



JOINT LEGISLATIVE AUDIT COMMITTEE
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UNIVERSITY OF CALIFORNIA
Accountability and Transparency
Unequal Per-Student Funding and Nonresident Enrollment

Joint Oversight Hearing
JOINT LEGISLATIVE AUDIT COMMITTEE and
ASSEMBLY COMMITTEE ON HIGHER EDUCATION

INTRODUCTION

Shortly after the State Auditor's office released a report in July 2011 on the University of California (University) that identified inequity in per-student funding and the lack of transparency in its budget process, the University began implementing a Rebenching Initiative to address these issues. The University continues to implement rebenching, a 6-year process that is estimated to be complete in 2018. However, the recent increase in nonresident students appears to have created a new generation of unequal funding. Further, this recent trend could be reducing the number of University slots available for California students.

Multiple factors come into play and many questions surface when discussing these areas, including 1) to what extent is the University's rebenching addressing the unequal per-student funding, 2) is the increase in nonresident students creating a new generation of unequal funding, if so, how is the University addressing it, and 3) is the increase in nonresident students displacing California students on specific campuses.

BACKGROUND

Per-Student/Campus Funding

The State Auditor's office July 2011 report covered the period from 2005-06 to 2009-10. Among other issues, it identified the lack of transparency and accountability in the University's budgeting process. It further noted the significant variation in per-student funding in 2009-10 ranging from \$12,309 at the Santa Barbara campus to \$55,186 at the San Francisco campus. Berkeley, Davis, Los Angeles, and San Francisco received a greater share of the budget per student than their

corresponding share of enrollment. The remaining six campuses had lower-than-average amounts per student. Contributing to the differences, the Office of the President identified factors such as the size of a campus's health sciences program, certain research and public service programs budgeted separately, historical variations in amounts provided for graduate students and historical variations in state support. Health sciences programs are significantly more expensive than general campus programs. San Francisco is solely a health sciences school enrolling only graduate students, which could explain why its per-student share is much higher than the average, according to the report.

Although the audit clearly reported no evidence was found that the Office of the President considered the racial or ethnic makeup of the campuses' enrollment as part of its budget process, the outcome of the process resulted in four campuses with a higher proportion of underrepresented racial or ethnic groups receiving far less per student than those campuses with lower enrollments of these groups. Merced, Riverside, Santa Barbara, and Santa Cruz campuses had a higher-than-average-proportion of students from Hispanic, Black, American Indian, or Alaskan Native racial or ethnic group. The auditors noted that the University did not have an agreed upon methodology for comparing per-student calculations. The auditors expected that the University would be able to quantify and account for differences in factors that affect the level of base budget provided per student among the campuses.

The Office of the President responded that the four campuses do not have a medical school or other significant health sciences programs, and they have the lowest proportion of graduate students in the system. Further, the six campuses that received more funding operated multiple high-cost instructional programs such as schools of law, business, or health sciences and that all but one operates other special programs such as agricultural experimental stations, neuropsychiatric institutes, or oceanographic institutes. **[State Auditor's Report # 2010-105, Issued July 2011: Ch. 2]**

The University is implementing its Rebenching Initiative, a set of recommendations to develop a more transparent and equitable process for allocating state general funds. The University's Rebenching Budget Committee developed the recommendations in 2012 based on the core principles that state, in part, that the University has a common standard of excellence across its 10 campuses and the State subsidy per student should not depend on the campus a student attends, thus the amount of state general funds allocated per student should be the same for each type of student across all of the campuses. Reexamination of the University's funding models was prompted in 2008, when the State reduced the amount of its support. Need for the change included concerns about the "considerable disparities" among campuses per-student funding and the complex and opaque nature of the model the University was using.

Rebenching started with the fiscal year 2012-13 State General Fund allocation with transition to a fully-rebenched state general fund allocation at each campus over six years. When fully implemented, among other things, per-student funding is to be distributed on a weighted basis; for example undergraduate, post-baccalaureate, graduate professional, and graduate academic

master's students are assigned a weight of 1, whereas doctoral students is 2.5, and health sciences students is 5. At full implementation, currently targeted for 2018, all campuses are to receive per-student funding equal to the highest campus' per-student average. *[UC Rebenching Budget Committee Report, June 25, 2012]*

In 2011-12, prior to the start of the rebenching initiative, the University states it made comprehensive changes to the way funds flow within the University and funding for central administration and programs. According to the University, to simplify financial activity, improve transparency, and incentivize campuses to maximize revenue, all campus-generated funds, which include tuition and fees is retained by or returned to the source campus. This Funding Streams Initiative addressed distribution of all revenues except State General Funds. As described above, the Rebenching Initiative currently underway addressed the allocation of State General Funds. *[2015-16 UC Budget for Current Operations, Funding Streams and Rebenching Initiatives]*

The economic downturn in 2008 and the resulting shortfall in state revenue required reductions in the state's support of public higher education. In response to significant reductions in state support, the University nearly doubled systemwide tuition and fees from 2007-08 to 2011-12. However, student tuition and fees have remained flat since 2011-12. Recently, state budgets have significantly increased support for higher education. Passed in November 2012, Proposition 30 prevented more reductions in public higher education support and allowed the State to commit to a multi-year investment plan. A main funding component of the Governor's multiyear higher education budget plan is annual unallocated base budget augmentations of 5 percent in 2013-14 and 2014-15 and 4 percent in 2015-16 and 2016-17.

Additionally, enrollment-based funding is replaced by the four-year investment plan, which calls for growing General Fund support annually. The Governor's current budget provides unallocated increases in funding rather than funding enrollment growth. For 2015-16, General Fund increases are contingent upon the University keeping tuition at 2011-12 levels in 2015-16, not increasing nonresident enrollment in 2015-16, and taking action to control costs.

The University's proposed budget for 2015-16 calls for increases in funding beyond the 4 percent General Fund increase the Governor committed to in the long-term funding plan. The University proposes to generate more revenue through steep student tuition and fee increases or by replacing California students with nonresident students. *[2015-16 Governor's Budget Summary]*

The University states that the Governor's proposed 4 percent adjustment to the University's state general fund budget in 2015-16 equates to an increase of 1.7 percent in the University's core funded budget, which is below the 2 percent increase in inflation projected by the Department of Finance for 2015-16. The University states the Governor's plan is not sufficient to meet the University's basic mandatory costs, nor cover high-priority needs essential to the basic operation of a major research University. The University also finds the State's call for the University to cut costs reflects a fundamental misunderstanding of the extent to which the University has managed costs. The University argues that the Governor's funding plan would require the campuses to continue cuts to their core academic programs at a time when the state economy is improving and the University should be rebuilding its base budget. *[2015-16 UC Budget for Current Operations, Message from the President]*

Nonresident Enrollment

The University states that its priority is to enroll all eligible California residents for whom the State has provided funding and that the enrollment of nonresident students does not displace California residents who are funded by the State. The University establishes campus enrollment targets for California residents on a Universitywide level based on State funding levels and campus growth plans. However, enrollment targets for nonresident students are currently established at the campus level rather than at the system level and are based on factors such as campus physical and instructional capacity and the ability of the campus to attract and enroll qualified nonresident students.

According to the University, nonresident enrollment at UC has increased in recent years primarily to help campuses address major funding shortfalls related to unprecedented cuts in State funding. Nonresident undergraduates pay about \$23,000 more in tuition than California residents and each campus retains this tuition revenue. However, this does not take into account the General Fund support provided to the University for California undergraduate students.

From 2007-08 to 2013-14, nonresident undergraduates across the university system grew by 12,970 (from 7,103 to 20,073). Until recently, it was 4 percent of total undergraduate enrollment systemwide and last year it was just over 11 percent. The University projects the percentage will be 13.4 percent for the current 2014-15 budget year. By campus, the percentage of nonresidents ranges from less than one percent at Merced and three percent at the Riverside and Santa Cruz campuses, the same campuses identified in the July 2011 audit with a higher proportion of underrepresented racial or ethnic groups that received far less per student than those campuses with lower enrollments of these groups, such as Berkeley, Los Angeles, and San Diego. The University compares its percentage of nonresident students to peer institutions, University of Michigan and the University of Virginia, which the University says typically have more than 40 percent and 30 percent, respectively, of undergraduates.

During a period of declining State support followed by Proposition 30 increases, the University states it honored its commitment under the Master Plan to admit all eligible California undergraduates and currently enrolls more undergraduates than the State funds. According to the University, in 2013-14, undergraduates not funded by the State totaled 6,000. The University states that the nonresident supplemental tuition allows it to enroll more California residents because of the subsidy it provides.

According to the University, when the number of unfunded undergraduates peaked at more than 14,600 in 2009-10, Berkeley, Los Angeles, and San Diego, and to a lesser extent Irvine and Santa Barbara adopted a strategy to gradually reduce the unfunded California undergraduates while increasing the number of nonresidents. In 2013-14, San Diego and Berkeley were slightly below California resident targets by 2 & 3 percent respectively. Both reportedly are committed to maintaining budgeted California resident levels and implementing strategies to return to that target.

According to the University, while growth in nonresident enrollment has been significant in recent years, the rate of growth is expected to level off at Berkeley, UCLA, and San Diego. Though not expected to achieve proportions as high as those at larger, older campuses, other campuses are ramping up their enrollment of nonresident students.

The University states that reducing nonresident enrollment would not guarantee space for unfunded resident students. Further, it is committed to enrolling as many eligible California residents as the State is willing to fund. In recent years the state has not directed its funding toward enrollment growth. *[2015-16 UC Budget for Current Operations, Nonresident Enrollment: July 31, 2014 Report to Regents on Nonresident Enrollment]*