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Office of the President

TO MEMBERS OF THE COMMITTEE ON LONG RANGE PLANNING:

ACTION ITEM

For Meeting of November 19, 2014

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

EXECUTIVE SUMMARY

In November 2013, President Napolitano called upon the University to develop a new plan for student tuition and fees to bring clarity to, and reduce volatility in, the tuition-setting process in order to keep tuition “as low as possible, and … as predictable as possible.”

The plan presented to the Regents today does just that. The plan calls for modest and predictable annual increases to the University’s mandatory systemwide charges – Tuition and the Student Services Fee, as defined in Regents Policy 3101 – and to undergraduate Nonresident Supplemental Tuition of five percent over the next five years, coupled with modest and predictable annual increases of four percent in the State-funded portion of the University’s base budget. Assuming continued annual increases in State funding of at least four percent, and continued State support for the Cal Grant program, increases in these charges would be capped at five percent annually for the duration of this plan.

The plan would improve the ability of students and families at all income levels to plan for college and would address the unfairness associated with the boom-and-bust cycle in which some students experience little or no increase in tuition during their time at UC while others – based entirely on when they happen to enroll at UC – experience significant increases. In addition, the plan would allow the University to enroll at least 5,000 additional California residents over a five-year period and to invest in academic excellence through efforts like improving the student/faculty ratio and providing additional course offerings to ensure our students continue to receive the world-class education they expect and deserve.

Consistent with the University’s past practice and to ensure that the University remains a primary driver for increased socioeconomic mobility in California, a portion of the new tuition and fee revenue generated each year would be set aside for financial aid – which, together with the Cal Grant program and other resources, **would fully cover tuition and fees, including the proposed increase, for an estimated one-half of UC undergraduates.**

This proposal responds to an era of chronic State underfunding of UC, which unfortunately has continued despite significant improvements in the economy and the State's fiscal outlook. The University will continue to advocate for larger increases in State funding and for equitable treatment in areas such as funding for the State's portion of employer contribution to UC pension costs. Should these efforts lead to more State funding than anticipated under the plan, the President of the University would be authorized under this plan to set mandatory systemwide charges below the levels authorized by the Regents in any year when the State provides funding to avoid or lessen the tuition and fee increase. The Regents would retain the ability to approve mandatory systemwide charges at levels higher than the amounts anticipated under the plan to address funding shortfalls if the State provides less funding than expected.

The plan plays a critical role in the University's immediate and long-term budget strategy, which includes aggressive cost-cutting measures, efforts to maximize operational efficiency, and developing alternative revenue sources. These are described more completely in item L2, *Update on Long Range Financial Plan* and item F1, *Approval of University of California 2015-16 Budget for Current Operations*.

RECOMMENDATION

The President recommends that the Committee on Long Range Planning recommend to the Regents the following actions on mandatory systemwide student tuition and fees for 2015-16 through 2019-20:

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

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

- B. Authorize the President to assess charges below the amounts shown in Display 1 in any year when the State provides additional funding above the base budget adjustment described in Paragraph A to buy out some or all of the proposed student tuition and fee increases.
- C. Approve annual increases of five percent in Nonresident Supplemental Tuition for undergraduate nonresident students for the years 2015-16 through 2019-20, as shown in Display 2.

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

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

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

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

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

DISPLAY 2: Proposed Increases to Nonresident Supplemental Tuition for Undergraduates¹

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

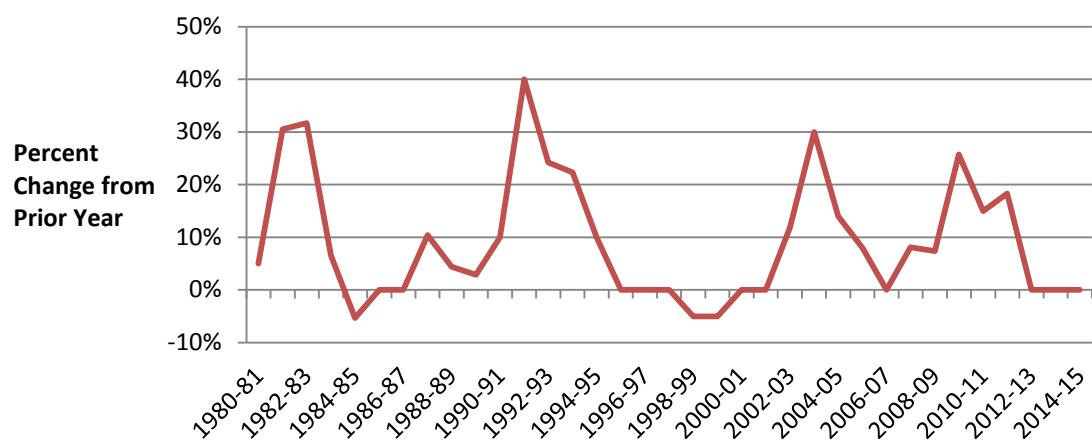
¹ Charges are effective the summer term preceding the academic year indicated – e.g., summer 2015 for 2015-16. Figures are rounded to be divisible by \$6 in order to facilitate campus billing processes which, depending on the campus, occur either two or three times per academic year.

BACKGROUND

Volatility in State Funding Has Negative Consequences for Students and the University

Over the past 30 years, different generations of UC students have experienced very different trends in UC tuition and fees. As shown in Display 3, below, UC's systemwide fees have increased, decreased, or stayed flat compared with the prior year, with year-to-year changes that were sometimes dramatic.

**DISPLAY 3: Year-to-Year Change in Undergraduate Mandatory Systemwide Charges
(Nominal Dollars)**

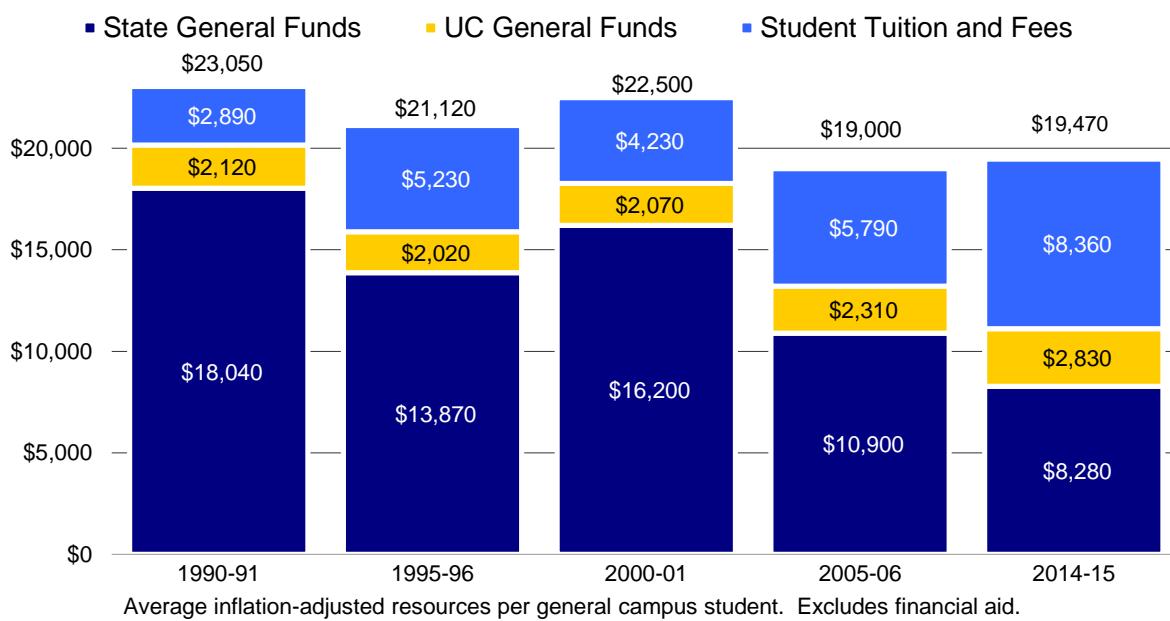


UC's tuition levels have been subject to chronic volatility in response to erratic levels of State support – including sudden, large budget cuts in some years.

These changes have largely been driven by dramatic changes in State funding for the University's budget. As shown in Display 4, adjusted for inflation, overall per-student expenditures have declined at UC since 1990. Notwithstanding the University's substantial efforts to reduce costs, those efforts have not fully offset the much greater declines in State funding, creating the need for increased tuition revenue to fill a portion of the funding gap. The trend in resources provided by the State for each UC student closely mirrors the trend in the resources provided by UC tuition and fees: as the State's share of average expenses per student fluctuated from one year to another and declined over time, funding provided by UC tuition and fees has moved in the opposite direction to make up for the loss in State funding not addressed by UC's cost-cutting measures.

Despite tuition increases, UC's average in-state tuition and fees remain below charges at three of the University's four public comparison institutions for both undergraduate and graduate students. Moreover, UC's strong financial aid program, combined with the State's Cal Grant program and the federal Pell grant program, continues to fully cover in-state tuition and fees for over one-half of in-state undergraduates. UC has been able to protect access for needy students and continues to enroll a much higher percentage of low-income Pell Grant recipients compared with similar institutions. These outcomes are discussed more completely later in this item.

DISPLAY 4: Per-Student Average Expenditures for Education by Source (Constant Dollars)



Since 1990-91, average inflation-adjusted expenditures for educating UC students have declined by 16%. The State's share of expenditures has plunged even more steeply – by 54%. Over this period, the student share, net of financial aid, has more than tripled, from 13% to 43% of the total.

Although additional grant assistance from University, State, and Federal financial aid programs has offset rising tuition and fees for about half of UC undergraduates, many UC stakeholders suffer the consequences of unreliable levels of State funding and the resulting volatility in UC tuition and fees:

- Unexpected tuition increases can cause anxiety and resentment among all students and families – even those whose tuition is fully covered by financial aid.
- Families cannot easily plan for college expenses when tuition is unpredictable from one year to the next.
- Students who happen to enroll at UC during periods of drastic State funding reductions unfairly face much greater cost increases than those who enroll in better State budget climates.
- Academic departments cannot be confident in their ability to provide multi-year offers of graduate student support to incoming students, even though such offers are critical to attracting the very best talent in a competitive global environment.
- Academic quality and related services have suffered from austerity measures necessitated by unpredictable resources, including reduced faculty hiring, leading to rising student-faculty ratios, larger class sizes, and fewer course offerings; reductions in student

services; faculty and staff salaries that lag the market; and inadequate spending on maintenance, capital renewal, and seismic and life safety upgrades.

- Over time, sudden, steep, unpredictable, and unexpected tuition increases can erode confidence in the affordability of a UC education, despite the University's best efforts to make prospective students and families aware of UC's outstanding financial aid programs.

Predictable State Funding Makes a Predictable Tuition Plan Possible

To date, a long-term agreement between the University and State regarding the appropriate level of funding to be provided from State General Funds and student tuition and fees has been elusive. Nevertheless, at certain points in the University's history, UC and the State have forged multi-year partnerships that have provided a measure of stability for UC, its students, and their families. When fully funded, these agreements have served students, families, the institution, and the State very well.

The passage of Proposition 30 in November 2012 has allowed the State to follow through on a multi-year funding plan first proposed by the Governor earlier that year. However, Proposition 30 did not solve the University's long-term budget gap. Under the plan, the University received increases to the State-funded portion of its base budget of five percent in 2013-14 and 2014-15, and is expected to receive increases of four percent in 2015-16 and 2016-17. For 2015-16, this additional funding equates to a 1.7 percent increase in the University's total core funds for education. The Governor's plan also assumes that UC tuition will remain flat during this period.

This additional funding represents a welcome change from trends in prior years. However, a 1.7 percent increase in the University's core funds for education is not adequate to meet the basic needs of the University or its students. These core funds provide critical support to the University's academic mission by funding faculty, academic support, instructional equipment, student services, and the infrastructure needed to provide a UC education. As described in item L2, *Update on Long Range Financial Plan* and item F1, *Approval of University of California 2015-16 Budget for Current Operations*, the anticipated increase in State General Funds is not, by itself, sufficient to allow UC to meet its mandatory cost increases for next year, let alone to support the University's goals of expanding enrollment for California resident undergraduates or enhancing the quality of the University's academic programs.

The stable growth in State funding proposed under the Governor's plan does, however, provide a predictable base, which the University proposes to augment and balance with a multi-year tuition plan that would provide unprecedented predictability to current and prospective UC students, increase access for California students, maintain UC's robust financial aid program, and preserve the excellence of a UC education, provided that the State does its part.

A New Plan for Access, Affordability, and Excellence

At her first Regents meeting in November 2013, President Napolitano cited the need to bring clarity to, and reduce volatility in, the tuition-setting process in order to keep tuition and fees “as low as possible [and] as predictable as possible.” Consistent with that goal, the University began a wide-ranging review of current and proposed tuition models at other public and private universities to inform the development of a tuition model appropriate for UC.

The multi-year plan presented to the Regents at this meeting is the result of that review. The plan is grounded in five fundamental principles:

- *California deserves a University of California that continues to deliver a world-class education to every student that it enrolls.* Preserving and enhancing the quality of a UC education is critical.
- *California students and families deserve predictability about college costs.* Students and families cannot easily plan for college if they don’t know whether UC tuition might remain flat, increase sharply, or decline from one year to the next, as it has in the past.
- *Access and affordability are fundamental to UC’s mission.* Financing a UC education must be feasible for all California students admitted to the University, regardless of their financial resources.
- *The State shares responsibility for enabling UC and our students to succeed.* The instruction, research, and public service conducted by the University provide a tremendous return on the State’s investment in UC.
- *UC must manage its finances responsibly and resourcefully.* The University must continually seek ways to improve productivity, eliminate unnecessary expenditures, and identify new revenue sources to keep tuition at a minimum.

The plan includes several components, each critical to its success.

- **Predictable tuition.** The Regents are asked to approve changes to the University’s two mandatory systemwide charges, Tuition and the Student Services Fee, and to undergraduate Nonresident Supplemental Tuition (NRST), for each of the next five years. UC students and their families will be better able to estimate the total maximum amount of these charges that they are likely to incur through 2019-20.
- **Modest annual tuition increases.** The rates for 2015-16 through 2019-20 will reflect modest increases of no more than five percent per year – well below the average annual increase for other public institutions (7.5 percent) or private institutions (6.9 percent) over the past four decades – and incoming classes will be made aware of these increases prior to their decision to enroll at UC.
- **Sustained State funding for UC students.** The plan is based upon minimum annual increases of four percent in State funding of the University’s base budget – which, for

2015-16, would represent only a 1.7 percent increase in the University's core educational funds – along with continued coverage of UC's mandatory systemwide charges under the Cal Grant program. UC will continue to advocate vigorously to State officials that investing in UC students brings a strong return on investment to the State. Under the plan, the President will be authorized to reduce established tuition rates if the State chooses to "buy out" some or all of the proposed increase in any year.

- **Expanded access for Californians.** Under the plan, UC will be able to expand enrollment of both California freshmen and California students transferring from community colleges. UC will be able to continue to serve thousands of California resident students for whom it receives no State funding and will enroll at least 5,000 additional California students beyond those levels.
- **Continued excellence.** The University of California will use the new tuition revenues to support and improve students' educational experience – reducing the student-faculty ratio, increasing course sections, enhancing academic counseling and other student services, and decreasing time to graduate.
- **Enhanced financial aid.** UC will commit additional funding to enhance UC grants and scholarships. This new funding, together with the State's continued funding of the Cal Grant program, is expected to *fully cover annual Tuition and Student Services Fees, including scheduled increases, for about half of all UC resident undergraduates*, and will help the neediest students cover other costs such as housing, books, and supplies. In addition, the new Middle Class Scholarship Program is expected to cover up to 40 percent of UC's mandatory systemwide charges for eligible students
- **Aggressive cost-cutting and use of new delivery models.** UC will control costs to meet its budgetary needs. In addition, UC will redouble its efforts to explore alternative delivery models, such as online courses, to reduce overall expenses for educating students while maintaining academic excellence.

For more information about the role played by these funds in both 2015-16 and beyond, please see item F1, *Approval of University of California 2015-16 Budget for Current Operations* and item L2, *Update on Long Range Financial Plan*. Note that this plan does not include authority for the President to charge lower NRST rates in case of a State buy-out because State funds do not (and should not) subsidize nonresident students.

University of California Tuition and Fees in Context

The University's average tuition and fees for state residents remains low relative to the amounts charged by most of the University's public comparison institutions, and the University's nonresident charges remain competitive. As shown in Display 5, for both undergraduate and graduate students,

- UC's resident tuition and fees are lower than the amounts charged by three of UC's four public comparison institutions;
- UC's nonresident tuition and fees are lower than the amounts charged by two of UC's four public comparison institutions; and
- UC's resident and nonresident tuition and fees are all well below the amounts charged by UC's private comparison institutions.

DISPLAY 5: 2014-15 University of California and Comparison Institution Tuition and Fees, 2014-15

Institution	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
UC	\$13,317	\$36,195	\$12,889	\$27,991
<i>Public Comparison Institutions</i>				
SUNY Buffalo	\$8,871	\$22,291	\$12,485	\$22,305
Illinois	\$17,638	\$33,446	\$15,560	\$29,282
Michigan	\$16,042	\$44,796	\$20,406	\$40,892
Virginia	\$15,545	\$44,731	\$16,688	\$26,928
<i>Private Comparison Institutions</i>				
Harvard	\$43,938	\$43,938	\$41,408	\$41,408
MIT	\$45,016	\$45,016	\$45,016	\$45,016
Stanford	\$44,757	\$44,757	\$44,757	\$44,757
Yale	\$45,800	\$45,800	\$37,600	\$37,600

Note: Figures include tuition and required fees. UC figures include average campus-based fees. Undergraduate figures for Illinois, Michigan, and Virginia represent the average of the highest and lowest rates at each school; actual rates at these schools vary by major and/or year in school.

Preserving Undergraduate Affordability Through Financial Aid

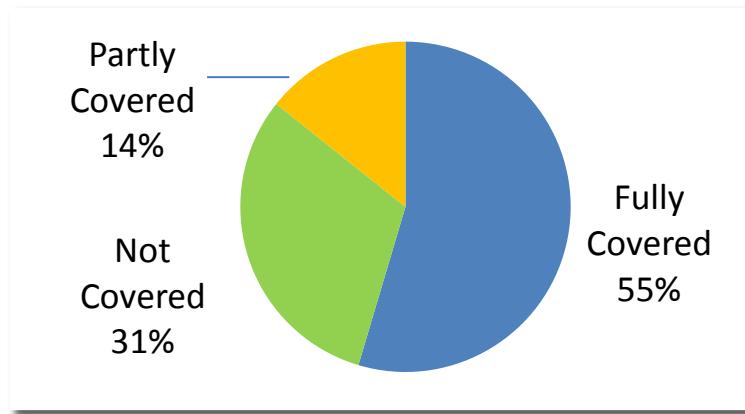
Under the multi-year plan, the University will set aside 33 percent of new undergraduate tuition revenue for need-based grant assistance each year. Together with the State's Cal Grant program, this assistance is expected to fully cover the tuition increase for an estimated one-half of California resident undergraduate students, and to provide the neediest students with additional assistance to help offset increases in other expenses such as room and board, books and supplies, transportation, and healthcare.

The continued expansion of the new State-administered Middle Class Scholarship Program (MCSP) will result in increasing the level of State support for students who might otherwise not

qualify for need-based grant assistance under the Cal Grant program or the University's institutional aid program. The MCSP is being phased in over four years beginning in 2014-15 and is designed to ensure that eligible students without other financial aid receive grant and scholarship assistance to cover up to a specified portion of in-state tuition: 40 percent for students with family incomes less than \$100,000, falling to ten percent for those with incomes up to \$150,000. (The actual percentage of tuition covered will depend upon funding appropriated by the State for the program and the pool of eligible applicants.) During this phase-in period, students' MCSP awards are expected to increase from one year to the next by an amount greater than the five percent increase in mandatory systemwide charges – effectively insulating these students from the impact of these increases. Ultimately, the program is expected to provide over \$100 million in new grant assistance to over 30,000 UC families in 2017-18, once the program is fully phased in.

Display 6, below, shows the percentage of California resident students whose mandatory systemwide charges were fully covered, partly covered, or not covered by grant and scholarship assistance in 2013-14.

DISPLAY 6: Percentage of California Undergraduates with Grant and Scholarship Aid Covering Some or All of Their Systemwide Tuition and Fees

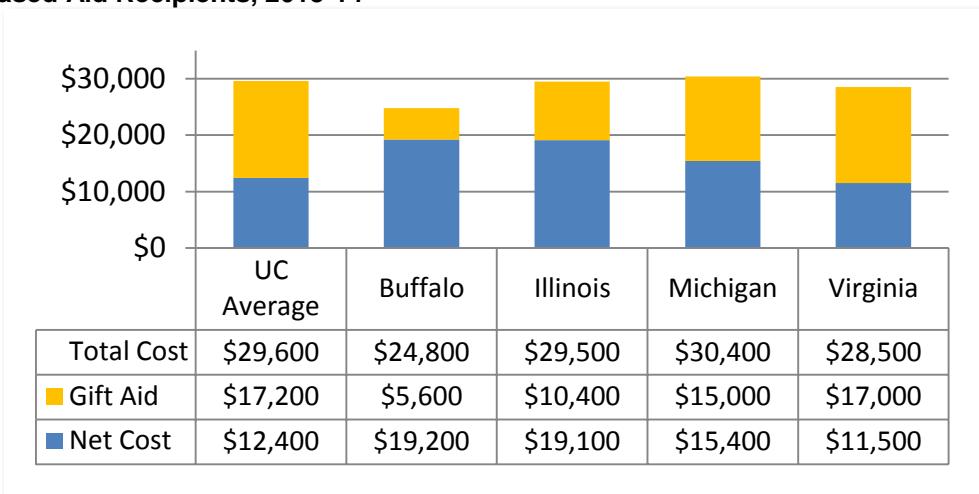


Many middle class families at UC also benefit from federal income tax deductions and credits that reduce the net cost of college attendance.

Tuition and fees represent only a portion of the total costs that students must cover, however. Display 7, below, depicts the average total cost of attendance – including tuition, fees, housing, books and supplies, health insurance, and other costs – for undergraduates at UC and its four public comparison institutions. In 2013-14, UC's average total cost of attendance (before financial aid) was higher than three of the University's comparison institutions, largely due to the relatively high cost of living in the communities where UC campuses are located. However, gift aid (grants and scholarships) significantly reduced costs for financially needy students. As the display shows, after taking gift aid into account, UC's average net cost for need-based aid

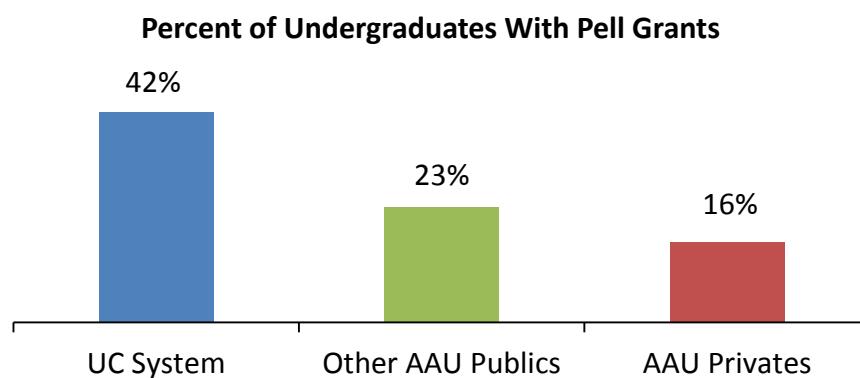
recipients in 2013-14 was below the estimated net cost of three of the four comparison schools. (Comparable figures for 2014-15 are not yet available.)

DISPLAY 7: Average Total Cost of Attendance and Net Cost After Gift Aid for Undergraduate Need-based Aid Recipients, 2013-14



Altogether, the additional financial aid resources available to UC students are expected to preserve the University's excellent track record regarding financial accessibility. As shown in Display 8, UC continues to enroll a far higher percentage of Pell Grant recipients, who are typically from families earning less than \$50,000, compared to comparable public and private universities. In fact, four UC campuses each individually enroll more Pell Grant recipients than the entire Ivy League combined.

DISPLAY 8: Pell Grant Recipients at UC and Other Association of American Universities (AAU) Member Institutions, 2012-13

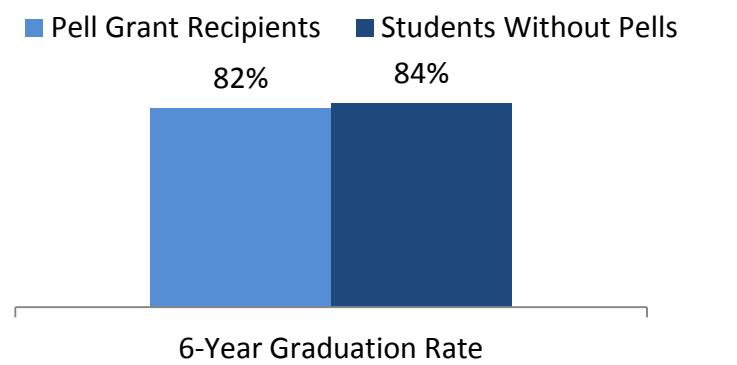


UC's continued success at enrolling a high percentage of Pell Grant recipients is directly related to the University's and the State's commitment to strong financial aid programs. In fact, an October 2014 report from the Public Policy Institute of California noted that for low-income students, the net price of attending UC – which represents the University's total cost of attendance (including room and board, books and supplies, transportation expenses, etc.) minus

the grant and scholarship assistance received by the student – actually declined slightly in inflation-adjusted dollars between 2008-09 and 2011-12, the latest year included in the study. Under the plan before the Regents, both the University and the State would maintain that steadfast commitment to student aid.

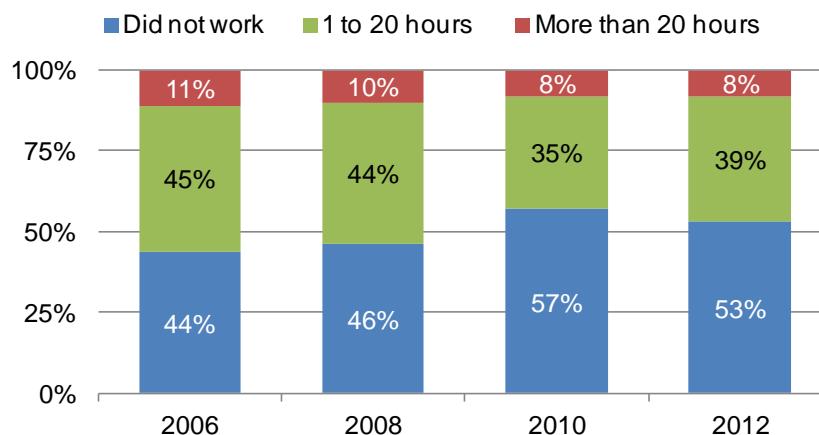
It is noteworthy that Pell Grants recipients not only enroll at UC in high numbers but also graduate at rates that are similar to those of students with greater financial resources, as shown in Display 9.

DISPLAY 9: Six-Year Graduation Rates for UC Undergraduates, With and Without Pell Grants



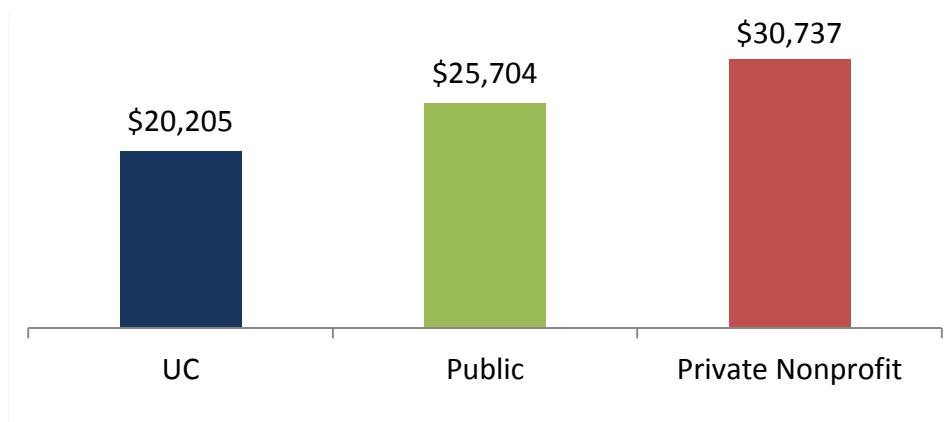
The University closely monitors trends in student employment during the academic year and funds its financial aid programs so that no student is expected to work more than 20 hours per week in order to finance his or her education. Surveys conducted over time and as recently as 2013 show little change in students' work patterns, indicating that the cost of attending UC has not significantly impacted this outcome measure. Display 10 shows the results of the University of California Undergraduate Experience Survey (UCUES); periodic UCUES results indicate that the percentage of students working more than 20 hours per week has not increased. Other surveys have shown similar results.

DISPLAY 10: Students' Self-Reported Hours of Employment Per Week Over Time



UC students' average debt at graduation also remains manageable and well below the average at other public and private universities. Among the 2011-12 graduating class – the most recent year for which comparison school data are available – 45 percent of students left UC with no debt. Among the 55 percent who had borrowed while attending UC, the average debt at graduation was \$20,205 – well below the average for both public or private institutions, as shown in Display 11. This level of debt translates into monthly payments of about \$230 over 10 years, or less under a longer repayment plan.

DISPLAY 11: Average Debt at Graduation, UC Students and Students Nationwide, 2011-12



Maintaining Competitiveness for Graduate Academic and Professional Students

Under the multi-year plan, the University would continue its practice of setting aside 50 percent of new tuition revenue attributable to graduate academic students, and 33 percent of new tuition from students in professional degree programs, for graduate student support.

The funding provided under the plan 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, together with unprecedented predictability in students' mandatory systemwide charges, 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 multi-year plan for 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. Professional Degree Supplemental Tuition is addressed in item

L4, Approval of Long-Term Plan for Professional Degree Supplemental Tuition and of Proposed 2015-16 Professional Degree Supplemental Tuition for Nine Specific Programs.

From “Boom and Bust” to Sustained Access, Affordability, and Excellence

The University of California has been challenged in maintaining its commitment to access, affordability, and excellence because of the great volatility in State support for the University's budget over time. One consequence of that volatility has been unpredictable and uneven changes in the University's mandatory systemwide charges, which have frustrated students and parents and hampered the University's own long-range planning efforts.

The plan presented to the Regents represents a partnership with the State to end that volatility. The plan would also result in increased enrollment of California residents, improvements in academic quality and student services, and continued access to a world-class UC education for students from every socioeconomic background, including those with limited financial resources. The plan requires continued efforts by the University to maximize operational efficiencies, to deliver excellence at reduced costs, and to generate additional resources from alternative revenue sources. The plan also calls upon the State to do its part, and allows for tuition and fee increases of below five percent if the State provides additional support to reduce or eliminate a planned increase.

The Washington Monthly recently recognized the University's distinctive combination of academic excellence and socioeconomic diversity. The journal's editors wrote,

Strikingly, four of the top five institutions on our list are University of California campuses... The state's system has a distinct blend of size, diversity, and research excellence. By enrolling top students from a huge state with a highly varied population, UC campuses are able to balance academic excellence with scientific prowess and a commitment to enrolling low-income students that is unmatched at similar national universities. (*Washington Monthly 2014 College Rankings*)

The plan before the Regents would preserve and strengthen that track record, allowing the University to continue to provide unparalleled educational opportunities, cutting-edge research, and wide-ranging public service to benefit all Californians.

Key to Acronyms

MCSP	Middle Class Scholarship Program
NRST	Nonresident Supplemental Tuition
UCUES	UC Undergraduate Experience Survey