Chair Pérez commended UCR for outpacing the systemwide average despite low AIS. The Board had discussed making State funding requests based on the cost of serving different student populations. UCM and UCR students needed additional investment. He was moved by the counterintuitive outcomes despite the student profiles at both campuses. These outcomes challenged assumptions about how UC should admit students. Regent Kieffer added that the Board should be considering its own responsibilities and the effects of its high-level choices. The Board needed to have more detailed discussions. Chair Pérez agreed that systemwide numbers were not very instructive. He directed those concerns to Mr. Jenny. Chair Pérez also commended Chancellor Wilcox for comparing the multi-year framework to UCR's goals and for providing faculty growth data. He suggested that other campuses do the same in their presentations. Chancellor Wilcox acknowledged the thousands of people at UCR who had worked to produce these positive outcomes. There needed to be a fundamental conversation about campus priorities and resources.

Regent Estolano suggested that future campus presentations include deficits and how to address them. A tuition increase would not address capital improvement. She asked how UCR would address capital improvement. Chancellor Wilcox replied that a classroom building was being built right now. All new residence halls were being built with classrooms in them. President Napolitano had prioritized another classroom building if the general obligation bond passed on the March ballot. Another strategy, diverting funds from the operating budget, was unsustainable.

Regent Estolano noted the burden on staff who lacked the compensation and agency of faculty. She suggested that future campus presentations include information about their staffing needs. Chancellor Wilcox added that it was remarkable that UCR achieved its graduation rates with so few staff.

Faculty Representative Gauvain noted all that had to occur on the Riverside campus to make the gains Chancellor Wilcox presented. Given staff shortages, faculty have been doing the work of staff. She commended UCR faculty and students for their perseverance through difficult times.

Provost Brown thanked Chair Pérez and recognized the vision of Regents Anguiano and Park of presentations combining the academic plan with the capital plan. He hoped that this would be the method by which the University envisioned its future. The Board would always have tension between the allocation of resources and the need for more resources. More and more buildings have exceeded their useful life. The University was trying to achieve its ambitions in the quality of education and research productivity in light of decreased State support. There were no easy answers. Both the state and the nation looked to the decisions of this Board.

The Board recessed at 12:20 p.m.

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The Board reconvened at 1:00 p.m. with Chair Pérez presiding.

Members present: Regents Anguiano, Blum, Butler, Elliott, Estolano, Guber, Kieffer, Kounalakis, Lansing, Leib, Makarechian, Napolitano, Ortiz Oakley, Park, Pérez, Reilly, Sherman, Simmons, Sures, Um, Weddle, and Zettel

In attendance: Regents-designate Mart, Muwwakkil, and Stegura, Faculty Representatives Bhavnani and Gauvain, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Provost Brown, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Interim Executive Vice President and Chief Financial Officer Jenny, Senior Vice President Holmes, Vice Presidents Brown, Humiston, and Leasure, Interim Vice President Gullatt, Chancellors Block, Christ, Gillman, Hawgood, Khosla, Larive, May, Wilcox, and Yang, Interim Chancellor Brostrom, and Recording Secretary Li

8. **DISCUSSION OF UNIVERSITY OF CALIFORNIA TUITION AND FEE 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.]

Interim Executive Vice President and Chief Financial Officer Jenny explained that this presentation pertained to two key considerations: the role of tuition revenue in any long-term budget plan and the best way to assess tuition.

Associate Vice President David Alcocer stated that, despite UC covering tuition and fees for over half of California undergraduates, cost increases would lead to more borrowing and difficult spending choices that could impair progress toward a degree. A tuition increase would increase the Cal Grant and the Middle Class Scholarship. Over 30 percent of UC students received the Cal Grant, and UC grant aid, funded almost entirely by tuition, filled gaps in Cal Grant aid and covered costs outside of tuition and fees. Tuition made UC more affordable for many families, especial lower- and middle-income families. The number of resident students, especially those from underrepresented groups (URGs), applying to UC has grown regardless of income level and even during tuition increases. The number of students who choose UC has remained constant, showing the effectiveness of UC's partnership with the State for maintaining access. The families who were expected to pay more typically had greater financial resources.

Mr. Jenny provided an overview of Governor Newsom's proposed State budget. There would be a 5.8 percent increase in ongoing State support and a five percent increase to UC's base budget. These would support cost increases such as labor contracts and debt service. Gaps remained between the Regents' approved budget and State's proposed budget. UC would still be $160 million short of what it needed to maintain core UC operations, let alone achieve multiyear goals. Without a tuition increase, UC would need a 12 percent State funding increase, which was not a sustainable strategy for a multi-year plan. Steady increases would cover inflation-based adjustments and UC Retirement Plan (UCRP) adjustments, restore competitiveness in recruiting faculty, and cover UC's 2030 goal costs. These would require an addition $2.1 billion by the 2024–25 fiscal year, which could come from annual, five percent increases in State support, philanthropy, investment returns, and nonresident enrollment growth. A gap of $700 million would remain. Regular and predictable tuition increases would avoid devastating cuts to programs and services.

Mr. Alcocer stated that a systemwide working group met the past summer and discussed two models, one in which tuition was kept flat in constant dollars and increased according to the Consumer Price Index (CPI), as well as a cohort-based model. The working group also reviewed other institutions' experience with cohort-based tuition. Compared with what was used for this presentation, actual financial aid models were more nuanced for determining net cost of attendance and would consider households with multiple students and other concerns. Holding tuition flat would result in the highest net cost for sample families with $20,000, $60,000, and $90,000 incomes. For a sample family with an income of $120,000, tuition would be partially covered by the Middle Class Scholarship (MCS) program. Holding tuition flat would benefit families with greater resources. Purchasing power would decline if net revenue was held flat, and total new tuition revenue would increase with both tuition models. Mr. Jenny added that either tuition model would allow for predictable, manageable adjustments.

Regent Makarechian asked how projected need for resources could triple by 2024–25. Mr. Jenny replied that there would be inflation costs and additional investments. Mr. Alcocer added that these were amounts over the base level of expenses. For example, UCRP would require an additional $30 million every year. Regent Makarechian asked to see real numbers. Mr. Alcocer stated that these projections were close to what the Board approved. Regent Makarechian asked to see where the shortfalls would be. Mr. Jenny replied that each campus made its own spending decisions. Regent Makarechian stated that the Regents could not approve a figure without knowing the details.

Regent Estolano noted that more than 50 percent of undergraduate students would pay less with a tuition increase. She asked what percent of students had a family income of $40,000 or less. Mr. Alcocer replied that the overall income profile has been relatively stable. In terms of income profile, UC's student population began to mirror the state population, with slightly higher numbers for the highest-income families because of the correlation between income and academic preparedness. Regent Estolano asked what was typical for student self-help. Mr. Alcocer explained that about half of UC students did not work or borrow because their families paid the self-help portion. Those who worked and borrowed tended to do half of each, working about 12 to 13 hours per week. Regent Estolano asked whether the typical debt burden was about $20,000, and Mr. Alcocer responded in the affirmative.

Regent Estolano asked what percentage of undergraduate financial aid was need-based. Mr. Alcocer replied that all of it was. Regent Estolano asked how much graduate financial aid was need-based. Mr. Alcocer stated that graduate students were considered independent of their families, so assessment was different. In order to attract the best people around the country, financial aid was more competitive, such as tuition remission for teaching assistants and fellowships. Merit would be a big component. Regent Estolano wished to highlight how UC's financial aid approaches differed for undergraduate and graduate students. Mr. Alcocer clarified that professional degree programs followed a different aid model and looked at student need.

Regent Estolano asked whether the projected need for resources included the multi-year framework goals. Mr. Alcocer stated that it included improving the student-faculty ratio. UC would negotiate with the Legislature to fund faculty growth needed for enrollment growth. Regent Estolano asked whether the multi-year framework sought more degrees and not enrollment growth. Mr. Alcocer explained that UC aimed to help students attain degrees more quickly. With State support of enrollment and tuition, enrollment growth was revenue-neutral and not included in the multi-year conversation. There was a unique opportunity to renew and diversify UC faculty in the next several years because of retirement. Regent Estolano noted that enrollment growth would only be revenue-neutral with State support but ongoing funds were not guaranteed.

Regent Lansing asked how both tuition models would affect students from middle class families and wished to learn more about the MCS program. Chair Pérez stated that MCS was fully implemented, fully funded, and the last money allocated. Regent Lansing asked how “middle class” was defined. Mr. Alcocer stated that incomes of up to about \$170,000 were eligible. Regent Lansing noted that it was not much money for families with multiple children in college. She asked how many students were covered by the MCS and how much tuition they were paying. Mr. Alcocer replied that, during 2017–18, over 8,000 students qualified for the MCS and received an average of \$3,000 per student. Chair Pérez added that this amount was significantly higher than the proposed increases. As tuition grows, the value of the award would grow proportionately. Individual families may be better or worse off depending on this. Regent Lansing wondered if UC could still ask the State for a possible buyout or partial buyout of the shortfall. Mr. Jenny stated that the UC budget submitted to Governor Newsom included a buyout that was not taken. Mr. Alcocer explained that both models would provide the President with the authority to reduce or eliminate the tuition increase if more State funding was secured. Proposing tuition increases instead of waiting for the finalized State budget helped set expectations for students. Regent Lansing stated that UC should keep working for more State funding.

Regent Weddle stated that the proposals did not address their impact on reducing food and housing insecurity, “sticker shock” and under-matching, and gaps in the financial aid model. Mr. Alcocer replied that more financial aid would address some of those gaps without shifting resources from some students to other students. Trends in UC applications and yield have not changed despite tuition increases, and this trend has been seen in other institutions, where more low-income students gravitated toward expensive majors with additional aid. Regent Weddle called for review of the financial aid model as gaps resulted in basic needs insecurity.

Regent Ortiz Oakley stated that he was more inclined to vote for a more predictable model but was wary of being presented with two bad choices. Both were tuition revenue choices. No option presented reducing costs to slow down the need for more revenue. UC was considering a tuition increase when the State had a surplus. He asked whether an increase in State support would not mean an increase in financial aid. Mr. Alcocer replied that requests for financial aid made to the State last year were converted to basic needs funding. The State believed that the Cal Grant and MCS were sufficient. Regent Ortiz Oakley asked how enrolling more low-income students who need more financial aid could be sustainable.

Mr. Alcocer replied that those students would have the Cal Grant. Regent Ortiz Oakley noted that there was a finite set of resources and expressed concern about the trajectory of this framework. He suggested that UC should ask the Governor for a multi-year commitment. Chair Pérez explained that the Governor and Legislature were constitutionally prohibited from guaranteeing such a commitment. They could provide a framework but not an agreement that could bind the next Governor and Legislature. Regent Ortiz Oakley stated that UC entered into a compact with Governor Brown and asked whether UC could ask Governor Newsom for an expectation of a commitment.

Regent Ortiz Oakley asked whether the number of nonresidents admitted to UC has been reconsidered. Mr. Jenny replied in the negative, adding that this would require a change to Regents Policy. Regent Ortiz Oakley wished to exhaust every possible source of revenue before increasing tuition. He asked what would become of a cohort-based model in an economic downturn. Mr. Jenny replied that it would depend on the state of the downturn and what internal resources were available to mitigate the effects in the short term. UC would attempt to preserve and honor the cohort-based model. Adjustments would be made to the next cohort.

Regent Sures asked whether there was a contingency protecting students from being unfairly burdened in an economic downturn. Chair Pérez stated that the implementation arc of the cohort model met the uniform increase model over time. In a recession, there would be increases for either model and more exposure in both. Proposition 2 money, known as the Rainy Day Fund, would insulate UC from State disinvestment during a normal-course recession. The risk to UC would be the same under either model but would be greater if tuition was held flat. The $7 billion State surplus was one-time, non-predictable money. Governor Newsom did not want to use one-time revenue for ongoing obligations.

Regent Sures asked how basic needs would be affected by either tuition model. Mr. Alcocer replied that both would have the same impact on financial aid but the cohort model would provide more peace of mind. Many students were unaware that a Cal Grant or UC grant would cover an increase, and eliminating that anxiety would be significant. Regent Sures asked for a recommendation from the presenters. Mr. Jenny stated that he would choose the cohort model for its predictability.

Regent Kieffer stated that, if tuition is not increased, the core budget would decrease by almost 40 percent over ten years. Asking for a buyout from the State was not sustainable either. The Legislature had demands that far exceeded past demands. The opposition to free college in California began in the 1960s and now seemed unlikely to change. Regent Kieffer personally favored keeping tuition at constant dollars if UC did not receive additional State support. It would set expectations in advance and be more reliable. The Board must face the truth that UC could not afford a 40 percent shortfall in core funding.

Regent Leib stated that he was inclined to support a tuition increase after all options were vetted. He asked how much philanthropy was directed to financial aid, noting that private institutions were raising more money for financial aid. Mr. Alcocer replied that the UC alumni base had lower wealth compared with other institutions and served a larger scale of students. Several UC campuses each enrolled more Pell-eligible students than the entire Ivy League combined. Private giving fluctuates with the economy, and donors were more interested in merit-based aid than need-based aid, which improves access to UC. Regent Leib disagreed and wished to explore the issue as chair of the Public Engagement and Development Committee.

Regent Leib asked about students whose parents refuse to pay for their education. Mr. Alcocer replied that students who were demonstrably separate from their parents were treated as financially independent and would qualify for more aid. These cases were rare. Otherwise, students would have to borrow more or change their lifestyle. More parents would opt not to pay if UC offered to make students whole in every instance.

Regent Kounalakis thanked Chair Pérez for his commitment to transparency and predictability and thanked students who spoke during the public comment period and contacted her office. She spoke to students across the state and noted an affordability crisis driven by healthcare and housing. She intended to ask Governor Newsom and the Legislature for more funding in order to avoid a tuition increase this year. The University planned to increase spending and pay for it by increasing tuition without analyzing the impacts of spending on the budget and how additional costs were funded. Spending decisions seemed to be made as if money was no object. She opposed both tuition models and asked UC to do a better job of scrutinizing plans with ongoing spending and considering their impact on students. Mr. Jenny agreed that UC should better illustrate the impacts initiatives would have on core funds.

Regent Reilly asked about alternatives to raising tuition and whether there were lessons learned from other institutions. Mr. Alcocer replied that other institutions were studied; cohort-based models were typically abandoned after a significant economic downtown. Planning something resilient against such negative circumstances was difficult regardless of either model. UC was better positioned for a cohort-based model than other institutions.

Regent Park remarked that it was impossible to answer every possible question about the issue. She was concerned about overcrowding, staff and labor issues, graduate student issues, capital needs, pension liabilities, deferred maintenance and seismic retrofit, and basic needs. Funding would come from multiple places, and UC must continue to lobby for State support and seek philanthropy. Revenue from technology transfer was a long-term proposition. Chancellors cannot run campuses with this level of uncertainty.

Regent Um expressed uncertainty about what was originally subject to a vote. He thought the Board would vote on whether to have a tuition increase and then choose a tuition model. Chair Pérez explained that the options had been presented this way in response to feedback. The Board was given a chance to evaluate both tuition models. Chair Pérez confirmed that there were three options in order to give the Board as many choices as possible. If tuition was held flat, it could force a decision on budget cuts. Regent Um hoped that the proper procedure would be followed for the next vote. He also sensed that the Board was split.
Regent-designate Muwwakkil stated that there was a temptation to view students as a financial resource. Other revenue opportunities should continue to be pursued. A tuition

increase would conflict with UC's mission.

Regent Butler asked why the presentation pertained only to California residents. Mr. Alcocer replied that, as a State-supported institution, UC had a primary commitment to California students and their families. Nonresident students played an important role in culture and diversity. Ten percent of the tuition increase would be used to cover costs for nonresident students. There was strong demand and high yield rates among international students. Nine to ten percent of nonresident students take out loans. Regent Butler requested comparable information about the impact on nonresident students and families.

Regent Butler asked about the percentage of California students taking out loans and the average amount of loans taken out. Mr. Alcocer replied that about half of UC students do not borrow and graduate with no debt, while the other half graduate with about $20,000 in debt, which was below the national average of $29,000. It would take monthly payments of $200 to repay over ten years. Regent Estolano asked about the median debt. Mr. Alcocer replied that there was not much variation from the average debt. Regent Butler asked about loan default. Mr. Alcocer replied that UC default rates were far lower than the national average, with the highest rate at less than three percent.

Regent Butler asked how the projected need for resources would jump from $95 million to $2.1 billion without increased enrollment. Mr. Alcocer stated that these were projected cost increases based on what the Regents approved in 2020–21 and focused on costs not part of enrollment growth. Mr. Jenny added that these were additional budget expenditures.

Regent Butler asked what would happen after 2025 with either model and whether there was a floor or ceiling to adjustments when CPI behaved abnormally. Mr. Jenny explained that, at the end of five years, the Regents would have the option of extending the model, not raising tuition, or annual increases. The Regents would have the right to change course within those five years or pause the model in the event of abnormal CPI.

Regent Sherman asked why UC should commit to grow without extra State funding. It would diminish the UC brand and offer a worse student experience. He suggested that UC refuse to grow unless the State paid for it, which would take the burden off students. Mr. Jenny replied that some cost increases were mandatory. UC should communicate how additional investments would be funded and not proceed with them if the funding does not materialize. Core costs existed regardless of new investment. Regent Sherman noted that the $150 million needed for the enrollment increase would be in response to the Legislature's and California's need for additional degrees. If the State was unwilling to pay, the cost would fall on students. Chair Pérez stated that, if the enrollment increase was not funded, UC would not proceed with it without adjustments to the budget. This conversation demonstrated the importance of discussing the UC budget in greater detail before approval. Regent Sherman stated that UC fell short in its base budget adjustment because of cost increases that were built in. The post-retirement benefit was the biggest accrued liability that UC had. Expanding would be limited without more funding.
Regent Kieffer suggested that there be a cap on tuition increases that was made into policy that would not change unless the President made a request to change it.

Regent Estolano asked for more information on how UC faculty and staff salaries compared with those of other institutions.

Chair Pérez expressed his gratitude for the level of detail in the conversation and for students voicing their concerns about process. He believed that UC must make the best decision based on the choices given. Over time, both tuition models would result in comparable predictability. The difference between the two models was in predictability and student stress, especially among neediest students. Constant dollars was a foreign concept to those students and their families, and the neediest often had the least variation in income. He emphasized that he could only support a tuition increase that locked in the price for current students. There would be no guarantees of State funding, but collaborating with students to advocate for more State investment remained important. Regardless of the decision made, the University must determine the impact on basic needs insecurity and debt load. Because tuition has been held flat, UC has had less money to address non-tuition costs that have increased at CPI or greater. One-third return-to-aid should be the minimum, and the Total Cost of Attendance (TCOA) Working Group called for more progressive aid models. This was a choice between cost and affordability. Flat tuition controls cost but not affordability. UC had an obligation to affordability and must be aggressive in exploring all ways of generating revenue. A vote would not end the conversation about containing costs, but UC must acknowledge additional cost drivers such as pension changes, policies regarding outsourcing, and new collective bargaining agreements. These were good decisions, but all good decisions come at a cost.

President Napolitano thanked the Board for this discussion. She had considered every increase's effect on affordability and whether it would allow UC to do what it does. After holding tuition flat for seven of the last eight years, it must be revisited. She was originally skeptical about the cohort model but had since become persuaded. It would provide predictability that the CPI model would not and would allow for adjustment depending on State allocation. A vote would not end the conversation about tuition, financial aid, and TCOA. A vote would give predictability and certainty to campuses and incoming students.

The meeting adjourned at 3:15 p.m.

Attest:

Secretary and Chief of Staff