UNIVERSITY
OF
CALIFORNIA

Budget for Current Operations

Summary & Detail

2015-16

MESSAGE FROM THE PRESIDENT

As a catalyst for social mobility, the University of California has transformed the lives of generations of high-achieving, hard-working students. Through the State's investment, UC has been able to provide an education comparable to that of elite private universities to all who qualify, regardless of their social background or economic circumstances. However, the recent years of depleted State funding have put UC's ability to maintain access, excellence, and opportunity at risk.

State per-student funding to UC has declined nearly 25% in the last 10 years. The University responded to these dramatic cuts by reducing staff, curtailing faculty recruitment, maximizing operational efficiencies, boosting fundraising, and deferring critical maintenance. We can no longer save or defer our way out of this financial crisis. Nor can we simply cut our way to continued excellence; we must invest.

While we are grateful for the 4% increase in State funding that the Governor has proposed for UC, the 4% figure is illusory. It equates to only a 1.7% increase in total core operating funds. That's far less than what is needed to meet our mandatory cost increases and the high-priority needs of our students. For UC to achieve financial stability and provide the world-class education Californians have come to expect, UC must develop a new funding model, one that includes tuition stability.

One of my first acts as UC President was to propose a tuition freeze for the 2014-15 academic year. The Board of Regents agreed with my recommendation, and for the third consecutive year, UC tuition remained flat. This allowed the University time to develop a long-term, stable tuition and financial aid plan—one that keeps tuition increases as affordable as possible but also as predictable as possible.

Students and their families have a right to know, up front, what the total cost of a UC education could be and how much financial aid they can expect. The budget we are presenting here includes a tuition model that would end the budget planning uncertainty for students and for the University.

Under the new tuition-setting model, and assuming maintenance of the State's funding formula, tuition and fees would not increase more than 5% annually for five years.

The University would maintain its robust financial aid program, which is the strongest in the nation. More than half of UC undergraduates have their Tuition and Students Service Fees fully covered, and that will not change.

UC would also be able to enroll at least 5,000 more California students over the next five years, reduce the student-faculty ratio, increase course selections, and lessen the time to graduation.

We believe this tuition stability plan is both fair and necessary.

UC will continue to pursue rigorous cost-saving strategies. At the same time, we hope the State will partner with us and increase its support. An investment in the University of California is an investment in the future of California and in the next generation.

Janet Napolitano, President
November, 2014

LONG-RANGE FINANCIAL PLANNING GUIDES THE UNIVERSITY OF CALIFORNIA 2015-16 BUDGET

The University of California's long tradition of excellence rests on three pillars: access, affordability, and quality. 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 a top-flight education taught by world-class faculty, comparable to those at elite private universities, to all who work hard enough to qualify, irrespective of social background or economic situation. It is this access to excellence in a public setting that sets UC apart from other major research universities.

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 State's past support for the University has yielded an impressive return on investment. Protecting that investment is of great importance for the future of the institution as well as the state of California. Yet, even as California enjoys a rebounding economy and a balanced State budget, and the University benefits from predictable State funding that it has not experienced for a number of years, the State's plan to limit funding available to the University greatly reduces the options the University has to move forward after the most severe cuts in State support in the institution's history. In the past, the State has reinvested in the University after reducing support during cycles of economic downturn. The Governor's multi-year funding plan departs from that practice by calling for no tuition increases for four years and limiting new funding to the University to base budget augmentations of 5% in 2013-14 and 2014-15 and 4% in 2015-16 and 2016-17. The 4% adjustment to the University's State General Fund budget in 2015-16 proposed in the Governor's plan equates to an increase of 1.7% in the University's core funded budget, below the 2% increase in inflation projected for 2015-16 by the Department of Finance. More stable State support is important as the University looks beyond six years of fiscal turmoil, yet the funding provided in the Governor's plan is not sufficient to meet the University's basic mandatory costs, let alone cover other high-priority needs essential to the basic operations of a major research university.

There has been considerable discussion at the state and national level about skyrocketing costs of higher education. The University has been a striking exception to this national trend. As explained below, the University's average per student expenditure on education has not risen but declined over the last twenty-five years. As such, the State's call for the University to "bend the cost curve" reflects a fundamental misunderstanding of the extent to which the University has managed costs, particularly given the State's unwillingness to cover its share of the employer contributions to the University's retirement system as it does for the California State University system. Some of the reduced spending by the University reflects the success of aggressive efforts to reduce costs through operational efficiencies. Many of these efficiencies are tied to effective leveraging of UC's economies of scale. Some of the reduced spending, however, represents measurable erosion in the quality of core academic programs. The University's long-term financial planning builds on and extends past efficiency initiatives, while focusing on strategic investments in core academic programs. In contrast, if implemented as proposed, the Governor's funding plan would require UC 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.

The challenge facing the University is how to build a sustainable long-term financial plan, one that provides the resources necessary to protect past State investment in the University despite the inadequacy of current State support to meet the

University's basic funding needs. A sustainable financial plan must identify the minimal resources necessary to ensure that the University continues to flourish and maintain excellence during a time when the institution is serving a greater cross-section of the State's diverse population. Failure to preserve the institution's tradition of excellence at a time when more Californians from across the socio-economic spectrum gain the opportunity to attend UC would be a tragic departure from the State's commitment to ensure access to excellence for *all* qualified undergraduate resident students who choose to attend a UC campus.

Given the constraints on State funding, the University must stabilize its financial future by ensuring that resources and programs are aligned to meet strategic priorities. The following strategic priorities have guided the University's long-term financial planning:

- **Investment in Academic Programs.** Preserving the institution for future generations of Californians requires renewed investment in the University's core academic programs. The President has made investment in academic quality a top priority of the University. This investment includes restoration of faculty positions, increasing graduate student support, enhancing undergraduate instructional support (instructional equipment replacement, instructional technology, libraries, and ongoing building maintenance), renewing and modernizing the University's information technology infrastructure, and closing the salary gap for faculty and staff. Given constrained resources, this investment will necessarily occur over a number of years.
- **Improving Performance Outcome Measures.** The State has called on the University to establish challenging goals for improving performance outcomes, such as graduation rates and time-to-degree, and to achieve such goals without additional resources beyond those provided in the Governor's multi-year funding plan. By nearly all standard measures, the University has already achieved very high performance outcomes compared to other selective institutions with similar student populations. In its long-term financial planning, the University recognizes that additional resources are essential if it is to achieve further gains in key performance measures and, at the same time, serve students from all economic backgrounds. Given the large numbers of educationally disadvantaged students the University enrolls and the special impediments these students face, it is unlikely the University could maintain current performance levels, let alone improve those levels, by redirecting resources from within the limited funding provided in the Governor's multi-year funding plan. The President has committed the University to improving outcomes while ensuring that adequate resources are available to do so.
- **Long Term Stabilization Plan for Tuition and Financial Aid.** Upon her appointment to UC, President Napolitano began to address the need to reduce volatility in UC tuition and fee levels, provide students and their families with a better understanding of what it will cost to attend the University, preserve access and affordability, and generate sufficient revenue – when combined with State support – to meet the minimal funding needed to sustain the University. With tuition now comprising more of the core budget than does State support, a multi-year tuition plan that provides stable and moderate increases over several years will allow the University to provide necessary cost adjustments for nearly half of its core funds budget (with State funding adjusting much of the rest). Modeling of the University's long-term funding needs demonstrates that no sustainable funding plan is possible without tuition increases to supplement State funding – a sustainable funding plan requires a combination of modest increases in both State funding and tuition. In any year in which the State chooses to provide funding to avoid the tuition increase, however, the University would forego implementation of the planned increase.
- **Long-Range Enrollment Plan.** At a time when State funding does not cover the University's basic mandatory costs, it is essential that the University's instructional programs are appropriately aligned with available resources. While the University seeks to maintain its commitment to the Master Plan to offer admission to all eligible California residents, the budget plan is built on the premise that the University cannot continue to take students without resources to educate those students at the level of quality expected of the University. A systemwide enrollment plan will help ensure that there is appropriate alignment between resources and enrollment levels. The University expects to have a plan in place for 2015-16. With a combination of moderate and predictable tuition increases and 4% base adjustments in State support, the University's long-term financial planning assumes modest annual growth in Californian resident enrollment sufficient to meet the University's commitment under the Master Plan.
- **Nonresident Student Enrollment.** The University's long-term financial planning assumes that campuses will continue enrollment of nonresident students to help backfill operating budget shortfalls and enhance funding needed to maintain the quality of instructional programs for all students. Nonresident Supplemental Tuition has been a critical alternative revenue source as campuses have struggled to maintain their academic programs in the face of declining State support.

This additional revenue has allowed campuses to enroll resident students in the absence of adequate State support. Enrollment of nonresident students has not displaced funded California resident enrollment – in fact, just the opposite is true. Resources achieved from modest increases in nonresident enrollment have helped the campuses maintain enrollment of funded California residents. If nonresident enrollment were limited, it would not provide one more place for a California resident student. The University cannot increase the number of California resident students unless enrollment growth is funded. The University is committed to ensuring that continued growth of nonresident students will not hamper its ability to accommodate qualified California residents who wish to attend – as long as the California enrollment is sufficiently funded.

- **Deferred and Ongoing Building Maintenance.** The University can no longer delay funding of critical deferred maintenance. Operation and maintenance of plant is one of the first areas of campus budgets to be reduced during fiscally challenging times. The State eliminated the last remaining funding for deferred maintenance in the University's operating budget in 2002. During the last twelve years, budget cuts have reduced funding for campus facilities while the backlog of high-priority deferred maintenance has grown dramatically. As demonstrated by the recent failure of an electrical distribution system at the Berkeley campus and the break of a Department of Water and Power water main on the Los Angeles campus, the University faces rising economic, health, and safety risks associated with further deterioration of the facilities that house the wide array of instructional, research, and public service programs at the foundation of the University's mission. Exacerbating the deferred maintenance problem is the significant underfunding of basic building maintenance. Failure to adequately maintain mechanical and other building systems reduces the useful life of these systems and adds prematurely to the deferred maintenance backlog. It is estimated that, across the system, approximately $200 million is needed to restore basic building maintenance to adequate levels based on the type of facilities operated by a major research university. The long-term financial plan includes multi-year funding of deferred maintenance and a modest increase in ongoing building maintenance for existing UC facilities.
- **Capital Program Funding.** Trailer bill language of the 2013-14 Budget Act (AB 94) authorized the University, subject to certain approval and reporting requirements, to use State operating funds to support a small capital program. In the absence of other State funding to address the University's capital needs, the 2013 language allows the University to address critical capital needs, including significant seismic and other life-safety, capital renewal, modernization, and high-priority programmatic needs, including the build-out of the Merced campus to allow the campus to continue expanding enrollments to meet its 2020 development goals. Supporting a modest capital program is a strategic priority for the University, though funding such a program from the operating budget requires redirection of already constrained operating budget resources.

In addition to the programs described above, the President has launched several initiatives to advance University priorities:

- The Academic Pipeline Initiative, which focuses on the training of a population of graduate academic students that reflects the diversity of the state and nation;
- The Equity Initiative, which seeks to increase student access and success by enhancing systemwide and campus-specific resources for undocumented UC students;
- The University's Global Food Initiative, which seeks to align the University's research outreach and operations in a sustained effort to develop, demonstrate, and export solutions for food security, health, and sustainability;
- The Global Impact Initiative, through which UC will work with Mexico to address issues facing our shared populations, environment and economies – e.g., through sustained strategic and equal partnership between UC and educational institutions in Mexico, UC will increase student and faculty exchange and provide opportunities for collaborative research in key areas, including education, health and science;
- The Technology Commercialization Initiative, which will enhance all stages of technology commercialization by investing in UC inventors, early-stage UC technologies, and UC start-up companies;
- The Carbon Neutrality Initiative, which expands and accelerates UC's climate action efforts to achieve carbon neutrality by 2025; and
- The Transfer Initiative, which seeks to streamline the flow of California Community College students to UC campuses by improving transfer students' awareness of UC as an attainable option, ensuring the transfer roadmap is as clean and simple as possible, and supporting transfer students through their transition to UC.

Preserving the University's unique role in the state is a basic goal of the University's long-term financial planning. The University of California has offered access to a high-quality education to hundreds of thousands of students each year from all walks of life, provided the state with a wide variety of public service programs from agriculture to student preparation, and improved the quality of life of California's citizens through the benefits of its research and patient care programs. Over the last century and a half, the University of California has also been a major economic engine for the state, providing new knowledge and innovation as well as social mobility to generations of Californians. Research at the University has fueled the state's knowledge-based economy, underpinning the state's economic competitiveness during a time when globalization has rendered many parts of the country economically obsolete. From agriculture to information technology, from medicine and biotechnology to the entertainment industry, the University drives innovation and economic growth in the most dynamic and transformative sectors of the state's economy, producing the advances in science and technology that spawn new companies and economic expansion while educating a versatile and highly trained workforce to meet the evolving demands of new industries and a changing society.

In 2011, UC commissioned a study of its economic contribution to the state, quantifying what has been long known:
UC touches the lives of all Californians and is a major economic engine in the state. For example, UC generates about $46.3 billion in economic activity in California and contributes about $32.8 billion to the gross state product annually. Every dollar a California taxpayer invests in UC results in $9.80 in gross state product and $13.80 in overall economic output. One out of every 46 jobs in California – approximately 430,000 jobs – is supported by UC operations and outside spending by the University's faculty, staff, students, and retirees. UC is the state's third-largest employer, behind only the State and federal governments and well ahead of California's largest private-sector employers. UC attracts about $8 billion in annual funding from outside the state. The State's investment in the University over the years has yielded an impressive return. UC creates knowledge that results in new companies for California and fuels the economy, trains the state's knowledge-based workforce, and opens the door of opportunity for those seeking to advance their prospects.

The University's 2015-16 budget plan has been developed in the context of planning for the long-term financial sustainability of the University. Consistent with the strategic priorities of longer-term financial planning, the 2015-16 budget plan is built on an unwavering commitment to protect the institution's longstanding excellence while recognizing the limitations presented by the constrained funding environment within which the University continues to find itself.

KEY ELEMENTS OF THE 2015-16 BUDGET PLAN

4% Increase in State Support. The budget plan assumes a 4%, $119.5 million, base budget adjustment in State General Funds, as proposed in the Governor's multi-year funding plan for the University.

5% Tuition Increase and Additional Financial Aid. In the absence of additional State funding and consistent with the first year of the University's multi-year Tuition and Financial Aid Stabilization Plan, the 2015-16 budget plan includes a 5% increase in mandatory systemwide tuition and fees. This will be the first tuition increase in three years, generating an estimated $97.7 million of revenue, net of aid, for the University. The University will also continue its practice of committing a portion of new revenue to enhancing financial aid for undergraduate and graduate students.

Nonresident Enrollment Growth. The 2015-16 plan includes growth of 2,000 nonresident students to supplement a 4% increase in State support and 5% tuition increase, providing $50 million in support of the operating budget, net of instructional costs.

Mandatory Costs. The University faces mandatory cost increases of $125.4 million, including expenses such as employer contributions to the University's retirement system, employee and retiree health benefit programs, compensation increases already approved as part of the collective bargaining process, the faculty merit program essential to retaining high performing faculty, and inflationary costs for non-salary items (such as instructional equipment, technology, library materials, and purchased utilities). It is significant to note that the Governor's multi-year funding plan does not provide enough funds to cover these mandatory cost increases.

Investment in Academic Quality. The 2015-16 plan calls for $60 million in strategic investments in core academic programs, including restoration of faculty ranks, instructional equipment and technology, graduate student support, and other areas where enhanced resources are critical if the University is going to be able to meet State goals to improve graduation rates and other performance outcome measures. Decisions on how this funding will be allocated will be made at the campus level, based on campus priorities.

Enrollment Funding. The 2015-16 budget plan includes $22 million in funding for 1% enrollment growth, which will allow the University to meet its commitment under the Master Plan by offering admission to all eligible California students.

Other High Priority Costs. In addition to mandatory costs, the plan includes $178.7 million for high-priority costs that are necessary for the operation of a major research university. These include compensation increases for non-represented staff and faculty, renewed investment in deferred maintenance, and support for a modest capital program to address critical seismic and other life-safety needs, capital renewal, and evolving programmatic needs of UC facilities.

This document provides a summary of the current status of the University's operating and capital budgets and proposed changes for 2015-16. A companion to this document, the *2015-16 Budget for Current Operations – Budget Detail*, provides explanatory detail for all aspects of the University's operating budget, including both sources of funding and expenditure program areas and is provided shortly after the Campus Financial Schedules are completed each fall. The University's capital budget program is described in more detail in the *2014-24 Capital Financial Plan* document.

2015-16 BUDGET PROPOSAL FOR CORE FUNDS

(Dollars in Millions)

2014-15 OPERATING BUDGET

State General Funds	$	2,986.7
Less General Obligation Bond Debt Service		(193.7)
State General Funds (excluding GO Bond Debt Service)	$	2,793.0
Total Core Funds (State General Funds, Student Tuition and Fee Revenue, and UC General Funds)	$	6,887.0

PROPOSED INCREASES IN REVENUE

State General Funds (as proposed in the Governor's multi-year plan)		
4% Base Budget Adjustment (equivalent to a 1.7% Increase in Core Funds)	$	119.5
Subtotal	$	119.5
Student Tuition and Student Services Fees		
5% Increase in Mandatory Charges (or additional State Funds)	$	97.7
Mandatory Charges from Enrollment Growth		30.2
Professional Degree Supplemental Tuition (available for program)		8.7
Revenue for Financial Aid		72.9
Subtotal	$	209.5
UC General Funds		
Nonresident Supplemental Tuition	$	50.0
Indirect Cost Recovery		-
Subtotal	$	50.0
Alternative Revenues/Cost Savings		
Liquidity Management	$	40.0
Systemwide Contracts		20.0
Philanthropy		20.0
Subtotal	$	80.0
TOTAL INCREASE IN REVENUE	**$**	**459.0**

PROPOSED INCREASES IN EXPENDITURES

Mandatory Costs		
Retirement Contributions	$	17.6
Employee Health Benefits		27.0
Annuitant Health Benefits		5.2
Contractually Committed Compensation		15.6
Faculty Merit Program		32.0
Non-Salary Prices		28.0
Subtotal	$	125.4
Investment in Academic Quality	$	60.0
California Enrollment Growth	$	22.0
High-Priority Costs		
Compensation	$	109.8
Deferred Maintenance		55.0
High-Priority Capital Needs		13.9
Subtotal	$	178.7
Financial Aid	$	72.9
TOTAL INCREASE IN EXPENDITURES	**$**	**459.0**

THE UNIVERSITY'S THREE PILLARS OF EXCELLENCE

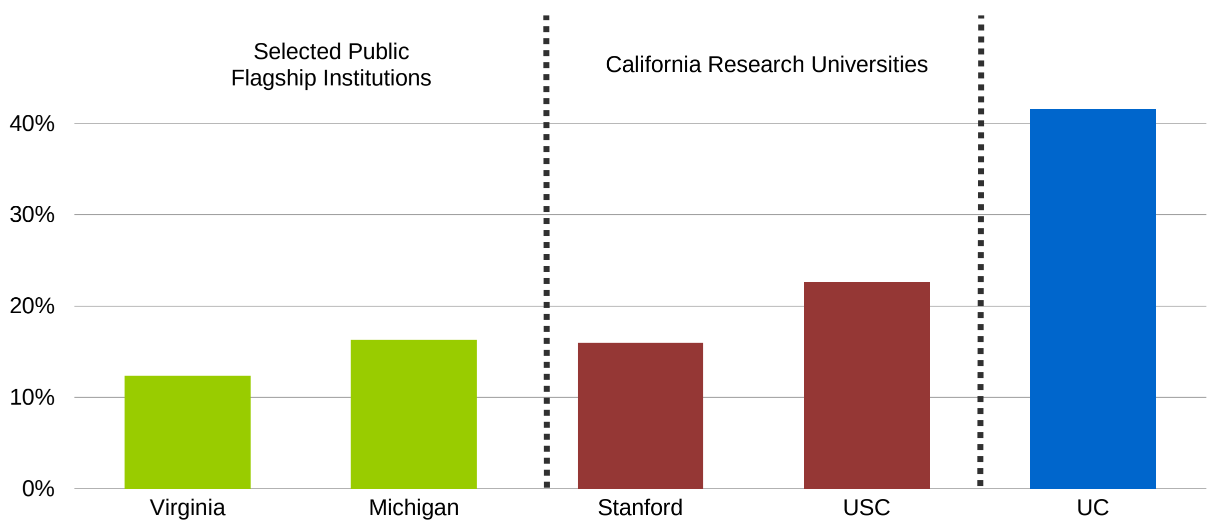
The enduring excellence of the University of California has rested on three pillars: access, affordability, and quality. The University has fought to protect two of these three pillars – access and affordability – despite unprecedented budget cuts during the last two decades. As several key measures reveal, the University has not been able to protect the quality of its academic programs to the same extent, particularly during the last five-year period. In recognition of this threat to quality, the 2015-16 budget plan identifies the need to begin a multi-year investment in the University's core academic programs. This has implications for the University's ability to continue to produce well-educated, productive citizens who are well-poised to contribute to the California economy.

Access

The University continues to meet its obligation under the Master Plan and offer a place to all eligible resident freshman applicants. Applications have continued to rise significantly over the past 20 years even as State funding has declined and tuition has climbed. Fall 2014 freshman applications rose to nearly 100,000, with the number of California freshman applicants growing by 6.9% over the previous two-year period. In 2014-15, the University expects to enroll over 248,000 students.

The University also continues to provide access to all segments of the state's population. In Fall 2013, over 40% of UC's undergraduate students were first-generation college students. For the first time, the number of Chicano/Latino applicants for the Fall 2013 freshman class exceeded all other applicant categories. One of the most striking measures of the University's success in protecting access is the number of Pell Grant recipients it enrolls. UC enrolls a far greater proportion of Pell Grant recipients than any of its comparator institutions, public or private, as shown in Display 1. The University's continued success in enrolling high numbers of low-income and first-generation college students is evidence that its efforts to protect affordability have been successful. The University has maintained access for all eligible students despite the State's failure to provide enrollment growth funding. In 2014-15, the University will educate more than 7,000 FTE students for whom it has never received funding from the State.

Display 1: 2012-13 Undergraduate Pell Grant Recipients



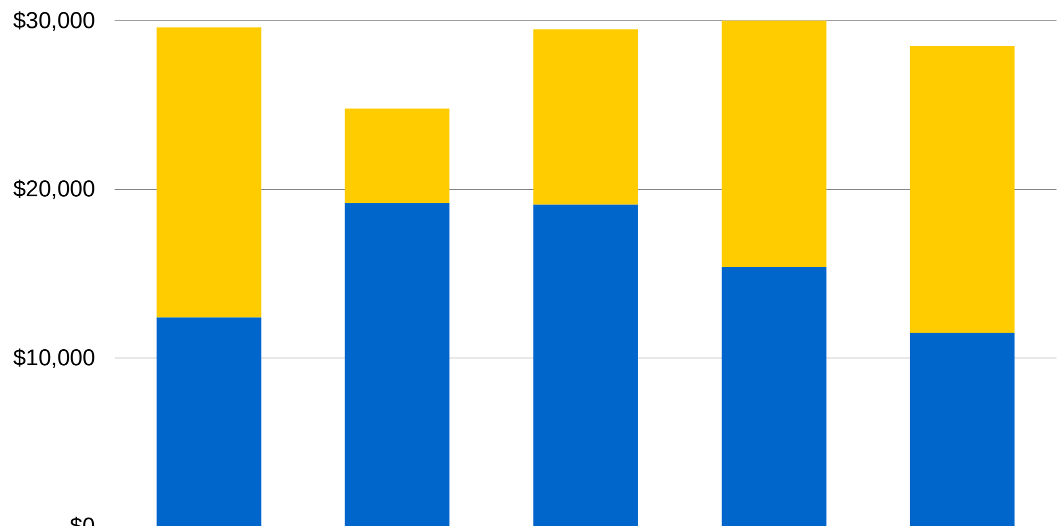
UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 42% during 2012-13, which was more than at any comparable public or private institution. Four of UC's campuses <u>each</u> have more Pell grant recipients than the entire Ivy League combined.

Affordability

The University has also protected affordability even as tuition and fees have increased. As Display 9 (see page 27) illustrates, UC's tuition levels have been subjected to chronic volatility, reflecting the direct relationship between tuition and fee increases and the State's fiscal condition. While the University has implemented tuition increases to offset State budget cuts, these increases have backfilled only a portion of the reductions in State support. A policy of predictable and minimized tuition increases could help reduce the dramatic year-to-year fluctuations in tuition. In inflation adjusted-dollars, the average annual tuition and fee increase since 1980-81 has been about 5%.

While rising student loan debt levels have received considerable attention across the country, it is noteworthy that only about half of UC's 2012-13 graduating undergraduates had any student loan debt. Among the 55% of UC students who did borrow money to help defray college costs, the average debt of UC's 2012-13 graduating class was $18,850, which is below the national average for 2011-12 of $29,400. In fact, at least half of UC's undergraduate students actually pay no systemwide tuition and fees because of the generous financial aid programs funded by the University and the State of California. Undergraduate need-based aid recipients at UC received an average of $17,200 in gift aid in 2013-14, resulting in a net cost of $12,400. The net cost of attendance for UC students in 2013-14 was lower than the net cost at three of its four public comparison institutions. As a percentage of total cost, UC undergraduates received more gift aid than their counterparts at three out of four of UC's public comparators, as shown in Display 2.

Display 2: 2013-14 Net Cost of Attendance for Undergraduate Aid Recipients



	UC Average	Buffalo	Illinois	Michigan	Virginia
Total Cost	$29,600	$24,800	$29,500	$30,400	$28,500
Gift Aid	$17,200	$5,600	$10,400	$15,000	$17,000
Net Cost	$12,400	$19,200	$19,100	$15,400	$11,500

Undergraduate need-based aid recipients at UC received an average of $17,200 in gift aid, resulting in a net cost of $12,400. UC's net cost in 2013-14 was lower than the net cost at three of its four public comparison institutions.

While the University's financial aid programs have fully protected low-income students from rising tuition, and students from higher-income families can afford to pay what is still a reasonably priced cost of attendance compared to UC's competitors, there has been growing concern over the burden that rising tuition and cost of attendance has placed on middle-income students. Recent data indicate that borrowing among UC students from middle-income families has increased since 2007-08. As a result of these concerns within the University as well as at the State level, several initiatives to expand financial assistance, including to middle-income students, have been or are in the process of being implemented:

- The Middle Class Scholarship Program will provide new funds to many California families who had not previously qualified for financial aid. The program will effectively reduce net tuition at UC by 40% for those families with annual incomes of up to $100,000 and by 10% for those with incomes up to $150,000. The program will be phased in over four years, beginning in 2014-15.
- The University's Blue and Gold Opportunity Plan covers tuition and student services fees for students whose families earn less than $80,000. Over 70,000 undergraduates at UC are expected to qualify for the Plan in 2014-15.
- The University is exploring a wide range of innovative strategies to increase scholarship funding for UC students. With Regental support and collaboration among UC's campuses, the Office of the President, for example, has led the development of Promise for Education, an innovative "crowdfunding" effort designed to provide additional scholarship funds for need-based undergraduate scholarships for California students across the system.

The University's robust financial aid programs have continued to meet the evolving support needs of its students even as their share of the cost to attend the University has increased, although the volatility of tuition and fee levels has made it difficult for students and their families to plan financially for their time at UC.

Quality

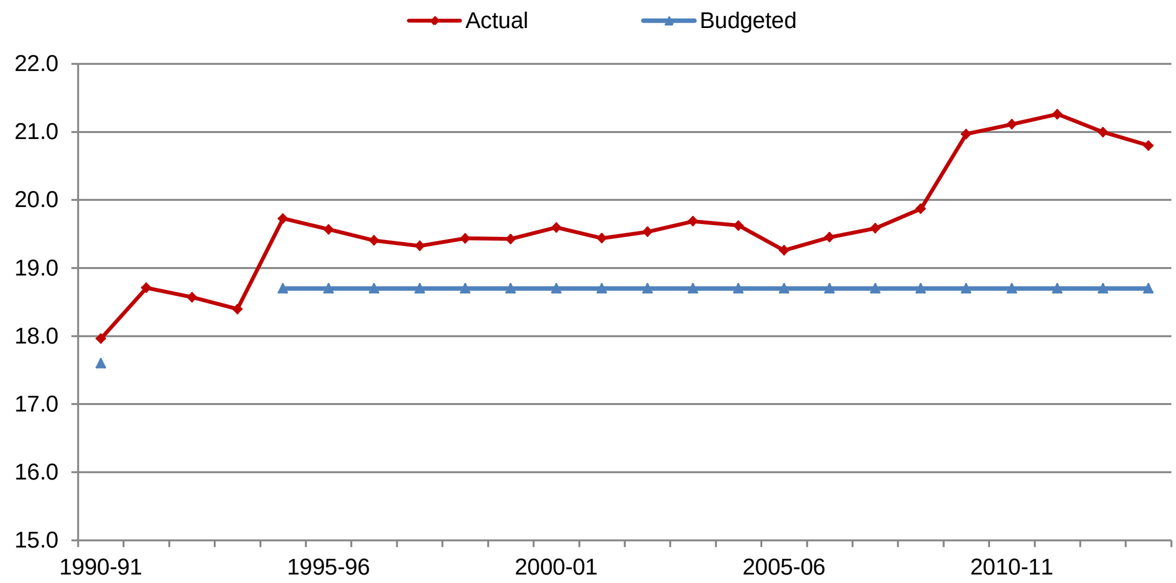
As a result of significant State budget reductions, the University has been challenged in its efforts to protect the quality of its core academic programs, particularly at the undergraduate level.

The University of California's unique strength among national university systems is excellence across all of its 10 campuses. By many measures, including graduation rates, time-to-degree rates, and success of its students from underrepresented minorities and low Academic Performance Indicator (API) high schools, the University maintains extraordinary success relative to other institutions with a similar makeup of students. Many of these measures may be lagging indicators, however, and the full impact of recent budget cuts is not yet evident.

By other measures, years of declining support from the State have had an already apparent impact on the academic excellence that has long been a hallmark of the University of California. One well-recognized measure of academic quality is the student-faculty ratio. Display 3 tracks the student-faculty ratio over the last 23 years. This ratio has risen at various times in the University's history, each time in response to significant budget cuts. The most recent recession was no exception, as campuses struggling to manage their budgets against the backdrop of uncertain funding were forced to delay hiring or made decisions not to fill vacant positions on a permanent basis. As a result, the student-faculty ratio has risen more sharply than in previous crises.

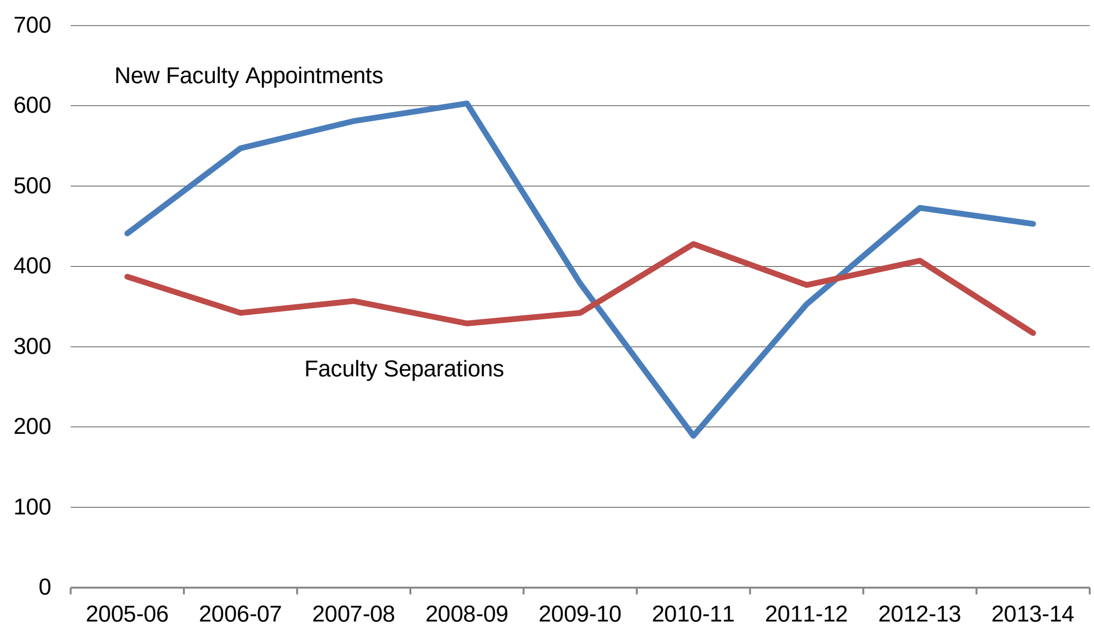
Over the last two decades, student enrollment has grown at nearly twice the rate as faculty. Over the last six years, despite considerable enrollment increases (from 221,300 FTE in 2007-08 to 242,200 in 2013-14, an increase of 9.4%), the size and composition of the Ladder Rank faculty have remained relatively constant (from 8,800 FTE in Fall 2007 to 8,900 in Fall 2013, a growth of 1.3%). While faculty numbers went down in 2010-11 and 2011-12, UC is slowly replenishing faculty ranks; totals of ladder-rank faculty, however, still remain below those of 2009-10. More recently, as the budget situation has improved, campuses have begun to increase their faculty hiring, as shown in Display 4.

Display 3: Budgeted and Actual Student-Faculty Ratios



Actual student-faculty ratios have increased precipitously since the early 1990s. Because UC has prioritized access in its commitment to the Master Plan, enrollment has risen sharply and faculty hiring has not kept pace.

Display 4: Faculty Hiring and Separations Since 2005-06

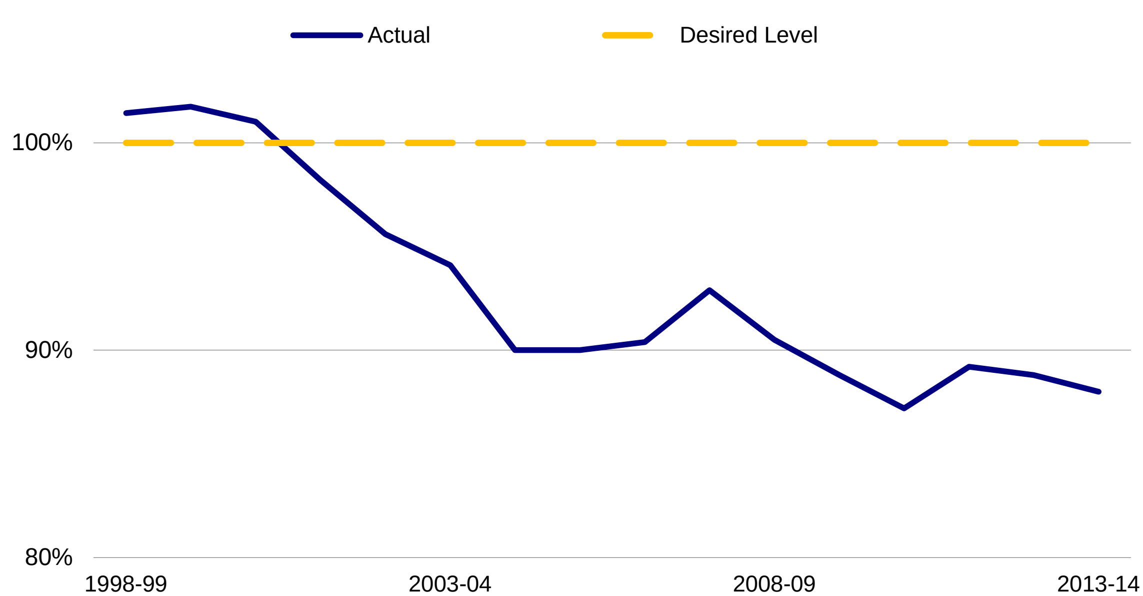


Campuses have increased faculty hiring after two years during which more UC faculty separated from the University than were hired.

Another important measure of quality is the market competitiveness of faculty compensation. A little over a decade ago, UC's faculty salaries were on par with the market. Since then, faculty salaries have slipped to 12% behind market, as shown in Display 5. UC will face increasing challenges as the national economy recovers and other institutions with which UC competes for talent expand their hiring.

Maintaining a world-class institution of higher education for the benefit of California requires that all three pillars of excellence remain strong. Maintaining excellence requires attracting and retaining the best faculty, high-quality graduate students, and a robust, diverse undergraduate student body. UC's ability to maintain its excellence has a direct bearing on the benefits students derive from working hard to qualify for and attend the University. Simply preserving access and affordability without also maintaining academic excellence is an empty promise to those who seek to attend UC.

Display 5: Faculty Salaries as a Percentage of Market



Due to inadequate State funding over the last thirteen years, faculty salaries at UC have declined relative to UC's comparison institutions. In 2013-14, UC's faculty salaries were 12% below those of UC's comparison institutions, and it is estimated that this gap will continue in 2014 despite the across-the-board 3% increase in academic personnel salaries in July 2014.

Performance Outcome Measures

The University of California has historically reported on measures of institutional quality that have been of interest to the Governor, Legislature, University leaders, and the general public. Six years ago, the University began systematically publishing an annual accountability report (www.universityofcalifornia/accountability) with an increased emphasis on outcome measures.

The annual accountability report contains much of the information requested by the Legislature and Governor in trailer bill language attached to the 2014-15 budget (AB 94). That language requests the University to submit an annual report on specified outcome measures by March 1. The University submitted its first report in March, 2014.

The report requires data on the following outcome measures:

- Number and proportion of transfers from the California Community Colleges (CCC);
- Number and proportion of low-income students enrolled annually;
- Four-year graduation rates for students and separately for low-income students;
- Two-year graduation rates for CCC transfer students and separately for CCC low-income students;
- Degree completions for freshman, CCC transfer, graduate, and low-income students;
- The percentage of students on track to complete a degree in four years;
- The amount of resources received divided by the number of degrees awarded;
- For undergraduate students, the amount of resources received divided by the number of degrees awarded;
- Average number of course credits at graduation;
- Number of degree completions in science, technology, engineering, and mathematics (STEM) fields, disaggregated by undergraduate, graduate, and low-income students.

The University's March report demonstrates the University's continued improvement in each of these outcome measures, including steady increases in the number of CCC transfers it enrolls, graduation rates for freshmen and CCC transfers, and the number of students graduating with degrees in STEM fields. In terms of enrolling low-income students, the University far surpasses the proportion of these students enrolled in other AAU institutions, both public and private. Most UC students graduate within a normal range of units required for degree completion.

The Governor's Three-Year Financial Sustainability Plan

Trailer bill language attached to the 2014-15 budget also requested that UC (and CSU) submit three-year financial sustainability plans that are to include projections of revenue and expenditures and enrollment by level of student for 2015-16, 2016-17, and 2017-18 using assumptions provided by the Department of Finance. The Department of Finance instructed the University to assume continuation of the Governor's plan to provide UC with a 4% base budget adjustment for each of the fiscal years, but to also assume no tuition increase of any kind, nor any new programs authorized to charge Professional Degree Supplemental Tuition. In addition, the University is to supply goals for each year associated with the performance outcome measures included in the annual reporting requirement described above. The University's plan is being provided to the Board for approval at the November meeting.

SOURCES OF UNIVERSITY REVENUES

In 2014-15, the University enterprise is generating $26.9 billion[1] from a wide range of revenue sources for support of the University's operations. Not only does the University provide instruction each year for more than 248,000 students and maintain a multi-billion dollar research enterprise, it also engages in a broad spectrum of activities that add to the quality of life on its campuses or provide substantial public benefit, including the operation of teaching hospitals, maintenance of world-class libraries, development of academic preparation programs, management of national laboratories, and provision of housing and dining services.

Display 6 shows the distribution of major fund sources across the University's budget.

The University's annual budget is based on the best estimates of funding available from each of its primary revenue sources within core funds.

Core Funds

Core funds, totaling $6.9 billion in 2014-15, provide permanent funding for core mission and support activities, including faculty salaries and benefits, academic and administrative support, student services, operation and maintenance of plant, and student financial aid. Core funds represent 26% of the University's total expenditures and are comprised of State General Funds ($2.7 billion[1]), student tuition and fee revenue ($3.1 billion), and UC General Funds ($981 million). The latter category includes Nonresident Supplemental Tuition revenue, cost recovery funds from research contracts and grants, patent royalty income, and fees earned for management of Department of Energy laboratories. Display 7 shows the distribution of core funds across major spending categories.

Much of the focus of the University's strategic budget process and negotiation with the State is on the use and level of these fund sources. Historically, State General Funds have been by far the largest single source of support for the University, but as of 2011-12, funds received from the State are less than the revenue received from tuition and fees. Despite significant declines, State General Funds remain a critical core investment, enabling UC to attract funds from federal, private, and other sources. The major budgetary challenges facing the University have centered on core funds.

Non-Core Fund Sources

Other sources of funds augment and complement the University's core activities of instruction and research by supporting ancillary academic and business operations functions; public service to the state and its people; and a rich social, cultural, and learning environment on UC campuses. Non-core funds cannot be easily redirected to support core mission activities. In the case of gift, grant, and contract funds, uses are usually contractually or legally restricted; funds can be used only for purposes stipulated by the donor or granting agency. For other sources, such as hospital and auxiliary revenues, operations are market-driven and face many of the same cost and revenue pressures occurring in the private sector. Revenues are tied not only to the quality of the services and products being provided, but also to the price the market will bear.

Medical Center Revenue is generated by UC's teaching hospitals through its patient-care programs and other activities, primarily from private healthcare plans and government-sponsored Medi-Cal/Medicare programs, all of which is used to support the ongoing needs, both capital and operating, of the medical centers.

Other Sales and Services Revenue is generated from a variety of self-supporting enterprises, including auxiliary enterprises such as housing and dining services, parking facilities, and bookstores; University Extension; and other complementary activities, such as museums, theaters, conferences, and publishing.

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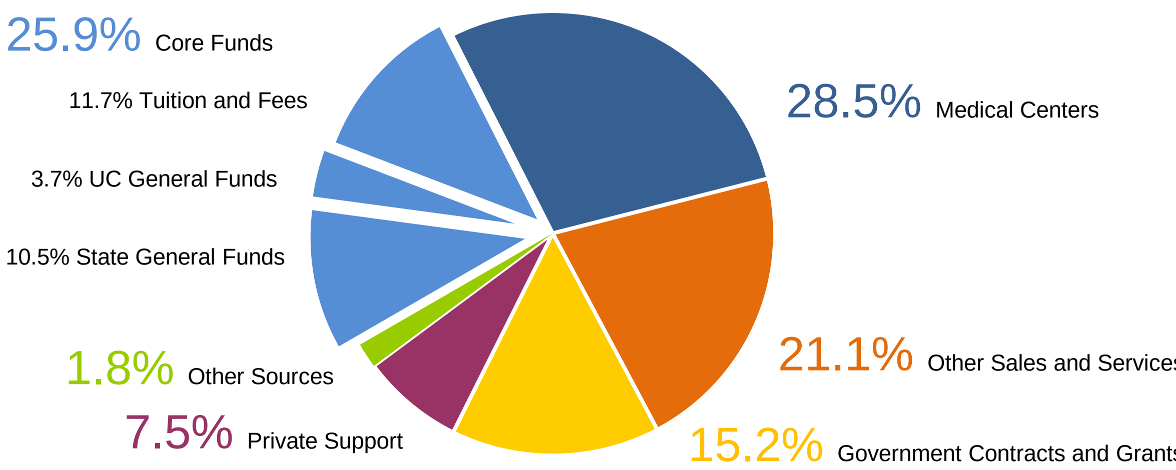
[1]This excludes General Obligation bond debt service that is in UC's base budget but which is not available for general operating budget purposes.

Government Contracts and Grants. Federal, state, and local governments directly fund specific research programs, as well as student financial support.

Private Support. Endowment earnings; grants from campus foundations; and other private gifts, grants, and contracts fund a broad range of activities, but are typically restricted by the donor or contracting party.

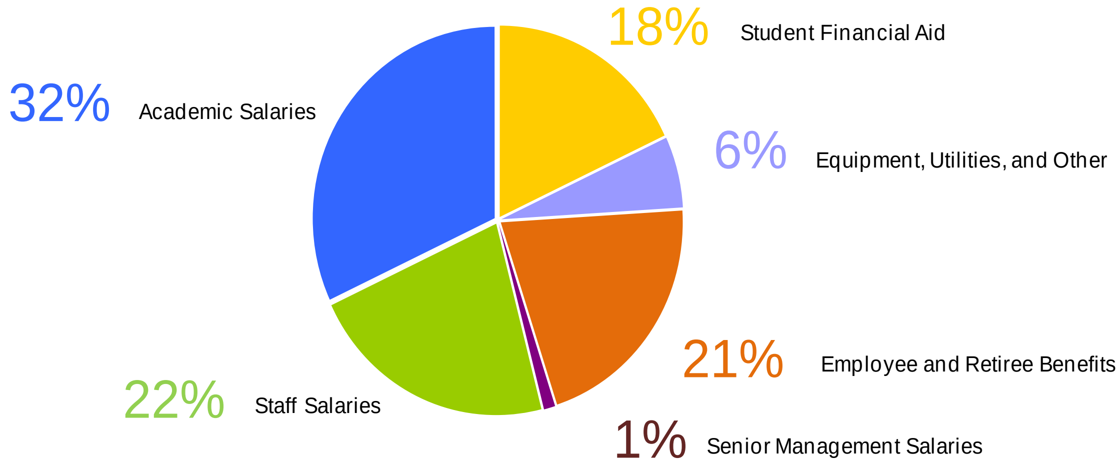
Other Sources. Revenue from indirect cost recovery, patent royalty income, and fees earned for management of Department of Energy (DOE) laboratories is included in the Other Sources category.

Display 6: 2015-16 Sources of Funds



UC's $26.9 billion operating budget consists of funds from a variety of sources. State support, which helps attract other dollars, remains crucial and together with tuition and fees and UC General Funds provide the core support for the University's basic operations.

Display 7: 2014-15 Expenditures from Core Funds



Approximately three-quarters of core funds (i.e., State General Funds, UC General Funds, and student tuition and fees) support personnel through academic, staff, and senior management salaries and employee and retiree benefits.

THE SHIFTING PROPORTIONS OF CORE OPERATING FUNDS

As explained above, while many sources of revenue support the vast University enterprise, three sources – State General Funds, tuition and fees, and UC General Funds (comprised mostly of Nonresident Supplemental Tuition revenue and indirect cost recovery from federal contracts and grants) – provide the principal support for the University's core academic programs. The University's recent funding history and current budgetary challenges can be understood in large part as reflecting long-term State disinvestment and the University's increasing reliance on tuition and fees and Nonresident Supplemental Tuition to offset some, but not all, of the loss in State support.

State General Funds

Since 1990-91, State funding for the University of California has been marked by dramatic reductions due to recurring fiscal crises followed by temporary increases tied to ambitious plans to restore support. These periods of recovery were welcome, but never fully brought State support back to prior levels. While many parts of the University, such as the medical centers and research enterprise, have flourished in recent years, the University's core academic programs have suffered from this decline in State funding.

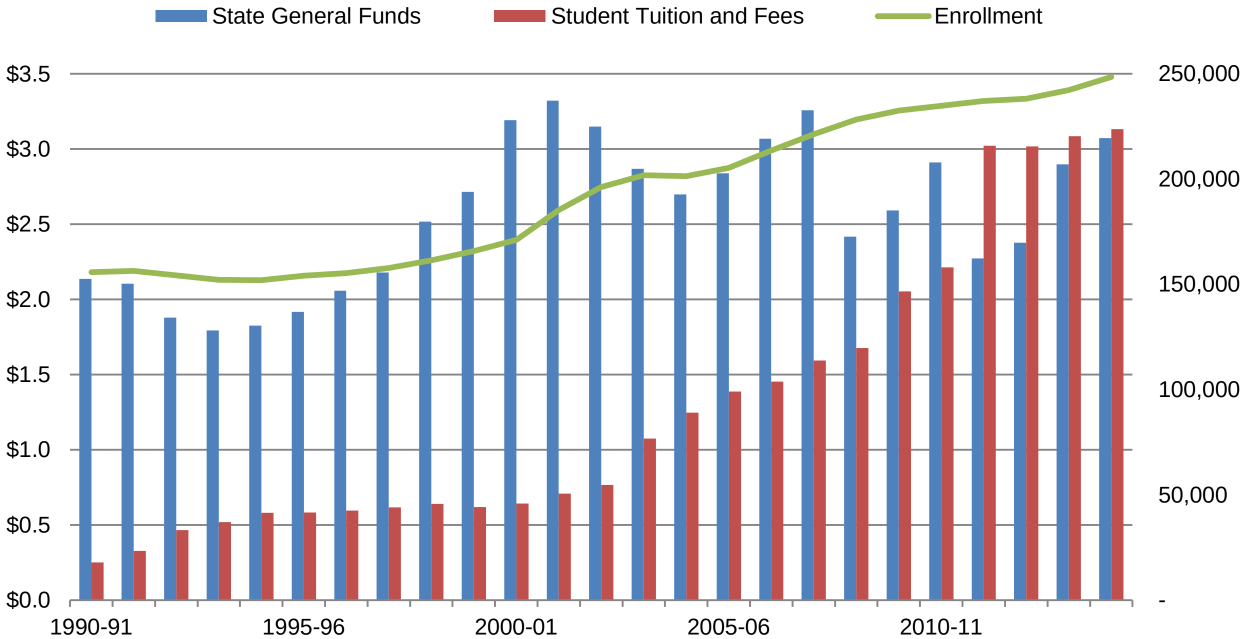
As shown in Display 8, there have been dramatic swings in State support for UC over the last two decades. The net result of these swings is that State support for UC in 2014-15 is less than the amount provided in 1999-00 in non-inflation-adjusted dollars. When adjusted for inflation, State funding to the University has declined by over 30% since 1999-00, or $1.2 billion. Over this same period, the number of California high school graduates has soared and, as shown in Display 8, UC has grown by over 92,600 new students and opened a tenth campus. Exacerbating this decline in State support is the addition since 2010 of employer contribution costs to the University's retirement system, including nearly $400 million of core-funded costs (of which $358.8 million is the State's share). The State has been unwilling to cover these costs, as it does for the California State University and California Community Colleges. As a result, the University has been required to redirect resources to cover these mandatory costs that would otherwise be spent on other areas of the operating budget. 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.

The Governor's multi-year funding plan for the University provides some funding predictability in State funds for the University, but the plan by itself without other revenue does not provide adequate funding for the University to meet even its mandatory costs in 2015-16 and in subsequent years. Cost-adjusting the State General Fund portion of UC's core funds budget – which now comprises less than half (41%) of core funds – provides no means for the University to adjust the other half of that core budget. A 4% adjustment to the State General Funds base would equate to a 1.7% increase in UC's core-funded budget in 2015-16. This level of funding does not even cover inflation, which the Department of Finance is projecting to be about 2% in 2015-16, let alone provide sufficient funds to cover other mandatory costs and high-priority needs.

Student Tuition and Fees

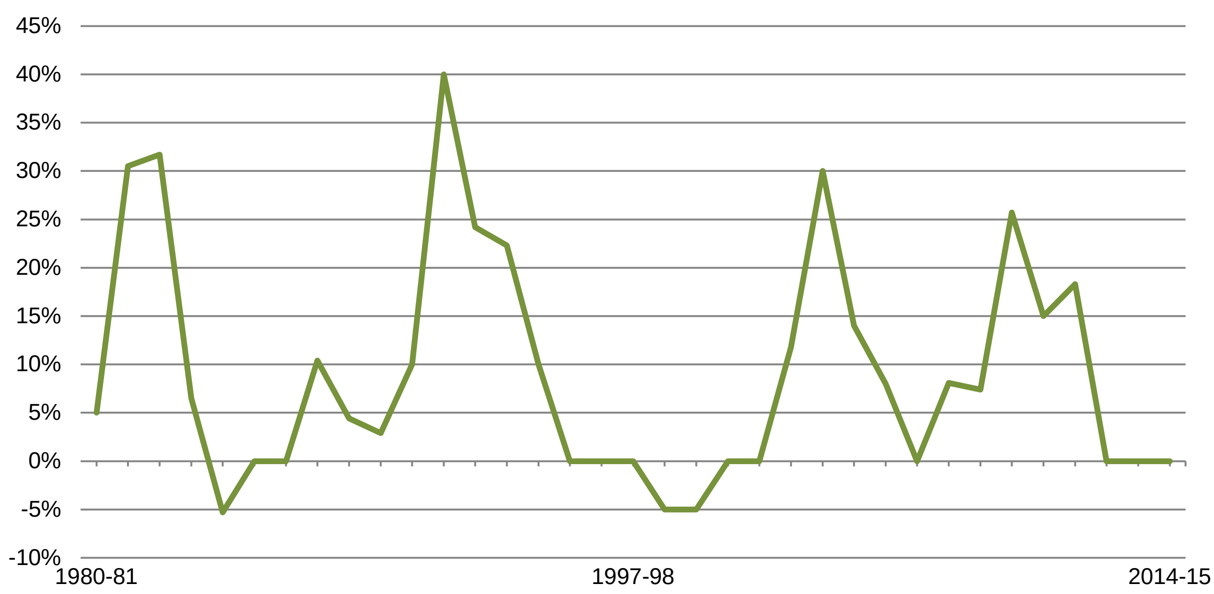
The University has been obligated to mitigate the impacts of reductions in State funding by increasing student tuition and fees. In 1990-91, tuition and fees were just $1,624 for all California residents. In 2014-15, mandatory systemwide tuition and fees total $12,192 for California resident undergraduates and graduate academic students, and total charges are even higher for graduate professional students. Looking back over the last 30 years, as shown in Display 9, tuition and fee increases have offset cuts in State support during four major economic downturns in the State. As such, the volatility in tuition has closely mirrored the State's fiscal condition. Tuition and fees increased 92% during the recession of the early 1980s, 134% in the early 1990s, 79% in the early 2000s, and 99% beginning in 2007-08 through 2011-12.

Display 8: Revenues and Student Enrollment Over Time (Dollars in Billions and Not Adjusted for Inflation)



Since 1990-91, student enrollment has increased by nearly 60%, primarily driven by the University's continuing commitment to accommodate eligible California resident undergraduates. While State support has not kept pace, student tuition and fees have risen to partially backfill the loss of State General Funds, and mandatory cost increases have not been fully funded.

Display 9: Year-to-year Changes in UC's Mandatory Charges Since 1980 (Not Adjusted for Inflation)



UC's tuition levels have been subject to chronic volatility, as tuition increases have always closely mirrored the State's fiscal condition. Tuition has increased to partially offset State budget cuts.

HISTORY OF STATE GENERAL FUNDS FOR UC

- In the early 1990s, the University lost the equivalent of 20% of its State support.
- Later in the decade, significant funding increases were provided for enrollment growth necessary to maintain the University's commitment to the Master Plan, to avoid student fee increases, and to maintain quality.
- Another State fiscal crisis during the early 2000s resulted in significant reductions in State support during a time of rapid enrollment growth.
- Beginning in 2005-06, UC entered a six-year Compact with Governor Schwarzenegger to provide the minimum resources needed for the University to accommodate enrollment growth and sustain the quality of the institution. This allowed UC to continue enrollment growth, provide compensation increases for faculty and staff, and avoid a student fee increase in 2006-07.
- The State's ongoing budget shortfalls and the onset of the global financial crisis led the State to renege on the Compact and resulted in significant reductions in State support at the end of the decade. For two years, no funding was provided for enrollment growth and UC's base budget was reduced at a time when demand to attend the University soared. Federal economic stimulus funds provided temporary support. When contributions to the UC Retirement Plan (UCRP) were restarted in April 2010, the State did not immediately contribute its fair share.
- After partially restoring earlier cuts to UC's budget in 2010-11, the State reduced support to UC by $750 million in 2011-12. As a result, State support to the University was more than $1.6 billion less than it would have been under the most recent funding agreement.
- The University received $105.9 million in new State funding in 2012-13, including $89.1 million toward the State's share of employer contributions to the University's retirement plan. Nevertheless, even with the augmentation, UC's State appropriation had fallen nearly $900 million, or 27%, since 2007-08.
- In 2013-14, the University received $256.5 million in new State funding for operating purposes, including a $125 million tuition and fee buy-out for 2012-13. Additional one-time funding from debt restructuring provided $85.5 million in temporary State funds that was used to cover pension costs.
- In 2014-15, the State is providing a $142.2 million 5% base budget adjustment, leaving a $126.9 million funding shortfall in the University's budget plan.

Despite steep increases, tuition and fees have addressed only a portion of the reductions in State support and rising mandatory costs. The rest of the gap has been addressed through cutbacks in programs and layoffs as well as sustainable efficiencies, cost savings, and alternative revenue generation.

Consistent with President Napolitano's pledge to keep tuition and fees "as low as possible [and] as predictable as possible," the University is proposing a multi-year plan for mandatory systemwide charges. As discussed in more detail below, the plan is intended to bring greater certainty and stability to UC's tuition-setting process while protecting access and affordability and meeting UC's ongoing budgetary needs.

In 2011-12, for the first time, tuition and fees covered more of the education costs of UC students than the State. In 2014-15, tuition comprised 46% of the University's core funds budget. With limited new State support, the absence of tuition increases over the last three years has meant that there has been no mechanism to cost adjust nearly half of the University's core budget.

UC General Funds

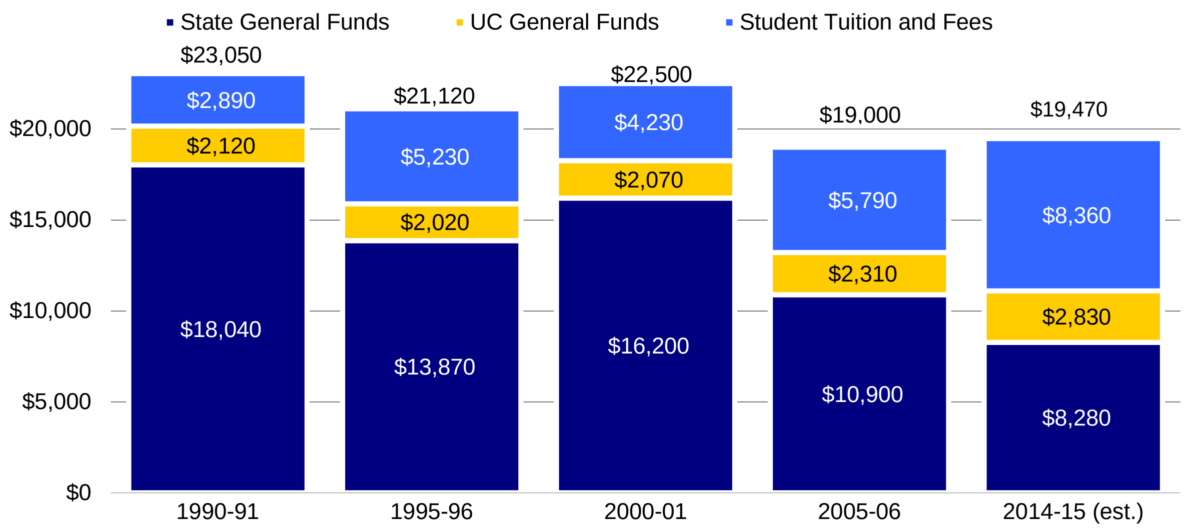
To the extent that tuition and fees have addressed only a portion of the cuts in State support and rising costs, many UC campuses over the last few years have sought to increase nonresident student enrollment. Nonresident undergraduate students pay $22,878 in addition to mandatory tuition and fees, providing campuses with additional revenue beyond the marginal cost to educate these students. Campuses have used this supplemental funding to backfill budget shortfalls, although the number of nonresident students varies widely across the campuses. For several campuses, nonresident tuition has provided a critical alternative revenue source that has allowed them to mitigate the impacts of severe budget cuts on their academic programs. Other campuses with fewer nonresident students have benefitted less from this revenue source. All campuses, with the exception of Merced (which has remained committed to growing primarily resident enrollments), are seeking to increase their nonresident enrollments. On a systemwide level, nonresident supplemental tuition has grown considerably, but still represents less than 9% of the University's core funds budget. Even as campuses have expanded nonresident enrollment, the University's average expenditures per student have continued to decline.

The consequences of this net decline are evident in Display 10, as resources for educational programs for general campus students (undergraduate and graduate students combined) have declined on an inflation-adjusted per-student basis. The display highlights three significant trends in funding for the instructional mission:

- The average expenditure per student for a UC education has declined by 16% over 25 years – from $23,050 in 1990-91 to $19,470 in 2013-14. Costs have not escalated, as many have asserted, but rather have declined on a per-student basis.
- State funding per student declined significantly – by 54% over that same time period. In 1990-91, the State contributed $18,040 per student – 78% of the total cost. In 2013-14, the State share declined to $8,280, just 43% of the total funding for education, while the student share has increased.

How the University has sought to maintain and build on its legacy of excellence must be appreciated against the backdrop of the decline and shifting composition of the funds that support the institution's core instructional and research programs.

Display 10: Per-Student Average Expenditures for Education (2013-14 Dollars)



Average inflation-adjusted resources per general campus student. Excludes financial aid.

Since 1990-91, average inflation-adjusted expenditures for educating UC students have declined (UCRP employer contributions, which restarted in 2010-11, are excluded from this calculation); the State's share of expenditures has plunged even more steeply; and the student share, net of financial aid, has more than tripled.

A Five-Year Stabilization Plan for Tuition and Financial Aid

The University's mandatory systemwide charges have remained flat since 2011-12, which has limited the University's ability to expand its primary institutional aid programs. Little additional aid has been available to help the neediest students offset the many other cost increases that they face – for example, increases in both on- and off-campus room and board, books and supplies, transportation, personal expenses, and health insurance premiums. Holding tuition flat has tended to reduce the University's financial accessibility for the neediest one-half of UC students, since financial aid would have fully covered their increased and provided them with additional funding for these other cost increases. In contrast, flat tuition has benefitted students from families with greater financial resources, who have been spared any increase in their out-of-pocket mandatory systemwide charges.

Consistent with President Napolitano's pledge to keep tuition and fees "as low as possible [and] as predictable as possible," the University is proposing a multi-year plan for tuition and fees, including mandatory systemwide student charges (Tuition and the Student Services Fee), Professional Degree Supplemental Tuition, and Nonresident Supplemental Tuition. For academic years 2015-16 through 2019-20, the University proposes modest, predictable annual increases of 5% in mandatory systemwide charges – Tuition and the Student Services Fee – contingent upon annual 4% increases in the State-funded portion of the University's base budget as provided in the Governor's multi-year funding proposal for the University. In addition, for academic years 2015-16 through 2019-20, the University proposes annual 5% increases in Nonresident Supplemental Tuition for undergraduate students, as well as limiting annual increases in Professional Degree Supplemental Tuition for most professional programs to a maximum of 5%. The stable funding provided under such a plan, coupled with a sustained commitment to financial aid, would address much of the hardship created by the recent history of erratic State support for UC and the resulting unpredictable increases in the University's charges. For example:

- Families could more easily plan for college and would be spared the anxiety and frustration caused by unpredictable or large tuition increases.
- Students from low- and middle-income families would know that need-based grants would continue to cover 100% of these charges for half of all UC undergraduates.
- Over the five years covered by the proposal, UC would have the resources to increase enrollment of California resident students by at least 5,000.
- Graduate programs could more confidently make multi-year offers of support to incoming students, which would improve their ability to attract the best students in a competitive global environment.
- UC could begin reinvesting in academic quality, including reducing the student-faculty ratio, providing more robust undergraduate instructional support, and enhancing student services that are critical to student success.
- Predictable projections about tuition and State support would improve UC campuses' ability to meet their long-term funding commitments.

Under the proposal, the Board of Regents would authorize maximum levels by which these student charges could be raised for five years in advance – from 2015-16 through 2019-20 – contingent upon adequate State support, as described below. A typical undergraduate who first enrolls in Fall 2015 would have a better understanding of the total amount of systemwide charges and, if applicable, what Nonresident Supplemental Tuition to expect for his or her entire UC education.

The rates approved for 2015-16 through 2019-20 would reflect modest increases of 5% each year – well below the average annual increase for other public institutions (7.5%) or private institutions (6.9%) over the past four decades. UC would continue its historic practice of setting aside a portion of this new funding for enhanced financial aid: 33% of new revenue from undergraduate students and students in professional degree programs, and 50% of new revenue from graduate academic students.

Under the proposal, the State would provide annual increases of 4% in State General Fund support of the University's base budget – the same increase that the Governor has proposed for 2015-16 and 2016-17. If the State were to provide funding to avoid or lessen the planned tuition and fee increases, the President would be authorized to reduce charges below the maximum amounts approved by the Regents. The State would also ensure that Cal Grant awards continue to cover these tuition and fee increases for eligible recipients.

The University will set aside 33% of new undergraduate tuition revenue for need-based grant assistance each year. Together with the State's Cal Grant program, this assistance is expected to fully cover the tuition increase for an estimated one-half of California resident undergraduate students, and to provide the neediest students with additional assistance to help offset other cost increases described above.

Consistent with past practice, the University will also set aside 50% of new tuition revenue attributable to graduate academic students. Professional degree programs are also expected to supplement financial aid resources by an amount equivalent to at least 33% of new Professional Degree Supplemental Tuition revenue, or to maintain a base level of financial aid equivalent to at least 33% of the total Professional Degree Supplemental Tuition revenue.

Revenue associated with the proposed increases would address an estimated one-third of the University's expected cost increases over the five-year period. State funding would cover approximately one-third as well. The University is committed to continuing its considerable efforts to achieve greater operational efficiencies, to expand alternative revenue sources, and to identify further cost savings to meet the remaining one-third of its needs. The Governor's multi-year funding plan for UC calls upon the University to keep its mandatory systemwide charges flat through 2016-17. Consistent with the Governor's plan, the University did not increase those charges for 2013-14 or 2014-15. Nevertheless, with half of the University's core operating budget now derived from tuition and fee revenue, it is not sustainable to effectively cap one-half of the University's core operating budget indefinitely, given the University's mandatory cost increases and high-priority budgetary needs. The multi-year tuition and financial aid plan proposed for 2015-16 through 2019-20 would provide resources to address those needs, to serve more California students, and to enhance the quality and value of a UC education.

SUMMARY OF THE UNIVERSITY'S 2015-16 BUDGET PLAN

Proposed Increase in Revenue

The 2015-16 budget plan proposes $459.0 million in revenue increases to match expenditure needs. These increases fall into four revenue categories.

State General Funds. The plan includes a 4% base budget adjustment, or $119.5 million in new State General Funds, as provided in the Governor's multi-year funding plan.

Student Tuition and Fees. As provided in the University's Five-Year Stabilization Plan for Tuition and Financial Aid, the 2015-16 budget plan includes a 5% tuition increase to help meet the University's basic mandatory and high-priority costs in the absence of additional State funding. The 5% tuition increase, the first in three years, will generate $97.7 million in new revenue (net of financial aid), allowing the University to cost-adjust half of the core funds budget. In addition, tuition and fee revenue from new enrollment growth will generate $30.2 million (net of financial aid). Finally, a 5% increase in Professional Degree Supplemental Tuition will generate another $8.7 million (net of financial aid).

UC General Funds. Most campuses have expanded their nonresident enrollment to help backfill reductions in State support. The budget plan proposes $50 million in new revenue from Nonresident Supplemental Tuition (after netting out instructional costs associated with these students) associated with a projected increase in nonresident enrollment of 2,000 students. The plan assumes no change in indirect cost recovery in 2015-16 from federal research contracts and grants as a result of continuing declines in research funding, which are partially offset by increases in higher federal indirect cost rates recently negotiated by several campuses with the federal government and some increases in funding from non-federal resources.

Alternative Revenue Sources/Cost Savings. The budget plan assumes $40 million in funding related to strategies to manage liquidity and $20 million from savings achieved through new systemwide procurement contracts in 2015-16, as well as $20 million in additional funding available to the operating budget from new models of philanthropic giving. These initiatives continue the University's practice of resolving a portion of its funding needs through internal actions to reduce costs, promote efficiencies, and generate new revenue.

Major Expenditure Categories for 2015-16

The budget plan includes $459.0 million in expenditures. Proposed expenditures address mandatory and other high-priority cost increases, enrollment growth to allow the University to continue to honor its commitment under the Master Plan, and modest reinvestment in academic quality.

Mandatory Costs. There are a variety of cost increases the University must pay each year, regardless of whether new funding is provided to support them. Below is a description of the major mandatory cost increases projected for 2015-16:

- **UC Retirement Plan.** The University of California Retirement Plan (UCRP) provides pension benefits for more than 61,700 retirees and survivors and has about 118,300 active employee members as of July 1, 2014.

  Prior to November 1990, contributions to UCRP were required from both the University as the employer and from employees as members. In the early 1990s, the Regents suspended University contributions to UCRP after actuaries confirmed that it was adequately funded to provide plan benefits for many years into the future.

  In the nearly 20 years during which employer and member contributions were not required, the State saved more than $2 billion. However, the funded status of UCRP declined as both annual payouts and the accrued liability rose. Furthermore, the recent national economic crisis depleted the actuarial value of UCRP assets, which had fallen to a funded ratio of 80% in July 2014.

  The University restarted contributions to UCRP in April 2010, with an employer contribution of 4% and member contributions of 2% through the 2010-11 fiscal year. Since that time, employer contributions rose 3 percentage points for two years and 2 percentage points in each year thereafter; employee contributions rose 1.5 percentage points each year. In 2014-15, the employer contribution is 14% and the employee contribution is 8%.

In December 2010, the Regents made changes to retirement plan benefits that will reduce long-term costs. Most significantly, the Regents approved the establishment of a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which increased the early retirement age from 50 to 55 and the maximum age factor from age 60 to 65.

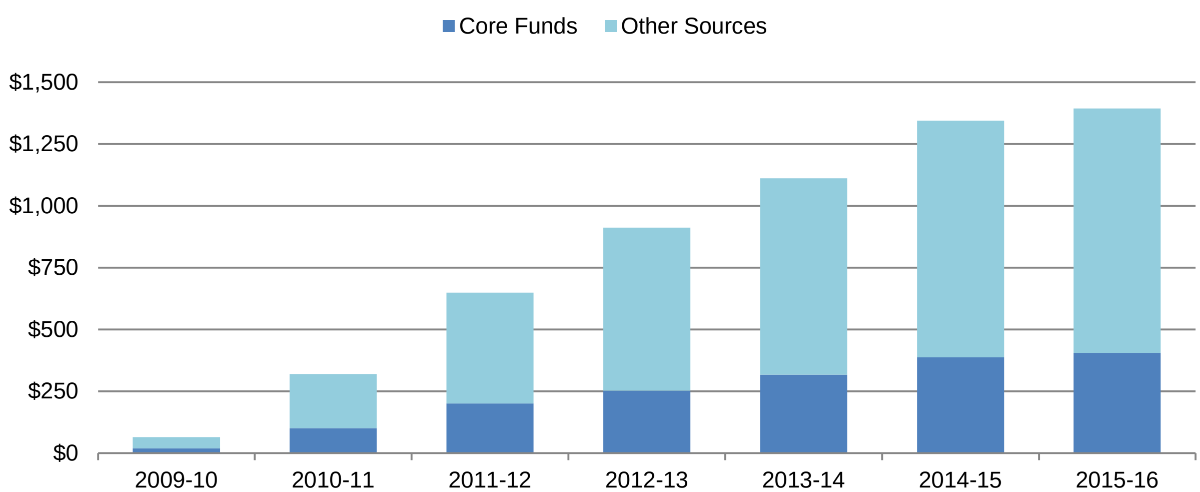
In 2012-13, the State provided an augmentation to the University's budget of $89.1 million intended to be used toward the State's share of the employer contribution to UCRP. In 2014-15, the University is contributing $389.6 million from core fund sources and $1.3 billion from all fund sources to UCRP.

The 2015-16 budget plan includes $17.6 million for the increase in core-funded employer contributions to the retirement system. With no expected change in the 14% current employer contribution rate, this increase represents only new costs associated with anticipated employee growth, primarily of faculty and other academic staff. Display 11 shows how employer contributions to the retirement system will level off in 2015-16 as the contribution rate remains at the current 14% level. UC's employer contributions are expected to rise to $406 million from core funds and $1.4 billion from all fund sources in 2015-16.

While the 2015-16 budget plan does not include a specific request for the State to contribute its share of the employer retirement contribution costs, the University continues to seek parity with the California State University and the California Community Colleges. Employer contributions to the pension plan for employees in those systems are provided automatically by the State each year above the normal funding for operations. Other than the $89.1 million State augmentation in the 2012-13 budget, the State has not provided separate funding for UC's pension costs; UC has been forced to pay these costs from funds that otherwise would have been used to help meet other operating budget needs. UC continues to press the State to fund its share of the employer contributions to UC's pension plan above UC's base budget adjustment. That share is estimated at $269.8 million for 2015-16.

UCRP's unfunded liability is being addressed through several actions approved by the Regents. Employer contributions have steadily increased to 14% of covered pay. In addition, at times, the University has borrowed to supplement the employer and member contributions to meet the Modified Annual Required Contribution. Assuming a 7.5% investment return, the Plan is estimated to be 100% funded by the year 2039.

Display 11: Actual and Projected Employer Contributions to UCRP by Fund Source (Dollars in Millions)



Employer contributions to UCRP restarted in April 2010. Contribution rates will remain at 14% of employee covered compensation in 2015-16, at a cost of about $406 million for core-funded programs and $1.4 billion in total.

- **Employee Health Benefits.** Until recently, employee health benefit costs had been rising at a rapid rate, typically between 8.5% and 11%. Since no State funds have been provided for this purpose since 2007-08, campuses have been forced to redirect funds from existing programs to address these cost increases – beyond the redirections necessary to absorb budget cuts.

  Significant efforts have been made in the last several years to limit the cost increases of health benefits to reduce the pressure on already strained operating budgets. In 2011, through negotiations with providers and the addition of new programs to the employee benefit plan portfolio, UC was able to limit health benefit cost increases to 7.1%. In 2012, successful negotiations again resulted in an increase in these costs that was limited to 2.4%. Again, aggressive negotiating resulted in an increase of only 5% for current employees in 2013 and 5% in 2014. Overall health benefit costs in 2015-16 are expected to increase by about 6%, or $27.0 million.

  In addition, employees have been required to bear a larger responsibility for the rising costs of these benefits, partially offsetting any salary increases they may have received in recent years. In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical premium increases on lower-paid employees. Although UC pays approximately 87% of monthly medical premiums for employees on an aggregate basis, the University made a strategic decision to cover an even larger portion of the premium for those in the lower salary brackets. In the current environment, with limited new funding and continuing cost pressures, it is expected that some of the cost increases will continue to be borne by most employees.

- **Retiree Health Benefits.** In 2014-15, more than 54,200 UC retirees and beneficiaries are eligible to receive or are receiving an estimated $263 million of health benefits paid for by the University. The State has historically provided funding to the University equivalent to the per-employee funding provided for other State employees for the increased number of annuitants expected in the coming year. In the 2014-15 budget, the State stopped funding these costs separately, adding these costs to the expenditures to be covered within the base budget adjustment provided under the Governor's multi-year funding plan. The annuitant health costs are estimated to increase by $5.2 million in 2015-16.

  Because accumulated future retiree health benefits costs are not pre-funded, UC has an unfunded liability for retiree health representing the cost of benefits accrued to date by current faculty, staff, and retirees based on past service, estimated to be $14 billion in 2014-15. In December 2010, in order to reduce long-term costs and the unfunded liability for retiree health, the Regents approved changes to retiree health benefits, including reductions in UC's aggregate annual contribution to the Retiree Health Program, a new eligibility formula for all employees hired on or after July 1, 2013, and for existing employees with fewer than five years of service credit or whose age plus service credit is less than 50 as of June 30, 2013.

- **Faculty Merit Program.** The University has maintained the faculty merit program each year through the fiscal crisis because of the importance of this program to the quality of the University. Faculty are generally eligible every three years for a merit increase, which is intended to reward them for excellent teaching and research, as well as fulfillment of their public service mission. This program requires a rigorous peer review process before a merit salary increase is awarded. The cost of the faculty merit program is estimated to be $32 million in 2015-16.

- **Keeping Pace with Inflation.** To maintain the quality of the instructional program and all support activities, the University must regularly replace, upgrade, or purchase new instructional equipment, library materials, and other non-salary items. The University must also purchase utilities to provide energy to its facilities. Just as costs for salaries and benefits for employees rise, the University's non-salary spending is affected by inflation. Costs of goods and services employed for education generally rise faster than the typical set of goods and services used to measure inflation. State funding for the University's budget has been insufficient to adequately address these costs. Even accounting for the efficiencies described earlier, without State funding to support cost increases, the University has been forced to redirect funds from existing resources to cover non-salary price increases. Throughout the recent recession, inflationary pressures remained relatively soft. However, as the state economy has improved, cost pressures have begun to build. Based on the Department of Finance recent projections, the University's 2015-16 expenditure plan includes $28 million for non-salary price increases, consisting of a 2% general non-salary price increase, as well as $8 million to cover projected increases in purchased utility costs above inflation.

Investment in Academic Quality. As noted earlier, the President has made investment in the academic infrastructure of the University a top priority. The University's long-range financial planning has focused on investment in a variety of areas that have a direct impact on improving the quality of the University's instructional, research, and public service programs as well as the fiscal health of the system. While there are no agreed-upon standards in the higher education community for determining quality, there are clear metrics that are commonly used when rating great universities. They include, among other things, maintaining an outstanding faculty, measured in terms of individual achievements as well as adequate numbers to teach and train, and recruiting and educating outstanding undergraduate and graduate students. The areas identified for investment in academic quality are critical elements in any academic institution's ability to maintain excellence and have all been identified by the Regents as high priorities for many years, prior to the onset of the most recent fiscal crisis. Consistent with the University's long-range plan, the University 2015-16 budget proposal proposes $60 million toward this investment for the following types of programs:

- **Enhancing Undergraduate Instructional Support.** Historically, the State has recognized chronic shortfalls in funding for key areas of the budget that directly affect instructional quality – instructional equipment replacement, instructional technology, libraries, and ongoing building maintenance. The previous two Compacts with former Governors proposed an additional 1% per year base budget adjustment to help address these shortfalls. The University must begin reinvesting in these areas if it is to keep up with technical innovations in equipment, libraries, and instructional technology, and to address ongoing maintenance needs – all of which were chronically underfunded before the recent fiscal crisis and now are even less well-funded, given recent budget cuts.
- **Improving the Student-Faculty Ratio.** While the University's budgeted student-faculty ratio has held steady at 18.7:1, the actual student-faculty ratio has deteriorated dramatically in the recent fiscal crisis, standing currently at about 21:1. Improving the student-faculty ratio at the University has been among the highest priorities of the University for a number of years. Doing so would permit the University to offer smaller class sizes where possible, improve the quality of the educational experience and richness of course offerings, and help students complete requirements and graduate more quickly. A lower student-faculty ratio also increases opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service. Reducing the student-faculty ratio is also important as the University seeks to make further improvement on performance outcomes, such as graduate rates and time-to-degree, as requested by the State in budget trailer bill language.
- **Supporting Startup Costs for New Faculty.** As campuses begin to hire faculty once again, both to replace those who have retired or separated and to enhance innovation and quality, one of the major challenges they face is the cost of startup packages for new faculty. Startup costs include renovation of laboratory space; equipment; graduate student, postdoctoral scholar, and technical staff support; and other costs that are necessary for new faculty to establish their research teams and projects. In some disciplines – especially health sciences, life sciences, physical sciences, and engineering – startup costs frequently exceed $1 million per faculty member. Since UC's top candidates have multiple job prospects and UC is in competition for these hires, candidates make decisions based on UC's ability to support cutting-edge research.
- **Addressing Faculty and Staff Salary Gaps.** As noted earlier, a recent study on ladder-rank faculty compensation concluded that faculty salaries lagged the market by 12% in 2013-14; there was a similar disparity in staff salaries. As the University's budget stabilizes, closing this gap is a high priority as the University competes for the best faculty and staff.
- **Augmenting Graduate Student Support.** Graduate education and research at the University have long fueled California's innovation and economic development, helping establish California as one of the 10 largest economies in the world. The strength of UC's graduate programs is a key factor in attracting and retaining the highest-quality faculty. The University must ensure that the amount and duration of graduate student support remains competitive.
- **Graduate and Professional Programs.** Historically, many of UC's professional schools have held a place of prominence in the nation, promising a top quality education for a reasonable price. Budget cuts have devastated the resources available to the professional schools to such a degree that these schools are extremely concerned about their ability to recruit and retain excellent faculty, provide an outstanding curriculum, and attract high caliber students. New revenue generated from proposed increases in Professional Degree Supplemental Tuition will be used to recruit and retain faculty, recruit top-notch graduate students, and provide additional student financial support, thus helping the schools to regain and maintain the excellence threatened by budget cuts.

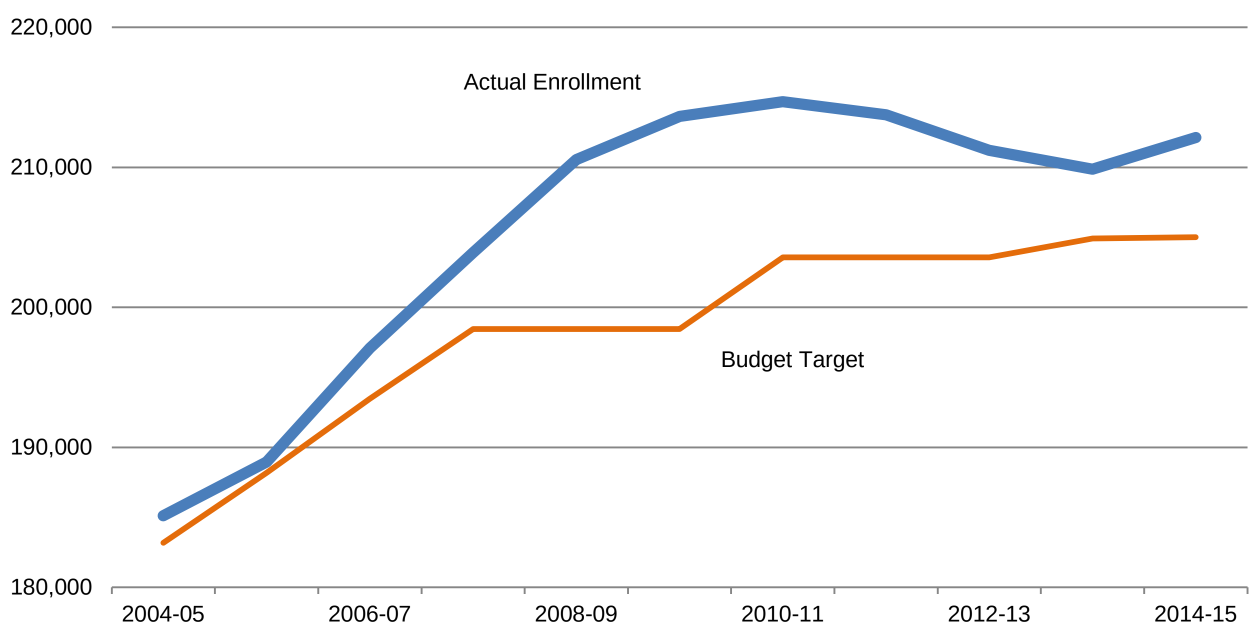
Enrollment Growth. UC has long accepted its obligation, as a land-grant institution and in accordance with the Master Plan for Higher Education, to provide a quality education to all eligible California resident undergraduate students who wish to attend. While the University seeks to maintain its commitment to offering admission to all eligible California residents, the University's long-range financial planning is built on the premise that the University cannot continue to take students without resources to educate those students at the level of quality expected of the University.

Aligning instructional programs with resources is particularly important during a time of constrained State funding. Despite this important goal, the University has more than 7,000 students enrolled for whom the State has never provided funding. To ensure that programs and resources are appropriately aligned, the University is in the process of developing a new long-range enrollment plan through 2020-21. This plan, once finalized, will form the basis for enrollment planning going forward.

The plan will reflect the need to address the unfunded enrollment that currently exists as well as increase the number of California residents UC serves. The University is developing this plan on the foundation of a set of principles that have been proposed by the University's Academic Planning Council and vetted widely throughout the University community. These principles are summarized below:

- UC remains committed to offering admission to all eligible Californians.
- The enrollment strategy needs to be financially sustainable.
- UC will expand opportunity to historically underserved populations.
- Graduate/professional education is integral to UC's mission.
- All campuses are excellent and all participate in meeting the system's overall goals.
- Campuses have different priorities and goals that must be reflected in the plan.
- UC needs to enroll qualified students from other states and nations.

Display 12: State-supported FTE Student Enrollment



The Compact with Governor Schwarzenegger called for enrollment growth of 2.5% annually through 2010-11 to accommodate Tidal Wave II and expansion of graduate enrollments. Enrollments grew more rapidly than expected and in three years between 2008-09 and 2012-13, the State was unable to provide funding enrollment growth.

University projections indicate that enrollment growth of about 1% per year through this decade will allow the University to continue to meet its obligations under the Master Plan. The 2015-16 budget plan assumes that with a combination of a 4% base budget adjustment in State funding and 5% tuition increases, the University will have sufficient resources to continue to fund 1% annual enrollment growth, roughly 5,000 more California residents under the University's proposed five-year plan. The University could continue to support enrollment growth at the Merced campus and moderate growth in undergraduate and graduate students on the general campuses and in the health sciences, including enrollment growth at the new Riverside School of Medicine. Funding will also be used to support unfunded enrollments at the Betty Irene Moore School of Nursing at the Davis campus consistent with the provisions of their gift. However, if sufficient funding is not identified to adequately support the University's budget plan, campuses will not be able to increase enrollment of California residents in the coming year and will begin to decrease the number of unfunded California residents who currently attend UC.

High-Priority Costs. In addition to the categories above, there are several additional cost increase areas where, while not mandatory, are required as part of the normal cost of operating a major research university:

- **Compensation.** Recent cuts to the University's budget have resulted in significant disparities in faculty and staff salaries compared to the market. To determine how these disparities have changed since they were last evaluated, former President Yudof approved a total remuneration study in July 2013 of general campus ladder-rank faculty. Prohibitive costs prevented a study of all employee categories. Conducted by Mercer during the first half of 2014, the purpose of the study was to evaluate the University's current position for total remuneration compared to the market and, in addition, to determine the impact of the New Tier benefits on total remuneration. The study found that salaries for UC's ladder-rank faculty lag market by 12% across all pooled ranks; health and welfare benefits are 7% below market; total retirement packages (including the defined benefit plan and retiree health plan) are 6% above market; and UC's total remuneration position is 10% below market, due primarily to non-competitive salaries.

  The study also compared UC's competitive position in 2009 (when the last total remuneration study was undertaken) and 2014. The findings about UC's changing competitive position are of particular concern, because they identify longer term trends in UC's competitiveness relative to its principal comparator institutions. The major findings included the following: UC's position with respect to total remuneration fell 8% between 2009 and 2014, from 2% below market to 10% below market; salaries fell from 10% below market to 12% below market; health and welfare benefits declined from 6% above to 7% below; changes to UC's retirement plans since 2009 have reduced UC's positioning against the market from 29% above market to 2% below market; total retirement decreased from 33% above market to 6% above market; and total benefits decreased from 18% above market to 1% below market. Similar downward trends exist for other staff salaries in most workforce categories. The University is deeply concerned about the erosion of UC's competitiveness with respect to compensation and the widening gap between funds available for compensation and the resources needed to fund competitive salaries.

  Changes in the costs and structure of the University's employee benefits programs will intensify pressure for salary increases over the next several years. The increase in employee contributions to the retirement program from 6.5% of pay in 2013-14 to 8% in 2014-15 has further impacted employee take-home pay. Although the benefits provided by UC are an important component of the packages offered to candidates, the salary component itself must be competitive to attract and retain quality faculty and staff employees if the University is to maintain its preeminent stature.

  To ensure that UC is able to recruit and retain faculty and prevent further growth in salary lags for both faculty and staff, the University must continue to support regular and predictable compensation increases. Maintaining competitive compensation for all staff is a high priority of the University, an important element of a sustainable financial plan. Consistent with UC's longer-term financial planning, the budget plan in 2015-16 proposes a general salary increase of 3% for faculty and staff, with a total cost of $109.8 million. Actual salary and benefit actions for represented employees are subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act.

- **Deferred Maintenance.** The University maintains 132 million gross square feet of space at the ten campuses, five medical centers, and nine agricultural research and extension centers. Nearly half of this space – 64.5 million square feet – is eligible for State support, including space used for classrooms, laboratories, offices, and some research and academic support activities. Nearly 60% of the University's State-eligible space is more than 30 years old, with 44% of that space built between 1950 and 1980, as shown in Display 13. The University faces an immense and growing deferred maintenance backlog as the electrical, heating and ventilation, elevator, plumbing, and other building systems in these aging buildings and supporting campus infrastructure reach and surpass their useful life.

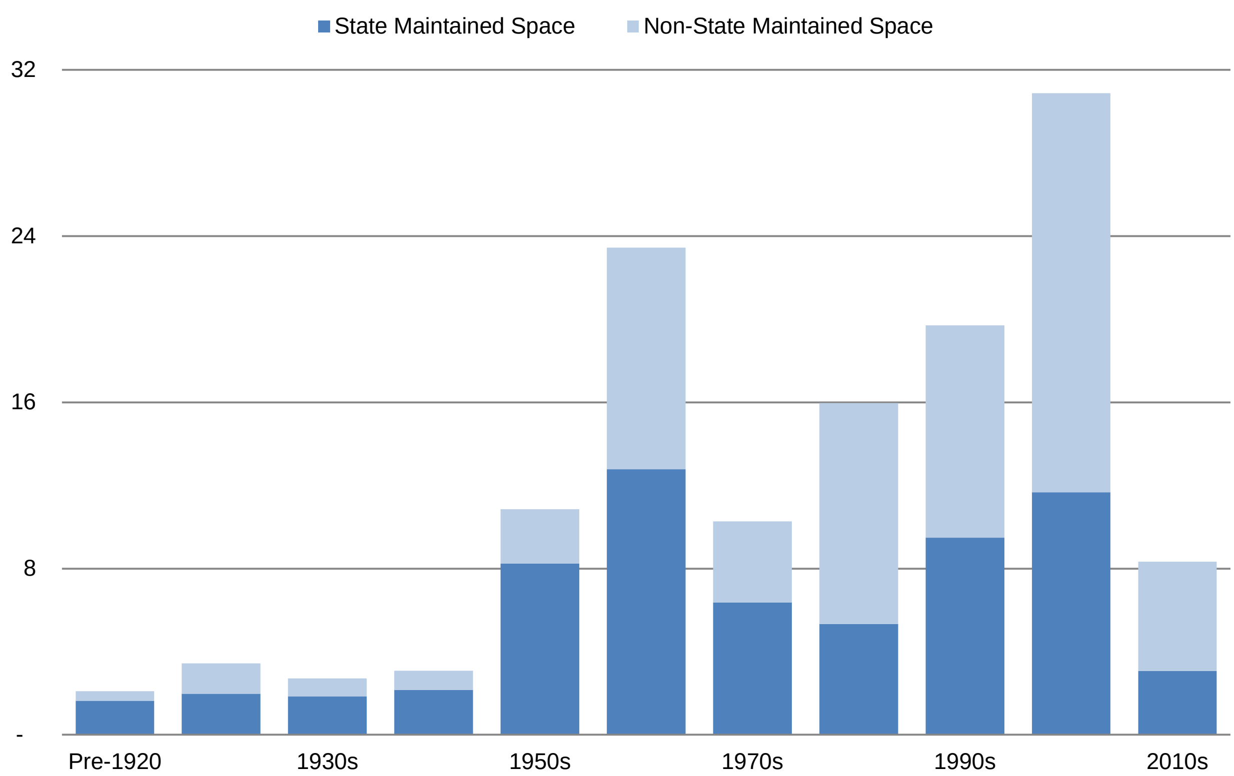
The University's deferred maintenance backlog is not simply a matter of unsightly peeling paint and dilapidated laboratories or the inconvenience of leaky roofs and broken elevators; deferred maintenance represents a substantial and growing life-safety and economic risk to the University – a risk that can no longer be ignored. As University facilities continue to deteriorate, the threat of a catastrophic and more far-reaching building or infrastructure failure grows, a failure that could shut down an entire campus; endanger the lives of students, faculty and other staff; cause millions of dollars of damage to facilities and other property; destroy years of precious research; or disrupt instructional and other core mission activities for an extended period of time.

Given these growing risks, the 2015-16 budget plan includes $55 million for deferred maintenance. This is the first of a two-year build-up of base funding for deferred maintenance.

- **Capital Improvements.** The process for funding State-eligible capital projects changed as of 2013-14. The State's General Obligation bond debt has been shifted to the University's base budget, and going forward it is now included as part of the base budget for the purpose of calculating the State-funded base budget adjustment each year. Under the new process, a portion of UC's State funding can be used to fund or finance State-eligible capital projects.

  The University is faced with a growing backlog of capital projects over the coming years. The University's projected need for capital improvements for State-eligible projects for the four-year period from 2014-15 through 2018-19 is $3.3 billion. The new State process allows the University to continue to address its highest-priority capital needs until a new General Obligation bond can be brought before California voters. The State approval process is streamlined compared to the previous process – the Department of Finance and the Legislature will continue to review the projects being proposed for State funding, but there will be no need to go through the State Public Works Board for approval of important milestones. The new process requires the University to submit a list of projects proposed for funding by September 1 of each year, and the Department of Finance will convey to the University the final list of approved projects no earlier than April 1.

Display 13: State and Non-State Maintained Space by Decade of Construction (Gross Square Feet in Millions)



The University's physical plant expanded rapidly in the 1950s and 1960s and again in the 1990s and 2000s. Driving UC's deferred maintenance and capital renewal needs is the fact that many buildings were constructed in the 1950s and 1960s.

The package submitted to the State reflects a rigorous review process and includes the highest priority systemwide projects. As a first review, in its capital program planning, each campus develops a ten-year *Capital Financial Plan* – a strategic plan of specific projects prioritized to meet the campus mission, academic, and support needs – that fits within the context of physical and funding opportunities and constraints; this Plan is reviewed and accepted by the Regents each November. Then, to the extent that this approval will allow funding to be redirected from an already constrained operating budget, a list is developed based on campus priorities which subsequently undergoes a strenuous review based on systemwide priorities.

Under the new process, the State has approved eight projects totaling $132.3 million included in the 2013-14 *Budget for State Capital Improvements* and another eleven projects totaling $202.8 million in the 2014-15 *Budget for State Capital Improvements.* The approved projects include seismic/life safety projects, infrastructure renewal, academic program needs for additional classroom and lab space to accommodate past enrollment growth, and continuing projects that require funding for completion.

At the September 2014 meeting, the Regents approved the 2015-16 Budget for State Capital Improvements. The plan proposes a total request of $297.9 million in State capital outlay funds to complete preliminary plans, working drawings, construction, and/or fund equipment for fifteen major capital projects. The Department of Finance will notify the University of approval of these 2015-16 capital outlay projects no earlier than April 1, 2015. If ultimately approved for moving forward, these projects will not be coming on line for another several years; therefore, debt service associated with these projects will be required in future budget years. The budget plan for 2015-16 includes $13.9 million associated with the debt service for buildings coming on line in the budget year. UC's proposal for 2015-16 focuses on continuing projects that require funding for completion, and new projects that address critical infrastructure priorities, and seismic, life-safety, and modernization needs. Within the overall proposal, seven projects would address seismic and life-safety needs ($148.9 million), four projects would support modernization ($73.6 million), three projects would accommodate previous enrollment growth ($62.8 million), and one project would provide infrastructure improvements ($12.6 million). This proposal represents only 54.6% of the University's total funding need of $544.3 million for State-eligible capital improvements projects for 2015-16.

The University maintains a continuing commitment to pursue gifts and other potential sources to supplement State funding for construction. The University has capital needs for student-life and auxiliary programs that do not qualify as State-supportable and, therefore, must be addressed with non-State resources only. In this context, the University has intensified its efforts to make the most efficient use of existing facilities, to carefully define and analyze facility needs, to evaluate competing needs and set priorities that maximize the value of available funds, and to continually improve management of project design and construction.

STUDENT TUITION AND FEES

In 2014-15, student tuition and fees are expected to generate over $3 billion for UC's basic operations and student financial aid. For students, much of this amount will be covered by grants and scholarships. Undergraduates, for example, had over $1.3 billion of their systemwide tuition and fees paid by grants and scholarships from federal, State, UC, and other sources in 2012-13.

Mandatory Systemwide Charges

Mandatory systemwide charges consist of Tuition and the Student Services Fee. Tuition provides general support for the University's operating budget, including costs related to faculty and instructional support, libraries and other academic support, student services, institutional support, operation and maintenance of plant, and student financial support. In 2014-15, Tuition is $11,220 for all students. The Student Services Fee funds services necessary to students, but not part of the University's programs of instruction, research, or public service. The majority of these funds is spent on student services. In 2014-15, the Student Services Fee is $972 for all students.

Professional Degree Supplemental Tuition

Professional Degree Supplemental Tuition provides UC's professional degree programs with supplemental funds to maintain quality – to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students – following significant budget cuts over the last two decades. Tuition levels vary by program and are based on an evaluation of program resources and needs, comparison institution fees, and affordability for students. In 2014-15, Professional Degree Supplemental Tuition varies by program and student level from $4,000 to $38,548.

Considerable attention was paid to requested increases in professional degree fees over the last three years, and the Regents ultimately approved increases in only one discipline for 2013-14 – a modest increase for nursing programs – and fees associated with four new programs starting in 2013-14. No professional program's fee increased in 2014-15 and no new Professional Degree Supplemental Tuition charges were approved. Going forward, the University is specifically concerned about the impact of the "no tuition increase" provision of the Governor's multi-year funding plan on programs that charge Professional Degree Supplemental Tuition. Over many years, UC's professional programs have experienced funding shortfalls, in large part due to decreases in State funding, as well as rapid increases in mandatory costs. While it may be important to moderate the steep rise that has occurred in some of the tuition levels charged by the programs, they must have adequate support to maintain quality.

Nonresident Supplemental Tuition

In addition to mandatory systemwide tuition and fees, nonresident students pay Nonresident Supplemental Tuition as the State does not provide funding for these students. For nonresident undergraduates, Nonresident Supplemental Tuition is $22,878 during 2014-15. The supplemental charges for nonresident graduate academic and graduate professional students are $15,102 and $12,245, respectively. All general campuses (except Merced) have sought to increase their numbers of national and international students without replacing funded California residents. UC's priority continues to be access for eligible California residents for whom the State has provided funding. Nevertheless, nonresident students help prepare all students to effectively live and work in an increasingly global marketplace. Moreover, the total charges they pay significantly exceed the cost of education, providing extra revenue that improves education for all students and enables campuses to maintain and increase enrollment for California resident students. Systemwide nonresident undergraduate enrollment represents a little over 13% of the undergraduate population in 2014-15, whereas more than 30% and 40% of undergraduates are nonresidents at the University of Virginia and the University of Michigan respectively. For 2015-16, the University is estimating campuses will enroll an additional 2,000 nonresident students.

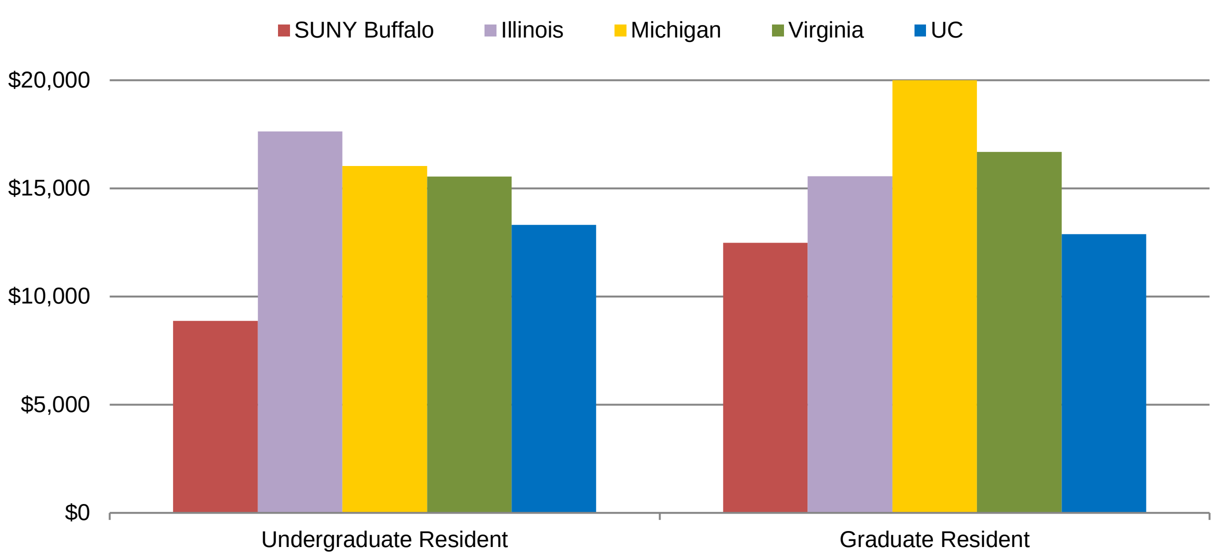
Campus-Based Fees

In addition to the charges described above, students also pay campus-based fees. Display 14 shows total charges for undergraduate and graduate academic students by residency status for 2014-15.

Display 14: 2014-15 Total Charges by Student Level and Residency Status

	Undergraduate Students		Graduate Academic Students	
	Resident	Nonresident	Resident	Nonresident
Tuition	$11,220	$11,220	$11,220	$11,220
Student Services Fee	$972	$972	$972	$972
Subtotal, Mandatory Systemwide Charges	$12,192	$12,192	$12,192	$12,192
Nonresident Supplemental Tuition		$22,878		$15,102
Average Campus-based Fees	$1,125	$1,125	$697	$697
Average Total Charges	$13,317	$36,195	$12,889	$27,991

Display 15: 2014-15 UC and Comparison Institution Tuition and Fees for In-State Students



In 2014-15, the University's average tuition and fees for California resident students remain below three of four public comparators for undergraduates and three of four comparators for graduate academic students.

Note: Comparison institution figures include tuition and required fees. UC figures include mandatory systemwide tuition and fees, and campus-based fees. Waivable health insurance fees are not included.

STUDENT FINANCIAL AID

The University's student financial aid programs, guided by policy adopted by the Regents in 1994, are closely linked to the University's goals of student accessibility and meeting the state's workforce needs. To mitigate the impact of tuition and fee increases, as well as increases in other educational expenses, the University uses a portion of the new revenue derived from tuition and fee increases to support financial aid. Other sources of funds, including State funding for Cal Grants and federal and private funds, have helped UC meet its financial aid goals.

Undergraduate Aid

At the undergraduate level, UC's goal is to remain financially accessible to all academically eligible students so that financial considerations are not an obstacle to student decisions to enroll at UC. During 2012-13, 65% of all UC undergraduates, including non-need-based recipients, received grant or scholarship aid averaging $16,276 per student. UC has become nationally recognized as a leader in enrolling an economically diverse pool of undergraduate students.

Despite tuition and fee increases, the University has remained accessible to undergraduate students from all income groups. Enrollments of low-income Pell Grant recipients at other research institutions range from about 10% to 30%. During 2012-13, 42% of UC undergraduates were Pell Grant recipients, more than at any other comparably selective research institution.

Financial aid also contributes greatly to the University's undergraduate ethnic diversity. African-American, Chicano/Latino, and Asian American students are disproportionately low-income. Collectively, these students receive 72% of all undergraduate gift assistance. For all of these reasons, maintaining a robust financial aid program remains a top University budget priority.

In recent years, several significant factors have helped UC maintain affordability for undergraduates:

- increases in the maximum federal Pell Grant;
- full funding of the State's Cal Grant program;
- UC's 33% return-to-aid policy;
- development and expansion of the Blue and Gold Opportunity Plan, which in 2013-14 ensures that all eligible students with household incomes below $80,000 receive gift aid covering systemwide tuition and fees up to their need level;
- expansion of middle-income fee grants, covering one-half of tuition and fee increases for needy middle-income students, to students from families earning up to $120,000; and
- temporary expansion of federal education tax credits.

As a result of these and other ongoing programs, financial support generally has covered systemwide fee increases for Cal Grant and UC Grant recipients in recent years and provides some coverage of other cost increases as well. In 2013-14, grant scholarship assistance fully covered mandatory systemwide tuition and fees for over half of California resident undergraduates.

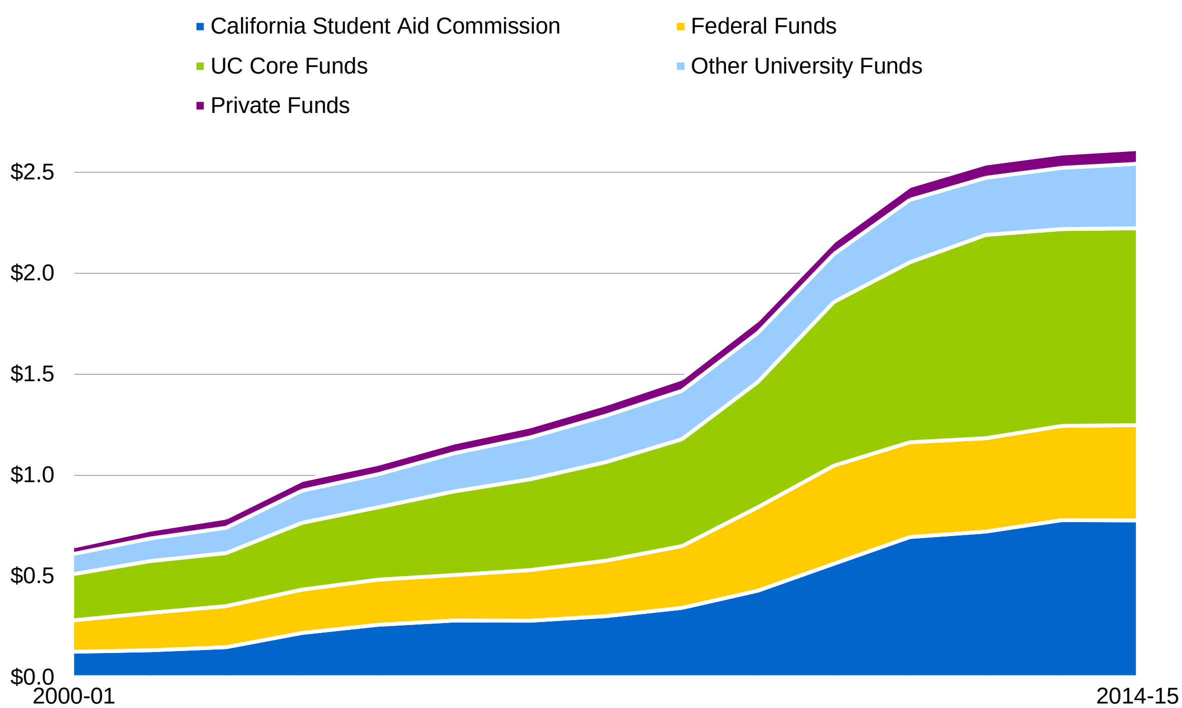
For many years, the enrollment of students from middle-income families has remained relatively stable, at about 43% between 2000-01 and 2006-07, despite fee increases in most of those years. Since then, the percentage has declined, to 36% in 2011-12, which may reflect a statewide decline in middle-income families attributable to the economic recession. The University is closely monitoring this trend, together with income trends among California families generally. As noted earlier, out of concern about college affordability for middle-income families, the State Legislature passed the Middle Class Scholarship Program, which will provide new funds to many California families that had not previously qualified for aid.

Graduate Aid

At the graduate level, the Regents' financial aid policy calls upon the University to attract a diverse pool of highly qualified students by providing a competitive level of support relative to the cost of other institutions. This competitive context reflects the fact that graduate student enrollment is tied most directly to the University's research mission and helps the state meet its academic and professional workforce needs. Graduate awards must be sized not only to make the University financially accessible, but also to be competitive with awards prospective students receive from other institutions. Graduate academic students received support from fellowships, grants, and assistantships averaging about $33,700 per student during 2012-13. However, in recent years the financial aid packages awarded by UC have fallen short of packages offered by competing institutions. UC narrowed the gap between its offers and those of competing institutions by nearly $1,500 between 2010 and 2013. UC's net stipend amounts are still below competitors for international and nonresident students but are significantly higher for California residents. To help mitigate award gaps between UC and competitor institutions, UC returns 50% of any new graduate academic tuition and fee revenue to students in the form of financial aid.

For graduate professional students, UC ensures that an amount equivalent to 33% of tuition and fee increases is returned to students as financial aid. Even so, about two-thirds of aid awarded to graduate professional students is in the form of loans, primarily from federal loan programs. The University provides loan repayment assistance programs in certain disciplines, and since 2009-10, students may avail themselves of an Income-Based Repayment plan for federal student loans.

Display 16: Total Gift Aid by Source (Dollars in Billions)



To offset tuition and fee increases and maintain the promise of higher education for all Californians, both the University and the State have invested heavily in student financial support. During 2015-15, total gift aid is projected to reach nearly $2.61 billion, over half of which is generated from UC sources.

CONCLUSION

The Regents of the University of California neither wish to reduce California enrollment, nor relish increasing tuition. What this document illustrates, however, is that the State's disinvestment in its greatest public university has real consequences that can no longer be papered over. To satisfy the three pillars of access, affordability, and excellence, the State must either invest more funds or tuition must be raised. The University hopes for the former, but is planning for the latter. The Regents' responsibility is to ensure that the University of California survives, and thrives, for young Californians today and for young Californians in the generations to come.