

## PART II

### Key Themes and Trends

This section highlights a number of issues and trends that emerge from the body of the report. It has three aims:

- Identify strengths and challenges in key areas;
- Flag trends that require careful attention in the years to come; and
- Introduce significant changes in the report's structure, content and approach.

With the University suffering 20 percent cuts over two years in its state appropriation, this year's report draws attention to the University's continuing financial challenges. While the recent cuts have been particularly steep, they are part of a long-term trend that has seen the state's annual appropriation to the University decline in inflation-adjusted dollars by 54 percent from 1990-91 to 2009-10. Funding for educational facilities also is in short supply. UC faces \$1 billion annual shortages in the funds it will need over each of the next five years just to meet its most pressing facilities needs.

Additional financial burdens result from substantial unfunded liabilities that exist in the UC Retirement Plan (UCRP) and in the health benefits that are paid to UC retirees. These are shown for the first time in this year's report and will be tracked annually hereafter. This is because budget actions taken to address the shortfalls (employer and employee contributions to the retirement plan, for example) will affect the overall funding available for the University's operations, thereby adding to the financial challenges resulting from diminished state support.

Some impacts of the long-term decline in state funding are apparent in both the trend and the comparative data that are presented in these pages. In the trend data in particular there is evidence that the quality of a UC education is threatened, as are the University's accessibility to all of California's eligible students, its affordability and its diversity. Because most indicators of the University's health lag budget actions by at least a year, it is too soon to know the full impact on the University of the most recent and severe financial downturn. Eight trends in particular are called out here for continued careful attention:

1. **Enrollment.** The total number of new students declined in 2009, reflecting a policy decision taken in 2008-09 to begin reducing the number of undergraduate students for whom no state funds were being made available (estimated in 2008-09 at close to 15,000 undergraduates). Freshman enrollments were curtailed by 2,300 for fall 2009 and 1,500 for fall 2010, more than offsetting the planned growth of 500 additional community college transfers in each of those years. This net reduction in total new enrollments occurred at a time when the number of eligible California high school graduates reached record highs.

2. **Affordability.** The total cost of an undergraduate education in 2008-09 did not increase for independent students and for students from families earning less than \$60,000 per year. This testifies to the strength of the University's financial aid program. The proportion of

undergraduates who graduated with student loan debt also remained relatively stable at around 52 percent, as did the level of inflation-adjusted cumulative average debt that students incurred. In the next few years, the data on undergraduates may begin to reveal the impact of the steep fee increases that totaled 32 percent for 2009-10 and 2010-11 combined. If they do, they may resemble some professional degree programs where steep fee increases over the past decade very evidently have impacted the affordability of these programs.

Beginning in 1994, fees over and above those paid by undergraduates were introduced for selected professional degree programs. Professional degree fees have risen dramatically in recent years, especially for medicine, law and business. And they have been extended to other programs such as public health, public policy and social welfare. Average indebtedness has grown among professional degree students in response, by as much as 10 percent per year among students studying for law, medicine, education and health degrees other than medicine. Additionally, the number of professional degree students graduating with debt has grown.

**3. Teaching and learning.** A new section on teaching and learning presents survey data gathered every two years that demonstrates that undergraduates have a high degree of satisfaction with their UC experience. The student-faculty ratio (a proxy for either a university's investment in instruction or a measure of the average availability of faculty members for a student) has been relatively stable at UC since 1994. This stability, however, obscures underlying changes in the overall composition of the faculty, including a reduction in the proportion of ladder-rank faculty.

Also of concern are data revealed by two indicators that are new to this year's report: one showing just how much credit toward an undergraduate degree is earned in large classes and another showing growth in the proportion of instruction that is taken on by faculty who are not on permanent appointments and, as such, not as engaged in research. Contact with research and the people who conduct it is a hallmark of a UC education. It is too soon to know what impact budget cuts will have on the composition of UC faculty; however, the University anticipates that class sizes are likely to increase.

**4. Student success.** Four-year completion rates continue to improve for undergraduates who enter the University as freshmen. The proportion graduating in four years has increased from 42 percent for freshmen entering in 1996 to 60 percent for freshmen entering in 2005. But the data are not yet available for students affected by the recent severe budget cuts. These cuts produce countervailing pressures. Steep fee increases can provide incentive to students to finish their undergraduate degrees as quickly as possible. However, as fewer classes are made available, progress toward degree completion could be slowed.

**5. Research.** The University's research enterprise continues robustly. It persists at the top end of indices that rank universities worldwide and that adopt methodologies emphasizing research outputs. UC also routinely accounts for 9 percent of the research expenditures made by all U.S. universities. When 2009-10 data on research expenditures become available, it is likely to reveal continued, even expanded, growth due in large part to the University's success in attracting more than \$800 million of American Recovery and Reinvestment Act (ARRA) funding that was devoted to research and flowed to universities through federal and other funding agencies awarding multi-year grants in 2009-10.

In addition, the University produces a large number of the nation's most eminent scholars. In 2009 and 2010, the prestigious National Academy of Sciences admitted 144 new members, 66 of them from public universities. More than half of those admitted from public universities (39) were from the University of California.

**6. Recruitment and retention of faculty and staff.** The University remains concerned about its ability to recruit and retain its world-class faculty and the staff who support them in instruction, research, patient health care, student services and the many other enterprises in which they and the University are involved. Data from the 2009 total remuneration study (a survey that took into account all forms of compensation including salaries and benefits) demonstrate that with the exception of service workers, UC's total compensation is below market (4 to 7 percent below market for its faculty and up to 14 percent for some of its staff). At the same time, its work force is aging: 54 percent of its faculty and 35 percent of its staff are over the age of 50. Accordingly, UC will need to emphasize faculty and staff renewal at a time when it is at a considerable competitive disadvantage in the marketplace with regard to the salaries it offers.

**7. Financial responses.** The report demonstrates how the University has steadily expanded its reliance on non-state funding. Student fee increases and the University's successes in attracting research grant funding are two examples. The report also documents that the amount of funds generated by auxiliary services and endowment funding has grown. But the report is careful to manage expectations about how far reliance on non-state funding can stretch. While the University's revenues are large—more than \$20 billion in 2009—the majority are generated by research grants and contracts and auxiliary services (a category that includes hospitals and medical centers as well as parking garages and student housing and dining services). Student fees and state funding are largely responsible for covering core academic costs, which include faculty salaries, libraries, instructional technologies, student services and other academic support services. And while state and fee funds may be supplemented from other sources, non-state and non-fee funds are typically restricted to specific purposes for which they are designated and would need in any event to grow in an unprecedented fashion before noticeably making up for the diminution in state funds. Endowment funds, for example, would need to grow by more than 250 percent in order for the interest paid upon them to make up for the cuts meted out by the state in 2008-09 alone.

The University also continues its multi-year quest to achieve cost efficiencies in virtually all of its operations. In future years, we hope to include a methodologically sound way to present its progress.

**8. Diversity.** The University is especially challenged here. African Americans, American Indians and Chicano/Latinos are less well represented among the University's students, faculty and staff than they are in the state as a whole, and women are less well represented than men in faculty and senior management positions. As the September 2009 Accountability Sub-Report on Diversity demonstrated, degree completion rates are lower for students from particular populations (African-American and Chicano/Latino males, for example) than for white or Asian students, and the University needs to pay more attention to this area ([www.universityofcalifornia.edu/accountability](http://www.universityofcalifornia.edu/accountability)).

While there is considerable variation across campuses and across disciplines and evidence of real progress in selected areas, a great deal more remains to be done in order to realize the

commitment renewed by the Board of Regents in 2007 to support diversity and equal opportunity and to promote a culture of tolerance, inclusiveness and respect on each campus. Progress needs to be made within the legal limitations of Proposition 209, which eliminated considerations of race, ethnicity and gender in admissions and hiring, and in the context of severe budget cuts that have required the University to curtail enrollments, reduce the number of new faculty hires, eliminate staff positions and increase student fees.

This report, coupled with an annual accountability sub-report on diversity, will track the University's progress, its continuing challenges and the impact of its new initiatives (such as "Project You Can," a fundraising initiative that seeks to raise \$1 billion in private support for student aid) on diversity. It also will incorporate new measures as they are developed to gain a better understanding of the hurdles faced by women and underrepresented minority groups and the actions that may help to reduce those hurdles.