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Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of May 14, 2008

APPROVAL OF PROPOSED INCREASES IN STUDENT FEES FOR 2008-09

EXECUTIVE SUMMARY

Actions: Approve increases in mandatory systemwide fees of 7% in the Educational Fee and 10% in the Registration Fee.

Approve a 5% increase in the Nonresident Tuition Fee for undergraduate students only.

Approve continuation of the $60 temporary surcharge in the Educational Fee assessed to all students until such time as the costs associated with the injunction and the final court-determined judgment of the *Kashmiri* lawsuit are fully repaid.

Previous Action: The Regents deferred action on fee increases for 2008-09 until after release of the Governor's budget.

At the July 2005 meeting, The Regents approved assessment of a temporary surcharge of $60 in the Educational Fee to all enrolled students beginning in 2007-08 to cover the costs associated with a court order that prevented the University from collecting the professional fee increases approved by The Regents for 2004-05 and 2005-06.

Issues: The state's fiscal situation has worsened and the Governor's budget proposal for 2008-09 included a 10% reduction in funding for the University's base budget.

The trial court judgment against the University of $33.8 million in the *Kashmiri* lawsuit was recently affirmed. With interest, the current liability in the case is approximately $40 million. The University cannot absorb such a substantial liability, particularly in light of the current budget situation, and a means of covering the costs of the judgment is needed.

The President recommends that the Committee on Finance recommends to The Regents the following actions on student fees for 2008-09:

a) Effective Summer 2008, mandatory systemwide fees be increased as shown in Table 1. Of the revenue generated from the increases in mandatory systemwide fees from undergraduate students, an amount equivalent to 33% will be set aside to mitigate the impact of the fee increases on financially needy undergraduate students. Of the revenue generated from the increases from graduate academic students, 50% will be set aside to provide additional funds for financial aid for graduate academic students; and 33% of the revenue generated from the increases from students subject to professional fees will be set aside for financial aid for those students.

TABLE 1

Proposed Increases in Mandatory Systemwide Fees for 2008-09			**Proposed Total Mandatory Systemwide Fees**
	Educational Fee	***Registration Fee***	***Educational Fee & Registration Fee***
Resident Undergraduate students	$412	$78	$7,126
Nonresident Undergraduate students	$447	$78	$7,713
Resident Graduate academic students	$468	$78	$7,986
Nonresident Graduate academic students	$486	$78	$8,298
Professional Degree Fee students (resident & nonresident except those below)	$408	$78	$7,068
Professional Degree Fee students (Residents in IRPS at San Diego, Public Health, & Public Policy)	$468	$78	$7,986
Professional Degree Fee students (Nonresidents in IRPS at San Diego, Public Health, & Public Policy)	$486	$78	$8,298

b) Effective Fall 2008, the Nonresident Tuition Fee be increased by 5%, $953, for nonresident undergraduate students only, from $19,068 to $20,021. It is recommended that the Nonresident Tuition Fee for graduate academic students and for students paying the Fee for Selected Professional School Students remain at their current annual levels of $14,694 and $12,245 respectively for 2008-09.

c) The temporary surcharge of $60 in the Educational Fee currently assessed to all enrolled students be continued until such time that all costs associated with the injunction and the trial court judgment are recovered. An amount equivalent to at least 33% of the revenue generated from the surcharge from undergraduates and professional degree students and at least 50% of the revenue generated from graduate academic students will be set aside for financial aid purposes.

d) Contingent upon the final actions taken on the University's budget by the state and The Regents, additional increases in student fees may be sought at a future meeting.

BACKGROUND

The 2008-09 budget plan adopted by The Regents at their November 2007 meeting was developed based on the Regents' stated priorities for restoring the University's competitiveness with other institutions and ensuring its ability to maintain academic quality. The budget plan included new expenditures for compensation, including UC's accelerated faculty salary plan; program growth, including additional enrollment; new research and public service initiatives; and increases in graduate student support and mental health services.

Consistent with the previous year, the University delayed action on increases in mandatory systemwide fees until after release of the Governor's proposed budget for 2008-09. The University's 2008-09 budget plan as proposed in November 2007 included an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State. However, the Governor's Budget released January 10 did not provide the funding needed for new expenditures related to compensation and enrollment growth, or to avoid student fee increases. Instead, the Governor's Budget proposed a 10% reduction of $332 million (after first funding a normal workload budget consistent with the Compact). Thus, not only are there insufficient funds for the University's 2008-09 spending plan as approved in November, but the net result is a reduction of approximately $108 million to the University's base budget for 2008-09 as compared to 2007-08. While some of the proposed spending plan can be deferred to help avoid costs, much of the plan included mandatory cost increases, such as salary continuation costs, health benefit costs, and faculty merit salary increases. In addition, the University made a decision in February to continue to accommodate all eligible freshmen in Fall, 2008. Thus, the University is faced with costs that must be funded either by raising revenue or reducing existing programs, or a combination of both.

Increases in Mandatory Systemwide Fees

Within this context, it is proposed that the Educational Fee be increased by 7% for all students and that the Registration Fee be increased by 10%. It is estimated that the increases in the Educational Fee will generate approximately $53.4 million in new revenue, net of financial aid, and the increase in the Registration Fee will generate approximately $17.9 million in new revenue.

For the current year, 2007-08, resident undergraduate fees are about $1,770 lower than the average fees charged at the University's four public salary comparison institutions and about $1,848 lower for graduate academic students. Even with the proposed fee increase, total charges for resident undergraduate and graduate academic students are expected to remain well below the average of those comparison institutions. The comparisons for nonresident students are a different matter. The University's fees for nonresident undergraduate and graduate students currently exceed the average of tuition and fees at our four public comparison institutions. Even so, the University's tuition and fees for nonresident students continue to represent the mid-point among our public salary comparison institutions. We expect to retain these relative positions among our comparison institutions even with these increases.

Revenue from increases in the Educational Fee would be used to help support the University's operating budget. Revenue from increases in the Registration Fee would be used for salary and other essential costs associated with Registration Fee-funded programs and services as well as to continue a program of enhancing campus mental health services. In September 2006, following a comprehensive systemwide review of student mental health issues and the challenges associated with providing these services within the campus communities, Provost Hume reported to The Regents a number of recommendations to better respond to students at risk. At that time, The Regents identified enhancement of mental health services at each campus as a high priority. Consistent with that priority, half of the revenue from the 10% increase in the Registration Fee would be used to cover salary increases and other fixed costs. The other half would be used to continue to enhance mental health services and programs. Additional funding from the Registration Fee will be needed in future years to continue implementing the campus plans.

Increase in Nonresident Tuition for Nonresident Undergraduates Only

It is proposed that the Nonresident Tuition Fee be increased—for undergraduate students only—by 5% in 2008-09, raising the nonresident tuition level by $953 from $19,068 to $20,021 for those students. The adequacy of graduate student support is a serious issue for the University. Because campuses are concerned about their ability to remain competitive for the best graduate students, it is proposed that nonresident tuition for graduate students not be increased to avoid exacerbating an already difficult problem. Nonresident tuition would remain at $14,694 for graduate academic students and at $12,245 for professional students. In addition to the nonresident tuition fee, nonresident students must pay mandatory systemwide fees and, if applicable, the Fee for Professional School Students.

The campuses retain the nonresident tuition revenue they generate, and it is anticipated that the campuses would use these funds to help support the campuses' highest priorities, including the costs associated with enrolling nonresident students. A fee increase of 5% would provide necessary funds to cover cost increases for programs funded from the nonresident tuition fee. Unlike mandatory systemwide fees, the University does not provide financial aid to offset the impact of the Nonresident Tuition Fee on nonresident undergraduate students. As a result, a return-to-aid from this fee is not needed and a 5% increase is adequate. It is anticipated that the increase would generate approximately $6 million in new revenue.

Continuation of $60 Temporary Surcharge in the Educational Fee

In 2003, a class action lawsuit was filed on behalf of students who paid various fee increases approved by The Regents in December 2002. There were two categories of students in the lawsuit. One group challenged increases in the Educational Fee imposed in Spring and Summer 2003 on the grounds that the University notified students of the increases only after they enrolled. The second group, professional school students who had been enrolled in UC's professional degree programs prior to December 16, 2002, contended that increases in the Fees for Professional School Students for Spring 2003 and for all subsequent years violated a contract between the University and students that the professional school fee would not be increased while they were enrolled.

Subsequently, the trial court entered an order granting a preliminary injunction against the University, prohibiting the University from collecting the professional school fee increases approved by The Regents for 2004-05 and 2005-06 from students affected by the lawsuit. At the end of 2006-07, the University had lost approximately $20 million in uncollected professional school fee revenue.

To address this revenue loss, The Regents approved a multi-year plan of fee increases beginning with a $1,050 temporary increase in the Educational Fee for professional school students which has since been replaced with a $60 increase in the Educational Fee for all non-professional school students. Two-thirds of the $1,050 professional student increase was implemented in 2005-06 beginning in winter quarter/spring semester to ensure that students received adequate notice. This action resulted in an increase in the professional student Educational Fee for 2005-06 of $700. The full $1,050 professional student increase was annualized in 2006-07 for one year. At the end of 2006-07, the temporary Educational Fee increase of $1,050 for professional school students ceased and was replaced by an Educational Fee surcharge of $60 that is being assessed to all students until the shortfall in revenue is fully replaced. At the time this plan was approved, The Regents determined that, should the University be exposed to damages as a result of the litigation, the President would propose a plan to The Regents to address any liability incurred.

In March 2006, the trial court entered judgment in favor of both groups of plaintiffs in the amount of $33.8 million. In November 2007, the Court of Appeal affirmed the judgment, and the University filed a Petition for Review with the California Supreme Court. On January 23, 2008, the Supreme Court denied the University's petition, making the judgment final. Since March 2006 when the trial court entered judgment, interest costs on the judgment amount have been accruing. With interest, the total amount of the University's liability currently is approaching $40 million, and additional interest costs will continue to accrue until the judgment is paid.

The General Counsel's Office has advised that legal precedents suggest the accrual of interest could be halted by placing an amount equivalent to the total estimated liability in an account that would be controlled and managed by the court-appointed administrator who will ultimately handle disposition of the funds to the students involved in the lawsuit. The President is proposing to establish such an account which would be funded from an internal loan.

It is recommended that the $60 Educational Fee temporary surcharge currently assessed to all enrolled students be continued until such time as all costs associated with earlier injunction and the trial court judgment are recovered. To mitigate the impact on needy students of continuing the surcharge, it is recommended that an amount equivalent to at least 33% of the revenue generated from the surcharge from undergraduates and professional degree students and at least 50% of the revenue generated from graduate academic students be set aside for financial aid.

Under this proposal, it is anticipated that the revenue generated from continuing the $60 Educational Fee surcharge, net of financial aid, will have covered all costs associated with the injunction and judgment in 5 to 6 years.

Financial Aid

It has been the University's practice to augment UC's financial aid programs with a portion of the revenue generated by student fee increases to mitigate the impact of higher educational costs, including fee increases, on financially needy students. The Compact with the Governor provides that an amount equivalent to no less than 20% and no more than 33% of the revenue generated from student fee increases is to be used to provide aid to needy undergraduate students who qualify for financial aid, based on the federal methodology for determining need. It is proposed that, for 2008-09, an amount equivalent to 33% of the new fee revenue from the undergraduate fee increases be used for financial aid for needy students. This “return to aid,” when combined with federal grant aid and the state’s Cal Grant program, will allow UC to provide additional grant funding to financial aid applicants who are considered needy under federal eligibility standards and whose family incomes are lower than approximately $60,000 per year. In addition, the University would provide a grant covering approximately 50% of the fee increase to other needy on-time financial aid applicants whose family incomes are below $100,000 per year. The Governor’s budget includes additional funding for the Cal Grant program to cover the proposed fee increases for UC Cal Grant recipients. However, the Governor’s budget also proposed the elimination of new competitive Cal Grant awards which would reduce funding for UC students by about $3.9 million.

Given the considerable funding shortfall that already exists with respect to support for graduate academic students, it is proposed that, consistent with past practices, an amount equivalent to 50% of the new fee revenue from the fee increases for graduate academic students be used for financial aid for graduate students. Finally, it is proposed that an amount equivalent to 33% of the new revenue from mandatory systemwide fees generated by professional degree students be used for financial aid purposes.