

**Assembly Budget Subcommittee #2 on Education Finance  
Higher Education Overview of Governor's 2015-16 Budget  
Tuesday, March 3, 2015 at 1:30 PM  
State Capitol, Room 444**

**Testimony of the University of California  
Presented by President Janet Napolitano**

Good morning, Chairman McCarty and members of the subcommittee. Thank you for the opportunity to engage in an important discussion about the future of higher education in the State of California, and, in particular, the challenges and opportunities for the University of California in 2015-16 and beyond.

I am particularly pleased to be joined by my counterparts at California State University and California Community Colleges. The visionary approach set forth in the California Master Plan for Higher Education has helped create a dynamic California where educational access, innovation, and upward social mobility are core values. The plan has served the State well, and the three of us spend considerable time working together to ensure that we continue to meet its goals.

I'd like to begin today with a summary of the University of California's ("UC") impact on the state, an overview of the current fiscal situation for UC, and a short discussion of the UC's goals for the coming years.

*UC Impact on California*

As a catalyst for social mobility, UC has transformed the lives of generations of high-achieving, hard-working students. Through the State's investment, UC has been able to provide the highest quality education to all who qualify, regardless of their social background or economic circumstances.

The impact of UC can be demonstrated in a few key facts:

- UC promotes social mobility: 42% of undergraduates are Pell Grant recipients, which means their families typically make less than \$50,00 per year;
  - 41% are first-generation college students.
  - Within 5 years of graduating, UC's Pell Grant students earn more than their parents' combined earnings.
  
- UC benefits California's economy: UC annually generates about \$46.3 billion in economic activity in California.
  - Every dollar a California taxpayer invests in UC results in \$9.80 in gross state product and \$13.80 in overall economic output.
  - UC researchers produced more than 1,700 inventions last year – an average of 5 a day.
  - UC trains nearly half of the medical students and medical residents in California.
  - To date, more than 700 start-ups have been founded on UC patents – and some 600 of those are based here in California
  
- UC undergraduate graduation rates are very high: Four-year freshman graduation rates have increased 17 points over the past 12 years to 63% and the six-year freshman graduation rate is 83%.
  
- UC student debt loads are comparably low. Thanks to Pell Grants, Cal Grants and UC's return to aid programs, 45% of UC undergraduates graduate with no debt at all.
  - For those who do borrow, the average student loan debt is about \$20,205—significantly lower than the average debt of \$25,704 for students at other public universities and \$30,737 for those at private institutions.

- UC tops many global and national rankings, but the Washington Monthly college survey is one that makes us especially proud: the magazine evaluates institutions based on indicators such as social mobility, access to research, and commitment to public service. Four of the top five on the list are UC campuses.

### UC Fiscal Condition

While it is my hope that the discussions today are about the future for public higher education, I think it is important to outline a few historical points that help underscore where we are today. Due to shifting state priorities over the years and the recent recession, the funding made available to UC has fallen precipitously. As you may know, state support per UC student was \$18,040 in 1990 and by 2012 that number was down to \$7,090. Put another way, California is funded by the state, in non-inflation adjusted dollars, at the same level it was in 1997 yet today we educate 75,000 more students than we did in 1997. That's the statistical equivalent of adding an additional UCLA and UC Berkeley with the same level of funding.

UC responded to these cuts over the years by reducing staff, curtailing faculty recruitment, maximizing operational efficiencies, boosting fundraising, and deferring critical maintenance. And, yes, university officials raised tuition - sometimes by a lot. Today, students and their families pay more than the state does for the cost of their education. And, while these tuition increases were not popular, they did allow us to maintain a high level of quality and to continue to provide access to all qualified California students.

While students and families do pay more today than they have in years past, it is wrong to assume that overall educational costs have increased. In fact, we spend much less to educate students today than we did twenty years ago. In 1990-91, UC spent \$23,050 per student and in 2014-15 we estimate that amount to be \$18,060.

We have taken significant steps to control costs. To date, we have achieved more than \$660 million in savings and new revenues through our working smarter initiative, and we are committed to doing more on long-term costs. A key component of these cost saving efforts has been the reform of our pension system. If UC were to get equitable treatment from the State for

our pension obligations, so that the total employer contribution doesn't come out of our core base budget, it would help our fiscal condition considerably. I know there is interest in this issue within the Assembly, and we look forward to working with you on this important issue.

However, cost saving efforts alone will not be enough for UC over the long term, and it was this realization that led the Board of Regents to approve a long-term stability and financial aid plan, which, as you know, includes the potential increase in tuition of up to 5% per year for the next five years. The decision was not made lightly, and the Regents understood that it would not be a popular with the Governor, members of the Legislature, and our existing (and future) students. However, the plan was put forward because it is essential to be honest about what is needed to enroll more California students and reinvest in ways that directly impact students, such as increasing student support services and hiring additional faculty to expand course selections.

Increased enrollment is, in my view, of paramount concern. As you know, the Governor's proposed budget increase of \$119.5 million does not even fund our mandatory minimum costs and certainly doesn't fund increased California enrollment. The Department of Finance and the Legislative Analyst's Office (LAO) believe this is the right approach for California based on their calculations for future demand. I disagree. First, the DOF projections historically undercount future demand. Second, applications by California students to UC have grown for the 11<sup>th</sup> consecutive year. Latinos are the largest ethnic group among our applicants and applications from Latinos are growing faster than for other groups.

Additionally, increased funding for the community colleges' student success initiative, and our own work to streamline the transfer function are likely to create a surge in transfer demand. We need the capacity to welcome these students and the Regents' plan builds in this capacity

We also appreciate the thoughtful proposals from both the Assembly and the Senate to provide additional resources for UC and to expand enrollment growth. I agree that this is the right approach and have confidence that negotiations will be successful. Unfortunately, however, our campuses are making decisions on enrollment now, and we know that the Governor and the

legislature will not resolve this disagreement on enrollment growth until the end of June. And, absent additional funding, UC is not in a financial position to absorb more California students beyond those we currently serve. As such, campuses have been instructed to keep their enrollment of California students flat meaning that we are not in a position to add additional California resident students for whom there is no additional state support. We will do all we can to mitigate this decision – through wait lists and deferred enrollment – and will work to make up any shortfall of new California students upon receiving increased funding in future years.

I also appreciate the concern about the level of nonresident student enrollment. As you know, nonresident enrollment—and the additional tuition those students pay—allow us to enroll more instate students. However, we will put a cap on next years out of state enrollment at UCLA and Berkeley, where the demand is highest, at this year’s current levels. And we will postpone any tuition increase so that tuition will not increase for the summer term.

While increased California enrollment is the key issue, I hope we will keep the following issues at the forefront:

- First, 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. We need a plan that incorporates stability in funding from year to year.
- Second, we must reinvest in academic quality to ensure that future students receive the same quality education as their predecessors. We need to reduce the student-faculty ratio, increase course selections, and lessen the time to graduation.
- Third, UC will maintain its robust financial aid program, which is the strongest in the nation.
- Finally, UC should continue to pursue rigorous cost-saving strategies.

### Conclusion

The State has weathered some difficult budget times in recent years, but thanks to steady leadership by the Governor and the Legislature, we are back on the right track. I am here today

to ask that the State reinvest in our public higher education system. I feel confident that we can work together to reach a resolution.

And, please make no mistake – California is competing with other states. Michigan and New York are making plans to re-invest in higher education. And, the new Governor of Texas has made restoring Texas universities to prominence a key component of his economic development platform. In fact, he recently announced his vision to move five of Texas’s research universities into the top 10 in national rankings, including a proposal to use up to \$250 million to recruit nationally recognized faculty and researchers, including UC faculty.

Thanks to the vision of the Master Plan and UC’s partnership with the State, we have a history of excellence in education and innovation. Other states are working to catch up, and we need to collectively come together to ensure that we don’t fall behind. I look forward to answering your questions.