

**Joint Legislative Audit Committee Informational Hearing**

***University of California: Results of State Audit on Budget, Enrollment, and Executive Compensation***

**April 6, 2016 State Capitol, Room 126, 9:30 AM**

**Testimony**

**Nathan Brostrom, Executive Vice President and Chief Financial Officer and Stephen Handel, Associate Vice President, Undergraduate Admissions**

**INTRODUCTION**

- Chairman Rodriguez, members of the Committee, thank you for inviting us to testify today.
- My name is Nathan Brostrom. I am the Chief Financial Officer at the University of California. I am joined by Associate Vice President Stephen Handel who is responsible for admissions issues in the Office of the President.
- I would like to start by thanking you for your support of UC. The 2015 State Budget Act provided \$25 million for UC to enroll an additional 5,000 more California undergraduate students than 2014-15. Just two days ago, we issued very preliminary data regarding our admissions of California freshmen. That data indicates a 15% increase in California admissions for the coming year – 8,500 students more than the number admitted last year. These numbers will go up further when we announce transfer admissions four or five weeks from now.
- We look forward to continuing to partner with you in sustaining access for California residents.

- Although we disagree with many of the findings in the audit, we believe that in partnership with the State we can continue to achieve our shared goals for the benefit of California students.
- Let me begin by addressing the most flawed assumption in the audit. Enrollment of nonresident students has *not* displaced California residents. The revenue generated from nonresident students was a critical source that enabled us to maintain California enrollment during the fiscal crisis and ensure that our California students today have access to a high-quality UC education.
- The bottom line is that enrolling California resident students is our first admissions priority – nonresident students are enrolled in addition to, not instead of, the Californians we enroll.
- Enrollment of California undergraduates depends on two things: first, our commitment to California’s Master Plan; and second, funding from the State to support enrollment of additional students.
- Growth in nonresident students does not constrain the University’s ability to enroll growing numbers of California resident students. The key to enrollment for Californians is state funding.
- Associate Vice President Handel will provide additional detail on resident and nonresident admissions.
- I’d like to provide some context for the decisions that UC made in recent years.
- The onset of the fiscal crisis in 2008-09 dramatically reduced State revenues, and forced every public agency to make difficult choices in order to address major funding shortfalls. At the University we faced a severe

reduction in revenues at the same time we faced a sharp increase in costs. Between 2008-09 and 2011-12, UC lost nearly a third, or about \$1 billion, of its state funding.

- In response to these cuts, we looked at all of our activities to reduce costs and generate alternative revenues.
- To address the remaining funding shortfall, we had three options:
  - First, we could have reduced California enrollment by no longer offering admission to every eligible state applicant.
  - Second, we could have increased in-state tuition even further – by an estimated additional \$2,000 per student.
  - Or third, we could have added nonresidents.
- We chose the latter course because we believed it best allowed us to continue to support all eligible California students and provide them with an affordable, high-quality education.
- If UC had not increased enrollment of nonresident undergraduate students, we would not have had sufficient revenue to maintain enrollment of California students. Nonresident tuition helps us maintain access for Californians. This is not a policy that disadvantages California students – quite the opposite.
- Chancellor Tim White made the point recently that most of the schools in the CSU system don't attract many applicants from outside California. As a result, during the fiscal crisis, CSU made the very difficult decision to turn away tens of thousands of qualified students in order to better serve the

students they do enroll. These are the types of hard choices public universities across the country faced.

- At UC, we saw increasing nonresident enrollment, combined with achieving aggressive savings and efficiencies, as the best way to maintain California enrollment and address our fiscal challenges.
- Continued admission of all eligible Californians has allowed us to continue progress on a goal that we all share. Display 1 shows that the number of undergraduate Pell Grant recipients, first-generation undergraduates, and students from underrepresented minority groups has climbed steadily and dramatically at UC over the last 13 years – 42% of our undergraduates are Pell Grant recipients, 43% are first-generation college students, and our percentage of underrepresented minority students grew by 50% over the past decade.
- Increasing nonresident enrollment was not the only financial measure we looked at to help us meet our financial challenges during the fiscal crisis. We made a lot of hard decisions – thousands of employees were laid off, thousands of positions were eliminated, class sizes grew, the ratio of students to faculty worsened, and we raised tuition.
- I would like to address the issue of staff growth in greater detail since it was addressed in the audit report, which may be factually correct but is misleading in its presentation and discussion.
- The audit cites growth in staff and salaries at the University, noting that UC employees grew by 15% between 2005-06 and 2014-15. This corresponds closely with our own analysis, which shows a 15% increase between October 2007 and October 2015.

- What the audit report fails to highlight is that 72% of this growth is attributable to health sciences, driven by the dramatic growth in our medical centers. This is shown in Display 2. During this time period, medical center revenues and their overall operations grew by 91%, driving the need for more staff and the subsequent growth in salaries.
- It should be noted that nearly 60% of UC's medical center patients are insured by Medi-Cal, Medicare, or are uninsured. The increase in personnel is a direct consequence of growing demand for our health care services by Californians.
- Another 14% of the growth came from the increase in student employees as our overall student population increased.
- In contrast, the number of staff supported by State funds and tuition declined by 17% over this period, as shown on Display 3, which is the most relevant factor to look at in a study of the impact of core funds on the University.
- In addition to staff reductions, we also embarked on aggressive initiatives to institute new business practices, cut costs, and seek alternative sources of revenue that could help campuses meet their core mission. Some of these efforts were captured under the rubric of the *Working Smarter* initiative, which the audit report focuses on, while others were started before that and continue on to the current day.
- The audit report questions the validity of savings UC has achieved through *Working Smarter* and suggests they cannot be documented. Several of these initiatives, including the four that have generated the most fiscal impact, have been verified and substantiated by external auditors, actuaries, and other third parties.

- Let me focus on one example – the area of asset management. Even before the fiscal crisis, we evaluated our working capital assets – basically our operating cash – to determine if we needed as much in liquidity as we had.
- At the time, all of our working capital was invested in the Short-Term Investment Pool, known as STIP, which is invested largely to ensure sufficient liquidity and security.
- Our analysis showed that some assets could be moved into a new investment vehicle, the Total Return Investment Pool, known as TRIP, which is a relatively safe and secure vehicle but offers higher returns and less liquidity.
- This new investment opportunity has been tremendously successful.
- Over the past five years, TRIP has averaged 5.6% in returns while STIP has averaged 1.8%. Since its inception, these cumulative returns have resulted in hundreds of millions of additional revenue for our campuses and medical centers.
- We now have a greater amount invested in TRIP than in STIP, although it's not likely we can move much more since we are close to our liquidity limitations.
- Again, these amounts, and the returns, are part of our annual audited financial statements which have been verified by Price Waterhouse and KPMG in every annual financial audit since the inception of TRIP.
- There are several other areas in the audit report with which the University takes exception; however, I don't intend to try to cover all of them today. I

will simply say that the University stands ready to partner with the State in achieving our common goals of access, affordability, and quality.

- Now let me turn it over to Associate Vice President Handel to talk about admissions policies and practices.

### **NONRESIDENT ADMISSIONS**

- Members of the Joint Legislative Audit Committee, thank you for the invitation to speak with you today about the University of California's undergraduate admissions policies. My name is Stephen J. Handel and I am the Associate Vice President for undergraduate admission for the UC system.
- As you know, the audit report focuses a great deal of attention on the issue of nonresident admission to UC. Some of what I read in the report is incomplete. So, I look forward to this opportunity to speak to you on this important topic and address your questions.
- Before I dive into specifics of the auditor's report, let me highlight two main points:

### **UC'S COMMITMENT TO CALIFORNIA RESIDENTS**

**First, the University admits every California resident student who applies and is UC eligible.**

- The University makes an explicit guarantee to every family in California whose son or daughter applies to UC that we will find a place for them if they meet UC's eligibility requirements.
- This is a guarantee that we take seriously. It is a guarantee that has bettered the lives of thousands of students and that we maintained despite severe budget cuts during the recent fiscal crisis. And, most importantly, it is a guarantee that we never extend to nonresidents.

- Second, the University’s Comprehensive Review admissions policy ensures that all applicants receive a thorough review of their accomplishments on a variety of criteria that look well beyond GPA and test scores.
- Every application UC receives is reviewed thoroughly, often multiple times by several readers. Our readers are highly trained, deeply motivated, and directed to provide what all families want for their son or daughter when they apply to college: a fair shake. That means something much more than a quick glance at a GPA and a test score.
- In fact, reader evaluations are based on a set of 14 academic factors that look well beyond traditional numeric markers of achievement. A grade point average and a test score – important as they are – provide only partial insight into the qualifications of students for college.
- UC’s comprehensive review policy requires – indeed, demands – that we admit students who are more than their scores.

**UC’S RESPONSE TO THE AUDIT REPORT FINDINGS ON UNDERGRADUATE ADMISSIONS**

- Let me now wade more deeply into the auditor’s report. Time does not permit me to address every concern in the report, so I have clustered my remarks around three contentions from the report that are most troubling.

***1) Why is UC admitting nonresidents when there are so many talented Californians who want to come to one of our campuses?***

- It is true that UC has increased its admission of nonresidents during a time when enrollment growth for Californians has slowed because of the absence of State enrollment funding. But the important facts are these: 85% of our enrolled students are residents, California residents are still far more likely to be admitted – both to the University and to a campus of their



choice – and all Californians who meet our standards receive at least one admission offer. See display 4 in our handout.

- We make this commitment despite growing demand. This year, the University received applications from over 203,000 high school and community college students – the largest number of applications in the University’s 148-year history. The audit report is correct in one sense: demand for a UC education has skyrocketed. What is not properly noted in the report, however, is that the State’s Master Plan commitment to fund that enrollment has not kept pace.
- The audit report recommends that UC reduce out-of-state students to create more space for residents. But reducing nonresidents would not enable UC to admit more California students. Nonresidents support the cost of their education, provide funding necessary to maintain enrollment of California students, and more. California enrollment growth is limited – or enabled – based on State funding to support that growth. Before the current budget, funding for California resident enrollment growth had not been provided for years. Simply eliminating nonresidents will not by itself increase capacity for resident students.
- The current admissions cycle is a case in point: The Legislature’s approval last year of enrollment growth funding has put in motion one of the largest enrollment ramp-ups in recent UC history. Last fall, the University announced its plans to enroll 5,000 more California students this year and another 5,000 in the next two years, assuming new enrollment growth funding to support those students.
- Just this Monday, the University reported the admissions of 15 percent more California residents for the Fall 2016 term. Over the next several weeks, we will admit many thousands more.

- The lesson here is simple: when the State supports enrollment growth, UC responds. And Californians benefit.
- I would also point out that this year's enrollment growth will be concentrated at the three campuses that also happen to enroll the most nonresidents: Berkeley, UCLA, and San Diego. See Display 5, which is taken from the Legislative Analyst's recent analysis of the Governor's 2016-17 budget. If nonresident enrollment were the limiting factor in California enrollment, you would not expect to see new California enrollment focused at the campuses that *also* enroll the most out-of-state students.
- Here is the second headline:

**2) *Why is UC admitting "less qualified" nonresidents when compared to California residents?***

- The simple answer is we don't.
- UC's admissions policy requires nonresidents to be at least as qualified as admitted residents, holds nonresidents to a higher minimum GPA simply to be considered, and provides no guarantee of admission to any out-of-state student.
- Despite this evidence, the audit report creates a complicated narrative that includes a misreading of the California Master Plan, a suggestion that UC faculty changed policies to engineer greater nonresident enrollment, and the implication of a willful admission of students who are unprepared for University study. Fortunately, it's the simpler story that is the accurate one.

- First of all, the audit report recommends a standard for admission of nonresidents that represents a significant misreading of the California Master Plan.

- Here is what the audit report says:

*“...the admission standard should **require campuses** to admit nonresidents with admissions credentials that place them in the upper-half of the residents it admits” (p. 47).*

- But the audit report fails to recognize that the Master Plan language it cites was not intended to address campus-level admission and was revised by the Legislative Master Plan Review Committee over a quarter of a century ago. The 1987 revision dropped the “upper half of the eligibility pool” language and instead stated that:

*“graduates of ...out-of-state secondary schools [should be] held to at least equivalent levels” of preparation to those of Californians.”*

- *This* is the admission standard UC follows. And I would point out that this standard was reaffirmed by your own Legislative Analyst just two months ago. In its analysis of the Governor’s 2016-17 budget, the LAO states,

*“the Master Plan allows [CSU and UC] to admit...nonresident students if these applicants meet similar academic standards as eligible public high school graduates.” (p. 6).*

- The audit report also contends that the UC Academic Senate’s “Compare Favorably Policy” lowered credentials for nonresidents. Here is what the audit report says:

*“In 2011, the university revised its admission standard for nonresidents ... making it easier for nonresidents to gain admission” (p. 25).*

- However, the documents we submitted during the audit review process show this conclusion to be inaccurate. UC's key faculty committee with responsibility for admissions policy – the Board of Admissions and Relations with Schools (BOARS) – emphasized that its chief focus in revising the policy:

*“... was to uphold the ideal of merit through comprehensive review processes over fiscal pressures to select non-residents over qualified CA residents, and to continue to articulate UC's commitment to California residents ...”* (p. 1, July 29, 2009).

- UC's Academic Senate leadership from the very beginning was interested in maintaining academic standards rather than lowering them.
- This audit report draws a number of erroneous conclusions about the qualifications of nonresidents. Perhaps the most serious of these is that UC is admitting unqualified or less prepared nonresidents to the University. I quote from the report:

*“On a variety of academic indicators, the university has admitted thousands of nonresidents who were less qualified than the upper half of the residents it admitted.”* (p. 24).

- The language referring to “the upper half of residents admitted” draws directly from the outdated Master Plan language. In addition, the audit report focuses on just two indicators: grades and standardized test scores.
- As I mentioned earlier, under UC's comprehensive review admissions policy, the University incorporates 14 different factors in its review of freshman applicants.
- I do not wish to dismiss these markers of achievement: GPA and standardized test scores are important. But they are also limited. For example, as we related to the auditor's staff on numerous occasions, GPA in particular is a problematic measure to use when comparing student

achievement across the USA and internationally, since grading systems and criteria may differ. To address these complexities, each UC campus has on staff individuals whose job is to keep track of how school systems calculate their GPAs and the standards by which a student may earn an A, B, C, etc., and to use this knowledge to interpret the meaning of the GPAs students submit.

- In contrast, standardized test scores from out-of-state and international students are far easier to evaluate. Unlike GPA, the score UC receives *is* comparable by virtue of the fact that the SAT and ACT exams represents a consistent and uniform achievement standard that students throughout the world must meet.
- In our handout, Display 6 provides average SAT test scores for residents and nonresidents concerning the same 10- year period and in the same format that was provided in the audit report. As you can see, by this more consistent and standardized measure, nonresidents in most cases have higher qualifications than California students. This information was made available to the auditor's office.
- That said, however, the University measures student accomplishment on 13 other factors. We do not – indeed, *may* not as a matter of policy – reject students on the basis of a single factor. This means that you will see variations in quantitative metrics among residents and nonresidents; that's to be expected when other, countervailing criteria are in play.
- I would also point out that a key goal of our policy is to admit students who will succeed academically at UC and on this measure our nonresident students clearly measure up. In fact, across the board, UC freshmen from out of state earn higher GPAs than their California peers – again calling into question the audit report's suggestion that UC has “lowered standards” for nonresidents.

- Of course, we take seriously the Academic Senate's compare favorably policy and review UC compliance with this policy each year. We agree with the audit report's recommendation that admissions data for residents and nonresidents should be publicly available.
- The final contention that needs to be addressed is the following:

**3) *Why do nonresidents have greater access to the campus of their choice compared to residents?***

- Quoting from the audit report:

*"... [T]he university ... admitted fewer residents to the campuses of their choice over the past several years" (p. 33).*

- It is true that competition for admission has increased for *all* students applying to the University of California. This is understandable as UC has experienced 12 straight years of increases in applications while State funding to support enrollment has not grown commensurately.
- The audit report's unstated implication, however, is that while some California residents are not getting into their campus of choice, most nonresidents are; in effect, implying that that nonresident students have a *better* chance of being admitted over California residents. There is no evidence to support this. The admission rate overall for California residents is 71 percent. For nonresidents, it is 55 percent: that is, nearly half of all nonresidents are denied at every campus they apply to.
- Nor do nonresidents have greater access to more campuses. In fact, the data show otherwise, as shown in Display 7 of your handout. At every level, California students have the advantage: they are more likely to be admitted to two or more campuses, to three or more campuses, etc.

- A key point about campus choice is what happens *after* a student receives notice that he or she has not been admitted to a campus to which they have applied. For California residents – unlike out-of-state applicants – UC guarantees a place for them in the system through our referral process.
- Here is how UC’s guarantee works: once all admissions decisions have been made and we know the disposition of each and every application, UC goes a step beyond for Californians. First, the University ensures that every qualified Californian found a home in the UC system. If some did not, we compile a list. It has the name of every eligible Californian who applied and is eligible. Each of these Californians is then contacted individually. They will be asked if they would like to attend UC – at a campus that has space for them.
- Let me emphasize that there are *no* out-of-state or international students on this list.
- A number of media reports have suggested that some, or even all, nonresidents are guaranteed admission. I want to state categorically that this is not the case.
- Perhaps the most disheartening finding from the audit report is its dismissal of UC’s guarantee for California students as inauthentic, reasoning that since a small number of admits take us up on the offer, it can’t be very valuable. But that assessment could not be more wrong. Over the past 10 years, UC has enrolled nearly 4,000 additional California residents through our referral system. Other colleges and universities would have simply denied them. We admitted them, they accepted our offer, and every one of them had the opportunity to earn a UC degree.

- Moreover, my goal as an admissions professional is not to insist that all of the students we admit come to UC. I hope it will be UC. But that is rightfully a decision of the student and his or her family.
- That said, however, I want to agree with the auditor and, I suspect, everyone in this room, that our goal should always be to admit as many students as we can to their first-choice campuses. And I can tell you that the best way to do that is to fund enrollment growth for California residents. Just consider the preliminary outcomes UC has reported already for this year: 8,500 more California residents were admitted to at least one of their campuses of choice. In a year like this, we expect the referral pool will shrink and that is a great outcome.

### **WHERE ARE UC'S TRANSFER STUDENTS?**

- Before closing, I should highlight for you something that was *not* included in the audit report. While the report spends considerable time criticizing the University's treatment of freshman applicants, there is no discussion of community college transfer students. Yet, transfers constitute about one-third of UC's incoming classes.
- The transfer pathway is one of the Master Plan's most triumphant innovations, providing access to the baccalaureate degree for thousands of students who want and deserve a second chance at a four-year degree. It is one of the reasons why the University has so strongly advocated the Transfer Pathways Initiative, which provides a common set of course expectations for UC's 21 most popular majors.
- And yet, the audit report ignores these students. The exclusion of community college transfer students from this report is a significant



omission – these students are a critical part of our mission and our service to California and the vast majority of them are California residents.

- The audit report raises questions of great importance to families and prospective students throughout the state. I hope CFO Brostrom and I have been able to address the most essential concerns raised by the report.
- That concludes our testimony. We would be pleased to respond to your questions.