

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

DISCUSSION ITEM

For Meeting of July 20, 2016

UPDATE ON THE UNIVERSITY'S 2016-17 BUDGET

EXECUTIVE SUMMARY

The Legislature adopted a final 2016-17 State budget on June 15 and, on June 27, the final budget package of \$170.9 billion was signed into law by the Governor. The final State budget, which totals \$125.2 billion for the State General Fund, includes a 6 percent – or \$6.9 billion – State General Fund spending increase over 2015-16. The State General Fund budget includes the mandatory contribution required by Proposition 2 (adopted by the voters in 2014) plus an optional supplemental payment to the State's rainy day fund, bringing the total rainy day fund reserve to \$6.7 billion.

For the University, State General Fund support for operating expenses will total \$3.351 billion. This amount includes \$91 million in one-time funds for the Innovation and Entrepreneurship Initiative, outreach and student support services for low-income and underrepresented minority students, faculty diversity programs, deferred maintenance, gun violence research, and online courses for K-12 students. This amount also includes funding of \$18.5 million which has been appropriated by the State on the condition that UC demonstrate, by May 1, 2017, that it has taken sufficient steps to enroll 2,500 additional California undergraduate residents in 2017-18 compared to 2016-17.

In addition, the University will receive \$171 million of Proposition 2 funding to help pay down the unfunded liability associated with the University of California Retirement Plan (UCRP) and one-time support of \$3 million from the Public Transportation Account for transportation research.

Executive Vice President and Chief Financial Officer Brostrom will provide an update on the final 2016-17 State budget package.

BACKGROUND

Overall State Budget

The final 2016-17 State budget totals \$170.9 billion, of which the State General Fund is approximately \$125.2 billion. The budget authorizes spending of \$122.5 billion in State General Funds with the balance being used to build up the reserve and meet obligations for allocations to the Proposition 2 rainy day fund. A significant portion of the increased spending is funded with one-time funds, in recognition of the shortfall from earlier projections of approximately \$2 billion in State General Fund revenue. This shortfall is largely attributable to lower than anticipated income tax receipts in April and sluggish sales and use tax revenue.

UC Budget

For the University, the outcome is very positive on a number of fronts. Ongoing State General Funds will total \$3.279 billion, a 4.6 percent increase over 2015-16. In addition, the State is providing a total of \$91 million in one-time State General Fund support for a variety of initiatives requested by UC, the Governor, and the Legislature; \$171 million of Proposition 2 funding to help address the unfunded liability associated with the University of California Retirement Plan (UCRP); and additional support for the Institutes of Transportation Studies. The major provisions of the new budget for UC are described below.

Base Budget Adjustment

In his January budget, the Governor had proposed a 4 percent base budget adjustment, or \$125.4 million, for UC, consistent with the budget framework agreement between the Governor and President Napolitano endorsed by the Regents one year ago. This increase was approved in the final budget act.

Enrollment

The final budget includes a compromise reached among the Senate, Assembly, and Governor to fund enrollment growth of 2,500 FTE California resident undergraduates with \$18.5 million. Similar to the arrangement in last year's budget, UC must demonstrate by May 1, 2017 that it has taken sufficient action to increase enrollment by this number in 2017-18 in order to receive the enrollment funding. The level of enrollment increase is consistent with UC's own plan for growing enrollment by 2,500 undergraduates in 2017-18 and in 2018-19. However, the level of funding is less than the \$10,000 per student the University had requested; the amount provided equates to about \$7,400 per student. This is higher than the \$5,000 per student provided by the State for enrollment growth in 2016-17.

In addition, the University is requested to adopt a policy that specifies a limit on nonresident enrollment. A nonresident undergraduate enrollment policy will be developed and presented to the Board at a later meeting.

Innovation and Entrepreneurship

The budget includes \$22 million in one-time funds to support UC's Innovation and Entrepreneurship Initiative. UC had requested State support for this initiative early in the legislative process through a bill introduced by Assembly Member Jacqui Irwin. The budget augmentation is conditioned on the successful enactment of the Irwin legislation.

This program will provide funding for developing the infrastructure necessary to support innovative start-ups by sponsoring business training, incubation space, proof-of-concept support, and affiliations with local industry, among other activities.

Funding for this initiative demonstrates the State's support for the crucial role UC research plays in the economic development of California.

Student Support Services

As part of a package of initiatives proposed by President Pro Tem of the Senate Kevin De León, the budget includes \$20 million in one-time funds for support services for low-income students and students from underrepresented minority groups, including students who were enrolled in school districts which are designated as Local Control Funding Formula districts because they enroll a large proportion of students who are English learners, who receive a free or reduced-price meal, or foster youths (defined as "unduplicated pupils" in California Education Code Section 42238.02).

Institutes for Transportation Studies

The final budget includes \$3 million in one-time funds to support the Institutes for Transportation Studies, with two conditions: that UC and the Department of Transportation submit an expenditure plan for the use of the funds that is to include UC review of a new information system implemented recently within the Department and that these funds not be used for marketing or outreach.

Other One-Time Funds

The final budget also includes one-time funds for the following purposes:

- \$35 million for deferred maintenance;
- \$5 million for a firearms research center;
- \$4 million for the development of online classes courses for K-12 students;
- \$2 million for a program promoting best practices in equal employment opportunity to help enhance faculty diversity;
- \$2 million for the Wildlife Health Center at the Davis campus for support of local marine mammal stranding networks;
- \$500,000 for the Underground Scholars Initiative at the Berkeley campus; and
- \$100,000 for the Wildlife Health Center for large whale entanglement programs.

Reporting Requirements

Among the new reporting requirements is language requesting that the Regents review the policies and procedures governing outside employment by University senior management and report on any changes, including changes related to requirements that outside employment:

- does not create a conflict of interest, actual or perceived;
- is properly approved; and
- is consistent with and furthers the public mission of the University.

The Regents are also asked to report on any changes to specify appropriate consequences for violations of policies and procedures.

The language further specifies that a report be made publicly on an annual basis and that for cases of outside employment of executives, annual public discussion and approval is required. An item to respond to this request is being brought to the Regents for approval at the July meeting.

In addition, the University is to develop a report in response to the Public Policy Institute of California report calling for one million additional bachelor degrees in California by 2030. Specifically, UC is to report on any policy and budget changes that would result in an increase in the number of bachelor degrees awarded by UC by 250,000, including any changes to broaden eligibility, increase enrollment, or improve graduation rates. The report is also to provide specific recommendations for actions that would improve educational attainment for students from underrepresented minority groups.

Finally, the University is to include the methodology developed by the National Association of College and University Business Officers (NACUBO) for estimating the cost of instruction in its biennial report on expenditures for instruction.