

The Regents of the University of California

COMMITTEE ON LONG RANGE PLANNING

November 19, 2014

The Committee on Long Range Planning met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members Present: Regents Engelhorn, Gould, Kieffer, Ruiz, Saifuddin, and Sherman; Ex officio members Brown, Napolitano and Varner; Advisory members Gorman and Hare; Staff Advisors Acker and Coyne

In attendance: Regents Atkins, Blum, De La Peña, Island, Lansing, Leong Clancy, Makarechian, Newsom, Ortiz Oakley, Pattiz, Pérez, Reiss, Torlakson, and Wachter, Regents-designate Davis and Oved, Faculty Representative Gilly, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Senior Vice Presidents Dooley and Stobo, Vice Presidents Andriola, Brown, Budil, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Dirks, Gillman, Hawgood, Katehi, Khosla, Leland, Wilcox, and Yang, and Recording Secretary McCarthy

The meeting convened at 10:15 a.m. with Committee Chair Gould presiding.

Committee Chair Gould provided context for the items to be considered. An update would be provided on the Working Smarter campaign, which has generated more than \$650 million in savings in the past four years by improving efficiency, enabling the University to keep its cost per student lower than it has been in 15 years. He characterized a *Los Angeles Times* editorial's reference to a battle for UC's soul as a fair description. President Napolitano's proposed tuition increase is a contingency plan necessitated by a lack of State support for the University. The proposed funding plan would enable the University to continue to do great things, such as increasing its enrollment of California students by 5,000, increasing opportunities for community college students to transfer to UC, improving students' time to degree, increasing the number of graduates in the fields of healthcare, mathematics, engineering, and other sciences, and preparing the next generation of leaders of California's social institutions.

Committee Chair Gould explained that the tuition proposal was a predictable, modest contingency plan, similar in purpose to the rainy-day fund proposition supported by Governor Brown and passed in the recent election. The boom/bust cycle that the University has endured for decades required dramatic tuition increases in some years. The tuition plan would provide a clear long-term plan for students and their families. More than 50 percent of UC students would continue to pay no tuition. Committee Chair Gould observed that Speaker Emeritus and Regent Pérez's Middle Class Scholarship Program would provide assistance for students with annual family incomes up to \$150,000. He expressed support for President Napolitano's tuition plan.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of July 16, 2014 were approved.

2. **PROGRESS REPORT ON WORKING SMARTER: SYSTEMWIDE ADMINISTRATIVE EFFICIENCIES AT THE UNIVERSITY OF CALIFORNIA**

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President and Chief Financial Officer Brostrom stated that the Working Smarter initiative was launched during the last fiscal crisis when UC's State funding was cut \$1 billion. All aspects of the University's operations were to be examined to find efficiencies and cost savings, which could be used to fund the academic mission, with an original goal of \$100 million a year for five years. After four years, \$664 million in fiscal impact has been achieved, from both cost savings and new revenue. The largest effects have been achieved by collectively performing operations that had previously been done by individual units, for example in enterprise risk management, procurement, asset management, liquidity management, and the statewide energy partnership.

Director of Working Smarter Cathy O'Sullivan said there are 35 projects in the portfolio. She displayed a pie chart showing the cumulative relative fiscal impact by project and a graph of typical fiscal impact calculations. There are usually interim transition costs when implementing a new efficiency program before a lower operational cost is achieved.

Mr. Brostrom commented that Working Smarter is not only a systemwide effort. Each campus also has efforts underway to reduce administrative expenses, and there are a number of regional efforts, such as a collaboration between UC Berkeley and UCSF to merge their procurement offices, and UCLA's running financial systems for UC Merced and the Office of the President. Systemwide efforts are those that can benefit from economies of scale. One focus for the upcoming year would be exploring possible collaborations with California State University (CSU) and the California Community Colleges (CCC) on administrative operations such as procurement. Mr. Brostrom affirmed the University's commitment to find more operational efficiencies and alternative sources of revenue, by continuing to pursue ongoing efficiency efforts, increasing intersegmental cooperation with CSU and CCC, and examining campus day-to-day operations.

Regent Sherman asked whether the \$660 million of Working Smarter savings were one-time or ongoing savings. Mr. Brostrom said these were operational rather than one-time savings, and that two-thirds of these savings accrue to UC's core funds. Other areas of the University's large enterprise, such as UC's medical centers, research contracts, and grants, would also benefit from Working Smarter savings.

Regent Newsom asked what portion of UC's annual budget the \$132 million of annual Working Smarter savings represented. Mr. Brostrom responded that these savings represented less than one percent of UC's revenue base. However, the two-thirds of the savings attributable to core funds would be equivalent to the amount of an annual tuition increase that would be considered at this meeting. Working Smarter programs have been structured to direct savings into core funds to permit flexibility. An increasing focus would be to find ways to redirect savings from restricted funds to support the University's core mission.

Regent Newsom expressed his view that, while important and impressive, these savings would not have a large effect on the University's overall funding needs. He asked if there were bigger ideas that would reduce the cost of providing a UC education. Mr. Brostrom stated that there were significant savings still to be gained through operational efficiencies; he expressed his support for investing in those efforts, which would require hard work. The largest potential for savings would be in pension and healthcare benefits. Private philanthropy also represents a great opportunity; at the present time most philanthropic contributions are restricted, but models could be employed to direct donations to core funds for faculty salaries or student financial support. Regent Newsom asked for Mr. Brostrom's view of the potential savings to be gained in future years.

President Napolitano stated that continued operating efficiencies were included in budget plans that would be discussed in items before the Committee. Mr. Brostrom added that UCRP's borrowing \$3 billion from the Short Term Investment Pool generated \$450 million for UCRP and would enable pension contributions to stay at 14 percent. Efforts to decrease the rate of growth of healthcare costs would have an effect on the University's long-term budget model.

Regent Kieffer asked whether the Working Smarter savings were contained in the budget each year. Mr. Brostrom said the savings would be in a number of different areas in the budget. For example, the statewide energy partnership generated savings that appear in energy costs. Mr. Brostrom stated that the core budget is \$6.8 billion. Regent Kieffer congratulated Mr. Brostrom on the costs saved through Working Smarter and expressed support for the program.

Regent Makarechian stated that complying with State regulations required the University to pay outside auditors for 50,000 hours of work. He urged State officials to reduce these burdensome regulatory requirements. Mr. Brostrom agreed that compliance with regulations, particularly regarding contracts and grants, has required increased staffing. Regent Makarechian added that the University's cost per square foot of construction is probably twice that of private developers because of regulatory requirements. A presentation to the Committee on Compliance and Audit the previous day indicated that the University had to comply with regulations from 32 different agencies, some of which required duplicative work.

Committee Chair Gould thanked Mr. Brostrom and Ms. O'Sullivan for their excellent work and its beneficial effect on the University's ability to provide high-quality education.

3. **UPDATE ON LONG RANGE FINANCIAL PLAN**

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

President Napolitano stated that, for far too long, the University has operated on an almost year-to-year basis that has been ultimately unfair to students, their families, and those charged with stewardship of the University. The University is a large enterprise that needs a budgetary time horizon of at least five years. She recounted the significant efforts made to maintain the excellence of the University despite the financial challenges of recent years. Since 2008, the number of staff members paid by core funds has been reduced by almost 25 percent. Steps have been taken to reform UC's academic delivery model and to improve time-to-degree rates. In the Public Policy Institute of California's recent report on institutional costs, its examination of expenditures by the University showed that "the cost of providing public higher education in California has not risen dramatically. Instead, the tuition increases over the past several years have merely shifted the cost from the State to the students...." The President affirmed that UC would continue to maximize ongoing efficiency efforts, but if the excellence of the University is to be maintained and enhanced, a long-term financial plan must be established that would allow the University to increase California enrollment, maintain UC's unparalleled financial aid program, and reinvest in academic programs. The University's continuing efforts to increase efficiencies and generate new revenues would provide one-third of the funding needed over the upcoming five years. Another one-third would come from the State, through the Governor's planned four percent budget increase, which equates to a 1.7 percent increase in the University's core funds. The final one-third would come from either increased State investment in the University or from sources described in the Long-term Stability Plan for Tuition and Financial Aid (Plan).

Executive Vice President and Chief Financial Officer Brostrom reviewed the University's funding history. The University generates nearly \$50 billion in economic activity for California. Nearly \$8.5 billion of that comes from outside the state, primarily from the federal government in the form of research contracts, grants, Medicare, and Medicaid. For every dollar the State invests in UC, the University generates nearly three dollars in outside support and nearly \$14 in overall economic output. These figures do not include the effect of UC researchers' and graduate students' five-a-day new inventions, the companies, and entire industries spawned by the University.

UC is also an engine for social mobility. Forty-one percent of the prior year's freshman class were first-generation college students; 42 percent came from low-income households, compared with 16 percent at Association of American Universities (AAU) private universities and 23 percent at other AAU public universities. Several UC individual campuses have more Pell Grant recipients than the entire Ivy League,

Stanford, and the Massachusetts Institute of Technology combined. UC has one of the most robust and progressive financial aid programs in the nation, a partnership with the federal government through its Pell Grants and with the State through its generous Cal Grant program. UC puts \$700 million of tuition revenue toward financial aid, enabling 55 percent of its students to pay no tuition. Another 15 percent have some portion of their tuition provided. A UC education enables social mobility; within five years of graduation the median individual income of UC's low-income students exceeds that of their families when the students entered UC. Such mobility is transformational for students, their families, and California.

The University's overall revenue in 2013-14 was more than \$26 billion. The current discussion would focus on the \$6.6 billion of core funds, consisting of tuition and fees, State funds, nonresident supplemental tuition, and other UC General Funds. Mr. Brostrom clarified that a four percent increase in State funds would apply only to the 42 percent State funds portion of the University's core fund budget, equating to an increase of 1.7 percent of overall core funds, which would not cover even inflationary increases in UC's mandatory costs.

Mr. Brostrom reported that since 2007-08 UC General Fund subsidies have been reduced by more than 50 percent at UC and California State University (CSU), and are near their lowest level in three decades. In real dollars, State support per student has declined by half in the past 32 years. The State's General Fund has grown by 160 percent in the past 25 years. In that time, State funding for corrections has increased 250 percent and State funding for K-12 education increased more than 200 percent, while funding for public higher education has increased only 30 percent. A 1.7 percent increase in UC's core funds would be insufficient to fund the University's basic needs, let alone allow reinvestment in academic quality and increased enrollment of California students.

Mr. Brostrom emphasized that UC is one of the greatest universities in the world. Six of its nine undergraduate campuses are among the AAU's 62 members; one out of every ten AAU institutions is a UC campus. No other state has more than two AAU campuses. Four UC campuses rank in the top five in *Washington Monthly's* 2014 ranking of institutions of higher education. Four UC campuses rank in the top six in the 2014 *Time* survey of best value in institutions of higher education. Five UC campuses rank in the top ten in *U.S. News and World Report's* 2015 rankings of public universities.

Since the last fiscal crisis, the University has done a great deal to improve efficiency and generate alternative revenues to mitigate reductions in State support. The Working Smarter program to improve efficiency was discussed in the prior item. Healthcare costs and funding the UC Retirement Plan (UCRP) are major budget drivers that must be contained. Over the past five years, the number of UC faculty and staff paid with core funds has been reduced by more than 6,000, a 17 percent decline. In an effort to preserve academic quality, fewer reductions were made in ladder-rank faculty than in staff. During this time, the number of UC students increased by 20,000.

Mr. Brostrom observed that the University has done much to transform education delivery. Every UC campus has ongoing efforts to streamline curriculum, make courses more available, and leverage technology. UCLA's Challenge 45 was an effort to streamline curriculum in approximately 50 majors to have no more than 45 required upper-division units, which would reduce students' time to degree. UC Davis is examining a three-year accelerated pathway to a medical degree, particularly for general practice and pediatrics. UC Berkeley directed some funds from nonresident tuition to add sections in gateway courses that had been affected by the decline in State funds.

Mr. Brostrom observed that a sustainable model for funding UC is a long-term tripartite partnership among the State, the University, and UC students and their families. The University anticipates a four percent base budget increase from the State. UC will continue to do everything possible to reduce costs and increase revenues, contributing \$600 million, with the possibility of reducing expenses even further. Another portion of funding would come from a tuition increase or enrollment growth. The State could contribute additional State General Fund revenue to offset the tuition increase. This funding would support UC enrollment of at least 5,000 more California students, to respond to burgeoning demand, as demonstrated by the more than 180,000 freshman and transfer applicants the prior year. The University would also continue its commitment of one-third of tuition funds going to financial aid. When the University's financial aid is combined with Regent Pérez's Middle Class Scholarship Program, only families with incomes over \$175,000 would feel the full effect of the proposed tuition increase. To reinvest in UC's academic excellence, the University would hire additional faculty, lecturers, librarians, and teaching assistants, and provide additional support to graduate students whose support currently lags that offered by private comparator institutions.

Mr. Brostrom displayed a graph showing the growth over the past 12 years in the number of UC students who are first-generation college students, or from low-income families, or underrepresented minorities. In the past two years the largest single pool of applicants has been Latino-Hispanic students; applications from Latino-Hispanic students have quadrupled over the past 20 years and the number is still increasing.

Regent Makarechian asked about the lack of State funding of the UCRP, even though the State contributes to retirement funds for CSU and the California Community Colleges (CCC). Mr. Brostrom stated that much of the increase in UC's core fund budget is attributable to pension contributions. Last year, the University contributed \$1.3 billion to UCRP; UC employees contributed another \$700 million. UC did not have this expense five years ago. The portion attributable to the UC General Fund is about \$389 million, an expense the State pays through the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) for employees of every other agency of State government, including CSU and CCC employees. The State paid UC's retirement contribution until 1990, when both the State and UC employees stopped contributing to UCRP; the State never resumed its contribution. If the State were to fund UCRP over a period of years, it would be roughly equal to gains from a tuition increase. Funds from Proposition 2, ably championed by the Governor, are set aside for unfunded liabilities; UCRP was cited as an unfunded liability

in the Governor's report. Regent Makarechian asked if tuition would have to be increased if the State funded its obligation for UCRP. Mr. Brostrom responded that such funding would eliminate the need for a tuition increase for several years.

Regent Atkins commented that every option should be considered, and suggested that UC look at reforms undertaken by CalPERS and CalSTRS, such as a cap on pensionable compensation, acknowledging that UC had moved in that direction. Mr. Brostrom observed that UC began its new pension tier in 2010 ahead of the State. He acknowledged that there were differences from the California Public Employees' Pension Reform Act (PEPRA), but these were mostly measures that UC never took, such as pension spiking. The biggest difference to which Regent Atkins had referred, was that PEPRA uses the Social Security limit of \$113,000 as the cap for final annual salary that can be used to calculate retirement compensation, whereas UCRP uses the Internal Revenue Service limit, largely because UC faculty salaries are usually above the Social Security limit by retirement and the pension plan would be uncompetitive relative to competitor universities'. He affirmed the University's willingness to engage in discussions about these issues with the State.

Regent Island asked about a statement that funding would protect UC's academic excellence for an increasingly diverse student body. Mr. Brostrom clarified that the alternative to seeking a tuition increase would be to cap or cut enrollment, which he said would be a travesty at a time when larger percentages of first-generation college students and students from low-income families want to attend UC. Regent Island added that capping or cutting enrollment would substantially affect enrollment of underrepresented minority students. Mr. Brostrom agreed that capping or cutting enrollment would have a disproportionate effect on such students, since their proportion in the applicant pool is greater than their proportion in the student body.

Regent Blum congratulated Mr. Brostrom and President Napolitano for this presentation, particularly for efforts to decrease the University's costs. The commonly held criticism in Sacramento that UC is not run efficiently is inaccurate and is no excuse to underfund the University.

Regent Ruiz asked what effect receiving only the four percent increase in the State's portion of UC's core funding would have on the University. Mr. Brostrom responded that the California Department of Finance asked UC for a sustainability plan that modeled the next three years with only a 1.7 percent increase in UC's core funds. The primary effect would be that enrollment of California students would have to be cut back drastically and those spaces would be replaced with nonresident students, at a time of increasing demand for diversity. Regent Ruiz observed that the University could add 5,000 more California students with the four percent increase in State funding and a five percent tuition increase. Mr. Brostrom confirmed that UC would be able to enroll 5,000 more California freshmen or transfer students, noting the particular goal of increasing enrollment at the thriving Merced campus, which needs to have 10,000 students to achieve self-sufficiency. Regent Ruiz stated that without the additional funding, UC would be unable to serve many students from underrepresented minorities whose education is so important to the

future of the state. Mr. Brostrom added that the largest segment of California high school graduates is Latino-Hispanic, whose graduation completion rate is increasing dramatically. Such students who have shown they are capable of doing the level of work required at UC should have spaces available for them.

Regent Ortiz Oakley asked why putting a cap on enrollment would lock out first-generation college students and students from underrepresented minorities, unless the University was already putting up barriers to these students' enrollment. Mr. Brostrom said in fact the barriers to enrollment for such students have been reduced. The high school graduation projections from the California Department of Finance show that the fastest growing group is Latino-Hispanic students, with the proportion of white students declining. If UC would cap enrollment, which it has never done, given these demographic trends, it would not be able to accommodate the increasing number of Latino-Hispanic students who are UC-ready.

Regent-designate Oved asked if there were certain requirements that UCRP was not meeting that resulted in the lack of State support for it. Mr. Brostrom said that had never been raised as an issue in budget discussions. The University has an independent retirement system with a benefit plan very similar to the Governor's plan under PEPR. The State contributed to UCRP through 1990, when the Regents, at the request of the State, suspended payments for both the University and employees at a time when UCRP was overfunded and the State was in a fiscal crisis. The contribution holiday lasted for two decades. At the urging of the Academic Senate and others, the University restarted contributions, which have increased dramatically. The State has never restarted its contributions. There are many different retirement funding models within the State, so the differences in funding models are not a legitimate reason for the State not to fund its portion of UCRP.

Regent Pattiz stated that UC has been performing very well in accomplishing its mission of increasing the availability of a UC education to Californians, regardless of income level and ethnic background. The State gets an enormous return on its investment in UC. However, the University cannot continue to fulfill its mission with inadequate funding. UC would not have to increase tuition if the State would view its investment in the University as a private investor would, realizing the return to be gained for California citizens and for the state as an economic engine.

Committee Chair Gould emphasized UC's role in creating opportunity for students from low-income families.

Governor Brown noted his close ties to UC; he and Earl Warren were the only California governors to have graduated from UC. He acknowledged the complexity of UC's budget, and expressed appreciation for the administrative efficiencies that saved more than \$600 million annually. The University's core budget is close to \$7 billion, up from \$5.5 billion seven years ago, with the increase funded mostly by UC students through tuition increases. UC's spending increased 27 percent over that time, more than inflation. The State's contribution of approximately \$800 million through the Cal Grant program

must be considered. The proposed five percent tuition increase would cost the State \$45 million more in Cal Grants and the Middle Class Scholarship Program would require several hundred million dollars in additional State funds.

Governor Brown indicated that he would vote against the proposed tuition increase. The State's four percent increase would yield \$120 million, which in addition to \$80 million in other new funding, would total \$200 million in new money for core programs. UC's retiree healthcare alone is 65 percent higher than competitor institutions'. UC's salaries may be ten percent below market, but if some elite private universities are excluded, UC salaries are competitive with other public universities. UC cannot compete with small private schools like Stanford, which spends \$85,000 annually per student. UC has to operate on the model of a public university, serving students, their families, and its research mission. The Governor expressed his commitment to enhance the creativity and innovation that occurs at the University.

Governor Brown distributed a proposal for the creation of a select committee to develop proposals to reduce the University's cost structure while increasing access and quality, to be considered at a future meeting. Members of the committee would be designated by the President of the Board of Regents and the President of the University, with joint staffing by the Office of the President and the California Department of Finance. This collaborative effort would examine proposals from experts within and outside of the University. Governor Brown would ask the committee to investigate five initiatives: (1) identify pathways for undergraduate students to complete degrees in no more than three years; (2) implement consistent lower division major requirements across all campuses as recommended by the UC Commission on the Future and policies that would guarantee admission with junior status to any CCC students who earn an Associate Degree for Transfer with an agreed-upon grade point average, specifying that such students generally would not be required to take any more than 60 additional semester units or 90 quarter units; (3) offer a wide range of online courses enrolling a large number of students far beyond the capacity of any classroom; (4) expand policies that grant unit credit to students who demonstrate academic competence through work experience, military training, or other appropriate learning pathways; (5) delineate cross-campus collaboration and campus-specific specializations that over time would provide differentiation among the campuses, considering a range of disciplinary consolidations. These goals were suggested by the UC Commission on the Future. The Governor's proposals also contained timetables. He stated that the pressure of not having enough money could sometimes force creativity in dealing with change in large, complex organizations such as UC. He advocated examining the structure and design of the University with an open-minded spirit. He expressed his view that the \$200 million in new money to which he had referred earlier would be sufficient funding. He also acknowledged the need for a financial sustainability plan and more revenue some time in the future. However, the proposed Plan dictates that if sufficient revenue is not provided, then UC would accept more nonresident students, without considering alternatives to the University's current structure that could lower costs over time while increasing quality and accessibility. Governor Brown urged quick action on his proposals.

President Napolitano asked Mr. Brostrom to review the budget considerations underlying this discussion, stating that the University views these figures very differently than the Governor does. The University believes that it would need \$460 million in additional revenue even to reach the revenue it had in 2007-08. If mandatory costs and inflation are taken into account, the 1.7 percent annual increase would not be sufficient to allow the University to achieve 2007-08 revenue levels.

Mr. Brostrom congratulated the Governor on his recent reelection. He stated that UC's core funds have increased from \$5.5 billion in 2007-08 to \$7 billion in 2014-15. On a per-student basis, UC's core funds have increased \$4,000. However, key items that are part of UC's mission, but do not support the University, must be deducted, such as more than \$1 billion for financial aid, more than \$400 million for UCRP, and \$200 million for UC's general obligation debt. In nominal dollars, core funds per student have been reduced \$500, a 13 percent reduction when adjusted for inflation. Mr. Brostrom expressed his fundamental disagreement with the proposition that the University has more funding.

President Napolitano commented that she had experience with public budgets. Moving toward a model using more online education, as Arizona State University had, would not comply with the mission, purpose, and role of UC within the context of the California Master Plan for Higher Education (Master Plan). She suggested that the Governor's proposed select committee also consider UC's role as a public research university in relation to support for its graduate students, postdoctoral scholars, and faculty. President Napolitano pointed out that the University needs to submit a 2015-16 budget. By December 1, the University must file its sustainability plan assuming no tuition increase. The proposal regarding tuition currently before the Regents is a contingency proposal, based on the available funds, and the University's need to escape the year-to-year feast or famine budgetary process which hinders reliable planning. The University does not have time to wait for another commission; the Regents need to act to meet the State's fiscal deadlines.

Regarding sustainability, Governor Brown commented that there have been two financial downturns since 2000, and there would be downturns in the future because the economy is always uncertain. When the State faces difficulty funding its mandatory costs, UC's funding would be cut again and the University must prepare for these inevitable downturns. Over time, UC's pension and retiree health costs will probably climb. If the University's cost structure does not change, even the proposed 25 percent tuition increase would not solve the problem. The only way UC could add more students and keep costs down is to change the structure in a more fundamental way than it has been willing to do. The UC Commission on the Future began with great expectations, but its purposes were frustrated. Governor Brown reaffirmed his commitment to explore what institutional changes can be made to avoid inevitable future increases in cost pressures.

Regent Blum expressed support for the formation of a new committee to examine these issues and agreed with President Napolitano's comments that the University must address its current budget shortfall. He said his experience of spending one or two days a week on

a UC campus at the Blum Center for Global Development, which has expanded to all ten UC campuses, gives him a unique perspective on the University's urgent needs. UC salaries are not competitive with peer institutions'. Older faculty may stay because of their pension benefits, but it has become increasingly difficult to recruit and retain younger faculty who receive much higher offers from competing universities. Campuses sometimes have to find other sources of funding on an ad hoc basis to supplement salaries of faculty who are dramatically underpaid and whom they wish to retain. This has been a longstanding problem and must be dealt with realistically. The University currently is educating 68,000 more students with the same amount of real dollars it had 25 years ago. Funding education is the best way to invest in California, address income inequity, and improve opportunities for students from underrepresented minorities.

Governor Brown observed that UC is a public university. He cited recent distinguished appointees to the California Supreme Court and other State public officials who do not receive large salaries. While it is challenging to compete with private universities that receive large alumni donations, the first mission of a public university is to educate its students, which UC is doing. UC can be a leader in public service through its compensation and cost structure, as it is in climate change. It does not have to follow Ivy League universities. He expressed confidence that people would be excited about an institution that has a moral depth which transcends the vagaries of the marketplace.

Regent Pérez commented that he had heard this conversation several times since he was UC student and the conversation has not been advanced. He said that the University was taking the wrong approach if it wants to maximize State support for UC and minimize the cost to students. He expressed support for the Master Plan and that the education component of UC should be free, with students required to pay only fees for non-education services. However, the decade of disinvestment in the University moved it farther from this goal, with students being asked to pay a disproportionate share of the deficiency in State support. Since the 2008 economic crisis, the State Legislature made difficult decisions to achieve fiscal solvency. Since its \$800 million disinvestment in UC, the State has made small, incremental reinvestments of \$125 million and \$142 million over the past two years. Regent Pérez said that he is not satisfied with the rate of reinvestment. Part of the State's support has been by protecting the Cal Grant program. While the State decreased funding by \$800 million, the University increased tuition by \$1.2 billion to cover the \$800 million and the return-to-aid. He questioned high levels of executive pay when students are being asked to shoulder more of the burden. He supported Governor Brown's proposal to establish a select committee as a forum to arrive at a plan to increase State funding to an appropriate level over time and reduce costs to students. He expressed his view that the University's proposal was not the most effective way to communicate with the State administration. Transferring costs to students would make the State less likely to contribute more funds to UC, given the many competing priorities for State funds. He would vote against the proposed tuition increase and favored a more comprehensive approach.

Regent Lansing stated that the current Plan would be conditional. She thanked Governor Brown for proposing the select committee, but expressed disappointment and confusion

that UC is in its current position. The Regents unanimously supported Proposition 30, and UC students, faculty, and alumni worked hard for its passage, with the understanding that a large percentage of funds generated by Proposition 30 would go to fund the University fully, to enable continued enrollment growth. Sadly, that has not happened. A four percent increase in State funding is not enough. She appreciated the tuition buyout of the past two years, but a tuition buyout was not funded again. Given the Governor's support for UC, Regent Lansing expressed dismay that, even when the State Legislature approved an additional \$100 million for UC, it was vetoed by the Governor. If these events had not occurred, the University would not be in its current position. No Regent wants to increase tuition. Regent Lansing also noted that UC's pension fund is treated differently from CSU's pension fund. If UC's pension obligations were treated as CSU's were, a tuition increase would not be necessary. The University has saved \$660 million through administrative efficiencies and has not decreased financial aid. The current level of State funding is not close to the amount needed to maintain the University's quality and accessibility. Regent Lansing expressed confidence in the commitment of the Governor and the Legislature to UC, hope that acceptance of this conditional budget would encourage continued communication to find solutions, but dismay that obvious solutions have not been acted upon and that California spends more money on the incarcerated than on its future in its students.

Regent Reiss stated that, while she understood the reluctance of Regents who are elected officials to increase tuition, State officials have not made funding of UC a priority. The Regents supported Proposition 30, believing that it would enable funding of enrollment growth at UC. An adequate commitment to the University would be only a small percentage of the State's overall budget. Other priorities such as high-speed rail, water storage, and a rainy-day fund, while important, have received more attention than investing in public higher education. During the decade of State disinvestment, the University has tried every method of advocating for adequate funding, but the State has proven itself to be an unreliable partner to California public higher education. The University has to provide some predictability to UC students and their families, and to UC campuses for their planning. The Regents have a fiduciary responsibility to the University. The Regents' independence was established so that difficult financial decisions could be made without reference to short-term political considerations, to maintain the quality of the University. While the State has disinvested in UC, the Regents have honored UC's public mission to educate Californians by not capping enrollment and maintaining low nonresident admissions and high levels of return-to-aid. In considering this proposal, Regents must be concerned with avoiding erosion of the quality of a UC education. She welcomed the select committee proposed by the Governor, noting that the Regents have looked at a wide variety of ways to reduce costs and increase alternative sources of revenue.

Regent Saifuddin said she would look forward to the findings of the Governor's proposed select committee. However, as a student, she would not support structural changes that would further deteriorate the quality of a UC education. Students already face a shortage of graduate student instructors, and high tuition and book costs. Students do not favor online education supplanting their classroom education, and want a four-year university

where they can talk with their professors and graduate student instructors, learning in real time. Students' trust in the State support for higher education is already fractured. Two years ago, student support was crucial in the passage of Proposition 30. The effect of tuition increases on students is already apparent. The quality and fundamental nature of a UC education should not be compromised.

Regent Atkins commented on the positive effect of UC San Diego on the San Diego economy. The State Legislature is responsible for advancing important priorities of many stakeholders and had to deal in recent years with a \$60 billion budget deficit. She has supported increased funding for UC, but competing budget priorities must be negotiated with the Legislature and the Governor. She affirmed her understanding of the importance of UC and of public higher education, and said it is incumbent upon the Regents and the State to find a solution to continue the reinvestment in higher education that began over the last several years. She cited Regent Pérez's \$152 million Middle Class Scholarship Program and expressed her view that the current proposal would hurt students from middle class families. She praised the Regents' commitment to UC's successful program of return-to-aid, which is supported by the Legislature's funding of the Cal Grant program. She acknowledged that UC has struggled hard since the financial crisis of 2008 to make ends meet. She affirmed her commitment to working with UC to continue to reinvest in the University at higher levels. This would take time. She distributed proposals that she would present to her caucus for consideration in budget deliberations. Regent Atkins said she was not prepared to vote for a tuition increase at this time, but indicated her intention to work hard for a State budget that would find solutions.

4. **APPROVAL OF LONG-TERM STABILITY PLAN FOR TUITION AND FINANCIAL AID**

The President of the University recommended the following actions on mandatory systemwide student tuition and fees for 2015-16 through 2019-20:

- A. Approve annual increases of five percent in Tuition and the Student Services Fee for undergraduate, graduate academic, and graduate professional students for the years 2015-16 through 2019-20, as shown in Display 1. Tuition and fees will not increase above these levels as long as the State provides minimum annual increases of four percent in State funding for the University's permanent base budget and continues to cover mandatory systemwide charges under the Cal Grant program.

An amount equivalent to 33 percent of the undergraduate Student Tuition and Student Services Fee increases, 50 percent of the graduate academic student Tuition and Student Services Fee increases, and 33 percent of the graduate professional student Tuition and Student Services Fee increases will be set aside for financial aid.

- B. Authorize the President to assess charges below the amounts shown in Display 1 in any year when the State provides additional funding above the base

budget adjustment described in Paragraph A to buy out some or all of the proposed student tuition and fee increases.

- C. Approve annual increases of five percent in Nonresident Supplemental Tuition for undergraduate nonresident students for the years 2015-16 through 2019-20, as shown in Display 2.

DISPLAY 1: Proposed Maximum Increases to Mandatory Systemwide Charges^{1,3}

		Annual 5% Increases Proposed for Approval by the Regents									
	2014-15 Charges	<i>Incr.</i> (5%)	2015-16 Charges	<i>Incr.</i> (5%)	2016-17 Charges	<i>Incr.</i> (5%)	2017-18 Charges	<i>Incr.</i> (5%)	2018-19 Charges	<i>Incr.</i> (5%)	2019-20 Charges
Tuition²											
All Students	\$11,220	\$564	\$11,784	\$588	\$12,372	\$618	\$12,990	\$648	\$13,638	\$684	\$14,322
Student Services Fee											
All Students	\$972	\$48	\$1,020	\$54	\$1,074	\$54	\$1,128	\$54	\$1,182	\$60	\$1,242
Total Mandatory Systemwide Charges											
All Students	\$12,192	\$612	\$12,804	\$642	\$13,446	\$672	\$14,118	\$702	\$14,820	\$744	\$15,564

¹ Subject to change if expected State funding is not provided.

² Includes \$60 Surcharge to cover costs associated with the *Luquetta v. Regents* class action lawsuit.

³ Charges are effective the summer term preceding the academic year indicated – e.g., summer 2015 for 2015-16. Figures are rounded to be divisible by \$6 in order to facilitate campus billing processes which, depending on the campus, occur either two or three times per academic year.

DISPLAY 2: Proposed Increases to Nonresident Supplemental Tuition for Undergraduates¹

Annual 5% Increases Proposed for Approval by the Regents											
2014-15 Charges	<i>Incr.</i> (5%)	2015-16 Charges	<i>Incr.</i> (5%)	2016-17 Charges	<i>Incr.</i> (5%)	2017-18 Charges	<i>Incr.</i> (5%)	2018-19 Charges	<i>Incr.</i> (5%)	2019-20 Charges	
Undergraduate Nonresident Supplemental Tuition											
Undergraduate	\$22,878	\$1,146	\$24,024	\$1,200	\$25,224	\$1,260	\$26,484	\$1,326	\$27,810	\$1,392	\$29,202
Including Mandatory Systemwide Charges (from Display 1)											
Undergraduate	\$35,070	\$1,758	\$36,828	\$1,842	\$38,670	\$1,932	\$40,602	\$2,028	\$42,630	\$2,136	\$44,766

¹ Charges are effective the summer term preceding the academic year indicated – e.g., summer 2015 for 2015-16. Figures are rounded to be divisible by \$6 in order to facilitate campus billing processes which, depending on the campus, occur either two or three times per academic year.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

President Napolitano said that the Long-Term Stability Plan for Tuition and Financial Aid (Plan) represented a serious and comprehensive effort to be transparent about the available choices, rather than wait until the end of another legislative session. She acknowledged the difficulty of proposing to increase tuition, which no one wants to do. Many options were examined, such as differential tuition by campus, major, or student level, cohort-based tuition, and replacing tuition with a tax on postgraduate earnings. The President expressed her view that, in the environment of State funding with which the University is familiar, the proposed Plan would provide the most clarity and predictability for students and their families, and is in the best interest of improving the quality of education at UC.

Executive Vice President and Chief Financial Officer Brostrom reviewed key features of the Plan, which assumes continuation of a four percent increase in State funds along with moderate, predictable increases to a ceiling of five percent annually in tuition, the Student Services Fee, and nonresident supplemental tuition. There would be an option for a State buyout of some or all of the tuition and Student Services Fee increase. The University would maintain its existing commitment to financial aid. Mr. Brostrom displayed a graph showing the volatility in the rate of change in UC tuition over the past 35 years. During the last 20 years, there were eight years when tuition was flat or declined, eight years with double-digit increases, and only a few years when tuition increased at the rate of inflation. Depending upon when a student attended UC, tuition could have remained flat, or it could have doubled.

The proposed annual increase of up to five percent is low by historic standards. From 1971 to 2013, the average tuition increase at public universities was 7.5 percent a year, and 6.9 percent at private universities. In the last 20 years, the number of UC applications from Latino-Hispanic students and the number of these students who were admitted have quadrupled. Currently, 55 percent of UC students pay no tuition; an additional 14 percent receive some tuition reduction. Only 20 percent pay full tuition. Thanks to Regent Pérez's Middle Class Scholarship Program, students whose families have incomes up to \$125,000 would see a decrease in tuition under the proposed plan. Only students from families that earn more than \$175,000 would have to pay the full tuition increase, which would be offset slightly by federal tax credits. It is a point of pride that UC differentiates itself from others in the Association of American Universities (AAU) in that 42 percent of its undergraduates are Pell Grant recipients, compared with 23 percent at other AAU public universities, and 16 percent at AAU private universities. The six-year graduation rate for UC students who receive Pell Grants is 82 percent, very close to the 84 percent rate for those who do not receive Pell Grants.

Half of UC students take out no student loans. Those who do take out student loans have an average balance upon graduation of \$20,000, which is \$10,000 less than average debt of students from private universities, and \$5,000 less than the average debt of students from other public universities. In a recent study, UC students had the nation's second lowest number of students who take out student loans and average debt upon graduation. UC is an unmatched blend of excellence and access. UC campuses hold four of the top

five spots in the *Washington Monthly 2014 College Rankings* that consider factors such as income disparity and commitment to public service.

Committee Chair Gould recalled that when the Regents considered supporting Proposition 30 he voted no, because he thought it lacked a clearly defined commitment to UC. The expectations of UC students and others who worked hard to support Proposition 30 had not been met. He applauded the Governor's proposed select committee to examine innovative suggestions. Committee Chair Gould recalled his year serving as chair of UC's Commission on the Future. Some of the Commission's ideas are resurfacing and progress has been made on other of its suggestions regarding cost-saving initiatives, online education, and community college transfers. He encouraged further exploration of other Commission recommendations. UC's obligation as a public institution is to be transparent and honest to the Regents and the people of California about the challenges the University faces and its plans to address them. The proposed Plan is an honest and sincere way to address the opportunities that exist for the University. While no one wants to increase tuition, it may be necessary if UC is to continue to provide excellence and opportunity.

Governor Brown stated that Proposition 30 generated \$650 million in revenue for UC this year, allowing a tuition buyout and avoiding a \$250 million cut. He expressed appreciation for all those who worked for its support.

Regent Kieffer expressed appreciation for the Governor's support of Proposition 30 and his role in establishing fiscal stability for the State, and associated himself with the comments of Regents Lansing, Reiss, Saifuddin, and Gould. Regent Kieffer also hoped that Regent and Speaker of the Assembly Atkins' efforts to increase funding would be successful. He expressed support for President Napolitano's Plan for the reasons that had been stated and suggested adding further items to be considered by the Governor's proposed select committee, such as the role of research, future faculty competitiveness, and funding brought to the University through faculty research. Regent Kieffer expressed agreement with Governor Brown that the University 25 years hence would not be like it is today, as all universities will have to change to accommodate new ways of developing information. UC is ahead of most in this endeavor. Online education has been found to be a false hope, although it would be effectively integrated to some degree over time. There is no quick fix panacea. He acknowledged Regent and Speaker Atkins' role in relation to demands of the entire state. The Regents' job is to look after the welfare of the University and he emphasized the Regents' concern about the effect of lack of funding on the University and its future. Once the quality of the University has declined, it would already be too late. Regent Kieffer expressed concern that UC could meet the same fate as California's K-12 system, unless a judgment is made not to allow that to happen. The proposed Plan is a necessary, honest statement of UC's minimum needs.

Regent Pattiz expressed his view that, in order to do what was right for the future of the University and its students, addressing UC's underfunding could not be postponed. He supported Proposition 30, which increased taxes, with an expectation that it would help fund higher education. While it helped some of the state's education segments, it did not

meet UC's needs. UC is meeting expectations in all areas. The proposed tuition increase would affect only 30 percent of UC students, and a large portion of them would be able to afford the increase. The Plan is only an option to increase tuition if necessary by as much as five percent. Tuition would not have to be increased if the Legislature funds UC with its fair share from Proposition 30, which the Regents and UC students supported. The Regents have an obligation to fulfill their fiduciary responsibility to the University.

Regent Torlakson offered perspective from the K-12 segment and his appreciation of the Governor's and Regent Atkins' proposals. There could be many avenues to successfully solving the problem. Regent Torlakson would not support the plan for tuition increases. The trend for disinvestment in the University goes back several decades. Since 1990, State funding for UC increased 27 percent, while enrollment has grown 43 percent. State General Fund spending per student remained near its lowest in 30 years. He expressed support for increased investment in UC. As a result of increased investment in K-12, local control of funding reform, increases in high school graduation rates, and initiatives around Associate Degrees for Transfer at the California Community Colleges, Regent Torlakson anticipated a surge in UC enrollment with more high school graduates prepared for UC-level work. He expressed support for increased resources for UC necessary to increase capacity and maintain the greatness of UC. He praised the accomplishments of the Working Smarter initiative and urged redoubling efforts to achieve savings, particularly consideration of changes to UC's pension system in accord with CSU's with caps on pensionable income. He expressed concerns about outsourcing as raised by American Federation of State, County and Municipal Employees members during the public comment session, and executive compensation. Regent Torlakson expressed interest in pursuing the Governor's proposals to examine campus specialization, cross-campus coordination, and consolidation of administration. He cited a study showing that benefits from the recent economic recovery have not been shared widely, and given concerns of Californians about their economic future, he did not support a tuition increase at the current time.

Regent Ortiz Oakley expressed his view that every alternate avenue should be exhausted before tuition is increased. At both CCC and CSU, tremendous progress has been made in their ability to teach students within their revenue model and in moving students through the system more quickly. He supported consideration of the Governor's proposals. While he understood the need for adequate and predictable funding, he could not support tuition increases at this time.

Regent Newsom stated that while transparency and openness were cited in proposing the Plan, he did not recall any prior public discussion of a five-year plan for annual five percent tuition increases. Students had not been included in development of the Plan and there was no earlier information session for the Regents before the Plan was put on the agenda. The Regents who are responsible for decision-making in Sacramento were not consulted in the development of the Plan. The world is changing the way it communicates and new approaches must be considered, since efficiencies alone would not be sufficient. Tuition increases have contributed greatly to the growing crisis of student debt. Regent Newsom agreed that the existing model would require more money.

For the short term, there is an opportunity to work with the Governor and the Legislature to meet these needs, but for the long term different models that include the CSU and CCC must be considered. He expressed disappointment with the process of development of the Plan, which he said contrasted with CSU's collaborative approach. He would oppose the tuition increases.

Regent Saifuddin recalled that during her sophomore year at UC Berkeley she was notified that her family was ineligible for financial aid that year. She recounted her struggle to pay for her education, taking on four jobs, working 25 hours a week, and resigning from all extracurricular activities. Regent Saifuddin stated that she is an example of the real effect tuition increases have on students. A \$600 tuition increase is almost an entire month's rent for students, many of whom are already barely making ends meet. She expressed appreciation for Governor Brown's support for UC, but questioned his recent veto of additional UC funding. She urged the State's elected officials to invest in the lives of students across UC campuses. The student vote was crucial in the passage of Proposition 30, yet UC received funding that barely kept pace with inflation. Higher education must be a State priority in order to build a socially and economically vibrant California. The State's disinvestment over the past two decades has crippled the University. Regent Saifuddin advocated working together to develop a plan that would both restore State funding to UC and ensure cost-saving measures at the University, engaging students, and supporting those from middle-class families. She urged strategic thinking about how and when executive salaries are increased. She would vote against a tuition increase because students should not have to bear the burden of economic mismanagement.

Regent Ruiz expressed appreciation for the views expressed, adding that he thought the tuition increase would not have to be implemented because an agreement for State funding would be reached.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Engelhorn, Gould, Kieffer, Napolitano, Ruiz, Sherman, and Varner (7) voting "aye," and Regents Brown and Saifuddin (2) voting "no."

The meeting recessed at 1:00 p.m.

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The meeting reconvened at 2:10 p.m.

Members Present: Regents Engelhorn, Gould, Kieffer, Ruiz, Saifuddin, and Sherman; Ex officio members Napolitano and Varner; Advisory members Gorman and Hare; Staff Advisors Acker and Coyne

In attendance: Regents Atkins, Blum, De La Peña, Island, Leong Clancy, Makarechian, Newsom, Ortiz Oakley, Pattiz, Pérez, Reiss, Torlakson, and Wachter, Regents-designate Davis and Oved, Faculty Representative Gilly,

Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Senior Vice President Dooley, Vice Presidents Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Gillman, Hawgood, Katehi, Khosla, Wilcox, and Yang, and Recording Secretary Johns

5. **APPROVAL OF LONG-TERM PLAN FOR PROFESSIONAL DEGREE SUPPLEMENTAL TUITION AND OF PROPOSED 2015-16 PROFESSIONAL DEGREE SUPPLEMENTAL TUITION FOR NINE SPECIFIC PROGRAMS**

The President of the University recommended that the Regents approve the following actions related to Professional Degree Supplemental Tuition (PDST):

- A. Authorize the President to assess annual increases to PDST of up to five percent over the previous year for the years 2015-16 through 2019-20 and, consistent with existing Presidential authority, to assess any annual decreases. The President may approve individual increases as exceptions to Regents Policy 3103: Policy on Professional Degree Supplemental Tuition so long as the increase does not exceed five percent over the previous year. Annual changes in PDST will vary by program, and the President will report annually to the Regents on approved increases and decreases. Any graduate professional degree program requesting either to charge PDST for the first time or to charge a PDST increase higher than five percent in any given year will be required to submit a proposal for approval by the Regents under the existing process.
- B. Authorize an increase in PDST of 20 percent in 2015-16 for the Nursing graduate professional degree program on all four campuses that offer the degree (Davis, Irvine, Los Angeles, and San Francisco).
- C. Authorize initiation of PDST for five graduate professional degree programs – Journalism at Berkeley, Leadership Education at Berkeley, Public Policy at Riverside, Teacher Education at Berkeley, and Technology Management at Santa Barbara – at the levels indicated in Attachment 1. The first four programs are to be authorized as an exception to Policy 3103, as in-state charges for these programs are expected to exceed average in-state charges at programs at public comparison institutions.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President and Chief Financial Officer Brostrom began the discussion by explaining that this item proposed the same approach to Professional Degree Supplemental Tuition (PDST) as the preceding item proposed for undergraduate tuition. For each year from 2015 to 2019-20, the President could approve annual increases for PDST of up to five percent. The President would report decisions to the Regents

annually. Any proposed PDST increase above five percent or any PDST being charged for the first time must be approved by the Regents. The item proposed five new PDST charges, for the programs in Journalism, Leadership Education, and Teacher Education at UC Berkeley, Public Policy at UC Riverside, and Technology Management at UC Santa Barbara. One exception to policy in the item was a proposed 20 percent increase for 2015-16 PDST levels for nursing programs at four campuses – Davis, Irvine, Los Angeles, and San Francisco.

Regent Kieffer asked about financial programs available to students in these programs, especially in the nursing programs, where there would be such a significant increase. Mr. Brostrom responded that each program manages its financial aid program separately. There is a return-to-aid component for tuition. Law schools provide loan waivers for graduates who work in public interest law. Chancellor Katehi recalled that the nursing program at UC Davis had been founded five years earlier with a one-time award from the Gordon and Betty Moore Foundation. It is a self-sustaining program that currently was receiving no State support. A significant percentage of tuition is returned to financial aid. Chancellor Hawgood reported that 30 percent of tuition in the UCSF nursing program is returned to financial aid.

Regent Kieffer requested information on the scope of financial aid for UC law schools, specifically for students who complete the program and work in public interest law. He asked how these financial aid programs compare to those at other institutions that offer programs in public interest law. President Napolitano responded that this information would be provided.

Regent Makarechian asked about a figure of 47.8 percent of revenue to be spent on additional student financial aid, listed in the background materials. Mr. Brostrom responded that this figure referred to all nine programs under discussion; each program would return a different amount to financial aid.

Regent Makarechian noted that the PDST levels being proposed were the same for resident and nonresident students, and asked about the reason for this. Mr. Brostrom responded that students in professional degree programs pay a number of charges, including tuition and student services fees. In general, nonresident students, depending on the program, pay a higher amount than resident students, although this difference is not the same as for undergraduates.

Regent Makarechian referred to other background information showing proposed PDST levels and asked why nonresidents were being charged less than residents in some cases, such as the engineering program at UC Berkeley, where PDST for nonresidents would be \$24,700, while for residents it would be \$33,700. Mr. Brostrom responded that the University charges less PDST for nonresident students because these students also pay a nonresident charge.

Regent Makarechian noted that nonresident PDST for the law program at UC Berkeley was lower than at UC Davis. Mr. Brostrom concurred that UC Davis was an exception in

the amount it charged for nonresident students in its law program. Provost Dorr added that professional degree programs typically require a great deal of specialized supervision and field experience; they are expensive to offer. One can anticipate that many, though not all students who complete these programs will have fairly high-paying jobs. The campuses can choose to set PDST at the same or different levels for residents and nonresidents. When PDST is set at different levels, the nonresident PDST is usually lower, because nonresidents must also pay Nonresident Supplemental Tuition. Campuses wish to set the cost of these programs at an appropriate level for both California and nonresident students. Ms. Dorr stressed that the decision about PDST levels is an individual decision, program by program, based on many factors.

Regent Makarechian stated his understanding that the University generally charges more for nonresident than for California resident students. Ms. Dorr pointed out that the background materials displayed only PDST charges, not total charges for nonresident students. Mr. Brostrom added that Nonresident Supplemental Tuition was \$23,000. If, as in the case of the product development program at UC Berkeley, nonresident PDST was about \$6,000 lower than resident PDST, nonresidents would still be paying \$17,000 more than California residents.

Regent Saifuddin emphasized that not all students graduating from professional degree programs would move on to high-paying jobs, such as students in social welfare programs. She asked if there had been student engagement or input regarding these increases. Ms. Dorr concurred that not every professional degree program would result in a high-paying position. All students in these programs are concerned about PDST levels, and many are concerned about cost of living. The students also express concern about the importance of field supervision in their programs; this additional instruction costs more. Ms. Dorr observed that in general, the level of PDST is proportional to the level of expected salary upon completion. She noted that individual programs whose PDST level might increase by five percent were still under review and that an increase would have to be approved by the President. This process of review included consultation, adjustment of fees, and opportunities for financial aid and debt forgiveness.

Regent Leong Clancy asked if it was possible to provide additional supervision or resources for students in teacher education programs through the school districts. Starting salaries for public school teachers are usually low. The University wants to encourage promising teachers to enter the K-12 system. She expressed concern that some students would not enroll in the program at UC Berkeley because of the PDST level. Ms. Dorr responded that the personnel of UC's teacher education programs share these concerns. She offered to provide a response from the dean of the Berkeley program about how the program is addressing these issues.

Regent-designate Oved asked if the mechanism for scholarships and financial aid in the professional degree programs functions as it does for undergraduates, or if it differs among disciplines. He expressed concern about the large proportion of student loan debt carried by graduate students. Ms. Dorr responded that the University expects that at least one-third of every PDST increase will be returned to financial aid, as is the case for

undergraduates. Many programs return more to financial aid and engage in fundraising as well.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regent Saifuddin (1) voting "no."

6. **APPROVAL OF THREE-YEAR FINANCIAL SUSTAINABILITY PLAN**

The President of the University recommended that the Three-Year Financial Sustainability Plan requested by the Governor be approved.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President and Chief Financial Officer Brostrom explained that the State Budget Act of 2014 required that the University develop and submit a sustainability plan that included performance measures such as transfer enrollment, number of Pell Grant recipients, student credit hours, graduation rates, degree completion, and total funding per degree. For the purposes of this plan, the State Department of Finance assumed annual State funding increases for UC of only four percent, and no increases to tuition, the Student Services Fee, Nonresident Supplemental Tuition, or Professional Degree Supplemental Tuition for the three years in question. Mr. Brostrom pointed out that under this scenario, UC core funding would grow by only 1.7 percent, especially if nonresident tuition cannot be increased. The University's own plan would have a five percent ceiling on annual increases in student charges and assume a four percent annual increase in State support. The University's plan uses the same assumptions as the State on pursuing administrative efficiencies and alternative revenues.

The outcomes of the University's plan are very different from those of the State plan, with the Department of Finance assumptions. The University's plan would allow for enrollment growth of 5,000 California undergraduates, maintaining UC's commitment under the California Master Plan for Higher Education (Master Plan). Under the State plan, UC would have to constrain resident enrollment and replace it with nonresident enrollment. UC would serve fewer transfer students and experience a decline in student diversity and students from low-income households. While the University's plan projected growth in numbers of California resident undergraduates, the State's plan would lead to a decline of more than 15,000 resident undergraduates by 2017-18, to be replaced by 19,000 nonresident students. Mr. Brostrom described this scenario as an unprecedented break from the Master Plan and the University's commitment to California students.

The most significant impact of the State's plan would be on underrepresented minority students, a rapidly growing cohort of California high school graduates. These students would be shut out at a time when their numbers are increasing dramatically. The State plan would also have a significant effect on transfer students, decreasing their number by about 2,000. Mr. Brostrom concluded that under either the State or UC plan, the

University would strive to maintain quality, while student access would be sacrificed. UC would maintain the same funding plan. Many different actions could be taken in the context of this plan, all of them unacceptable to the University. For example, if UC wanted to maintain access under this plan, it could reduce financial aid, which would hurt low-income students.

Committee Chair Gould emphasized that this plan is not in fact a sustainability plan. It is not a plan the University wishes to implement. The University is obligated to deliver the plan to the Governor. He stated his view that this document is in fact a report to the Governor, not a sustainability plan. Mr. Brostrom concurred, stating that UC is forwarding this document based on the State budget act, under the State's criteria. President Napolitano added that the Regents were approving the sending of this document to Sacramento.

Regent Island asked why the Regents' approval was needed to send this document. Mr. Brostrom responded that this was based on language in the State budget act the previous year, requesting that both the Chairman of the Regents and the President of the University respond. Chairman Varner added that it was important for the entire Board to review the document.

Regent Island voiced concern that the assumptions in the report would be devastating for underrepresented minority students and that the Regents would be approving a document they in fact do not wish to endorse. Mr. Brostrom responded that the Regents' consideration and approval is required by statute. In the document, the University is adamant that it would never contemplate carrying out this plan.

Committee Chair Gould underscored that it was critical for the University to communicate its position on this plan, which none of the Regents support. The plan simply demonstrates what the implications of the State's assumptions would be.

Regent Ortiz Oakley asked how UC determines the number of transfer students it can admit. Mr. Brostrom responded that this number is based on past history. If the University were compelled to reduce the number of California undergraduates, some would be taken from the freshman class, and some from transfer students. UC might admit 2,000 fewer transfer students.

Regent Ortiz Oakley asked if this assumption was based on a certain percentage of transfer students versus incoming freshmen. Mr. Brostrom responded in the affirmative. The University aims for 30 percent transfer students.

Regent Ortiz Oakley asked if the University would ever contemplate changing this percentage. Mr. Brostrom responded that the University was seeking to increase the transfer rate and to extend its outreach to community colleges that have not traditionally sent students to UC. While the University has been successful in increasing the number of transfers, this has been concentrated in a small number of community college districts.

Regent Ortiz Oakley asked if nonresident students are considered to be taking seats that would otherwise be reserved for California residents, or are considered to be in addition to resident students. Mr. Brostrom responded that in the case of this plan to be submitted to the State, nonresident students are considered a replacement, a source of replacement income through nonresident tuition. In its actual overall planning, the University is projecting growth in both California resident and nonresident students. Some campuses have the capacity to enroll more nonresident students.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 2:40 p.m.

Attest:

Secretary and Chief of Staff