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April 6, 2016

The Honorable Edmund G. Brown, Jr.
Governor of California
State Capitol Building, Suite 1173
Sacramento, California 95814


The Honorable Mark Leno
Chair, Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

Dear Governor Brown and Senator Leno:

Pursuant to Section 24.60 of the 2014 Budget Act, enclosed is the University of California's annual report to the Governor and Legislature on *2014-15 Receipt and Use of Lottery Funds*.

If you have any questions regarding this report, Associate Vice President Debora Obley would be pleased to speak with you. She can be reached by telephone at (510) 987-9112, or by email at Debora.Obley@ucop.edu.

Yours very truly,


Janet Napolitano
President

Enclosure

cc: Senate Budget and Fiscal Review
The Honorable Marty Block, Chair
Senate Budget and Fiscal Review Subcommittee #1
(Attn: Ms. Anita Lee)
(Attn: Ms. Cheryl Black)
The Honorable Kevin McCarty, Chair
Assembly Budget Subcommittee #2
(Attn: Mr. Mark Martin)
(Attn: Ms. Amy Rutschow)
Ms. Peggy Collins, Joint Legislative Budget Committee
Ms. Amy Leach, Office of the Chief Clerk of the Assembly

Mr. Jim Lasky, Legislative Counsel Bureau
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Mr. Daniel Alvarez, Secretary of the Senate
Mr. Michael Cohen, Department of Finance
Mr. Jeff Bell, Department of Finance
Mr. Christian Osmena, Department of Finance
Ms. Maritza Urquiza, Department of Finance
Ms. Tina McGee, Legislative Analyst's Office
Mr. Mac Taylor, Legislative Analyst's Office
Mr. Jason Constantouros, Legislative Analyst's Office
Provost and Executive Vice President Aimée Dorr
Executive Vice President and Chief Financial Officer Nathan Brostrom
Senior Vice President Nelson Peacock
Associate Vice President Debora Obley
Associate Vice President and Director Steve Juarez
Executive Director Jenny Kao
Executive Director Kieran Flaherty
Director David Alcocer
Manager Bruce Kennedy
Executive Advisor Marsha Sato

2014-15 Receipt and Use of Lottery Funds

Legislative Report

May 2016



UNIVERSITY *of* CALIFORNIA

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2014-15 Receipt and Use of Lottery Funds

Section 24.60 of the 2015 Budget Act requires the University of California to provide the following report to the Legislature on *Lottery Funds*:

“SEC 24.60. Each state entity receiving lottery funds shall annually report to the Governor and the Legislature on or before May 15 the amount of lottery funds that the entity received and the purposes for which those funds were expended in the prior fiscal year, including administrative costs. The State Department of Education shall report on behalf of K–12 entities. If applicable, the entity shall also report the amount of lottery funds received on the basis of adult education average daily attendance (ADA) and the amount of lottery funds expended for adult education.”

Overview

The California State Lottery Act of 1984 states “that all funds allocated from the California State Lottery Education Fund shall be used exclusively for the education of pupils and students and no funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other non-instructional purpose.”

The University of California budgeted lottery funds in the amount of \$37,659,000 for 2014-15 based on UC’s share of the Lottery Education Fund. Actual receipts in 2014-15 totaled \$31,786,586. Allocations of lottery funds were made to UC campuses based on their enrollments, and campuses distributed their allocations internally to the areas summarized in this report: Instructional Computing, Instructional Equipment, Instructional Support, Library Support, and the UC Science and Math Initiative, and other functions. The allocations to these different areas are summarized in the table below.

University of California Lottery Funds Allocations: 2014-15

| Function | Funds | Percent of Total |
|-----------------------------|--------------|-------------------------|
| Instructional Computing | \$ 6,536,669 | 20.6% |
| Instructional Equipment | \$ 3,611,426 | 11.4% |
| Instructional Support | \$15,435,798 | 48.6% |
| Library Support | \$ 5,059,694 | 15.9% |
| Science and Math Initiative | \$ 1,125,000 | 3.5% |
| Total | \$31,768,586 | 100% |

Instructional Computing

Like all modern universities, information technology (IT) pervades the University of California. IT has become an overarching issue for the University, as every academic and administrative area and function of the University critically depends on information technology systems and services for communication, operations, analysis, and information storage and retrieval.

Instruction increasingly relies on technology within classrooms and laboratories, as well as on technology's capacity to connect students, faculty, and instructional materials outside of these physical spaces. In addition, the research enterprise, having always relied on the most advanced technologies of the time, expands and innovates with the introduction of new technology. The University's public service mission has also been fundamentally reshaped by technology, as UC's libraries and student academic preparation programs now reach throughout the State electronically. Finally, UC's business operations increasingly rely on advanced systems to support the institution's administrative responsibilities. As the University pursues its mission in a world increasingly more dependent on digital information and the systems supporting it, the University is identifying strategic directions for IT investments that will enable UC campuses to meet their distinctive needs more effectively by leveraging IT investments for operational efficiencies and cost savings.

Strategic investments in technology enhance opportunities for instruction and enrich students' learning experience. Such investments are essential if the University is to compete effectively for the best undergraduate and graduate students, and to prepare those students appropriately for employment in a global knowledge economy where facility with leading-edge communication and collaboration tools is required. Investments will also support innovation in instruction, in academic preparation of California's K-14 students, in the University's service to its graduates, and more generally in offerings to the people of California. When such investments are strategically and judiciously made:

- Faculty will be able to integrate into their courses perspective and expertise drawn in real time from across the system and from universities around the world;
- Students will continue to have access to classroom-based instruction, but this will be augmented in ways that allow them to learn anywhere at anytime, and in ways that meet their needs as they evolve over a lifetime and throughout a career;
- Students and faculty will take advantage of new networked technologies to build communities of interest around themes or assignments associated with a particular course, subjects taught in a particular department, or areas of inquiry pursued across a particular discipline. These communities will have no geographic boundaries and will include, as appropriate, expertise and perspective drawn from across the UC system and the global academic community;
- Instructional materials developed for UC students, publications by UC faculty, and other information resources available from UC's libraries, museums, and archives will, where appropriate, be made available for use within California schools, community colleges, and the CSU. This will enable UC to fulfill its historic role of bolstering California's K-16 curricula while more effectively preparing more students for entry into California Higher Education; and

- Such materials will also be available to the University's graduates, to the State's businesses, and to California's population more generally. Thus the broadest possible engagement with the University's rich cultural, civic, economic, and educational resources will be encouraged.

Increasing the use of instructional technology is a critical element of the University's commitment to maintaining and improving the quality of its teaching and research programs. Campuses must have current technology in order for students to receive a state-of-the-art educational experience that will prepare them for the best jobs in today's high-technology marketplace. Continuing investments are required not only in infrastructure, but also in technical support for faculty, staff, and students so that these new systems can be used effectively and efficiently. In 2014-15, campuses allocated approximately \$6.5 million in lottery funds to support instructional computing not only in student computer labs but also in computing applications in the classroom and other venues. Lottery funding is only a small part of funding provided for instructional technology.

Instructional Equipment

Adequate funding for the replacement and renewal of instructional equipment prevents academic programs from becoming seriously outmoded. Obsolete equipment ranges from equipment that is functional but lacks the required capability and efficiency of current technology, to devices that are of limited use because replacement parts are not readily available or the equipment is costly to operate and maintain.

Funding is not only essential to maintain the high quality of the instructional program, but also to help maintain California's position in high technology industries, with resulting benefits for the State's – and nation's – economy. Instructional equipment is essential to maintain the high quality of UC's instructional programs. New equipment is needed in student computer labs and for classroom use as an aid in teaching presentations. New equipment is also needed in science laboratories to help students learn how to operate the equipment itself and for use by students who are working independently or with faculty on research as part of their academic training. The need for adequate funding for equipment in engineering, the sciences, and digital media disciplines that are expected to grow significantly in this decade is especially crucial because these disciplines require more instructional equipment, the equipment is more expensive, and technological advances occur more rapidly, resulting in a need to upgrade as well as replace existing equipment.

Campuses must have current instructional equipment in order for students to receive a cutting-edge educational experience that will prepare them for the best jobs in today's high-technology marketplace. Employers expect graduates of the University to be experts on the equipment in their fields, and these expectations have never been greater. Graduates must be able to manage themselves in the information environment or run the risk of being obsolete themselves. With technology changing every 16 months to 3 years, it is imperative that the University replace obsolete equipment and offer students the most technologically-advanced education available. A persistent inability to keep up with equipment needs will weaken the University's instructional programs and reduce the University's ability to provide the highly-skilled personnel needed for California's high technology industries.

Using an agreed-upon methodology for calculating need, the State began partially funding the Instructional Equipment Replacement (IER) Program in 1976-77, providing full funding from 1984-85 through 1989-90. Since 1990-91, however, funding for IER has been inconsistent, with annual permanent funding often falling short of each year's IER need, some one-time funding has been provided to help address the growing shortfall. As of 2007-08, the annual shortfall is approximately \$42 million. Without lottery fund dollars, the problem of outdated equipment and hence outmoded programs would have been even more serious. In 2014-15, campuses allocated approximately \$3.6 million to help meet the University's need to replace obsolete instructional equipment.

Instructional Support

In 2014-15, approximately \$15.4 million was allocated from lottery funds to provide support in instructional departments. Instructional support costs consist of the salaries of administrative, clerical, and technical personnel, and office and instructional supplies and equipment. Instructional Support funds represent the core support for the instructional program. Each year these costs increase as a result of inflation and salary adjustments, which generate real and unavoidable costs. Since costs increase despite the lack of funding, the end result is a reduced level of service with negative consequences for the instructional program. (The Legislature, concerned about the potential damage to the instructional program, included supplemental language in the 1986 Budget Act stating that funding for faculty and teaching assistants not be reduced as a result of the under-funding for price increases and staff merit increases.)

Library Support

The University of California library system has more volumes than any other library in the U.S. except the Library of Congress, and its physical holdings and special collections have been valued at nearly \$1.1 billion, or 5.1% of UC's net capital assets. Approximately \$5 million in lottery funds were set aside for libraries in 2014-15. This funding supports purchase of print volumes, periodical subscriptions, and other holdings, as well as circulation, automation, and resource sharing. Lottery funds also contribute to the California Digital Library and other remote information access systems.

Science and Math Initiative

In May 2005, in consultation with Governor Schwarzenegger, UC made a commitment to quadruple the number of UC students it trains to be science and math teachers from 250 per year to 1,000 per year. The program is called "Cal Teach," or the UC Science and Mathematics Initiative (SMI). In the short term, the program is intended to increase the number of highly qualified mathematics and science teachers in K-12 schools. Over the long term, having more highly qualified teachers will increase the number of students who are better prepared in math and science fields and ultimately graduate with degrees in these fields, thus helping to meet demands from business and industry for more science and math majors. Just as importantly, SMI is redesigning teacher education programs by involving UC's science and mathematics faculty – much more extensively than in earlier years – in the preparation of new teachers, as well as UC's faculty experts in the development of pedagogy.

The basic elements of SMI are:

- Recruiting UC students to be math and science teachers from among those who are majoring or considering majoring in those fields;
- Providing these students the training they need to be highly qualified teachers as required by the No Child Left Behind Act;
- Improving the curriculum offered to students preparing to teach by drawing UC's science, mathematics, and engineering faculty into collaboration with education faculty to revamp curriculum; and
- Offering financial incentives to retain these students as teachers.

As a match to State funds for the Science and Math Initiative totaling \$1.125 million, the University has dedicated an equivalent amount of lottery funds to support this program.

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