

Office of the President  
March 4, 2004

**TO MEMBERS OF THE COMMITTEE ON FINANCE:**

**ITEM FOR DISCUSSION**

**For Meeting of March 17, 2004**

**UPDATE ON UNIVERSITY OF CALIFORNIA 2004-05 BUDGET**

In past years, at the November meeting The Regents have adopted a budget plan for the coming fiscal year that then forms the basis for budget negotiations with the Governor and the Legislature. In a departure from past practice, the 2004-05 budget plan for the University has not yet been approved because of the considerable uncertainty that has existed related to the State's budget crisis. Instead, The Regents approved a set of principles to be used in negotiating the budget with the expectation that a budget plan would be approved once the Governor had submitted his own budget proposal. This action was further refined at the January meeting, when the Board supported budget priorities expressed both in terms of short- and long-term goals; these priorities are discussed in more detail later in this item.

The Governor's Budget for 2004-05 was released on January 9, 2004. Vice President Hershman reported on the Governor's proposals at the January 14 meeting of the Board. At that time, it was expected an action item could be brought to the Board in March to approve a 2004-05 University of California budget plan and any necessary student fee increases. However, discussions are continuing with the Schwarzenegger Administration related to the proposals presented by the Governor associated with the University's budget. The University is learning more about the administration's views and rationales for various proposals, and hopes to have the benefit of further discussion before taking a vote. Therefore, no action from the Board is being requested at this time.

For the March meeting of the Board, this item focuses on issues that are the subject of continuing discussion within the University, including student fees, financial aid, and enrollment. There are other proposals included in the Governor's Budget for base budget cuts and budget adjustments that were thoroughly discussed at the January meeting and for which there is no new information to present. These issues are outlined in [Attachment 1](#) to this item. The Governor's proposals related to student fees, financial aid, and enrollment, and potential options for addressing them, are presented below. Vice President Hershman will lead a discussion of these issues and options at the March meeting. Action by the Board may not be requested until later this Spring.

**BACKGROUND**

The budget proposed by the Governor for 2004-05 represents the fourth consecutive year in which the University has sustained major base budget reductions and endured underfunding for basic budget needs critical to maintaining quality. Display 1 shows the University's shortfall of



This increasing shortfall has severely challenged the ability of the University to maintain quality while preserving access for all eligible students wishing to attend. Salaries for faculty and staff have fallen seriously behind the market; it could take years to close the salary gaps that have been created. Core needs of the University are not being met, such as those for instructional equipment, instructional technology, libraries, and maintenance. Base budget cuts are far beyond the order magnitude that could be resolved with mere "belt tightening." The major support network for offering educational and research programs and performing necessary business functions has been seriously eroded. Students are paying more and getting less. Continuing budgetary challenges are more thoroughly discussed in [Attachment 2](#).

Display 2 follows and represents the principles and priorities established by The Regents at the January meeting for addressing the budgetary challenges facing the University.

**Display 2**

**University of California  
Primary Principles and Priorities for the 2004-05 Budget**

The Regents are committed to two Primary Principles for the 2004-05 Budget as follows:

- I. The quality of the University shall be maintained and enhanced – quality is basic to delivering its mission and is the most important asset that the University of California offers the state.**
- II. The University shall maintain access and affordability, and honor the Master Plan. The state needs the highly-skilled, well-educated graduates that are produced by the University of California.**

In order to support these Principles, the University recognizes that, due to the current funding challenges, it is necessary to establish certain priorities. These priorities are as follows, organized within the context of the two Primary Principles:

- I. The quality of the University shall be maintained and enhanced – quality is basic to delivering its mission and is the most important asset that the University of California offers the state.**

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**SHORT TERM PRIORITIES**

**LONG TERM PRIORITIES**

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**STUDENT/FACULTY RATIO**

*The University must maintain a viable student/faculty ratio to achieve its research and teaching mission and to attract high quality students.*

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| 1. The University will not permit the student-faculty ratio to deteriorate further. | 1. The University will achieve a student/faculty ratio of 17.6:1. |
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**FACULTY & STAFF SALARIES**

*To attract quality personnel needed to maintain the effectiveness of the University and its ability to accomplish its mission, faculty and staff salaries must be competitive.*

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| 2. The University will continue to pay faculty merit increases. | 2. The University will return to paying competitive salaries for faculty and staff. |
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RESEARCH MISSION

*The University's basic mission is that of a research institution. Adequate support of the research program is essential for the University to continue to be a quality research institution, to continue stimulate the economic vitality of the state, and to provide the human resources to meet this goal.*

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| 3. Graduate student quality and ratios that exist today shall be maintained. That means that the net cost to attend and related financial support shall be maintained. | 3. Restore research funding and instructional support to previous levels, and seek funding for new research initiatives that represent high priorities.                            |
| 4. The instructional support of the University will be maintained at current levels.   | 4. Depending on each campus' needs, specific ratios and support levels for graduate students necessary to meet the University's quality and research missions will be established. |
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**II. The University shall maintain access and affordability, and honor the Master Plan. The state needs the highly-skilled, well-educated graduates that are produced by the University of California.**

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ENROLLMENT

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| 5. Enrollment levels shall match the resources provided. Enrollment reductions may be necessary in the face of reduced financial support from the State. Any actions to reduce enrollments shall be implemented in such a way as to minimize the impact on UC's commitment to the access goals of the Master Plan and our promise to young people of California. | 5. The University will adhere to the Master Plan, thus meeting its part of the promise to the youth of California. |
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FEES

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| 6. As student fees rise, financial aid will rise accordingly to mitigate the impact of fee increases on needy students.<br><br>The University will continue to use a portion of the revenue raised from any increases in student fees in 2004-05 as necessary to offset increases for needy students. | 6. A stable State funding formula shall be established that allows for the predictability of fees and revenues. |
| 7. The University's fee policy shall be based on established economic indicators, including State funding levels actually provided to the University, personal income growth, and other related items.  |   |
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OUTREACH

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| 8. Cooperative efforts shall be made to achieve interim support. | 8. Key aspects of the University's outreach programs shall be restored consistent with priorities identified by the Chancellors. |
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January 14, 2004

Discussions are underway with the Schwarzenegger Administration about a multi-year approach to funding the University in future years, focusing on levels of State funding, enrollment, and

student fees. It is hoped such a new agreement would put an end to further erosion of the University's resources and help the University address budgetary shortfalls in critical areas over the long term. Achievement of such a long-term funding agreement is critical to the future of the University. Consistent with past funding agreements with Governor Wilson and Governor Davis, it is hoped the new agreement will include funding principles intended to meet the basic budget needs of the University sufficient to meet the institution's missions under the Master Plan, as well as accountability principles intended to measure desirable outcomes of interest to the University and the State.

### **Governor's Proposed Budget for 2004-05**

The budget proposed by the Governor includes significant student fee increases, along with suggestions for a long-term student fee policy for both undergraduate and graduate academic students; proposes enrollment reductions; assigns further base budget reductions; and provides some increases to the budget (mostly technical adjustments). The budget as proposed reflects a further reduction in State support as a result of the State's budget crisis and presents the University with many difficult challenges, including a fourth consecutive year of base budget cuts and no funding provided for basic operating costs such as salaries, merit salary adjustments, cost increases for the non-salary portion of the budget, and maintenance of new space. The proposed budget reductions and student fee increases are of deep concern to the University. Nevertheless, the State's budget crisis requires the University participate in the solution.

The University has undertaken wide consultation with Regents, chancellors, faculty, students, and staff regarding the proposals included in the Governor's January budget. There is concern throughout the University community over the continued withdrawal of State support from the University and the impact this trend is having on quality and the University's ability to maintain its academic programs. Moreover, there is a strong interest in pursuing several policy and technical changes to proposals contained in the Governor's January budget.

Display 3 on the next page was provided at the January meeting and explains the Governor's proposals for 2004-05. The Governor's proposals related to student fees, financial aid, and enrollments are discussed below along with possible alternatives under consideration within the University.

Display 3  
 University of California  
 2004-05 Governor's Budget  
 (\$ in millions)

<b>2003-04 State General Fund Budget per State Budget Act prior to 2003-04 Mid-Year Reductions</b>	<b>\$ 2,898.0</b>
<b>Increase Student Share of Funding for Educational Expenses and Reduce State Funds</b>	
Increase undergraduate student fees \$500 (10%)--limit return to financial aid to 20%	\$ (63.6)
Increase graduate academic student fees \$2,088 (40%)—limit return to financial aid to 20%	(57.4)
Increase professional school fees to reduce State subsidy overall by 25%--no return to financial aid	(42.2)
Increase non-resident tuition \$2,746 (20%)--assumes 20% return to financial aid	(32.6)
Charge students an excess units fee for units that exceed a threshold of 10% above minimum number of credit units needed to graduate	(9.3)
(Note: A \$15.7 million unallocated mid-year reduction grows to \$47.2 million in the budget year and is included in the student fee increase offsets above).	
<b>Subtotal, State General Fund Cuts Offset by Increases in Student Fees</b>	<b>\$ (205.1)</b>
<b>Reduce Enrollment</b>	
Reduce Freshmen enrollment by 10% (3,200 FTE)	\$ (24.8)
Provide counselors for redirection of freshman to community colleges	1.6
<b>Subtotal, Enrollment-Related Changes</b>	<b>\$ (23.2)</b>
<b>Other Budget Cuts</b>	
Increase student/faculty ratio from 19.7:1 to 20.7:1	(35.3)
Reduce academic and institutional support 7.5%	(45.4)
Reduce research 5%	(11.6)
Eliminate State funding for Institute for Labor and Employment (mid-year reduction of \$2 million Grows to \$4 million in 2004-05)	(4.0)
Eliminate State funding for outreach (mid-year reduction of \$12.2 million grows to \$33.3 million in 2004-05)	(33.3)
Eliminate State funding for California Digital Project (K-12 Internet)	(14.3)
<b>Subtotal, Other Budget Cuts</b>	<b>\$ (143.9)</b>
<b>Subtotal, All State General Fund Reductions</b>	<b>\$ (372.2)</b>
<b>Other Budget Adjustments and One-Time Actions</b>	
Restore one-time \$80.5 million unallocated cut from 2003-04 budget	\$ 80.5
Provide one-time funds for UC Merced (increase one-time funding from \$7.3 to \$10 million)	2.7
Funding for annuitant health care benefits cost increase	34.4
Lease revenue bond payments	27.1
<b>Subtotal, Other Budget Adjustments and One-Time Actions</b>	<b>\$ 144.7</b>
<b>Partnership Funding Not Provided</b>	
4% increase to the base for salaries, benefits, and other cost increases (\$114.2 million)	0
1% increase to the base for core needs (\$28.5 million)	0
Normal funding for 5,000 FTE enrollment growth (\$40.0 million)	0
Funding for State-funded summer instruction at four remaining campuses (\$31.0 million)	0
<b>Total Governor's Proposed State General Fund Budget for 2004-05</b>	<b>\$ 2,670.5</b>
<b>2004-05 Governor's Budget for Capital Outlay</b>	
General Obligation Bond Program	\$ 339.4
State Lease Revenue Bonds	55.0
<b>Total State Budget for Capital Outlay</b>	<b>\$ 394.4</b>

### Student Fee Increases

The Governor has proposed a long-term student fee policy for the University of California and the California State University that calls for increases in student fees equivalent to the rise in California per capita personal income. In years in which the segments determine that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, UC and CSU may determine that fee increases of up to 10% are necessary to provide sufficient funding for existing programs and preserve quality.

As indicated in Display 3, the Governor proposes the following student fee increases for 2004-05:

- Undergraduates: a 10% increase in mandatory systemwide student fees, limiting the return to aid to 20% of new revenue—\$63.6 million State General Fund savings;
- Graduate Academics: a 40% increase in mandatory systemwide student fees, limiting the return to aid to 20% of new revenue—\$57.4 million State General Fund savings;
- Professional Schools: increases in the Fee for Selected Professional School Students sufficient to reduce the total State subsidy provided to these programs by 25%, allowing flexibility for the University to determine the actual fee increases for each school. The estimates of revenue generated assume no return to financial aid related to this increase—\$42.2 million State General Fund savings;
- Nonresidents: a 20% increase in nonresident tuition, with a return to aid of 20% of new revenue—\$32.6 million State General Fund Savings;
- Excess Units Fee: implementation of a new fee to be applied against credit units taken by resident undergraduate students that exceed a threshold of 10% above the minimum needed to graduate. Such credits would be charged at the full cost of instruction—\$9.3 million State General Fund savings.

Together, these proposals are expected to generate \$205 million in savings for the State. These fee proposals present several concerns for the University.

**Long-Term Student Fee Policy.** The University's principles adopted at the November 2003 meeting and further supported at the January 2004 meeting reaffirm the University's interest in developing a new long-term student fee policy. As stated in those principles, it would be the University's preference to have a fee policy accepted by both the University and State government that would provide for annual increases in student fees consistent with an economic measure, such as per capita personal income. However, such a policy must be contingent upon the State being able to provide adequate support for the University's basic needs. Consistent with the principles adopted by The Regents in January, the University would support a long-term student fee policy only if it includes recognition of the need for adequate State support to maintain quality.

**Undergraduate and Graduate Academic Student Fee Increases.** Wide consultation within the University community makes it clear the 40% increase proposed for graduate academic students is of deep concern, given the need to continue to attract the very best graduate students from around the world. California has fallen seriously behind in meeting state workforce needs for managerial and professional workers in California's growing industries—biotechnology, telecommunications, engineering, computer science, multimedia, health care, microelectronics, as well as many other high-tech fields. If California universities continue to under-produce

graduates to fill the growing number of professional and managerial jobs, there will be a substantial impact on California's economy and job creation.

Leaders produced by UC graduate programs create jobs and opportunities for many other people. But, compared to other states, California educates a very low proportion of graduate students, falling in the lower third of all states in terms of graduate students per resident aged 25-64 and per state resident with a bachelor's degree. The University has been striving in recent years to become more competitive in attracting top quality graduate students to this state. The Regents established a Commission on the Growth and Support of Graduate Education to look at ways to improve support for graduate students. Unfortunately, the dramatic increase in fees proposed in the Governor's Budget would make it more difficult to develop the financial support packages necessary to attract these students.

Therefore, the University is considering alternatives to the graduate student fee increase proposed in the January budget. One such alternative could include increasing undergraduate fees slightly more than proposed by the Governor in order to reduce the level of the graduate fee increase. Under such an alternative, undergraduate fees would be increased somewhere between 10% and 15% and graduate academic fees would increase by 20% to 25%. For example, if undergraduate fees were increased by 15%, rather than the 10% proposed by the Governor, the increase for graduate academic fees could be lowered to 20%, rather than the 40% proposed by the Governor. Under such an alternative, undergraduate student fees would increase by \$750, which is about \$250 more than proposed by the Administration, and graduate academic fees would increase by \$1,050 rather than \$2,088 as proposed by the Administration. This would enable the University to moderate significantly the effect on graduate students with a less dramatic impact on undergraduate student fees.

If an alternative were adopted for 2004-05 that exceeds the 10% threshold the Governor wishes to establish in a new student fee policy, it would be the University's intention to increase undergraduate student fees less than 10% in each of the next two years (assuming that the State provides sufficient funds to support the University's basic budget needs and prevent further erosion of quality) so that the average over three years is 10% per year, in keeping with the Governor's proposal. The benefit of further discussion in Sacramento, and further analysis of alternatives presented in this item, is needed before making a recommendation to the Board. In the meantime, students and their parents will be informed about the potential fee increases under consideration in the University.

For purposes of illustration, Display 4 on the next page shows the increases in fees for undergraduates and graduates comparing both the Governor's proposal and an alternative of increasing undergraduate fees by 15% and graduate academic fees by 20%. There are additional options other than the two presented in this display—undergraduate fees could be increased anywhere from 10% to 15% and graduate academic student fees could be increased anywhere from 10% to 40%. Whatever option is finally chosen, the Governor's Budget is assuming these increases will generate a total of \$121 million, net of the amount returned to financial aid.

**Display 4**  
**2004-05 Budget**  
**Alternative for Resident Undergraduate and**  
**Resident Graduate Academic Student Fee Increases**

Resident Mandatory Systemwide Fees				Estimated Total Charges 2004-05 (Including Campus-Based Fees)
	2003-04 Fee Level	Proposed 2004-05 Fee Increase	Total Systemwide Fees	
<b>Undergraduate:</b>				
<b>Governor's Plan (10%)</b>	\$4,984	\$498	\$5,482	\$6,028
<b>Alternative (e.g., 15%)</b>	\$4,984	\$750	\$5,734	\$6,280
<b>Graduate:</b>				
<b>Governor's Plan (40%)</b>	\$5,219	\$2,088	\$7,307	\$8,931
<b>Alternative (e.g., 20%)</b>	\$5,219	\$1,050	\$6,299	\$7,893

Display 5 shows comparisons with other public institutions for two of the options for increasing fees for resident students currently under consideration in the University. Under the Governor's proposal, total undergraduate student fees (including mandatory systemwide fees and campus-based fees) would be about \$1,400 below the average of public comparison institutions; student fees for academic graduate students would be about \$900 below the average. If the University of Michigan is excluded from the average (because it charges extraordinarily high fees for graduate students), UC estimates that graduate academic fees would be about \$500 higher than the other three public institutions.

**Display 5**  
**University of California and Public Comparison Institutions**  
**Resident Student Fees**

	<u>Undergraduate</u>	<u>Graduate</u>
University of Illinois	\$ 7,010	\$ 7,756
University of Michigan	\$ 8,481	\$ 12,933
State University of New York	\$ 5,851	\$ 7,987
University of Virginia	\$ 6,149	\$ 7,856
2003-04 Average Fees of Comparison	\$ 6,873	\$ 9,133
2003-04 Average UC Fees	\$ 5,530	\$ 6,843
<i>2004-05 Est. Avg. Fees for Public Comparison Institutions</i>	<i>\$ 7,423</i>	<i>\$ 9,864</i>
<i>2004-05 Est. Avg. UC Fees--Governor's Proposal</i>	<i>\$ 6,028</i>	<i>\$ 8,931</i>
<i>2004-05 Estimated Average UC Fees— Alternative of 15% for undergraduates, 20% for graduate academics</i>	<i>\$ 6,280</i>	<i>\$ 7,893</i>

Under the alternative to the Governor's plan currently under consideration—that is, a 15% increase for undergraduates and a 20% increase for graduate academic students—the total fees undergraduate students would pay would be more than \$1,100 below the average of UC's public comparison institution. Graduate academic student fees would be \$1,900 below the average; however, if the University of Michigan is excluded from the average, the University's fees would be about \$500 less.

Concerns about total student costs have been raised at past meetings of the Board. In 2003-04, student fees represented 31% of the average total cost to undergraduate students (called the average total cost of attendance), which is \$17,814 in the current year and includes non-fee expenses such as room and board, and mandatory books and supplies. In past years, the University's average cost of attendance has been above the average of its four public salary comparison institutions, largely due to the high cost of living in the areas in which UC campuses are located. However, when financial aid is taken into account, the University's average net cost of attendance for needy students falls to a level below the average of its comparison institutions.

Display 6 shows the total cost of attendance and estimated net cost of attendance for need-based aid recipients at the University and at its four public salary comparison institutions in 2003-04.

**Display 6**  
**University of California and Public Salary Comparison Institutions**  
**Total Cost of Attendance and Estimated Net Cost of Attendance**  
**For Need-Based Aid Recipients**  
**2003-04**

<b>Public Salary Comparison Institutions</b>	<b>Total Cost of Attendance</b>	<b>Net Cost of Attendance</b>
University of Illinois	\$ 16,991	\$ 11,800
University of Michigan	\$ 17,957	\$ 12,535
State University of New York	\$ 14,592	\$ 11,971
University of Virginia	\$ 14,498	\$ 5,576
2003-04 Average of Comparison	\$ 16,010	\$ 10,471
2003-04 Average UC	\$ 17,814	\$ 10,164

Under the Governor's plan, it is estimated that the 2004-05 average total cost of attendance would be \$19,123. Under the alternative to the Governor's plan currently under consideration, it is estimated that the 2004-05 average total cost of attendance would be \$19,375. It is anticipated that, in terms of net cost, the University will continue to be below the average of its public comparison institutions under either the Governor's proposal or under the alternative fee proposal described above.

There were several errors made in the Governor's Budget associated with calculations of revenue that could be generated from proposed fee increases—primarily related to the appropriate number to use for fee-paying students. If budgetary relief is provided in the Governor's May

Revision to correct these errors, the fee increases would be moderated to reflect the lower amount of revenue the University would need to generate.

**Fee for Selected Professional School Students.** The Governor's Budget assumes the University will develop a plan for achieving the \$42.2 million in revenue expected from Professional School Fee increases. The University estimates that in order to achieve this revenue target, fees at each of the schools would need to increase by about \$5,000. However, the University has been asked to exempt Nursing from these increases and to implement smaller than average increases for students in the Schools of Medicine. In addition, a few of the schools—such as Optometry, Pharmacy, Theater Film & TV—could probably not sustain increases of \$5,000 and still attract sufficient numbers of highly qualified students. Therefore, fees at some schools may need to be increased higher than the \$5,000 average.

One issue of major concern is the fact that the Governor's proposal does not assume any return-to-aid from the increase in Professional School Fees. Moreover, the schools are very concerned about their ability to maintain the quality of their programs and to be competitive with other professional schools. This is particularly important if students will be paying significantly more to attend these schools. To address the academic quality and financial aid issues associated with this proposal, one alternative could be to delegate authority to the President to raise the fee at any of the professional schools by an additional amount not to exceed 10% of total systemwide fees paid by professional school students (i.e., Educational Fee, Registration Fee, and Professional School Fee), if it is determined the school must do so to provide sufficient financial aid and/or to maintain quality of the academic program. Any fee increases approved under such authority would be reported to the Board.

By way of example, if fees for MBA students were increased by \$5,000 and the authority to raise fees by an additional 10% were approved, then the total fees paid by resident MBA students would range from about \$21,000 to \$23,000, when all fees are taken into account. Fees for Law students under similar assumptions would range from about \$22,000 to \$24,000. Under such a scenario, UC fees would be comparable to those charged in these disciplines at other public comparison institutions.

While considering market conditions and the need to remain competitive in attracting students, the University is working on a plan for achieving the Governor's proposed revenue target. Proposals for fee increases for each professional degree program will be presented to the Board for approval, along with other fee actions needed for 2004-05, later in the Spring.

As part of the effort to consider options for the future with respect to these professional programs, each campus will be asked to develop a long-term plan for professional fees over the next five years that includes consideration of the following factors: average fees at other public comparison institutions, market factors, the need to preserve and enhance the quality of the professional programs, the State's need for more graduates in a particular discipline, and financial aid requirements of professional school students.

**Nonresident Tuition.** The Governor has proposed a 20% increase in nonresident tuition. The University is concerned about its ability to generate the nonresident tuition revenue assumed in the Governor's Budget. The University has already witnessed a dramatic decline in the number

of undergraduate nonresidents applying to the University—exceeding 22% over the last two years. When determining increases for future years, it will be important to consider the effects of increases on nonresident enrollment. It should be noted that these students actually pay significantly more than the cost of their education. Display 7 shows the Governor’s proposed increases in nonresident tuition for In addition to nonresident tuition, students pay mandatory systemwide student fees and campus-based fees.

**Display 7**  
**2004-05 Budget**  
**Governor's Proposed Nonresident Tuition Increase**

	<b>2003-04 Nonresident Tuition Level</b>	<b>2004-05 Proposed Nonresident Tuition Increase</b>	<b>Estimated Total 2004-05 Charges (Nonresident Tuition and all other fees)</b>	<b>Estimated Total 2004-05 Charges at Public Comparison Institutions</b>
<b>Undergraduate: Governor’s Plan</b>	\$13,370	\$2,746 (20%)	\$22,984 (if 10% increase in systemwide fees)	
<b>Alternative</b>	\$13,370	\$2,746 (20%)	\$23,236 (if 15% increase in systemwide fees)	\$20,969
<b>Graduate Academic: Governor’s Plan</b>	\$12,245	\$2,449 (20%)	\$23,870 (if 40% increase in systemwide fees)	
<b>Alternative</b>	\$12,245	\$2,449 (20%)	\$22,832 (if 20% increase in systemwide fees)	\$20,632

**Excess Units Fee.** The Governor has proposed establishment of a policy to charge the full cost of instruction for excess units that exceed a specified threshold. The University would prefer to phase in such a policy over time because a sudden implementation would be too drastic an action to take in one year without appropriate notice to students. The President will develop a plan for phasing in this policy over a four-year period, beginning in 2004-05, as requested by the Governor. Action to approve this plan will be brought before the Board along with other fee actions later this Spring.

It is estimated that a total of 555 FTE students could be affected by implementation of such a policy. Therefore, the University estimates that \$4.5 million is the most revenue that can be generated from this fee; assuming a four-year phase-in of such a policy, only \$1.1 million could be generated in the budget year, which is \$8.2 million less than the amount proposed in the Governor's Budget. The University is requesting that the Administration adjust the budget to reflect this change.

**Financial Aid.** At the same time as the total cost of attending UC continues to increase, the resources available for needy students to help cover these costs are eroding. The Governor's proposal calls for significant reductions to the amount of new student fee revenue that can be used for financial aid and proposes changes to the Cal Grant Program that will also negatively

affect financial aid for UC's needy students. Compounding this problem is the fact that for the first time in 10 years, UC anticipates Pell Grant awards will not increase. This combination of factors raises several concerns related to financial aid for both undergraduates and graduate academic students.

In order to address the issue of affordability for the neediest undergraduates, and consistent with the priorities supported by The Regents in January, the University intends to continue to provide grant aid to mitigate the impact of fee increases for those students with the most need. Because of the shortfalls in funding for financial aid anticipated for 2004-05, grant aid previously provided to needy middle-income students (those who generally come from families with income of around \$60,000 - \$90,000) will no longer be available. Also, it is expected that the student contribution from loan and work in 2004-05 could rise from \$8,600 to anywhere from \$9,500 to \$9,700 for all needy undergraduates, depending on the fee increase that is ultimately approved.

The dramatic fee and nonresident tuition increases proposed for graduate students create a large financial liability for the University. This is due in part to the contractual obligation to offset the full amount of the fee increase for teaching assistants (TAs). As a matter of policy, the University also offsets fee increases for research assistants (RAs). Thus, the fee increases for eligible TAs and RAs, who comprise over half of graduate academic students, must be funded from University sources or through federal and private research grants, reducing the funds available for research.

Graduate students without TA or RA fee offsets will experience an erosion in their support packages unless fellowship support increases are provided to cover the large fee increase. As noted earlier, this is contrary to The Regents priority for improving support packages for graduate students and weakens the University's ability to successfully compete for talented students.

Addressing these challenges will require the University to make several decisions affecting student support, which could vary considerably depending on the fee increases that are ultimately agreed upon. For example, the University will have to determine the appropriate allocation of available student aid between undergraduate and graduate students. Although higher fees and a reduced return-to-aid will have a negative impact for both undergraduate and graduate students, the impact of the Governor's proposal is far greater for graduate students. In order to address the challenges described above, the University could redirect a portion of the return-to-aid generated from undergraduate fees to provide additional graduate student support.

If an agreement can be reached on an alternative to the fee proposals in the Governor's Budget, such as the option discussed above for a 15% increase for undergraduates and a 20% increase for graduate academic students, there would be several mitigating factors to help address the financial aid challenges: (1) the University would be able to significantly reduce the portion of the undergraduate return-to-aid funds that would need to be redirected to graduate support; (2) the cost to the University of providing TA and RA fee remission would be reduced; (3) the effect of the fee increase on graduate students' net stipend would be smaller; and (4) undergraduates' expected contribution from loan and work, though higher than 2003-04 levels, would be lower than under the Governor's budget.

For the long term, the University is very concerned about limiting to 20% the return-to-aid generated from fee increases. The University will develop a justification for an appropriate level of return-to-aid for future years.

### **Enrollment Reductions**

The Governor proposed reducing funding for 3,200 FTE students in 2004-05, which is equivalent to a 10% reduction from the number of new freshmen budgeted in 2003-04. It is his proposal that these students be participants in a new Dual Admissions program for eligible students. Under this program, these students would be admitted to a specific University campus, but asked to undertake their lower division work at a California Community College. Upon successful completion of that work, they would attend the University for their upper-division work and receive a University of California degree. While this is a departure from the State's past policies of fully funding all eligible students wishing to attend the University, this proposal provides all eligible students with an assured path to a University of California degree.

Turning eligible students away is deeply regrettable. These students have worked hard to prepare for the University, believing that if they followed our eligibility guidelines, the University would find a place in the system for them. However, the budget principles supported by the Board in January call for enrollment levels to match resources provided. Consistent with that principle, campuses have been provided with revised enrollment targets that reflect the Governor's proposal. The University hopes this is a one-time necessity and that the State's long-standing commitment to the Master Plan will be reaffirmed the following year.

This proposal will save the State \$24.8 million, however because of the lower cost of educating undergraduate lower division students, actual savings to the University will be less.

As the Board has been informed at the last several meetings, UC enrollment currently exceeds by 12,000 students planned enrollment levels for 2003-04 as established in 1999 for the decade. The enrollment actions proposed in the Governor's Budget will help the University get back on track with its original enrollment plan. Campuses are being asked to develop plans for the remainder of the decade to return to the level previously indicated in the University's 1999 enrollment plan for 2010-11, which will total nearly 217,000 FTE systemwide.

Preliminary studies conducted for the CPEC eligibility study currently underway indicate more than the top 12.5% of California high school graduating seniors are achieving eligibility. If true, this is actually a good thing. It means more students are working harder and becoming better prepared for college. But it may also mean that more students than called for under the Master Plan are becoming eligible for the University. That eligibility study is due to be released in May and is likely to generate a wide public policy debate about eligibility and resources.

The Governor's Budget also proposes an augmentation of \$1.6 million to support counselors and tracking of these students to help ensure their ultimate enrollment in the University of California.

### **Next Steps**

The University is in continuing discussions with the Schwarzenegger Administration on the variety of issues presented in this item. Therefore, no action on the University's budget is being requested of the Board at this time. As soon as the University has fully explored all alternatives

with the Governor's office, the information will be submitted to the Board of Regents and the Board will be asked to approve a budget plan for 2004-05 and any student fee increases necessary to implement the plan, hopefully later this Spring.

If the State's revenue situation improves and it is possible to provide additional funding in the May Revision, the University would urge the Governor and the Legislature to consider restoring funds for programs currently proposed for significant budget cuts, including proposals to reduce the number of faculty, academic support, research, and outreach. If such relief could be provided, the University would work with the Governor and the Legislature on distributing additional funds among these priorities.

The Legislature will begin budget hearings in early March, which will continue through mid-May. The University has been informed that release of the Governor's revision will probably remain as scheduled for mid-May. The budget Conference Committee generally begins its deliberations in early June. Once the budget is completed, the President will present to the Board an action item to approve a final budget plan for 2004-05.

The University will work hard in the next several months to maintain the level of funding proposed in the Governor's Budget and, if possible, to achieve increases. Any attempt to further reduce the University's budget must be strongly opposed. The University will be seeking assistance from the entire University community in this effort—Chancellors, Regents, students, alumni, and other friends of the University. The Board will be brought up to date on this process at the May meeting.

(Attachments: [One](#) [Two](#) and [Impacts on Agriculture Programming](#))