in faculty employment. The funding was first proposed by this Subcommittee. As discussed in an October 2016 joint hearing between this Subcommittee and the Assembly Committee on Higher Education, a growing body of research indicates the educational benefits of a diverse campus faculty, in terms of closing achievement gaps, improving campus climate and expanding areas of instruction, research and public service.

Budget language also required a report due by Dec. 1, 2016, that included the number of ladder-rank faculty disaggregated by race, ethnicity and gender, as well as how the segment used the funding.

Data provided in the report, which was a snapshot of faculty as of October 2015, is provided below. UC notes that recent faculty hiring has been more diverse, but the figures below indicate that UC faculty remain 75% white and 68% male.

<b>Ladder-Rank Faculty Ethnicity</b>	<b>Headcount</b>	<b>%</b>
White/Other Domestic	6,350	61%
White/Other International	1,468	14%
Asian/Pacific Islander/Hawaiian Domestic	929	9%
Asian/Pacific Islander/Hawaiian International	749	7%
Latino/Hispanic Domestic	451	4%
Black/African Domestic	253	2%
Latino/Hispanic International	181	2%
American Indian/Alaskan Native	61	1%
Black/African International	43	<1%
<b>Total</b>	<b>10,485</b>	



UC used the funding to target specific departments to develop methods that could later be used more broadly throughout the system. Competitive proposals were submitted by departments, and the following three projects were chosen. In addition, some funding is being used to study "comparison units" which did not get the funding, to help determine which practices are the most effective. UC provided the following description of the three departments' projects:

### **UC Davis**

*Advancing Faculty Diversity in Agricultural and Environmental Sciences - \$600,000.* With a focus in the College of Agricultural and Environmental Sciences, which is undertaking significant hiring during 2016-17, the project will leverage ongoing campus efforts to improve recruitment, mentoring, and community engagement for non-majority faculty. A Faculty Diversity Oversight Committee will work with the Dean on a series of coordinated efforts, including intensified outreach efforts, "LAUNCH" mentoring committees for new faculty, incentives for faculty joining CAMPOS (the Center for Advancing Multicultural Perspectives on Science), and the Provost's commitment to assist in hiring additional faculty members with deep roots in the African American community.

### **UC Riverside**

*Advancing Engineering Faculty Diversity at the University of California, Riverside - \$600,000.* With a focus in the Bourns College of Engineering and related cluster hiring, the project will target potential engineering faculty slightly earlier in their careers by offering new faculty members funding for a year of post-doctoral research as well as additional early-career professional development; having UC pay for a "post-doctoral" year to focus on research will give these candidates a head-start on the demanding review process for earning tenure. The project will include an enhanced recruitment process, with required diversity statements, candidate evaluation rubrics, and attention to building the campus Chancellor's Postdoctoral Fellowship Program.

**UC San Diego**

*Engineering Diversity: Broadening Applicant Pools, Evaluating Objectively, and Attracting Diverse Faculty to the Jacobs School of Engineering - \$512,000.* Through the leadership of the Jacobs School of Engineering Dean and plans for substantial hiring in 2016-17, this project includes four elements: targeted outreach to minority applicants, use of written evaluation tools (rubrics), job support mechanisms for spouses or partners, and the building of a faculty diversity cohort. The additional support will be particularly important in handling the challenges of meeting new faculty members' family needs like child or eldercare responsibilities or partner employment. The project will also draw on recent enhancements to family accommodations, recent evidence-based review of recruitment efforts, a database of Latino (a) engineers around the country, and campus-wide efforts to build an inclusive climate.

**STAFF COMMENT/QUESTIONS**

UC appears committed to improving faculty diversity through equal employment opportunity programs, and spent considerable time and effort to ensure the extra state funding was used wisely. Targeting significant amounts of funding at the campus department level, where faculty hiring occurs, to support specific efforts to attract faculty appears to be a better approach than dispersing a small amount of funding throughout the system for workshops or other non-specific activities that likely are already occurring.

**Potential Questions**

- Can UC provide an update on the three projects?
- Does UC have specific goals for each of these projects?
- How will UC use the information gathered from these projects to inform practices throughout the system?
- Is there a need for more funding of this type? How would UC use additional resources toward the same goal?
- Absent new resources, how will UC continue to develop better EEO practices?