

Joint Oversight Hearing
California Joint Legislative Audit Committee/Assembly Committee on Higher Education
February 11, 2015

Testimony of the University of California
Presented by Nathan Brostom,
Executive Vice President and Chief Financial Officer

Good morning, Chairs and members of the Committees. Thank you for the opportunity to address the Committees on the University's process for distributing funds to the campuses and update you on our work in this area in the past three years.

I'll begin with a short review of our historical budgeting and allocation processes and then describe how we have changed these in recent years. Then I will also address your questions about UC's budget manual and the issue of nonresident tuition.

Distribution of State General Funds to the Campuses

As the 2011 audit report described, historically, the Office of the President collected certain revenues centrally and redistributed these across the campuses based on University-wide priorities. These revenues included State general funds, tuition, overhead costs associated with federal, State and private research contracts and grants, application fee revenue, and a share of patent revenue. Funds were generally allocated incrementally. That means that the allocation a campus received each year typically consisted of the funding it had received the previous year and a portion of new University-wide revenues, which were allocated based on a complex series of formulas.

Two historical trends are important in understanding how disparities in per-student funding developed. The first is that, for many decades, the state funded UC differentially based on student level, with higher levels of per-student funding for graduate enrollment. This meant that campuses that enrolled higher numbers of graduate students in the years when UC was well funded received higher average per-student funding. Our analysis of per-student funding differentials showed that 90 percent of the disparities among campuses were associated with the timing and levels of graduate enrollment growth. The second trend is the gradual reduction over time in per-student funding the University receives. Campuses that experienced significant growth after major cuts began in the 1990s did not receive the commensurate per-student funding that more well established campuses had.

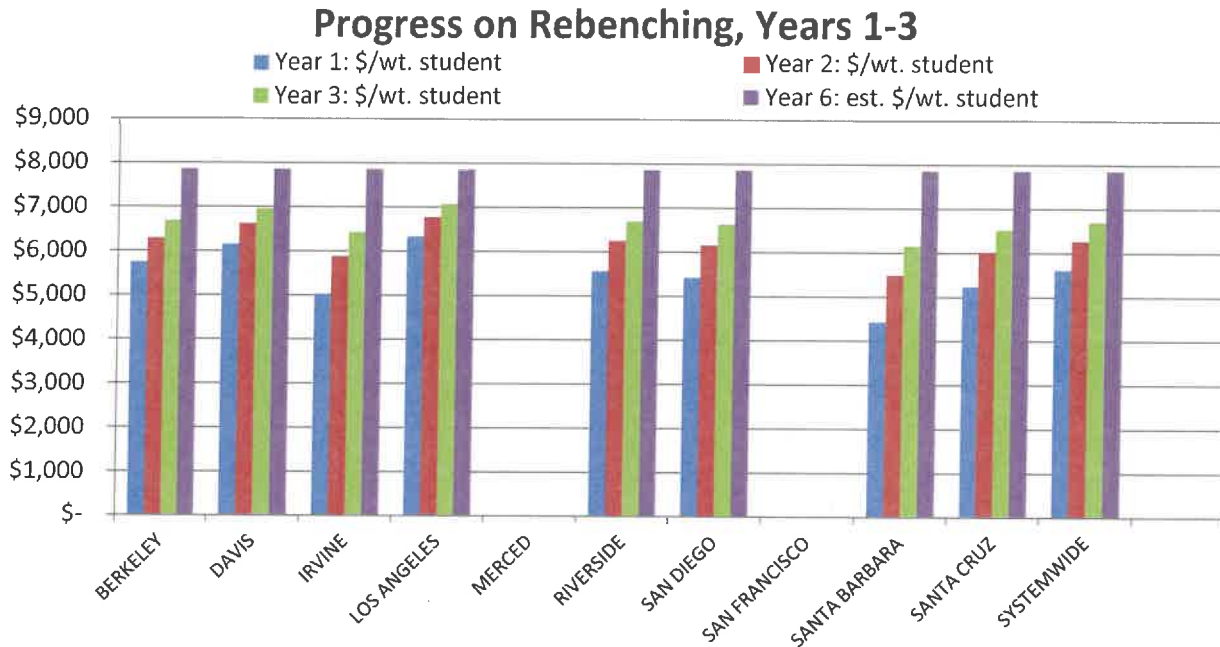
Beginning in 2008—and as the state dramatically reduced state support to the University and non-state fund sources became an ever-increasing share of the University's total budget—the

Office of the President initiated a comprehensive review of how the University budgets and allocates its various fund sources, both state and non-state. In order to simplify UC financial activity, improve transparency, and incentivize campuses to maximize revenue, beginning in 2011-12, all campus-generated funds—resident and nonresident tuition and fees, research indirect cost recovery, philanthropy, and patent and investment income—is retained by or returned to the source campus.

Shortly after the implementation of this change, the University began the complementary exercise of examining the distribution of State General Funds and designed a new process for a readjustment or “rebenching” of base funding formulas that would address concerns about disparities among campuses in per-student funding that had developed over time. Three principles formed the foundation for this effort:

1. Unrestricted State General Funds provided to the University should be allocated to the campuses for the purposes of UC’s core missions based on the number and type of students they educate.
2. The amount of state General Funds allocated per student should be the same for each type of student across all of the campuses.
3. Rebenching should be implemented in a way that brings all campuses up to the highest level of per-student funding as additional State funding is provided, not by reducing funding at any campus and redistributing funds to others. This means that the redistribution is accomplished by allocating new funding differentially to campuses with lower per-student funding until all campuses are brought to the same level.

A systemwide Task Force with representatives from every campus recommended completing rebenching over six years beginning in 2012-13. 2014-15 is the third year that the annual rebenching increment has been distributed to bring all campuses participating in rebenching. By 2017-18, all campuses are expected to receive per-student funding equal to the highest campus’s per-student average. The table below summarizes our progress to date in equalizing funding across the campuses, with the green bars denoting 2014-15 funding levels and the purple bars denoting the goal of equalized funding levels in 2017-18. (Note that UC Merced and UC San Francisco are not included in the rebenching methodology because of their unique circumstances. UC San Francisco enrolls only graduate students and UC Merced’s lower enrollment levels and recent establishment require higher per-student funding.)



With respect to equalizing per-student funding, I want to conclude by emphasizing three points:

1. Unequal levels of per-student funding at UC campuses were the artifacts of historical changes in the levels of state funding UC receives and the way that the state allocated funding to the University. In general, campuses that built up higher levels of graduate student enrollment earlier enjoyed higher levels of funding to support those student and campuses that experienced major growth during years when state funding was particularly low ended up with lower overall average per-student funding.
2. The University recognized these disparities and had begun efforts to correct them well before the State Auditor’s report in July 2011.
3. UC has made significant progress toward equalizing State General Funds across the campuses on a weighted per-student basis and we expect this work to be complete in the 2017-18 budget year.

UC’s Budget Manual

The Auditor’s 2011 report observed that for many decades the University maintained a comprehensive budget manual that allowed outside agencies as well as our own internal budget and accounting staff to clearly understand the distribution and use of funds across the system. This manual became obsolete as a result of the many changes that have occurred over

the past ten years in the way funds are received, budgeted, and spent, and in the types and sources of funds that UC receives.

The Auditor requested that we prepare a new budget manual and we agreed to do so. The decentralization of control over funding decisions and the redistribution of state general funds have required a significant rethinking of what is to be included in the manual. We have been working with the campuses to develop a new manual that captures the changes that have recently been implemented. That work is well along and we expect the new budget manual to be complete by August of this year.

Nonresident Enrollment and Tuition

Historically, the University of California's levels of nonresident enrollment have been far below those of other public research universities. Our campuses identified this as an academic issue more than a decade ago, observing that in an increasingly global society, Californians benefit by living and learning alongside students from other states as well as other nations. All of our campuses set as a goal gradually ramping up the proportions of U.S. and international students they enroll, while maintaining the priority we place on California residents. As state funding has dropped and funding to support new California enrollment has not increased, nonresident tuition revenue has become a significant source of support for UC campuses, which use it to increase course offerings, enhance student financial aid for California residents, and improve academic support services — all efforts that help California students.

At present, our campuses are differently situated in terms of nonresident enrollment:

- Berkeley and UCLA, which are well known nationally and internationally, now each enroll more than 20 percent of their undergraduates from outside the state and they have indicated they do not plan to grow much beyond these levels.
- UC San Diego's nonresident enrollments are approaching those of Berkeley and UCLA and it also is beginning to slow growth.
- The Davis, Irvine, and Santa Barbara campuses have begun to increase nonresident enrollment and are still in growth mode.
- UC Santa Cruz, UC Riverside, and UC Merced still have very low percentages of nonresident enrollments and growth at these campuses is expected to continue as they seek nonresident enrollment levels closer to those of the other campuses.

Our goal is that over time nonresident enrollment will equalize across all the campuses. It will take some time for this growth to materialize. In the meantime, we will continue to emphasize our commitment to California students, which is manifest in several ways:

- All California residents who meet the University's requirements for guaranteed admission will be offered a seat somewhere in the UC system. No such guarantee exists for nonresidents.

- Campuses are expected to enroll their full levels of funded California students, with nonresidents admitted in addition to those funded enrollments.
- Minimum systemwide eligibility standards for nonresidents are more stringent than for California students and, at each campus, admitted nonresidents must compare favorably with California students admitted to that campus.

At the same time we look to nonresident growth on some campuses, we expect UC's overall levels of nonresident enrollment to remain well below those of comparable public research universities. UC has consistently expressed its strong interest in increasing capacity for California resident freshmen and transfer students and the Long-Term Stability Plan adopted by the Regents in November 2014 provides for growth of 5,000 California students. We believe this expanded access is critical in order to serve our mission of providing increased opportunity and social mobility to the next generation of Californians.