

The Regents of the University of California

COMMITTEE ON FINANCE

December 16, 2002

The Committee on Finance met by teleconference on the above date at the following locations: UCSF-Laurel Heights, San Francisco; James E. West Alumni Center, Los Angeles Campus; 111-A University Complex, San Diego Campus; 4225 N. Hospital Road, Building 1200, Atwater; and 777 California Avenue, Palo Alto.

Members present: Regents Atkinson, Connerly, Hopkinson, Lee, Ligot-Gordon, Lozano, Montoya, Moores, and Preuss; Advisory members Murray and Pitts

In attendance: Regents Bustamante, Davies, Johnson, Kozberg, Marcus, Pattiz, Saban, and Terrazas, Regent-designate Seigler, Faculty Representative Binion, Secretary Trivette, General Counsel Holst, Senior Vice Presidents Darling and Mullinix, Vice President Hershman, Chancellors Bishop, Carnesale, Córdoba, Tomlinson-Keasey, Vanderhoef, and Yang, Executive Vice Chancellor Gray representing Chancellor Berdahl, Senior Vice Chancellor Chandler representing Chancellor Dynes, and Recording Secretary Nietfeld

The meeting convened at 1:30 p.m. with Committee Chair Hopkinson presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice had been served in accordance with the Bylaws and Standing Orders for a Special Meeting of the Committee of Finance, for this date and time, for the purpose of acting on Item 502, *Adoption of Final 2002-03 Budget for Current Operations*, and Item 503, *Proposed Increase in Student Fees for 2002-03*.

2. **ADOPTION OF FINAL 2002-03 BUDGET FOR CURRENT OPERATIONS**

The President recommended that the 2002-03 Budget for Current Operations, as modified by actions of the Legislature and the Governor, be adopted.

President Atkinson observed that the mid-year budget cuts announced by the Governor combined with those anticipated for the 2003-04 budget would be painful for the University. Over the past two years, the University has lost approximately \$400 million in funding that it had expected to be provided under the Partnership Agreement with the State. He stressed that the top priority must be to preserve access for all UC-eligible students and to provide them with the high-quality education they expect. To achieve these objectives, it will be necessary to identify a package of solutions to the budget crisis. A balanced approach should look at as many elements of the budget as possible. The President stated his intention to do everything possible to minimize the effect of the upcoming budget cuts on faculty and staff, whom he characterized as the University's most important assets.

Vice President Hershman informed the Committee that, prior to giving his detailed presentation on the budget, he wished to convey several overall messages. He observed that the beginning of each decade had proven to be a difficult economic time for the University in terms of funding from the State. In every decade, however, the University has been able to recover from the setbacks that it experienced. He stressed the need to keep in mind the preservation of quality in the long term, a message which the administration has tried to convey to the decision-makers in Sacramento. The quality of the University is closely related to the quality of its faculty. Mr. Hershman believed that while it would be difficult to fund faculty merit increases in 2003-04, the University should take the steps necessary to continue this program, which is a cornerstone of excellence. He recalled that the Board of Regents had been clear in its commitment to maintaining the student-to-faculty ratio during a period of dramatic enrollment growth. The administration will continue to fight in Sacramento for the funding required to sustain academic excellence. With respect to the increase in student fees that the President is recommending, Vice President Hershman asked the Regents to consider the increase in terms of the total dollars that students are being asked to pay, noting that the University's fees have traditionally been low in comparison with those at comparable institutions. He added that, due to the University's financial aid program, about half of the students would not pay the fee increase.

Vice President Hershman recalled that at the July, September, and November meetings, The Regents had been notified that the State's 2002-03 budget had not been finalized. When the budget was approved by the Legislature, it contained a control section which authorized the Governor to make up to \$750 million in additional cuts in State operations. These cuts include \$1 billion from transportation, \$1.7 billion in K-14 funding, and \$2 billion in Health and Human Services during this and the coming fiscal year. The Governor has also requested that \$470 million in cuts be put on the table during collective bargaining with State employees.

With respect to the budget for the University, Vice President Hershman noted that the Regents were being asked to finalize the 2002-03 budget, as modified by the Governor and the Legislature to reflect \$74 million in budget cuts to be implemented in the current fiscal year. The modifications to the budget plan approved in November 2002 include the following:

- A shortfall in funding under the Partnership Agreement with the Governor of \$237 million for 2001-02 and 2002-03 combined;
- Budget reductions previously approved by the Governor and the Legislature, including a \$32 million reduction to research programs, \$29 million in one-time cuts to core areas of the budget (deferred maintenance, libraries, equipment, and instructional technology), \$12 million in outreach (although \$4.3 million of this cut was made up from increased nonresident tuition revenue in the current year), and \$66.2 million in K-12 teacher professional development, among other reductions;

- Newly announced budget reductions of \$55 million to the University's budget proposed by Governor Davis to address the growing State budget, as outlined below;
- A fee increase of \$135 per student in the Educational Fee beginning in the 2003 spring term, as well as fee increases ranging from \$150 to \$400 per student for selected professional school students beginning in the 2003 spring term needed to preserve instructional programs from being affected by a \$19 million unallocated reduction also included in the Governor's mid-year reductions.

The Governor's budget cuts to be implemented in the current fiscal year include the following:

- **AP online:** \$4 million in one-time savings from unspent prior-year funding for the UC College Preparatory Initiative, which provides online Advanced Placement course work.
- **Research:** \$18 million in one-time savings from unspent prior-year funding for targeted programs including labor research, substance abuse research, and the U.S.-Mexico program.
- **K-12 outreach:** A \$3.3 million reduction to the University's outreach programs, which is approximately equivalent to a 5 percent reduction.
- **Public service:** A \$2.5 million cut for public service programs, including Cooperative Extension.
- **K-12 internet:** A \$1.1 million reduction for the Digital California Project, which brings the next-generation Internet2 to California public schools. Sufficient funds will be left to maintain current service levels.
- **Administration and libraries:** A \$20 million cut in general administration, academic administration, and libraries.
- **Student services:** A \$6.3 million cut to student services, which is equivalent to a 5 percent reduction in Registration Fee-funded programs.
- **Unallocated reduction:** A \$19 million unspecified reduction which will be addressed through student fee increases.

Vice President Hershman anticipated that in the near term the University would face budget problems possibly totaling \$1 billion. He recalled that in the budget crisis of the early 1990s, the University took a balanced approach to addressing budget shortfalls that over a four-year period totaled approximately \$900 million from a normal workload budget. One-half of the shortfall was taken through budget cuts to the campuses and the Office of the President,

one-fourth of the shortfall was absorbed through foregone salaries for faculty and staff, and one-fourth was achieved by student fee increases, net of financial aid. He suggested that the University should once again take a balanced approach to addressing its budget shortfalls. Given the already serious situation with which the University is faced on salaries for both faculty and staff, and acknowledging the cuts already being sustained in budget programs, it is appropriate to ask students to share the burden of these cuts.

Vice President Hershman commented that the Governor had issued an executive order which requires that "State agencies and departments shall identify all General Fund savings by reducing expenditures in the current fiscal year wherever possible." The campuses have been asked to respond to this order through the imposition of hiring freezes; other actions such as salary reductions and layoffs may be required. Mr. Hershman indicated the Governor's strong support for funding enrollment growth in 2003-04 and maintaining the instructional budget in order to provide a high-quality education.

Turning to the cuts that are anticipated in the University's 2003-04 budget, Mr. Hershman noted that they include a permanent \$4.4 million decrease in funding for online AP courses, a permanent \$28.8 million cut to research, and a \$33.3 million decrease in funding for outreach. He cautioned that the Legislature would be unlikely to agree to this proposed cut in outreach funding.

Regent Lozano pointed out that many of the Regents would be equally concerned about the proposed 50 percent reduction in funding for outreach in 2003-04.

In response to a question from Regent Montoya, Mr. Hershman explained that the cuts to the University's outreach programs do not include any teacher development programs, which have been removed from the University's budget. Federal and State funds are being provided to school districts for these professional development programs.

Regent Kozberg asked how the administration intended to address cuts in student services. Vice President Hershman stressed that the objective would be to preserve those programs which are core to the educational program, including admissions and financial aid administration. Programs which are typically funded by the Registration Fee, including athletics and recreation programs, will be subject to budget cuts.

(For speakers' comments, see the minutes of the December 16, 2002 meeting of the Committee of the Whole.)

(Prior to voting on the budget recommendation, the Committee considered the proposed increase in student fees for 2002-03. For the Committee's vote on the recommendation, see page 10.)

3. **PROPOSED INCREASE IN STUDENT FEES FOR 2002-03**

The President recommended that student fees be increased as follows to ensure that quality of instruction be maintained to the extent possible and that students get the classes they need to graduate in a timely manner:

- A. The Educational Fee be increased for all students by \$135 per student for the spring 2003 semester and quarter. This amount, an average 3.7 percent increase in total mandatory systemwide fees, is equivalent to one-third of an 11.2 percent annual increase of \$405. Future increases in the Educational Fee will be calculated from a base level that includes a three-quarter increase of \$405 over the 2001-02 fee level. It is recommended that the University Registration Fee remain at \$713 per student per year for 2002-03.
- B. Fees for Selected Professional School Students be increased as shown below for the Spring 2003 term:
- \$400 Law (6.3 percent), Business (6.7 percent), Medicine (7.4 percent), and Dentistry (8.0 percent)
 - \$350 Veterinary Medicine (8.8 percent)
 - \$250 Pharmacy (8.3 percent) and Optometry (8.3 percent)
 - \$150 Theater, Film and TV, at UCLA only (7.5 percent) and Nursing (8.3 percent)

Future increases in professional school fees will be calculated from base levels that include an amount equivalent to a three-quarter increase over the 2001-02 fee levels. Consistent with past practices, one-third of the revenue generated from these increases will be used for financial aid to cover the full amount of the fee increase for all UC students who are eligible to receive grants.

Vice President Hershman recalled that State support had allowed fees to remain low for a long period of time. With the decline in State support in the early 1990s, however, fees increased sharply. Nevertheless, when adjusted to account for a family's ability to pay, student fees are slightly lower than they were in 1971-72. Mandatory systemwide fees at the University have not increased since 1994-95, and as a result of the State's actions, fees for California resident undergraduates are now 10 percent below what they were in 1994-95 and 5 percent below what they were for resident graduate students. If resident undergraduate student fee levels had been adjusted by the annual increase in California per capita personal income since 1994-95, the average of student charges for UC undergraduate students in 2002-03 would have been \$6,202, an increase of \$2,320 over the actual average of \$3,882. Had student fees increased steadily during this period, the average of student charges at UC would be on par with the average of total tuition and fees charged at the University's public comparison institutions (Virginia, SUNY Buffalo, Illinois, and Michigan).

The proposed \$135 increase in the Educational Fee for 2002-03 will generate slightly more than \$25 million, one-third of which will be used for financial aid to mitigate the impact of the fee increase on needy students.

Professional Fees

Increases are proposed in the Fees for Selected Professional School Students to help preserve program quality and maintain student access in those professional degree programs. In January 1994, The Regents approved a Fee Policy for Selected Professional School Students to maintain academic quality and enrollment in the designated professional school programs. The Regents had planned to phase in fee increases for selected professional schools to about the average of other public institutions. However, The Regents' plan was curtailed after four years, and fees for these students have remained static since 1997-98.

The differential between UC fees for these selected professional programs and the tuition and fees charged at comparable public institutions has grown significantly over the past five years. Even with the proposed increases in UC professional school fees, the fees for resident students enrolled in these programs will remain significantly below the average of the tuition and fees charged by comparable public institutions.

The proposed increases in the professional school fees will generate about \$3.4 million of additional fee revenue, one-third of which will be used for financial aid to mitigate the impact of the fee increase on needy students.

Student Financial Support

Increases in student financial aid must be provided when increases in student fees are considered. Financial aid is a major component of the University's ability to maintain access for needy students. Accounting for all fund sources, UC students received \$1.2 billion in financial aid in 2000-01, the most recent year for which actual data are available. Nearly \$650 million in financial aid is in the form of scholarships, grants and fellowships, which was about the same amount of revenue generated by student fee income in that year. Grants and scholarships are funded primarily from State and University funds.

Vice President Hershman noted that financial aid, excluding loans, has grown dramatically over time, with grants and other gift-funded aid from University sources more than doubling between 1990-91 and 1999-2000. Fees have not increased since 1994-95, and they were reduced in 1998-99 and 1999-2000. While the State could have chosen to reduce financial aid correspondingly by \$17 million with the fee reductions, the State maintained the level of "bonus" funding for financial aid until the current year, when it was eliminated from the budget.

Undergraduate financial aid recipients are expected to make a contribution to their educational expenses from earnings and borrowing. The goal of the University's Education Financing Model is to keep the expected contribution manageable so that students are able to make steady progress toward completion of the baccalaureate degree and to meet loan repayment obligations after graduation. In recent years strong economic performance has resulted in growing levels of grant assistance going to University financial aid recipients.

As a result, the amount students have had to contribute to their educational expenses from earnings and borrowing has declined in each of the last four years.

The additional grant aid available from the new fee revenue will cover the full amount of the fee increase for all UC students who are eligible to receive grants. As a result, these needy students will not need to work or borrow more. The University anticipates that students eligible for Cal Grants also will receive increases in their grants to cover the rise in fees.

Senior Vice President Darling gave a slide presentation on how the University intends to maintain quality and access during a time of new budget realities. He presented data showing that, even with the \$135 increase, UC fees will remain lower than those at the four comparison public universities. He noted, however, that 75 percent of total costs are driven by non-fee expenses such as housing, food, transportation, and books. Taking these costs into account, the cost of a UC education rises to the middle of the comparison group. Need-based grants bring down total net costs for needy students. Vice President Darling remarked that 42 percent of students admitted to UC each year are also admitted to private universities; the total cost to attend a private university is slightly more than double that of attending a UC campus. Recent surveys of students admitted to UC have found that academic quality is of paramount consideration in their choice of institutions. Even with the fee increase, the University will continue its commitment to educate a high proportion of low-income students. Fees should be considered in the context of the long-term value of a UC education. For students expected to graduate by 2005-06, the average starting salary is estimated to be \$40,000. As noted by Vice President Hershman, the proposed fee increase is one component of a balanced program for maintaining the quality of education.

Regent Bustamante expressed concern about discrepancies in the cost to attend the University of California as reported by Senior Vice President Darling compared with figures obtained by his office which showed the cost of attending a UC campus to be substantially higher than the four comparison institutions. For example, the cost of attending the University of Virginia was found to be as much as 42 percent less than UC. The Lieutenant Governor acknowledged that the University provides funding for students with demonstrated financial need. He observed, however, that the needs of middle-class families are not met. He recalled that since 1995 the University had received approximately \$1 billion in cash from the State unrelated to enrollment growth, capital programs, or student-fee buyouts, resulting in a budget that is \$400 million larger than it was five years ago. Regent Bustamante believed that it would be bad public policy to address the \$19 million unallocated budget cut by increasing student fees. While he understood the fact that the State faces a severe budget crisis, he believed that the University's goal should be to provide access to more students in order to foster the economy.

Regent Davies pointed out that The Regents would be asked to address the budget reductions in a variety of ways which include increasing student fees, none of which is appealing. He stressed the necessity of maintaining the quality of core instruction. He believed that asking students to fund 4 percent of the budget cuts was a modest proposal. Regent Davies felt that

the University should have implemented a policy of gradual fee increases over the years to keep pace with the growth in personal income rather than implementing an increase during an economic downturn.

Regent Connerly agreed with the opinions presented by the Lieutenant Governor, although he did feel that the University's student fees were low compared with other institutions. He supported Regent Davies' observation that the policy of keeping fees low during good economic times had been a shortsighted one. He pointed out that it would be difficult for many students and their families to absorb an additional \$135 in costs. He believed that the Regents would be ill-advised to support a fee increase at this time, especially given the fact that students who pay the higher fees would be asked to subsidize those who do not. Regent Connerly pointed out that the fee increase was intended to be a permanent one. He suggested that the University would need to consider some basic restructuring with respect to access and enrollment in light of an anticipated decrease of 25 percent in State funding over the coming two years. He believed that student fees should play a role in that restructuring process, but he did not support a fee increase at this time.

In response to a question from Regent Lee regarding future fee increases, Vice President Hershman pointed out that the State faces a \$30 billion budget deficit. He anticipated that the administration would bring a proposal for increased fees in 2003-04 to The Regents in the spring. President Atkinson pointed out that the State's budget problems would become more daunting in the coming year. The University will be forced to consider a variety of responses which could include major layoffs of employees as well as a reduction in the quality of instruction. Regent Lee stressed that students who are currently enrolled should be able to get the classes they need to graduate.

Regent Ligot-Gordon raised the issue of students who partially support their education through work-study. Associate Vice President Galligani assured the Regents that students' financial aid packages would keep the work commitment at a reasonable level. Regent Ligot-Gordon expressed concern about those students who do not receive financial support from grants. It was his understanding that students are permitted to work certain hours and thus would not be able to increase their workloads in order to finance the fee increase. Turning to outreach, Regent Ligot-Gordon suggested that while the 2002-03 cut of \$3.3 million was reasonable given the State's financial situation, he also believed that the University must convince the State that outreach is a priority. He noted that the University's outreach programs had been criticized for bringing pilot programs to K-12 partners but not following through. President Atkinson assured Mr. Ligot-Gordon that the Regents would be provided with an update on the University's outreach activities which would give ample time to discuss the future of these programs. With respect to the proposed fee increase, Regent Ligot-Gordon pointed out that the timing of the action was unfortunate given the fact that students were not in school. He agreed that the proposal would negatively affect students from middle-class families.

Regent Terrazas observed that, because each segment of the University had benefited when the State had a budget surplus, similarly each segment would be required to share the pain. He considered the proposed fee increase to be a recommendation made by the Governor, who has in the past demonstrated his commitment to education. He noted that his vote would be cast with the knowledge of what the University can anticipate over the coming year as the Governor and the Legislature deal with the fiscal crisis. Regent Terrazas believed that support for the fee increase would indicate to the government that the University is prepared to be a team player. He saw a need for the Governor and the Legislature to seriously consider implementing revenue enhancements.

In response to a question from Regent-designate Murray, Vice President Hershman explained that Regents' expenses are part of the administrative budget. He acknowledged that cuts to this area would also be explored.

Regent Marcus raised the issue of the timing of the fee increase. He believed that the administration should seek other ways to address the \$19 million unallocated budget reduction while looking for a more comprehensive solution which could include an adequate fee proposal that would address the problem in the longer term. Vice President Hershman agreed that the timing was awkward, but he pointed out that the administration had informed the Regents, the students, the faculty, and the campuses throughout the budget process that such a step was likely. Regent Marcus reiterated his concern that the Regents had been given short notice before being asked to vote on the proposal. Mr. Hershman stressed that every segment of the University community would be adversely affected by the mid-year cuts. The intention was to devise a solution that would be fair to everyone, as was done in the early 1990s.

Recalling the comments made by Lieutenant Governor Bustamante, Regent Johnson reported that, according to information obtained by the California Postsecondary Education Commission, the total cost for undergraduate resident students at the University of California was not necessarily lower than that at its comparison institutions. She, too, was concerned about the timing of the fee proposal and the fact that the \$135 increase would continue in 2003-04. In response to a further comment by Regent Johnson, Vice President Hershman explained that cuts in the administrative budget would be allocated to the campuses in order to give the chancellors flexibility in their planning.

Regent Lozano did not believe that today's proposal represented a reasoned and thoughtful approach to fee increases. She underscored the need to look at the University's budget situation in the long term and to understand how the Regents will meet the commitment to access. She was particularly concerned about the burdens that the deficit would place on the faculty and, in recognition of this fact, she stated that while she was concerned about the process, she would likely support the fee increase. Regent Montoya agreed with the need to approach the entire budget situation by looking for long-term solutions.

Regent Pattiz pointed out that the fee increase, while unpopular, would produce revenue; he supported the way in which the administration was approaching the budget cuts.

Regent Kozberg agreed with the concerns raised by Regent Lozano and suggested the need for an ad hoc committee that would look at student fees in the context of long-range planning for the University's future and propose a reasonable approach to fee setting over the long term.

Committee Chair Hopkinson asked that the President report to the Regents at the January meeting on how each campus had responded to the mid-year budget cuts.

(For speakers' comments, see the minutes of the December 16, 2002 meeting of the Committee of the Whole.)

(At this point Regents Preuss and Saban had left the meeting.)

Upon motion duly made and seconded, the Committee approved the President's recommendation pertaining to the 2002-03 budget for current operations and voted to present it to the Board, Regents Atkinson, Hopkinson, Lee, Ligot-Gordon, Lozano, Montoya, and Moores voting "aye" (7), and Regent Connerly voting "no."

Upon motion duly made and seconded, the Committee approved the President's recommendation pertaining to the increase in student fees for 2002-03 and voted to present it to the Board, Regents Atkinson, Hopkinson, Lee, Lozano, Montoya, and Moores voting "aye" (6), and Regents Connerly and Ligot-Gordon voting "no" (2).

The meeting adjourned at 3:10 p.m.

Attest:

Secretary