March 22, 2010

The Honorable Denise Moreno Ducheny
Chair, Joint Legislative Budget Committee
State Capitol, Room 5035
Sacramento, California 95814

Dear Senator Ducheny:

Pursuant to Item 6440-001-0001, Provision 10, of the 2009 Budget Act, enclosed is the University of California's report to the Legislature on 2009-10 Academic Year Enrollment Goals.

If you have any questions regarding this report, Associate Vice President Debora Obley would be pleased to speak with you. She can be reached by telephone at (510) 987-9112, or by e-mail at Debora.Obley@ucop.edu.

With best wishes, I am,

Sincerely yours,

[Signature]
Mark G. Yudof
President

Enclosure

cc: The Honorable Gloria Romero, Chair
Senate Budget and Fiscal Review Subcommittee #1
(Attn: Ms. Seija Virtanen)
(Attn: Ms. Cheryl Black)
The Honorable Wilmer Amina Carter, Chair
Assembly Budget Subcommittee #2
(Attn: Ms. Sara Bachez)
(Attn: Ms. Amy Rutschow)
Ms. Ana J. Matosantos, Director of Finance
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Mr. Gregory Schmidt, Secretary of the Senate
Ms. Diane Boyer-Vine, Legislative Counsel
Ms. Sara Swan, Department of Finance
Joint Legislative Budget Committee (18)
Interim Provost and Executive Vice President Lawrence Pitts
Executive Vice President Nathan Brostrom
Vice President Patrick Lenz
Vice President Judy Sakaki
Associate Vice President and Director Steve Juarez
Associate Vice President Debora Obley
Executive Director Jenny Kao
Report on 2009-10 Academic Year Enrollment Goals

March 2010
Legislative Report

UC is not just an institution of higher learning. Here, research aims higher. Service reaches higher.

A higher level of excellence calls for a higher commitment.

UNIVERSITY of CALIFORNIA
The following report is forwarded in compliance with Item 6440-001-0001, provision 10, of the Budget Act for 2009, which states in part:

“10. The University of California shall report to the Legislature by March 15, 2010, on whether it has met its 2009-10 academic year enrollment goals.”

The University’s current estimates, based on state-supported summer and fall term census data and estimates of winter and spring term enrollments, indicate that UC will enroll a total of 232,540 FTE students during the 2009-10 academic year, including 213,880 California resident students and 18,660 nonresidents. The University currently enrolls more than 15,000 FTE students over the University’s budgeted enrollment target in 2007-08, the last time the State provided funding for enrollment growth.

This unfunded enrollment represents a cost of more than $165 million. Underfunding has consequences for the quality of the academic program, as resources – faculty, instructional equipment, library services – are diluted over a greater number of students. The magnitude of underfunding currently experienced by the University has put a severe strain on resources, particularly at a time when budgets are being cut.

### University of California

#### 2009-10 Estimated Actual Full-Time Equivalent Enrollment

<table>
<thead>
<tr>
<th>General Campus and Health Sciences, including State-supported Summer Enrollment</th>
<th>Budgeted</th>
<th>Estimated Actual</th>
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<tr>
<td><strong>General Campuses:</strong></td>
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<tr>
<td><strong>Academic Year</strong></td>
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<td>Undergraduate:</td>
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<td><strong>TOTALS</strong></td>
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<td>Resident</td>
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<tr>
<td>Nonresident</td>
<td>17,800</td>
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</table>
The Master Plan and UC Enrollment Planning

The California Master Plan for Higher Education calls for UC to offer access to all eligible applicants in the top 12.5% of the state’s high school graduating class who choose to attend, though not necessarily at the campus or in the major of first choice. In addition, the Master Plan calls for UC to guarantee a place for all California Community College transfer applicants who meet eligibility requirements. To enable the University to fulfill these access provisions, the Master Plan calls for the State to provide adequate resources to accommodate this enrollment. The University remains committed to the Master Plan as the foundation for one of the finest higher education systems in the world. The interests of the state, its citizens, and the higher education segments in California have been well served by the Master Plan for nearly 50 years.

Framers of the Master Plan also envisioned maintaining or enhancing the proportion of graduate student enrollment at UC. The University has embarked on a multi-year initiative to re-balance the proportion of graduate and undergraduate students enrolled to better meet state workforce needs. For several decades, a compelling State priority has been placed on providing undergraduate access for the rapidly growing high school graduate population. However, adherence to this priority has not been without some consequences for the overall academic balance of the University and its impact on the state’s supply of highly-skilled workers needed in California’s knowledge-based economy. While the University has expanded access for undergraduates, enrollment of graduate and professional students has not always kept pace, as was intended in the Master Plan. In the next decade, the state’s need for highly-skilled and specialized workers produced by UC graduate and professional programs will require continued enrollment growth at the graduate level.

UC’s long-term enrollment projections are based on consideration of four primary factors:

- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (Consistent with the Master Plan, the University establishes eligibility criteria designed to identify the top 12.5% of the high school class, but in recent years about 8% actually enrolls);
- assumptions about community college transfer rates, consistent with the University’s goal to continue to improve these rates; and
- increases in graduate and professional enrollment needed to meet workforce needs in academia, industry, and other areas.

The University’s 1999 long-term enrollment plan called for annual enrollment growth of about 5,000 FTE through 2010-11 (or about 2.5% per year), in part to accommodate the extraordinary growth in high school graduates that would occur during this period. Between 2000 and 2008, the number of California public high school graduates was estimated to have grown by 17%, as shown in Display 1.
Display 1: Actual and Projected California Public High School Graduates

The number of California public high school graduates has grown rapidly (by 55%) over the last two decades, peaking in June 2008. Current projections indicate that numbers of graduates will decline slightly in 2009 and further over the next ten years (by 4% over the period). Near the end of the decade, high school graduate numbers are expected to begin growing again, as evidenced by growth in elementary school enrollments occurring at present.

At the beginning of this decade, the University experienced far more rapid enrollment growth than projected in the 1999 plan, averaging closer to 8,000 FTE per year (upwards of 4% per year) rather than the 5,000 FTE enrollment growth projected earlier. The Compact with the Governor negotiated in 2004 called for UC to return to its earlier estimates of 2.5% enrollment growth per year, which allowed the University to resume enrolling students at levels near those envisioned in the 1999 plan.

In 2008, the University extended its enrollment projections through the next decade. In recent years, numbers of California high school graduates have reached all-time high levels. During this next decade, the Department of Finance projects that growth in high school graduates will abate. Although numbers of high school graduates will stabilize over the next decade, UC projected continuing undergraduate growth at a modest rate. In the next few years, growth would occur as the large high school classes cycle through higher education either as freshman or CCC transfer entrants. In later years, undergraduate enrollment would continue to grow modestly to expand opportunity to populations historically underserved by higher education. UC would take advantage of slower growth in high school graduates to offer opportunities to a broader group of California students. UC would also take advantage of smaller numbers of high school graduates to raise the proportion of undergraduates who enter as community college transfers, closer to the 2:1 ratio put forth in the Master Plan. At present, the University enrolls 2.4 new freshmen for every transfer student.

According to the 2008 projections, UC would also grow at the graduate level both to meet the state’s needs for highly-skilled workers and to provide graduate education for the Tidal Wave II generation now in college. As the state’s economy continues to shift toward jobs requiring advanced education, California will need to fill more than a million new positions requiring graduate degrees by 2025—a 68% increase from 2005. Among potential students, there is no shortage of demand for a UC graduate degree. More than 75% of UC undergraduates aspire to graduate school and there are many more qualified applicants to UC graduate programs than can be admitted. Most UC graduate students plan to remain to live and work in California. Expanding graduate education at UC would fuel economic growth and social mobility.
Budget and Capital Resources
March 2010

Funding for Enrollment Growth
Funding from the State, combined with student fee revenue, provides the base of support allowing the University to hire the faculty to teach new students and provide the instructional, academic and other support activities that make up the quality educational experience offered to UC students. State funding for enrollment growth is based on the per-student marginal cost of instruction agreed-upon by UC, the Department of Finance, and the Legislative Analyst (approximately $11,000 in 2008-09). This measure is intended to capture all of the costs that are normally incurred in instructing students. It includes direct costs such as the costs of faculty salaries and benefits at a student-faculty ratio of 18.7:1, teaching assistant salaries, and instructional equipment. It also attempts to include the added indirect costs of the increased workload associated with more students. These include the additional needs for student and library services and additional costs for maintenance due to expansion of facilities to accommodate enrollment growth.

Funding for enrollment growth consistent with the Higher Education Compact was included in the 2005-06, 2006-07, and 2007-08 budgets, and the University’s budgeted enrollment grew by slightly more than 15,000 FTE students. In developing the 2008-09 and 2009-10 Governor’s Budgets, the Department of Finance first “funded” a normal workload budget consistent with the Compact, including funding for 5,000 FTE enrollment growth, and then proposed reductions to those workload budgets to address the State’s fiscal situation. Thus, no funding for enrollment growth was provided during 2008-09 and 2009-10.

Since the Compact was established, the University’s actual enrollments grew more quickly than planned due to strong demand for a UC education among increasing numbers of California high school graduates. In 2006-07, the University was over-enrolled by 3,636 students. Over-enrollment grew to 5,565 in 2007-08. Due to earlier over-enrollment, growing numbers of continuing students, the largest entering undergraduate classes in UC history, and the inability of the State to provide funding for enrollment growth, the number of unfunded enrollments in 2008-09 grew to more than 11,000, and in 2009-10 to over 15,000 California resident students.

2008-09: Accommodating Students During a Period of Uncertainty
The timelines of the undergraduate application cycle and the State budget process conflict, making enrollment management difficult. The Governor releases his budget proposal, including recommendations for enrollment growth, in early January, well after students have applied for fall admission. Campuses admit new students before legislative hearings are completed and admitted students must notify the University of their intention to enroll long before the State budget is approved and signed. As a result, the University, students, and their families must make decisions about application, admission, and financial support before complete information about the State’s support for enrollment at UC is known.

As prescribed in the Compact, funding for enrollment growth of 5,000 FTE was initially included in the Governor’s 2008-09 budget proposal; however, this funding was effectively eliminated by a $331.9 million unallocated reduction in General Funds. The 2008-09 Governor’s budget proposal was only the second one in recent history that did not contain funding to accommodate enrollment growth. When the Governor released his proposal in January 2008, University leadership knew that final decisions on the budget would likely occur during the summer, well after the University had made admissions decisions, and admitted students had made their own decisions about where to enroll. With no new State funding to support enrollment growth included in the proposed budget, the University faced a difficult decision. In keeping with its commitment to the California Master Plan and undergraduate applicants who had worked hard to become eligible for admission, the University made a decision to ask campuses, to the best of their ability, to implement those enrollment growth increases that had been included in the Governor’s Budget before the 10% cut was taken.
2009-10: Curtailing Enrollment to Reflect Available Resources

For 2009-10, the University asked the State to return to the enrollment plan envisioned in the Compact and provide funding both for the enrollment growth occurring in 2008-09 as well as growth planned for 2009-10, for a total of 10,814 FTE students. At their November 2008 meeting, the Regents warned that if the State was unable to provide resources to support the University’s budget needs and to meet the enrollment demand for the University, the University would take steps to curtail enrollment growth.

As in 2008-09, the Governor’s 2009-10 budget proposal first “funded” the workload budget required by the Compact, but then assigned a cut equal to the base budget adjustment and enrollment funding. Following the release of the Governor’s proposal, the University took action to slow enrollment growth by reducing the number of new California resident freshmen enrolled by 2,300. To accomplish this, fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation at Riverside and Merced. This meant students had fewer campus choices for accommodation at UC and, in many cases, chose to pursue their education elsewhere. The actual reduction of 2,136 new freshmen has resulted in freshman enrollments that are below those of recent years, but still higher than enrollments in the early part of the decade. Sustaining freshman reductions over time will help bring total enrollments closer to resource budgets.

This freshman reduction was partially offset by a planned increase of 500 California Community College transfer students. The University took this action in order to preserve the transfer option in difficult economic times. Actual growth in transfer enrollments of 775 students in 2009-10 and additional increases in subsequent years would continue the expansion of this path to a UC education for students who are unable or choose not to attend UC as freshmen. Even as growth in high school graduates stops, the number of prospective transfer students will continue to grow over the next several years as large high school graduating classes who attended community colleges begin transferring to UC.

It is important to understand, however, that a reduction in the 2009-10 entering class has not been sufficient to bring actual enrollments to a level consistent with budgeted resources. While these actions have slowed enrollment growth in 2009-10, total enrollments grew modestly due to the built-in growth in continuing students; incoming classes remain larger than outgoing graduating classes, resulting in growth in total enrollments from one year to the next. Moreover, total enrollments will remain above the 2007-08 budget target without further reductions in new student enrollments. The University is committed to bringing enrollments in line with resources. This remaining over-enrollment may be addressed by renewed State support for enrollment in the coming years. If no new State support is provided, further reductions in new student enrollments will be necessary.

2010-11: Planning for Further Decreases

The University’s budget request to the State for 2010-11 called for funding for 14,000 students currently enrolled but unfunded by the State. The estimate of unfunded enrollment has been revised to more than 15,000 FTE since that time. The University indicated that if the State did not fund the enrollment request, UC would be forced to continue on a path of reducing enrollments to a level more consistent with available resources in order to preserve quality. For 2010-11, this would mean further restricting the enrollment of new California resident freshmen in 2010-11 by an additional 2,300 students, for a total decrease in the incoming class of 4,600 from the number enrolled in 2008-09. In addition, California resident transfer targets would increase slightly to preserve access to the University in difficult economic times.
The Governor’s Budget proposal, released in January 2010, includes funding for 5,121 FTE students at a per-student marginal cost rate of $10,011, but this funding is tied to the assumption that the State will receive federal funds to support programs in areas other than higher education. The Governor also assumed that a one-time reduction of $305 million contained in the 2009-10 budget would be restored and that UC would use some of the revenue generated from recent fee increases to fund an additional 6,400 FTE students, in effect “re-benching” the University’s State-funded budgeted enrollments. The University’s State-funded budgeted enrollment target would rise from the 2007-08 level of 198,455 to 209,977 in 2010-11 under the Governor’s proposal.

Because of the precarious nature of the State budget and the lengthy process that will occur before a final budget act is enacted, the University plans to proceed cautiously with respect to enrollments. Instead of reducing freshmen by another 2,300 students in 2010-11, the University’s targeted reduction will be 1,500 students. And instead of an increase of 250 transfer students, the University will attempt to enroll an additional 500 students. The decision to reduce enrollment by 1,500, rather than by another 2,300, new freshmen reflects the commitment with which the University views its mission to provide opportunity for California’s most promising students.

A two-year systemwide decrease of 3,800 freshmen brings each campus except Merced below 2008-09 actual freshmen enrollments. At the same time, the transfer path will be expanded by nearly 1,000 students in this time.

**Display 2: Actual and Projected Enrollments of New Freshmen and Transfer Students under the Proposed Curtailment**

*In 2009-10, facing a second year without new funding to support enrollment growth as well as significant budget reductions, the University made the decision to reduce enrollment of new California resident freshmen by 2,300 students. For 2010-11, the University plans a further reduction of 1,500 students, for a total two-year reduction of 3,800 students. Reductions in freshmen are being offset by an increase in new California Community College transfers by 1,000 students over two years. In subsequent years, if these actions were sustained over time, total enrollment would decline and reach a level closer to the budgeted enrollment target that existed in 2007-08.*
A two-year reduction in new freshman enrollments of 3,800 and the proposed offsetting increase of 1,000 transfer enrollments would result in a modest decrease in total enrollment starting in 2010-11. In subsequent years, total enrollment would decline and reach a level closer to the budgeted enrollment target that existed in 2007-08.

Built-in Growth Precludes Immediate Decrease in Total Enrollment
An important component of UC’s over-enrollment is that built-in growth in continuing students is compounding the problem. If entering class sizes are consistent from year to year, graduates of one cohort will be replaced by an entering cohort of the same size, and the total number of students will remain constant. But if in the size of the entering cohort changes, effects will be felt until the class sizes restabilize. Because of the significant increases in the sizes of the new undergraduates classes through 2008-09, entering classes have been larger than the graduating classes they are replacing, and the University’s total enrollment has continued to grow. As shown in Display 2, from the early 2000s through 2005-06, freshman enrollments held at around 32,500 students annually. However, from 2006-07 through 2008-09, the number of freshmen increased dramatically, peaking at more than 37,500. The growth in total enrollment in 2008-09 was due mostly to this built-in growth, rather than one-year increases in the numbers of new students – the freshman class that entered in 2008-09 was only about 1,300 students larger than the 2007-08 class. More importantly, though, the new class was nearly 7,000 students larger than the Fall 2004-05 class, most of whom graduated in June 2008. In order to slow enrollment growth and reduce total enrollment to a level more in line with available resources, the University has to reduce the size of entering freshman classes over several years.

Impact of Unfunded Enrollment on Quality
Underfunding of enrollment affects the quality of UC’s academic programs. Without State support for enrollment growth, the University cannot hire sufficient faculty, increase course offerings, expand its inventories of instructional equipment and library materials, maintain new facilities at appropriate levels, or maintain appropriate ratios of support personnel per student. Instead, UC must expand class sizes, force students to wait additional terms for courses and wait longer for services, and do more with the same level of resources – faculty, staff, equipment, and materials. Thus, while some of the impact of budget cuts has resulted in actual program reductions, staff layoffs, and other curtailment of resources, some of the impact of budget cuts is being addressed through cost avoidance, simply spreading flat marginal funding over a greater number of students. In this way, the University dilutes the
resources available, and the quality of the educational experience for students enrolled declines. These actions are necessary in a crisis, but cannot be sustained over time. The University will need to bring enrollment more into line with resources, either through adequate State funding in the budget each year, or through a multi-year plan to reduce enrollment.

Decreased quality impacts not only the students currently enrolled, but also has implications for the economic recovery of the state. Without the resources to adequately fund programs, the University is forced to limit access in fields critical to the state’s economy (e.g., health sciences). Moreover, the University’s ability to attract and retain high quality faculty is impaired. Faculty are not only the lifeblood of the University’s academic programs, they also drive the discovery of new knowledge and the development of innovation that leads in turn to the creation of entire industries, as well as train the workforce California businesses need to compete in a global economy. Reducing the University’s ability to carry out its missions of teaching and research represents a disinvestment in the future of the State as much as well as the University.

Impacts of the Proposed Plan on Prospective Students

Despite the actual and planned reduction in numbers of new freshmen, UC continues to offer a place to every UC-eligible California resident applicant. Early counts of applications for undergraduate admission indicate modest growth in freshman applications for Fall 2010. Between 2009-10 and 2010-11, reductions will be made at each campus with the exception of the Merced campus, which will grow at a modest rate consistent with available resources. This is necessary not only to sustain the development of the Merced campus, but also to enable the University to honor its commitment to admit all eligible students.

As in 2009-10, on average, freshman applicants will receive fewer admission offers to the campuses of their choice and more eligible applicants will receive offers through the referral pool. Because UC applicants are very well qualified, they will have other opportunities and some who do not receive offers to their first-choice campus will choose to attend other institutions.

Enrollment of underrepresented minority (URM) students and students from low-income families has increased steadily in recent years as the applicant pool has become more diverse. For Fall 2009, freshman applications from underrepresented students increased from 22,068 to 23,919 and URM applicants represented 29.5% of all freshman applicants, compared to 27.6% of the total in 2008. Although the total number of underrepresented enrolled freshmen declined by 121 in 2009, from 8,024 to 7,903, URM students increased as a proportion of new freshmen, from 23.3% in 2008 to 24.3% in 2009. UC estimates that had enrollment not been constrained, URM students might have increased to roughly 25% of the enrolled class. Had admission and enrollment rates from 2008 held steady in 2009, UC could have enrolled roughly 800 more URM and 1,600 more non-URM students than in 2008. These effects were partially offset by UC’s decision to enroll more transfer students. UC estimates that the higher 2009 transfer enrollment targets led to an increase of roughly 150 URM students over the number that would have been enrolled had targets remained the same as in 2008.

As mentioned earlier, the University’s intent has been, after accommodating large increases in undergraduate enrollment, to increase graduate enrollments as befits its role as a research university contributing to State needs and the State economy. The University’s enrollment plan for 2009-10 maintains the same overall level of new graduate enrollments, although some programs may experience small increases in new students.

Contact information:
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Budget and Capital Resources
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