

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

WEDNESDAY, MAY 13, 2015
4 PM - STATE CAPITOL ROOM 126

REVIEW OF UNIVERSITY OF CALIFORNIA BUDGET ISSUES

I. OPENING REMARKS

Assembly Member Kevin McCarty, Chair

Committee Members

II. ADMINISTRATIVE AND PERSONNEL COSTS

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

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

Christian Osmena, Principal Program Budget Analyst, Department of Finance

III. PENSION COSTS

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

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

Christian Osmena, Principal Program Budget Analyst, Department of Finance

IV. ADMISSIONS UPDATE

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

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

Christian Osmena, Principal Program Budget Analyst, Department of Finance

III. PUBLIC COMMENT

ITEMS TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA

The Subcommittee has discussed University of California budget and enrollment issues at hearings on Feb. 18, March 3 and April 21. This hearing, to be held just before the 2015-16 May Revision is released, is intended as a follow-up discussion to the previous hearings. Below is information and data provided to the Subcommittee based on discussion and questions that arose during the hearings, and staff analysis and comments intended to summarize what the Subcommittee has learned so far in its review of the UC budget.

BACKGROUND

The Feb. 18 hearing focused on UC expenditures during the previous eight years, which was marked largely by the Great Recession. Despite decreased state funding, UC's overall expenditures grew by 40% during this period, and Core Fund expenditures – which support the main educational mission of the university – grew by 27%. California undergraduate enrollment grew by 4% during this period, while overall enrollment grew by 12%.

Discussion focused on UC's cost drivers – including retirement costs, health benefit costs, and compensation issues – as well as several Subcommittee concerns, including the growth in high-salary employees and administrative personnel, the decline in tenured or tenure-track faculty, and UC pension system policy.

The March 3 hearing provided an overview of the Governor's higher education budget proposals for 2015-16, including those for UC. At this hearing, UC President Janet Napolitano announced that UC would not increase enrollment of California students in the 2015-16 school year unless the state provided funding above the Governor's proposed spending level. She also announced that UC would increase enrollment for nonresident students – those from out of the state and other countries – by 2,000 students in 2015-16.

The April 21 hearing focused on admissions and enrollment issues. Data indicates that while applications to UC from California residents soared during the past eight years – a 34% increase – freshman admission rates declined, and freshman enrollment declined at 6 of the 9 UC campuses. Community college transfer applications also rose dramatically, and while admissions and enrollment to UC as a system grew, transfer enrollment at some campuses – notably Berkeley and UCLA – fell. At the same time, applications, admissions and enrollment of nonresident students dramatically increased at most UC campuses. About 20% of undergraduates at Berkeley, UCLA and UC San Diego are now nonresidents.

The following information was provided to the Subcommittee by UC based on questions that arose during these hearings. A key problem in UC's publicly-available data is that it does not differentiate funding sources. The Legislature has typically concerned itself

with UC Core Funds: State General Fund, student tuition and fees, and UC General Funds, which include nonresident tuition, application fees, a portion of indirect cost recovery from federal and state contracts and grants, and a portion of patent royalty income. These are the funds typically used to educate students. Other funds include medical center revenue, government contracts and grants, private support, and sales and services, such as student housing or parking facilities.

Administrative and Staffing Costs

Much of the growth in managers and senior professionals is funded by non-Core Funds, although UC now uses more tuition and fees to cover these costs than it did previously. UC data indicates that the number of managers and senior professionals grew significantly in the past eight years.

Title	2007	2014	% Change
Managers	4251	5435	28%
Senior Professionals	3291	4730	44%
Senior Management Group	284	172	-39%

However, UC data indicate that this administrative growth was largely supported by funds other than Core Funds – UC states that 60% of this increase was related to medical centers or health science instruction. The charts below break down this growth by fund source.

Funding Source: State and UC General Funds

Title	2007	2014	% Change
Managers	1663	1320	-21%
Senior Professionals	899	753	-16%
Senior Management Group	202	72	-64%

Funding Source: Tuition and Fees

Title	2007	2014	% Change
Managers	159	298	87%
Senior Professionals	102	237	132%
Senior Management Group	0	3	

Funding Source: All Other Funds

Title	2007	2014	% Change
Managers	2429	3817	57%
Senior Professionals	2291	3740	63%
Senior Management Group	82	97	18%

Decline in executives is explained largely by a UC decision to reclassify deans and provosts. The Senior Management Group is typically the most highly-compensated administrators at UC. While the UC data indicate a significant decrease in this personnel category, the decline is largely due to a UC decision in 2010 to reclassify deans and provosts. This group – 81 people – are now classified as academic administrators.

Non-medical administrative personnel grew by 28%. UC provided personnel data to the Subcommittee that excludes medical center staff. This data indicates an overall increase in the Managers and Senior Professionals personnel category of 28% between 2007 and 2014, with a 9% increase in managers and a 63% increase in technical and professional staff. Technical and professional staff includes many types of personnel, such as architects, engineers, computer programmers, and administrative analysis positions. UC states that this increase reflects overall changes in the workforce seen by many large employers, as positions have moved from clerical and support staff to more technical positions. The chart below indicates these changes.

UC General Campus Personnel, 2007-2014

Personnel Category	2007	2014	% Change
Executives	141	129	-9%
Managers	2,867	3,119	9%
Technical/Professional Staff	1,645	2,680	63%
Total Managers and Senior Professionals Category	4,513	5,799	28%
Support Staff	35,709	36,828	3%
Total Personnel	40,444	42,756	6%

Notes: Excludes the 81 deans and provosts who were reclassified out of the "Executive" category during this period. Also excludes student workers.

High-Salary Personnel

While a majority of high-salary personnel are paid by non-core funds, nearly \$500 million in core funds supports these salaries. At the Feb. 18 hearing, the Subcommittee expressed concern at the growth in the number of UC employees who earn more than \$200,000 annually. This group grew from 3,018 employees in 2007 to 5,933 in 2013, a 97% increase. Gross pay for this group amounts to \$1.8 billion. UC provided the following information regarding the funds used to support this group of employees.

5,933 Employees Earning \$200,000+	2013 totals	State and UC General Funds	Tuition and Fees	All Other Funds	% Core Funds
Overall Base Pay	\$1.1 Billion	\$431.8 Million	\$26.8 Million	\$612.7 Million	42%
Overall OT Pay	\$4.9 Million			\$4.9 Million	0%
Overall Other Pay	\$734.8 Million	\$20.5 Million	\$7.6 Million	\$706.6 Million	4%
Overall Gross Pay	\$1.8 Billion	\$452.4 Million	\$34.4 Million	\$1.3 Billion	26%

Notes: Overtime Pay is pay for work in excess of an employee's regular work hours. Only non-exempt employees are eligible for overtime pay; faculty and senior managers are not eligible for overtime. Other Pay includes compensation generated by clinical activities and competitive contract and grant research awards; additional compensation to faculty for teaching, research or administrative duties during the summer; stipends and honoraria; payout of unused vacation leave; "By Agreement" flat rate payments; and special performance, incentive or recognition payments.

According to UC data, Core Funds support 42% of these employees' base pay, and 26% of gross pay. UC uses \$486.8 million of Core Funds for these employee salaries.

Tenured and Tenure-Track Faculty

The percentage of tenured and tenure-track faculty has declined. The Subcommittee asked UC for additional data regarding the number of tenured and tenure-track faculty employed by UC. Tenured and tenure-track faculty include professors, associate professors, assistant professors, and some lecturers. Non tenured or tenure-track faculty include lecturers, adjuncts, visiting faculty, and retired faculty who teach part-time. UC data indicates that the percentage of tenured and tenure-track faculty compared to total faculty declined during the past eight years system-wide. Six of the nine campuses with undergraduate students recorded declining percentage of tenured and tenure-track faculty, as the charts below indicate.

The number of tenured and tenure-track faculty at a university can be used as a key indicator of educational quality.

Systemwide	2007	2014	% Change
Total Faculty	15267	17148	12%
Total Tenure and Tenure-Track Faculty	8729	9001	3%
% Tenure and Tenure Track Faculty	57%	52%	

Berkeley	2007	2014	% Change
Total Faculty	1744	1872	7%
Total Tenure and Tenure-Track Faculty	1287	1298	1%
% Tenure and Tenure Track Faculty	74%	69%	

Davis	2007	2014	% Change
Total Faculty	2100	2220	6%
Total Tenure and Tenure-Track Faculty	1287	1275	-1%
% Tenure and Tenure Track Faculty	61%	57%	

Irvine	2007	2014	% Change
Total Faculty	1700	1846	9%
Total Tenure and Tenure-Track Faculty	1039	1135	9%
% Tenure and Tenure Track Faculty	61%	61%	

UCLA	2007	2014	% Change
Total Faculty	3315	3744	13%
Total Tenure and Tenure-Track Faculty	1766	1707	-3%
% Tenure and Tenure Track Faculty	53%	46%	

Merced	2007	2014	% Change
Total Faculty	136	330	143%
Total Tenure and Tenure-Track Faculty	83	200	141%
% Tenure and Tenure Track Faculty	61%	61%	

Riverside	2007	2014	% Change
Total Faculty	740	802	8%
Total Tenure and Tenure-Track Faculty	558	599	7%
% Tenure and Tenure Track Faculty	75%	75%	

Santa Barbara	2007	2014	% Change
Total Faculty	983	994	1%
Total Tenure and Tenure-Track Faculty	805	784	-3%
% Tenure and Tenure Track Faculty	82%	79%	

Santa Cruz	2007	2014	% Change
Total Faculty	675	695	3%
Total Tenure and Tenure-Track Faculty	490	502	2%
% Tenure and Tenure Track Faculty	73%	72%	

San Diego	2007	2014	% Change
Total Faculty	1834	2295	25%
Total Tenure and Tenure-Track Faculty	1046	1175	12%
% Tenure and Tenure Track Faculty	57%	51%	

Pension 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 expected to spend about \$1.3 billion on the UC Retirement Plan (UCRP), with \$389.6 million from Core Funds. UC has noted that the state currently provides funding for employer pension costs for state agencies, but not for UC. The university has asked the Legislature to support some UC pension costs in 2015-16.

In discussing UC pension issues, the Subcommittee noted in the Feb. 18 hearing that recent pension reforms enacted by the state differed from pension reforms enacted by UC. In an effort to clamp down on expensive benefits, the 2012 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. This reform applies to virtually all state employees, as well as many local government employees. In contrast, UC uses the Internal Revenue Service compensation limit, which is \$265,000 in base pay for 2015. Both reforms apply only to new employees hired after the reforms were enacted.

To better understand the difference between the two reforms, the Subcommittee required UC to submit a report by May 1 that would help the Legislature understand differences in cost between the two pensionable salary policies. A key question the

Subcommittee asked relates to the normal cost related to the current UC pension system and its reforms, which allows for comparison to normal cost for state employees based on state reforms. The normal cost is the amount estimated to be necessary—combined with future investment returns—to pay for benefits earned by employees in that year. These costs typically are split between the employer and employee. Normal cost is generally expressed as a percentage of employee compensation.

UC pension system much costlier due in part to high pensionable salary cap. Below are charts summarizing UC's responses, and a comparison to the state.

UC Employee Group	Total Normal Cost	Total Normal Cost with State Pensionable Salary Cap	State Employees Normal Cost
Employees Represented by Certain Unions	16.7%	15.8%	12.9%
All Others	15.6%	14.7%	

The data indicates that the normal cost related to UC employees subject to the UC pension reform are 16.7% or 15.6% of compensation, depending on employee group. This compares to 12.9% for most state employees subject to state reforms. UC also was asked what the normal cost would be for these employees were they subject to the state pensionable salary cap, and reported reduced normal costs of 15.8% and 14.7%.

UC also was asked to provide actual normal costs in dollars for current employees. It also was asked to provide normal costs in dollars under two hypothetical situations: if all current employees were subject to UC's pension reforms, and if all current employees were subject to UC's pension reform and the state's pensionable salary cap. The chart below indicates that information and the percentage difference between UC's reforms and the state's pensionable salary cap reform.

Employee Category	Actual (in Millions)	UC Pension Reform	UC Pension Reform with State Pensionable Salary Cap	% Difference Between UC and State Reforms
Senior Management	\$7.3	\$6.3	\$2.6	-59%
Management Senior Professional	\$221.2	\$186.0	\$138.4	-26%
Ladder-Rank Faculty	\$218.1	\$189.4	\$117.5	-38%
Other Academic Staff	\$264.9	\$228.8	\$174.4	-24%
Safety Employees	\$8.9	\$8.9	\$8.6	-3%
All Other Staff	\$975.6	\$880.7	\$803.3	-9%
Total	\$1,696.0	\$1,500.1	\$1,244.8	-17%

The chart indicates that if all current UC employees were subject to the state pensionable salary cap, instead of the one enacted by UC, UC's pension costs could be reduced by \$255.3 million, or 17%. This is a hypothetical: most current employees at UC and the state are not subject to reforms by either system; it only applies to employees hired after the reforms were enacted. Nonetheless, this information gives the Subcommittee a better understanding of the potential long-term cost differences between the two pension systems.

Fall 2015 Admissions

Recent admission and enrollment trends indicate a significant increase in applications to UC by both California residents and nonresidents, with decreasing admissions and flat enrollment of freshman residents and increasing admissions and enrollment of nonresidents. UC appears poised to continue this trend in Fall 2015, as it is planning to increase nonresident enrollment by 2,000 students but hold resident enrollment flat unless the state appropriates more funding than is currently proposed. At the April 21 hearing, UC was asked about the status of Fall 2015 admissions. UC has reported the following information regarding the current admissions process:

Continuing increase in applications. A total of 193,873 students applied for admission to the University of California for Fall 2015, an overall increase of 5.8 percent over Fall 2014 and the eleventh consecutive year in which UC reported an increase in applications. All nine undergraduate campuses saw gains, ranging from 5.3 percent at San Diego and Santa Barbara to 14.1 percent at Merced. Freshman applications system-wide increased by 6.5 percent, while the number of transfer applications increased by 2.6 percent.

Among California students who applied for admission as freshmen, UC experienced growth of 3.2 percent over last year, with the total number of applicants growing to 102,994. All campuses saw increases in applications from California freshmen, ranging from 2.2 percent at Santa Barbara to 14.8 percent at Merced. On average, California students applied to approximately four UC campuses. There were also increases in the number of domestic nonresident (from 26,143 to 30,517) and international (from 22,546 to 24,635) applicants for freshman admission.

UC experienced slight growth in applications (from 29,311 to 29,736) from students who reported a California Community College as their last school attended. Only San Diego reported a decline in the number of transfer applications.

	Number of Applications			2013-14	2013-14	2014-15	2014-15
	2013	2014	2015	+/- #	+/- %	+/- #	+/- %
Freshman							
California	99,129	99,761	102,994	632	0.6%	3,233	3.2%
Out-of-State	21,970	26,143	30,517	4,173	19.0%	4,374	16.7%
International	<u>18,659</u>	<u>22,546</u>	<u>24,635</u>	<u>3,887</u>	<u>20.8%</u>	<u>2,089</u>	<u>9.3%</u>
Total	139,758	148,450	158,146	8,692	6.2%	9,696	6.5%
Transfer¹							
California	29,740	29,117	29,389	-623	-2.1%	272	0.9%
Out-of-State	959	995	1,134	36	3.8%	139	14.0%
International	<u>4,310</u>	<u>4,710</u>	<u>5,204</u>	<u>400</u>	<u>9.3%</u>	<u>494</u>	<u>10.5%</u>
Total	35,009	34,822	35,727	-187	-0.5%	905	2.6%
Total							
California	128,869	128,878	132,383	9	0.0%	3,505	2.7%
Out-of-State	22,929	27,138	31,651	4,209	18.4%	4,513	16.6%
International	<u>22,969</u>	<u>27,256</u>	<u>29,839</u>	<u>4,287</u>	<u>18.7%</u>	<u>2,583</u>	<u>9.5%</u>
Total	174,767	183,272	193,873	8,505	4.9%	10,601	5.8%

UC has placed thousands of California residents on waitlists this year. Most UC campuses have placed students on wait lists. UC has stated it intends to hold California resident enrollment at 2014-15 levels unless the state provides additional funding above the Governor's proposed augmentation (\$119.5 million General Fund, or 4% above current levels.) Thus, waitlisted students may be admitted to UC after the state's 2015-16 budget is finalized.

STAFF COMMENTS/QUESTIONS

A zero-based budget review of an entity as complex as UC will take more than a few months. However, the Subcommittee has been able to take a much deeper look at UC budgeting and enrollment issues this spring than the normal budget process typically allows. Staff provides the following analysis based on what has been learned so far:

Core Fund expenditures grew, but spending increases were consumed by other costs and did not lead to significant resident enrollment growth or improved academic quality. During a period of fluctuating state support for UC, Core Fund expenditures grew at a much higher rate than inflation – 27%. UC increased revenue through increased tuition, nonresident supplemental tuition, and other sources, such as philanthropy, patent royalty income and indirect cost recovery from federal and state grants and contracts.

UC states that it faced many increased costs during this period that consumed a larger share of its budget. Retirement costs are the most notable: Core Fund spending on the UC Retirement Program (UCRP) essentially went from \$0 to \$388 million during this period. UC also notes that tuition increases did not directly replace state funding losses, because UC sets aside one-third of tuition revenue for its institutional financial aid programs.

Thus, as the chart below indicates, UC spending increases did not correlate with significant increased access for California residents. Overall, enrollment growth during this period was 12%, but enrollment of California undergraduates was only 4%. It should also be noted that during this time period, the percent of tenured and tenure-track faculty decreased at most campuses and student-faculty ratios worsened. In short, UC Core Fund spending increases during this period were less focused on improving the core educational mission and more focused on other cost drivers.

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	% Change, 2007-08 to 2014-15
UC Core Funds (in millions)	\$5,427,851	\$4,980,495	\$5,719,890	\$5,921,179	\$6,087,315	\$6,244,600	\$6,622,008	\$6,909,878	27%
State Support	\$3,694	\$2,942	\$3,241	\$3,703	\$3,161	\$3,286	\$3,610	\$3,872	5%
Resident Undergraduate Enrollment	152,096	157,470	160,170	160,153	159,211	157,614	156,944	158,341	4%

Note: State Support includes State General Fund payments to UC main appropriation and State General Fund support of Cal Grant and Middle Class Scholarship program for UC students

Sources: Core Fund data from "UC Budget for Current Operations, 2015-16;" State Support and Resident Undergraduate Enrollment from Governor's Budget Summary and Governors Budgets.

UC has relied increasingly on non-Core Funds to support educational and other missions. In February, UC released a long-awaited report on the cost of educating a student. This is a critical question as the state seeks to reinvest in higher education. One of the notable issues to arise in this report is how much revenue from other sources UC uses to support educational costs. The chart below provides a breakout of educational expenditures using one of two methodologies provided by UC in the report. Note that about one-third of the funds used to educate an undergraduate student come from non-Core Funds.

Table 1 :2012-13 Expenditures for Instruction (per student) – Narrow Definition

	State General Funds	Tuition and Fees	Nonresident Tuition	Other UC General Funds	Subtotal Core Funds	All Other Funds ⁶	Total, All Funds
Blended Rate	\$6,906	\$7,309	\$1,206	\$866	\$16,286	\$7,871	\$24,157
General Campus							
Undergraduate	\$6,230	\$6,600	\$1,088	\$781	\$14,700	\$7,100	\$21,800
Graduate	\$10,615	\$11,200	\$1,854	\$1,331	\$25,000	\$12,100	\$37,100

Additionally, data provided to the Subcommittee by UC last week indicates that about 68% of non-medical center, non-academic staff are now supported by sources other than Core Funds.

Many revenue sources that are not Core Funds are restricted – they can only be used for a specific purpose. Medical center revenue, for example, is used to support medical center operations, and many private donations are tied to a specific purpose. But some of these sources clearly are not restricted, as UC has begun to rely on them more for many services. As the Legislature seeks to fund UC at appropriate levels to increase access for California students, it is important to understand all resources UC has at its disposal to support students. The Subcommittee could look at all unrestricted UC revenue sources and begin a conversation with the university about a new definition of "Core Funds."

Can UC slow the growth of managers and senior professionals? While it is true that a large portion of growth in UC administration and bureaucracy has come at the medical centers, UC data indicates a 28% increase in the Managers and Senior Professionals personnel category between 2007 and 2014 that is not related to the medical centers. This growth occurred amid the worst recession since the Great Depression. It compares to only a 3% growth in tenured and tenure-track faculty. As the Legislature looks to increase funding for UC, it seems appropriate to ask UC to refocus on its academic mission with new state dollars. The Subcommittee may wish to explore ways to ensure that increased funding support enrollment growth and academic quality, not administrative growth.

LAO analysis shows UC has higher costs than many similar universities. In its review of higher education budget issues this year, the Legislative Analyst's Office compared UC costs to other public universities with very high research activity. Costs are based on data reported to the federal government's Integrated Postsecondary Education Data System (IPEDS). The LAO concluded that six of the nine UC campuses have instructional spending per degree higher than the median of the comparison group. Notably, spending per degree at the Los Angeles campus is more than double the median of universities with medical schools, while spending per degree at the Berkeley campus is 37 percent more than the median of universities without medical schools. The LAO noted that average faculty salary for professors at UC is much higher than the average faculty salary at other public universities with very high research activity. The LAO notes that many factors could explain why faculty salaries are higher at UC. Most notably, faculty at UC likely are regarded as more desirable and therefore can command a higher salary. For instance, many UC campuses compete for faculty with wealthy, prestigious private universities, such as Harvard and Stanford. Regional differences in faculty salaries also might contribute to higher faculty salaries in California.

The LAO also found that non-instructional costs at UC were higher than similar universities. Adding in costs for research, public service, academic support, student services, and institutional support, the LAO states that UC campuses tend to have higher costs than the median. Understanding the precise reasons for higher non-instructional costs is even more challenging than for instructional costs, but some of the explanation might be similar with regards to higher salaries in California and differences in workloads.

It should be noted that LAO's comparison of UC with other high-research public universities differs from how UC – and the state – have traditionally compared UC costs. UC typically compares itself to a much smaller group of universities, and includes some private colleges as well: the University of Illinois, the University of Michigan, the University of Virginia, the State University of New York at Buffalo, as well as Harvard, Stanford, Yale and MIT.

Nonresident enrollment has impacted resident students, particularly at flagship campuses. Also, why does UC provide financial aid to nonresident students? At its April 21 hearing, the Subcommittee examined admissions and enrollment trends at all UC campuses between 2007 and 2014. The overwhelming trend during this period was the growth in admissions and enrollment of nonresidents. UC cautions that it is difficult to draw direct connections between the growth in nonresidents and its impact on Californians seeking to attend UC. For example, UC notes that the extra tuition nonresidents pay has increased services for all UC students, and UC may have cut resident enrollment without extra funding provided by the increase in nonresident enrollment.

However, it appears clear that nonresident growth at specific UC campuses – Berkeley and UCLA specifically – has coincided with decreasing resident freshman and transfer student enrollment. Nonresident growth has clearly not helped access at these flagship campuses. The chart below compares resident and nonresident applications, admissions and enrollment at Berkeley: despite receiving about 12,000 more applications from resident Californians than nonresidents, Berkeley enrolled only about 1,800 more residents than nonresidents.

Berkeley Resident Undergraduates	2007	2008	2009	2010	2011	2012	2013	2014	% Change, 2007-2014
Applications	36,258	38,907	38,007	38,757	39,142	41,209	43,255	44,622	23%
Admissions	8,974	8,665	9,005	7,417	7,231	7,409	7,073	7,267	-19%
Enrollment	3,872	3,665	3,878	3,044	2,948	3,042	3,091	3,851	-1%
Admit Rate	25%	22%	24%	19%	18%	18%	16%	16%	

Berkeley Nonresident Undergraduates	2007	2008	2009	2010	2011	2012	2013	2014	% Change, 2007-2014
Applications	9,445	11,554	13,030	14,226	16,428	23,550	27,670	32,749	247%
Admissions	1,526	1,999	1,938	3,803	4,806	4,271	5,525	5,177	239%
Enrollment	525	783	784	1,354	1,911	1,526	2,107	2,087	298%
Admit Rate	16%	17%	15%	27%	29%	18%	20%	16%	

Further, staff has learned that UC provides financial aid to some nonresident students. UC reports that it provided \$32 million in institutional financial aid to nonresidents in 2013-14. This is institutional aid that could go to resident Californians.

UC contends that it is seeking increased enrollment of nonresident students in large part due to the increased revenue nonresidents bring; it is puzzling that UC would turn around and offer financial aid to these students that reduces the revenue they produce.

There is an access crisis at UC. Based on the data discussed at the April 21 hearing, six of UC's nine undergraduate campuses – Berkeley, Davis, Irvine, UCLA, San Diego and Santa Cruz - enrolled fewer California freshmen in 2014 than they did in 2007. This is despite growth during this period in the number of high school graduates in California and the number of those graduates who took college preparatory classes.

Additionally, the Public Policy Institute of California noted that labor statistics and demographic trends point to a massive shortage by 2025 of residents with bachelor's degrees.

In short, UC is falling short in meeting demand, and the state's workforce needs are not being served. The state and UC must develop an access plan that reverses these alarming trends.

UC should consider further pension reform to cut costs. Historically, the state did provide funding for UC employer pension costs. State funding was discontinued in the 1990s, however, when UC's pension plan was overfunded – meaning the system had more than 100% of the assets needed to pay future benefits. Investment returns diminished during the Recession, however, and UC's pension costs have been climbing. While the state provided funding in 2012-13 for pension costs, and required savings attributed to UC debt restructuring to be used for pension costs in 2013-14, it has not provided routine, annual contributions.

UC officials have repeatedly requested that the state begin again to support its employer pension costs. However, as the data submitted by UC to the Subcommittee indicates, UC's pension system provides significant additional benefit than the state system, particularly for high-wage earners.

During state pension reform discussion, UC successfully lobbied to be exempt from reform. It is the only state agency not included; in fact, it is one of only a handful of public entities in this state that is exempt. UC may wish to consider further pension reform similar to state reforms. This would lessen costs and strengthen its argument that the state should contribute to its pension system.

UC's overall budget is increasingly dominated by medical centers and medical education. In 2007-08, medical centers comprised 24% of UC's overall expenditures, and health sciences education was 6% of overall spending. In 2014-15, medical center spending jumped to 29% of overall spending and health sciences instruction increased to 8%.

In contrast, general campus instruction declined from 12% of UC's budget to 11% during this same period – a period marked by 40% growth in overall expenditures. It should be noted that other expenditure categories, such as academic support and student services, also support students.

Nonetheless, medical centers are the largest expenditure in UC's complex budget, and nearly three times as large as general campus instruction. As the Subcommittee continues to examine UC's budget, it may wish to seek a better understanding of how the growth in medical center and health science instruction spending are impacting the system as a whole.

Expenditure Category (in millions)	2007-08	% of Expenditures, 07-08	2014-15 (Projected)	% of Expenditures, 14-15
General Campus Instruction	\$2,232,602	12%	\$2,909,644	11%
Health Sciences Instruction	\$1,093,839	6%	\$2,175,801	8%
Research	642,144	3%	\$709,854	3%
Public Service	222,820	1%	\$284,490	1%
Academic Support	988,693	5%	\$1,485,551	6%
Medical Centers	\$4,599,895	24%	\$7,710,698	29%
Student Services	\$536,627	3%	\$838,764	3%
Institutional Support	\$798,797	4%	\$942,062	4%
OMP	\$518,940	3%	\$614,808	2%
Student Financial Aid	\$652,005	3%	\$1,304,879	5%
Auxiliary Enterprises	\$916,476	5%	\$1,081,500	4%
DOE Labs	\$1,007,836	5%	\$790,000	3%
Other	\$4,997,284	26%	\$6,062,671	23%
Total	\$19,207,958		\$26,910,722	

UC's public budget information sometimes lacks important details. UC provides a significant amount of information on the Office of the President website about enrollment and its budget. For example, an on-line database allows the public to look up any individual UC employee and gather information on that employee's base pay, gross pay, and other compensation. Additionally, information is available on the number and types of employees at each campus.

However, UC does not offer clear information on administrative and management positions, or the funding sources associated with employee compensation. Below is an example of staffing information by personnel category available on UC's website. While there are specific breakdowns of subcategories within academic and professional support staff categories, there is not a similar breakdown of the Management and Senior Professional and Senior Management Group categories.

UNIVERSITY OF CALIFORNIA		
FULL-TIME EQUIVALENTS		
SMG & MSP, ACADEMIC AND PSS PERSONNEL		
OCTOBER 2014		
	CTO+ OSC	TOTAL UNIVERSITY
SMG & MSP		10,335.16
ACADEMIC STAFF		
ACADEMIC ADMINISTRATORS	S	767.18
REGULAR TEACHING FACULTY-LADDER RANKS	0	8,870.08
REGULAR TEACHING FACULTY-ACTING RANKS	1	61.67
LECTURERS	2	2,199.43
OTHER TEACHING FACULTY	3	6,011.28
STUDENT ASSISTANTS	4	14,600.84
RESEARCH	5	9,420.49
LIBRARIAN	6	436.74
COOPERATIVE EXTENSION	7	253.54
UNIVERSITY EXTENSION	8	205.04
OTHER ACADEMIC PERSONNEL	9	287.57
SUB-TOTAL ACADEMIC STAFF		43,113.86
PSS		
CLERICAL & ALLIED SERVICES	B	19,028.88
COMMUNICATIONS-ARTS & GRAPHICS	D	2,001.60
ARCHITECTURE, ENGINEERING & APPLIED SVC	E	1,155.34
FISCAL, MANAGEMENT & STAFF SVC	F	20,582.77
FOOD & LINEN SERVICES	C	2,774.21
HEALTH CARE & ALLIED SERVICES	H	26,843.22
MAINTENANCE, FABRICATION, & OPERATIONS	G	7,431.49
PROTECTIVE SERVICES	J	880.72
SCIENCES, LABORATORY & ALLIED SERVICES	I	5,907.08
STUDENT SERVICES	A	5,488.76
OTHER	Z	85.46
OTHER-UNKNOWN	M	271.51
SUB-TOTAL PSS		92,451.04
NONE		
NOT ASSIGNED		.60
TOTAL		145,900.66

Staff has spent considerable time this Spring working with UC to obtain further breakdowns of the management and executive personnel categories, as well as the funding sources for employees. Much of that information is presented in this agenda; some of it was provided just last week.

This information could and should be more easily accessible, and would allow for a more informed discussion among stakeholders about the UC budget.

Suggested Questions

How many California residents seeking admission to UC in Fall 2015 are on a wait list?
What is the timeline for decision-making going forward?

What strategies could UC employ to reduce growth in manager and senior professional positions?

How has increased medical center funding impacted UC?

What types of non-Core Funds is UC using to support its educational mission? Is UC willing to discuss the definitions of UC General Funds, or Core Funds, to better reflect its expenditures?

Does UC believe it must increase spending to compete with elite private universities?

Which campuses are seeking to increase nonresident student enrollment in 2015? How will that impact resident students?

Why would UC provide financial aid to nonresident students?

Would UC be willing to expand the information it provides to the public on its budget to ensure better understanding of personnel and other costs?