

APPENDIX A
Excerpt from 2007-08 Budget for Current Operations

STUDENT FEES

Overview

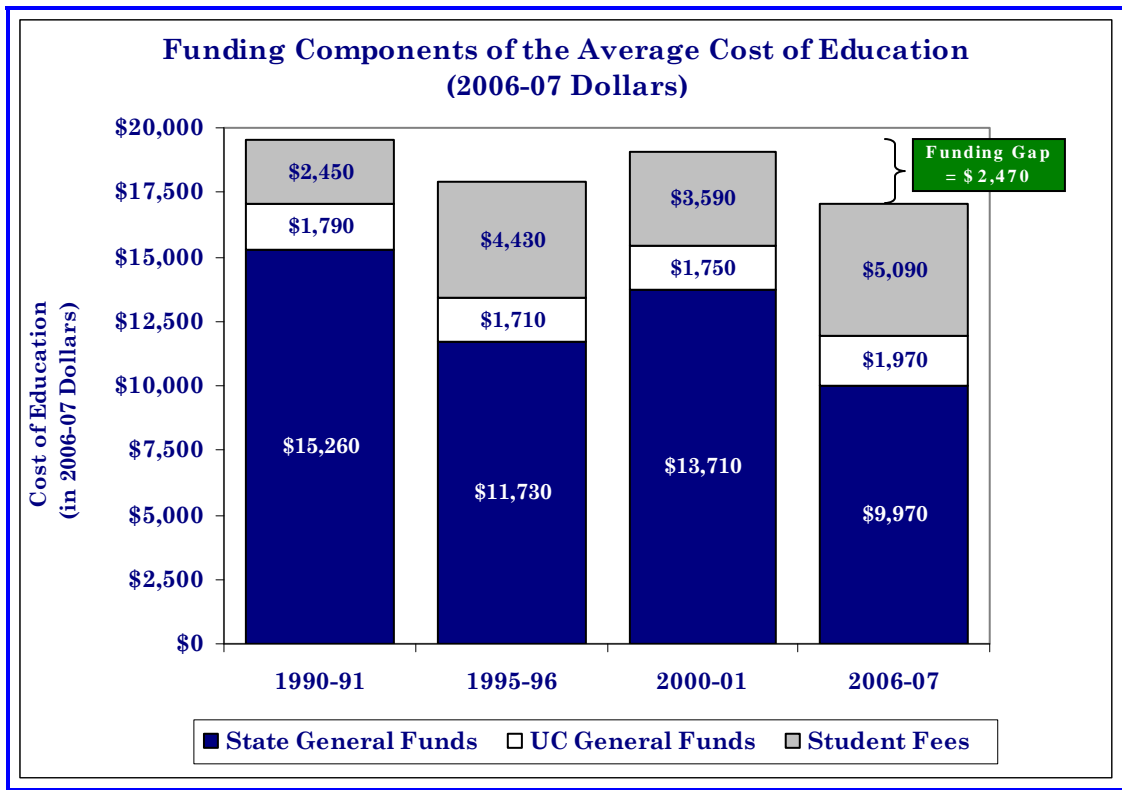
There are two mandatory systemwide fees currently assessed to all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support a share of the University's operating costs, including instruction-related costs, student financial aid, and student services programs. All students also must pay mandatory campus fees, also called miscellaneous campus fees, which cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government and construction, renovation, and repair of sports and recreational facilities. In addition to all mandatory systemwide and campus fees, some students pay other fees as follows:

- All students seeking specified degrees in medicine, dentistry, veterinary medicine, law, business/management, pharmacy, optometry, nursing, public health, public policy, the UCLA theater/film/television program and the UCSD international relations and Pacific studies program are required to pay a professional school fee.
- Nonresident students must pay nonresident tuition as well as mandatory fees and any applicable professional school fees.

Historically, the State has heavily subsidized the cost of education. However, as with all public universities, student fees have tended to increase as the State's subsidy has declined. Display 1 (next page) shows the funding components of the average cost of a UC education from 1990-91 through 2006-07 (in 2006-07 dollars) and the funding gap that has developed between the cost of a UC education in 1990-91 and the resources available in 2006-07. Display 1 yields several findings.

- The average expenditure per student for a UC education has declined. In 1990-91, the cost to educate a UC student was approximately \$19,500 in 2006-07 dollars. Over 16 years, funding per student in inflation adjusted dollars declined by 12.7 percent, from \$19,500 in 1990-91 to \$17,030 in 2006-07, resulting in a funding gap of \$2,470 per student.
- The State subsidy per student for the cost of a UC education has declined significantly — by 35 percent over a 16-year period. In 1990-91, the State contributed \$15,260 per student — 78 percent of the total cost. By 2006-07, the State share declined to \$9,970, just 59 percent.

Display 1



- As the State subsidy has declined, the share students must pay has tended to rise. This happened in the early 1990s and is happening again now. While in 1990-91 students contributed 13 percent toward their education, they currently pay 30 percent of the cost of their education.

These findings raise several additional points. First, the funding gap that has developed since 1990-91 represents lost support totaling more than \$500 million. Although the University has struggled to meet the challenge presented by this substantial decline in state funding, it must be recognized that certain elements of the educational, research, and public service functions have been steadily sacrificed in order to preserve the core missions of the University. It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement. When the State's financial situation permits, the University will seek support to reduce this funding gap, as discussed in the *Summary of the 2007-08 Budget* chapter of this document.

Second, recent national news coverage about skyrocketing costs of college tuition masks what has really happened at UC. University expenditures per student have not increased, but rather have fallen (in constant dollars). Instead, fees paid by students have risen as funding from the State has declined. Student fee increases

have helped maintain quality during times of fiscal crisis, but have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low.

Third, despite rising fees for students, the University has striven to maintain student access and affordability. As fees increased between 2001-02 through 2005-06, the University provided significant increases in financial aid to help ensure access for low-income students. UC has maintained affordability for lower-income students by sustaining a strong financial aid program.

As a result of the State’s buyout of increases in mandatory systemwide fees in the current year, the University’s average fees for 2006-07 for undergraduate resident students (excluding health insurance fees) are \$1,500 less than the average fees charged at the University’s four public salary comparison institutions, as shown in Display 2.

Display 2

University of California and Public Salary Comparison Institutions Total Student Fees *				
Public Salary Comparison Institutions 2006-07 Fees	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
University of Illinois	\$ 9,522	\$ 23,608	\$ 10,152	\$ 22,992
University at Buffalo (SUNY)	\$ 6,129	\$ 12,389	\$ 9,448	\$ 13,468
University of Virginia	\$ 8,043	\$ 26,143	\$ 10,560	\$ 20,560
University of Michigan	\$ 9,723	\$ 29,131	\$ 14,991	\$ 30,137
2006-07 Average Fees of Comparison Institutions	\$ 8,354	\$ 22,818	\$ 11,288	\$ 21,789
<i>2006-07 Average UC Fees</i>	<i>\$ 6,852</i>	<i>\$ 25,536</i>	<i>\$ 8,938</i>	<i>\$ 23,899</i>

* Includes mandatory systemwide fees and campus-based fees, and nonresident tuition for nonresident students

In addition, University fees for resident graduate students continue to be well below (\$2,350) the average fees charged at the University’s four public salary comparison institutions. Currently, only one of the four public comparison institutions charges lower fees to resident undergraduates; for graduate academic students UC charges the lowest fees of any of the public comparison institutions.

However, the comparisons for nonresident students are a different matter. In the past, the University's fees were among the lowest charges, for both nonresident undergraduate and graduate students, of any of the University's public comparison institutions. With the increases in mandatory systemwide fees and nonresident tuition approved by The Regents for 2005-06, for the first time since the mid-1980s, the University's fees for nonresident undergraduate and graduate students exceeded the average fees for the comparison institutions by \$2,718 and \$2,110 respectively. Even so, the University's tuition and fees for nonresident students represent the mid-point among our public comparison institutions.

2007-08 Budget Plan — Student Fees

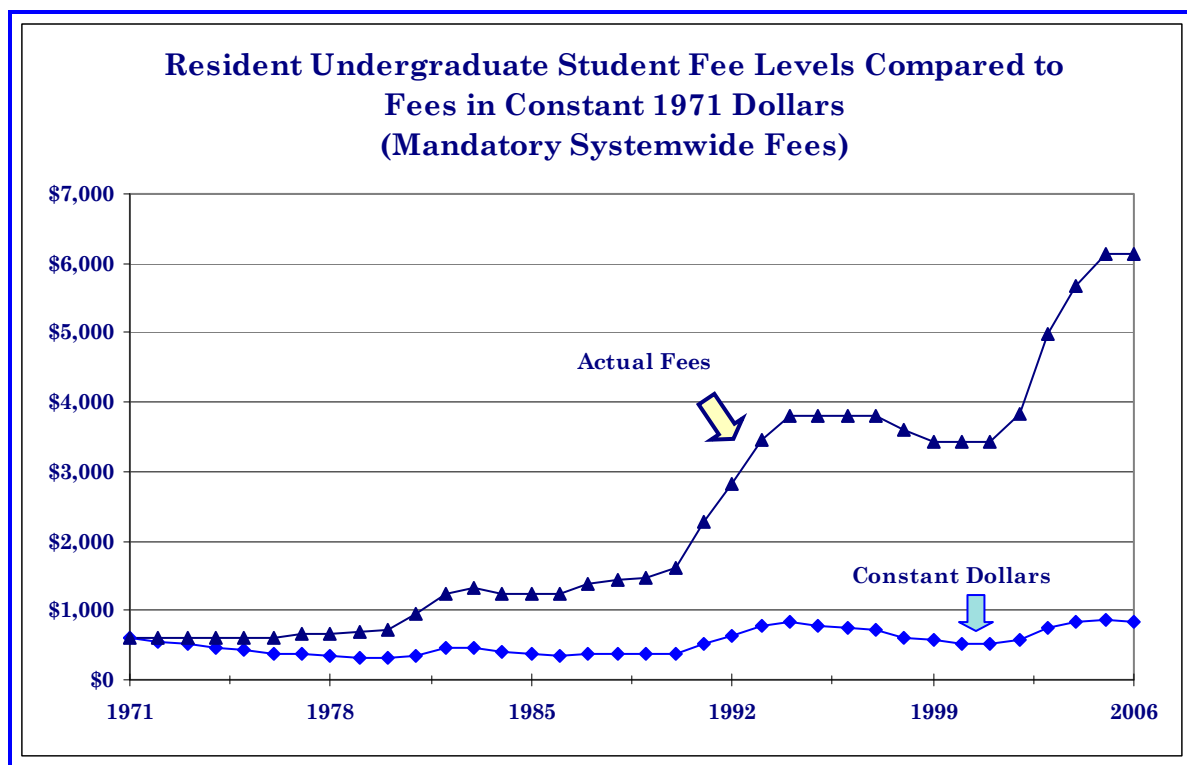
The University is proposing no increase in mandatory systemwide fees at this time. Instead, the University proposes to delay action on student fees until more is known in January after the Governor's proposed budget for 2007-08 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to once again buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January meeting. Any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances. Thus, if student fee increases are instituted, the University would propose a return-to-aid of 33 percent for undergraduates, including special emphasis on ensuring accessibility for middle-income students, and a return-to-aid of 33 percent for professional school students. The University would propose a higher return-to-aid for graduate academic students (45 percent) to recognize the need to provide competitive graduate support packages and to cover collective bargaining agreements with teaching assistants. The *Summary* also contains a discussion of The Regents' priorities for further additional funding once the State's fiscal situation permits.

For nonresident undergraduate students only, it is proposed that the Nonresident Tuition Fee be increased by 5 percent in 2007-08, raising the nonresident tuition level for these students by \$900 from \$18,168 to \$19,068. Nonresident tuition would remain at \$14,694 for graduate academic students and \$12,245 for professional students. Taken together with mandatory systemwide fees and campus fees, the average total nonresident student charges in 2006-07 are estimated to be \$25,536 for undergraduate students and \$23,899 for graduate academic students.

History of Student Fees

The history of student fees is shown in the top line of Display 3. The wide fluctuation in student fees tracks fairly closely with changes in the State's economy. In good years, fees were held steady or were reduced. In years of fiscal crisis, student fees increased dramatically. The display also shows that 2006-07

Display 3



fee levels, when adjusted to reflect 1971-72 constant dollars, are about the same as they were in 1994-95.

As noted previously, from 1995-96 to 2001-02, the State provided additional funding to the University to avoid increases in mandatory student fees during those years. In addition, the State provided funding to reduce mandatory systemwide fees by 10 percent for resident undergraduate students and 5 percent for resident graduate students. Instead, if the University had adjusted mandatory systemwide fees by 4 percent annually beginning in 1995-96, total undergraduate fees would be \$6,743 – \$59 less than the actual UC systemwide average of \$6,852 for 2006-07 – and about \$1,611 less than the average of total tuition and fees (\$8,354) at the comparison institutions.

Display 4 (next page) shows fee levels for resident undergraduate and graduate academic students from 1978-79 through 2006-07.

In the early 1980s, fees were increased to offset losses in State funds. Throughout the rest of the decade, fees were held constant or increased moderately until the onset of the State's fiscal crisis in the early 1990s when the State's severe fiscal difficulties resulted in a dramatic decline in State support for the University. The impact of the State's fiscal crisis in the 1990s is described in detail in the *Overview* chapter of this document.

Display 4

UNIVERSITY OF CALIFORNIA STUDENT FEE LEVELS 1978-79 to 2006-07													
Average Annual Fees per Resident Undergraduate Student							Average Annual Fees per Resident Graduate Academic Student						
	Ed/Reg Fees Combined			Misc. Fees (a)	Total Fees *		Ed/Reg Fees Combined			Misc. Fees (a)	Total Fees *		
	Reg. Fee	Ed. Fee	% Change				Reg. Fee	Ed. Fee	% Change				
1978-79	\$ 371	\$ 300	\$ 671	\$ 49		\$371	\$ 360	\$ 731	\$ 38	\$ 769			
1979-80	385	300	685 (2.1%)	51	736	385	360	745 (2.1%)	39	784			
1980-81	419	300	719 (5.0%)	57	776	419	360	779 (5.0%)	45	824			
1981-82	463	475	938 (30.5%)	60	998	463	535	998 (30.5%)	45	1,043			
1982-83	510	725	1,235 (31.7%)	65	1,300	510	785	1,295 (31.7%)	51	1,346			
1983-84	523	792	1,315 (6.5%)	72	1,387	523	852	1,375 (6.5%)	58	1,433			
1984-85	523	722	1,245 (-5.3%)	79	1,324	523	782	1,305 (-5.3%)	63	1,368			
1985-86	523	722	1,245 (0.0%)	81	1,326	523	782	1,305 (0.0%)	64	1,369			
1986-87	523	722	1,245 (0.0%)	100	1,345	523	782	1,305 (0.0%)	82	1,387			
1987-88	570	804	1,374 (10.4%)	118	1,492	570	804	1,374 (10.4%)	100	1,474			
1988-89	594	840	1,434 (4.4%)	120	1,554	594	840	1,434 (4.4%)	125	1,559			
1989-90	612	864	1,476 (2.9%)	158	1,634	612	864	1,476 (2.9%)	222	1,698			
1990-91	673	951	1,624 (10.0%)	196	1,820	673	951	1,624 (10.0%)	482	2,106 (b)			
1991-92	693	1,581	2,274 (40.0%)	212	2,486	693	1,581	2,274 (40.0%)	557	2,831 (b)			
1992-93	693	2,131	2,824 (24.2%)	220	3,044	693	2,131	2,824 (24.2%)	608	3,432 (b)			
1993-94	693	2,761	3,454 (22.3%)	273	3,727	693	2,761	3,454 (22.3%)	703	4,157 (b)			
1994-95	713	3,086	3,799 (10.0%)	312	4,111	713	3,086	3,799 (10.0%)	786	4,585 (b, c)			
1995-96	713	3,086	3,799 (0.0%)	340	4,139	713	3,086	3,799 (0.0%)	836	4,635 (b, c)			
1996-97	713	3,086	3,799 (0.0%)	367	4,166	713	3,086	3,799 (0.0%)	868	4,667 (b, c)			
1997-98	713	3,086	3,799 (0.0%)	413	4,212	713	3,086	3,799 (0.0%)	923	4,722 (b, c)			
1998-99	713	2,896	3,609 (-5.0%)	428 (d), (e)	4,037	713	3,086	3,799 (0.0%)	839 (d)	4,638 (b, c)			
1999-2000	713	2,716	3,429 (-5.0%)	474 (d), (e)	3,903	713	2,896	3,609 (-5.0%)	969 (d)	4,578 (b, c)			
2000-01	713	2,716	3,429 (0.0%)	535 (d), (e)	3,964	713	2,896	3,609 (0.0%)	1,138 (d)	4,747 (b, c)			
2001-02	713	2,716	3,429 (0.0%)	430 (d), (f)	3,859	713	2,896	3,609 (0.0%)	1,305 (d)	4,914 (b, c)			
2002-03 (g)	713	3,121	3,834 (11.8%)	453 (d), (f)	4,287	713	3,301	4,014 (11.2%)	1,327 (d)	5,341 (b, c)			
2003-04	713	4,271	4,984 (30.0%)	546 (d), (f)	5,530	713	4,506	5,219 (30.0%)	1,624 (d)	6,843 (b, c)			
2004-05	713	4,971	5,684 (14.0%)	628 (d), (f)	6,312	713	5,556	6,269 (20.0%)	1,606 (d)	7,875 (b, c)			
2005-06	735	5,406	6,141 (8.0%)	661 (d), (f)	6,802	735	6,162	6,897 (10.0%)	1,811 (d)	8,708 (b, c)			
2006-07	735	5,406	6,141 (0.0%)	711 (d), (f)	6,852	735	6,162	6,897 (0.0%)	2,041 (d)	8,938 (b, c)			

Notes:

(a) Represents the average of fees charged by the campuses for undergraduates and graduate academic students. Fees for professional students are not included here.

(b) The \$376 annual Special Fee for Law and Medicine is not included in figures shown.

(c) The Fee For Selected Professional School Students is not included in figures shown.

(d) Beginning in 1998-99, campus miscellaneous fees are calculated on a weighted basis using enrollments.

(e) From 1998-99 through 2000-01, Miscellaneous Student Fees included fee charged for undergraduate student health insurance established through student referendum at Berkeley and Santa Cruz.

(f) Does not include student health insurance fees which may be waived by demonstrating insurance coverage.

(g) Includes the full fee increase of \$405 approved in 2002-03. However, only 1/3 (\$135) of the increase was implemented in Spring 2003, with the full amount implemented in 2003-04.

* Total fees are the sum of the Ed/Reg Fees combined and estimated campus miscellaneous fees, which are higher for graduate students.

There was considerable volatility in fee increases during the early 1990s. Throughout this period, fees were accompanied by significant increases in financial aid that helped offset the impact of the fee increases on needy students. The University's ongoing commitment to financial aid, which is addressed in the *Student Financial Aid* chapter of this document, has helped maintain the affordability of a UC education.

Student Fees 1995-96 through 2005-06

There were no increases in mandatory systemwide fees for seven consecutive years from 1995-96 through 2001-02 until the mid-year student fee increases instituted for the Spring 2003 term. In fact, as a result of the State's actions in the late 1990s, fees were reduced by 10 percent for California resident undergraduates and by 5 percent for California resident graduate academic students.

Even though the State's fiscal situation began to deteriorate in 2001-02, student fees did not increase until mid-year cuts were instituted in 2002-03. As part of the University's effort to offset cuts targeted at instructional programs, systemwide student fees were raised by about 11 percent in 2002-03 (\$135 effective Spring term 2003, which when annualized totaled \$405) and another 30 percent for 2003-04 (\$1,150 for resident undergraduates). Professional school, graduate, and nonresident student fees also rose significantly. Again in 2004-05, student fees were raised to offset cuts that otherwise would have been directed at instruction: undergraduate fees rose by \$700 (14 percent), graduate fees rose by \$1,050 (20 percent), and professional school fees rose by an average of 30 percent, with increases varying by school. Nonresident students also paid an additional 20 percent in nonresident tuition (a \$2,746 increase for undergraduates).

As described in the *Overview*, in May 2004, the University negotiated a Compact with Governor Schwarzenegger which includes an agreement about student fee increases over its six-year term. The Compact specified fee increases for undergraduates and graduate academic students for 2004-05 through 2006-07. Following that period, the Compact envisions fee increases equivalent to the annual increase in California per capita personal income or more — up to 10 percent per year — if fiscal circumstances require increases that exceed the rate of growth in per capita personal income to provide sufficient funding for programs and preserve quality. The Compact also calls for the University to develop a long-term plan for increasing professional school fees. Revenue from student fees will remain with the University and will not be used to offset reductions in State support. The specific provisions of the Compact are described in the *Overview* chapter of this document.

As fees have increased over time, the percentage of additional fee income dedicated to financial aid, referred to as return-to-aid, also has increased. In 1987-88, the return-to-aid from new fee revenue was 16 percent; by 1994-95 that proportion had risen to 33 percent, where it remained through 2003-04. Due to the State's fiscal crisis, the Governor proposed and the Legislature agreed to a lower return-to-aid of 20 percent for 2004-05. For 2005-06, approximately 25 percent of all new fee revenue generated from undergraduate fees was used for undergraduate student financial aid, which was consistent with the historical average, and 45 percent of all new fee revenue raised from graduate academic student fees was used for graduate student financial aid.

For 2006-07, because of the State's student fee buyout, there was no new fee revenue associated with fee increases and consequently no concomitant return-to-aid. However, new revenue was generated from new enrollments in 2006-07. Approximately 33 percent of all new fee revenue generated from undergraduate fees related to new enrollments was used for undergraduate student financial aid, 50 percent of all new fee revenue raised from graduate academic student fees was used for graduate student financial aid, and 33 percent of the revenue generated by professional school students was used for financial aid for professional school students.

In addition to fee revenue, other sources help cover fee increases and meet other costs, including funds provided from Cal Grants, the Federal government, and private sources. Because the State's Cal Grant program does not cover fees for graduate students, other sources of funds including student fee revenue, are particularly critical for the University to provide financial aid and remain competitive in recruiting graduate academic students. Funding for financial aid from grants and scholarships is expected to be approximately \$1.2 billion in 2006-07. The *Student Financial Aid* chapter of this document provides a full discussion of financial aid, including State, federal, private, and University sources.

Policy on Adjustment of Student Fee Levels

In 1985, the State adopted a long-term student fee policy which provided for gradual and moderate fee increases and established guidelines for fee increase calculations, financial aid, notification to students of fee increases, and consultation with students. In addition, the policy provided for fee increases of up to 10 percent when expenditures were projected to exceed available State revenues. Although The Regents adopted the policy in 1985, it was routinely suspended beginning with the 1991-92 budget. The policy was not reauthorized by the Legislature and is no longer in effect.

In the context of reduced State financial support for the University and an anticipated dramatic increase in student demand through 2010-11, in January 1994, based on extensive discussions with the State and within the University community, The Regents approved a Student Fee and Financial Aid Policy that applies to the Educational Fee and University Registration Fee. The policy recognizes that the commitment to low fees had been eroded by dramatic declines in State support, and specifically authorizes the use of Educational Fee revenue for general support of the University, including costs related to instruction. The policy assumes that, for California resident students, funding the cost of a UC education is a shared responsibility among the State, the students, and their families. A goal of the policy is to maintain affordability of a high-quality educational experience at the University for low- and middle-income students without unnecessarily subsidizing high-income students.

Under the policy, the Educational Fee continues to be a mandatory charge assessed to all resident and nonresident students to be established annually, based on the following factors: (1) the resources necessary to maintain access under the Master Plan, to sustain academic quality, and to achieve the University's overall missions; (2) the amount of support available from various sources to assist needy students in funding the cost of their education; (3) overall State General Fund support for the University; and (4) student charges at comparable public institutions. The policy also established a methodology for setting annual University Registration Fee levels that may vary among the campuses within a range established annually by The Regents. Finally, to assist students and their parents in planning for future educational expenses, the policy provides, at a minimum, for recommendations to be made annually to the Board concerning the proposed levels for the Educational Fee and the University Registration Fee for the next academic year. The University recognizes it is helpful when information on projected fee levels can be provided in a timely way so families can plan their finances for the coming year. However, given the instability in the University's state-funded budget, including mid-year budget cuts, it has been difficult to provide notice well in advance of the academic year. As State funding has stabilized, the University has made a commitment to providing notice of fee increases in a more timely way.

The agreement among UC, CSU, and the Governor regarding the student fee policy as expressed in the Compact (described earlier) preserves the concept of predictable, moderate, and gradual student fee increases, as envisioned in Regental policy and proposed in past years by CPEC. Importantly, it also recognizes the need to provide adequate funding for cost increases for student fee-funded programs and preserving the quality of the University.

As with both private institutions and a growing number of public institutions, fee revenue is needed to support the academic mission of the University, and has only partially offset the impact of a significant decline in State support for the University over the past 20 years. Without adequate resources, the University cannot recruit and retain talented faculty and maintain its academic programs. While regrettable, student fee increases have helped preserve the high quality educational experience that the State's citizens have come to expect from the University.

Mandatory Systemwide Student Fees — Undergraduate and Graduate Academic Students

At this time, the University is making no proposal for an increase in student fees. Instead, the University proposes to delay action on student fees until more is known in January after the Governor's proposed budget for 2007-08 is released. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to once again buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes

an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January meeting. Any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances.

Educational Fee

The Educational Fee was established in 1970. Use of revenue from the Educational Fee initially was designated primarily for capital outlay purposes; in subsequent years, an increasing proportion of the Fee was allocated for student financial aid. In 1976, The Regents adopted a policy that Educational Fee income was to be used exclusively for support of student financial aid and related programs. The Regents modified that policy in 1981, and again in 1994, following reductions in State General Fund support. As a result, the Educational Fee currently provides general support for the University's operating budget, including costs related to instruction, and funds student financial aid and related programs, counseling and career guidance, academic advising, tutorial assistance, social and cultural activities, and overhead associated with student services activities (i.e., operation and maintenance of plant and general administration). As discussed earlier, the policy also established a methodology for setting annual Educational Fee levels.

University Registration Fee

The University Registration Fee is a charge made to each registered student for services that are necessary to students, but not part of the University's programs of instruction, research, or public service. Included in these services are activities such as student health services, child care services, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students. Chancellors are authorized to determine specific allocations of Registration Fee income on their campuses, within appropriate University policies and guidelines. Each campus has a Registration Fee Committee, which includes a majority of student members, to advise the Chancellor on pertinent issues.

Additional funds are needed to address student mental health issues, which are a growing concern at UC as well as other higher education institutions across the nation. Psychological counseling has become an area of major importance, given the increasing numbers of students enrolling annually who are on medications or who otherwise manifest behavioral or other psychological issues that negatively impact their wellness and academic performance or that of their immediate peers. As described in the Student Services chapter of this document, the University has just completed a comprehensive systemwide review of student mental health issues and the challenges associated with providing these services within the campus community. Additional psychological counseling services at Counseling

and Psychological Services Centers and Student Health Services as well as academic counseling are needed. Campuses are in the process of assessing ways to improve these services, including the level of additional resources needed.

Mandatory Student Fees — Professional School Students

Historically, many of UC's professional schools have held a place of prominence in the nation, promising a top-quality education for a reasonable price. The cuts that have occurred, both in the early 1990s and during the more recent budget crisis, have devastated the resources available to the professional schools to such a degree that the schools are extremely concerned about their ability to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students — all of which are important components of excellence in these schools. Once started on a downward spiral, it is very difficult to recover previous levels of excellence. The professional schools see this as a crisis of quality and believe significant steps, including raising student fees, must be taken to regain the excellence recent budget cuts have threatened.

Since the initial implementation of professional school fees in 1994-95, professional schools have been largely supported by a combination of sources, including State general funds, Educational Fee revenue, and professional school fee revenue, among others. Because fee increases have been used to offset budget cuts instead of generating revenue to sustain and improve the quality of the schools as originally envisioned, professional schools have fallen further behind in their ability to offer competitive salaries to their faculty and staff. As a result, the University's professional schools are in danger of losing prominence among their peers. For example, the disproportionate cuts taken in law and business have resulted in a number of deficiencies that must be addressed. Berkeley's goal is to return the law school to its former ranking among the top 5 schools in the nation. To reach that goal, the school needs to address the following: the rising student-faculty ratio that has led to increased class sizes; faculty salaries that are well below the average of peer public and private institutions; student services programs that have not kept pace with student needs; and financial aid programs that can ensure public interest career options are available to students upon graduation. Similar situations exist at the UCLA and Davis law schools, and at the business schools at Berkeley and UCLA. Fee increases above the minimum to fund cost increases and additional financial aid would be needed to address the effects of the disproportionate budget cuts applied to these programs and help them regain their prominence.

History of Professional School Fees

Policy. Pursuant to the provisions of the 1990 State Budget Act, a Special Fee for Law School and Medical School Students of \$376 per year was implemented,

effective with the 1990-91 academic year. In January 1994, The Regents approved a Fee Policy for Selected Professional School Students, authorizing fees for students in selected professional degree programs that are required in addition to mandatory systemwide fees and miscellaneous campus-based fees and, when appropriate, nonresident tuition. In approving the fee policy, the University reaffirmed its commitment to maintain academic quality and enrollment in the professional school programs, and recognized that earning a degree in these programs benefits the individual financially as well as the state.

The Regents Policy is now outdated with some provisions that are no longer applicable, given the enormous cuts that have occurred to the professional school budgets and the University as a whole, which have resulted in changes in the proportion of fee revenue dedicated to financial aid and an expansion in the number of affected degree programs. In addition, while the policy provides that the fee for each professional degree program is to be phased in so that total student charges at UC are approximately the average of fees charged for that program by comparable high quality institutions across the nation, in some cases, total student charges at UC now are higher than the average at comparison institutions. An update to current policy is needed to address The Regents' continuing goals to provide access and a high quality professional education for UC students in the current economic environment. Guidelines for setting fee levels, based on the understandings reached with the State on the Compact, have been widely reviewed, including the Academic Senate, and will be discussed by The Regents at a future meeting in conjunction with the discussion of the financial aid issues facing professional school students.

Budget Cuts and Fee Increases. In 1997, AB 1318 (Chapter 853) was enacted, which, among its provisions, specified a two-year freeze on fees for California residents, including those enrolled in graduate academic or professional school programs. Thus, the planned professional school fee increases for 1998-99 were not implemented. Not only were professional school program fees frozen at 1997-98 levels through 1999-2000, but the University also received no funds for cost increases associated with programs supported from these fees. The State Budget Acts of 2000 and 2001 recognized this disparity and included \$1.4 million and \$1.5 million respectively to provide cost increases for programs funded from Fees for Selected Professional School Students. These fees did not increase again until the 2002-03 budget year, when mid-year cuts resulted in fee increases in mandatory systemwide fees and professional school fees. In 2003-04, professional school fees were increased by about 30 percent and the revenue was used to offset base budget cuts for the University that otherwise would have been targeted at instructional programs.

The 2004-05 Governor's Budget presented in January 2004 assumed the University would develop a plan for achieving \$42.2 million in new revenue from increases in

professional school fees to be used to offset base budget cuts that otherwise would have again been targeted at Instruction. To achieve that revenue target, fees would need to have increased by about \$5,000 per student. The University was asked to exempt nursing from these increases and to implement a smaller than average increase for students in the schools of medicine. However, a few of the schools — such as optometry, pharmacy, and theater, film, & TV — could not sustain increases of \$5,000 and continue to attract sufficient numbers of highly qualified students.

After review of the options available, and considering the short notice to students, The Regents approved increases in these fees averaging approximately 30 percent for 2004-05. These increases generated approximately \$37 million in income, falling \$5 million short of the revenue proposed by the Governor. The campuses absorbed the \$5 million shortfall on a temporary basis through cuts to other programs. As noted previously, to cover this shortfall permanently, mandatory systemwide fees charged to professional school students were increased for 2005-06 by \$628, the same dollar amount of increase proposed for graduate academic students.

One issue of major concern was that the Governor's 2004-05 proposal did not assume any return-to-aid from the increase in professional school fees. Moreover, the professional schools affected have been very concerned about their ability to maintain the quality of their programs and to be competitive with other professional schools, particularly if students will be paying significantly more to attend these schools. To address the academic quality and financial aid issues associated with this proposal, The Regents delegated authority to the President to raise the fee at any of the professional schools in 2004-05 by an additional amount not to exceed 10 percent of total systemwide fees paid by professional school students (i.e. Educational Fee, Registration Fee, and Professional School Fee), if it was determined that a higher fee was needed to provide sufficient financial aid, and/or maintain quality of the academic program. Several schools (Law and Business at Berkeley and Los Angeles; Dentistry at Los Angeles and San Francisco; and Pharmacy at San Diego and San Francisco) exercised this option in amounts ranging from \$1,000 to \$1,932, while the remaining schools made no further changes in their fee levels.

For 2005-06, The Regents approved a 3 percent across-the-board increase in professional school fees to cover salary costs and non-salary price increases. In addition, The Regents approved new professional school fees for students enrolled in degrees in public health, public policy, and the San Diego campus program in International Relations and Pacific Studies (IRPS). At the same time, recognizing that the professional schools have been unable to make the financial investments necessary to maintain the academic quality of their programs and to provide additional financial aid to their students, the Board stated its intention to review any proposals for supplemental increases in professional school fees that might be

proposed by the individual schools. At the May 2005 meeting, increases of up to an additional 7 percent were proposed for specified professional degree programs for 2005-06; when combined with the 3 percent increase approved for all professional degree programs, the total increase proposed for these programs was a maximum of 10 percent. The proposed increases varied by school, campus, and residency status, and ranged from \$205 in nursing to \$1,163 for MBA students at UCLA. The full 10 percent increases in professional school fees were approved for implementation in 2006-07. However, for 2005-06, two-thirds of the proposed professional fee increases were approved for implementation beginning in winter quarter/spring semester to ensure that students received adequate notice. This action resulted in an increase for 2005-06 of about 7.7 percent in professional school fees over 2004-05 for the identified degree programs.

For 2005-06, the following schools implemented supplemental increases in professional school fees, ranging from \$136 to \$776 beginning in Winter quarter/Spring semester 2006. While the State bought out professional school fee increases planned for 2006-07, the remaining one-third of the 2005-06 supplemental increases, ranging from \$69 to \$387, were implemented in 2006-07.

- Law at Berkeley, Davis, and Los Angeles
- Business at Berkeley, Irvine, and Los Angeles
- Dentistry at Los Angeles and San Francisco
- Pharmacy at San Diego and San Francisco
- Nursing at Los Angeles and San Francisco
- Optometry at Berkeley

Display 5 shows the history of professional school fee levels since 1994-95.

Display 5

Fees for Selected Professional School Students Annual Fee Levels by Year of First Enrollment (resident students)									
	Fees Previously Approved by The Regents								
	1994-95	1995-96	1996-97	1997-98	2002-03	2003-04	2004-05	2005-06	2006-07
Medicine#	\$ 2,376	\$ 3,376	\$ 4,376	\$ 5,376	\$ 5,776	\$ 8,549	\$ 13,049	\$ 13,440	\$ 13,440
Dentistry	2,000	3,000	4,000	5,000	5,400	8,060	12,560 *	13,523 - 15,445	13,816 - 15,798
Veterinary Medicine	2,000	3,000	4,000	4,000	4,350	6,565	10,565	10,882	10,882
Law#	2,376	4,376	6,376	6,376	6,776	9,849	13,649 *	14,695 - 15,976	15,013 - 16,334
Business	2,000	4,000	6,000	6,000	6,400	9,360	13,860 *	14,276 - 16,984	14,276 - 17,371
Riverside	2,000	3,000	4,000	5,000	5,400	9,360	13,860	14,276	14,276
Optometry			2,000	3,000	3,250	4,875	8,675	9,340	9,542
Pharmacy			2,000	3,000	3,250	4,875	8,675 *	10,849	11,098
Nursing			1,500	1,800	1,950	2,925	2,925	3,149	3,218
Theater, Film, & TV			2,000	2,000	2,150	3,185	5,785	5,959	5,959
Public Health								4,000	4,000
Public Policy								4,000	4,000
Int'l Rels & Pacific St.								4,000	4,000

In addition, professional school students pay mandatory Universitywide fees and miscellaneous campus-based fees.
 * Consistent with Regents delegation, the President approved additional fee increases of up to 10% for these professional degree programs at selected campuses. Those added amounts are not included in these figures.
 **For 2005-06, The Regents approved fee increases of 3% for all programs. In addition, supplemental increases up to an additional 7% were approved for selected degree programs. However, because the supplemental increases were implemented beginning in winter/spring terms, only 2/3 of the increases were assessed. The remaining 1/3 was implemented in 2006-07.
 # Fee levels include the \$376 Special Fee for Law and Medical Students approved in 1990.

UC and Comparison Institution Professional School Fees

Display 6 (next page) shows 2006-07 professional school fees at the University of California in relation to the University's four public salary comparison institutions. Additional public institutions are used for fee comparison purposes where the University's four public salary comparison institutions do not offer comparable degree programs or where the University's programs use other peer institutions for fee comparison purposes. While they are not used for fee comparison purposes, the table also shows the 2006-07 tuition and fees at the University's four private salary comparison institutions. The private comparison institutions do not offer all of the professional degree programs that UC offers; therefore the comparisons focus on medicine, law, and business administration.

As was the case in 2005-06, fees for resident students enrolled in law, business, public health, public policy, and the IRPS program at UCSD are approximately the same as the average of the tuition and fees charged by comparable public institutions for 2006-07. Fees again remain well below the average of tuition and fees at comparison institutions for resident students enrolled in medicine (by \$2,925) and nursing (by \$1,879). However, UC fees are now higher than tuition and fees charged at comparable public institutions in all the remaining fields, including veterinary medicine (by \$3,039), dentistry (by \$3,513), pharmacy (by \$4,048), optometry (by \$1,179), and the theater, film, and TV program at UCLA (by \$3,206).

Longer-Term Planning Issues

Within the context of the significant budget cuts and fee increases sustained in the early years of this decade, The Regents requested a longer-term plan for future increases in fees for professional school students. This is consistent with the Compact with the Governor which calls for the University to develop long-term plans for increasing fees for selected professional school students taking into consideration a number of factors:

- average fees at other public comparison institutions;
- average cost of instruction;
- total cost of attendance;
- market factors;
- the need to preserve and enhance the quality of the professional programs;
- the State's need for more graduates in a particular discipline; and
- the financial aid requirements of professional school students.

Display 6

UNIVERSITY OF CALIFORNIA FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS												
	Medicine	Dentistry	Veterinary Medicine	Law	Business Admin.	Optometry	Pharmacy	Nursing	Theater, Film & TV	Public Health	Public Policy	Int'l Reels. & Pac Studies
University of California 2006-07 Resident Fees Average of mandatory systemwide, campus-based, & professional fees (incl. supplemental prof. fee increases)	\$ 22,753	\$ 25,396	\$ 22,233	\$ 25,101 *	\$ 24,634 *	\$ 18,655	\$ 20,234	\$ 12,153	\$ 14,494	\$ 12,766	\$ 12,579	\$ 12,689
Comparison Institution Fees 2006-07 Resident Fees <i>Public Salary Comparison Institutions</i>												
University of Michigan	\$ 23,565	\$ 24,567		\$ 35,501	\$ 35,989		\$ 16,857	\$ 15,455	\$ 14,991	\$ 17,733	\$ 16,965	\$ 16,965
University of Virginia	\$ 30,100			\$ 30,700	\$ 35,000			\$ 10,565	\$ 10,560		\$ 10,560	\$ 10,560
University of Illinois (Urbana/Champ)			\$ 17,566	\$ 20,428	\$ 18,826				\$ 10,152	\$ 12,576		
University of Illinois (Chicago)	\$ 27,670	\$ 23,374					\$ 16,670	\$ 16,076	\$ 9,448			
University of Buffalo (SUNY)	\$ 21,377	\$ 17,707		\$ 14,762	\$ 9,642		\$ 15,032					
<i>Additional Fee Comparison Institutions for Selected Programs</i>												
Cornell University (statutory college)			\$ 23,000									\$ 17,420
University of Maryland												
Michigan State University			\$ 17,196									
University of Minnesota			\$ 21,881								\$ 13,852	\$ 13,852
University of Missouri (St. Louis)						\$ 17,974						
Ohio State University						\$ 16,977						
University of Wisconsin			\$ 16,328							\$ 9,068		\$ 8,818
University of Washington												
Public Comparison Institution Average Resident Fees for 2006-07	\$ 25,678	\$ 21,883	\$ 19,194	\$ 25,348	\$ 24,864	\$ 17,476	\$ 16,186	\$ 14,082	\$ 11,288	\$ 13,126	\$ 12,882	\$ 13,523
<i>Private Salary Comparison Institutions, 2006-07</i>												
Harvard University	\$ 38,590			\$ 38,490	\$ 40,990							
Massachusetts Institute of Technology					\$ 42,834							
Stanford University	\$ 39,840			\$ 37,440	\$ 43,380							
Yale University	\$ 39,450			\$ 40,900	\$ 39,700							

* For law, total charges range from \$24,358 at Davis to \$25,477 at Berkeley. For business, total charges range from \$23,190 at San Diego to \$26,956 at LA. These ranges reflect differences among campuses in professional school fee levels as well as differences in campus-based fees.

With these in mind, the Office of the President and the campuses have engaged in a series of analytical activities and discussions to plan for professional school needs over the next several years. The longer-term planning issues related to professional school fee increases were presented to The Regents for discussion at the November 2005 and the January and July 2006 Regents' meetings. Financial aid issues, including loan repayment programs as they relate to professional school fee programs, will be discussed separately at a future meeting.

As noted previously, four years of sustained budget cuts during the recent fiscal crisis have led to severely strained financial circumstances for the professional schools; the ability to maintain the quality of their academic programs and to be competitive with other professional schools of comparable quality has been significantly affected. As a result, longer-term planning for fee increases for professional school students has been undertaken to address three objectives: (1) ongoing budget needs; (2) the need to stabilize funding for the schools so they can begin repairing the damage that has been sustained as a result of the cuts; and (3) the need to begin re-building high quality programs that are competitive with those offered at comparable public and private institutions. Addressing all three objectives will require a multi-year effort.

Increases in both the Educational Fee and professional school fees are likely to be needed for several years for most professional school programs to help cover salary increases and other cost increases. Additional revenue also will be needed to fund increases in financial aid and to begin addressing the chronic gap in salaries for professional school faculty. A sustained program of fee increases over and above the levels proposed for other professional schools is anticipated for the law and business schools at Berkeley and UCLA to begin to restore excellence and ensure broad accessibility. Accordingly, fee increases for the law schools at Berkeley, Davis, and UCLA and the business schools at Berkeley and UCLA would be higher than those proposed for other programs to restore quality to those programs, including hiring additional faculty, paying competitive salaries, and providing increased financial aid.

Some uncertainties exist, however. It is unclear how employer retirement contribution costs will be funded. Under the Compact, the Administration is committed to covering the portion of employer retirement contributions that is funded from State funds. Because student fees have increased dramatically in recent years to offset significant State budget cuts, it would be unreasonable to also raise fees to cover employer contributions to the retirement system for programs funded from student fees. Therefore, the University intends to seek funding from the State to also cover the portion of employer retirement contribution that is funded from student fees.

Given these uncertainties, a multi-year plan for fee increases for professional school students is not being presented at this time. Instead, fee increases for professional school students for 2007-08 will be considered once the Governor's Budget is released and more is known about State funding for the University, including funding for the reinstatement of retirement contributions.

Temporary Educational Fee Increase for Professional School Students

In 2003, students who had been enrolled in UC's professional degree programs prior to December 16, 2002 filed a class action suit against the University alleging that the increases in the Fee for Selected Professional School Students that were approved by The Regents for Spring 2003 and for all subsequent years violated a contract between the University and students that the professional school fee would not be increased while they were enrolled. Subsequently, the trial court entered an order granting a preliminary injunction against the University, prohibiting the University from collecting the professional school fee increases approved by The Regents for 2004-05 and 2005-06 from students affected by the lawsuit. Even if the University should ultimately prevail in the litigation, at the end of 2006-07, the University will have lost approximately \$20 million in professional school fee revenue that is unlikely to be collected from students.

To address this revenue loss, The Regents approved a \$1,050 increase in the Educational Fee for professional school students. Two-thirds of the increase was implemented in 2005-06 beginning in winter quarter/spring semester to ensure that students received adequate notice. This action resulted in an increase in the Educational Fee for 2005-06 of \$700 over 2004-05. The full increase was annualized in 2006-07 for one year. At the end of 2006-07, the temporary Educational Fee increase for professional school students will cease and will be replaced by a temporary increase of \$60 that will be assessed to all students until the shortfall in revenue is fully replaced.

Financial Aid for Professional School Students

The majority of UC financial aid funds for professional school students is used for grant and fellowship awards with some funds set aside for loan repayment assistance programs. The majority of financial aid funds from other sources, however, are in the form of loans. As a result, about two-thirds of all aid awarded to graduate professional students is in the form of loans, rather than fellowships or grants. Student loans are considered appropriate for students pursuing professional degrees because these programs are relatively shorter than doctoral degree programs and students' incomes have the potential to be substantially higher. Students who choose careers in the public interest, however, often forego these higher incomes. Due to a concern about the ability of students with high debt to pursue public interest occupations, some professional schools have developed

programs to assist students in meeting their loan repayment obligations after graduation. The University expects campuses to expand the size and scope of their loan repayment assistance programs (LRAPs) to help borrowers with public service employment meet their student loan repayment obligations. Initially, the law schools will take the lead in expanding LRAP programs for students pursuing careers in the public interest. The appropriateness and feasibility of implementing LRAP programs in various professional degree programs will be discussed separately by The Regents as part of the discussion of financial aid for professional school students. The University will continue to monitor the debt levels of students enrolled in professional degree programs.

Nonresident Tuition

University of California students who do not qualify as California residents under Section 110.2, Matters Relating to Residency, of the *Standing Orders of The Regents*, are required to pay nonresident tuition. In addition to paying nonresident tuition, out-of-state students must also pay the Educational Fee, the Registration Fee, miscellaneous campus fees and, if applicable, the Fee for Students in Selected Professional Schools.

In May 1992, The Regents adopted stricter requirements for establishing residency for tuition purposes. This action allowed the University to be consistent with the federal definition of "financial independence" at that time and to give full weight to this factor in assessing whether undergraduate and graduate students should be classified as residents for tuition purposes. Effective Fall 1993, students seeking classification as residents are considered financially independent if they are at least one of the following: 24 years old or older; a veteran of the U.S. Armed Services; married or a member of a domestic partnership; a ward of the court; both parents are deceased; have legal dependents other than a spouse; a graduate student and who has not claimed on another's income tax as a dependent for the immediately preceding tax year; or a single undergraduate student who is financially self-sufficient and who was not claimed on another's income tax return as a dependent for the preceding two years.

The 2007-08 budget plan includes a 5 percent increase in the Nonresident Tuition Fee for undergraduate students only, raising the fee by \$900 from \$18,168 to \$19,068 in 2007-08. This increase is expected to generate about \$5.5 million in new revenue. The budget plan assumes that the Nonresident Tuition Fee will remain at \$14,694 for graduate academic students and \$12,245 for professional degree students.

Nonresident students also pay mandatory systemwide fees and miscellaneous fees, bringing the average total charges paid by nonresident students to \$25,536 for undergraduate students and \$23,899 for graduate students in 2006-07. The

average total charges for nonresident professional students will vary by discipline; for example, the average of total tuition and fees is estimated to be \$36,906 for nonresident law students and \$24,398 for nonresident nursing students for 2006-07.

As noted previously, and in greater detail in the *Student Financial Aid* chapter of this document, the inadequacy of graduate student support is a serious issue for the University. Therefore, nonresident tuition for graduate students will not be increased in order to keep the programs competitive in terms of total student charges and avoid exacerbating an already difficult problem. Thus, the Nonresident Tuition Fee will remain at the current level of \$14,694 for graduate academic students and \$12,245 for professional students.

Earlier this year, members of the Academic Senate overwhelmingly supported a Memorial to eliminate nonresident tuition for academic graduate students, and an advisory committee to the Provost recommended that the University eliminate nonresident tuition for academic doctoral students or provide more graduate student support. State policy constrains the extent to which the University can reduce nonresident tuition levels.

Nevertheless, the University is taking steps to address this issue. By forgoing any increase in graduate nonresident tuition as noted above, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

In addition, beginning in 2006-07, nonresident graduate academic students who have advanced to candidacy for their degree are not charged nonresident tuition. This benefit is available to eligible students for three years.

Finally, in response to widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the University proposes to provide additional funding for graduate student support, on a matching basis, to campuses based upon their success at utilizing the Strategic Sourcing Initiative and other campus efforts to reduce costs so that savings can be redirected to provide additional graduate student support. Beginning in 2006-07, campuses are expected to provide additional graduate student support using savings in General Fund and fee revenue expenditures produced by Strategic Sourcing. Under this proposal, the University would provide additional matching funds to campuses as a further incentive to utilize Strategic Sourcing and to make graduate student support a high priority. These funds will help campuses compete

for top students — including talented international students — and will help campuses achieve their graduate enrollment goals.

The University is concerned about future increases in nonresident tuition. Applications for admission from undergraduate nonresidents declined 25 percent during the State's recent fiscal crisis (Fall 2001 through Fall 2005). In the last two years, nonresident applications have recovered but still remain slightly below the peak in 2001. Thus, the 5 percent increase proposed for undergraduate students in 2007-08 is a modest increase compared to the increases that occurred during the worst years of the State's budget crisis, reflecting the University's goal of avoiding further erosion in nonresident enrollment. When determining increases in nonresident tuition for future years, it will be important to consider the effects of recent tuition increases on nonresident enrollment.

State Policy on Adjustment of Nonresident Tuition

In 1988-89, the Legislature adopted Senate Concurrent Resolution 69 (Morgan) expressing its intent to adopt a long-term nonresident student fee policy. The resolution called on the California Postsecondary Education Commission (CPEC) to convene meetings of representatives from the University of California, the California State University, Hastings College of the Law, the California Community Colleges, the Department of Finance, the Legislative Analyst's Office, and students, to develop recommendations for a long-term nonresident student fee policy. The Advisory Committee convened by CPEC issued a report in June 1989, which concluded with the following recommendation:

As California's public postsecondary education segments annually adjust the level of nonresident tuition they charge out-of-state students, the nonresident tuition methodologies they develop and use should take into consideration, at a minimum, the following two factors: (1) the total nonresident charges imposed by each of their public comparison institutions and (2) the full average cost of instruction in their segment.

Under no circumstances should a segment's level of nonresident tuition plus required fees fall below the marginal cost of instruction for that segment.

In addition, each segment should endeavor to maintain that increases in the level of nonresident tuition are gradual, moderate, and predictable, by providing nonresident students with a minimum of a ten-month notice of tuition increases. Each governing board is directed to develop its own methodology for adjusting the level of nonresident tuition, but those methodologies should be consistent with this recommendation.

The Advisory Committee's recommendations for adjusting the level of nonresident tuition subsequently were signed into law (Chapter 792, 1990). In addition, the legislation includes the proviso, "in the event that State revenues and expenditures are substantially imbalanced due to factors unforeseen by the Governor and the Legislature," nonresident tuition will not be subject to the bill's provisions.

Nonresident Tuition Levels Since 1987-88

Between 1987-88 and 1991-92, fees for nonresident students increased substantially, creating a significant differential between the University's total tuition and fees and those charged at other public institutions. In recognition of that differential, there were no increases in nonresident tuition during the five-year period 1991-92 through 1995-96, although there were increases in mandatory systemwide fees. Even though nonresident tuition did not increase during these five years, the number of students paying nonresident tuition declined in the early 1990s. Notwithstanding subsequent increases in nonresident tuition, the number of nonresident students paying the tuition fee began to rebound beginning in 1995-96. Consistent with the statewide policy on adjustment of nonresident tuition, The Regents have approved annual increases in nonresident tuition since 1996-97.

Display 7 shows the total tuition and fee charges for nonresident undergraduate students since 1978. Because mandatory systemwide fees did not increase between 1994-95 and 2001-02, increases in the total tuition and fees charged to nonresident undergraduate students were modest during that period, averaging about 3.4 percent annually. However, the increase in total nonresident tuition and fees for undergraduates has averaged about 10 percent since 2002-03, reflecting the impact of the cuts to the University's state-funded budget over that time.

Miscellaneous Campus Fees

Other campus mandatory fees, also called miscellaneous fees, cover a variety of student-related expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund such programs as student government and construction, renovation, and repair of sports and recreational facilities. The level of miscellaneous fees varies from campus to campus and between graduate and undergraduate students. Generally, students must vote to establish or increase campus miscellaneous fees. Display 4 (on page 240 of this chapter) shows miscellaneous campus fees over time.

Miscellaneous campus fees also include student health insurance fees. Between 1989-1990 and 1990-1991, graduate students at all UC campuses voted to establish a mandatory student health insurance fee. Beginning with Fall 2001, The Regents require all undergraduate students to have health insurance. Students can purchase a health insurance plan from their campus or they can demonstrate they

have such insurance from other sources and opt out of the campus health insurance plan. The coverage provided in the health insurance plans and the fees to cover the cost of the premium are determined by each individual campus and, as a result, these fees are considered miscellaneous campus fees.

Display 7

**UNIVERSITY OF CALIFORNIA
TOTAL TUITION AND FEE CHARGES
FOR NONRESIDENT UNDERGRADUATE STUDENTS
1978-79 through 2006-07**

Year	Mandatory Systemwide Fees	Average Campus Fees	Nonresident Tuition	Total Fees & Tuition	Total % Increase in Tuition and Fees
1978-79	\$ 671	\$ 49	\$ 1,905	\$ 2,625	--
1979-80	685	51	2,400	3,136	19.5%
1980-81	719	57	2,400	3,176	1.3%
1981-82	938	60	2,880	3,878	22.1%
1982-83	1,235	65	3,150	4,450	14.7%
1983-84	1,315	72	3,360	4,747	6.7%
1984-85	1,245	79	3,564	4,888	3.0%
1985-86	1,245	81	3,816	5,142	5.2%
1986-87	1,245	100	4,086	5,431	5.6%
1987-88	1,374	118	4,290	5,782	6.5%
1988-89	1,434	120	4,956	6,510	12.6%
1989-90	1,476	158	5,799	7,433	14.2%
1990-91	1,624	196	6,416	8,236	10.8%
1991-92	2,274	212	7,699	10,185	23.7%
1992-93	2,824	220	7,699	10,743	5.5%
1993-94	3,454	273	7,699	11,426	6.4%
1994-95	3,799	312	7,699	11,810	3.4%
1995-96	3,799	340	7,699	11,838	0.2%
1996-97	3,799	367	8,394	12,560	6.1%
1997-98	3,799	413	8,984	13,196	5.1%
1998-99	3,799	428	9,384	13,611	3.1%
1999-2000	3,799	474	9,804	14,077	3.4%
2000-01	3,799	535	10,244	14,578	3.6%
2001-02	(1) 3,799	430	10,704	14,933	2.4%
2002-03 (Annualized)	(1) 4,204	453	12,480	17,137	14.8%
2003-04	(1) 5,464	546	13,730	19,740	15.2%
2004-05	(1) 6,164	628	16,476	23,268	17.9%
2005-06	(1) 6,657	661	17,304	24,622	5.8%
2006-07	(1) 6,657	711	18,168	25,536	3.7%

(1) Does not include undergraduate student health insurance fees which may be waived by demonstrating insurance coverage.

Self-Supporting Programs

In addition to the fees charged for regular degree programs, the University also charges fees for courses and programs in University Extension, and Self-Supporting Graduate and Professional Degree Programs. These programs are not supported by State funds and varying fees are charged to cover the full costs of offering those courses and programs.

APPENDIX B Excerpt from *2007-08 Budget for Current Operations*

STUDENT FINANCIAL AID

2006-07 BUDGET	
Total Funds	\$ 540,880,000
General Funds	60,339,000
Restricted Funds	480,541,000
2007-08 INCREASE	
General Funds	--
Restricted Funds	11,479,000

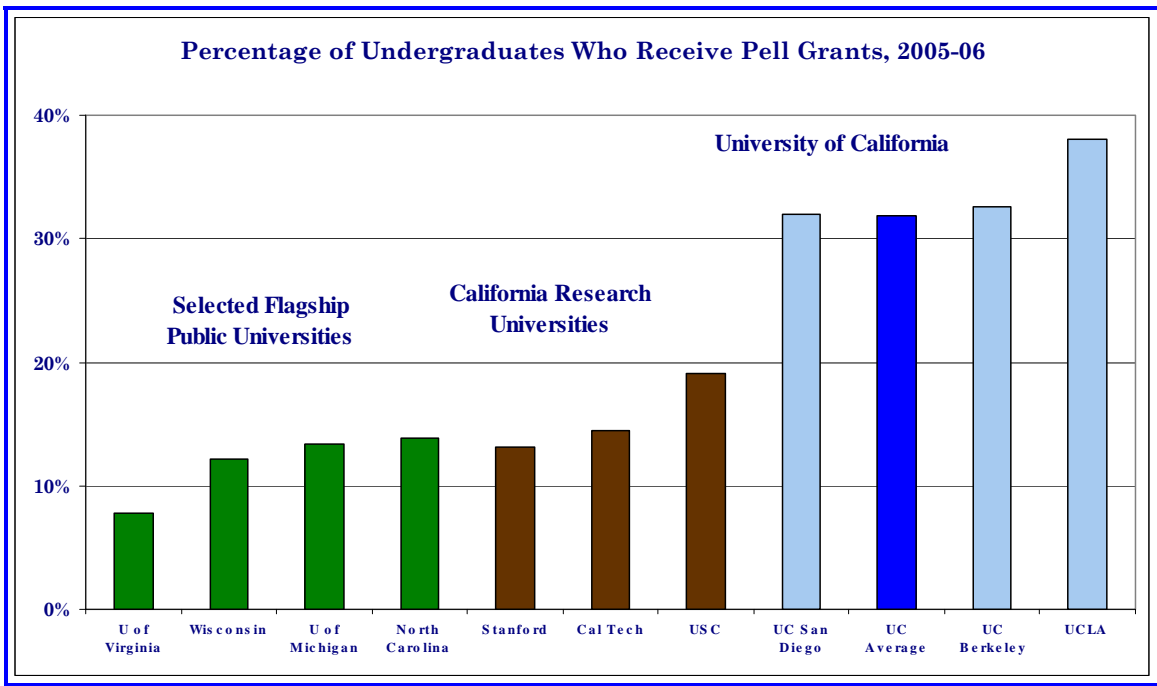
Current Perspective

In 1994, the Regents adopted a financial aid policy that established the guiding principles of the University's financial aid programs. At the undergraduate level, the University's policy is guided by the goal of maintaining the affordability of the University for all students so that financial considerations are not an insurmountable barrier to students seeking a University degree. At the graduate level, the policy calls upon the University to attract a diverse pool of highly qualified students by providing an appropriate level of support relative to the cost of attending the University, informed by a periodic assessment of the competitiveness of University support levels with those at comparable universities.

The University's financial aid policy supports the University's mission, under the California Master Plan for Higher Education, both to provide instruction to eligible students and to serve as the principal resource for research and innovation for the State of California. In doing so, the University contributes to the competitiveness of California industry and to the resilience of the California economy.

In each of the past few years, the University of California has received national attention for enrolling an economically diverse pool of undergraduates. Studies published by the James Irvine Foundation, *The Washington Monthly*, *Postsecondary Education Opportunity*, and *U.S. News & World Report* have all ranked University of California campuses at the top of their lists of selective national universities for their ability to enroll low-income undergraduate students. Among institutions on the most recent *U.S. News & World Report* list of the nation's top 40 national universities, UCLA enrolled the highest percentage of Pell Grant recipients in

Display 1



2005-06 (38 percent), followed by UC Berkeley (33 percent) and UC San Diego (32 percent). As shown in Display 1, these UC campuses ranked significantly above other public institutions included in the list, such as the University of Virginia (8 percent), the University of Wisconsin (12 percent), the University of Michigan (13 percent), and the University of North Carolina (14 percent). In 2005-06, as a system, the University enrolled a higher percentage of low-income undergraduates (32 percent) than any other comparably selective institution, public or private.

At the graduate level, the University's financial aid program plays an important role in the University's ability to compete with public and private universities for the most talented students. Attracting and enrolling these students directly affects the University's ability to fulfill its fundamental mission of research, instruction, and public service. As research assistants, graduate students contribute to the University's research agenda and to the University's ability to attract and retain

faculty members. As teaching assistants, they enhance the undergraduate experience. Upon graduation, these students make a vital collective contribution to California's economic and intellectual capital. The University has faced several challenges in recent years related to both the need to remain affordable at the undergraduate level and to be competitive at the graduate level. At the undergraduate level, fee increases implemented between 2002-03 and 2005-06 in response to declining State support for the University's budget contributed to an increase in the University's cost of attendance. These fee increases occurred while other elements of the cost of attendance — such as living expenses and books and supplies — also increased. For graduate academic students, increases in fees and nonresident tuition threatened the University's ability to offer competitive student support packages and placed additional strain on the fund sources that cover those costs. Increases in the Fee for Selected Professional School Students, which were implemented to help professional schools maintain the quality of their programs, have increased the demand for student financial support for these students as well.

The University responded to these challenges by adopting measures that both expanded the availability of student support and mitigated student cost increases, as described below.

Increased University funding for grants and fellowships. The University used the equivalent of one-third of the fee revenue generated from the 2002-03 and 2003-04 fee increases and enrollment growth for augmentations to UC financial aid. In 2004-05, the proportion of new fee revenue returned to aid was limited to 20 percent, in accordance with the Governor's financial aid proposal. For 2005-06, the University increased the proportion of new fee revenue returned to aid to 25 percent at the undergraduate level. These funds, together with funding provided through the Cal Grant program, were sufficient to cover the 2005-06 fee increase as well as provide some assistance for other increases in the cost of attendance. The University also set aside 50 percent of new fee revenue from graduate academic students for graduate student support in order to cover the fee increase for graduate academic students with University fellowships, teaching assistantships, and University-funded research assistantships. A portion of these funds was used to implement a five-year plan to restore the \$5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. Thus, the net return-to-aid for graduate academic students was 45 percent. In addition, the University dedicated an amount equivalent to 25 percent of new fee revenue from increases in professional school fees and mandatory systemwide fees to support for professional school students. Last November, in discussing proposed fee increases for 2006-07, The Regents approved a plan to reserve an amount equivalent to 33 percent of new undergraduate fee revenue for financial aid, along with 33 percent of new graduate professional degree fee revenue. The plan also would have set aside 50 percent of new graduate academic fee revenue for financial aid, with 5 percent again being used to restore funds to undergraduate aid (as

described above), effectively leaving a return-to-aid of 45 percent. (The decision by the State to buy out the proposed 2006-07 fee increases occurred subsequent to that meeting.) The Regents also approved a plan to require campuses to provide additional graduate student support funding using savings in General Fund and fee revenue expenditures produced by UC's Strategic Sourcing Initiative or other campus efficiencies, which is expected to generate up to \$10 million in additional graduate student support in 2006-07.

Display 2

University of California Scholarships, Grants, and Fellowships by Fund Source, 2002-03 to 2006-07 (\$ in Millions)					
	2002-03	2003-04	2004-05	2005-06	2006-07
<i>UC Funds</i>					
Student Fees and State					
General Funds	\$ 262.7	\$ 330.8	\$ 357.8	\$ 421.8	\$ 443.0
Other University Funds	<u>125.4</u>	<u>159.1</u>	<u>164.3</u>	<u>168.1</u>	<u>172.0</u>
Subtotal	\$ 388.1	\$ 489.9	\$ 522.0	\$ 589.9	\$ 615.0
<i>Other Funds</i>					
Student Aid Commission	\$ 148.7	\$ 219.3	\$ 259.6	\$ 280.7	\$ 287.7
Federal	203.2	214.5	223.4	214.8	231.9
Private Agency Funds	<u>49.6</u>	<u>52.4</u>	<u>51.0</u>	<u>49.7</u>	<u>50.9</u>
Total	\$ 789.7	\$ 976.0	\$ 1,056.0	\$ 1,135.1	\$ 1,185.4
<small>Note: Numbers for 2005-06 and 2006-07 are estimates. Student Fees and State General Funds are based on budgeted amounts.</small>					

These funds, in combination with an estimated \$139 million increase in Cal Grant funds awarded to UC undergraduates and increases in other scholarship, fellowship, and grant funds, raised the total estimated amount of grants, scholarships, and fellowships for UC students from \$789.7 million in 2002-03 to an estimated \$1.2 billion in 2006-07, as shown in Display 2.

Limiting nonresident tuition increases for graduate students. The University has not increased nonresident tuition for graduate academic students since 2004-05; nonresident tuition for professional school students has not changed since 2003-04. Consequently, by foregoing any increase in nonresident tuition for these students, the University has allowed nonresident tuition to effectively decline in real terms in recent years. The decision to freeze nonresident tuition for these students addresses the special challenge faced by the University in recruiting top international and out-of-state students. For academic graduate students, the

competitive market for these students generally requires the University to cover their tuition costs – either through University funds, faculty research grants, or other sources. The University’s professional schools also compete for students nationally and globally. Freezing nonresident tuition allows the University to remain viable in the global competition for these students as well.

Reducing costs for academic doctoral candidates. Since Fall 1997, academic doctoral students who have advanced to candidacy have been assessed 25 percent of nonresident tuition for up to three years. This policy provides an incentive for these students to complete their dissertation work promptly and reduces the burden on research grants and other fund sources that are often used to fund this cost as part of a student’s financial support package. In 2006-07, The Regents approved a proposal to make these students exempt from paying any nonresident tuition, subject to the same three-year limit.

Expanding Loan Repayment Assistance Programs for professional degree students choosing public interest careers. Loan repayment assistance programs (LRAPs) are available for graduates of several professional degree programs to ensure that student loan repayment obligations are not an obstacle for students who pursue relatively low-paying public interest careers in their field of study. Some of these programs are funded at the federal, state, or regional level to encourage students to serve specific populations (e.g., to work as a physician in a medically underserved area). Others are funded by the University. The Boalt School of Law at UC Berkeley recently expanded its LRAP significantly to provide a higher level of debt repayment relief to a broader population of graduates. The UCLA School of Law is planning to expand its LRAP as well. Other professional schools are considering the appropriate mix of loan assistance and increased fellowship support to ensure that public interest careers remain a viable choice for their graduates, given the different labor markets and students that each program serves.

Improving the availability and terms of private loans for graduate and undergraduate students. For 2006-07, the University has leveraged its systemwide loan volume to ensure access to private student loans with competitive terms. Private loans are an important financing option for students with unique circumstances, such as international students with no U.S. co-signers and students who have already borrowed the maximum allowable amount under Federal student loan programs. They are particularly important for students in professional degree programs due to the relatively high cost of those programs. Following a competitive bidding process, the University reached agreements with two private lenders to ensure that all UC students will have access to loans — which is especially important to those students who could not otherwise have obtained a loan — and that the terms that are as good or better than they would have otherwise obtained.

Financial Aid Proposals for 2007-08

For 2007-08, the University is proposing a plan for student support that addresses the University's most pressing student support needs within the context of the full range of UC budgetary priorities. As described elsewhere in this document, the University is proposing no student fee increase at this time. However, if a fee increase is needed, the University proposes to augment its undergraduate need-based grant program in order to ensure that the University remains financially accessible to low-income students. Additional funding would be derived from a portion of the new fee revenue generated by a fee increase and by continuing the University's five-year plan to restore the \$5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. These funds, together with Cal Grant award increase, would provide enough additional funding to cover fully the systemwide fee increases of UC's grant eligible undergraduates (generally those with parent income below about \$60,000) along with some coverage of other cost increases.

The University continues to be concerned about the impact of student fee increases on middle-income students. If a fee increase is necessary, the University would propose to use additional funds from any systemwide fee increase to mitigate its impact by covering a portion of the increase for financial needy middle-income undergraduates who would not otherwise be eligible for grant assistance.

In the event of a fee increase, these measures would increase funding for the University's undergraduate student aid programs by an amount equivalent to one-third of the new undergraduate student fee revenue.

The University would also propose several measures at the graduate level to improve its student support programs. The University would maintain its current policy of returning 50 percent of new systemwide fee revenue from graduate academic students to student support, less the amount restored to undergraduate aid (as described above), for an effective return-to-aid of 45 percent. In the event of a fee increase, these funds will allow campuses to cover the increased costs associated with University-funded teaching assistantships, research assistantships, and fellowships that currently cover students' fees.

In addition, the University proposes the development of a State-funded research initiative (described in the *Research* chapter of this document) that will both partially restore recent budget cuts to core research programs and provide new funding for research initiatives important to the state's economic growth and job creation. Campuses will be asked to use at least 50 percent to 60 percent of the funds for new research initiatives to help support graduate students as research assistants.

This initiative would promote the continued success of the University's research programs, increase the number of individuals with advanced training in areas of critical importance to the State, enable the University to attract a greater share of outstanding students in these fields, facilitate students' timely completion of their degree programs, and meet a portion of the graduate student support needs that would be generated by the University's graduate enrollment growth.

The University also proposes to freeze nonresident tuition for graduate academic students for the third consecutive year and to freeze tuition for graduate professional students for the fourth year in a row. Graduate nonresident tuition levels continue to be of great concern to the University. Earlier this year, members of the Academic Senate overwhelmingly supported a Memorial to eliminate nonresident tuition for academic graduate students, and an advisory committee to the Provost recommended that the University eliminate nonresident tuition for academic doctoral students or provide more graduate student support. State policy constrains the extent to which the University can reduce nonresident tuition levels. Nevertheless, by forgoing any increase in graduate nonresident tuition, the University has effectively reduced the real cost of nonresident tuition in each of the past few years. Continuing to do so will further ease the pressure on those fund sources that currently cover nonresident tuition as part of a graduate student's support package and will maximize the impact of new graduate student support funding on improving the competitiveness of the University's graduate student support programs.

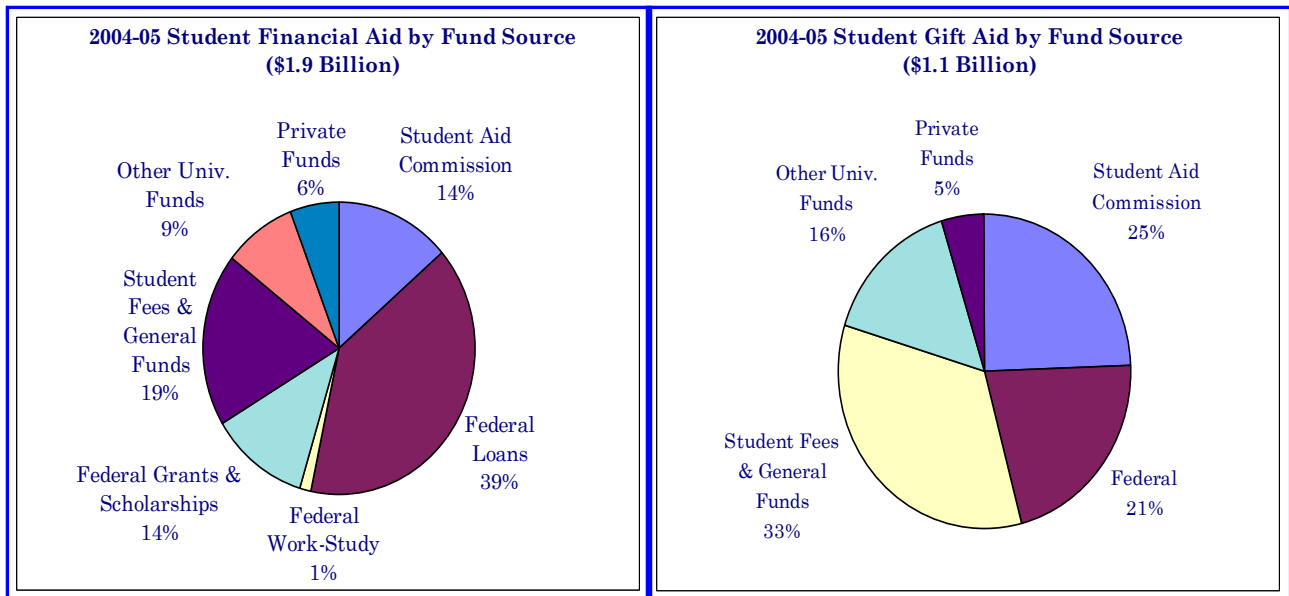
Lastly, in response to widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition — the University proposes to provide additional funding for graduate student support on a matching basis to campuses based upon their success at utilizing the Strategic Sourcing Initiative and other campus efforts to generate additional graduate student support. Beginning in 2006-07, campuses are expected to provide \$10 million in additional graduate student support using savings in General Fund and fee revenue expenditures produced by Strategic Sourcing or through other cost-saving measures. Campuses are expected to generate another \$10 million in savings in 2007-08 to be redirected to graduate student support. It is expected that, over time, up to \$40 million annually could be available through Strategic Sourcing for this purpose. For 2007-08, the University's budget would provide additional matching funds from within the compact to campuses as a further incentive to utilize Strategic Sourcing and to make graduate student support a high priority. These funds will help campuses compete for top students — including talented international students — and will help campuses achieve their graduate enrollment goals.

The University will continue to monitor the effectiveness of its financial support both at the undergraduate and graduate level to evaluate its success in adhering to the principles, articulated by the Regents, of affordability at the undergraduate level and competitiveness at the graduate level.

Overview

UC students receive scholarships, fellowships, grants, loans, and work-study jobs to assist them in meeting the educational costs of attending the University, such as fees, living expenses, books and supplies, and transportation. Financial assistance comes from four sources: the federal government; University funds, including student fees, State General Funds, endowments, and other non-State funds; the State’s Cal Grant programs; and private agencies. In 2004-05 (the most recent year for which final data are available), University students received almost \$1.9 billion in student aid, including \$1.1 billion (56 percent) in assistance from grants, scholarships, and fellowships. Display 3 shows in 2004-05 the proportion each fund source contributed to both the total amount of financial support provided to UC students and the total amount of gift assistance received by UC students.

Display 3



Historically, the University has been committed to setting aside a portion of revenue from fee increases for financial aid for needy students. As fees increased over time and as the percentage of students with financial need increased, the percentage of revenue from fee increases dedicated to financial aid also increased. In 1987-88, the percentage of new fee revenue dedicated to financial aid was 16 percent. This proportion increased over time to 33 percent and from 1994-95 through 2003-04, the University continued to set aside an amount equivalent to at

least one-third of all new student fee revenue for financial aid. This practice was consistent with agreements in the four-year Compact with the Wilson administration and continued in the Partnership Agreement with the Davis administration. In 2004-05, the proportion of new fee revenue returned to aid was limited to 20 percent, in accordance with Governor Schwarzenegger's budget proposal for financial aid. The University entered into a new multi-year Compact with Governor Schwarzenegger that provides the University with flexibility in establishing, within a specified range, an appropriate return-to-aid for financial support. Last November, in discussing proposed fee increases for 2006-07, The Regents approved a plan to reserve an amount equivalent to 33 percent of new undergraduate fee revenue for financial aid, along with 45 percent of new graduate academic fee revenue and 33 percent of new graduate professional degree fee revenue.

In addition to setting aside a portion of new fee revenue for financial aid purposes, the University has provided financial aid from other University fund sources. University funds, almost all of which are awarded in the form of grants, scholarships, and fellowships, increased by over 120 percent over the past ten years (from 1994-95 to 2004-05).

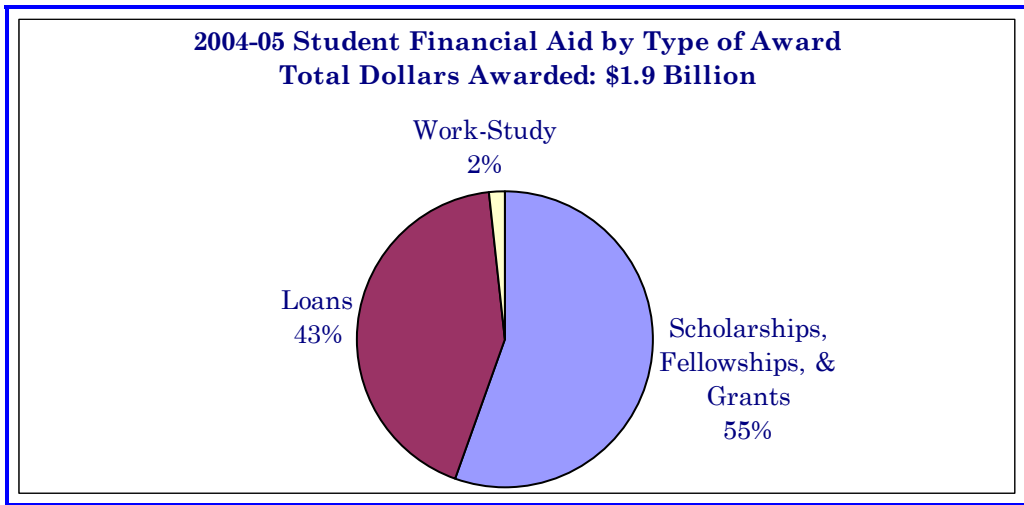
Display 4 shows total financial aid expenditures for 2004-05 by type of financial award and source of funds for each. The amount of financial aid provided in 2004-05 represented an increase of about \$134 million, or 7.6 percent, over the amount received in 2003-04. Included in that increase was \$80 million in the form of additional grants, scholarships, and fellowships. Display 5 (next page) shows the proportion of total financial aid used for loans, work-study, and scholarships, grants, and fellowships.

Display 4

University of California 2004-05 Student Financial Aid by Type of Award and Fund Source (\$ in Millions)						
Program	Student Aid Commission	Federal	University Funds			Total
			Student Fees and State General Funds	Other University Funds	Private Agency Funds	
Scholarships, Grants, Fellowships						
Pell Grants	\$ -	\$ 147.6	\$ -	\$ -	\$ -	\$ 147.6
Cal Grant A	84.5	-	-	-	-	84.5
Cal Grant B	150.3	-	-	-	-	150.3
Other	24.8	75.8	357.8	164.3	51.0	673.6
Subtotal	259.6	223.4	357.8	164.3	51.0	1,056.0
Loans						
Perkins Loans	-	40.0	-	-	-	40.0
FFELP/FDSLPL	-	705.4	-	-	-	705.4
Other	-	6.7	2.4	1.1	58.1	68.3
Subtotal	-	752.2	2.4	1.1	58.1	813.7
Work-Study						
Federal	-	26.6	-	-	-	26.6
State	-	-	-	-	-	-
University	-	-	1.8	0.8	-	2.6
Subtotal	-	26.6	1.8	0.8	-	29.2
Total	\$ 259.6	\$ 1,002.2	\$ 361.9	\$ 166.2	\$ 109.0	\$ 1,898.9

Totals do not add due to rounding

Display 5



Financial aid totals include aid administered for a State-supported summer term at UC. Currently, federal policy restricts the University from offering federal grant assistance at an equivalent level for year-round students. UC continues to advocate for changes to the federal Higher Education Act that will provide for higher annual award maximums for Pell Grants and federal loans for students enrolled year round.

Undergraduate Student Aid

In 2004-05, 63 percent of undergraduate students received some type of financial aid. About 72 percent of all undergraduate aid was awarded on the basis of financial need, reflecting the principle that undergraduate financial support is primarily intended to provide access to a University education for those students who otherwise would be unable to attend.

Over half (54 percent) of all undergraduates received grants, scholarships, and fellowships averaging approximately \$8,100 per recipient. In 2004-05, 86 percent of all grants, scholarships, and fellowships received by UC undergraduates was awarded on the basis of need.

Grants, scholarships, and fellowships represented 58 percent of all undergraduate aid, with self-help aid (loans and work-study) comprising the remainder.

Consistent with the financial aid policy adopted by the Regents in January 1994, the University developed the Education Financing Model, which is used to determine undergraduate student aid funding needs, allocate undergraduate aid funds among the campuses, and guide the awarding of aid funds to undergraduate students. The Model is based on the following principles:

- the total cost of attendance (fees, living and personal expenses, books and supplies, and transportation) is considered in assessing funding needs, allocating aid funding among campuses, and awarding funds to students;
- meeting the costs of attending the University requires a partnership among students, their parents, federal and state governments, and the University;
- students should be expected to make some contribution toward their cost of attendance through work and/or borrowing;
- students should have flexibility in deciding how to meet their expected contribution; and
- campuses should have flexibility in implementing the Model to serve their particular student bodies and are encouraged to supplement centrally distributed financial aid funds with their own resources.

The formula for determining the amount of grant aid needed is shown in Display 6.

Display 6

Education Financing Model	
<u>Start with Student Expense Budget:</u>	
<i>Less</i>	Reasonable Contribution from Parents
<i>Less</i>	Manageable Student Contribution from Working
<i>Less</i>	Manageable Student Contribution from Borrowing
<i>Less</i>	Federal and State Grant Aid
<i>Equals</i>	University Grant Aid Needed

Student Expense Budget

The total undergraduate educational expenses associated with attending the University are considered in assessing need. These expenses include direct educational expenses — fees, books, and supplies — for a California resident, plus a modest allowance for living, transportation, and miscellaneous expenses. The method recognizes regional variations in costs and in student spending patterns.

Contribution from Parents

Parents are expected to help pay for the costs of attending the University if their children are considered financially dependent. The amount of the parental contribution is determined by the same formula used to determine need for Federal and State aid programs, which takes into account parental income and assets (other than home equity), the size of the family, the number of family members in college, and non-discretionary expenses. Particularly low-income parents have an expected contribution of zero.

Contribution from Work and Borrowing

Students are expected to make a contribution to their educational expenses from earnings and borrowing. The expected contribution should be manageable so students are able to make steady progress toward completion of the baccalaureate degree and to meet loan repayment obligations after graduation. The Model includes ranges for loan and work expectations based on the University's estimate of the minimum and maximum manageable loan/work levels, adjusted annually for inflation and periodically for market changes in student wages and expected post-graduation earnings.

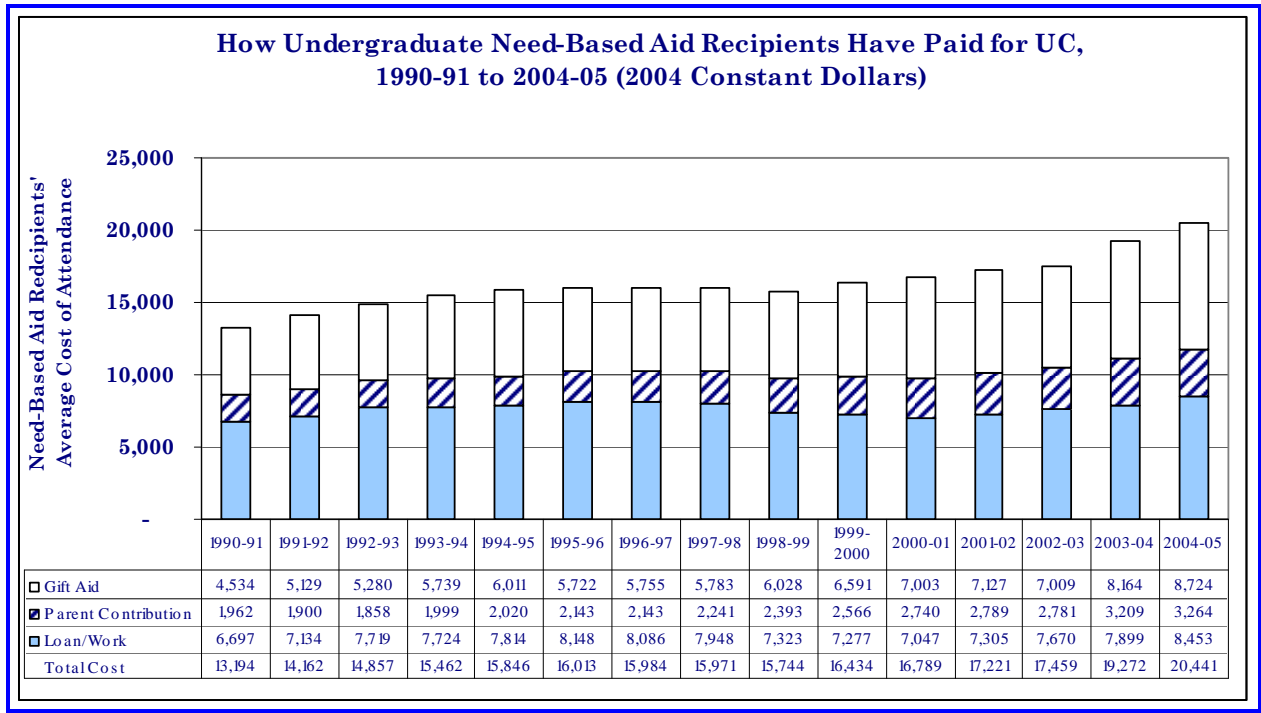
Contribution from Federal, State, and University Grant Aid

The University's goal is to provide grant support to needy students to cover the gap between the student's expense budget and the expected contributions from parents, student borrowing, and student work. Available federal and State need-based grants are applied toward a student's grant eligibility. Campus-based scholarships and grants from gifts, endowments, campus discretionary funds, the Regents' Scholarship Program, and scholarships and grants from outside agencies are excluded from the framework of the Education Financing Model. These funds are used to reduce the loan and work expectation of students.

Display 7 illustrates how undergraduate need-based aid recipients at UC have financed their cost of attendance from 1990-91 through 2004-05, based upon the categories described above: the students' parent contribution, the student's expected contribution from loan and work, and grants, scholarships, and fellowships.

Display 7 illustrates several noteworthy trends. Need-based aid recipients' total cost of attendance has increased in recent years, due to increases in both fee and non-fee expenses. Since 1990-91, the average parental contribution of needbased-aid recipients has increased by over 60 percent, due largely to higher income families becoming eligible for needbased aid. During that same period, the average amount of grant, scholarship, and fellowship assistance received by need-based aid recipients increased by 92 percent in inflation-adjusted dollars. Nevertheless, the amount to be covered by student work and borrowing has increased and will likely continue to increase in the future. Keeping students' expected contribution from work and borrowing at a manageable level is a core principle of the University's financial aid programs. Not shown in Display 7 is the increased availability of federal tax credits

Display 7



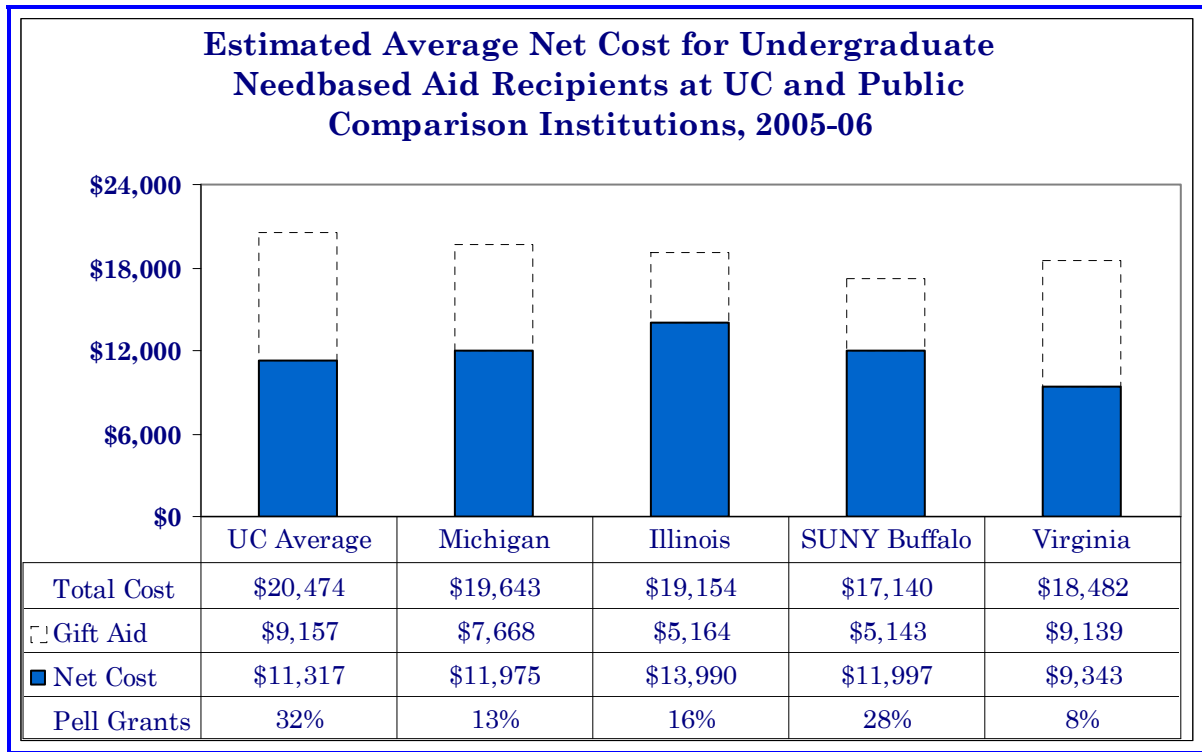
and deductions for higher educational expenses (see “Other Sources of Financial Assistance” at the end of this chapter).

Outcomes of the University’s Undergraduate Aid Program

As noted earlier, the University has received national attention for its remarkable success at enrolling a high percentage of low-income undergraduate students. Another measure of the University’s affordability is its average net cost of attendance for needbased aid recipients. The net cost represents the actual cost for these students after taking into account their grants, scholarships, and fellowships. In 2005-06, as in previous years, the University’s average *total* cost of attendance was higher than that of its four public comparison institutions. After adjusting for grants, scholarships, and fellowships, however, the *net* cost of attendance for resident needbased aid recipients was lower than the estimated net cost at three of the University’s four public comparison institutions (see Display 8, next page). Furthermore, as noted earlier in this chapter, the University enrolled a higher percentage of low-income Pell recipients in 2005-06 (32 percent) than any of its public comparison institutions. This pattern is not expected to change in 2006-07.

To date, there is no evidence that the University’s success in enrolling low-income students was affected by recent fee increases or by increases in non-fee costs that also occurred during those years. The percentage of low-income students who enroll at UC has remained constant in recent years.

Display 8



For 2006-07, it is estimated that UC grant recipients will be expected to work or borrow, on average, approximately \$9,650 to finance their education, an increase of about \$500 over 2005-06 levels. Note, however, that students can compete for UC scholarships and outside awards that effectively reduce their expected contribution. In 2004-05, one in five undergraduate students received scholarships worth, on average, about \$3,400 each.

For 2007-08, no proposals for increases in student fees are being made at this time. In the event, however, that student fee increases are implemented for 2007-08, the University would augment its current need-based grant program through a return-to-aid of 33 percent of new fee revenue. In addition, the University would restore \$1.5 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04. It is expected that these funds, in conjunction with an increase in Cal Grant funding over 2006-07 levels, would be sufficient to offset any fee increase implemented next year and to offset a portion of the increase in non-fee expenses for the University's neediest students.

The University would also propose to use additional funds from any systemwide fee increase to mitigate the impact of the increase on financial needy middle-income undergraduates who would not otherwise be eligible for grant assistance. Under this program, a portion of the fee increase would be covered for these students.

The University regularly monitors various indicators of the manageability of the work and borrowing that it expects from students, including the impact of student employment on academic progress and estimates of the percentage of students' postgraduate earnings that will be required to repay their debt upon graduation. These indicators suggest that UC grant recipients' expected contribution from work and borrowing will remain within a manageable range in 2007-08 — although it will be higher, within that range, than it was in 2006-07.

Graduate Student Aid

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University. In order to support its research mission and fulfill its responsibility to meet California's professional workforce needs, the University needs to attract top graduate students. To do this, it must offer financial assistance packages that can compete with those offered by other institutions recruiting the same prospective graduate students.

At the undergraduate level, the Cal Grant program insulates many needy low- and middle-income families from the effects of systemwide fee increases and plays an important role in maintaining the affordability of the University. No comparable State program exists at the graduate level. For graduate students, the burden of covering increases in both the University's fees and nonresident tuition falls upon other parties, including the University, research grants funded by Federal and other extramural agencies, private foundations, and students. Although the State does not currently provide significant amounts of grant or fellowship support to graduate students, the University believes that it is in the State's interest to do so, in consideration of the contribution that graduate education makes to the economic vitality of the California economy. The University will continue to explore ways to increase support of graduate education from *all* potential sources.

In 2004-05, 73 percent of UC's graduate students received some form of financial aid. That year, 60 percent of all graduate students received gift assistance averaging \$11,900.

Because the competitive markets for graduate academic and graduate professional students differ substantially, so do the types of financial support provided to these two types of graduate students. These differences are discussed below.

Graduate Academic Student Aid

The competitiveness of graduate student support for UC graduate academic students and its impact on the ability of the University to enroll top students from across the world has been a longstanding concern at the University. Several administrative and faculty groups and committees, including the 2001 Commission on the Growth and Support of Graduate Education, have taken up the issue and concluded that both the size and composition of UC's awards for graduate academic degree students are not fully comparable to the best offers UC students receive from competitor institutions. Recently, the longstanding concern about the competitiveness of UC's awards has been joined by concerns about the impact of cost increases — especially increases in nonresident tuition and systemwide fees — that were instituted in response to declining State support for the University's budget.

Concerns about the competitiveness of the University's awards were substantiated by surveys conducted in 2001 and 2004 of students admitted to UC's academic doctoral programs. These surveys showed variation in the competitiveness of UC's offers across academic disciplines and campuses but indicated that, on average, the net stipend (fellowship and assistantship awards in excess of tuition and fees) associated with the offer from the student's top choice UC doctoral program was \$1,500 less than the student's top choice non-UC offer. Taking into account differences in the cost of living in different university communities increased the average shortfall in the value of UC's offers to approximately \$2,000 for academic doctoral students. (Academic masters students were not included in either survey.)

The surveys also indicated that the competitive gap between UC's offers and those of students' top-choice non-UC institutions did not increase in real terms between 2001 and 2004. The per capita net stipend for all UC doctoral students — new and continuing — has increased each year, and increased by \$980 (3.6 percent after inflation) between 2003-04 and 2004-05, the latest year for which data are available.

Fee increases during these years were offset in part by new UC graduate student support funding generated by the fee increases themselves. A total of 33 percent of the revenue resulting from systemwide fee increases in 2002-03 and 2003-04 was set aside for graduate student support, and 20 percent of the additional revenue generated by the 2004-05 fee increase was set aside for graduate student support.

Campus actions and other developments contributed to the University's ability to maintain its net stipend level, including some factors that work against the University's long-term ability to increase graduate student enrollment and to enroll international students.

Because departments are generally reluctant to reduce the value of their offers to students, departments admitted and enrolled fewer graduate students, especially international students for whom they would need to cover nonresident tuition for multiple years. After years of growth, new graduate academic student enrollment declined by 10 percent between 2003-04 and 2004-05. The decline in the enrollment of new international doctoral degree students started earlier — in 2001 — and was steeper.

Expenditures from research grants for research assistants increased substantially between 2003-04 and 2004-05, particularly for fee remissions (a 19.5 percent increase) and nonresident tuition remissions (a 26.1 percent increase). Such increases have raised concerns about faculty researchers' ability and willingness to continue to hire graduate research assistants to work on their grants.

Total fellowship funds received by academic graduate students from federal sources increased by 82 percent between 2000-01 and 2004-05 (not adjusted for inflation), including an increase of 19 percent between 2003-04 and 2004-05. This increase was partly due to fellowships that increased to cover the full cost of tuition and fee charges. Whether such increases will be sustained in response to future fee increases is uncertain.

Campuses increasingly tapped into alternative fund sources to fund graduate fellowships. Between 2000-01 and 2004-05, fellowship funding from private gifts to the University increased by 51 percent; funding from General Funds increased by 54 percent; and funding from sales and services related to auxiliary enterprises increased by 47 percent. Even so, funding from systemwide Educational Fee revenue remains the single largest source of funds for graduate academic fellowships, and fellowship funding from Educational Fee revenue also increased by 47 percent during this period.

Campuses targeted available funds to academic doctoral students at the expense of master students, whose net stipends decreased by 42 percent in inflation-adjusted dollars between 2000-01 and 2004-05. During the same period, per capita borrowing among academic master students increased by 28 percent.

Although there are examples of individual programs that have had trouble enrolling top students, a 2005 survey of departments indicated that, on the whole, departments felt that the quality of their applicant pool has not declined. The same survey indicated no overall decrease in the yield rate among students who were admitted although, again, some departments did report problems.

For the 2005-06 academic year, the University took several steps to address the gap between graduate student support demand and supply.

First, the University increased the percentage of new fee revenue from graduate academic students to be set aside for graduate student support. The percentage was increased from 20 percent in 2004-05 to 45 percent in 2005-06 to provide funds to cover the 2005-06 fee increase for students whose fees were already covered, in whole or in part, by University fellowships and teaching assistantships.

Second, the University did not increase graduate nonresident tuition levels in 2005-06. The foregone revenue was judged to be a worthwhile trade-off in order to avoid further demands on limited fellowship and research assistantship funding caused by a tuition increase.

The University also established the Graduate Student Support Advisory Committee (GSSAC) to advise the Provost and other senior University officials on matters related to graduate student support. Committee membership included one representative from each campus (Executive Vice Chancellors, Vice Chancellors for Research, Graduate Deans, etc.), representatives from the Academic Senate, senior UCOP administrators, and a student representative. The Committee's charge included establishing specific graduate support benchmarks, developing a short- and long-term strategy for enhancing graduate student support, and reviewing the methodology for allocating UC systemwide funding for graduate student support. The final report of the Committee included three principal findings:

- Anticipated increases in traditional funding levels for graduate student support will be inadequate to allow the University to achieve its twin goals of closing the competitive gap and meeting its enrollment growth targets. The Committee estimated that an additional \$122 million of support would be necessary for the University to improve the competitiveness of its awards and to achieve its graduate academic enrollment goals by 2010-11.
- The cost of covering tuition for first-year nonresident students and for international students who have not yet advanced to candidacy limits the extent to which UC graduate programs can compete for and enroll these students.
- Research and training grants cannot be relied upon both to fully cover all future tuition and fee increases and help increase the University's competitiveness.

For 2006-07, the State buy-out of graduate fee increases eliminated fee increases as a source of additional pressure on graduate student support. In addition, the University continued to freeze non-resident tuition at 2004-05 levels, eliminated nonresident tuition for doctoral students who have advanced to candidacy (prior to 2006-07, these students paid 25 percent of the nonresident tuition fee), and allocated to student support savings from General Fund-supported and student fee-

supported programs attributed to the University's new Strategic Sourcing Initiative.

The University's proposals for 2007-08 are designed to address directly the most pressing concerns regarding graduate student support, namely, (1) mitigating the impact of any further fee increases on graduate student support, (2) ensuring that the University can compete successfully for the top students — including out-of-state and international students, and (3) providing additional funding so that the University can achieve its goals for graduate enrollment growth.

In the event of a fee increase for graduate academic students, the return-to-aid level proposed for 2007-08 will help campuses to cover the increased costs associated with University-funded teaching assistantships, research assistantships, and fellowships that currently cover students' fees.

By continuing to hold nonresident tuition for graduate academic students at the 2004-05 level, the University will continue to reduce, in real terms, the costs associated with covering nonresident tuition for out-of-state and international students. This will lower the real cost of enrolling these students and improve the University's ability to compete successfully for them. The proposed research initiative, if successful, would increase opportunities for students to conduct ground-breaking research and provide funding for additional graduate student support.

Finally, the proposed matching funds provided by the University to campuses that utilize savings from Strategic Sourcing and other cost-saving efforts to improve graduate student support would provide campuses with a further incentive to make graduate student support a high campus priority. The proposal reflects a shared responsibility at the systemwide and campus level to address the widespread concern about the University's ability to provide competitive award packages for academic graduate students — especially international students faced with the added expense of nonresident tuition.

Professional School Student Aid

In 1994, The Regents approved a Fee Policy for Selected Professional School Students, which was implemented beginning with the Fall 1994 academic term. Among other provisions, the policy provided that an amount of funding equivalent to at least one-third of the total revenue from the fee be used for financial aid. Since that time, budget cuts affecting professional schools and the University as a whole have increased the need for professional school fee revenue to cover these schools' operating expenses and to maintain the quality of their programs. The role played by professional school fee revenue in meeting these budget needs is greater than was anticipated in 1994, when the current Regental policy was approved.

An update to current policy is needed to address the Regents' continuing goals to provide an accessible, high-quality professional education for UC students in the current economic environment. Guiding principles for a revised Policy will be discussed at a subsequent Regents meeting.

About two-thirds of aid awarded to graduate professional students is in the form of loans, rather than fellowships or grants. The differences in support patterns for graduate academic and graduate professional students reflect the contrasting approaches to graduate student support in higher education. Fellowship, grant, and assistantship support are viewed as more successful and loans less successful for recruiting and retaining doctoral students whose academic programs are lengthy and whose future income prospects are relatively low. In contrast, student loans are viewed as more appropriate for students pursuing professional degrees. These programs are relatively shorter and students' incomes have the potential to be substantially higher.

The majority of University financial aid funds awarded to professional school students is used for grant and fellowship awards. A portion of University funds, however, is used for loan repayment assistance programs (LRAPs). These programs acknowledge the fact that students who choose careers in the public interest often forego higher incomes. Consequently, these students may be less able to meet their debt repayment obligations.

The professional degree fees charged by the University should not deter highly skilled graduates who wish to apply their skills to a public service career. For 2007-08, the University will continue to expect campuses to expand the size and scope of their loan assistance repayment programs where appropriate to help borrowers with public interest employment meet their student loan repayment obligations.

The University is concerned about the long-term effect of cost increases on the competitiveness of the University's professional school programs and on the types of students that the University is able to enroll. Each year, these programs graduate a cadre of trained professionals in medicine, business, law, and other disciplines, many of who remain in California and make valuable contributions to their professions and to the state. The University recognizes the importance of enrolling talented students from diverse socioeconomic backgrounds into these programs, for the betterment of the communities, institutions, and individuals that these professionals will ultimately serve.

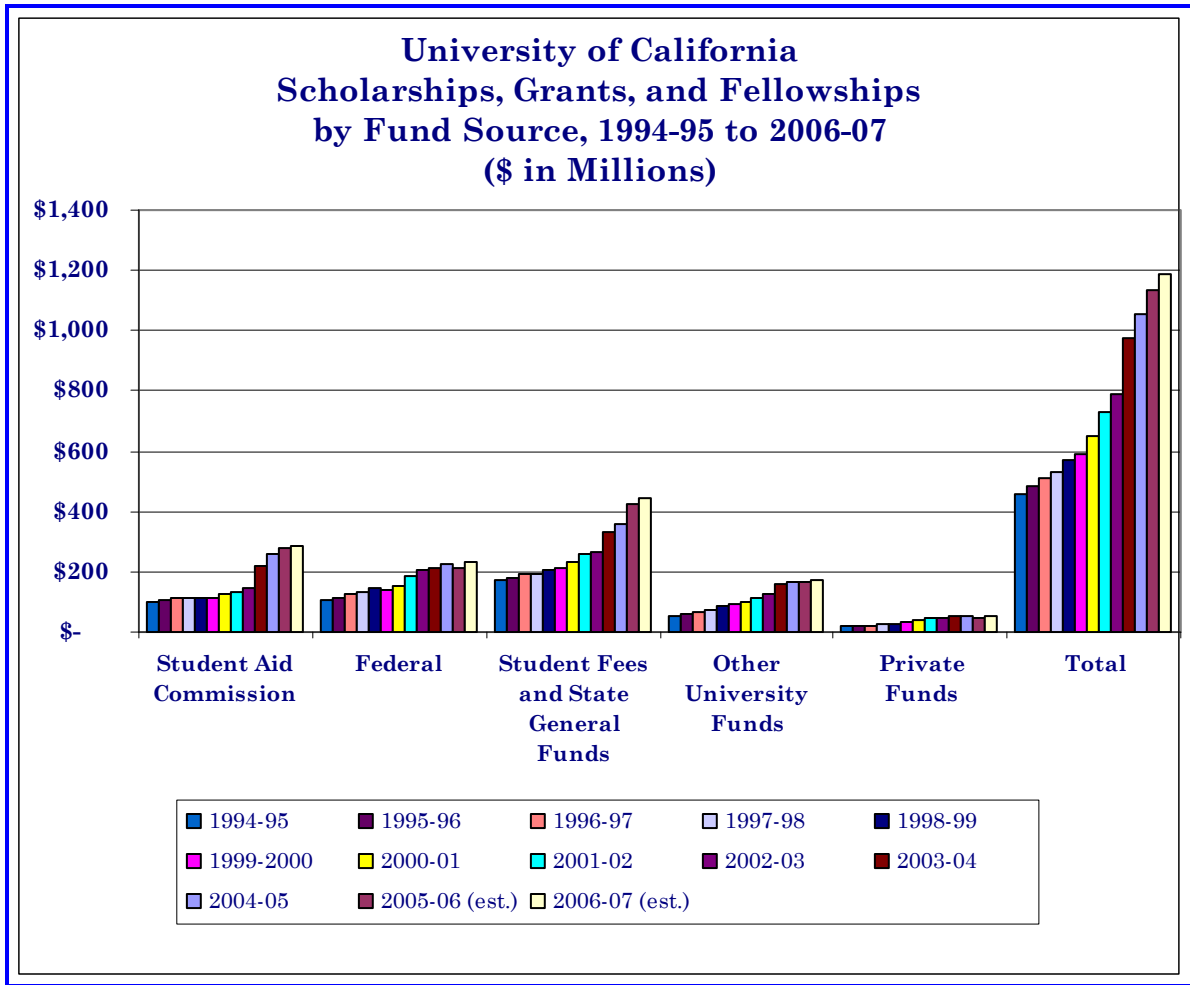
Fund Sources for Financial Aid

Display 9 shows the dramatic increase in fellowship, scholarship, and grant expenditures from all fund sources over a ten-year period.

University Student Fees and State General Funds

Approximately 41 percent of enrolled undergraduates and 54 percent of enrolled graduate students received some form of financial assistance funded from institutional aid programs in 2004-05. UC institutional aid programs funded from student fee revenue and State General Funds function as one piece of the total support received

Display 9



by UC students. Campuses combine University aid programs with awards from federal, State, and private sources to build a financial aid package that is composed of individual aid components awarded in accordance with the intent and requirements of each particular funding agency, but that as a combined

whole meets the University's financial aid goals.

Federal Aid

In 2004-05, UC students received \$223.4 million in federal grants and scholarships, an increase of about 4 percent over 2003-04 levels. Federal grants and scholarships comprised 21 percent of all grants and scholarships received by UC students in 2004-05, a slight decline from 22 percent in 2003-04. The declining share represented by Federal grants and scholarships is due partly to the lack of any increase in the maximum Federal Pell Grant amount, which increased steadily during the 1990s, but has increased by less than 1.3 percent since 2002-03. Prospects for significant increases in the immediate future are slim.

The vast majority of federal aid received in 2004-05 was in the form of loans; UC students and their families received \$752.2 million in federal loans that year.

These figures exclude the value of Federal tax credits and income tax deductions that benefit many UC families. Nationally, the value of these Federal benefits has grown steadily since their introduction in 1997. They are described in greater detail at the end of this chapter.

The Higher Education Reconciliation Act of 2005 (HERA) created two new, significant Federal grant programs beginning Fall 2006.

Academic Competitive Grants (ACGs) are now available to all Pell Grant recipients who are U.S. citizens in their first and second year of college who completed a "rigorous secondary school program of study" and meet other eligibility requirements. The maximum value of the grant is for \$750 during the student's first year and \$1,300 during the second year. The U.S. Department of Education has accepted the University's "A-G" subject requirement as a "rigorous . . . program of study." As a result, the vast majority of regularly admitted UC Pell Grant recipients are expected to qualify for an ACG.

Science and Mathematics Access to Retain Talent (SMART) Grants are available to Pell Grant recipients who are U.S. citizens in selected scientific, engineering, and foreign language majors during their third and fourth year of college, provided that the student maintains a cumulative GPA of 3.0 or higher in coursework required for their major. The maximum annual value of a SMART Grant is \$4,000.

The University estimates that UC students could receive approximately \$10 million in benefits under these programs. However, HERA stipulates that the maximum value of these awards must be reduced if the total amount expended under these programs exceeds the annual amount allocated to the program in HERA. Because

of this provision, and because of the newness of the program, it is difficult to predict accurately the actual impact of these programs on UC students.

HERA also enables graduate students to borrow PLUS loans to finance their education. These loans, which had previously been reserved for the parents of undergraduate students, will be an attractive funding option for graduate students who either do not qualify for subsidized Federal loans or who have exceeded the loan limits under the Federal Stafford loan program.

State Aid Programs

California university and college students receive financial support from a number of State programs. These programs, administered on behalf of the State by the California Student Aid Commission, include the Cal Grant A, B, and C programs. These programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. In 2004-05, University of California students were awarded \$259.6 million in financial aid from all programs administered by the Student Aid Commission.

The Cal Grant Program provides undergraduates with "portable" financial aid that can be used at an eligible California institution of the students' choice. Cal Grant Awards for recipients attending UC and CSU currently cover systemwide student fees.

Cal Grant funding for UC students has increased in recent years as UC's fees have increased. In the event of a fee increase for the 2007-08 year, it is anticipated that the State would continue its longstanding commitment to covering systemwide fees for UC Cal Grant recipients.

Other University Aid

In addition to the universitywide programs described above, University financial aid is also provided through various campus-based programs funded by endowment income, current gifts, repayments from University loans, and campus discretionary funds. In 2004-05, \$166 million in University aid from these sources was awarded to students. Nearly all of this support (\$164 million) was awarded in the form of fellowships, scholarships, and grants. Of this amount, \$89 million was derived from current gifts and University endowments.

Aid through Private Sources

Private agencies and companies also provide student financial support through scholarships and other forms of aid. Small scholarships from a student's local PTA or Rotary Club are included in this category along with traineeships and fellowships

from private companies (e.g., Hewlett Packard and IBM) and associations and foundations (e.g., the Gates Millennium Scholars program and the American Cancer Society). Nearly all funds in this category are awarded to students in the form of grant support. In 2004-05, nearly \$109 million was awarded to UC students from private agency programs, which represented 5 percent of the financial support students received during that year.

Other Sources of Financial Assistance

In addition to the types of assistance described above, the federal government and the State provide a number of vehicles to help students and their families finance their education. Some programs provide exemptions from paying fees, one program provides a tax credit, and others provide incentives for parents to save for college. Other programs assist students with repayment of their student loan debt after graduation. Several of these are described below.

Cal Vet Fee Exemptions. Under the California Education Code, dependents of veterans whose death or disability was service-connected are generally eligible for exemption from mandatory systemwide fees. In 2004-05, over 2,700 UC students took advantage of such exemptions, worth a total of \$13.8 million.

Tuition Exemption Under AB 540. Certain nonresident students who attended a California high school for at least three years and who graduated from a California high school may be eligible for exemption from nonresident tuition at UC. Potentially eligible students include undocumented students and domestic students who fail to meet the University's requirements for residency. (Students who do not have a lawful immigration status must certify that they are taking steps to legalize their status or will do so as soon as they are eligible.) Students who are non-immigrants, including foreign students, are not eligible for this exemption. In 2004-05, over 1,300 UC students qualified for such exemptions, worth a total of \$15.7 million. This figure increased rapidly following the inception of the program as new cohorts of entering U.C. students took advantage of the exemption. The number of participants has now stabilized, although the annual value of these exemptions is expected to increase each year as nonresident tuition increases.

Hope and Lifetime Learning Tax Credits. The Taxpayer Relief Act of 1997 established two tax credit programs, which provide tax credits to qualified taxpayers for tuition and fees paid for postsecondary education. The Hope Tax Credit provides tax credits for payments made for students who are in their first two years of postsecondary education. The Lifetime Learning Tax Credit provides smaller tax credits, but taxpayers are not limited to payments made during the first two years of postsecondary education. In general, middle- and lower-middle-income students and their families benefit from the two tax credit programs. The actual number of UC students and families taking advantage of these credits and the

total value of the credits they received are unknown. However, based upon the results of a 1999 UC student survey and adjusted for enrollment growth, the estimated value of these tax credits for UC students and their families exceeded \$70 million in 2004-05.

Scholarshare Trust College Savings Program. In 1999, the State established the “Scholarship Trust College Savings Program,” a tax-exempt college savings fund administered by the California State Treasurer, to encourage families to save for their children’s college expenses. The Scholarshare Trust manages individual accounts, which are pooled and invested in a number of different financial instruments by the State or its agent. Earnings from the investments are not taxed at either the federal or State level, provided that they are used to cover qualified education expenses.

Penalty-Free IRA Withdrawals. Taxpayers may withdraw funds penalty-free from either a traditional Individual Retirement Account (IRA) or a Roth IRA for postsecondary education expenses. This provision is intended to assist middle-income students and their families.

Coverdell Education Savings Account. The Economic Growth and Tax Relief Reconciliation Act of 2001 established the Coverdell Education Savings Account (ESA) to replace the Education IRA. Although contributions are not tax deductible, earnings on the ESA are tax-free and no taxes will be due upon withdrawal if used for qualified higher education expenses. This program is intended to assist middle-income students and their families.

U.S. Savings Bonds. The interest on U.S. savings bonds is, in certain circumstances, tax-free when bond proceeds are used to cover eligible education expenses. Eligibility for tax-free withdrawals is a function of income level when the bond is redeemed and is intended to assist middle-income students and their families.

Student Loan Interest Deduction. Taxpaying borrowers may take a tax deduction for interest paid on student loans (available even if the taxpayer does not itemize other deductions). Because eligibility for the deduction is phased out for taxpayers with higher incomes, middle-income and lower-middle-income borrowers with high debt levels are the primary beneficiaries of this deduction.

Loan Repayment Assistance Programs. Loan repayment assistance programs (LRAPs), loan assumption programs, and loan forgiveness programs are available to graduates who enter certain professions or who serve specific populations after graduation. Examples of these include LRAPs offered by every University of California law school, which are available to graduates who pursue qualifying public interest work, and the State Assumption Program of Loans for Education

(APLE), which provides loan assumption benefits to students who enter K-12 teaching in certain fields or in certain low-performing schools. Federal programs provide similar benefits to physicians and other health science practitioners.