

**AGENDA****ASSEMBLY BUDGET SUBCOMMITTEE NO. 2  
ON EDUCATION FINANCE****Assembly Member Kevin McCarty, Chair****TUESDAY, MAY 10, 2016  
9 AM, STATE CAPITOL ROOM 444**

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**UNIVERSITY OF CALIFORNIA**

<b>ITEMS TO BE HEARD</b>		
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## ITEMS TO BE HEARD

### 6400 UNIVERSITY OF CALIFORNIA

#### ISSUE 1: UC ENROLLMENT TRENDS

The Subcommittee will discuss University of California (UC) enrollment in 2015-16, and its plans for the 2016-17 school year and subsequent years.

#### PANEL

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

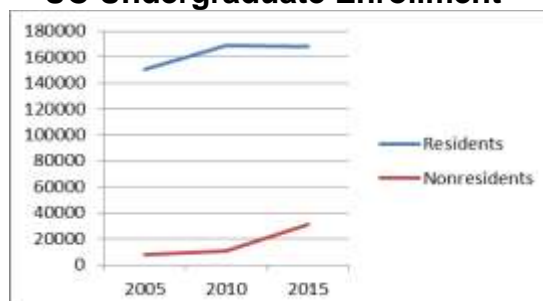
#### BACKGROUND

The 2015 Budget Act provided \$25 million General Fund in enrollment funding to UC, contingent upon UC providing evidence to the Department of Finance by May 1 that it would enroll 5,000 more California undergraduate students in the 2016-17 academic year, when compared to the 2014-15 academic year. Budget language directs the Department of Finance to release the funding and notify the Joint Legislative Budget Committee once UC demonstrates that it will meet this enrollment target. While the funding has not been released and the notification has not yet occurred, UC and the Department of Finance report that UC will likely meet the enrollment target.

This item will provide an overview of recent UC enrollment trends, as well as UC's enrollment plan for the next few years.

***Last decade of enrollment shows differing trends.*** The charts below track UC enrollment system-wide and by campus during the past decade. Resident enrollment has grown during this period by 11%, while nonresident enrollment increased by 289%. Enrollment data indicate that UC increased resident enrollment between 2005 and 2010, but since then, resident enrollment has declined slightly. Nonresident enrollment was relatively flat from 2005 to 2010, but then grew significantly after 2010.

**UC Undergraduate Enrollment**



Universitywide 2005		Universitywide 2010		Universitywide 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	150,777	Residents	168,622	Residents	167,959	11%	-0.4%
Nonresidents	7,953	Nonresidents	10,623	Nonresidents	30,907	289%	190.9%
Total	158,730	Total	179,245	Total	198,866	25%	10.9%
<b>% Nonresident</b>	<b>5.0%</b>	<b>% Nonresident</b>	<b>5.9%</b>	<b>% Nonresident</b>	<b>15.5%</b>		
Berkeley 2005		Berkeley 2010		Berkeley 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	21,261	Residents	22,305	Residents	20,754	-2%	-7.0%
Nonresidents	2,221	Nonresidents	3,235	Nonresidents	6,742	204%	108.4%
Total	23,482	Total	25,540	Total	27,496	17%	7.7%
<b>% Nonresident</b>	<b>9.5%</b>	<b>% Nonresident</b>	<b>12.7%</b>	<b>% Nonresident</b>	<b>24.5%</b>		
Davis 2005		Davis 2010		Davis 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	22,123	Residents	23,784	Residents	24,667	11%	3.7%
Nonresidents	591	Nonresidents	886	Nonresidents	3,590	507%	305.2%
Total	22,714	Total	24,670	Total	28,257	24%	14.5%
<b>% Nonresident</b>	<b>2.6%</b>	<b>% Nonresident</b>	<b>3.6%</b>	<b>% Nonresident</b>	<b>12.7%</b>		
Irvine 2005		Irvine 2010		Irvine 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	19,150	Residents	21,251	Residents	21,155	10%	-0.5%
Nonresidents	780	Nonresidents	725	Nonresidents	4,101	426%	465.7%
Total	19,930	Total	21,976	Total	25,256	27%	14.9%
<b>% Nonresident</b>	<b>3.9%</b>	<b>% Nonresident</b>	<b>3.3%</b>	<b>% Nonresident</b>	<b>16.2%</b>		
Los Angeles 2005		Los Angeles 2010		Los Angeles 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	23,009	Residents	23,148	Residents	22,772	-1%	-1.6%
Nonresidents	1,802	Nonresidents	3,014	Nonresidents	6,813	278%	126.0%
Total	24,811	Total	26,162	Total	29,585	19%	13.1%
<b>% Nonresident</b>	<b>7.3%</b>	<b>% Nonresident</b>	<b>11.5%</b>	<b>% Nonresident</b>	<b>23.0%</b>		
Merced 2005		Merced 2010		Merced 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	837	Residents	4,109	Residents	6,213	642%	51.2%
Nonresidents	4	Nonresidents	29	Nonresidents	24	500%	-17.2%
Total	841	Total	4,138	Total	6,237	642%	50.7%
<b>% Nonresident</b>	<b>0.5%</b>	<b>% Nonresident</b>	<b>0.7%</b>	<b>% Nonresident</b>	<b>0.4%</b>		
Riverside 2005		Riverside 2010		Riverside 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	14,317	Residents	18,018	Residents	18,015	26%	0.0%
Nonresidents	254	Nonresidents	224	Nonresidents	592	133%	164.3%
Total	14,571	Total	18,242	Total	18,607	28%	2.0%
<b>% Nonresident</b>	<b>1.7%</b>	<b>% Nonresident</b>	<b>1.2%</b>	<b>% Nonresident</b>	<b>3.2%</b>		
San Diego 2005		San Diego 2010		San Diego 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	19,782	Residents	22,215	Residents	20,997	6%	-5.5%
Nonresidents	897	Nonresidents	1,448	Nonresidents	5,593	524%	286.3%
Total	20,679	Total	23,663	Total	26,590	29%	12.4%
<b>% Nonresident</b>	<b>4.3%</b>	<b>% Nonresident</b>	<b>6.1%</b>	<b>% Nonresident</b>	<b>21.0%</b>		
Santa Barbara 2005		Santa Barbara 2010		Santa Barbara 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	17,159	Residents	18,387	Residents	18,357	7%	-0.2%
Nonresidents	918	Nonresidents	799	Nonresidents	2,250	145%	181.6%
Total	18,077	Total	19,186	Total	20,607	14%	7.4%
<b>% Nonresident</b>	<b>5.1%</b>	<b>% Nonresident</b>	<b>4.2%</b>	<b>% Nonresident</b>	<b>10.9%</b>		
Santa Cruz 2005		Santa Cruz 2015		Santa Cruz 2015		% Change, 2005-2015	% Change, 2010-2015
Residents	13,139	Residents	15,405	Residents	15,029	14%	-2.4%
Nonresidents	486	Nonresidents	263	Nonresidents	1,202	147%	357.0%
Total	13,625	Total	15,668	Total	16,231	19%	3.6%
<b>% Nonresident</b>	<b>3.6%</b>	<b>% Nonresident</b>	<b>1.7%</b>	<b>% Nonresident</b>	<b>7.4%</b>		

**Freshman enrollment trends indicate growth in nonresidents.** Another way to track enrollment is through freshman and transfer enrollment by year. The chart below displays these numbers during the past nine years, in which the percent of nonresidents enrolled in each new cohort grew from 6% to 20%.

University Enrollment	2007	2008	2009	2010	2011	2012	2013	2014	2015	Change
CA Freshmen	33,492	34,410	32,425	31,891	32,159	33,111	33,224	34,240	32,923	-2%
CCC Transfer	12,183	12,428	13,523	14,963	14,979	14,353	14,476	14,587	14,223	17%
Nonresidents	3,104	3,623	3,580	4,450	6,259	7,766	9,185	9,885	11,433	335%
<b>Nonresident</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>9%</b>	<b>12%</b>	<b>14%</b>	<b>16%</b>	<b>17%</b>	<b>20%</b>	

**UC enrollment plan for 2016-17 increases resident and nonresident enrollment.**

After a decrease in resident enrollment in Fall 2015 when compared to Fall 2014, UC is seeking to earn the \$25 million General Fund provided in the 2015 Budget Act by making significant California enrollment increases at each of the nine undergraduate campuses. The chart below tracks resident freshman and transfer enrollment headcount in 2014-15, 2015-16 and targets for 2016-17, as well as the change in enrollment between 2014-15 and 2015-16, and 2014-15 to 2016-17.

As the chart indicates, all but two campuses decreased residential freshman enrollment in 2015.

Campus	2014-15	2015-16	2016-17	Difference, 2014-15 to 2015-16	Difference, 2014-15 to 2016-17
<b>Berkeley</b>	6,063	6,009	6,813	-54	750
<b>Davis</b>	7,382	6,741	7,732	-641	350
<b>Irvine</b>	6,257	5,979	6,907	-278	650
<b>Los Angeles</b>	6,825	6,713	7,575	-112	750
<b>Merced</b>	1,672	1,907	2,122	235	450
<b>Riverside</b>	5,307	5,087	6,057	-220	750
<b>San Diego</b>	5,706	5,837	6,456	131	750
<b>Santa Barbara</b>	5,594	5,167	5,894	-427	300
<b>Santa Cruz</b>	4,699	4,387	4,999	-312	300
<b>System-wide</b>	49,505	47,827	54,555	-1,678	5,050

Of the 5,050 new California undergraduates targeted for 2016-17, UC reports that 3,120 will be freshman, while 1,930 will be community college transfer students.

UC also reports it will increase nonresident undergraduate students in 2016-17 by 2,000 students above the 2015-16 level. UC President Janet Napolitano has placed a nonresident enrollment cap on three campuses for 2016-17, although the cap differs for one of the campuses, as described here:

- For Berkeley and Los Angeles, the campus must maintain the same percentage of nonresident undergraduates in 2016-17 as it had in 2015-16. This is 24.5% for Berkeley and 23% for Los Angeles.
- For San Diego, the campus can enroll the same number of new nonresident undergraduates in 2016-17 as it did in 2015-16. UC reports that the percentage of the undergraduate student body that is nonresident will likely grow from 21% in 2015-16 to 22% or 23% in 2016-17, based on this cap.

Thus, most of the nonresident student growth will occur at the other six campuses.

***UC plans to increase resident enrollment in 2017-18 and 2018-19 over 2014-15 levels if funding is provided.*** UC intends to increase resident undergraduate enrollment by 2,500 students in 2017-18, and again in 2018-19, above the 2014-15 baseline. However, this enrollment plan is contingent on state funding. UC will seek this funding beginning in next year's budget negotiations.

#### STAFF COMMENT/QUESTIONS

Fall 2015 marked a disappointing milestone in UC admissions and enrollment, as California freshman and transfer enrollment declined while nonresident enrollment grew by 18%. This occurred despite increasing demand for access to UC by Californians, as the number of Californians applying to UC campuses grew to more than 100,000 for the first time. (UC reported 105,385 California applicants for Fall 2016.)

Staff makes the following comments regarding UC enrollment:

***UC has rationed access for California students.*** In UC's "Budget for Current Operations" document for the 2016-17 fiscal year, UC notes that after increasing enrollment during the early part of the recession, it has sought to reduce California freshman enrollment. "To achieve this reduction, fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool..." the document states on page 78. Subcommittee discussion last year and this year has highlighted that only about 2% of students referred to UC Merced actually choose to enroll there.

***Enrollment targets are clearly needed.*** As it has throughout the past several years, the Administration continues to resist placing enrollment targets into the UC budget. The Administration has preferred to provide funding for UC with very few strings attached. Given that access is the top Assembly priority for UC, it appears that future enrollment targets are necessary.

***UC's continuing failure to develop a long-term nonresident enrollment policy may warrant legislative action.*** Faced with declining state funding, the UC convened a commission in 2010 to address the future of the system. The Commission on the Future's report in November 2010 noted that nonresident tuition could be a source of additional revenue, but recommended a nonresident cap of no more than 10% of the undergraduate student body. The UC Board of Regents approved the report, but has

never implemented the nonresident cap. Nonresidents now comprise about 15.5% of the undergraduate student body, and that is expected to continue rising in 2016-17.

President Napolitano has imposed caps on specific campuses during the past two years, but year-to-year direction from the president is not a true policy. Absent a permanent Regents' policy, the Legislature could consider whether to impose a nonresident cap on UC.

***State Auditor raised numerous concerns regarding nonresident admissions and enrollment, and UC budgeting practices.*** A lengthy report published by the State Auditor in March raised numerous concerns regarding UC enrollment and budgeting practices. Among the Auditor's findings:

- The Auditor found that about 16,000 admitted nonresident students had lower test scores and high school grade-point-averages than the upper half of admitted California students, and that UC denied admission to 4,300 California students whose academic scores met or exceeded all of the median scores of nonresidents whom the university admitted to the campus of their choice.
- Changes in policy appear to have made it easier for nonresidents to be admitted to UC campuses, and incentivized campuses to increase the number of nonresident students they enroll.
- UC has not presented useable information to the Legislature and public regarding the cost of instruction, and has refused to use a nationally-accepted cost model for universities to outline the annual cost of education.

UC has vigorously refuted many of the auditor's findings and recommendations. They note, for example, that nonresident students are required to have a higher minimum GPA than resident students, and that there are 14 factors they consider when admitting a student – much more than just test scores and GPA. They also contend that they are following an updated Master Plan recommendation on nonresident qualifications, and they continue to argue that additional revenue from nonresident students, who pay about \$24,708 more annually than Californians, supports education costs for California students.

***Future enrollment funding and discussion must clarify nonresident admissions qualifications, the cost of instruction, and state support for enrollment.*** Staff notes that as UC has dramatically increased nonresident admissions, it would stand to reason that overall nonresident academic scores would be lower – the system is casting a much wider net. The Legislature may wish to work with UC to clarify nonresident standards to ensure that qualified Californians are not being displaced by nonresident students.

Additionally, staff notes that both the State Auditor and the LAO have expressed concerns this year regarding UC reporting on its costs. In addition to the Auditor's concerns, the LAO has noted that a December 2015 UC report describing fund sources it can legally use to pay for students' education identified all fund sources UC is legally allowed to spend on education, but did not itemize the amount it actually uses from each source. As a result, the LAO states that the state still lacks key information on the funds UC makes available for education.

UC will be seeking \$25 million General Fund to support 2,500 new California students in the 2017-18 academic year. This would amount to \$10,000 per student. The 2015 Budget Act provided UC with \$5,000 per student, with budget language suggesting UC use other revenue sources, such as financial aid for nonresidents and nonresident supplemental tuition, to make up the difference.

The Legislature may wish to work with UC to better understand its cost structures as it seeks more resident enrollment.

#### Potential Questions

- Why haven't the Regents created a policy regarding nonresident student enrollment?
- Will UC increase resident enrollment at each campus in 2017-18, as it has in 2016-17?
- Will UC consider revising its admissions policy regarding nonresident student enrollment?

**ISSUE 2: GOVERNOR'S 2016-17 BUDGET PROPOSAL**

The Subcommittee will discuss the Governor's 2016-17 Budget Proposal for UC, which provides an increase of \$125.4 million General Fund for general operations, or about a 4% increase over the current year. The proposal also includes \$35 million one-time General Fund to support deferred maintenance at UC campuses, and \$25 million in Cap and Trade funds to support energy efficiency projects at CSU campuses. UC is seeking these funds and an additional \$6 million General Fund to support enrollment growth for graduate students.

**PANEL**

- Maritza Urquiza, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Andrew Szeri, University of California

**BACKGROUND**

The Budget Act of 2015 provided UC with a \$119.5 million General Fund increase for general operations, as well as \$25 million General Fund in enrollment funding as discussed in the previous item. The budget also provided \$96 million in Proposition 2 funding and required UC to reform its pension system to comply with state pensionable salary cap. Additionally, the budget provided \$25 million one-time General Fund for deferred maintenance projects, \$6 million General Fund to support UC Labor Centers, \$1 million General Fund for Wildlife Health Center at UC Davis for grants to local marine mammal stranding networks, stated that UC's appropriation included funding to support the California Dream Loan Program, and that UC expend up to \$1 million from their main appropriation toward plans to develop a medical school at UC Merced.

**The Governor's 2016-17 Budget**

The Governor's Budget continues a UC funding plan that began in 2013-14 by proposing an increase of \$125.4 million General Fund for operations. The Budget Summary notes that this increase is predicated on UC keeping tuition flat in 2016-17 and continuing to implement activities outlined by last year's agreement between UC and the Administration. Budget bill language requires the UC Regents to file a three-year sustainability plan by November 30, 2016. There is no other budget language directing UC on how to spend state funding.

Additionally, the Budget proposes \$35 million in one-time funding for deferred maintenance and \$25 million in Cap and Trade funding for energy efficiency projects. The deferred maintenance proposal will likely be determined by Subcommittee No. 4. The Cap and Trade funding levels will likely be determined by Subcommittee No. 3.



The chart below reflects recent UC funding.

### UC Core Funds Revenue, 2007-08 to 2016-17

Revenue Source	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	% Change
General Fund	\$3,257	\$2,418	\$2,591	\$2,911	\$2,273	\$2,378	\$2,643	\$2,800	\$3,053	\$3,246	-0.3%
State Financial Aid	\$253	\$297	\$387	\$527	\$663	\$702	\$764	\$828	\$896	\$962	73.7%
<b>Total State Support</b>	<b>\$3,510</b>	<b>\$2,715</b>	<b>\$2,978</b>	<b>\$3,438</b>	<b>\$2,936</b>	<b>\$3,080</b>	<b>\$3,407</b>	<b>\$3,628</b>	<b>\$3,949</b>	<b>\$4,208</b>	<b>16.6%</b>
Other Tuition and Fee Revenue	\$1,617	\$1,678	\$1,997	\$2,039	\$2,793	\$2,852	\$2,900	\$3,170	\$3,216	\$3,338	51.6%
Other Funds	\$355	\$1,088	\$351	\$501	\$418	\$381	\$345	\$272	\$273	\$273	-30.0%
<b>Total</b>	<b>\$5,482</b>	<b>\$5,481</b>	<b>\$5,326</b>	<b>\$5,978</b>	<b>\$6,147</b>	<b>\$6,313</b>	<b>\$6,652</b>	<b>\$7,070</b>	<b>\$7,438</b>	<b>\$7,819</b>	<b>29.9%</b>

Notes: In millions. General Fund excludes general obligation bond debt service; 2016-17 funding is based on Governor's Budget proposals

### LAO Recommendation

The LAO expresses major concerns with the Governor's approach to UC (and CSU) funding, noting it allows UC to set its own spending priorities without broader state involvement. The LAO continues to recommend the Legislature itemize funding in the UC budget for high state priorities.

Regarding enrollment, the LAO notes that the state budget and UC admissions are not well aligned, and the Legislature could consider the 2017-18 school year for any enrollment target it sets.

Regarding deferred maintenance, the LAO states that the Legislature could consider UC deferred maintenance issues and earmarking funding for this purpose in the annual budget. This would lend much greater transparency to the budgeting of major maintenance, helping the state to track and monitor maintenance funding over time. In tandem with determining an annual earmark for major maintenance that could be used moving forward, the state could work with UC to develop a plan for eliminating its existing maintenance backlog. Once a reasonable plan has been developed, the Legislature could consider codifying it in trailer legislation.

### STAFF COMMENT

At its November 2015 meeting, the UC Board of Regents approved a budget proposal for the 2016-17 year. The board's plan relies on the Governor's proposed increase in General Fund support, plus an additional \$6 million General Fund to increase graduate student enrollment by 600 students. The Regents' plan also relies on additional revenue from an increase in both resident and nonresident students, an increase in the student services fee, and other cost savings and alternative revenues. The Regents' plan would increase UC Core Fund expenditures by \$481.3 million over the current year.

The chart below reflects the board's proposal for increased expenditures above the current year levels.

### UC Regents' Proposed Core Fund Expenditure Increases

Activity	Cost (in millions)
Compensation Increases (3%)	\$129.4
Enrollment Growth	\$56
Investment in Academic Quality	\$50
Deferred Maintenance	\$50
Faculty Merit Program	\$32
Other Financial Aid	\$30.6
Non-Salary Price Increases	\$29.7
Employee Health Benefits	\$28.4
Contractually Committed Compensation	\$26.9
Retirement Contributions	\$24.1
High-Priority Capital Needs	\$15
Dream Loan	\$5
Annuitant Health Benefits	\$4.2
<b>Total</b>	<b>\$481.3</b>

Regarding the request for graduate student enrollment funding, UC notes that graduate students comprise about 20% of its student body, and as undergraduate enrollment grows, it hopes to also increase graduate students. Graduate students serve as both instructors for undergraduate students and research assistants to faculty. UC is seeking the same per-student state General Fund amount for graduate students as it seeks for undergraduate students.

### Potential Questions

- Can UC provide more specifics regarding its proposal for increasing graduate students? What types of grad students will be increased? Which campuses will see the most increase in grad students? Is \$10,000 per student the appropriate amount of state support for a grad student?
- UC's proposal would essentially spend the entire amount of the Governor's proposed General Fund increase on compensation increases. Does the Administration agree with this priority?
- Will UC consider using the national cost-of-instruction model in the future?

The Subcommittee may wish to hold this issue open until after the May Revise, to determine the amount of General Fund available to support UC.

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**Staff Recommendation: Hold Open until the May Revise**

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**ISSUE 3: UC PENSION ACTIONS**

The Subcommittee will discuss the UC Regent's recent actions to alter its pension system, and the Governor's proposal to continue providing Proposition 2 funding for UC's unfunded pension liability.

**PANEL**

- Gary Schlimgen, University of California
- John Monroe, The Segal Group
- Jason Constantouros, Legislative Analyst's Office
- Maritza Urquiza, Department of Finance
- Liz Perlman, American Federation of State, County and Municipal Employees, Local 3299

**BACKGROUND**

Unlike most other public agencies in the state, UC operates its own pension system for its employees. The University of California Retirement Plan (UCRP) provides pension benefits to more than 54,200 retirees and had more than 121,000 active employee members as of July 1, 2015. UC has a significant unfunded liability in UCRP: about \$10.3 billion in 2014-15. In 2015-16, UC reports that it will contribute about \$408 million in core funds to support UCRP.

Subcommittee discussion last year focused on a key difference in recent pension reforms enacted by the state and UC. The state caps the amount of base salary an employee can count toward pension benefits at the Social Security Wage Base, which is currently about \$117,000 annually. In contrast, UC used the Internal Revenue Service compensation limit, which is about \$265,000. The Subcommittee was concerned that this high salary cap added cost, diverting core fund resources away from resident enrollment and other student services. The Subcommittee also was concerned about high salaries and benefits at UC, with the pension cap illustrating UC's inability to hold down personnel costs.

The 2015 Budget Act provided \$96 million in Proposition 2 funding to UC, contingent on the UC Regents approved a pensionable salary cap in line with the state reform. At its March meeting, the UC Regents approved changes to benefits that included the lower salary cap. However, UC enacted a significant amount of other changes as well.

UC employees hired on or after July 1, 2016 would have two options for a retirement plan:

1. An employee can elect to have the existing defined benefit plan but with the new pensionable salary limit. In addition, the employee can participate in a supplemental defined contribution benefit for pay up to the IRS limit of \$265,000.
  - If the employee is eligible faculty, UC would contribute 5% to this supplemental defined contribution benefit based on their entire salary.
  - For all other staff, UC would contribute 3% toward the supplemental benefit based only on the salary amount between \$117,000 and \$265,000.
2. An employee can opt to participate only in a defined contribution plan, for which UC would contribute 8% of all pay up to the IRS limit of \$265,000. The UC contribution would be the same, regardless of whether the employee is faculty or staff.

Under either option, UC employees would be required to contribute 7% of their salary up to the IRS limit of \$265,000. Also under either option, UC will make a 6% employer contribution to pay down the UCRP unfunded liability. Option 1 requires a 5-year vesting period; Option 2 requires a 1-year vesting period.

### **The Governor's 2016-17 Budget**

As part of the agreement struck last year between the Administration and UC, the Governor's Budget proposes the second of three Proposition 2 payments to UC for unfunded pension liability. The proposed payment is \$171 million. Budget language is again included requiring UC to limit pensionable income to the state's cap.

#### **STAFF COMMENT**

UC states that it has met the state's request by capping pensionable salary at the state limit, thus reducing pension costs. UC's presentation to the Board of Regents noted the cap, combined with savings attributed to lower pension liability payments associated with the defined contribution benefit, will save \$99 million a year over 15 years. UC also states that the addition of the supplemental defined contribution benefit, and the second option of solely a defined contribution benefit, is necessary for UC to offer competitive benefits as they seek to attract staff, and especially faculty.

Staff notes the following concerns regarding UC's actions:

**Defined contribution options appear to limit savings.** UC states that it will save \$51 million annually in cash flow savings by implementing the pensionable salary cap. This was the goal of the Subcommittee in pursuing this action last year. However, UC also notes that additional costs associated with the defined contribution options add costs. UC's own data indicate that ultimately, it will only save \$9 million annually through its pension actions.

**Defined contribution options could adversely impact UCRP and UC.** UC has designed the defined contribution in such a way that it would seem likely that most highly-paid staff and faculty will choose that option. (Under the defined contribution option, UC will contribute 8% of salary up to \$265,000; versus lower employer payments

for the other option.) As highly-paid employees stop contributing to UCRP, there is concern about UCRP stability in the future, and how that will impact lower-paid employees who remain in UCRP.

UC has conducted a study and determined that this option will have minimal impact on the long-term funding of UCRP, as long as UC continues to make the 6% payment to the unfunded liability for either option. However, the authors of the study, who will testify at this hearing, have "not analyzed the possible effect of fewer new hires electing UCRP on future cash flows, asset allocation and valuation assumptions." Thus, questions remain about how a migration from UCRP by the employees who would contribute the most to UCRP will impact UC's finances in the long term.

***Defined contribution option has been opposed by Legislature in the past, and legislative leaders opposed the UC action.*** Establishing a defined contribution option for state workers was discussed during state pension reform talks in 2012. Ultimately, the Legislature determined that defined contribution plans, by shifting risk to employees and weakening employee retirement security, were not appropriate for public pension programs.

Both Assembly Speaker Anthony Rendon, who is a Regent, and Senate President Pro Tem De Leon wrote opposition letters in March to this UC action. Among many concerns, Rendon noted that the UC action to create two retirement tiers, "where staff, such as nurses for example, receive a lesser benefit than the medical faculty they work alongside, simply by virtue of their job classifications."

#### Potential Questions

- What types of employees will likely take the defined contribution option? How will that impact UCRP stability?
- The Legislature intended this action as a cost-saving measure. Why did the UC pursue options that negate the savings?

The Subcommittee may wish to consider whether the UC action meets legislative intent, or whether clarification is needed before another round of Proposition 2 funding is released.

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**Staff Recommendation: Hold Open until the May Revise**

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**ISSUE 4: STUDENT OUTREACH**

The Subcommittee will discuss student outreach programs at UC. This is an informational item.

**PANEL**

- Yvette Gullatt, Vice Provost for Diversity and Engagement and Chief Outreach Officer, University of California Office of the President

**BACKGROUND**

The University of California's Student Academic Preparation and Educational Partnerships (SAPEP) seek to raise student achievement levels generally and to close achievement gaps among groups of students throughout the K-20 pipeline.

Goals of the program include:

- Completing college preparatory ("a-g") courses in high school;
- Graduating from high school and passing the California High School Exit Exam (CAHSEE);
- Being prepared to enter four-year colleges (not just UC) directly from high school;
- Being prepared to transfer from community colleges to four-year colleges (not just UC).

Major SAPEP programs include Early Academic Outreach Program (EAOP), which seeks to broaden the pool of educationally disadvantaged students enrolling in and succeeding in college preparatory "a-g" courses and ultimately gaining admission to college; Mathematics, Engineering, Science Achievement (MESA), which seeks to increase the number of educationally disadvantaged students entering college with well-developed mathematics and science skills; PUENTE, which focuses on college-preparatory English writing skills; and the Community College Transfer Program (CCTP), which increases opportunities for community college students to transfer to four-year schools.

The chart on the following page lists the various SAPEP programs and funding levels for four periods: 1997-97, prior to significant funding increases; 2000-01, when SAPEP funding reached its peak; 2009-10 and 2011-12, when the programs were subject to budget cuts; and 2011-12 and 2014-15, as the programs have received the same funding levels during the past four years.

	1997-98	2000-01	2008-09	2009-10	2011-12	2014-15
Direct Student Services Programs						
Community College Transfer Programs <sup>1</sup>	\$1,718	\$5,295	\$3,279	\$3,058	\$2,413	\$2,413
EAOP	4,794	16,094	8,914	8,416	7,356	7,356
Graduate and Professional School Programs	1,893	8,575	2,661	2,623	2,408	2,408
MESA Schools Program	4,169	9,355	4,861	4,394	3,806	3,806
MESA Community College Program	22	1,309	327	327	327	327
Puente High School Program	-	1,800	1,051	980	793	793
Puente Community College Program	162	757	450	419	340	340
Student-Initiated Programs	-	-	440	440	388	388
UC Links	-	1,656	694	622	622	622
Statewide Infrastructure Programs						
ASSIST	360	360	429	389	377	377
Community College Articulation	-	-	600	600	600	600
Longer-Term Strategies						
K-20 Regional Intersegmental Alliances <sup>2</sup>	-	15,591	1,395	1,361	1,209	1,209
Direct Instructional Programs						
Preuss Charter School	-	1,000	1,000	1,000	-	-
UC College Preparation (online courses)	-	8,400	3,106	3,059	2,411	2,411
Other Programs						
Evaluation	-	1,386	1,180	1,077	855	855
Other Programs <sup>3</sup>	203	3,887	936	829	652	652
Programs that have been eliminated or consolidated <sup>4</sup>	4,750	9,717	-	-	-	-
<b>Total</b>	<b>\$18,071</b>	<b>\$85,182</b>	<b>\$31,323</b>	<b>\$29,594</b>	<b>\$24,557</b>	<b>\$24,557</b>
General Funds	\$16,996	\$82,243	\$19,323	\$17,594	\$12,557	\$12,557
University Funds	\$1,075	\$2,939	\$12,000	\$12,000	\$12,000	\$12,000

<sup>1</sup> Includes an additional \$2 million beginning in 2006-07 for the UC/Community College Transfer Initiative for Access and Success.

<sup>2</sup> Formerly School-University Partnerships.

<sup>3</sup> Currently includes University-Community Engagement, ArtsBridge, and other programs.

<sup>4</sup> Includes Test Preparation, Dual Admissions, Gateways, Informational Outreach and Recruitment, Central Valley Programs, and UC ACCORD.

SAPEP outcomes data reported by UC in a 2013 report to the Legislature indicate the programs improve participating students' academic achievement, college readiness and college enrollment.

**Percentage of students in California public high schools who complete "a-g" courses:**

EAOP Participants	77%
MESA Participants	71%
PUENTE Participants	69%
Non-SAPEP Participants	35%

**Percentage of students at API Decile 1 and 2 schools who took the SAT Reasoning or ACT exams:**

EAOP, MESA and PUENTE Participants	68%
Non-SAPEP Participants	43%

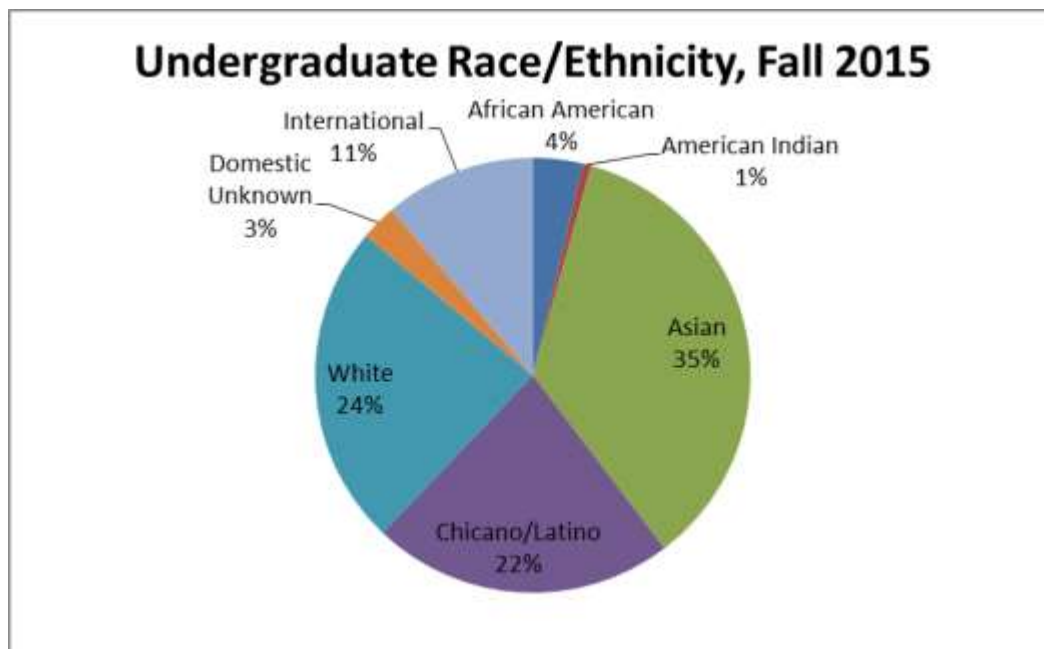
**Percentage of California students who go on to California two- and four-year colleges:**

EAOP Participants	57%
MESA Participants	60%
PUENTE Participants	63%
Non-SAPEP Participants	41%

**STAFF COMMENT**

The Legislature has long sought to ensure that UC enrollment reflected the diversity of California. In its March report, the State Auditor noted that UC has gradually increased the percentage of underrepresented minorities it enrolls during the past decade, from 19% in the 2005-06 academic year to 30% in the 2014-15 academic year. (UC defines underrepresented minorities to be Chicanos/Latinos, African Americans, and American Indians.) The Auditor, however, noted that Department of Finance data suggests that underrepresented minorities comprise about 45% of the state's population.

The chart below displays the current race/ethnicity of the undergraduate student body. The Auditor noted that the increasing enrollment of nonresident students has hindered UC's progress on diversity, as only about 11% of nonresident students are from underrepresented minorities.





UC has sought to increase diversity. While Proposition 209 bans the UC from considering ethnicity and race in admissions, campuses do attempt outreach to high schools and communities with predominantly underrepresented students, and the comprehensive review admissions process seeks to admit students on a number of factors, in part to cast a wider net for students and combat inherent biases in testing and other academic scores. UC also has adopted a policy that allows students who are in the top 9% of their high school to be eligible for admissions.

More clearly needs to be done, however. A report released in February by Project EXCEL (Examining College Choice, Enrollment and Linkages), whose researchers are UC faculty from four campuses, conducted surveys and interviews with African American students who were admitted to a UC campus in Fall 2015 but did not enroll. A total of 710 students (558 California residents) completed an online survey, while researchers conducted in-depth interviews with 74 of those students. Among the findings were:

- Most of the students were in the top 10<sup>th</sup> percentile of their high school class and earned a GPA of 4.0 or higher, but were not admitted to the highly or moderately selective UC campus of their choice. One-third of those interviewed said their only UC option was UC Merced.
- Interviews with students suggested many had researched the demographics of the UC campuses and were concerned that the percentage of African Americans at the campus was too small.
- 68% of students in the sample reported that they had no contact with a UC recruiter or academic outreach program.

The report notes, that these students "represent a group of high achieving, hard working, optimistic, critical, and civic minded students who chose to attend college outside the UC system either because they did not have viable financial aid packages, did not get into the campus (or academic program) of their choice, were concerned about the campus climate and lack of a critical mass of African American students and faculty on UC campuses, or were simply not "sought after" in the ways other postsecondary institutions pursued their enrollment."

The report makes 18 recommendations to improve African American enrollment at UC campuses, including changes to admissions processes, improving outreach, increasing financial aid programs, and other administrative changes to prioritize African American enrollment.

### Potential Questions

- What new strategies will UC use to improve enrollment of African American students?
- UC has an array of programs within student outreach. Which are the most effective? Should UC expand some programs and reduce or eliminate others?
- What strategies is UC employing to increase faculty diversity, which might improve admissions diversity and address achievement gaps?

**ISSUE 5: OTHER UC PROGRAMS**

The Subcommittee will discuss the State Auditor's findings regarding UC programs, and LAO research into UC programs that were created in past budgets. This is an informational item.

**PANEL**

- Kathleen Fullerton, State Auditor's Office
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Maritza Urquiza, Department of Finance

**BACKGROUND**

The March 2016 State Auditor's report on UC enrollment and budget issues found that the UC and its campuses spend a significant amount of state appropriations on programs not related to teaching students. The Auditor stated that in discussions with the UC, they were able to track 18 programs, totaling \$337 million in state General Fund support. A chart from the Auditor's report listing the programs and funding is on the next page.

The Auditor noted that when it inquired about these programs, the Office of the President took four months to provide a list and supporting documentation because it does not actively track the programs' funding allocations. In the absence of such tracking and monitoring of campus expenditures, the Auditor states, the Office of President cannot know if campuses are using these state funds efficiently and effectively.

The Auditor notes that many, if not all, of these programs were created in the state budget. Most of the programs no longer are listed in the budget, however, and the Auditor complains that the university does not systematically or regularly analyze the programs to determine whether it could identify more effective ways of financing them.

According to the Auditor, the university's chief financial officer noted that one program—the Neuropsychiatric Institute with locations at the Los Angeles and San Francisco campuses, which received almost \$33 million in state funding in fiscal year 2014–15, is financially successful and could potentially find alternative sources of funding. Additionally, the Auditor states that an evaluation of some programs performed in 2011–12 recommended that two research programs, AIDS Research and the Medical Investigation of Neurodevelopmental Disorders (MIND) Institute, could exist with no or lesser state funding, because both were operating successfully with other funds. UC has not taken action on these recommendations.

The Auditor recommended that UC:

- Track spending from state funds for programs that do not relate to educating students.
- Reevaluate these programs each year to determine whether they continue to be necessary to fulfill the university's mission.
- Explore whether the programs could be supported with alternate revenue sources.

**Table 17**  
**The University of California Failed to Monitor and Evaluate Programs That Cost \$337 Million in State Funds Annually**

PROGRAM	MISSION	CAMPUS/LOCATION	FISCAL YEAR 2014-15 FUNDING AMOUNT (IN MILLIONS)
Agricultural Experiment Station*	Researches maintaining an economically viable and environmentally sustainable agricultural production system.	Berkeley, Davis, Riverside	\$100.6
University of California Retirement Plan†	Continues the one-time funding of \$89.1 million the State appropriated for the University of California's (university) retirement plan in fiscal year 2012-13.‡	Office of the President	89.1
Neuropsychiatric Institute*	Provides education and training of psychiatric resident medical students and other mental health professionals.	Los Angeles, San Francisco	32.8
Scripps Institution of Oceanography*	Promotes scientific understanding of the oceans, atmosphere, Earth, and other planets.	San Diego	25.9
University of California, Riverside Medical School Startup	Establishes a medical school at the Riverside campus.	Riverside	15.0
Mental Health Teaching Support*	Provides teaching program in a clinical setting run in conjunction with the Neuropsychiatric Institutes.	Los Angeles, San Francisco	13.6
Online Education Initiatives†	Increases the number of high-demand courses available to undergraduate students through the use of online courses.	All campuses and the Office of the President	10.0
Student Academic Preparation and Educational Partnerships*	Provides a variety of separate programs that work to raise student achievement levels for K-20 students.	All campuses	9.3
California Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome Research†	Fosters research in the prevention, education, care, treatment, and cure for human immunodeficiency virus/acquired immune deficiency syndrome.	Berkeley, Davis, Los Angeles, San Diego, San Francisco, and the Office of the President	8.8
Charles R. Drew University of Medicine and Science†	Supports a medical student education program and a separate public service program, both in South Central Los Angeles.	Los Angeles	8.3
California Subject Matter Project†	Establishes nine discipline-based statewide projects that support professional development for K-12 teachers.	All campuses and the Office of the President	5.0
California Institutes for Science and Innovation†	Provides a multidisciplinary effort that focuses on research areas critical to sustaining California's economic growth and competitiveness.	Berkeley, Davis, Irvine, Los Angeles, Merced, San Diego, Santa Barbara, Santa Cruz	4.8
Medical Investigation of Neurodevelopmental Disorders Institute*	Examines and treats neurodevelopmental conditions, such as autism and attention-deficit/hyperactivity disorder.	Davis	3.8
American Federation of State, County, and Municipal Employees Salary Language†	Funds the terms of a February 2009 memorandum of understanding between the university and the American Federation of State, County, and Municipal Employees.	All campuses and the Office of the President	3.0
San Diego Supercomputer Center†	Provides resources, services, and expertise in data-intensive computing and cyberinfrastructure.	San Diego	2.6
Programs in Medical Education†	Trains physicians who will serve in underrepresented communities.	Davis, Irvine, Los Angeles, Merced, San Diego, San Francisco, Los Angeles	2.0
California State Summer School for Mathematics and Science†	Provides a four-week summer residential program for high school students who have demonstrated an aptitude for academic and professional careers in science, technology, engineering, and mathematics.	Davis, Irvine, San Diego, Santa Cruz	1.6
Science and Math Teacher Initiative†	Recruits and prepares undergraduates to explore careers as math or science educators.	All campuses except San Francisco	1.1
<b>Total</b>			<b>\$337.3</b>

Source: California State Auditor's analysis of data provided by the University of California's (university) Office of the President. The Office of the President indicates that the amounts for these programs should be considered base amounts because campuses may use other state funds to operate these programs. Note: We excluded the university's allocation of \$52.1 million for student financial aid from this list because, unlike the other programs listed, it directly benefits students.

\* This program was excluded from the rebenchmarking formula.

† This program formerly had dedicated funding in the annual state budget act.

‡ Although technically not a program, the State appropriated \$89.1 million in fiscal year 2012-13 to help fund the university's retirement plan. We included it in this table because the university has continued this allocation of \$89.1 million per year to fund its retirement plan using state funds.

Based on this finding and recommendations, the Subcommittee asked the LAO to review past state budgets and compile a list of UC programs and other issues described in budget language. The list is below.

Research	1st Year Funded	Outreach <sup>3</sup>	1st Year Funded
Acquired Immune Deficiency Syndrome (AIDS) Research	1988-89	Northern and Southern Occupational Health Centers <sup>2</sup>	1998-99
Microelectronic research	1988-89	MESA, EAOP, Puente, and other outreach <sup>3</sup>	1998-99
Center for Global Peace/Institute on Global Conflict and Cooperation	1988-89	General Outreach <sup>3</sup>	1996-97
Animal Research Alternative	1988-89	K-12 school partnership programs <sup>3</sup>	1998-99
Alzheimer and Geriatrics Program	1989-90	Academic development and partnerships in Central Valley <sup>3</sup>	1996-97
Aquaculture and Fisheries research	1989-90	Promoting community college transfer and Dual Admissions Project <sup>3</sup>	1998-99
Database for predicting revenue and tax burden effects of changes in CA property tax system	1991-92	UCSD Model Charter School <sup>3</sup>	1997-98
Assembly Database at Berkeley (Statewide Database)	1993-94	Systemwide graduate and professional school outreach <sup>3</sup>	1999-00
San Diego Supercomputer Center	1996-97	Outreach by professional schools <sup>3</sup>	1998-99
Center for Earthquake Engineering Research	1997-98	Evaluation of outreach programs <sup>3</sup>	1998-99
Viticulture and enology research	1997-98	Campus-level comprehensive assessment of freshman applications <sup>3</sup>	2001-02
Substance abuse research at UCSF Dept. of Neurology	1998-99	Student-initiated, student-run outreach activities <sup>3</sup>	2001-02
UCSD research into use of composite materials for transportation structures	1999-00	Other high yield recruitment activities <sup>3</sup>	2001-02
Lupus research at UCSF	2000-01	UC College Preparatory Initiative <sup>3</sup>	2002-03
Labor research/Labor Centers	2000-01	Community Resource and Education Centers Initiative <sup>3</sup>	2002-03
Welfare and Policy Research Project <sup>1</sup>	1998-99	UC All Campus Consortium of Research for Diversity (ACCORD) <sup>3</sup>	2002-03
Spinal cord injury research	2000-01	Arts Bridge programs <sup>3</sup>	1998-99
Medical Investigation of Neurodevelopment Disorders (MIND) Institute	2000-01	Urban School Collaborative program <sup>3</sup>	2002-03
Medical Marijuana Research	2000-01	Informational outreach to pupils, families, K-33 teachers, and counselors <sup>3</sup>	1998-99
International Thermonuclear Experimental Reactor Design Center	1997-98	Charter Schools <sup>3</sup>	1998-99
California Institute for Quantitative Biosciences		Project ASSIST	1995-96
		Cooperative Extension	1999-00
<b>Enrollment</b>		Student Academic Preparation and Education Programs (SAPEP)	2005-06
Enrollment (general)	2003-04	California State Summer School for Mathematics	1999-00
Enrollment in Program in Medical Education (PRIME)	2005-06	Science and Math Teacher Initiative	2005-06
Enrollment in nursing	2006-07	Community Teaching Internships for Mathematics and Science programs	1998-99
Master's	2009-10	Mathematics, Science and Arts Outreach Programs	1998-99
Summer enrollment	2001-02	Subject Matter Projects <sup>4</sup>	1996-97
		Area Health Education Center	1989-90
<b>Planning</b>		UCLA Advanced Policy Institute: Creation of Internet Resource	2001-02
Merced Planning and Development	1997-98	UCSF Center for Lesbian Health Research	2001-02
		UC Ag Extension in Monterey County	2001-02
<b>Programs</b>		Human Corps program	1989-90
Charles R. Drew Medical Program <sup>5</sup>	1988-89	Center for Cooperatives	1989-90
Podiatry Program (California College of Podiatric Medicine) <sup>6</sup>	1988-89	California Institutes for Science and Innovations	2002-03
Teaching Hospitals	1988-89		
Institute of Governmental Studies	2000-01	<b>Maintenance</b>	
Riverside Medical School	2010-11	Loan Repayment <sup>7</sup>	1995-96
		Deferred maintenance, instructional equipment, and library materials	1999-00
<b>Other</b>			
Student Financial Aid	1988-89	<b>Compensation</b>	
Instructional Computing		Compensation increases	1988-89
Energy Service Contracts	1988-89	Retiree benefits	1990-91
Lease Revenue	1988-89	UC Unfunded Liability	2012-13
Working drawings and preliminary plans for building to house physician training and education program at UCSF Fresno	1998-99		
Internet connectivity for K-12 schools and COEs	2000-01		
Mexico City facility			
Student Fees			

Note: LAO review began with 1988-89. Some programs may have received funding before that year.

**STAFF COMMENT**

UC is a complex organization performing numerous duties, as the above list indicates. While all of these programs were likely critical issues in the years in which they were created or funded, the State Auditor has a valid concern: neither UC or the Legislature appear to have a mechanism in place to review programs to determine if they are still valid, or how much state funding should be required.

The Administration's insistence that program earmarks be removed from budget language also hinders transparency, as it is very difficult for the public to determine funding levels of any of these programs.

The top Assembly priority for UC currently is resident enrollment. The Subcommittee may wish to consider ways in which it and UC could review programs and redirect funding toward this priority.

#### Potential Questions

- Can UC provide information on which of the LAO-identified programs are still operating? How many use state General Fund?
- Based on the Auditor's findings, why hasn't UC sought to eliminate General Fund support from programs that could be supported by other funds?
- How does the Office of the President track these programs?