

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of July 14, 2011

UPDATE ON 2011-12 BUDGET AND APPROVAL OF ADDITIONAL 2011-12 TUITION INCREASE

EXECUTIVE SUMMARY

Proposed Actions: As a result of the budget cuts and unfunded mandatory cost increases previously imposed on UC, campuses have implemented layoffs, consolidated and eliminated programs, increased class sizes, delayed faculty hires, reduced levels and hours of service, delayed purchase of necessary equipment, and taken a variety of other actions to address their budget shortfall. In addition, the University is pursuing a major systemwide administrative efficiency initiative aimed at producing \$500 million of positive fiscal impact over five years. The University is also increasing enrollment of nonresident undergraduates, exploring a combination of new corporate fundraising and balance sheet strategies to support financial aid initiatives, and implementing alternate revenue strategies to address funding gaps. All of these measures are being undertaken to address budget cuts and unfunded mandatory cost increases that have already occurred. Campuses have informed the Office of the President that they are out of options for further cutbacks if additional budget reductions are imposed on the University for 2011-12.

With the adoption of a final State budget for 2011-12 on June 30, UC's budget will be reduced by a total of \$650 million for 2011-12, decreasing State support for the University from a high of \$3.25 billion in 2007-08 to \$2.37 billion. (This reduction could total \$750 million if a provision is implemented triggering additional budget reductions in the event projected State revenue increases don't materialize.) In addition, the University faces \$362.5 million in unfunded mandatory cost increases. The President recommends that 26.3 percent of the more than \$1 billion budget shortfall projected for 2011-12 be offset by Tuition and fee increases while the remainder be addressed through the cost-cutting and revenue-generating measures outlined in this item.

This item requests that the Regents approve an additional annual increase in Mandatory Systemwide Charges (Tuition and the Student Services Fee) of 9.6 percent, effective beginning fall quarter/semester 2011 (for programs starting after August 15, 2011) for all undergraduate, graduate academic, and graduate professional students, including nonresidents. This would be in addition to the 8 percent increase in Mandatory Systemwide Charges approved last November. The entire increase in Mandatory Systemwide Charges would be applied to the Tuition charge, and the additional Tuition increase would be accompanied by return-to-aid consistent with past practice. It is assumed that Cal Grants, as an entitlement program, will continue to fully cover total Mandatory Systemwide Charges. The combination of additional Cal Grant funds and additional institutional aid funds will maintain the University's commitment to the Blue and Gold Opportunity Plan and cover 100 percent of the additional Tuition increase for financially needy undergraduates from families earning less than \$120,000.

Because this additional increase is being implemented after the summer quarter has already begun, approximately \$10.4 million will not be covered by this action. Therefore, alternate revenue strategies may be employed on a one-time basis to cover the portion of the additional reduction for 2011-12 not covered by the newly implemented Tuition increase. A description and corresponding requested action to authorize or endorse certain strategies is included in the item *Authorization or Endorsement of Certain Alternate Revenue Strategies for 2011-12* (F11) for the July Board meeting.

If the trigger mechanism included in the final State budget package is engaged and the University's budget is reduced by another \$100 million in January 2012, the University will again use the aforementioned alternate revenue strategies for the remainder of 2011-12 and plan to implement an additional Tuition increase, above that planned for support of core operations, in 2012-13. If the entire \$100 million reduction is triggered, this would require an additional 5.9 percent increase in Mandatory Systemwide Charges in 2012-13 to cover the cut, over and above the increase planned for 2012-13.

Previous Action: In November 2010, the Regents approved increases in Mandatory Systemwide Charges of 8 percent in Tuition and 8 percent in the Student Services Fee, effective beginning with the summer 2011 term.

Issues: In spring 2011, the Legislature approved a \$500 million reduction to the University's budget for 2011-12. UC also faces \$362.5 million in unfunded mandatory costs, bringing UC's total budget gap for 2011-12 at that point to \$862.5 million. The 8 percent Tuition and fee increase already approved for 2011-12 mitigates \$115.8 million of this shortfall,

leaving a remaining gap of \$746.7 million. With the additional \$150 million reduction approved by the State for 2011-12, the implementation of an additional Tuition increase for 2011-12 is necessary to help stabilize the University's fiscal situation.

Relevant Authorities: Under *Standing Order 100.4(g)*, the President must secure the Board's approval prior to the assessment of Mandatory Systemwide Charges (i.e., Tuition and the Student Services Fee, formerly the Educational Fee and the Registration Fee), tuition fees (i.e., Nonresident Supplemental Tuition and Professional Degree Supplemental Tuition), and fees and charges required in connection with the funding of loan-financed projects, except student-fee-funded facilities, parking facilities and housing projects.

RECOMMENDATION

The President recommends that the Committee on Finance recommend to the Regents the following actions on student charges for 2011-12:

- A. Approve an increase of 9.6 percent of the combined total of Tuition and the Student Services Fee (together referred to as "Mandatory Systemwide Charges") for undergraduate, graduate academic, and graduate professional students, effective beginning fall quarter/semester 2011 (for programs starting after August 15). Display 1 indicates the Tuition and Student Services Fee levels that would result from this increase. The entire increase in Mandatory Systemwide Charges shall be applied to Tuition and there shall be no increase in the Student Services Fee beyond that approved by the Regents in November 2010.
- B. Augment UC's systemwide financial aid programs by 33 percent of the additional undergraduate student Tuition increase, 50 percent of the additional graduate academic student Tuition increase, and 33 percent of the additional graduate professional student Tuition increase.

DISPLAY 1: Proposed 2011-12 Tuition Increases Related to \$650 Million Reduction

	Previously Approved 2011-12 Charge Levels		Proposed Increase ¹		Proposed 2011-12 Charge Levels	
	Tuition ²	Student Services Fee	\$	%	Tuition ²	Student Services Fee
Mandatory Systemwide Charges Required to Meet 26.3% of reduction (additional 9.6% increase)	\$10,152	\$972	\$1,068	9.6%	\$11,220	\$972

¹ Tuition increases by an amount equivalent to 9.6% of the combined total of Tuition and the Student Services Fee but the Student Services Fee remains at the level approved in November 2010.

² Includes \$60 surcharge to cover costs associated with the injunction and judgment of the *Kashmiri* lawsuit.

Display 1 above reflects the proposed increase in Tuition and the already-approved Student Services Fee level. Estimated total charges (including campus-based fees) for resident students for 2011-12 are shown in Display 4 later in this item.

BACKGROUND

Update on 2011-12 Budget

As noted in the Executive Summary, in spring 2011 the Legislature approved a \$500 million reduction to the University's budget for 2011-12. UC also faces \$362.5 million in unfunded mandatory costs, bringing UC's total budget gap for 2011-12 at that point to \$862.5 million.

On June 28, the Legislature adopted a second budget package for 2011-12 that includes additional targeted reductions for many State programs, including UC and CSU, and a trigger mechanism for more cuts mid-year if certain revenue targets are not realized. Features included:

- Projecting \$4 billion in higher revenues;
- Implementing a 1.06 percentage point sales tax swap that redirects money to local governments for the Governor's "realignment" plan rather than to the State. The sales tax rate will still fall by 1 percent on July 1;
- Raising vehicle registration fees by \$12 per vehicle;
- Requiring online retailers to collect sales taxes;
- Deferring \$2.8 billion in payments to schools and community colleges (an earlier proposal to defer payments for UC totaling \$540 million was ultimately not included in the final package);
- Implementing an additional \$150 million reduction *each* to UC, CSU, and the state courts;
- Financing \$1 billion from UC and \$700 million from CSU through a Revenue Anticipation Note or Revenue Anticipation Warrant;
- Providing \$45.7 million in funding for two UC capital outlay projects;
- Taking \$1.7 billion from redevelopment agencies; and
- Implementing other miscellaneous shifts and cuts.

The additional reduction for UC means that State support will decline by a total of \$650 million for 2011-12, representing a decrease from a high of \$3.25 billion in 2007-08 to \$2.37 billion in 2011-12. This is also a 21.3 percent decrease from 2010-11. With the total cuts proposed for 2011-12, the University's budget shortfall rises above \$1 billion.

Furthermore, the trigger mechanism included in the budget package means that if State revenues fall short of the \$4 billion projection by more than \$1 billion (as determined by the Department of Finance in December), UC will face an additional mid-year budget reduction of up to \$100 million.

Vice President Lenz will provide a discussion of the 2011-12 budget package at the July meeting.

Alternate Strategies to Handle Budget Reductions

The University has explored a wide range of alternatives to handle the \$500 million budget reduction already approved by the Legislature for 2011-12 and to address the cumulative budget gap of the last several years. Many of the strategies discussed below were developed as part of the work of the University's Commission on the Future. While some of these alternatives may partially mitigate the impact of State cuts in the short term, many of the alternatives will generate significant cost savings and revenue enhancements only over the longer term. Some strategies that have been suggested are either too expensive or premature to implement at this time and will be reconsidered in future years. Other strategies would not provide sufficient budget relief to justify the disruption and cost associated with their implementation and thus are not being pursued at this time.

Below is a description of the strategies being pursued, followed by a matrix displaying issues that have been raised for consideration.

- Working Smarter Initiative: As discussed in the item *Progress Report on Working Smarter: Systemwide Administrative Efficiencies at the University of California* (F1) of the July 2011 meeting, the Working Smarter initiative is fundamentally changing the way the University of California does business. The scope of administrative efficiency projects housed under the Working Smarter umbrella is wide-ranging. Through 30 distinct projects from around the system, the initiative will produce \$500 million in positive fiscal impact over five years, approximately two-thirds of which are expected to accrue to core operating budgets (the remaining one-third will accrue to non-core budgets such as auxiliaries and other self-supporting programs). In addition to the \$500 million of positive fiscal impact accruing to core and non-core budgets, other financial benefits will accrue directly to students, such as reduced health insurance premiums and expanded benefits, as delivered by the systemwide Student Health Insurance Program under Working Smarter; however, these additional financial benefits are not counted in the \$500 million goal. With respect to the \$500 million goal, the initiative is taking shape in four specific categories that collectively boost the University's bottom-line: (1) direct cost savings; (2) revenue generation; (3) cost avoidance; and (4) opportunity cost avoidance. Progress reports on implementation of Working Smarter initiatives will be provided to the Board of Regents each January and July. Item F1 for the July 2011 meeting provides information on several projects that have resulted in positive fiscal impact of nearly \$160 million to date.
- Alternate Revenue Strategies: As discussed in item F11, in an effort to bridge the gap between revenues and expenses caused by the Legislature's original \$500 million cut to the 2011-12 budget, alternate revenue-side strategies have been identified and initiated. Some of these strategies represent sound fiscal policy for the immediate future of the University, regardless of the need to accommodate additional cuts in 2011-12, and are thus proposed irrespective of the ultimate State budget outcome. Other of these strategies would normally not be pursued under less stressful budgetary conditions, but are specifically being pursued at this time in recognition of the need for one-time and ongoing revenues to bridge to a more stable funding future. Alternate revenue strategies that are already underway include:

- recovering additional administrative costs associated with managing endowments by increasing the endowment cost recovery rate by 10 basis points, as previously approved by the Board at its May 2011 meeting (generates \$4 million immediately and on an ongoing basis);
 - imposing a two percent tax on carry-forward balances (generates \$70 million on a one-time basis);
 - implementing a central bank approach to University debt management (generates funds over a longer-term on an ongoing basis); and
 - implementing a captive insurance program (generates funds over a longer-term on an ongoing basis).
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- Online Education: In 2010 the University launched a multi-year effort to assess whether online instruction could be used cost effectively to enhance UC students' access to the high-enrollment general education and major gateway courses they need to graduate. The initiative, which promises to make online courses available to UC students for degree credit and non-UC students for transferable credit, also has some opportunity to contribute directly to core mission activities by generating new revenues for participating academic departments.
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- Differential Tuition by Campus: In 2010 and again this year, the University has explored implementing differential Tuition by campus. At current Tuition levels, the potential inequities and other negative impacts for students and campuses that may result from differential Tuition appear to outweigh the benefits of the limited revenue that would be generated. However, the University will continue to monitor this issue, and the implementation of differential Tuition by campus may be necessary in the future to preserve quality. Currently, more revenue would be generated by implementing the same Tuition increase at each campus than by implementing differential Tuition by campus.
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- Differential Tuition by Discipline: Differential undergraduate programs charges are used at some other universities to support programs with high student demand or high program costs. In 2009, a proposal to establish differential fees for UC undergraduate students majoring in Business and Engineering was discussed before the Regents and ultimately referred to the UC Commission on the Future, where it was considered by the Funding Strategies Working Group. The Working Group determined that implementing these charges would present a number of administrative challenges and would be most feasible for relatively self-contained academic or pre-professional programs. In addition, the revenue potential of such charges is modest and if adopted would best be retained by the program levying the charge.
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- Enrollment Reductions: In 2009-10 and 2010-11, the University took action to curtail enrollment growth by reducing the targeted number of new California resident freshmen by 3,800 students over two years, although efforts were made to increase the number of transfers by 1,500 over the same period. Still, the University remained significantly overenrolled. State funding of \$51.3 million appropriated in 2010-11 provided some assistance to the problem, but the University has not received funding from the State for the support of more than 11,000 FTE students. When base budget cuts are considered, UC calculates that there are more than 23,000 FTE that are now technically "unfunded" by the State. For 2011-12, it

is expected that enrollment will remain relatively flat. Because hiring of faculty is a long-term investment, it is not easy to “save” money in the short run through enrollment reductions at the margin. UC also remains strongly committed to providing access to those who have worked hard to qualify for a UC education. However, this issue may need to be revisited if State support continues to decline precipitously.

- Improving the Transfer Path: In recent years the University has increased its efforts to work collaboratively with the other segments of California higher education on goals and tasks shared by all segments. UC is reengineering the ASSIST database, the statewide database and website that allows students to check the lower division and major preparation requirements for individual campuses and majors and determine which courses at their community colleges meet those requirements. UC is also developing streamlined transfer procedures, consistent with those being pursued by CCC and CSU, and strengthening the Transfer Admission Guarantee (TAG) Program through greater alignment of requirements and a new online application.
- Increased Proportions of Transfer Students: One of the strategies considered by the Commission on the Future was increasing the proportion of students admitted through the transfer path beyond the 2:1 freshman-transfer ratio implied in the Master Plan. The suggestion is that because transfer students typically require only two years at UC, it could be possible to graduate more students with the same level of resources if transfer enrollments increased while freshman enrollments declined. However, the benefits of such an enrollment shift would be constrained by the higher costs associated with upper-division instruction relative to lower-division instruction. Furthermore, there could be consequences for the State if large numbers of students who desire and have planned to enter UC as freshmen are turned away. While UC is committed to increasing transfer enrollments, given sufficient State resources, and is working to improve transfer pathways, a dramatic shift in the freshman-transfer ratio is not being considered at this time. Instead, the University is taking a balanced approach, increasing the transfer proportion modestly each year.
- Increasing Nonresident Student Enrollment: Another strategy identified by the Commission on the Future was increasing the number of undergraduate nonresident students UC enrolls. These students currently pay more than the estimated cost of their education, thus helping to subsidize the education of California resident students. Campuses remain committed to enrolling California resident students first, consistent with the Master Plan. However, campuses are equally committed to providing a high quality education, and nonresident students can help protect quality and add to diversity. Undergraduate nonresident enrollment is expected to increase moderately in 2011-12.
- New Funding Strategies for Student Financial Aid: Financial aid strategies for 2012-13 and future years were discussed at the May 2011 Regents’ meeting and include ensuring that the amount that students are expected to contribute from work and borrowing remains manageable, expanding UC’s commitment to lower-income families, and substantially increasing support to needy middle-income families. UC projects that over time, financial aid initiatives such as these will require additional funding beyond the University’s traditional practice of setting aside 33 percent of new Tuition and fee revenue for

undergraduate student aid. To generate these funds, the University is exploring a combination of new corporate fundraising and balance sheet strategies that, combined with a portion of new Tuition and fee revenue, will support the cost of these initiatives.

- Technology Transfer: UC's Technology Transfer offices facilitate the transfer of knowledge, innovations, and new technologies from the campuses to private-sector start-ups and established regional, national and global companies. The use of patents and licenses to transfer knowledge to the economy is a small but highly visible part of UC's primary mission to transfer knowledge through research and teaching. The UC system annually produces approximately 1,500 invention disclosures, applies for 1,200 patents, and maintains 7,500 active patents split equally between the U.S. and foreign countries. This year was the eighteenth consecutive year that UC had the largest patent portfolio of any university in the U.S. with 349 patents. The patent portfolio brings in about \$120 million annually in royalties and related income that are shared between the University and inventors; approximately 50 percent of that income derives from the top 25 revenue earners from a licensed portfolio of over 2,600 inventions in over 1,300 separate licenses. In addition, a significant percentage of commercialization activity is based in start-up companies founded on the inventions of UC faculty and students; in 2010, 75 new start-up companies were founded using UC technologies, a 53.1 percent increase from 2009, and more than 90 percent of these companies are based in California. UC is currently reviewing Technology Transfer licensing practices to promote additional technology commercialization while supporting UC's tripartite mission of teaching, research and public service.
- Self-Supporting Academic Units: As of fall 2011, UC operates or has plans for 43 self-supporting graduate degree programs, but does not have any self-supporting schools or other academic units that grant degrees. Under a self-sustaining model, certain academic units could become self-supporting in exchange for flexibility in academic personnel policies pertaining to faculty hiring and compensation, and could possibly continue to receive State support for non-professional programs within the unit. While it is possible that cultivating reliable non-State sources of budgetary support could maintain or promote academic excellence, improve the ability to compensate faculty commensurate to market, and provide greater fee stability for students, it is unclear what the effect of such a model would be on State support. The concern that "privatizing" academic units would erode the State's sense of obligation to fund UC, as well as undermine UC's commitment to access and its public service mission, must be considered. Therefore, in addition to review of new self-supporting programs, administration and the Academic Senate are discussing program conversions from State-supported to self-supporting status. Review of new and changing programs must be prompt and efficient to enable campuses to inaugurate the programs expeditiously.
- Campus Specialization: Under this proposal, core programs (e.g., English, Math, Psychology) would be retained on each UC campus, while more specialized programs would only be offered on select campuses. However, the costs associated with moving tenured faculty and labs would likely be prohibitive and could outweigh the costs of duplicated programs. In addition, the University could simply lose to other institutions the UC faculty and staff expected to move per this proposal. Finally, campus specialization would threaten

the breadth of academic programs on each campus that has historically contributed to the rich academic climate found on each campus.

- Income-Based Tuition:** All public universities are concerned about the impact of rising tuition on low- and middle-income families. Given this concern, it is reasonable to ask why institutions don't adopt an income-based tuition schedule. Such an approach would arguably be more transparent than the current one, in which financially needy students are charged the same tuition as high-income students, only to have some or all of it covered by financial aid. In practice, however, universities have decided against this approach. A major reason is that income-based tuition foregoes revenue from external financial aid programs (e.g., Cal Grants, veterans' benefits) that provide awards limited to tuition coverage. In addition, income-based tuition raises equity issues since income alone is often a poor indicator of a family's overall resources. Need-based grants, which are based on a more sensitive measure of ability-to-pay, achieve the same outcome – reducing net cost for students with fewer financial resources – while avoiding the revenue and equity problems noted above.

Display 2 diagrams each of these initiatives and their current status.

DISPLAY 2: Status of Various Strategies to Address Budget Reductions

Initiative	Description	Financial Impact	Comments
Strategies Being Actively Pursued			
Working Smarter	UC's Working Smarter initiative is fundamentally changing the way the University of California does business through a wide range of administrative efficiency projects	\$500 million in positive fiscal impact over five years	<ul style="list-style-type: none"> Campuses must make short-term investments in these initiatives to reap the benefits of long-term outcomes Positive fiscal impact will come from a combination of direct cost savings, revenue generation, cost avoidance, and opportunity cost avoidance
Increase Nonresident Enrollment	Increase enrollment of nonresident undergraduate students to protect program quality and add diversity	~\$13,000 per nonresident undergraduate net of educational costs	<ul style="list-style-type: none"> Additional revenue from nonresidents subsidizes the educational experience for all All campuses are exploring strategies to increase nonresident enrollment
Continue Implementing Alternate Revenue Strategies that are Currently Underway	Through a combination of strategies, funds will be generated both on an immediate basis and on a longer-term basis to address the budget gap in 2011-12 and beyond	\$4 million annually from an increase in endowment cost recovery; \$70 million on a one-time basis from a tax on carry-forward balances; and amounts to be determined from other longer-term strategies underway	<ul style="list-style-type: none"> Financial impacts are expected to accrue over five years Some strategies require Regental authorization at the July 2011 meeting while other strategies do not Strategies are proposed irrespective of ultimate State budget outcome

Initiative	Description	Financial Impact	Comments
Strategies that Do Not Generate Immediate Revenue but are In Development			
Implement New Funding Strategies for Financial Aid	Implement new corporate fundraising and balance sheet strategies	\$50 million annually in new financial aid funding	<ul style="list-style-type: none"> ▪ Workgroup has been formed to develop strategies for achieving annual goal
Develop Online Courses	Make online courses available for UC and transferable credit	Under assessment; possible opportunity to generate revenue for participating departments	<ul style="list-style-type: none"> ▪ Widens UC's reach to more nontraditional students ▪ Concerns about quality need to be addressed
Improve the Transfer Path	UC is reengineering the ASSIST database, developing streamlined transfer procedures, and strengthening the Transfer Admission Guarantee Program	Undetermined	<ul style="list-style-type: none"> ▪ Benefits accrue to student and State rather than to the University's budget
Accelerate Technology Transfer	UC is reviewing Technology Transfer licensing practices to promote additional technology commercialization while supporting UC's tripartite mission of teaching, research and public service	Income from Technology Transfer is about 1% of total UC revenue for research and teaching; a focus on commercialization of UC discoveries might increase income from this source	<ul style="list-style-type: none"> ▪ Product development path is a long and risky; it is difficult to forecast future income increases ▪ Litigation settlements and royalty monetization can bring in one-time payments in excess of \$100 million, yet these results are subject to significant year-to-year variation ▪ UC relies on the breadth of its licensed technology portfolio to create a stable and expanding royalty base
Strategies Being Monitored for Potential Future Implementation			
Implement Differential Tuition by Campus	Allow campuses to charge different Tuition levels	Hypothetical example: After several years, a Tuition range of \$4,500 is established; if five campuses choose the maximum level and five choose the midpoint of the range, differential could generate \$200 million net of financial aid	<ul style="list-style-type: none"> ▪ At current Tuition levels, the potential inequities and other negative impacts for students and campuses that may result from differential Tuition outweigh the benefits of the limited revenue that would be generated ▪ May be necessary in the future to preserve quality ▪ Could ultimately lead to "tiering" of campuses which would reflect negatively on campuses that cannot attract students at higher Tuition level

Initiative	Description	Financial Impact	Comments
Strategies Being Monitored for Potential Future Implementation (continued)			
Implement Differential Tuition by Discipline	Allow campuses to charge different Tuition levels to some majors	Hypothetical example: Establish an annual fee for upper-division business and engineering students; if established, a \$500 differential could generate \$8 million (less return-to-aid) while a \$1,500 differential could generate \$25 million (less return-to-aid)	<ul style="list-style-type: none"> ▪ Unclear what criteria should determine which disciplines charge more ▪ Implementation could be difficult ▪ Could impact students' choice of major and diversity of students in majors charging additional Tuition ▪ Relatively small impact on filling UC's budget gap ▪ Revenue would likely be retained by program levying the differential charge
Converting Academic Units to Self-Supporting	Allow programs to become self-sustaining in exchange for flexibility in academic personnel policies	Undetermined; effects on State funding unclear; necessary administrative and faculty review entails unknown costs	<ul style="list-style-type: none"> ▪ Concerns that "privatizing" academic units would erode the State's sense of obligation to fund UC, as well as undermine UC's commitment to access and its public service mission, must be considered
Strategies Not Being Pursued at this Time			
Implement Campus Specialization	Retain core programs (e.g., English, Math, Psychology) on each campus but locate more specialized departments only on some campuses	Undetermined	<ul style="list-style-type: none"> ▪ Costs associated with moving tenured faculty and labs likely prohibitive and outweigh costs of duplicated programs ▪ Potential loss of faculty and staff expected to move ▪ Breadth of academic programs on each campus contributes to the academic climate
Decrease Enrollment	Reduce targeted numbers of new resident freshmen to budgeted levels	Reducing enrollment by 10,000 students over time would save \$100 million through faculty separations and decreased services; however, as State support declines and UC Tuition increases, net savings would decline	<ul style="list-style-type: none"> ▪ Provides very little short-term relief ▪ Contrary to University's access goal

Initiative	Description	Financial Impact	Comments
Strategies Not Being Pursued at this Time (continued)			
Increase Proportions of Transfer Students	Dramatically increase the proportion of students admitted through the transfer path beyond the 2:1 freshman-transfer ratio implied in the Master Plan	Undetermined	<ul style="list-style-type: none"> ▪ Benefits of such an enrollment shift would be constrained by the higher costs associated with upper-division instruction relative to lower-division instruction ▪ Could be consequences for the State if large numbers of students who have planned to enter UC as freshmen are turned away ▪ UC is already increasing the transfer proportion modestly each year
Implement Income-Based Tuition	Lower-income students are charged lower Tuition levels	Undetermined, but charging a discounted Tuition level to lower-income students would, for example, reduce the value of these students' Cal Grants and UC's Tuition revenue (UC students received over \$500 million in Cal Grants in 2010-11)	<ul style="list-style-type: none"> ▪ UC would yield much less revenue from Cal Grants ▪ UC would receive less revenue from veterans' benefits ▪ Income alone is often a poor indicator of a family's overall resources ▪ Institutions can achieve the same outcome – reducing net cost for students with fewer financial resources – using need-based grants

In addition, campuses are reducing their budgets by expanding class sizes, eliminating low-enrollment programs, consolidating programs where possible, cutting back service hours, implementing thousands of layoffs, and leaving thousands more positions unfilled. With the initiatives underway as described above and the actions being taken at the campus level, quite literally, the University is doing all it can to address the cuts that have already happened or been approved. There are no additional “magic solutions” to managing additional cuts. Campuses have stated quite emphatically that they cannot absorb additional cuts without beginning to dismantle major programs and thus forever altering the quality of the University of California. Campuses have literally exhausted all options for addressing budget shortfalls without embarking on a path of irretrievable decline.

Proposed Tuition Increase

Within this context, it is proposed that the Regents approve an additional increase in Tuition equivalent to 9.6 percent of total Mandatory Systemwide Charges (Tuition and the Student Services Fee), effective beginning fall term/semester 2011 (for programs starting after August 15), for all undergraduate, graduate academic, and graduate professional students. This increase is needed, along with other revenue-generating and cost-cutting measures described earlier, to cover the \$650 million budget reduction to UC's funding included in the final 2011-12 State budget. As a result, 26.3 percent of the over \$1 billion shortfall projected for 2011-12, or \$265.8 million, will be offset by Tuition and Student Services Fee increases.

In order to provide full disclosure and adequate notice to students about the additional Tuition increase, the University will widely publicize the increase to continuing and new students and ensure that the Tuition increase is appropriately reflected in student bills and financial aid packages for the affected terms.

Given the magnitude of State General Fund budget reductions and the need to use all available new revenue toward support of the basic operating budget, the entire increase in Mandatory Systemwide Charges will be applied to the Tuition charge; thus, this item’s Recommendation is to increase only Tuition, not the Student Services Fee.

The following display indicates the amount of revenue that would be generated for 2011-12 and for 2012-13 once the Tuition increase is annualized (to include revenue generated in the summer). Consistent with current practice, 33 percent of the new revenue generated from the Tuition increase for undergraduate students and for students subject to the Professional Degree Supplemental Tuition charge, and 50 percent of the revenue generated from the increase for graduate academic students, would be set aside to mitigate the impact of the Tuition increase on students.

DISPLAY 3: Revenue Generated by Proposed 2011-12 Tuition Increases (Millions of dollars)

	2011-12	2012-13 Annualized (includes summer)
\$150M Additional Reduction / 9.6% Increase		
Total Revenue	\$216.5	\$232.4
Financial Aid Set-Aside	\$76.9	\$82.4
Net Revenue	\$139.6	\$150.0

As indicated in the display above and earlier in this item, because the Tuition increase would not apply to the summer 2011 term, the revenue generated by the Tuition increase would not generate all of the revenue needed to address additional cuts imposed in 2011-12, leaving a one-time funding gap of \$10.4 million that must be addressed. In addition, if the \$100 million budget reduction associated with the trigger mechanism in the final budget package is implemented, further bridging strategies may be needed. The University is pursuing three strategies for one-time cash flow augmentation, affecting only 2011-12: drawing down \$50 million from the employee/retiree healthcare reserve; distributing a three percent extraordinary payout on eligible year-end 2010-11 balances of funds functioning as endowments (FFE’s); and distributing a one percent extraordinary payout on eligible year-end 2010-11 balances of true endowments. These strategies are described in the July 2011 Regents’ item F11, which includes recommended Regental actions to authorize or endorse the strategies.

Total Charges for Resident Students

In addition to Mandatory Systemwide Charges, students pay campus-based fees. These primarily consist of fees levied through student votes to support specific programs of interest to the students, and life-safety fees proposed by chancellors and approved by the Regents. Display

4 shows estimated total charges for resident students for 2011-12 assuming the 9.6 percent increase in Mandatory Student Charges, and reflecting a weighted systemwide average for campus-based fees. Not included are individual Course Materials and Services Fees (which vary widely by campus and by discipline) and health insurance fees that undergraduate and graduate students pay if they are unable to demonstrate health coverage from another source.

DISPLAY 4: 2011-12 Estimated Total Charges for Resident Students

	Current 2011-12 Charges	Proposed Increase		Proposed 2011-12 Total
		\$	%	
Undergraduate				
Mandatory Systemwide Charges ¹	\$11,124	\$1,068	9.6%	\$12,192
Campus-based Fees ²	<u>\$1,026</u>	<u>\$0</u>	0.0%	<u>\$1,026</u>
Total	\$12,150	\$1,068		\$13,218
Graduate³				
Mandatory Systemwide Charges ¹	\$11,124	\$1,068	9.6%	\$12,192
Campus-based Fees ²	<u>\$632</u>	<u>\$0</u>	0.0%	<u>\$632</u>
Total	\$11,756	\$1,068		\$12,824

¹ Includes \$60 surcharge to cover costs associated with the injunction and judgment of the *Kashmiri* lawsuit.

² Campus-based fee levels are estimates and do not include waivable health insurance fees.

³ Graduate students include graduate academic and graduate professional students. In addition to the charges shown here, graduate professional students also pay a Professional Degree Supplemental Tuition charge that varies by campus and program. In 2011-12, these fees range from \$4,000 to \$35,148. Professional students include students in the following programs in 2011-12: Architecture; Art; Business; Dental Hygiene; Dentistry; Educational Leadership; Engineering; Environmental Design; Health Informatics; Information Management; International Relations and Pacific Studies; Law; Medicine; Nursing; Optometry; Pharmacy; Physical Therapy; Preventive Veterinary Medicine; Public Health; Public Policy; Social Welfare; Theater, Film and Television; Urban Planning; and Veterinary Medicine.

Tuition and Fees at Public Comparison Institutions

When comparing UC's Tuition and fees to those at other institutions, total charges (including campus-based fees) must be used to provide for a fair comparison.

- UC's average total charges for resident undergraduate students are currently below total tuition and fees charged by two of its four comparison institutions in 2011-12.
- UC's average total charges for resident graduate academic students are currently below total tuition and fees charged by three of its four comparison institutions in 2011-12.
- For nonresident undergraduates, UC's total charges are below two of the four comparators (Michigan and Virginia). Notably, these appear to be the only public research institutions in the nation with undergraduate nonresident charges higher than UC's Tuition and fee charges.
- For nonresident graduate students, UC's total charges are below two of the four comparators.

With the additional increase in Tuition, UC's total Tuition and fees for resident undergraduate students would remain below two of the four comparators while UC's total Tuition and fees for resident graduate students would remain below three of the four comparators, as shown in Display 5.

DISPLAY 5: 2011-12 University of California and Public Comparison Institution Tuition and Fees¹

	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
Public Comparison Institutions				
SUNY Buffalo	\$7,436	\$15,846	\$10,278	\$15,688
Illinois ²				
Lowest	\$14,414	\$28,556	\$14,390	\$27,656
Highest	\$19,238	\$33,380		
Average	\$16,826	\$30,968		
Michigan ³				
Lower division	\$12,634	\$38,413	\$19,177	\$38,554
Upper division	\$14,237	\$41,110		
Average	\$13,435	\$39,762		
Virginia	\$11,794	\$36,788	\$15,108	\$25,104
Average	\$12,373	\$30,841	\$14,738	\$26,750
UC (current 2011-12)	\$12,150	\$35,028	\$11,756	\$26,858
UC + Proposed Increases	\$13,218	\$36,096	\$12,824	\$27,926

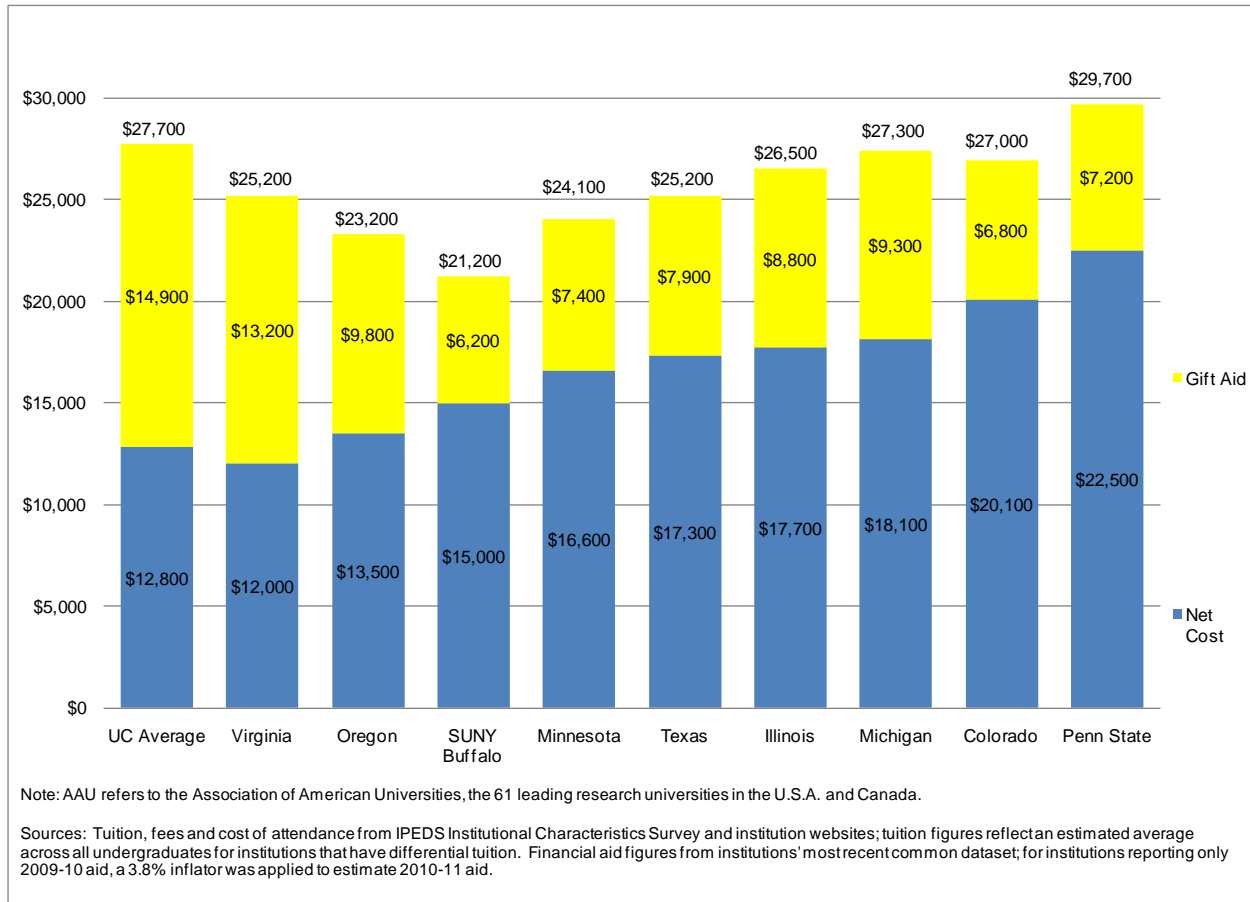
¹ Comparison institution figures include tuition and required fees as reported on campus websites. SUNY Buffalo figures reflect the New York State Legislature's June 2011 vote to increase tuition \$300 annually for the next five years. UC figures include Mandatory Systemwide Charges and campus-based fees, and Nonresident Supplemental Tuition for nonresident students, but do not include waivable health insurance fees.

² The low end of the tuition range for the University of Illinois indicates the base rate for students. Students enrolled in specific colleges, e.g., business and engineering, may be assessed a higher tuition rate up to the high end of the range shown.

³ Tuition and fees for University of Michigan lower-division undergraduates reflect a known 6.7% increase over 2010-11 charges. Increases for Michigan upper-division undergraduates and graduate students are unknown at this time but in this display also reflect a 6.7% increase over 2010-11 charges.

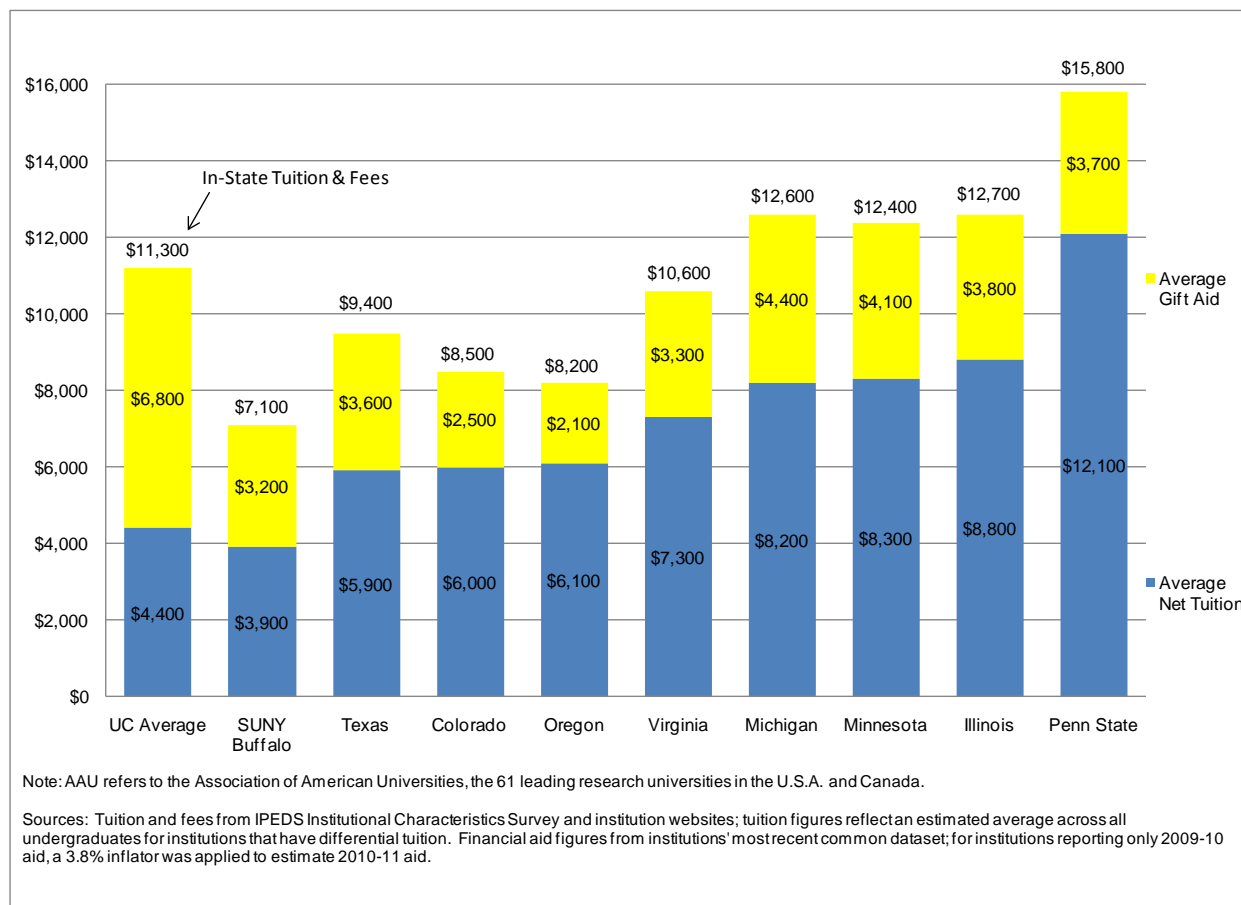
Tuition and fees represent only a portion of the total costs that students must cover, however. Display 6 depicts the average total cost of attendance – including Tuition and fees, housing, books and supplies, health insurance, and other costs – for undergraduates at UC and several public comparison institutions. (Display 6 includes comparison institutions other than UC's standard four in order to provide a broader overview of the market and a look at the current state of higher education.) In 2010-11, UC's average total cost of attendance (before financial aid) was higher than that of eight of the nine comparison institutions. However, gift aid (grants and scholarships) significantly reduces costs for students with financial need under federal guidelines. As shown in Display 6, after taking gift aid into account, UC's average net cost for need-based aid recipients in 2010-11 was below the estimated net cost at eight of the nine comparison institutions. Comparison institution figures for total cost of attendance or net cost for need-based aid recipients in 2011-12 are unknown at this time.

DISPLAY 6: 2010-11 Estimated Average Total Cost of Attendance for Undergraduate Need-Based Aid Recipients at UC and Selected AAU Institutions



Display 6 illustrates how need-based gift aid reduces the average *net cost of attendance* for need-based aid recipients. Display 7, below, shows average *net tuition and fees* on a per-student basis across *all* students after taking need-based gift aid into account. Although average Tuition and fees for UC students was \$11,300 in 2010-11, need-based gift aid to UC students reduced average net Tuition and fees to \$4,400 – the second-lowest among the institutions shown in Display 7. UC’s relatively low net Tuition and fees reflects two factors: (1) the combination of a strong state aid program (Cal Grants) and the University’s own strong institutional aid program; and (2) the relatively high percentage of low-income federal Pell Grant recipients that UC enrolls compared to these other institutions. (Note that figures are averages across all students. In practice, net Tuition is generally less or even zero for the neediest students, while students without financial need typically pay full Tuition and fees.)

DISPLAY 7: Estimated 2010-11 Net In-State Undergraduate Tuition for Full-Time Undergraduates at UC and Selected AAU Institutions



Financial Aid

In recent years, the University has set aside 33 percent of new revenue generated from Tuition and Student Services Fee increases for undergraduate and graduate professional students for financial aid. For graduate academic students, the University has set aside 50 percent of new Tuition and Student Services Fee revenue for financial aid.

With the additional Tuition increase, UC intends to maintain its commitment to assisting financially needy low- and middle-income undergraduate students through a combination of additional University-funded aid and the state's Cal Grant program. Under the Blue and Gold Opportunity Plan, the University will continue to ensure that Mandatory Systemwide Charges, including the additional Tuition increase, are covered by gift assistance for eligible students. This financial aid initiative, which was introduced in 2009-10, helps ensure that UC charges do not deter students from families with modest financial resources from aspiring to a UC education. In November 2010, the Regents approved an increase in the income cap for the Blue and Gold Opportunity Plan from \$70,000 in 2010-11 to \$80,000 in 2011-12, thereby ensuring full coverage of Mandatory Systemwide Charges for eligible resident undergraduates with family incomes up to \$80,000 (up to the student's need). As a result of this program expansion, the

number of students eligible for the Blue and Gold Opportunity Plan is expected to increase from 60,000 undergraduates in 2010-11 to approximately 65,000 in 2011-12.

Last November, the Regents also approved plans to fully cover the 2011-12 Tuition increase for financially needy middle-income families with incomes up to \$120,000. The University plans to fully cover any additional 2011-12 Tuition increase for these families.

With the additional Tuition increase, the University proposes to set aside 33 percent of the new Tuition revenue for additional undergraduate student aid funding. In addition, it is assumed that Cal Grants, as an entitlement program, will continue to fully cover UC's Tuition and Student Services Fee. Thus, the University expects that institutional aid funds, together with expected Cal Grant award increases, will be sufficient to fully cover the additional Tuition increase for all UC grant and Cal Grant recipients (including those eligible for the Blue and Gold Opportunity Plan) and to cover 100 percent of the additional Tuition increase for financially needy undergraduates from families earning less than \$120,000. As shown in Display 8, below, this funding is expected be sufficient to cover the entire additional Tuition increase for:

- 100 percent of financially needy undergraduates with incomes up to \$80,000 (84 percent of families with incomes below \$80,000 have financial need under federal guidelines);
- 100 percent of financially needy undergraduates with incomes between \$80,000 and \$120,000 (52 percent of families with incomes between \$80,000 and \$120,000 have financial need under federal guidelines);
- 90 percent of all UC undergraduates with financial need under federal guidelines; and
- 55 percent of all UC undergraduates.

DISPLAY 8: Additional Tuition Increase Coverage Provided by Increased Financial Aid

	Parent Income		
	Less than \$80,000	\$80,000 to \$120,000	Overall
Percent of undergraduates with financial need under federal guidelines whose increase is covered	100%	100%	90%
Percent of all undergraduates whose increase is covered	84%	52%	55%

The State has historically increased funding for the Cal Grant program to fully cover systemwide Tuition and fee increases for Cal Grant recipients at UC – including mid-year fee increases in 2002-03 and 2009-10. UC will work closely with the State to ensure that any additional Tuition increase implemented in 2011-12 is fully covered by the program as well.

The University also proposes to set aside, for financial aid, 33 percent of any new Tuition revenue from students in professional degree programs and 50 percent of new Tuition revenue from students in graduate academic programs. These resources will help offset higher costs for students in these programs as well.

In addition to the increased financial aid resources noted above, in 2011-12 the University will continue its ambitious effort to raise \$1 billion for student support over the next four years from private sources. This effort would double the amount of private support the system raised for

scholarships, fellowships and other gift aid in the five years prior to the initiation of this fundraising effort. The effort recognizes the need to focus fundraising efforts more sharply on student support.