

HIGHER EDUCATION COMPACT

Agreement Between Governor Schwarzenegger, the University of California, and the California State University
2005-06 through 2010-11

The Master Plan, which has been California's blueprint for higher education for four decades, has produced the two best public systems of higher education in the world. In order to assure access, quality and affordability, the Master Plan specifies the University of California's missions as teaching, research and public service, and defines the pool of high school graduates from which the University is to admit its students. The Master Plan designates the primary function of the California State University as provision of undergraduate instruction, and defines the pool of high school graduates from which it, too, is to admit its students. In addition, the CSU mission incorporates the responsibility for applied research and community service to support business and agriculture in providing instruction opportunities for their students. By delineating the mission of each institution, the State is able to concentrate its resources within each segment to best meet priorities.

Adequate financial support for the University of California and the California State University is essential if UC and CSU are to fulfill their missions under the California Master Plan for Higher Education, contributing to a higher standard of living and better quality of life for the citizens of the state.

This Compact is based on the value of the UC and CSU to the State of California and its citizens. To ensure these institutions are well positioned to serve the State's students and industry, Governor Arnold Schwarzenegger commits to a long-term resource plan for UC and CSU that addresses base budget allocations, enrollment, student fees and other key program elements for 2005-06 through 2010-11. In exchange for this long-term stability, UC and CSU commit to focusing their resources to address long-term accountability goals for enrollment, student fees, financial aid, and program quality. To allow appropriate monitoring of progress toward these goals, UC and CSU commit to providing student and institutional outcome data in numerous program areas including program efficiency, utilization of system wide resources, and student-level information. The details of this Compact are contained in the body of this document.

State's Commitments to Provide Adequate Financial Support for UC and CSU

The following represents a phased, multi-year plan for providing sufficient basic operating and capital funding needed through the remainder of this decade to support UC's core missions of teaching, research and public service and CSU's core missions of teaching, applied research, and public service. This multi-year plan is contingent upon UC and CSU agreeing to report progress, and to sustain or improve performance on the accountability measures delineated in this agreement. This Compact is developed within the context of the fiscal crisis currently confronting the State of California. UC and CSU have faced several consecutive years of base budget cuts and unfunded cost increases. Salaries at the segments have fallen significantly behind the market, cost increases related to employee benefits, energy, libraries, instructional

technology, maintenance, and inflation have not been funded, and base budget cuts have seriously reduced the basic infrastructure of UC and CSU.

Both segments have significant unmet funding needs, both related to budget cuts over the last several decades and insufficient funding of programs critical to the academic enterprise. This Compact does not meet all of the segments' budget needs, but does provide the minimum level of funding needed to prevent further erosion to their budgets, while accommodating enrollment growth, and maintaining quality.

The Administration, UC and CSU share a deep concern for both preserving the quality of the higher education system in California, and for maintaining the ability of the segments to meet their basic missions under the Master Plan. By providing fiscal stability in the initial two years of this Compact, the State is able to prevent further erosion of support for higher education in California. Funding commitments in the third year and beyond reflect the belief that the State will return to a position of fiscal health based on moderate economic growth that will allow some recovery of vital needs for UC and CSU, such as the ability to provide competitive salaries, and to address several years of underfunding of core programs.

Basic Budget Support: The State will provide a General Fund increase of 3% to the prior year's base in both 2005-06 and 2006-07. This will help prevent further erosion in the segments' ability to fund competitive faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases. Beginning in 2007-08 and through 2010-11, the State will provide a General Fund increase of 4% to the prior year's base for basic budget needs including salary increases, health benefits, maintenance, inflation, and other cost increases.

In order to help maintain quality and enhance academic and research programs, UC will continue to seek additional private resources and maximize other fund sources available to the University to support basic programs. CSU will do the same in order to enhance the quality of its academic programs.

Core Academic Support Needs: In 2008-09, 2009-10 and 2010-11, the last three years of this Compact, the State will also provide an additional 1% increase to the prior year's base to address the annual budgetary shortfalls in State funding for other instruction and research support for core areas of the budget critical to maintaining the quality of the academic program—including instructional equipment, instructional technology and libraries—and for ongoing building maintenance.

Enrollment: UC and CSU enrollment plans project enrollment increases of approximately 2.5% per year through the end of the decade. This growth rate represents an increase of 5,000 students annually at UC and 8,000 students annually at CSU. The State will provide funding for this enrollment growth at the agreed-upon marginal cost of instruction as adjusted annually. This rate of growth will allow the segments to achieve enrollment levels consistent with earlier projections for this decade. A portion of the funding in the initial years will be used to implement State support for existing summer enrollment on campuses not currently receiving State support for summer instruction.

State funding will not be provided to support an undergraduate student whose credit units within the system exceed a specified threshold above the minimum necessary to complete the degree program, consistent with the policies established by the segments in 2004-05. Both UC and CSU will phase in fee policies to charge these students full cost for excess credit units.

The policy of providing no State funding for UC to support remedial courses will be continued.

Student Fees: Following significant student fee increases during the State's budget crisis of the early 1990s, student fees did not increase at UC or CSU for seven consecutive years during the 1990's and 2001-02, and fees were actually reduced by 10% for undergraduate students and by 5% for graduate students during that time period. As a result, student fees at both segments were significantly lower than those of comparable public institutions across the nation. The State's current fiscal crisis has led once again to significant increases in student fees over the 2002-03 and 2003-04 fiscal years.

The student fee policy contained in this Compact assumes that UC and CSU will retain student fee revenue without a corresponding reduction in State funds which, together with State funds provided each year, will be used to help meet their budgetary needs as well as help the segments recover from the current fiscal crisis.

- ***Undergraduate Students.*** The Administration and segments agree that it is important to implement a more stable fee policy that recognizes the desire to keep student fee increases reasonable, while also providing adequate funding for cost increases for student fee-funded programs and preserving the quality of the universities. The Administration has proposed a long-term student fee policy that calls for increases in student fees based on the rise in California per capita personal income. However, in years in which the UC and CSU governing boards determine, based on fee policies developed by their governing boards and in consultation with the Administration, that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, consistent with the Governor's proposed student fee policy, UC and CSU may decide that fee increases of up to 10 percent are necessary to provide sufficient funding for programs and to preserve quality. However, in years that the UC and CSU governing boards believe fiscal circumstances may require increases that exceed the Administration's per-capita personal income policy, the segments shall consult with the Administration about those compelling circumstances. After consultation, UC and CSU may decide that fee increases of up to 10% are necessary to provide sufficient funding for programs and to preserve quality. UC and CSU will develop their annual budget plans based on the assumption that student fees will increase by 14 percent for 2004-05, and by 8 percent for 2005-06 and for 2006-07. Thus, undergraduate fees will have increased by 10 percent per year on average over the three-year period, consistent with the intent of the Governor's proposed student fee policy. This fee policy is contingent on the provision of resources for the basic budget at the level called for in this Compact. It also is contingent on no further erosion of the segments' base budget, and it assumes that revenue from student fees will remain with UC and CSU, and will not be used to offset reductions in State support.

It continues to be the priority of the State and of UC and CSU to provide financial aid to ensure students are not denied the opportunity for a higher education because of financial barriers. An amount equivalent to no less than 20 percent and no more than 33 percent of the revenue generated from student fee increases is to be used to provide aid to needy students who qualify for financial aid, based on the federal methodology for determining need.

- ***Graduate Academic Students.*** It is critical that UC and CSU maintain their ability to offer competitive support packages to recruit and retain the best graduate students. UC will increase graduate student fees by 20 percent for 2004-05, while CSU will increase graduate student fees for non-teacher credential candidates by 25 percent, and will increase graduate student fees for credential candidates by 20 percent. In view of these proposed increases, fee increases for graduate students will be no less than 10 percent in both 2005-06 and 2006-07. For future years, the segments will develop plans to achieve student fee levels in graduate academic programs that consider the following factors: average cost of instruction, average fees at other public comparison institutions, total cost of attendance, market factors, the need to preserve and enhance the quality of graduate academic programs, the State's need for more graduates in a particular discipline, and financial aid requirements of graduate academic students. Revenue from student fees will remain with the segments, and will not be used to offset reductions in State support. UC and CSU will commit to make progress toward the Administration's policy expectation that graduate fees be 50 percent higher than systemwide undergraduate fees to better reflect the higher cost of instruction and relative value of graduate education to the student.
- ***Professional School Students.*** UC will develop plans to achieve student fee levels in professional schools that consider the following factors: average fees at other public comparison institutions, average cost of instruction, total cost of attendance, market factors, the need to preserve and enhance the quality of the professional programs, the State's need for more graduates in a particular discipline, and financial aid requirements of professional school students. Revenue from student fees will remain with the University and will not be used to offset reductions in State support.

UC Merced: The State will continue to provide one-time funds needed for initial development of the UC Merced campus. Such one-time funding will be phased out by 2010-11, when the campus is expected to reach a level of enrollment (5,000 FTES) sufficient to generate an adequate level of workload funding.

Other Budget Adjustments: The State will provide funding for other basic budget costs, such as annuitant health benefits, employer retirement contributions, and changes in debt service, in addition to the base budget support provided each year.

Capital Outlay: In addition to annual increases in State support cited above, the State will provide funding for debt service to support general obligation bonds of \$345 million per segment per year from Proposition 55 to be used to finance high priority capital outlay projects that address seismic and other life-safety needs, enrollment growth, modernization of out-of-date facilities that no longer serve the academic programs they support, and renewal or expansion of infrastructure and other facility systems that cannot accommodate ongoing needs. The

Administration will support additional General Obligation bond measures to provide funding of similar magnitude in future years of this agreement. If appropriate, the State may consider the use of lease-revenue bonds for approved projects to maintain a viable building program within prudent State debt levels. It is recognized that the annual level of funding proposed in this Compact does not meet all of the segments' capital needs. Therefore, UC and CSU will continue to use institutional resources to help meet other critical needs unmet by State funds.

One-Time Funds: As the State's fiscal situation permits, and one-time funds become available, the State may provide one-time funds to address high priority infrastructure needs, such as capital renewal of facilities and deferred maintenance needed to maintain the segments' capital assets. For UC, at least \$200 million per year is needed for systematic capital renewal of existing facilities and utilities, and the deferred maintenance backlog for high-priority projects exceeds \$500 million. For CSU, at least \$141 million per year is needed for systematic capital renewal of existing facilities and utilities, and the deferred maintenance backlog for high-priority projects exceeds \$365 million.

Initiatives: Depending on the State's fiscal situation, there may be initiatives mutually agreed upon by the segments, the Governor and the Legislature, either through legislation or through the budget process, that may be funded in addition to the basic budget funds provided to the segments as outlined above in order to meet high priority needs of the University and the State. In addition, if agreed upon by the Governor and the Legislature through the annual budget process, the State will fund the fixed cost needs of developing campuses and off-campus centers, that are not addressed in the basic funding provisions to the segments outlined above.

UC's and CSU's Commitments to Achieve Outcomes that are High Priorities for the State

It is recognized that, as a result of the significant budget reductions that have already occurred, the segments, of necessity, have introduced budgetary efficiencies and productivity measures. The outcome goals delineated in this Compact are focused on academic productivity measures needed to meet the State's highest priorities within higher education.

Because this Compact is developed in the context of several consecutive years of significant budget cuts, the segments will need some latitude in the initial years of this Compact in terms of accountability expectations. The following states the long-term goals for accountability that UC and CSU agree to achieve to the best of their ability.

Enrollment

The Master Plan specifies the mission of each public higher education segment, and defines the pool of high school graduates from which each segment is to admit its students. The Master Plan also calls for the State to provide adequate resources to accommodate enrollment.

Consistent with the Master Plan, enrollment levels at UC and CSU should match the resources provided. To the extent resources are provided consistent with this Compact, UC will maintain its commitment to the Master Plan to provide a space for the top 12.5 percent of graduating high

school seniors wishing to attend and will maintain its commitment to provide access to transfer students.

To the extent resources are provided consistent with this Compact, CSU will maintain its commitment to the Master Plan to provide a space for the top one-third of graduating high school seniors wishing to attend, and will maintain its commitment to provide access to transfer students.

The segments' highest priority for enrolled students will be to ensure they receive appropriate courses and services necessary for them to succeed in meeting their degree objective in a timely manner.

As funds are provided for normal enrollment growth, the UC and CSU will continue their efforts to achieve on all general campuses a goal of State-supported summer instruction and off-campus enrollment at least equal to 40% of the average of fall/winter/spring enrollment by 2010-11.

Course articulation for community college transfers for general education requirements has been achieved by each UC campus with all 108 community colleges. In addition, six campuses have major preparation articulation with all 108 community colleges and the remaining campuses have major preparation agreements with approximately 80 colleges and will achieve complete agreements with all 108 colleges by 2005.

Course articulation for community college transfers for general education requirements has been achieved by each CSU campus with all 108 community colleges. CSU campuses will articulate a lower division major preparation pattern of a minimum of 6 units (two courses) for each high-demand major with all 108 community colleges, and achieve complete agreement by June 2006.

The funding provided in the 2004-05 budget results in a general campus reduction from planned levels for UC of 5,000 FTES related to Chapter 228, Statutes of 2003, and an additional 3,200 FTES reduction associated with the proposal to redirect 10 percent of new freshmen to the Community Colleges. The funding provided for CSU in 2004-05 results in a general campus reduction from planned levels of 13,000 FTES related to Chapter 228, Statutes of 2003, and an additional 3,800 FTES reduction associated with the proposal to redirect 10 percent of new freshmen to the Community Colleges. It is the Administration's expectation that otherwise eligible students who are redirected to the Community Colleges will, upon successful completion of their lower-division work, transfer to a UC or CSU, where they will complete their degree. The segments will target resources to assist participating students to enhance their chances for transfer, and the segments will carefully coordinate their efforts with the Community Colleges.

The UC and CSU will continue efforts to maintain progress and improve where possible both persistence and graduation rates, and time-to-degree

The State is experiencing a critical shortfall in the number and quality of K-12 teachers in science and math. This trend must be reversed if the State is to maintain its economic viability over the next several decades. As the State's premiere science and technology research institution, with highly regarded graduate and undergraduate science and math programs, UC is

uniquely positioned to work in partnership with the State, K-12, and the business community to help reverse this trend. The California State University prepares 60 percent of the state's elementary and secondary teachers with the support of all the state agencies involved in teacher development and preparation. Therefore, the University of California shall develop in collaboration with the California State University a major initiative to improve the supply and quality of science and math teachers in the State of California and thus help better position the State for economic recovery.

The state is challenged to improve the overall quality of K-12 instruction and to produce sufficient teachers in the public school system that meet the definition of Highly Qualified Teachers capable of improving student outcomes consistent with the state's content standards. The CSU is uniquely positioned to ensure that the majority of new teachers will have the skills necessary, particularly in the areas of special education and English and language arts, to meet the demands of rigorous state standards and will continue to improve the quality and efficiency of teacher training sufficient to meet demand.

The UC and CSU have been engaged in outreach programs to improve the academic preparation of K-12 and community college transfer students for three decades and remain committed to working with K-12 schools and all higher education segments to continue their efforts. UC agrees to provide no less than \$12 million and CSU agrees to provide no less than \$45 million to support the continuation of the most effective programs. Any additional funding provided by the State would be subject to the annual budget act. The resources will be supplemented by matching private sector funds to the extent possible.

The State continues to place considerable value on high school coursework that is intended to prepare California youth for careers that will bolster the state's economy. To the extent that such courses contain appropriate academic content, such courses should be recognized by both the UC and the CSU as meeting 'a-g' subject requirements. CSU and UC have in the past and will continue to review and approve college preparatory courses that adequately integrate academic and career-technical course content.

Increasing public service to help meet community needs and fostering a citizenry that is oriented toward performing community service are high priorities for the State. The CSU and UC will strengthen programs to encourage students to participate in community service programs while they are enrolled at their campuses.

Student Fees/Financial Aid

Student fee increases will be approved by the respective governing boards as they carry out their responsibility to serve the State's students and maintain educational quality.

Any student fee policy adopted by UC and CSU governing boards should include the following considerations:

- Both the State and students must share in funding the cost of providing an education and related support services.

- To the extent the State provides the resources called for under this Compact for basic budget needs, increases in student fees should be gradual, moderate, and predictable, and should be considered in the context of total cost of attendance.
- Financial aid should be provided to ensure that needy students, as defined by federal program requirements, can afford to attend UC and CSU.

Maintaining Quality

The ability of the CSU and UC to return to a fiscally healthy position while maintaining quality will greatly enhance the State's ability to produce jobs and help the economy recover. A high priority will be given to restoring funding for competitive salaries for faculty, staff and for graduate students, and for other core areas of the budget that are critical to the instructional program and that have been significantly underfunded, such as libraries, instructional technology, instructional equipment, and building maintenance.

The UC and CSU will continue to maintain faculty workload policies that are comparable to those at other institutions. The highest priority for the UC and CSU should be to ensure that students have access to the classes they need to graduate in a timely manner.

In the interest of ensuring priority for instruction, the segments will not increase the proportion of the budget designated for administration above their current levels, assuming no significant additional administrative mandates are imposed on them.

In order to help maintain quality and enhance academic and research programs, UC will continue efforts to seek additional private resources and maximize Federal and other fund sources available to the University to support basic programs. Similarly, the CSU will continue to seek additional funds from other sources to support basic programs.

Student and Institutional Outcomes

UC will continue its efforts to achieve improved student and institutional outcomes and will place a high priority on providing needed classes so that students are able to graduate in four years or less. Similarly, the CSU will continue efforts to improve outcomes and will place a high priority on providing needed classes to reduce the time to degree.

The Administration places a high priority on student success as well as other mission related measures and seeks to foster greater student and institutional accountability through the inclusion of performance-based outcomes. In order to accomplish this, the Administration, in consultation with UC and CSU, will seek to remove barriers to these goals and, in later years of the compact, will work with the UC and CSU to establish measurable goals in areas needing improvement.

As with the K-12 system, accountability for these outcomes should be highly visible and public. This will require that timely and reliable data be collected to provide a strong foundation for sound decision-making in these matters. Therefore, the UC and CSU each agree to provide a

comprehensive single report to the Governor, Secretary of Education, the fiscal committees of the Legislature, the Legislative Analyst's Office and the Department of Finance by October of each year on the following measures that compare performance for each item for three prior years and the most recently completed academic year:

Efficiency in graduating students

- Number of undergraduate degrees awarded;
- Number of graduate and professional degrees awarded, including detail on degrees awarded in fields that are high priorities for meeting state workforce needs (mathematics, engineering, computer science and other science fields);
- Average time-to-degree for undergraduates;
- Total number and percent of graduating undergraduates who have accumulated excess units required for their degree, as determined by the segments, and the average number of excess units accumulated by these students;
- Persistence and graduation rates for freshmen and California Community College (CCC) transfer students;
- Number of undergraduates admitted as freshmen who leave in academic difficulty;
- Number of undergraduates admitted as (CCC) transfer students who leave in academic difficulty.

Utilization of systemwide resources

- Student-to-faculty ratio;
- Instructional activities per faculty member;
- Percent of total State-funded salary and benefit expenditures dedicated to direct teaching staff;
- Rate of change in total State-funded staff salary and benefit expenditures for instructional staff, administrative staff, and other student and public service staff;
- Faculty honors and awards;
- Information on technology transfer, including progress in achieving industry-university partnerships, number of patents, total annual income generated by UC-held patents, the proportionate split of those revenues between the University and third parties, and UC's annual patent-related legal costs (UC only);
- Federal, private, and other support for research (UC only);
- Total State-funded expenditures and staff levels for the President's and Chancellor's Office, together with rates of change from the previous year.

Student-level information

- Total enrollment (both headcount and FTE), by class level;
- Number of new CCC transfer students enrolled (headcount and FTE);
- Number of new freshmen enrolled (headcount and FTE);
- Number and percent of new freshmen and CCC transfer students who were admitted by exception;
- Progress on achieving course articulation agreements with CCCs;
- Number and percent of undergraduates who did not meet the UC entry level writing requirement for reading comprehension before entering UC.

- Number and percent of undergraduates who did not meet the math and English placement exam requirements before entering CSU.

Capital Outlay

The UC and CSU will continue to provide five-year capital outlay plans outlining the capital priorities for each campus. The plans should include projects that provide safe and accessible learning environments for students and the faculty and staff that serve them.