UNIVERSITY OF CALIFORNIA

Attachment 4

Supplemental Information for Tuition and Fee Proposals

Context

The Governor's January budget proposal for the University of California includes $217.7 million of new, ongoing support for the University of California in 2020-21. This proposed increase represents a welcome, substantial State investment in the University and will help the University address a significant portion of its most pressing budget needs next year.

The 2020-21 budget plan approved by the UC Board of Regents in November 2019 requested new State funding totaling $447.1[1] million next year to support a variety of mandatory and high-priority investments, including sustaining University's core academic infrastructure, expanding access for California resident students, improving timely degree attainment, closing student achievement gaps, expanding academic outreach programs, supporting the UC Riverside School of Medicine, and funding student mental health services. This funding request was in addition to resources that the University is committed to generate through its own efforts, including fundraising and continued cost-cutting efforts. Together with these self-generated resources, the amount of State support requested would obviate the need to consider adjustments to mandatory systemwide tuition or fees next year.

The University looks forward to working with State policymakers, students, and other UC stakeholders to identify the resources needed to support the above investments and avoid cuts to existing University programs and services that would negatively affect students. A modest adjustment to student charges next year—coupled with additional financial aid to fully cover the increase for over one-half of UC California undergraduate students and partially cover other cost increases—can play an important role in that effort, and the Regents will be asked to consider options for such an adjustment at the January Regents meeting.

Why the University is Proposing Adjustments to Tuition and Fees

As described in items presented to the Regents in September 2019 (item F11, *Preliminary Discussion of the University's 2021 Operating Budget*) and November 2019 (item B4, *Approval of the University of California's 2020-21 Budget for Current Operations*) and summarized in the Budget for Current Operations *Summary of the Budget Request*, the University faces a combination of mandatory cost increases and high-priority investments in 2020-21 that must be addressed in order for the University to ensure that current and future generations of UC students from all socioeconomic backgrounds have access to the same world-class educational opportunities enjoyed by past generations.

The University must address these needs within a fiscal environment that is already challenging following years of enrollment growth and other cost increases that have outpaced increases in State support, and having held tuition flat for 7 of the past 8 years. As detailed in the University's *Summary of the Budget Request*,

- Instructional expenditures per student are lower today than they were two or three decades ago.
- The student-to-faculty ratio has continued to worsen, resulting in larger class sizes and fewer opportunities for students to meaningfully engage with ladder-rank faculty.
- Staff support for students and faculty has not kept pace with enrollment growth.

[1] This amount includes $14 million for 2020-21 enrollment growth that was already included in the University's 2019-20 appropriation. The net request for new State funds is $433.1 million.

- Salaries for ladder-rank faculty continue to lag the University competitive benchmark.
- The University faces a growing backlog of deferred maintenance needs that cannot be addressed with current resources.
- A declining percentage of students are able to get into their first-choice major.
- Students report that they are less likely to know at least one professor well enough to ask for a letter of recommendation.

Moderate and predictable adjustments to student tuition and fees can play a critical role in addressing these needs. Moreover, increases to these charges would result in additional financial aid that would not only fully cover any increase for more than one-half of California undergraduates but would also provide students with additional resources to cover increases in living expenses, books and supplies, and other components of the total cost of attendance. (See the section below on financial aid for additional information.)

How New Revenue from Tuition and Fees Would be Used

The single biggest commitment of new revenue from the proposed adjustments to tuition and the Student Services Fee would be for student financial aid. An amount equivalent to 33 percent of the undergraduate tuition and Student Services Fee increase, 10 percent of the undergraduate Nonresident Supplemental Tuition increase, 50 percent of the graduate academic student tuition and Student Services Fee increase, and 33 percent of the graduate professional student tuition and Student Services Fee increase will be set aside for financial aid.

The remaining net revenue from tuition and fees, together with additional State funds and the University's own resources, would be used to support the investments shown below, which were identified in the 2020-21 budget plan approved by the Regents in November 2019 and are described in greater detail in the University's *Summary of the Budget Request*. Although some of these investments would be supported exclusively by State funds (e.g., debt service for capital projects or support for the UC Riverside School of Medicine), tuition and fees are largely interchangeable with State funds and, hence, would help the University address many of these needs.

- *Providing Support for Current Enrollment.* The University received $95 million in one-time State funds in 2018-19 to cover *permanent* cost increases associated with enrollment growth and other needs. Permanent funding is needed to cover those costs on an ongoing basis.
- *Faculty and Staff Support.* Faculty and staff salaries represent a significant portion of the University's expenditures from core funds, as they do at other colleges and universities. The University's budget must address projected cost increases for both represented and nonrepresented faculty and staff.
- *Employer Contributions to the University of California Retirement Plan (UCRP).* In September 2019, the Regents approved a plan to gradually increase employer contributions to UCRP based on new actuarial projections that the current contributions would not adequately fund the plan.
- *Employee and Retiree Health Benefits.* Health benefit costs rise annually due to increases in the cost of health care and projected increases in the number of UC retirees.
- *Instructional Equipment, Supplies, and Other Non-Salary Price Increases.* Prices for items such as instructional equipment, laboratory supplies, computers, machinery, library materials, and purchased utilities tend to rise each year, requiring additional resources.
- *Debt Service for Capital Projects.* Absent the availability of new State bond proceeds, the University has relied increasingly on its own State General Fund appropriation to finance the design, construction, and

equipment of academic facilities to address seismic and life safety needs, enrollment growth, and modernization of out-of-date facilities.

- *Enrollment Growth.* Moderate levels of undergraduate and graduate enrollment growth will be required to achieve the University's goal of producing an additional 200,000 degrees between now and 2030.
- *Enhancing Degree Attainment, Eliminating Achievement Gaps, and Investing in Faculty.* Each UC campus has developed strategies for achieving ambitious goals for improving graduation rates and reducing achievement gaps by 2029-30, as well as multi-year goals related to faculty hiring and development to enhance the quality of student instruction and engagement, increase faculty diversity, expand research opportunities and impact, and support California's health care needs. In November 2019, the Regents approved additional investments specifically intended to support students with especially challenging circumstances, including undocumented students, foster youth, and formerly incarcerated students.
- *UC Riverside School of Medicine.* Ongoing support is needed to support existing programs and to expand enrollment at the School of Medicine at UC Riverside. This funding is essential to enabling the School to meet its long-term strategic needs, train a culturally competent and diverse physician workforce, and effectively tackle the physician shortage of Inland Southern California.
- *Student Academic Preparation and Educational Partnerships (SAPEP).* The SAPEP portfolio of programs prepares California students for postsecondary education and for graduate and professional school opportunities. State support for these programs has remained unchanged in recent years, limiting their potential to serve greater numbers of students.
- *Student Mental Health.* The University must continue to increase its investment in counselors and other student mental health professionals in order to improve student access to these critical resources.

Mitigating the Impact of Proposed Adjustments on Students

As noted above, enhanced student financial aid represents the single biggest use of the new revenue resulting from the proposed adjustments to tuition and fees.

- For more than half of UC *California resident undergraduates*, the adjustments will be fully covered by increases in University and State financial aid. Together, this aid will not only offset the adjustments for more than 100,000 students but also provide students with additional assistance to help students cover expenses such as housing, food, books, and supplies. With a uniform, inflation-based adjustment of $348, for example, the additional financial aid generated by 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).
- For *nonresident undergraduate students*, an amount equivalent to 10 percent of the resulting increase to Nonresident Supplemental Tuition (NRST) would be set aside to provide financial aid to domestic nonresident and international undergraduate students with financial need. As a result, UC campuses will be better positioned to support nonresident undergraduates from lower- and middle-income families. For example, the new resources for financial aid would be enough to fully cover the proposed increase for 10 percent of all nonresident undergraduate students. This figure is slightly higher than the percentage of nonresident students who borrowed a student loan in 2017-18 (9 percent), which is one indicator of student financial need.
- *At the graduate level*, additional funding would be available to programs and departments to provide whatever forms of student financial support are most appropriate in light of their enrollment goals and the students that they serve. For example, fellowship and assistantship support is particularly important

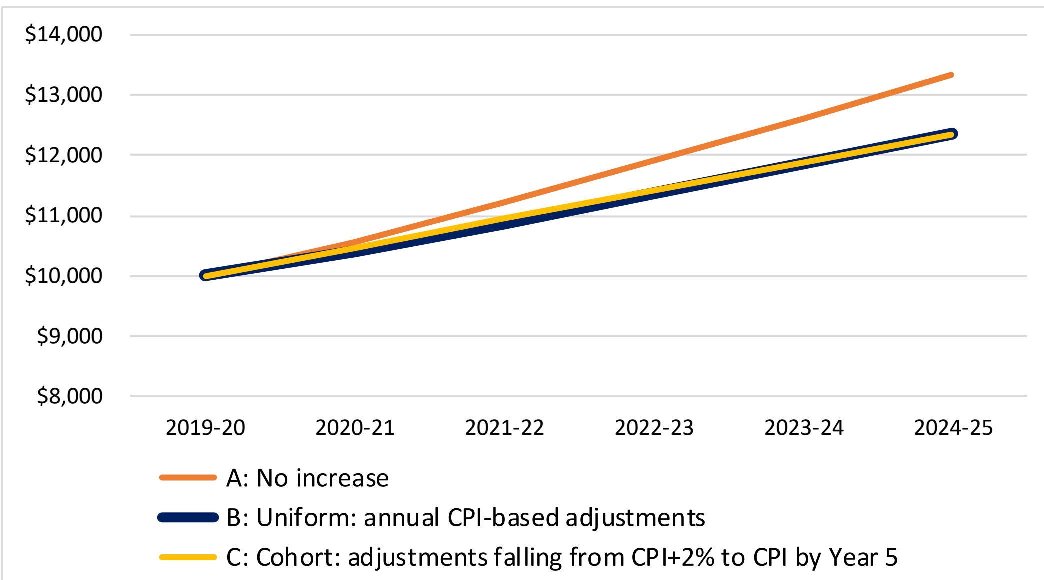
to academic doctoral programs that compete against the very best public and private institutions worldwide to enroll the most talented students. New funding provided under the plan would enhance these programs' ability to craft desirable multi-year offers of support.

Graduate programs in professional disciplines provide fellowships and grants to assist students from all socioeconomic backgrounds to obtain professional degrees, thereby enabling these students to make significant contributions to their respective fields. In addition to funding provided under the budget plan from mandatory systemwide charges, professional degree programs are also expected to supplement financial aid resources by an amount equivalent to at least 33 percent of new Professional Degree Supplemental Tuition revenue, or to maintain a base level of financial aid equivalent to at least 33 percent of the total Professional Degree Supplemental Tuition revenue.

Projected Impact on Student Self-Help (Work and Borrowing)

The display below shows projected undergraduate self-help levels under three scenarios: (a) holding tuition and the Student Services Fee flat over time, (b) making annual inflation-based adjustments to these charges such that they remain flat in constant dollars, and (c) introducing a cohort-based approach for incoming classes.

Projected Self-Help Levels Under Different Tuition and Fee Scenarios



The highest self-help levels result when tuition and fees remain flat. With no additional tuition revenue to enhance financial aid packages, students must cover cost increases such as rent, food, and supplies themselves. In contrast, regular adjustments to student charges result in regular increases in financial aid, allowing for lower self-help levels and less need for students to work or borrow to cover the total cost of attendance.

The potential four-year impact of these differences on students' debt at graduation is significant. For example, if a student were to cover the expected increases in self-help by taking out additional student loans, **keeping tuition flat would result in an estimated $1,600 more student debt at graduation** compared to a cohort-based tuition strategy, and **about $1,800 more student debt at graduation** compared to a uniform inflation-adjusted tuition strategy. (Over time, once a cohort strategy were fully phased in, the benefit provided by a cohort and a uniform approach would be nearly identical.)

Alternatives Considered

The budget plan approved by the Regents for 2020-21 includes revenues and savings achieved from the University's own efforts to generate funds and reduce costs. The University has made great strides over the past decade in identifying alternative revenue sources, reducing elements of its cost structure, and optimizing the use of existing resources. The budget plan already expects further contributions from these efforts. Specifically:

- Additional opportunities exist to shift a portion of the University's working capital into higher-yield investment vehicles, including the University's Total Return Investment Pool (TRIP) and a new Blue and Gold investment pool. The objective of the new pool is to provide a low-cost, liquid, diversified investment vehicle that campuses can utilize to earn a higher return than would otherwise be expected from short-term cash management vehicles. The University believes that such a strategy could generate year-over-year increases of up to $30 million in new, fungible resources to address a portion of the University's overall budget needs.
- The budget plan also calls for sustained increases in philanthropic giving. Although unrestricted gifts represented only one percent of total private support in 2017-18, restricted gifts designated for certain purposes (e.g., financial aid or instruction) can help campuses make certain investments identified in the multi-year plan. The plan includes an increase of $22 million in fungible philanthropic support over current levels.
- The University continues to expand efforts to leverage its purchasing power in order to negotiate discounts and rebates from vendors and service providers. The budget plan anticipates additional year-over-year savings of $10.9 million from purchases attributable to the University's core funds operating budget, equivalent to 25 percent of the University's projected increase in non-salary expenditures from core funds.

These expected contributions are already ambitious; the potential for further increases in revenues from these sources to avoid the need to adjust tuition and fees over time is not realistic.

The plan also calls for additional State support. As noted earlier, the additional funding for the University provided in the Governor's January budget proposal is a welcome, substantial State investment in the University and will help the University address a significant portion of its most pressing budget needs next year. Under the tuition proposals presented to the Regents, the President would be authorized to reduce the proposed tuition and fee adjustments if the State were to provide an annual increase of more than five percent to the University's permanent base budget to buy out some or all of the proposed adjustments.

Projected Changes to Mandatory Systemwide Charges – Uniform Approach

Figures shown below represent the estimated charges that would result based upon uniform annual inflation-based adjustments. Figures for 2020-21 and 2021-22 are based on the latest available projections for changes in the California Consumer Price Index (CPI) as published by the California Department of Finance; later figures assume the same percentage change in CPI as in 2021-22. Charges shown for 2021-22 and later years are estimates only; actual charges would be based on the most recent CPI estimates available as of the fall preceding the academic year indicated, adjusted to reflect any differences between prior year actual and forecasted levels. (Slight differences in the percentage increase for charges in the same year are due to the University's practice of having each charge be divisible by $6 to facilitate campus billing processes which, depending on the campus, occur either two or three times per academic year.)

		Current	Projections by Academic Year				
		2019-20	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Tuition	Amount	$11,442	$11,760	$12,144	$12,540	$12,948	$13,368
(Undergraduate and Graduate)	$ Change		$318	$384	$396	$408	$420
	% Change		2.8%	3.3%	3.3%	3.3%	3.2%
Student Services Fee	Amount	$1,128	$1,158	$1,194	$1,230	$1,266	$1,302
(Undergraduate and Graduate)	$ Change		$30	$36	$36	$36	$36
	% Change		2.7%	3.1%	3.0%	2.9%	2.8%
Total: Tuition/Student Svcs Fee	Amount	$12,570	$12,918	$13,338	$13,770	$14,214	$14,670
(Undergraduate and Graduate)	$ Change		$348	$420	$432	$444	$456
	% Change		2.8%	3.3%	3.2%	3.2%	3.2%
Nonresident Supplemental	Amount	$29,754	$30,594	$31,590	$32,622	$33,684	$34,782
Tuition (Undergraduate)	$ Change		$840	$996	$1,032	$1,062	$1,098
	% Change		2.8%	3.3%	3.3%	3.3%	3.3%

Projected Changes to Mandatory Systemwide Charges – Cohort Approach

Figures shown on the following page represent the estimated charges that would result from the proposed cohort-based tuition and fee schedule for undergraduate students and uniform annual inflation-based adjustments for graduate students.

For undergraduate students, figures represent the amount charged to students in their first year, which would then remain flat for up to six years. The charges are based upon the following schedule:

Year Student First Enrolls at UC (Entering Cohort)	Increase Over Amount Charged to Students Who Entered in Prior Year
2020-21	Inflation + 2%
2021-22	Inflation + 1.5%
2022-23	Inflation + 1.0%
2023-24	Inflation + 0.5%
2024-25	Inflation

For both undergraduate and graduate students, inflation figures for 2020-21 and 2021-22 are based on the latest available projections for changes in the California Consumer Price Index (CPI) as published by the California Department of Finance; later figures assume the same percentage change in CPI as in 2021-22. Charges shown for 2021-22 and later years are estimates only; actual charges would be based on the most recent CPI estimates available as of the fall preceding the academic year indicated, adjusted to reflect any differences between prior year actual and forecasted levels. (Slight differences in the percentage increase for charges in the same year are due to the University's practice of having each charge be divisible by $6 to facilitate campus billing processes which, depending on the campus, occur either two or three times per academic year.)

Incoming Undergraduate Cohorts							
		Current	**Projections by Entering Cohort**				
		2019-20	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Tuition	Amount	$11,442	$11,994	$12,564	$13,098	$13,590	$14,034
(Incoming Undergraduates)	$ Change		$552	$570	$534	$492	$444
	% Change		4.8%	4.8%	4.3%	3.8%	3.3%
Student Services Fee	Amount	$1,128	$1,182	$1,236	$1,290	$1,338	$1,380
(Incoming Undergraduates)	$ Change		$54	$54	$54	$48	$42
	% Change		4.8%	4.6%	4.4%	3.7%	3.1%
Total: Tuition/Student Svcs Fee	Amount	$12,570	$13,176	$13,800	$14,388	$14,928	$15,414
(Incoming Undergraduates)	$ Change		$606	$624	$588	$540	$486
	% Change		4.8%	4.7%	4.3%	3.8%	3.3%
Nonresident Supplemental	Amount	$29,754	$31,194	$32,682	$34,080	$35,364	$36,522
Tuition (Incoming	$ Change		$1,440	$1,488	$1,398	$1,284	$1,158
Undergraduates)	% Change		4.8%	4.8%	4.3%	3.8%	3.3%
New and Continuing Graduate Students							
		Current	**Projections by Academic Year**				
		2019-20	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Tuition	Amount	$11,442	$11,760	$12,144	$12,540	$12,948	$13,368
(Undergraduate and Graduate)	$ Change		$318	$384	$396	$408	$420
	% Change		2.8%	3.3%	3.3%	3.3%	3.2%
Student Services Fee	Amount	$1,128	$1,158	$1,194	$1,230	$1,266	$1,302
(Undergraduate and Graduate)	$ Change		$30	$36	$36	$36	$36
	% Change		2.7%	3.1%	3.0%	2.9%	2.8%
Total: Tuition/Student Svcs Fee	Amount	$12,570	$12,918	$13,338	$13,770	$14,214	$14,670
(Undergraduate and Graduate)	$ Change		$348	$420	$432	$444	$456
	% Change		2.8%	3.3%	3.2%	3.2%	3.2%