

## AGENDA

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

Assembly Member Kevin McCarty, Chair

WEDNESDAY, FEBRUARY 18, 2015  
1:30 PM - STATE CAPITOL ROOM 126

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#### OVERVIEW OF UNIVERSITY OF CALIFORNIA EXPENDITURES

##### I. OPENING REMARKS

Assembly Member Kevin McCarty, Chair

Committee Members

##### II. UC EXPENDITURES

Paul Golaszewski, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

Nathan Brostrom, Executive Vice Chancellor-Chief Financial Officer, University of California

Jillian Kissee, Budget Analyst, Department of Finance

##### III. STAKEHOLDER PERSPECTIVES

Jefferson Kuoch-Seng, President, University of California Student Association

Charles Schwartz, Professor Emeritus, University of California Berkeley

Claudia Preparata, Research Director, American Federation of State, County and Municipal Employees, Local 3299

##### IV. PUBLIC COMMENT

## ITEMS TO BE HEARD

### 6440 UNIVERSITY OF CALIFORNIA

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At its November 2014 hearing, the University of California Board of Regents voted 14-7 to increase student tuition and fees by 5% per year for a 5-year period beginning with the 2015-16 school year. The tuition hike – which would raise tuition and fees from the current \$12,192 annually to \$15,564 annually by 2019-20 – was part of the Board's overall UC budget proposal, which seeks to increase revenue by \$459 million in 2015-16. This is a 7% increase over current year core-fund spending. UC President Janet Napolitano has the authority to freeze or lower the tuition hike if the state provides funding to offset the proposed revenue increase.

Assembly Speaker Toni Atkins and Gov. Jerry Brown, who are both Regents, opposed the tuition increase. Gov. Brown has introduced a UC budget proposal that would provide a 4% increase in General Fund support for UC only if UC does not raise tuition. Speaker Atkins also outlined a UC budget plan, which calls for no tuition increase for California students, increasing tuition for nonresident students, \$50 million in additional funding for UC over the Governor's proposal, increasing California student enrollment by 10,000 over 5 years, and improving state financial aid programs. Specific budget proposals for 2015-16 will be discussed in more depth at later subcommittee hearings.

As part of her UC budget proposal, Speaker Atkins called for the Assembly to scrutinize the UC budget during budget hearings this year. Additionally, the UC Regents voted in January to create a committee – comprised of Gov. Brown and UC President Napolitano - to examine various issues, including UC's cost structures, undergraduate student access and completion, and the role of research at the university.

This hearing, which will focus on UC expenditures, marks the beginning of the Assembly's review process. This paper focuses on UC spending from 2007-08 through 2014-15. This period spans the year just before the recession, the recession and the post-recession recovery, and is marked by tumultuous changes in UC revenues and spending, including:

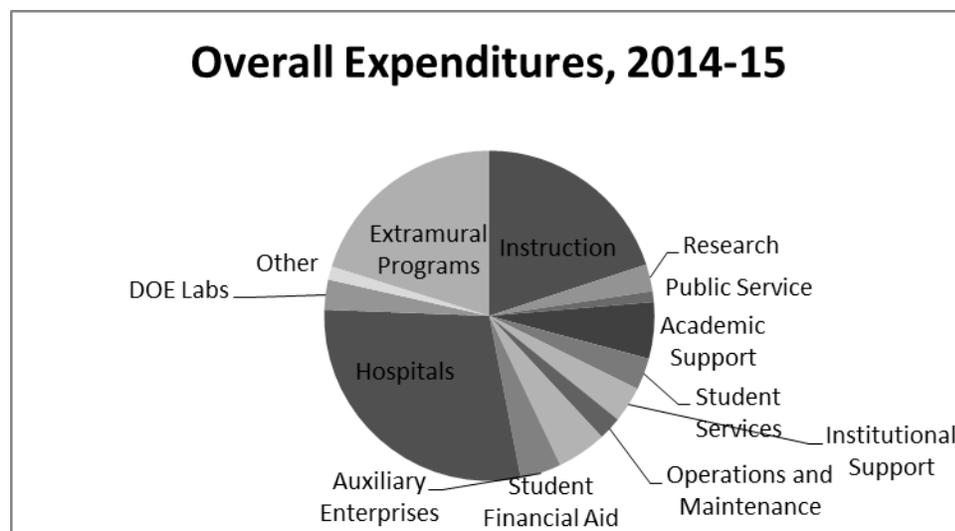
- Major fluctuations in state support for UC, including year-to-year reductions of 23% and 21%, as well as recent minor increases;
- Major increases in tuition charged to students, which also increased costs for state-backed financial aid programs supporting UC students by nearly 200%;
- Overall spending growth despite the lessening of state support;
- And a major change in how the state accounts for UC's budget, moving from a model that directed some funding to enrollment targets and specific programs to the current practice, which provides virtually no direction to UC as to how it uses state funds.

**BACKGROUND**

The Master Plan for Higher Education designates UC as the state's primary academic research institution, providing undergraduate, graduate academic and professional education at the masters and doctoral level. State enrollment goals under the Master Plan call for UC to enroll students in the top 12.5% of their high school class. UC enrolled an estimated 248,633 students in the current year, with 183,393 in-state undergraduate students.

**UC's two budgets**

UC essentially operates two budgets. The overall UC budget is \$26.9 billion in 2014-15, and accounts for numerous UC operations, including 5 medical centers, the Lawrence Berkeley National Laboratory, and the university system's 10 campuses. Instruction is about 20% of overall UC expenditures, while medical center spending accounts for 29%.



Source: Governor's Budget

Within this overall budget, UC operates a budget it refers to as its "core funds," which support the main educational mission of the university, and include faculty salaries and benefits, administration, student services, operation and maintenance of buildings and grounds, and student financial aid. In 2014-15, UC is spending \$6.9 billion on core fund operations. These operations are where most state General Fund is spent. Other revenue sources include student tuition and fees, cost recovery funds from research contracts and grants, patent royalty income, and fees earned for management of the Department of Energy lab.

Of this core fund budget, campuses retain all revenue collected at the campus, including tuition. State General Fund revenues are distributed to campuses by the UC Office of the President (UCOP), which sends funding out on a per-student basis.

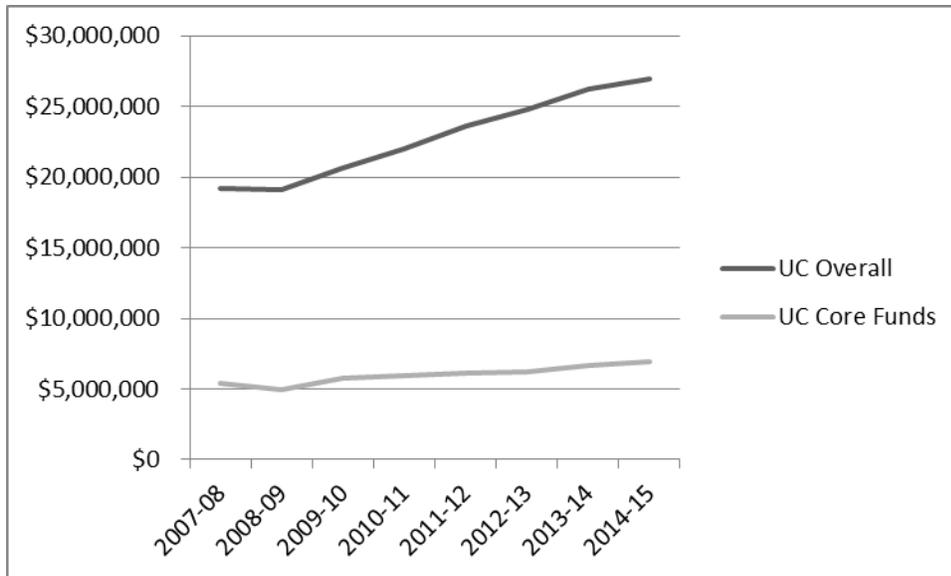
Campus budgets vary considerably due to student population and differing operations. UCLA reports about \$6.3 billion in revenues, for example, while UC Santa Cruz's budget is \$660 million.

**UC spending grew significantly.** Throughout the Recession, even as state General Fund support for UC fell, UC expenditures grew. UC's overall spending grew by 40% during the 2007-08 through 2014-15 period, while core fund expenditures grew by 27%. The charts illustrate this growth.

<b>Expenditure Category</b>	<b>2007-08</b>	<b>2014-15*</b>	<b>% Change</b>
<b>General Campus Instruction</b> (Direct instructional resources, including classroom and laboratory instruction, instructional technology, online education, and joint scholarly research activities of students and faculty)	\$2,232,602	\$2,909,644	<b>30%</b>
<b>Health Sciences Instruction</b> (Health Science schools are located on six campuses and include six schools of medicine, two schools of dentistry, three schools of nursing, two schools of public health, two schools of pharmacy, one school of veterinary medicine, and one school of optometry.)	\$1,093,839	\$2,175,801	<b>99%</b>
<b>Other Instruction</b> (Summer session and extension)	\$209,613	\$286,875	<b>37%</b>
<b>Research</b> (Supports research centers, institutes, laboratories and other programs)	642,144	\$709,854	<b>11%</b>
<b>Public Service</b> (Broad range of activities to serve state and local communities, students, teachers, and staff in K-12 schools and community colleges, and the public in general, including high school outreach, and extension programs)	222,820	\$284,490	<b>28%</b>
<b>Academic Support</b> (Libraries, journal expenses, vivaria, dental clinics and neuropsychiatric institutes)	988,693	\$1,485,551	<b>50%</b>
<b>Student Services</b> (Counseling, financial aid administration, student health services, admissions)	\$536,627	\$838,764	<b>56%</b>
<b>Institutional Support</b> (Executive administration, police, accounting, payroll, human resources, administrative computing, material management, environmental health and safety, and publications)	\$798,797	\$942,062	<b>18%</b>
<b>Operations and Maintenance of Plant</b> (operation and maintenance of the University's physical plant, including site infrastructure, buildings, and related fixed equipment)	\$518,940	\$614,808	<b>18%</b>
<b>Student Financial Aid</b> (Grants, scholarships, work study)	\$652,005	\$1,304,879	<b>100%</b>
<b>Auxiliary Enterprises</b> (student housing, food services, bookstores, parking, and, at several campuses, a portion of intercollegiate athletics)	\$916,476	\$1,081,500	<b>18%</b>
<b>Hospitals</b> (Five academic medical centers in Davis, Irvine, Los Angeles, San Diego, and San Francisco)	\$4,599,895	\$7,710,698	<b>68%</b>
<b>DOE Labs</b> (UC manages the Lawrence Berkeley National Laboratory)	\$1,007,836	\$790,000	<b>-22%</b>
<b>Other</b> (Temporary repositories to address issues such as salary, benefit and other cost adjustments, academic position upgrades, staff reclassifications, price adjustments, employee benefit adjustments, debt service, and University endowment income)	\$175,953	\$350,547	<b>99%</b>
<b>Special Regents Programs</b>	\$144,269		<b>-100%</b>
<b>Extramural Programs</b> (State agency contracts, federal contracts and grants, private contracts and grants, and other university one-time funding)	4,467,449	\$5,425,249	<b>21%</b>
<b>Total</b>	<b>\$19,207,958</b>	<b>\$26,910,722</b>	<b>40%</b>

Source: Governor's Budget

\*Note: 2014-15 figures are estimated



Source: Governor's Budget and UC Budget for Current Operations, 2015-16

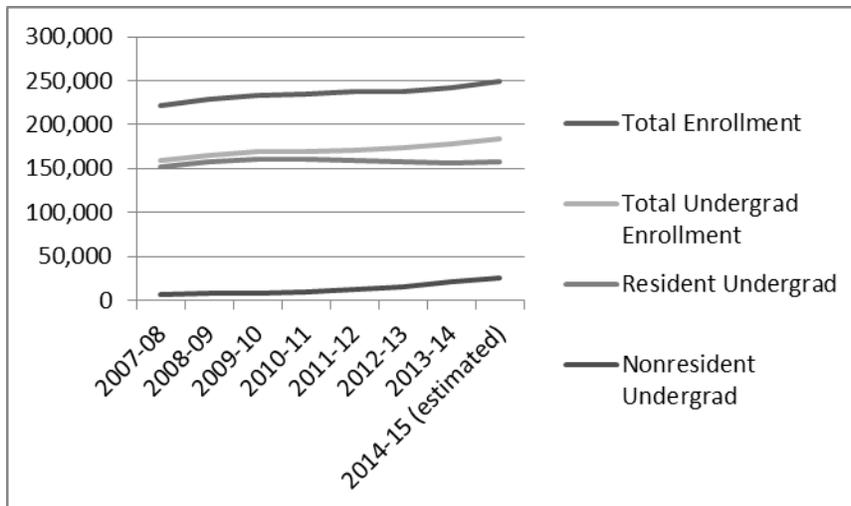
UC spending growth outpaced the state and many other state agencies, as the chart below indicates. Inflation during this period grew by about 12%, while the Higher Education Price Index, which is commonly used to measure cost changes in higher education, grew by about 18%.

State Agency	2007-08	2014-15	% Change
UC Overall	\$19,207,958	\$26,910,722	40%
UC Core Funds	\$5,427,851	\$6,909,878	27%
Courts	\$3,760,630	\$3,631,827	-3%
Department of Social Services	\$9,014,213	\$6,994,519	-22%
Department of Corrections and Rehabilitation	\$10,032,411	\$9,967,036	-1%
California State University	\$6,836,696	\$8,488,925	24%
State General Fund	\$102,985,674	\$107,987,028	5%

Source: Governor's Budget

**While expenditures grew significantly, California undergraduate enrollment only increased slightly.** This expenditure growth occurred while enrollment also grew, although California undergraduate enrollment only increased slightly. California undergraduate enrollment grew by 4% between 2007-08 and 2014-15. During this same period, nonresident undergraduate enrollment increased by 253%. Nonresident students now comprise about 14% of the UC undergraduate student body.

Overall enrollment, including graduate students, grew by 15% during this period.



Source: Governor's Budget

**The shift from state to students.** As state funding declined, UC has sought other sources for funding, including increasing philanthropy and changing its investment patterns. Tuition, however, has been the biggest source of increased revenue. Tuition grew by 84% between 2007-08 and 2011-12.

Many campuses, most notably UCLA, UC San Diego and UC Berkeley, also dramatically increased the number of nonresident students it enrolled. Nonresident students pay \$22,878 more than California students, and campuses are allowed to keep this additional revenue. Nonresident students were 4.5% of the entire UC student body in 2007-08; that grew to 13.7% in 2014-15. Nonresident students account for more than 20% of the student body at UC Berkeley and UCLA.

Student tuition, including nonresident tuition, now accounts for 46% of UC core fund revenue.

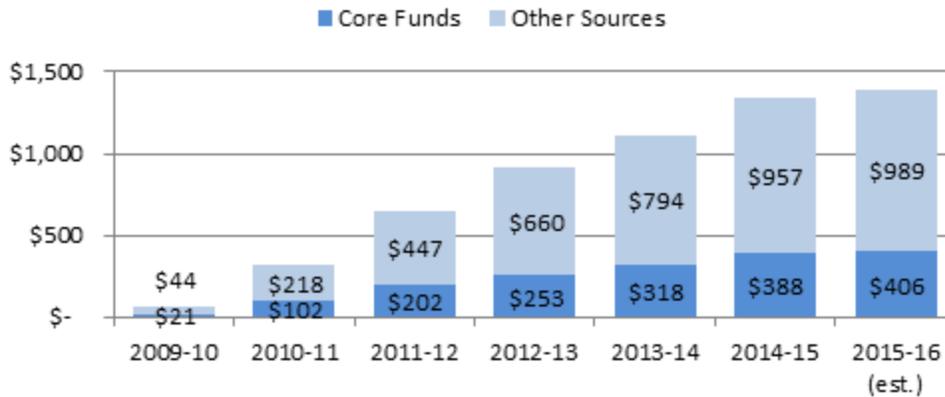
It should be noted that UC's tuition increases also impact the state General Fund. A majority of Cal Grant funds for UC students cover tuition. Thus, as tuition grows, so do Cal Grant costs. UC's collection of General Fund-backed student financial aid grew from about \$295 million in 2007-08 to about \$882 million in 2014-15.

### **UC's Cost Drivers**

Spending increases can be explained by several factors. UC lists the following issues as significant cost drivers, and will discuss these issues at the hearing.

**Retirement costs.** UC provides pension benefits for more than 61,700 retirees and survivors through the UC Retirement Plan (UCRP), which is separate from the CalPERS system and controlled by the UC Regents. In 2014-15 UC is spending about \$1.3 billion on the UC Retirement Plan (UCRP), with \$389.6 million from core funds. The chart below, provided by the Office of the President, shows the growth in spending on retirement costs during the past several years.

**Display 2: Actual and Projected Employer Contributions to UCRP  
by Fund Source (Dollars in Millions)**



UC and the state agreed to suspend payments into UCRP in the early 1990s, and for nearly 20 years, neither employer nor employee contributions were made. The funded status of UCRP declined during the recession, and in April 2010, UC and its employees began making contributions again. Thus, UC faced this new cost just as the recession hit hardest.

In 2014-15, the employer contribution is 14% while the employee contribution is 8%. (In comparison, the state is contributing 24.28% to employee pensions while state workers are contributing 8%.)

UC also made changes to its pension plan in 2010 to cut costs, including adding a new tier of benefits for employees hired after July 2013 and altering retirement ages. Many of UC's changes are comparable to changes made by the state for state workers under the Public Employees Pension Reform Act of 2013. There are significant differences, which will be discussed later.

In addition to pension reforms, UC also has borrowed to pay for unfunded liabilities within its pension fund. UC has borrowed more than \$1.8 billion, at low interest rates – about 2% - to cover pension costs. The loans are being paid back through a small payroll assessment – about .7% - that is assessed to campuses.

**Healthcare costs.** Employee healthcare costs grew between 8% and 11% between 2007 and 2012. UC has made efforts to slow cost increases, including developing a new plan that encourages UC members to access care through UC facilities and providers. Costs since 2012 have been lower, growing by 2.8% in 2013 and 5% in 2014. UC expects 6% growth in 2015. In addition, UC is spending more than \$263 million on retiree health benefits in 2014. UC reports an unfunded liability for retiree health care of \$14 billion in 2014-15.

**Compensation increases.** While UC did impose employee furloughs during the recession, it has provided compensation increases to some faculty and staff during the past three years. In 2013-14, for example, UC provided 2% raises to academic personnel and 3% for other staff, while in 2014-15 UC provided 3% raises to nonrepresented staff and spent \$16.3 million on collectively bargained salary increases.

**Non-Salary Price Increases.** This includes items such as instructional equipment and library materials, as well as energy costs. UC notes that increases in this category have ranged from \$25 million to \$37.6 million during the past 8 years.

**Faculty Merit Program.** UC has long maintained a merit program that awards 3% salary increases to faculty based on a performance review. Faculty are eligible for the increase every three years. UC considers this program a mandatory cost because it is similar to programs at most other research universities that the UC competes with to attract faculty.

### **Other Costs and Issues to Consider**

**The number of highly-paid UC employees has grown significantly.** Nearly 6,000 UC employees earn gross pay of \$200,000 or more. The chart below indicates the growth in the number of \$200,000-or-more earners between calendar year 2007 and calendar year 2013, based on information available on the UC website. As the chart indicates, the number of these employees has grown by almost 100% during that period, and overall pay to this group amounted to \$1.8 billion in 2013, the latest year for which data is available.

Many of these employees are athletic coaches or medical center personnel that are not supported by state funds. (UC officials state that about 60% of the increase in employees earning \$200,000 or more during this period were faculty in the health sciences compensation plan or staff physicians and other clinical staff.) But this list does include professors, attorneys and administrators who are supported by the state. The database that provides this information does not break down the source of salaries.

<b>Pay Category</b>	<b>2007</b>	<b>2013</b>	<b>% Change</b>
Number of Employees Earning \$200,000+	3,018	5,933	97%
Overall Base Pay	\$479.5 million	\$1.1 billion	123%
Overall Overtime Pay	\$649,318	\$4.9 million	650%
Overall Extra Pay	\$364.2 million	\$734.8 million	102%
Overall Gross Pay	\$844.4 million	\$1.8 billion	114%

Source: UC Pay Database

**UC data indicate a significant increase in administrative personnel.** Staffing data available on UC's website show that administrative staff, both in academics and other areas, grew far faster than faculty and faster than overall staff growth. The website lists different personnel categories, including the Senior Management Group, the Management and Senior Professional group (MSP) and academic administrators. The chart below illustrates changes in these groups between October 2007 and October 2014. The chart also lists changes in tenured and tenure-track (ladder rank) faculty and overall employment numbers as a comparison. Note that there are now more employees in the two management categories than ladder-rank faculty.

<b>Personnel Category</b>	<b>Oct-07</b>	<b>Oct-14</b>	<b>% Change</b>
Senior Management Group and Management and Senior Professional	7,824	10,335	32%
Academic Administration	646	767	19%
Ladder-Rank Faculty	8,611	8,870	3%
Total UC Employees	131,567	145,901	11%

Source: Statistical Summary and Data on UC Students, Faculty and Staff, UCOP website

UC notes that the Management and Senior Professional category includes administrators, but also includes other types of professionals, including attorneys and information technology specialists, that aren't necessarily administration. Data on UC staffing available on the Office of the President's website breaks out positions into subcategories in areas such as Academic Staff and Professional Support Staff, but does not include the same detail for the Senior Management Group or Management and Senior Professional categories, making it difficult for the public to truly assess management positions at UC.

**UC believes its educators are underpaid.** Most UC faculty have three duties: instruction, research and public service. UC faculty include 60 Nobel Prize awardees. Nearly 380 faculty are members of the National Academy of Science, meaning UC faculty comprise 17% of all academy members. UC conducts more than \$505,000 in research per tenured and tenure-track faculty. Among the budget issues facing UC and the state are faculty salaries, faculty load, and how research is funded.

While faculty were subject to a 2010-11 furlough program, faculty received a 2% raise in 2013-14 and a 3% raise in 2014-15, in addition to participating in the faculty merit program, which can provide raises every three years. Despite these increases, UC administrators believe the university is underpaying faculty. A study conducted for UC in 2013 found that UC faculty lag market rates for salary and benefits by 12% when compared to eight other institutions. Comparison institutions include four public universities – the University of Illinois, the University of Michigan, the University of Virginia and the State University of New York at Buffalo – and four privates – Harvard, Stanford, Yale and MIT. According to the study, full professors at UC earned \$150,455 on average, associate professors earned \$98,804 on average, and assistant professors earned \$91,155 on average.

This study was conducted before the 2014-15 raises, however.

**UC has increased its use of non-tenured instructors.** UC employs more than 8,800 tenured and tenure-track faculty, and nearly 23,000 other educators, including lecturers and student assistants. UC officials note that during the recession, the student-to-faculty ratio has fallen from 18.7:1 to about 21:1. UC personnel data indicate that in recent years, the system has relied more on non-tenure track faculty to teach classes. Most of the "Other Teaching Faculty" is clinical faculty at UC's teaching hospitals.

Position	Oct-07	Oct-14	% Change
Ladder Rank Faculty	8,611	8,870	3%
Acting Rank Faculty	58	62	7%
Lecturers	1,854	2,199	19%
Other Teaching Faculty	4,741	6,011	27%
Student Assistants	13,295	14,601	10%
Research	8,675	9,420	9%
Librarian	504	437	-13%

Source: Statistical Summary and Data on UC Students, Faculty and Staff, UCOP website

Minor growth in faculty hiring has led to more workload for faculty, UC indicates. The following chart indicates degrees awarded per tenured and tenure-track faculty.

Degree per Faculty	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	% Change
Bachelors per Faculty	5.9	5.7	6	6.3	6.7	6.7	14%
Graduate Degrees per Faculty	1.7	1.7	1.7	1.8	1.9	2	18%

Source: UCOP

In discussing undergraduate education, however, an important issue is faculty load. How many classes do faculty actually teach? Who actually teaches undergraduate students? The Subcommittee has asked for information from UC about faculty load, which UC is still compiling.

**Research is funded throughout the UC budget.** Federal, state and private sources support UC research, which accounted for about \$4 billion in spending in 2013-14, according to UC budget information. Tracking research spending at UC is difficult, however, as it is spread across multiple spending categories, including the instruction and medical center categories. The instruction category includes research conducted by faculty that is not supported by outside grants.

Because the job description for UC faculty includes research (and public service) as well as teaching, faculty salaries are generally considered to support all three missions. An extensive time-use study of UC faculty published in the early 1980s found that faculty typically spent 54% of their time on teaching activities and 38% on research.

UC Professor Emeritus Charles Schwartz has noted in his reviews of the UC budget that as undergraduate students are being asked to pay an increasingly larger percentage of UC's costs, UC and the state should consider whether it is fair to require students to support research costs that may not benefit their academic life. Professor Schwartz will provide his thoughts in testimony at the hearing.

**UC has sought administrative efficiencies.** During the recession, UC launched the Working Smarter initiative in an attempt to cut administrative costs. Reforms have included systemwide changes in procurement and risk management, among others. UC reports this initiative has provided \$664 million in avoided costs between 2010-11 and 2013-14.

One other efficiency project has run into trouble, however. First launched in 2009, the UC Path project is seeking to consolidate outdated payroll systems that have been operated independently at campuses. Original plans suggested the project would cost \$170 million and begin to go into effect in 2013, with all campuses implementing the new system by the end of 2014. The project is now over budget and considerably behind schedule. The project will not be finalized until at least 2016-17 and is now estimated to cost \$220 million. The status of this project is expected to be discussed further at the March meeting of the UC Board of Regents.

**UC's Cost of Instruction Report.** The Budget Act of 2014 required both UC and the California State University to report on the cost of instruction based on specific revenue sources, including state General Fund, tuition and UC General Funds. Reports were due October 1, 2014. The UC provided a preliminary report in November 2014 but stated that it would provide a final report at a later date. The final report is being released this week. The Subcommittee may wish to discuss this report in more depth at a subsequent hearing.

Per the Budget Act, UC was asked to break down the costs of instruction related to undergraduate students, graduate students, health sciences students, and students in STEM (Science, Technology, Engineering and Mathematics) fields. For all categories, UC provided two different costs. One, called the narrow definition, includes expenditures categorized as

instruction, as well as some others related to academic support and student services. The broader definition includes expenditures related to financial aid and a broader amount of academic support and student services costs. The chart below indicates the costs UC is reporting.

In general, the report indicates that graduate students cost significantly more to educate than undergraduate students and health sciences students' costs dwarf those of other types of students.

Type of Student	Narrow Definition	Broad Definition
Undergraduate	\$21,800	\$29,200
Graduate	\$37,100	\$55,800
Health Sciences	\$216,000	\$342,500
STEM Undergraduate	\$23,00	\$30,800
STEM Graduate	\$39,100	\$61,800

#### STAFF COMMENTS/QUESTIONS

UC faces many of the same cost pressures as other large public employers. For example, the state faces the same challenges regarding pension and healthcare costs as UC. These pressures are exacerbated at the university, however, because a significant part of its workforce is highly skilled and highly paid. Below are other issues the Assembly should consider as it reviews the UC budget, and potential questions the Subcommittee could ask of UC and the administration during the hearing.

***UC not notably out of step on spending when compared to other public universities.*** The Delta Cost Project, which is affiliated with the nonprofit, nonpartisan American Institutes for Research, has conducted extensive studies of university spending across the country. The project's website allows for comparison among campuses on issues such as education-related spending, research spending, medical center spending, and other categories, although 2011 is the last year for which data is available.

In general, UC campuses' per-student spending are in line with the other public research universities, such as the University of Michigan and University of Virginia. It also should be noted that the growth in UC core fund spending during the 2007-08 through 2014-15 period is relatively similar to the spending growth at California State University.

***UC is competing with elite private colleges, private medical groups and Fortune 500 companies. Should it?*** Along with public universities like Michigan and Virginia, UC also typically uses Harvard, Stanford, MIT and Yale as comparison institutions in reviewing salary and other resource issues. UC competes with these private universities for faculty, administrators and research programs. In addition, UC believes it must compete with other private entities for administrators, doctors and other staff.

Salaries and benefits for the Senior Management Group, for example, are set by developing Market Reference Zones, which compare UC positions to similar positions at other universities and other "organizations that are similar to the University in size and complexity and are therefore the organizations with which the University competes for talent," according to UC policy.

Competing with private universities and large corporations, while maintaining a public mission to sustain access to higher education for low-income students and remaining affordable to all students, is a significant challenge.

**Has UC done enough to control administrative growth?** The Subcommittee has asked UC for more information related to management growth, as publicly-available information makes it difficult to truly monitor. UC officials believe they have cut management that is supported by core funds, but clearly, the university has seen significant growth in non-academic personnel over time.

Even in areas where administration has been cut, questions remain about the system's ability to truly lower costs. Based in Oakland, the UC Office of the President (UCOP) provides general administration services, including working with the UC Board of Regents, some centralized services for the campuses, such as management of the pension system and banking services, and oversees systemwide initiatives, such as the UC Observatories, the California Institutes for Science and Innovation, and cooperative extension programs.

During the recession, the university has lowered the number of UCOP staff. However, during that same period, the number of UCOP employees classified in the Senior Management Group and Management and Senior Professional personnel categories – generally the two groups with high salaries - grew by 27%. UCOP's budget has recently increased, from \$587 million in 2011-12 to about \$625 million in 2014-15.

UCOP Staff	Oct-07	Oct-14	% Change
Senior Management Group and Management and Senior Professional	573	725	27%
Total	1,900	1,684	-11%

Source: *Statistical Summary and Data on UC Students, Faculty and Staff*, UCOP website

**UC's pension reform lacks key piece.** UC's reforms to its pension plan are similar to reforms the Legislature and Administration made to the state pension system in 2013. There is one significant difference, however.

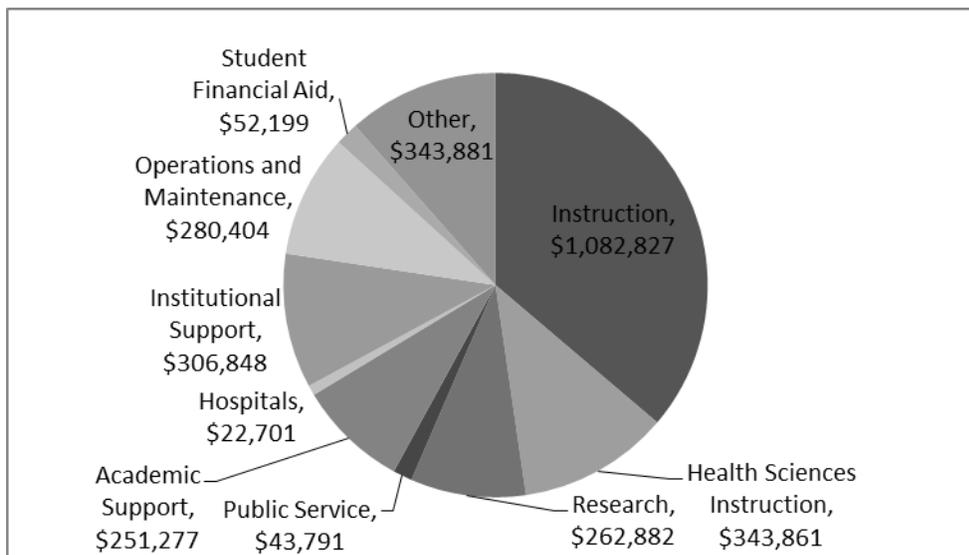
In an effort to clamp down on excessive benefits, the state pension reform caps the amount of base salary an employee can count toward pension benefits upon retirement. The state's reform ties pensionable salary to the Social Security Wage Base, which is used by the federal government to assess employment taxes and cap monthly retirement benefits for federal employees. Thus, for 2015, state employees can only count up to \$118,500 in base pay toward their potential pension benefit. In contrast, UC uses the Internal Revenue Service compensation limit, which is \$265,000 in base pay for 2015.

According to UC wage data, there are 14,729 UC employees who earn base pay between \$118,500 and \$265,000. Were these UC employees instead employed by the state, their pensionable salary would be capped at a much lower rate, thus saving UC retirement costs.

**Little state direction on how UC uses state funds.** Traditionally, the state tracked UC (and California State University) funding by providing direction in the budget bill on enrollment growth and other factors, such as inflation. The state also typically funded a few cost increases separately, such as pension costs, and earmarked some state funding for targeted purposes, such as student outreach programs or specific research programs. For capital outlay, the state reviewed and approved specific projects and used state bond funds to pay for them.

Beginning in 2008-09, the state started to move away from its traditional budgetary approach for the universities. The state budget no longer includes enrollment funding and base increases no longer are connected with inflation. The state budget also now provides very few earmarks for specific purposes, and UC must fund capital projects by pledging General Fund support and issuing its own debt. The current administration has declined efforts by the Legislature in recent years to provide enrollment funding or more direction in the UC budget. Thus, UC has much more discretion as to how it uses taxpayer dollars.

UC officials state that General Fund monies are distributed to campuses on a per-student basis tied to priorities set by campuses and the Office of the President. Below is a pie chart indicating how General Fund monies were distributed in 2014-15.



Source: Governor's Budget

Among the potential questions the Subcommittee could ask during this hearing are:

- Should the state provide more direction in its General Fund appropriation to UC, so that there can be a better understanding of how the funding is spent?
- For the administration and UC, please provide an update on the Gov. Brown-President Napolitano committee. What outcomes is the administration seeking?
- Does UC believe faculty are teaching enough? How does UC determine an appropriate faculty load?
- UC believes that an 18:1 student-faculty ratio is necessary to deliver a quality undergraduate education. Why is that the correct ratio?
- Is it appropriate to include research activity within the instruction category? Should undergraduate students' tuition be used to support research if it does not benefit them?
- Will UC consider further limiting the amount of pensionable salary for its employees, as the state has done?
- UC's Working Smarter initiative reports that it has saved more than \$660 million? Where is that savings? How is it accounted for?

- Does UC believe it has done enough to curb administrative growth?
- Why doesn't UC break out management categories more clearly, so that the public can better understand administrative positions?
- Data indicate that the number of administrators appears to be higher now than the number of tenured and tenure-track faculty. What does UC believe is the appropriate mix of administrators and faculty?
- Can UC provide more clarity on the number of state-supported high-wage earners? How many core-fund employees earn more than \$200,000 in gross pay annually?