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November 26, 2014

Director Michael Cohen
Department of Finance
915 L Street
Sacramento, California 95814


The Honorable Mark Leno
Chair, Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

Dear Director Cohen and Senator Leno:

Consistent with 2014-15 budget language, I am transmitting the University's Three-Year Financial Sustainability Plan Legislative Report. This report was discussed at the November Board of Regents' meeting, where the Board agreed to forward the report to the Governor and the Legislature as required, but with the understanding that the Board neither endorses nor approves the scenario that reflects budgetary assumptions provided by the Department of Finance. These assumptions envision resource levels that are not financially sustainable in the Board's opinion. The report includes a scenario that the Board does endorse, consistent with the University's long-range financial planning, that provides sufficient funding to continue the University's commitment to access for California residents, affordability for all students so that financial considerations should not be a barrier to attendance, and quality of the academic experience for all students who work hard enough to attend the University. The funding provided in the University's plan would also allow the University to take steps to improve further certain performance outcomes as requested by the State. We stand ready to work with you, the Governor, and other members of the Legislature on attaining a resource level that allows the University to maintain these commitments.

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.

Yours very truly,


Janet Napolitano
President

Enclosure

cc: Senate Budget and Fiscal Review
The Honorable Marty Block, Chair
Senate Budget and Fiscal Review Subcommittee #1
(Attn: Mr. Joe Stephenshaw)
(Attn: Ms. Cheryl Black)
The Honorable Al Muratsuchi, Chair
Assembly Budget Subcommittee #2
(Attn: Mr. Mark Martin)
(Attn: Ms. Amy Rutschow)

Mr. Mac Taylor, Legislative Analyst's Office
Ms. Peggy Collins, Joint Legislative Budget Committee
Mr. Daniel Alvarez, Secretary of the Senate
Ms. Tina McGee, Legislative Analyst's Office
Ms. Amy Leach, Office of the Chief Clerk of the Assembly
Mr. Jim Lasky, Legislative Counsel Bureau
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Provost and Executive Vice President Aimée Dorr
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Executive Director Jenny Kao
Deputy to Vice President Marsha Sato

Three-Year Financial Sustainability Plan

November 2014

Legislative Report



UNIVERSITY *of* CALIFORNIA

University of California Three-Year Financial Sustainability Plan

Introduction

The University of California provides a combination of access, affordability, and excellence unmatched by any other university in the world, public or private. While most states expect their public universities to offer a good education at an affordable price to those who wish to attend, California's expectation has been much higher. The investment by the State in the University of California has enabled UC to provide an education comparable to that offered by elite private universities, taught by world-class faculty, to all who work hard enough to qualify, irrespective of their social background or economic circumstances. It is this access to excellence in a public setting that sets UC apart from other major research universities and has fueled social mobility and economic prosperity for hundreds of thousands of Californians.

In its latest college survey, the *Washington Monthly* recognized this distinctive combination of diversity and academic excellence at the University of California. As the journal's editors wrote: "Strikingly, four of the top five institutions on our list are University of California campuses... The state's system has a distinct blend of size, diversity, and research excellence. By enrolling top students from a huge state with a highly varied population, UC campuses are able to balance academic excellence with scientific prowess and a commitment to enrolling low-income students that is unmatched at similar national universities."

The challenge facing the University and the State is how to build a sustainable long-term financial plan that provides the resources necessary to maintain and enhance the quality of a UC education even as the University serves a greater cross-section of California's diverse population. Failure to preserve the institution's tradition of access, affordability, and excellence at a time when more Californians from across the socioeconomic spectrum seek the opportunity to attend UC – indeed, Latinos have emerged as the largest ethnic group among UC applicants – would be a tragic departure from California's commitment to ensure access to excellence for *all* qualified resident students.

Context for the University's Sustainability Plan

The University has maintained its track record of access, affordability, and excellence despite periodic economic crises that have, over time, eroded the level of funding provided by the State for the University and its students. Since 1990-91, State funding for UC has been marked by dramatic reductions due to recurring fiscal crises followed by efforts to partially restore support. Consequently, UC receives less State funding today than it did in 2000-01 – even before adjusting for inflation or enrollment growth. Adjusted for inflation, State funding to the University has declined by over \$1 billion. Despite lagging State support, the University has met its commitment to preserve access for all eligible California residents by continuing to accommodate the growing numbers of students prepared for and seeking a UC-quality university education. UC enrolls over 70,000 more students today than it did in 2000-01, including more than 7,000 for whom the University has never received State enrollment funding.

UC has been effective in "bending the cost curve:" the University's average per-student expenditure on education has declined over the last 25 years. Some of the reduced spending by the University reflects the success of aggressive and innovative efforts to reduce costs through operational efficiencies and leveraging of UC's economies of scale. Some of the reduced spending, however, threatens the quality of core academic programs.

The Governor’s multi-year funding plan for the University provides predictability in State funds for the University – a welcome change from the erratic levels of State support that characterized much of the last two decades. Nevertheless, because State funding represents less than half of the University’s core funds, the 4% projected increase in State funding in 2015-16 equates to only a 1.7% increase in UC’s core educational budget – less than the projected level of inflation, and much less than the funding needed to cover increases in the University’s mandatory costs, to accommodate enrollment growth for California students, or to maintain and enhance the quality of a UC education.

Two Visions for the University of California

Within this context, the Budget Act of 2014 calls upon the University to develop a sustainability plan and associated projections and goals for the years 2015-16, 2016-17, and 2017-18, based upon a set of assumptions provided by the Department of Finance (DOF). The relevant statutory language appears in the appendix to this report.

Under the assumptions provided by DOF, State funding would increase consistent with the multi-year plan described above, and student charges – specifically, Tuition, the Student Services Fee, Nonresident Supplemental Tuition, and Professional Degree Supplemental Tuition – would remain fixed at 2014-15 levels.

No plan consistent with DOF’s assumptions can be meaningfully described as a “sustainability” plan. Maintaining academic excellence, expanding enrollment opportunities for California students, and preserving the affordability of a UC education for financially needy students require an investment of resources beyond those available under the DOF assumptions.

This report presents two alternative plans for the University over the next three years. The plan prepared by the University using the DOF assumptions meets the statutory requirement of the Budget Act of 2014. However, that plan depicts a future for the University that differs markedly from the University’s achievements to date. Specifically, the revenue constraints assumed in that plan would lead to dramatic reductions in:

- The number of California residents enrolled at UC, leaving UC unable to honor the Master Plan’s guarantee of access for eligible students;
- The number and percentage of UC undergraduates from low-income families;
- The diversity of UC undergraduates; and
- The number of transfer students enrolled from the California Community Colleges.

The University believes that California deserves better. The University thus proposes an alternative plan, based upon a modified set of assumptions, with very different outcomes. Under the University’s plan:

- Enrollment of California residents would increase over current levels, and UC would continue to honor its commitment to find a place for all eligible students;
- UC would remain a national leader in enrolling students from low-income families;
- The diversity of UC undergraduates would continue to increase; and
- UC could enroll and graduate a greater number of transfer students.

Both plans reflect continued efforts to maximize operational efficiencies and to control costs. The University’s plan, however, includes modest and predictable tuition increases coupled with increased funding for financial aid. The resulting revenue – which, alternatively, could be provided by the State, enabling tuition levels to remain flat or grow even more slowly – would provide the resources needed to *truly* sustain the University’s ability to serve California students. These and other elements of the University’s plan are described elsewhere in this report.

SECTION A. FINANCIAL PLAN

In developing its long-range financial plan, the University has looked carefully at the basic cost drivers of the institution and the resources available to cover those costs. The focus has been on what resources are required to sustain the University into the future. In this context, “sustain” means that the University has sufficient resources to (1) maintain the quality of the University’s core instructional programs, recognizing that a research university has resource needs quite different from other institutions of higher education that are focused more exclusively on instructional programs; (2) increase enrollment in order to maintain our historic commitment to the California Master Plan; (3) allow the University, as requested by the State, to improve its already high outcomes on critical performance measures, such as graduation rates and time-to-degree; and (4) exercise responsible stewardship of the University’s physical infrastructure that houses and supports the University’s vast array of instructional, research and public service programs.

The University’s long-range financial planning has not been driven by extravagant expectations regarding future funding; rather it has been undertaken for the purpose of identifying the funding required to preserve the institution during a time of constrained State support. The modeling of UC’s long-term funding needs is conservative for at least three reasons:

- it is based on modest assumptions about what the principal cost drivers are that the University must address;
- it is based on optimistic assumptions about how much of the major costs can be addressed through the University’s own efficiency initiatives and alternative revenues; and
- where investment in the academic program has been identified as necessary, that investment will be amortized over many years.

Expenditure Assumptions of UC’s Financial Plan

The University’s financial plan for 2015-16, 2016-17 and 2017-18 includes projected expenditures based on the following baseline expenditure assumptions:

- Annual growth of resident students of 1% over the next three years. The University estimates that this is the rate of growth needed to allow the University to continue to honor its commitment under the Master Plan to accept all eligible resident students. Specifically, the plan assumes that the University will increase its undergraduate resident enrollment by 3,075 students during the three-year period, as well as direct some funding to cover the costs of a portion of the more than 7,000 enrolled students for whom the State has never provided funding.
- Over the next three years, the University’s plan assumes modest growth in academic staff of 1% each year and no growth in non-academic staff. UC’s plan had initially assumed that non-academic staff would increase at half the rate of enrollment and faculty growth (i.e., 0.5%), which UC believes is reasonable given the expansion in enrollment and resulting workload. However, as part of the University’s commitment to continue to “bend the cost curve,” the current plan eliminates all staff growth. Holding non-academic staff growth to zero is a very challenging goal given that (1) enrollment will continue to grow during this period, and (2) UC campuses have not restored many of the significant staff reductions made over the last six years to address State budget cuts. Smaller campuses in particular have in recent years been forced to cut their non-academic staff to a degree that may be unsustainable given regulatory compliance risks and basic operating needs.
- Employer contributions to the University’s retirement system, which the State pays for every other state agency except UC, will remain at the current 14% of compensation over the three-year period. As of 2015-16, the University is paying approximately \$400 million to address these retirement costs for its core-funded employees. These costs represent the single largest factor contributing to ongoing

structural deficits at the campuses. One-time funding from debt restructuring savings of lease revenue bond debt addresses between \$85 and \$100 million of these costs on a one-time basis over the next three years, while the annual incremental costs associated with the 14% level are expected to increase by about \$60 million over the three-year period.

- While the University has assumed an average of 7% annual increases in health benefit costs for employees and retirees in its baseline modeling, its financial plan assumes that the University will take additional aggressive efforts to hold these increases to 6% in 2015-16, 5% in 2016-17, and 5% in 2017-18. Given strong cost pressures in the health care industry, achieving these levels of increase will require continued vigilance on the part of the University to control benefit costs.
- The financial plan assumes non-salary price increases of 2% in each of the next three years. In addition, the plan anticipates that energy-related purchased utility costs will increase an additional 4% above inflation in each year through 2017-18.
- The plan assumes that \$96 million will be directed over the three-year planning horizon to the Faculty Merit Program. This program is a rigorous peer review of each faculty member every two to three years to ensure that UC retains the best faculty for teaching and research. The program remains a cornerstone of UC's compensation program to recruit and retain high-quality faculty.
- The financial plan assumes modest compensation increases over the next three years equivalent to 3% each year for all staff, including represented and non-represented academic and non-academic staff. The latest faculty compensation study concluded that UC's faculty salaries are nearly 12% behind market. In the past, the University has been able to hire and retain faculty in part because of the strong benefit packages the University has offered, even as the University's comparative salary position has slipped. As the University has reduced the value of its benefit offerings, the salary lag becomes a bigger obstacle in the University's efforts to recruit and retain top talent. The proposed compensation increases are not expected to close UC's salary lag but to keep UC salaries from slipping further behind those of UC's principal competitor institutions.
- The plan includes permanent funds to meet a portion of the University's deferred maintenance needs. Addressing the deterioration of UC's aging buildings and supporting infrastructure is a very high priority of the President and the Regents, as the deferred maintenance backlog represents a growing life-safety and economic risk to the institution. With no support from the State for deferred maintenance over the last twelve years, the University can no longer delay in directing resources to address critical deferred maintenance needs.
- The plan also provides funding for the operating budget to support a modest capital program, consistent with the provisions set forth in AB 94 trailer bill language. This funding is essential to allow the Merced campus to build new facilities that will allow the campus to continue to grow and to address critical life-safety and other capital needs at the other campuses.
- The plan includes annual investments in critical elements of the academic program that have suffered as a result of recent cuts. These include improving the student-faculty ratio; funding for startup packages for new faculty, which is a major obstacle for many campuses seeking to hire new faculty; augmenting graduate student support to ensure that the level of support offered by UC is sufficient to attract the best graduate students; and enhancing undergraduate instructional support (including instructional technology, libraries, instructional equipment replacement, and building maintenance).

Projections of Available Resources – 2014-15 (base) plus 2015-16 through 2017-18

The University's financial plan proposes to address its expenditure needs over the next three years through a combination of 4% base budget adjustments in State funding, aggressive pursuit of additional operational efficiencies and alternative revenues, and either additional State funding above the 4% provided in the Governor's multi-year funding plan or 5% tuition increases as provided in the tuition and financial aid stabilization plan presented to the Regents for their approval at their November meeting.

Cost-Saving Measures, Efficiencies, and Alternative Revenue Sources Are Key to the University's Financial Plan

With the additional actions to reduce costs and expand alternative revenues as described below, the University's financial plan assumes that over a third of its expenditure needs over the next three years will be addressed through further operational efficiencies and alternative revenues.

- The plan assumes \$70 million of increased revenue over a three-year period available for operating budget purposes from philanthropy. While the University has been successful in increasing philanthropic giving, the vast majority of gifts to the University are restricted and not available to enhance the core operating budget. Achieving this goal will require the University not only to continue to increase existing levels of philanthropic support, but also to implement innovative new strategies to increase the flexibility of these funds.
- Nonresident Supplemental Tuition will continue to play an important role in the University's finances. Additional revenue is projected from increases in nonresident undergraduate enrollment (approximately 2,000 in 2015-16, 1,800 in 2016-17, and 1,500 in 2017-18), combined with increases in undergraduate Nonresident Supplemental Tuition of 5% in each of the three years.
- The plan also assumes that the University will secure additional funding for operating budget purposes from liquidity management strategies.
- In recent years, the strategic sourcing initiative has delivered substantial cost savings (much of which accrues to non-core funds). The financial plan assumes that the University will secure an additional \$20 million in permanent core fund savings from this systemwide initiative in 2015-16 alone.
- Although many campuses have experienced declines in federal research funding due to sequestration and other changes in the way federal research funding is awarded, a number of UC campuses have managed to partially mitigate the impact of these declines recently by renegotiating higher indirect cost recovery rates from the federal government, as well as by securing more nonfederal research funding. As a result of these efforts, the financial plan assumes that indirect cost recovery will remain flat during the next three-year period, despite potential decreases in federal funding for research.

A 4% Base Budget Adjustment in State Funding and a 5% Tuition and Fee Increase Will Address the Remaining Expenditures of the University's Three-Year Financial Plan

The University's financial plan for the next three years anticipates that the rest of the new expenditures will be addressed from the 4% base increases in State support (which, in 2015-16, equates to a 1.7% increase in the University's core funds for education) and a 5% tuition increase, as provided by the Tuition and Financial Aid Stabilization Plan brought to the Regents for approval at their November meeting. The tuition and fee increase could be lessened or eliminated if additional State revenue to avoid the increase is provided.

Under the Plan Based on DOF's Funding Assumptions, a Substantial Increase in Nonresident Enrollment Coupled with an Equal Reduction in California Resident Enrollment Will Be Necessary

A sustainable funding plan for the University is not realistic under the funding parameters proposed by the Department of Finance pursuant to Provision 2 of Item 6440-001-0001 of the Budget Act of 2014 (i.e., a 4% increase in the state funds portion of UC's core budget—which equates to a 1.7% increase overall—and no increase in systemwide tuition or fees). To meet the minimal funding obligations outlined in the University's three-year financial plan with no additional revenue from tuition increases or the State, the University would have no choice but to increase its reliance on alternative revenue sources. Given the additional efficiencies and alternative revenues already assumed in the University's financial plan, the only source of alternative funds that could potentially address such a large funding gap is undergraduate Nonresident Supplemental Tuition revenue resulting from a significant increase in nonresident enrollment, with a commensurate decline in California resident students.

Increasing Nonresident Supplemental Tuition revenue to address the budgetary shortfall under the DOF's funding assumptions would, by 2017-18, result in approximately 18,800 additional nonresident students compared to the University's plan, with an equivalent decline in California resident undergraduates. In combination with the 4% base budget adjustment in State funds, operational efficiencies, and other alternative revenues that are already assumed in the University's plan, the Nonresident Supplemental Tuition associated with these additional students would allow UC to meet its basic financial plan expenditure needs.

Compared to the University's plan, the plan based on the DOF's assumptions includes less revenue from tuition and fees – reducing both the need and funding for financial aid (since tuition and fees are the primary source of funds for the University's financial aid programs). Revenue from Nonresident Supplemental Tuition (net of instructional costs) is projected to grow under both plans, but the increase would be much higher under the assumptions provided by DOF. Note that under the plan based on the DOF's assumptions, expenditures that could have been budgeted for California resident enrollment growth are instead “netted out” of the Nonresident Supplemental Tuition figures shown below.

Projections of Available Resources and Expenditures in 2015-16, 2016-17, and 2017-18

	Cumulative Change from 2014-15 Base (\$M)					
	University's Plan			Plan Based on DOF's Assumptions		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Revenue						
State General Funds	\$120	\$244	\$373	\$120	\$244	\$373
Tuition and Fees (including PDST)	137	271	410	30	59	85
Tuition and Fees for Financial Aid	73	145	220	16	32	46
Nonresident Suppl. Tuition (net of instr. costs)	50	102	155	134	270	414
Other Alternative Revenue	80	125	150	80	125	150
Total	\$459	\$887	\$1,308	\$380	\$730	\$1,068
Expenditures						
Employee & Retiree Benefits (incl. UCRP & health)	\$50	\$97	\$146	\$50	\$97	\$146
Academic Merit Program	32	64	96	32	64	96
Compensation	125	257	394	125	257	394
Non-Salary Price Increases	28	57	86	28	57	86
Resident Enrollment Growth	22	44	66			
Deferred Maintenance and Capital Program	69	114	140	69	114	140
Financial Aid	73	145	220	16	32	46
Academic Quality	60	110	160	60	110	160
Total	\$459	\$887	\$1,308	\$380	\$730	\$1,068

SECTION B. ENROLLMENT PLAN

B.1 ENROLLMENT

Under the University’s plan, UC will be able to enroll substantially more California resident undergraduates over the next 3 years.¹

Despite the severe fiscal crisis, UC has maintained California resident undergraduate enrollment over the last five years. UC has done this, in part, by increasing the proportion of nonresident undergraduate students. The University has continued to meet its Master Plan obligation to offer a space to every eligible California resident who applies, though not necessarily at the campus or in the major of choice, adding nonresidents only on top of funded California enrollment. This commitment to access for Californians has resulted in UC educating a large number of students for whom no state funds have ever been provided. In the current year, over 7,000 California resident students are unfunded.

The University’s plan. Under the University’s plan, funded enrollment would rise by 1% each year to meet growing demand from Californians at both the undergraduate and graduate levels. At the undergraduate level, UC’s plan would add funding for an additional 1,450 California residents annually, resulting in annual increases of about 1,025 new students while reducing unfunded students by 425 each year. UC would adhere to its commitment to take all eligible California residents. UC would continue to make progress reducing the number of unfunded students, but would spread that out over a number of years in order to preserve access. At the end of the planning period, there would be an additional 3,075 California residents at the undergraduate level, and 1,300 previously unfunded students would be funded. Graduate and professional student enrollment, essential for California’s economy and societal needs, would also grow by about 750 per year.

Under the University’s plan, nonresident enrollment would also grow in order to fill ongoing budget gaps related in part to unfunded California resident students. However, the University would plan to moderate the rate of nonresident growth, adding fewer nonresident students than UC has added in the last four years. Specifically, the University would add 2,000 more nonresident undergraduate students in the first year, 1,800 in the second year, and only 1,500 in the third year.

The plan based on DOF’s assumptions. Under the revenue constraints imposed by the DOF assumptions, UC would need to fill the resulting funding gap by reducing California resident enrollment and further increasing nonresident enrollment. These changes would be significant. To fill the revenue gap, UC would have to not only forego expanding California resident enrollment; it would also have to reduce California resident enrollment by 15,732 students from the current level over three years. UC would no longer be able to fulfill its Master Plan commitment to admit all eligible Californians.

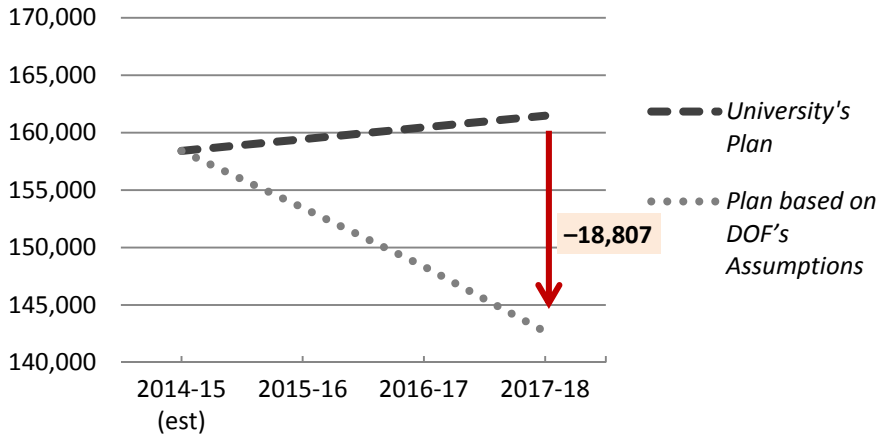
Differences in the plans. At the end of the three-year period covered in this plan, the University’s plan would result in an additional 18,807 California resident undergraduate students enrolled *above* the number projected using the plan based on DOF’s assumptions and 18,807 *fewer* nonresident enrollments. The proportion of nonresidents would increase to 25 percent under the plan based on DOF’s assumptions, but only to 15 percent in the University’s plan.

Enrollment Projections Under the Assumptions Provided by DOF and the University’s Plan

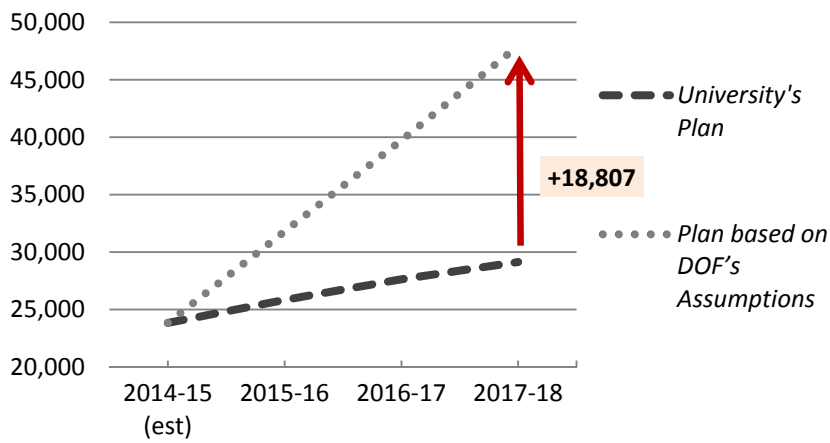
Academic Year FTE	estimated 2014-15	<i>Plan based on DOF’s assumptions</i>				<i>University’s Plan</i>				<i>Difference between DOF and UC</i>
		2015-16	2016-17	2017-18	change	2015-16	2016-17	2017-18	change	
CA res UG	158,410	153,465	148,354	142,678	- 15,732	159,435	160,460	161,485	+ 3,075	- 18,807
Nonresident UG	23,832	31,802	39,738	47,939	+ 24,107	25,832	27,632	29,132	+ 5,300	+ 18,807
% nonresident ugrads	13%	17%	21%	25%	+ 12%	14%	15%	15%	+ 2%	+ 10%
Graduate/ Prof	49,892	50,642	51,392	52,142	+ 2,250	50,642	51,392	52,142	+ 2,250	0

¹ Tables in this document depict current and projected academic year enrollment figures, which do not include undergraduate summer enrollment.

California resident undergraduate enrollment



Nonresident undergraduate enrollment



B.2 ENROLLMENT — UPPER DIVISION CCC TRANSFERS

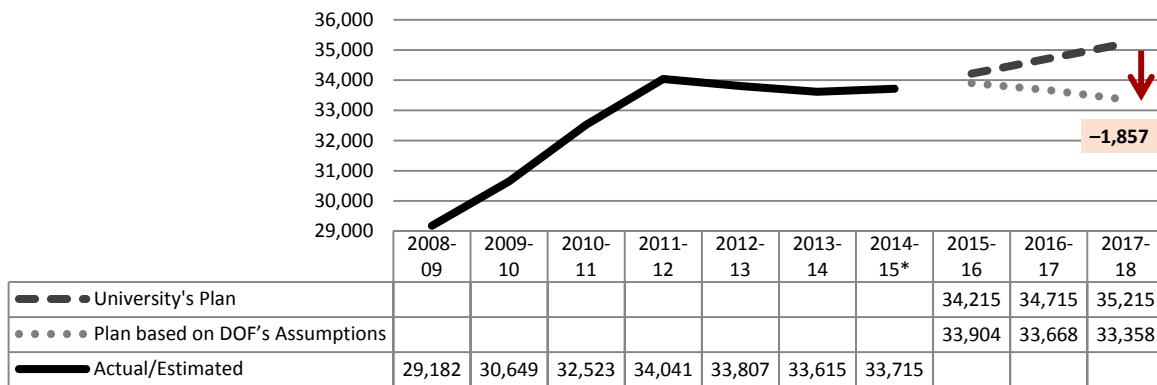
Under the University’s plan, the number of transfer students will increase.

Supporting California Community College transfers is fundamental to the University’s mission. From 2008-09 through 2011-12, UC increased both the proportion and the number of new transfer students enrolled. This trend has reversed in recent years due to lack of funding for new enrollment as well as declining transfer applicants—which reflect enrollment reductions at the community college level during the state’s economic crisis. It is expected that demand from community college transfer applicants will begin to grow again, as a result of substantial new funding directed to the California Community Colleges over the past two years.

In recognition of the importance of providing access for CCC students to the UC system, President Napolitano launched a transfer initiative to identify ways to broaden access, ease the transfer pathways, and improve educational outcomes for transfer students. Under the University’s plan, which allows for increased enrollment of new California students, UC would be able to make progress on these goals. Enrollment increases would allow the University over time to increase the number of transfer students admitted without negatively impacting freshman access. Under these assumptions, upper-division CCC transfer enrollment would increase by about 500 students per year.

Under the plan based on DOF’s assumptions, which includes no funding for additional enrollment, enrollment of California residents would decline. Because nonresidents are more likely than Californians to enter as freshmen, the number and proportion of enrolled upper-division CCC transfers would decline as well.

Upper-division transfer students enrolled annually from the California Community Colleges (CCC), FTE



Upper-division transfer students enrolled from the CCC as a proportion of all undergraduates, FTE



Note: 2014-15 are estimates. Excludes the summer term. Source: UC Corporate Student System. Upper-division CCC transfer students are those who enter UC from a California Community College with junior or senior standing. Postbaccalaureate teaching credential students are not counted as undergraduates.

B.3 ENROLLMENT — LOW-INCOME UNDERGRADUATES

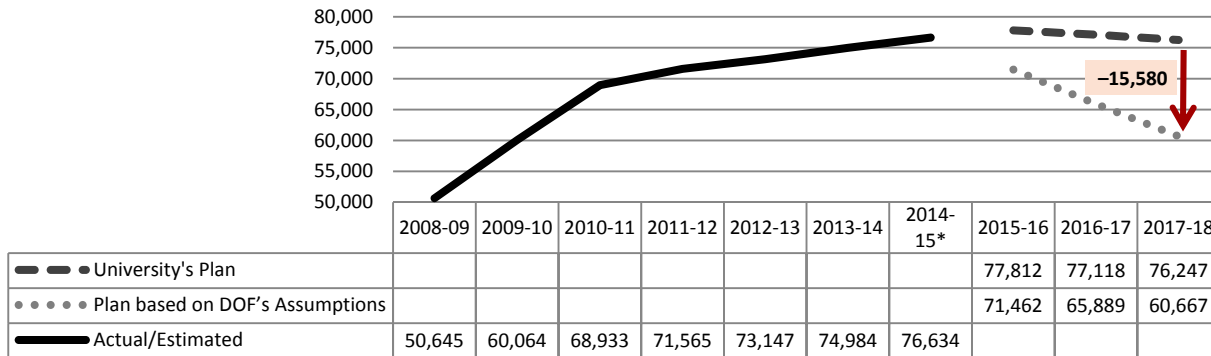
Under the University’s plan, UC’s commitment to access for low-income students will be undiminished, although enrollment of low-income Pell-eligible students may decline slightly as a result of changes in the economy.

The University’s track record for enrolling low-income students is unmatched by other research universities and is a strong engine for social mobility and economic equity in the state. The significant growth in Pell grant recipients shown below reflects a combination of admission policies that seek out highly talented students from disadvantaged backgrounds, a robust financial aid program which keeps UC financially accessible for low income students, the poor economy (which lowered families’ income and hence made more students eligible for Pell grants), and changes to the federal Pell program that expanded eligibility to more students.

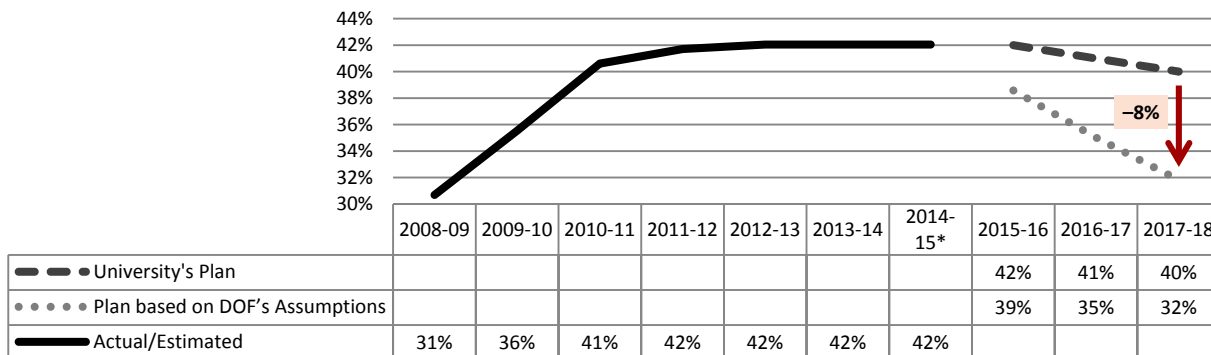
Trends in the number of Pell-eligible students can reflect both changes in the economy and changes to Pell program requirements. As a result, change in the enrollment of Pell grant recipients *over time* is an imperfect measure of accessibility for low-income students. For example, UC projects that the number and proportion of Pell-eligible students will decline slightly at UC (and nationally) in the coming years even though, under the University’s plan, total enrollment will increase. This change is entirely due to the ongoing economic recovery, which should result in higher family incomes generally. This is good news and does not reflect any reduction in the University’s financial accessibility or commitment to students from low-income families.

Under the plan based on DOF’s assumptions, the enrollment of California residents would decline significantly and nonresident enrollment would grow at a faster rate. Since nonresident students tend to be wealthier than California students and include many international students who are not eligible for federal aid, nonresidents are less likely than California residents to qualify for Pell grants. As a result, the University anticipates a much larger decline in the number and proportion of Pell grant recipients under the plan based on DOF’s assumptions.

Undergraduate Pell grant recipients enrolled annually, FTE



The proportion of undergraduate Pell grant recipients enrolled annually



* 2014-15 are estimates.

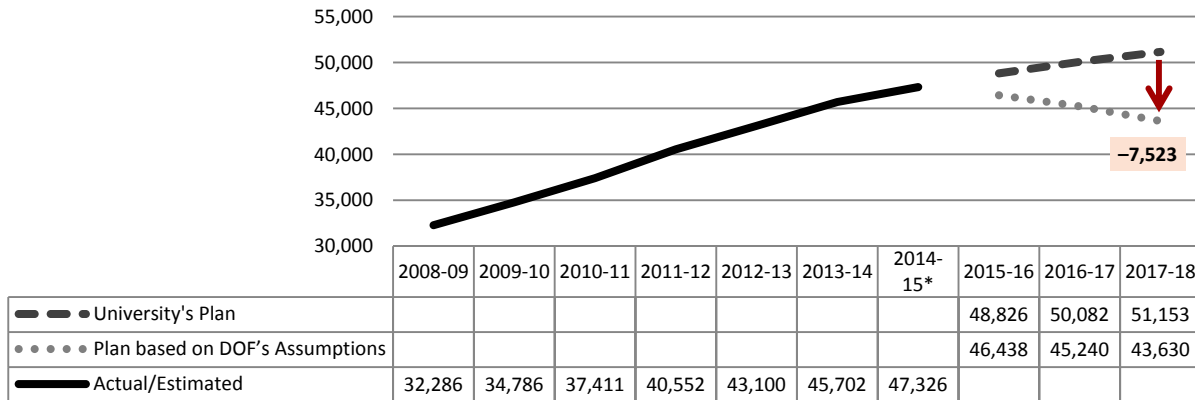
B.4 ENROLLMENT — UNDERREPRESENTED MINORITY UNDERGRADUATES

Under the University’s plan, UC will be able to enroll more California resident undergraduates, who are more likely to come from underrepresented groups. This enrollment growth will provide greater opportunities for populations like Latino students, who are growing rapidly in number and whose levels of academic preparation are also rising.

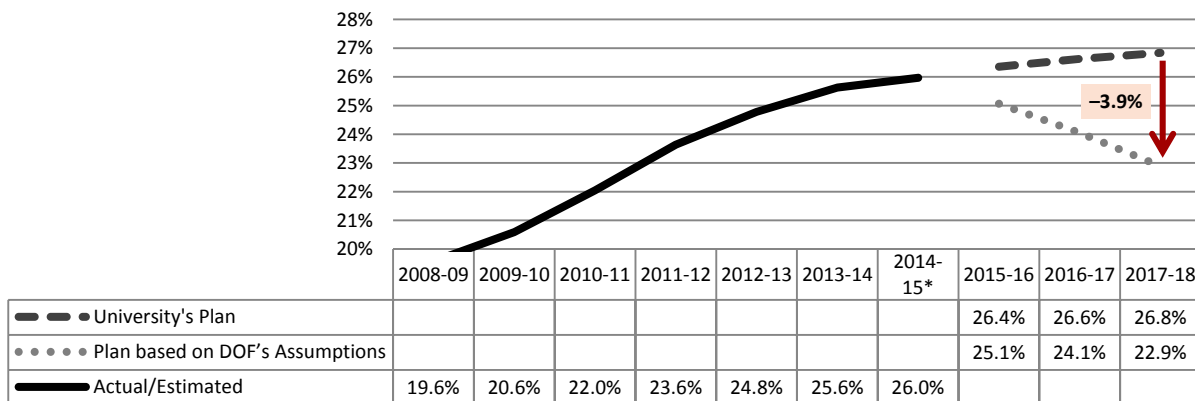
Undergraduate students from underrepresented minority groups (African American, Latino, and American Indian) have been steadily increasing in numbers and in share at UC even as, in the past few years, enrollment growth has slowed in response to the lack of funding for new enrollment. Under the University’s plan, UC will be able to increase access for California students and underrepresented students are likely to increase in both number and proportion.

Under the plan based on DOF’s assumptions, the enrollment of California residents would decline significantly. When combined with the increasing proportion of nonresident students, this would lead to declines in both the number and proportion of underrepresented students enrolled at UC.

Undergraduate underrepresented minorities enrolled annually, FTE



The proportion of undergraduate underrepresented minorities enrolled annually



* 2014-15 are estimates.

Excludes the summer term. Source: UC Corporate Student System

SECTION C. PERFORMANCE METRICS

Introduction

The text and tables on the following pages display the outcomes the University projects would be associated with the different financial and enrollment assumptions described in the sections above. Most of these metrics move very slowly. For example, degree completions associated with enrollment growth will not be reflected until after a minimum of two years for transfer entrants, and after four years for new freshmen. Similarly, program enhancements designed to increase graduation rates cannot show immediate results because the cohorts that benefit from these programs are often early in their student careers. In some cases, it is even possible that indicators will move in the opposite direction for several years after a positive change is implemented because earlier cohorts will continue to exhibit outcomes based on conditions that existed in previous years.

Greater levels of funding assumed under the University's plan will be used to support improvements in academic quality that are expected to lead to positive outcomes in degree completions, graduation rates, and time to degree. These improvements, however, will not be manifest in the time period covered by these metrics. Students who will graduate between now and 2017-18, the last year covered in these metrics, are nearly all already enrolled and most of them are well advanced in their academic programs.

The University carefully tracks graduation rates and degree completions and works at all levels to produce improvements in these metrics.

C.1 STUDENT SUCCESS — FRESHMAN AND TRANSFER GRADUATION RATES

Graduation rates for both freshman and transfer entrants at UC have been rising steadily in recent years. Absent program improvements, UC expects the rate of increase to slow because several campuses have reached rates that leave little room for dramatic improvements, and the improvements that will be achieved will come more slowly. In addition, as noted earlier, most of the students who will graduate during this three-year period are already enrolled and improvements in the academic programs on the campuses will have only a marginal effect on their outcomes.

Nonetheless, UC's campuses continue to aggressively pursue new ideas and programs to improve student success. As a result of these efforts, UC projects that four-year graduation rates for freshman entrants and two-year graduation rates for transfer entrants for both Pell and non-Pell students will increase by about 1% per year.

In comparing graduation rates below for Pell grant recipients and non-Pell recipients, note that while freshman four-year and transfer two-year rates show differences between Pell and non-Pell students, these gaps largely disappear when comparing six year (freshman) and four-year (transfer) rates. Put another way, Pell-eligible students graduate at roughly the same rate as non-Pell students, but their average time-to-degree is longer. These differences are associated with family education levels and high school preparation levels that are lower for Pell grant recipients, on average, than they are for students without Pell grants. Six-year freshman graduation rates and four-year transfer graduation rates are not included in the performance metrics requested for this report but can be found online at ucop.edu/institutional-research-academic-planning/_files/social_mobility_briefing_note_09_08_2014.pdf.

Graduation rates

	Entering cohort	F'05	F'06	F'07	F'08	F'09	F'10	F'11	F'12	F'13	F'14
4 yr grad rate, freshman entrants		60%	60%	60%	61%	63%	62%	63%	64%	65%	66%
4 yr grad rate, Pell freshman entrants		51%	51%	52%	54%	57%	56%	57%	58%	59%	60%
	Entering cohort	F'07	F'08	F'09	F'10	F'11	F'12	F'13	F'14	F'15	F'16
2 yr grad rate, Up Div CCC transfer entrants		51%	52%	54%	55%	55%	54%	55%	56%	57%	58%
2 yr grad rate, Pell Up Div CCC transfer entr		43%	44%	47%	48%	51%	50%	51%	52%	53%	54%

Graduation rates include UC-intercampus transfers. Students who graduate in the summer term are included with the prior year. Low-income Pell students are those who received a Pell grant during their time at UC.

C.2 STUDENT SUCCESS — DEGREE COMPLETIONS

Differences in outcomes between the UC and DOF plans will be small in this three-year projection horizon.

Degree completions have risen steadily at UC, particularly among undergraduates from low-income households. Degree completions are influenced by changes in the total number of students enrolled, as well as by completion rates. As with graduation rates, degree completions are lagging indicators that will not show significant change during the three-year horizon of this plan. For this reason, it is anticipated that there will be little difference between outcomes projected under the University's plan and the plan under DOF's assumptions.

One exception to this is the number of degree completions for upper division CCC enrollees. There, UC's projections show that the increase in these students enrolled in 2015-16 (due to UC's planned increases in overall California resident enrollment) would produce an increase in completions in 2017-18. The proportion of these students who are Pell recipients and/or STEM students would also lead to a slight increase in the number of those degrees awarded.

Degree Completions

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	<i>DOF</i> 2017-18	<i>UC</i> 2017-18
Freshman entrants	30,522	31,673	32,778	32,608	31,866	33,000	34,200	35,400	36,200	36,200
Up Div CCC transfer entrants	12,382	13,093	14,191	14,717	14,651	14,500	14,600	15,100	15,400	15,900
STEM freshman entrants	10,848	11,745	12,403	12,921	12,496	12,800	13,100	13,600	13,800	13,800
STEM Up Div CCC transfer entrants	3,223	3,381	3,724	3,961	3,831	3,900	4,000	4,200	4,200	4,400
Pell recipients	17,379	19,437	21,634	23,154	21,469	21,500	21,800	22,400	22,700	23,000
STEM Pell recipients	5,392	6,366	6,874	7,578	7,027	7,000	7,100	7,300	7,400	7,500
Graduate	15,216	15,585	16,261	16,671	17,300	17,900	18,600	19,200	20,000	20,000
STEM Graduate	7,247	7,502	8,031	8,357	8,700	9,000	9,300	9,700	10,000	10,000

2014-15 is an estimate. Source: UC Corporate Student System

C.3 ADDITIONAL METRICS — FIRST-YEAR UNITS

About half of new students take 45 units or more in their first year at UC and we do not anticipate changes in this metric.

In fall 2012, 51% of freshman entrants and 46% of transfer entrants took 45 units or more their first year. This figure does not account for any units students may have taken over the summer, which would increase this percentage.

UC analysis of this indicator shows that whether a student has completed 45 units at the end of his or her first year is a poor predictor of eventual graduation or time-to-degree. Many students are eventually awarded units for courses taken elsewhere that have not yet been recorded at this point, or earn units in later years through summer enrollment or by enrolling in a greater number of units during the academic year.

In the March 2014 Performance Indicators Report to the State, the University committed to explore more effective metrics in this area. That work is ongoing and is planned for inclusion in the March 2015 report.

Percentage of undergraduates who take 45 units in their first year at UC

	F'08	F'09	F'10	F'11	F'12	F'13	F'14	F'15	F'16	F'17
% of freshmen completing 45 qtr units	50.7%				51.3%	51%	51%	51%	51%	51%
% of UD CCC transfers completing 45 qtr units	42.7%				44.2%	44%	44%	44%	44%	44%

Fall 2014 is an estimate. Source: UC Corporate Student System. Transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units.

C.4 ADDITIONAL METRICS — UNITS AT GRADUATION

The plan based on DOF's assumptions and the University's Plan are not projected to have any effect on unit-taking behavior.

A UC bachelor's degree requires a minimum of 180 quarter units (120 semester units). Transfer students use units transferred from community college to complete their degree requirements. Students pursuing majors with high unit requirements (such as engineering/computer science) and those pursuing multiple majors graduate with higher units, on average, than those in other majors. The University does not anticipate any change in this metric for either the University's plan or the plan based on DOF's assumptions.

Average number of UC quarter units at degree completion

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Freshman entrants	187	187 (est)	187 (proj)	187 (proj)	187 (proj)	187 (proj)
Upper-div CCC entrants	100	100 (est)	100 (proj)	100 (proj)	100 (proj)	100 (proj)

Source: UC Corporate Student System. Only UC units are shown. AP/IB/transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units.

C.5 ADDITIONAL METRICS — CORE FUND EXPENDITURES PER DEGREE AWARDED

Dividing total funding by degrees awarded does not result in a useful goal.

In its March 2014 Performance Indicators Report, the University described its concerns with using a ratio of total funding to degrees awarded as an indicator of institutional performance. Such a ratio is a poor indicator of either productivity or quality, for example, because it cannot distinguish between (a) reduced expenditures attributable to cost-cutting measures that should be applauded (e.g., operational efficiencies) and (b) cost reductions that can reflect a genuine erosion of quality (e.g., a higher student-faculty ratio).

The University fully supports the goals of transparency and accountability in higher education. The University’s *Annual Accountability Report*, for example, contains dozens of indicators that collectively provide insight into virtually every aspect of the University’s mission – including student access, affordability, and success; undergraduate and graduate enrollment trends; faculty and staff demographics; student learning outcomes; research activities; and health sciences and services (along with many others). The most recent edition of the report is available at accountability.universityofcalifornia.edu.

Estimated Total Core Funds Expenditures (\$M) and Degrees Awarded

	University’s Plan			Plan Based on DOF’s Assumptions		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
State General Funds	\$3,106	\$3,230	\$3,360	\$3,106	\$3,230	\$3,360
Tuition and Fees	3,342	3,561	3,788	3,178	3,222	3,262
NRST	698	776	852	803	985	1,172
Other UC General Funds	360	360	360	360	360	360
Total Core Funds	\$7,506	\$7,929	\$8,361	\$7,447	\$7,797	\$8,154
Degree Completions	69,100	71,300	73,000	69,100	71,300	72,200

Source: UC Budget Office

C.6 ADDITIONAL METRICS — CORE FUNDS FOR UNDERGRADUATE DEGREES AWARDED

Determining the proportion of core funds associated with undergraduate education is in progress and will be reported to the Legislature later this year.

The University is developing a methodology for separating the cost of instruction by student level. Until that work is completed, UC has no rational way of calculating the share of funding that supports undergraduate students versus graduate students. This is a complex issue given the intertwined nature of graduate and undergraduate teaching and learning, and of instruction and research. UC will address this question in a separate report later this year.

APPENDIX

Provision 2 of Item 6440-001-0001 of the Budget Act of 2014 (revised) states the following:

2. (a) The Regents of the University of California shall approve a plan that includes at least all of the following:

(1) Projections of available resources in the 2015–16, 2016–17, and 2017–18 fiscal years. In projecting General Fund appropriations and student tuition and fee revenues, the university shall use any assumptions provided by the Department of Finance. The Department of Finance shall provide any assumptions no later than August 1, 2014.

(2) Projections of expenditures in the 2015–16, 2016–17, and 2017–18 fiscal years and descriptions of any changes to current operations necessary to ensure that expenditures in each of those years are not greater than the available resources projected for each of those years pursuant to paragraph (1).

(3) Projections of resident and non-resident enrollment in the 2015–16, 2016–17, and 2017–18 academic years, assuming implementation of any changes described in paragraph (2).

4) The university’s goals for each of the performance measures listed in subdivision (b) of Section 92675 of the Education Code for the 2015–16, 2016–17, and 2017–18 academic years, assuming implementation of any changes described in paragraph (2). It is the intent of the Legislature that these goals be challenging and quantifiable, address achievement gaps for underrepresented populations, and align the educational attainment of California’s adult population to the workforce and economic needs of the state, pursuant to the legislative intent expressed in Section 66010.93 of the Education Code.

(b) The plan approved pursuant to subdivision (a) shall be submitted, no later than November 30, 2014, to the Director of Finance, the chairpersons of the committees in each house of the Legislature that consider the State Budget, the chairpersons of the budget subcommittees in each house of the Legislature that consider the budget for the University of California, the chairpersons of the committees in each house of the Legislature that consider appropriations, and the chairpersons of the policy committees in each house of the Legislature with jurisdiction over bills relating to the university. The plan shall adhere to the goals included in Section 66010.91 of the Education Code.

[California Education Code, Title 3, Division 9, Part 57, Chapter 6, Article 7.7, Section 92675: Reporting of Performance Measures](#)

(a) For purposes of this section, the following terms are defined as follows:

(1) The “four-year graduation rate” means the percentage of a cohort that entered the university as freshmen that successfully graduated within four years.

(2) The “two-year transfer graduation rate” means the percentage of a cohort that entered the university as junior-level transfer students from the California Community Colleges that successfully graduated within two years.

(3) “Low-income students” means students who receive a Pell Grant at any time during their matriculation at the institution.

(b) Commencing with the 2013-14 academic year, the University of California shall report, by March 1 of each year, on the following performance measures for the preceding academic year, to inform budget and policy decisions and promote the effective and efficient use of available resources:

- (1) The number of transfer students enrolled annually from the California Community Colleges, and the percentage of transfer students as a proportion of the total undergraduate student population.
- (2) The number of low-income students enrolled annually and the percentage of low-income students as a proportion of the total student population.
- (3) The systemwide four-year graduation rates for each cohort of students and, separately, for each cohort of low-income students.
- (4) The systemwide two-year transfer graduation rates for each cohort of students and, separately, for each cohort of low-income students.
- (5) The number of degree completions annually, in total and for the following categories:
 - (A) Freshman entrants.
 - (B) Transfer students.
 - (C) Graduate students.
 - (D) Low-income students.
- (6) The percentage of first-year undergraduates who have earned sufficient course credits by the end of their first year of enrollment to indicate they will complete a degree in four years.
- (7) For all students, the total amount of funds received from all sources identified in subdivision (c) of Section 92670 for the year, divided by the number of degrees awarded that same year.
- (8) For undergraduate students, the total amount of funds received from the sources identified in subdivision (c) of Section 92670 for the year expended for undergraduate education, divided by the number of undergraduate degrees awarded that same year.
- (9) The average number of course credits accumulated by students at the time they complete their degrees, disaggregated by freshman entrants and transfers.
- (10) (A) The number of degree completions in science, technology, engineering, and mathematics (STEM) fields, disaggregated by undergraduate students, graduate students, and low-income students.
(B) For purposes of subparagraph (A), "STEM fields" include, but are not necessarily limited to, all of the following: computer and information sciences, engineering and engineering technologies, biological and biomedical sciences, mathematics and statistics, physical sciences, and science technologies

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