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Office of the President

TO MEMBERS OF THE BOARD OF REGENTS:

~~ACTION ITEM~~

DISCUSSION ITEM

For Meeting of January 22, 2020

~~APPROVAL~~ DISCUSSION OF UNIVERSITY OF CALIFORNIA TUITION AND FEE PLAN

EXECUTIVE SUMMARY

The Regents are asked to ~~approve~~ consider a multi-year plan for three systemwide student charges: tuition, the Student Services Fee (SSF), and Nonresident Supplemental Tuition (NRST). Compared to a scenario in which these charges remain flat, ~~the proposed plan~~ adjustments to these charges would generate additional funding for student financial aid that would reduce the net cost of attendance for more than one-half of UC California resident undergraduates, resulting in less need for students to borrow or work to finance their education. ~~The plan~~ These adjustments would also provide UC campuses with critical resources to avoid the erosion in the quality of a UC education that would otherwise result if the University were to rely solely on available funding from the State and other sources, including the University's own ongoing efforts to identify alternative revenue sources and further improve operational efficiency. In-state tuition at UC has remained flat for seven of the last eight years.

~~Under the recommended action, the Regents are asked to select one of two~~ Two models for adjusting mandatory systemwide charges are presented for discussion: (a) a traditional, uniform approach in which adjustments would be pegged generally to the rate of inflation and would apply to both new and continuing students, ~~or~~ and (b) assessing adjustments on a cohort basis for undergraduate students and on a uniform basis for graduate students. The features of the proposed cohort model reflect the discussions of a systemwide working group on cohort-based tuition and were shared with the Regents at their November 14, 2019 meeting. Both models are evaluated and compared alongside a scenario in which student charges remain flat. The comparison shows the positive impact that both proposed models would have on college affordability for low- to middle-income California undergraduates and on the critical resources available to campuses to support student access, success, and well-being.

~~RECOMMENDATION~~

~~The President of the University recommends that the Regents approve the following actions on mandatory systemwide student tuition and fees for 2020-21 through 2024-25:~~

~~A. Approve adjustments to student charges as described in one of the following two attachments:~~

- ~~Attachment 1, *Proposed Uniform Schedule of Student Charges*.~~
- ~~Attachment 2, *Proposed Cohort-Based Schedule of Student Charges*.~~

~~B. Authorize the President to assess charges below the amounts approved in Paragraph A in any year when the State provides an annual increase of more than five percent to the University's permanent base budget to buy out some or all of the proposed student tuition and fee adjustments.~~

BACKGROUND

On January 10, 2020, the Governor released his State budget proposal for the 2020-21 fiscal year. The budget proposes $153.1 billion in State General Fund expenditures, including $3.996 billion in State General Fund support for the University of California.

The proposal includes $217.7 million of new, permanent funding for the University, composed of the following elements:

- $169.2 million to support ongoing operational costs and student support services
- $25 million to expand enrollment and increase operational support for the UC Riverside School of Medicine
- $15 million to expand the UC San Francisco School of Medicine Fresno Branch Campus in partnership with UC Merced
- $3.6 million to support operational costs for the Division of Agriculture and Natural Resources
- $3 million for the UC San Diego Center for Public Preparedness multi-campus research initiative
- $1.6 million for graduate medical education (GME) grants to address a projected shortfall in Proposition 56 revenues
- $345,000 for immigrant legal services

The proposal also includes one-time funding of $55.3 million, including $50 million for UC Davis to develop a grant program for animal shelters, $4 million for UC Extension to support online degree and certificate completion programs, and $1.3 million for the California Subject Matter Project to support an initial cohort of K-12 computer science educators.

The Governor's proposed increase in support for the University of California is greatly appreciated and will allow the University to cover a portion of its projected mandatory cost increases and high-priority investments next year. Additional resources, however, will be required to make and sustain all of the mandatory and high-priority investments included in the 2020-21 Budget Plan for Current Operations approved by the Regents in November 2019. Examples of those investments include:

- Eliminating achievement gaps between student populations and improving graduation rates in order to reduce student debt, accommodate larger incoming classes, and help the State meet its projected need for a highly skilled workforce under UC 2030, the University's multi-year framework

- Enrollment growth to further expand access for California undergraduates and support graduate education

- Maintaining and improving UC's strong track record as an engine of upward socioeconomic mobility and excellence by making further investments in student academic preparation and educational partnerships

- Ensuring a safe and functional environment for students, faculty, and staff by addressing the most critical aspects of the University's substantial deferred maintenance backlog

- Pursuing a responsible compensation strategy to address faculty salaries that are substantially below market, follow through on the University's collective bargaining agreements, and prevent wage erosion for nonrepresented staff

- Supporting the UC Riverside School of Medicine, which is helping to address the healthcare needs of the Inland Southern California region, which is facing the largest primary care physician shortage in the state

- Continuing to expand the University's investment in student mental health to ensure that counseling services and other resources are available to every UC student at every campus

- Keeping projected increases in all other budget categories—including employee and retiree health benefits, as well as all non-personnel costs—to a minimum

As depicted in Attachment 3, *Projection of Required and Available Resources*, growth in the resources required to sustain these investments over time is projected to outpace the resources available from State and University sources alone. An estimated shortfall of more than $250 million in 2020-21 is projected to grow to more than $734 million by 2024-25. Attachment 3 also shows how moderate and predictable increases in tuition and fee revenue would significantly narrow, although not close, the budget gap.

Consequently, the Board is asked to discuss ~~approve~~ adjustments to selected student charges that would avoid the worst consequences of projected shortfalls while also making the University more affordable for most California resident undergraduates by significantly increasing the resources available for student financial aid. The relationship between tuition, financial aid, and UC affordability is described below.

TUITION, FINANCIAL AID, AND UC AFFORDABILITY

Financial aid helps students and their families cover the total cost of attending the University of California. That goes beyond tuition and fees—it also helps with housing, food, books, and other educational expenses. UC undergraduates received nearly $850 million in UC, federal, and State grants in 2018-19 to help cover these other costs while attending the University *in addition to* $1.3 billion to help cover tuition and fees.

Tuition is the single largest driver of the amount of need-based grant assistance available to California resident undergraduates at UC for two reasons:

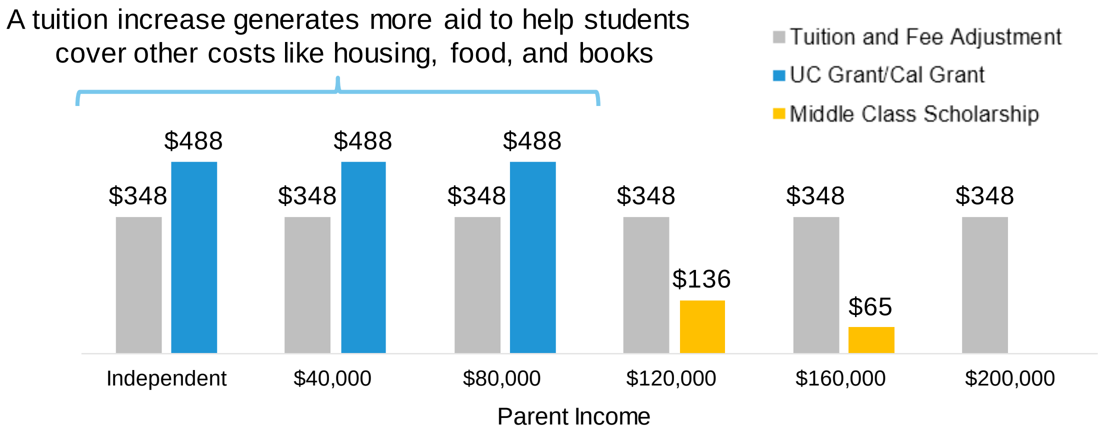
- One-third of all new undergraduate tuition and Student Services Fee revenue is set aside to fund UC's robust financial aid program. As a result, adjustments to tuition and the Student Services Fee also increase the pool of funds available for financial aid.

- One-third of UC undergraduates benefit from the State's Cal Grant program, which fully covers in-state tuition and the Student Services Fee. When these charges increase, so does the amount of students' Cal Grant awards.

The relationship between tuition and both UC and State financial aid programs has been key to the University's ability to sustain access, affordability, and excellence over time. In past years, when precipitous declines in State support resulted in higher tuition rates, additional financial aid from the University's own aid program and the State's Cal Grant program not only offset those increases for most California resident undergraduates but also provided additional assistance to help students cover expenses such as housing, food, books, and supplies that also rose during the same period. More than 100,000 California undergraduates can expect their combined UC Grant and Cal Grant awards to increase by about $140 for every $100 increase in tuition; of this amount, $40 would be available to help these students cover other cost increases.

Display 1 depicts the estimated effect of a $348 increase in tuition and the Student Services Fee (combined)—equivalent to an inflation-based adjustment of 2.8 percent—on California undergraduates and their families at different income levels.

DISPLAY 1: Projected Change in Aid for Resident Undergraduates from a $348 Tuition Increase



As shown in Display 1, the increased financial aid generated from the increase would result in lower *overall* costs for UC undergraduates with the greatest financial need, who could anticipate an estimated $140 in additional financial aid to help cover other costs ($488 in new financial aid less the $348 used to cover the increase in student charges).

When moderate adjustments to tuition and the Student Services Fee occur annually, the cumulative impact of this additional financial aid can be significant. As shown in Display 2, annual increases of $140 in financial aid would reduce a student's need to work and/or borrow to finance their education by a total of $1,400 over a four-year period.

DISPLAY 2: Cumulative Impact of Annual Increases of $140 in Financial Aid for Living Expenses

	Year in School				Total Impact by Graduation
	Freshman	Sophomore	Junior	Senior	
Year-over-year increase in aid for living expenses	$140	$140	$140	$140	
Reduction on need to work or borrow in current year	($140)	($280)	($420)	($560)	($1,400)

In contrast, holding tuition and the Student Services Fee flat results in no new resources for financial aid. With no increase in financial aid, increases in other charges (housing, food, books and supplies, transportation, health insurance, etc.) are effectively passed along to students dollar-for-dollar, increasing their need to work and borrow. For 2020-21, these other charges are projected to increase by an average of $600 (combined) over current levels across the University.

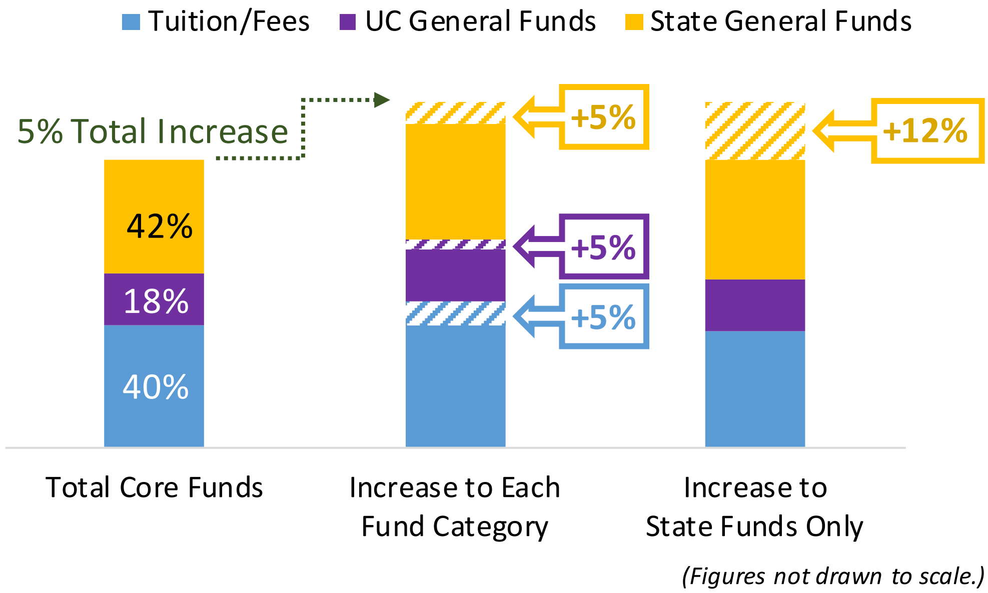
Note that the examples shown above assume that the University would continue to use incremental funding for financial aid as it has in the past to expect all California undergraduate students to contribute a similar level of resources from work and borrowing ("self-help") towards covering their total cost of education. The University could, however, decide to use a portion of new financial aid resources resulting from a tuition increase to provide more focused support to students who face exceptional financial challenges, e.g., students from families with very low incomes or former foster youth. Without additional financial aid resources, any such efforts would require shifting existing financial aid resources from some current aid recipients to others.

TUITION AND THE UC OPERATING BUDGET

In addition to funding the University's financial aid programs, revenue from tuition and fees is a major component of the University's core funds, which are the primary source of support for the University's core academic activities and the services needed to perform them. Reliance on tuition and fee revenue to support UC programs and services has grown over time. In 1990-91, for example, State General Fund support represented 84 percent of the University's core funds budget with less than 13 percent derived from student tuition, fees, and Nonresident Supplemental Tuition (NRST). In 2019-20, State funds represent an estimated 42 percent of core funds, and revenue from tuition, fees, and NRST have increased to more than 50 percent. Similar trends can be seen at public institutions across the country as states were challenged to sustain support for higher education during economic downturns during this same period.

The shift in the composition of core funds has implications for the funding needed to cover annual increases in operating expenses that can be anticipated by any university. For example, when State funding represented the vast majority of core funds, a five percent increase in State support was nearly equivalent to a five percent increase in the University's entire core funds budget. Today, when State funding represents only 42 percent of core funds, a five percent increase in State support provides only a 2.1 percent increase in total core funds. As illustrated in Display 3, other core fund categories—tuition and fees and UC General Funds (which includes NRST)—would also need to increase by five percent to achieve an overall five percent increase. Alternatively, if those other fund categories remain flat, an increase of 12 percent in State General Fund support would be required to achieve the same overall five percent increase in total core funds.

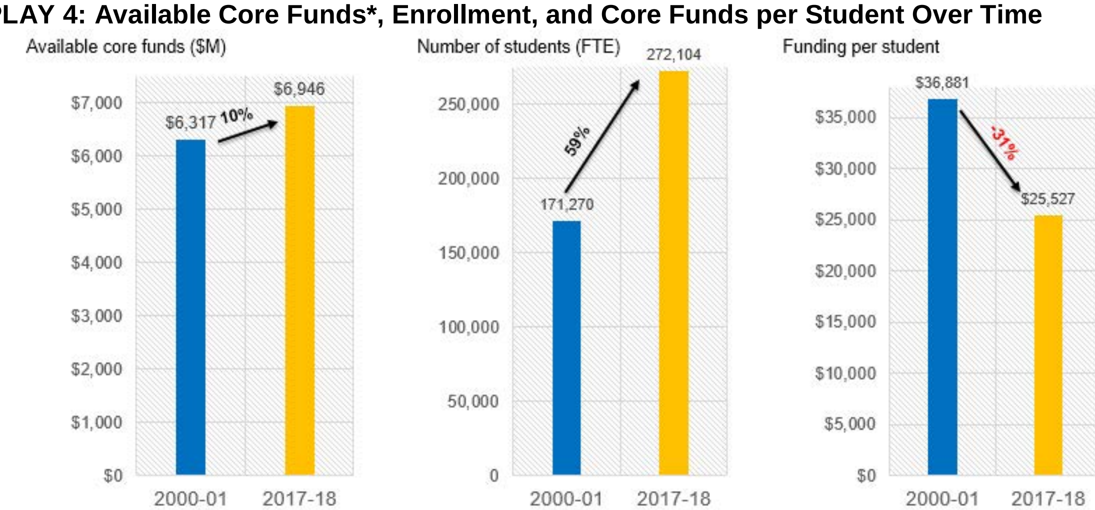
DISPLAY 3: Example: Achieving a Five Percent Increase in Total Core Funds



Core Funding Per Student Has Declined Over Time

Growth in available core funds has not kept pace with enrollment growth. As shown in Display 4 below, on a per student basis, core funding has declined by 31 percent since 2000-01. Consequences of this decline in resources can be seen in several metrics directly related to the student experience, including a deterioration in the student-faculty ratio, larger class sizes, a substantial backlog of campus deferred maintenance needs, and a decline in the percentage of students who would, knowing what they know today, choose to attend the UC campus at which they enrolled.

DISPLAY 4: Available Core Funds*, Enrollment, and Core Funds per Student Over Time



*Core funds available after accounting for financial aid, debt service, retirement plan contributions, and inflation.

Campuses have made extraordinary efforts to identify cost savings opportunities in response to these funding constraints. In addition to the University's systemwide procurement efforts to leverage the size of the University's purchasing power to drive down costs, individual campuses have taken many positive steps, for example:

- Consolidating and standardizing information technology (IT), human resources, and/or other administrative services to eliminate redundancies and increase consistency in processes, procedures, and service levels across campus

- Expanding the use of online courses to increase instructional capacity where possible

- Creating self-supporting degree programs to meet student demand without relying on core funds

- Using innovative approaches to accommodate enrollment growth—for example, replacing dedicated computer labs with laptop vending machines and satellite printing services to create more classroom space while maintaining access to computing resources

- Pursuing rapid payback projects (e.g., replacing traditional lighting with LEDs) to reduce energy consumption and utility costs

Even with these efforts, the reduction in available resources has negatively affected campuses' academic infrastructure and learning environments.

- Across the system, campuses have shifted their instructional models toward using lecturers instead of ladder-rank faculty, resulting in fewer opportunities for undergraduate students to interact with world-class researchers who can inspire and mentor the next generation of faculty, researchers, and innovators.

- Urgent deferred maintenance needs have caused campuses to redirect funds from other campus priorities, such as faculty hiring and student counseling.

- Campuses have deferred needed investments in their technology infrastructure and financial systems and, in some cases, are now using platforms that are no longer supported by the vendor, creating potential risks to data security and business processes.

- Although campuses have optimized the structure of IT services, they have been challenged to fund the required number of positions and to attract and retain the highly skilled staff needed to adequately support campus faculty, staff, and students.

- Campuses have been able to make needed progress in replacing instructional equipment, classroom modernization, and other areas that directly affect student learning.

In-state tuition at UC has remained flat for seven of the last eight years. Since 2011, UC tuition has increased by $222 and the Student Services Fee has increased by $156. Even when taking campus-based fees into account, the recent history of UC in-state tuition and fees stands in stark contrast to that of the University's four comparison public universities, as shown in Display 5.

DISPLAY 5: Change in In-State Tuition and Fees at UC and Public Comparison Institutions

	Tuition and Campus Fees*		Increase from 2011-12 to 2018-19		
University	**2011-12**	**2018-19**	**Dollar**	**Percent**	**Avg. Annual Increase**
Virginia	$11,532	$17,401	$5,869	50.9%	6.1%
Illinois	$13,576	$17,578	$4,002	29.5%	3.8%
Michigan	$14,201	$17,219	$3,018	21.3%	2.8%
SUNY Buffalo	$7,482	$10,099	$2,617	35.0%	4.4%
UC Average	$13,181	$13,956	$775	5.9%	0.8%

*At institutions that charge differential tuition or fees by program or student level, figures are averages based upon the distribution of students across programs and levels.

Moving towards a policy of moderate and predictable tuition increases—in conjunction with moderate and predictable increases in State support—would provide much needed resources to UC campuses while also improving UC affordability for financially needy California undergraduates, as described above.

COMPARISON OF TUITION MODELS

Two approaches for adjusting mandatory systemwide charges are presented to the Regents for consideration: (a) a traditional uniform model in which adjustments would apply to both new and continuing students and would be pegged generally to the rate of inflation, and (b) a cohort-based model wherein the University would assess increases on a cohort basis for undergraduate students and on a uniform basis for graduate students. A description of each approach appears below, followed by a comparison of both models alongside a scenario in which student charges remain flat.

Uniform Adjustments Based on Inflation

Under an inflation-based approach to setting mandatory systemwide charges, the University would hold tuition, the Student Services Fee, and undergraduate NRST flat in constant dollars. The rates would be adjusted annually to reflect increases in the California Consumer Price Index (CPI) (i.e., inflation) and adjustments would apply to both new and continuing students.

In conjunction with predictable State base budget adjustments, predictable inflation-based adjustments to these charges would benefit UC students and campuses in several ways.

- *Reliable growth in financial aid to help cover costs beyond just tuition and fees.* As noted earlier, increases in tuition and the Services Fees *reduce* the net cost of attending UC for California undergraduates with fewer financial resources. Regular and moderate adjustments to these charges would result in reliable increases to that support.

- *Improved planning for students and families.* With the expectation that tuition and fees will rise no faster than inflation, students and families who are expected to cover these charges with their own resources (i.e., those for whom the charges are not covered by financial aid or graduate student support) would be better able to develop multi-year financing plans. Moreover, such a model would keep charges flat for these students and families in constant dollars.

- *Improved planning for campuses.* The prospect of reliable inflation-based adjustments to tuition and fees would facilitate longer-term planning efforts related to enrollment growth, ladder-rank faculty hiring, and other critical, long-term commitments.

A more complete description of the specific proposal is included as Attachment 1, *Proposed Uniform Schedule of Student Charges.*

Cohort-Based Tuition

At its meeting on July 18, 2019, the Board of Regents had a preliminary discussion about the potential benefits and challenges of adopting a cohort-based approach for assessing student tuition and fees. Under a cohort-based tuition plan, an institution assigns a tuition and fee level to each incoming cohort of students and then keeps that level flat for that student cohort for a specified number of years. Several public institutions have adopted a cohort-based tuition model to mitigate the challenges posed by unpredictable annual tuition and fee levels, with varying degrees of success.

A cohort-based tuition model could provide UC students and campuses with many of the same benefits as a uniform, inflation-based model.

- *Improved affordability for undergraduates.* Under a successful cohort-based tuition model, tuition and fees would increase predictably from one incoming cohort of students to the next (but would remain flat for students in continuing cohorts). These predictable increases would generate commensurate increases in funding for the University's Student Aid Program (USAP) to help students cover other elements of the cost of attendance.

- *Even greater predictability for students and families.* Under a cohort approach, the University would seek to hold tuition and fee levels constant for each continuing student at the student's initial entering cohort rate. Compared to a uniform tuition model, this would provide even greater predictability to students and their families and allow them to develop multi-year financing plans.

- *Stabilized revenue streams and enhanced planning opportunities for campuses.* Cohort-based tuition would enable campuses to know, in advance, the projected tuition revenue from continuing students, which would greatly assist in campus planning efforts. If annual increases for incoming classes were pegged to a predictable index (e.g., changes in the California Consumer Price Index), campuses would have an even clearer picture of this revenue stream to inform their planning processes.

Members of the Board expressed interest in exploring cohort tuition further as one of several possible approaches for assessing tuition and fees. President Janet Napolitano convened a systemwide working group to develop recommendations for how a cohort tuition policy might be applied at UC and to evaluate cohort-based tuition alongside other tuition models. After reviewing cohort models adopted by other public universities and discussing the advantages and disadvantages of different policy elements, the working group's discussions focused on a cohort model with the following components:

- *Covered charges.* The group agreed that base tuition, the Student Services Fee, and Nonresident Supplemental Tuition are most suitable charges to be assessed using a cohort-based model.

- *Student eligibility-residency.* The group recommended that a cohort-based approach be considered for both residents and nonresidents.

- *Student eligibility-level.* The group agreed that undergraduate students would benefit from the stability and predictability offered by cohort tuition. The group noted that, for a variety of reasons, cohort tuition is less appropriate for graduate students.

- *Duration of a cohort-based rate.* The working group recommended the University hold an entering cohort's tuition and fees flat for six years, with a streamlined appeals process for students who may need an extension. The group noted that there is little evidence to suggest that a four-year limit has improved graduation rates at other institutions, students already have a strong financial incentive to graduate quickly, and students may take longer than four years to graduate for any number of reasons, including some that the University would not want to discourage (e.g., seeking a double major) and others that are beyond a student's control (e.g., health problems). The group also noted that UC students who take more than four years to graduate are more likely than others to have entered UC with gaps in their academic preparation, which is often correlated with students' family income, first-generation status, and ethnicity.

These discussions informed the development of the cohort tuition proposal shown in Attachment 2, *Proposed Cohort-Based Schedule of Student Charges*.

Impact on Net Cost of Attendance for Undergraduates

Display 6 compares the projected net cost of attendance for California resident undergraduates under three different scenarios:

- Scenario A: No increase to tuition or the Student Services Fee

- Scenario B: Uniform adjustments pegged to inflation (i.e., CPI)

- Scenario C: Cohort-based adjustments with an increase of inflation plus two percent for the first incoming cohort, declining over time to CPI-based increases for later cohorts

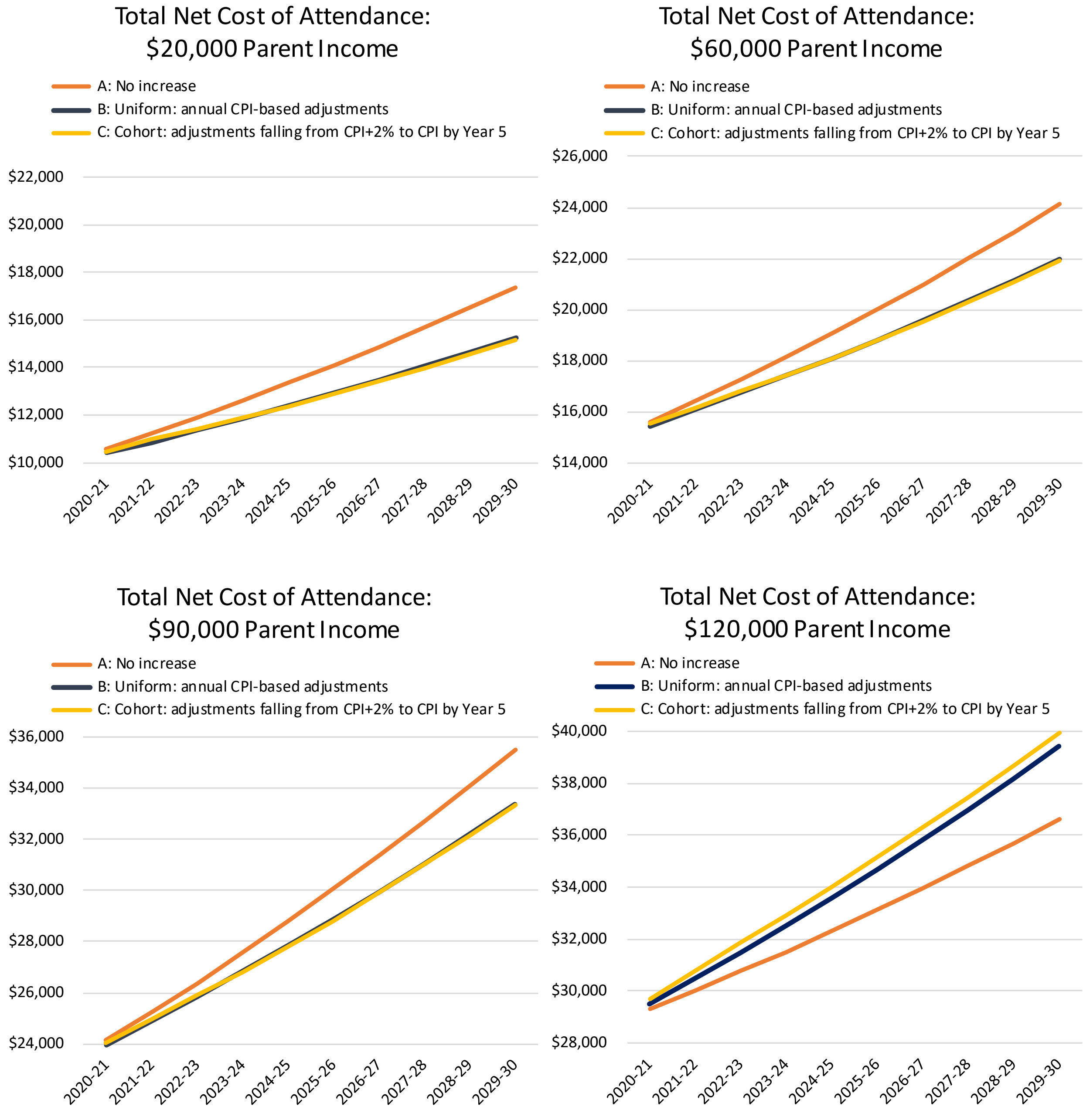
Projections are shown for students at four parent income levels. For a student with a parent income of $20,000, the University expects no contribution from parents, so the amounts shown are only the student self-help contribution from work and borrowing. Self-help is highest if tuition remains flat, shown in orange. With no tuition increase, no new funding is available to help cover increases in students' other expenses, so students must cover the entirety of those cost increases themselves. Self-help is lowest under the uniform model, shown in dark blue, and under the cohort model, shown in gold. Both of those generate roughly the same level of tuition revenue and hence generate about the same amount of financial aid to help students cover a portion of their other cost increases.

For a family earning $60,000, the net cost is higher because this family has an expected parent contribution in addition to self-help, which is included in the net cost shown in the chart. The overall relationship between the four scenarios, however, is similar to the pattern for the family earning $20,000: holding tuition flat results in the highest net cost and the uniform and cohort models result in a lower net cost.

A similar pattern holds true for a family earning $90,000, since this family would also likely benefit from the higher financial aid generated by both scenarios that include a tuition increase.

For the family earning $120,000, a different pattern emerges. Net cost is lowest under Scenario A, where tuition stays flat. This family would receive partial tuition coverage under the State's Middle Class Scholarship program, but it would be expected to cover a portion of the tuition increase under any of the other scenarios, resulting in a higher net cost. The same general pattern is true for higher-income families: holding tuition flat provides the greatest advantage to these families, who also have the greatest financial resources.

DISPLAY 6: Comparison of Net Cost of Attendance by Income Level



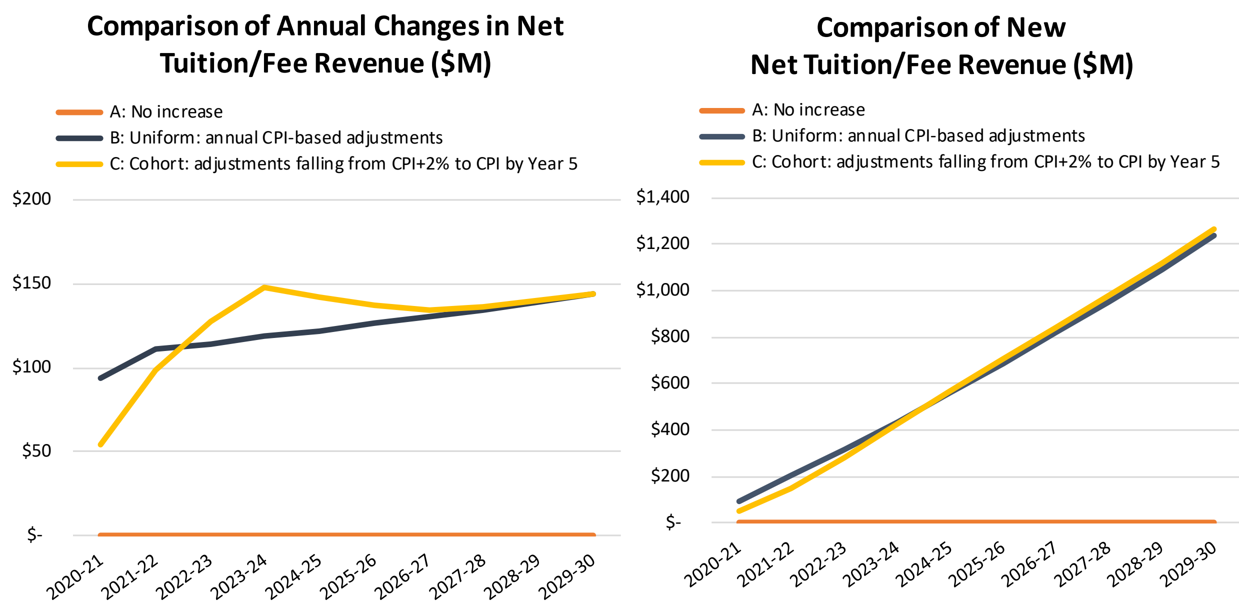
Impact on Net Revenue Generated for the Operating Budget

Display 7, below, compares all three scenarios in terms of the revenue (net of financial aid) that they would generate for campus operating budgets.

The chart on the left shows the year-over-year changes in net revenue. The dark blue line results from Scenario B, the uniform CPI-based approach. In Scenario A, shown in orange, this revenue stays flat in nominal dollars; as a result, its purchasing power to support faculty and staff, replace instructional equipment, maintain student services, and cover other costs actually declines year after year. Under Scenario C, shown in gold, net revenue is initially less than under Scenario B because undergraduate tuition and fee adjustments would only apply to incoming cohorts of students and not to continuing students. Revenue would grow more quickly, however, as additional new student cohorts enrolled over time, resulting in initial shortfalls that would be backfilled after a few years as cohort increases decline to CPI.

The chart on the right compares the total new tuition revenue that campuses could expect each year under each scenario. With no tuition increases under Scenario A, the annual shortfall compared to CPI-based tuition adjustments would grow to more than $1 billion by 2028 (shown by the gap between the orange line and Scenario B, the dark blue line). In Scenario C, where adjustments for the first few cohorts are slightly higher than CPI, early funding shortfalls are recovered over time, and the total revenue generated approximates the revenue generated under the CPI-based model (as shown by the very similar gold and dark blue lines).

DISPLAY 7: Comparison of Net Revenue



Financial Resiliency

Any tuition strategy that seeks to provide stable and predictable tuition levels to current and future students would be challenged by a sudden, significant shortfall in State support. Under a uniform approach to assessing student charges, implementing an across-the-board increase to compensate for such a shortfall, even if accompanied by additional financial aid, would require a break from the expectations previously set with students and parents. Under a cohort model, moderate shortfalls could be addressed through higher-than-anticipated adjustments to student charges from one cohort to the next while maintaining the integrity of the cohort framework. An extraordinarily large shortfall, however, would be challenging to address and would likely require difficult decisions by the Regents regardless of which tuition strategy is adopted.

Additional Information

Additional information about the tuition and fee rates that would result from the two tuition models, why additional resources are needed, and the impact of the proposals on student financial aid is provided in Attachment 4, *Supplemental Information for Tuition and Fee Proposals.*

SUMMARY

Compared to continuing to hold tuition and fees flat, both an inflation-based uniform model and a cohort-based model for adjusting tuition and fees would have a positive outcome of UC affordability for low- and middle-income families and would provide campuses with much-needed resources to sustain core operations and make the high-priority investments in student success endorsed by the Regents in November.

~~The Regents are asked to approve either of the two proposals so that, as campuses begin extending offers of admission in February for the fall 2020 term,~~ Based upon guidance provided by the Regents, the University would bring a specific proposal to the Regents for possible approval at a later date so that prospective UC students can make informed enrollment decisions, continuing students can know what level of tuition and fees to expect, and campuses can prepare to provide the educational opportunities, academic support, financial aid, and student services needed to sustain the University's unparalleled track record of access, affordability, and academic excellence.

Attachments:

1. Proposed Uniform Schedule of Student Charges
2. Proposed Cohort-Based Schedule of Student Charges
3. Projection of Required and Available Resources
4. Supplemental Information for Tuition and Fee Proposals