

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

**ACTION ITEM**

*For Meeting of May 7, 2009*

**STATE BUDGET UPDATE AND APPROVAL OF PROPOSED INCREASES IN STUDENT FEES FOR 2009-10**

**EXECUTIVE SUMMARY**

Actions: Approve increases in mandatory systemwide fees of 10 percent in the Educational Fee and 4.2 percent in the Registration Fee.

Approve a 10 percent increase in the Nonresident Tuition Fee for undergraduate students only.

Previous Action: The Regents' November budget request was amended to request State funds in lieu of a student fee increase. Action on fee increases for 2009-10 was deferred until after release of the Governor's Budget.

Issues: The State budget adopted by the Legislature and the Governor for the rest of 2008-09 and the 2009-10 fiscal years contains \$115.5 million in new permanent funding reductions for the University of California system. In addition, UC is dealing with unfunded mandatory cost increases of at least \$213 million.

**RECOMMENDATION**

The President recommends that the Committee on Finance recommend to the Regents the following actions on student fees for 2009-10:

- A. Effective summer 2009, mandatory systemwide fees be increased as shown in Display 1. Of the revenue generated from the increases in mandatory systemwide fees from undergraduate students, an amount equivalent to 33 percent 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 percent will be set aside to provide additional funds for financial aid; and 33 percent of the revenue generated from the increases from students subject to professional fees will be set aside for financial aid.

- B. Effective fall 2009, Nonresident Tuition be increased by 10 percent for nonresident undergraduate students only. It is recommended that Nonresident Tuition 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 2009-10.
- C. 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.

**DISPLAY 1: Fee Levels and Proposed 2009-10 Increases**

	2008-09	Proposed Increase		2009-10
		\$	%	
<b>Registration Fee</b>				
All Students	\$864	\$36	4.2%	\$900
<b>Educational Fee</b>				
Undergraduate				
Resident	\$6,262	\$626	10.0%	\$6,888
Nonresident	\$6,849	\$687	10.0%	\$7,536
Graduate Academic				
Resident	\$7,122	\$714	10.0%	\$7,836
Nonresident	\$7,434	\$744	10.0%	\$8,178
Graduate Professional	\$6,204	\$618	10.0%	\$6,822
<b>Nonresident Tuition</b>				
Undergraduate	\$20,021	\$2,000	10.0%	\$22,021
Graduate Academic	\$14,694	\$0	0.0%	\$14,694
Graduate Professional	\$12,245	\$0	0.0%	\$12,245

(1) Includes \$60 surcharge to cover costs associated with the injunction and judgment of the *Kashmiri* lawsuit.

(2) Includes students in professional programs in public health, public policy, and International Relations and Pacific Studies.

(3) Professional students in these programs also pay a Professional Degree Fee that varies by campus and program. In 2008-09, these fees range from \$3,685 to \$22,049. Proposed fee increases for 2009-10 range from 0-25%.

The display above reflects increases in mandatory systemwide fees only. Estimated total charges for resident students for 2009-10 are shown in Display 3, below.

**BACKGROUND**

The 2009-10 budget plan adopted by the Regents at their November 2008 meeting was developed based on the Regents' stated priorities for reinvigorating the University's relationship with California and building and maintaining the quality of UC's teaching and research core. The budget did not include an increase in student fees, but rather requested funding by the State to avoid fee increases.

The Governor's Budget released in January 2009 not only failed to provide the funding needed for new expenditures related to compensation and enrollment growth, it also did not provide funding to avoid student fee increases. The State budget adopted in February by the Legislature and the Governor for the second half of 2008-09 and the 2009-10 fiscal years assumes a student fee increase of 9.3 percent for 2009-10. In addition to these increases in student fees, the adopted budget contains \$115.5 million in new permanent funding reductions for the University of California system.

While student fee increases are extremely difficult decisions for the Regents to consider at any time, it is significant to note that the American Recovery and Reinvestment Act (ARRA) passed by Congress and signed by President Obama in February 2009 contains significant Pell Grant funding increases as well as expansion of college tax credits. The ARRA provisions, coupled with the Blue and Gold Opportunity Program approved by the Regents in March 2009, will ensure that, as explained more fully below, fee increases and increases in the total cost of attendance will be offset for most families of UC undergraduates with annual incomes of less than \$180,000, which means they will not pay out of pocket for these fee increases or the increases in total cost of attendance.

***Proposed Mandatory Systemwide Student Fee Increase and Use of Funds***

Within this context, it is proposed that the Educational Fee be increased by 10 percent for all students, that the Registration Fee be increased by 4.2 percent for all students, and that Nonresident Tuition be increased by 10 percent for undergraduate students only.

The 10 percent increases in the Educational Fee would generate approximately \$143.6 million. Of that amount, \$54.2 million would be set aside for financial aid, while the remainder would be used to address State budget reductions, mandatory cost increases, and other pressing needs. The 4.2 percent increase in the Registration Fee would generate \$8 million, which would be used to fund compensation and non-salary price increases for the student support services funded from the Registration Fee, including student mental health. The 10 percent increase in undergraduate Nonresident Tuition would generate \$15.2 million and would be retained by the campuses. It is anticipated that the campuses would use these funds to help support their highest priorities, including the costs associated with enrolling nonresident students. Funds would also be used to address State budget reductions, mandatory cost increases, and other pressing needs.

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.

**DISPLAY 2: Fee Increases and Expected Use of Revenue**

	Increase	Expected Revenue	Expected Revenue Uses
<b>Educational Fee</b>	10%	\$143.6 million	Revenue would help support the University's operating budget. Approximately \$54.2 million would be set aside for financial aid, while the remainder would be used to address State budget reductions, mandatory cost increases, and other pressing needs.
<b>Registration Fee</b>	4.2%	\$8.0 million	Revenue would fund compensation increases (such as those associated with collective bargaining agreements and health benefits), and non-salary price increases for student support services funded from the Registration Fee, including student mental health.
<b>Nonresident Tuition (Undergraduate)</b>	10%	\$15.2 million	Revenue would be retained by the campuses. It is anticipated that the campuses would use these funds to help support their highest priorities, including the costs associated with enrolling nonresident students. Funds would also be used to address State budget reductions, mandatory cost increases, and other pressing needs.

***Total Charges for Resident Students***

In addition to mandatory systemwide fees, students pay campus-based fees. These primarily consist of fees levied through student votes to support specific programs of interest to the students, life-safety fees proposed by chancellors and approved by the Regents, and health insurance for graduate students. Display 3 shows estimated total charges for resident students for 2009-10, reflecting a weighted systemwide average for campus-based fees. Not included are individual course materials fees (which vary widely by campus and by discipline) and health insurance fees that undergraduate students pay when they are unable to demonstrate health coverage from another source.

**DISPLAY 3: 2009-10 Estimated Total Charges for Resident Students**

		2008-09	Proposed Increase		2009-10
			\$	%	
<b>Undergraduate</b>					
		\$864	\$36	4.2%	\$900
		\$6,262	\$626	10.0%	\$6,888
	(1)				
		<u>\$901</u>	<u>\$31</u>	3.4%	<u>\$932</u>
	(2)				
	Total	\$8,027	\$693		\$8,720
<b>Graduate Academic</b>					
		\$864	\$36	4.2%	\$900
		\$7,122	\$714	10.0%	\$7,836
	(1)				
		<u>\$2,367</u>	<u>\$118</u>	5.0%	<u>\$2,485</u>
	(2)				
	Total	\$10,353	\$868		\$11,221
<b>Graduate Professional - Public Health, Public Policy, International Relations and Pacific Studies</b>					
		\$864	\$36	4.2%	\$900
		\$7,122	\$714	10.0%	\$7,836
	(1)				
		<u>\$2,367</u>	<u>\$118</u>	5.0%	<u>\$2,485</u>
	(2)				
	Total	\$10,353	\$868		\$11,221
	(3)				
<b>Graduate Professional - Other</b>					
		\$864	\$36	4.2%	\$900
		\$6,204	\$618	10.0%	\$6,822
	(1)				
		<u>\$2,367</u>	<u>\$118</u>	5.0%	<u>\$2,485</u>
	(2)				
	Total	\$9,435	\$772		\$10,207
	(3)				

- (1) Includes \$60 surcharge to cover costs associated with the injunction and judgment of the *Kashmiri* lawsuit.  
 (2) Reflects projected increases in campus-based fees for 2009-10. Campus-based fee levels for graduates include a waivable health insurance fee.  
 (3) Professional students in these programs also pay a Professional Degree Fee that varies by campus and program. In 2008-09, these fees range from \$3,685 to \$22,049. Proposed fee increases for 2009-10 range from 0-25%.

***Fees at Comparison Institutions***

When comparing UC fees to those at other institutions, total charges (including campus-based fees) must be used to reflect the comparison accurately. In the current year, 2008-09, UC resident undergraduate fees are \$1,878 less than the average fees for resident undergraduate students charged at the University's four public comparison institutions, as shown in Display 4. Similarly, UC fees for resident graduate academic students are \$1,900 below the average fees charged at the University's public comparison institutions. Even with the proposed fee increases, 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 (however, when looking at the range among those institutions, UC's tuition and fees for nonresident students are at about the midpoint). The

University expects to retain these relative positions among its comparison institutions even with the proposed increases.

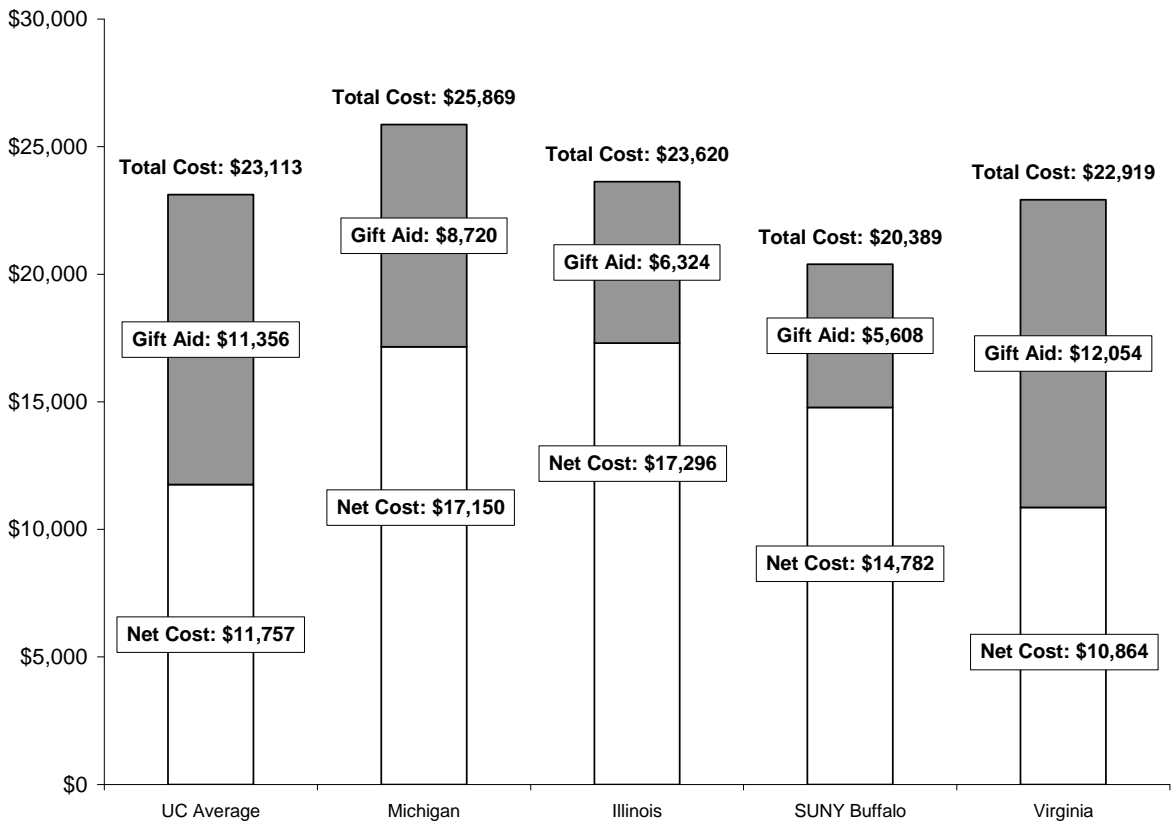
**DISPLAY 4: 2008-09 University of California and Public Comparison Fees**

	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
<b>Public Comparison Institutions</b>				
SUNY Buffalo	\$6,285	\$12,545	\$8,341	\$12,361
University of Illinois	\$12,106	\$25,890	\$11,988	\$24,742
University of Michigan	\$11,738	\$34,230	\$16,541	\$33,255
University of Virginia	\$9,490	\$29,790	\$12,140	\$22,140
Average	\$9,905	\$25,614	\$12,253	\$23,125
<b>University of California</b>	<b>\$8,027</b>	<b>\$28,635</b>	<b>\$10,353</b>	<b>\$25,359</b>

Note: Comparison institution figures include tuition and required fees as reported by the Association of American Universities Data Exchange (AAUDE). UC figures include mandatory systemwide fees and campus-based fees, nonresident tuition for nonresident students, and a waivable health insurance fee for UC graduate students.

Fees represent only a portion of the total costs that students must cover. Display 5, below, depicts the average total cost of attendance – including fees, housing, books and supplies, health insurance, and other costs – for undergraduates at UC and its public comparison institutions. In 2008-09, UC’s average total cost of attendance (before financial aid) represents the midpoint among these institutions. However, gift aid (grants and scholarships) significantly reduces costs for financially needy students. As shown in Display 5, after taking gift aid into account, UC’s average net cost for need-based aid recipients in 2008-09 was below the estimated net cost of three of the four comparison institutions. The proposed fee increases are not expected to change the University’s relative position among its comparative institutions.

**DISPLAY 5: 2008-09 Average Total Cost of Attendance for Undergraduate Need-Based Aid Recipients**



***Financial Aid***

UC’s financial aid program has been enhanced for 2009-10 in two ways that will help mitigate the impact of increases in the cost of attendance, including the proposed fee increases, on UC’s financial accessibility.

First, UC has initiated the Blue and Gold Opportunity Plan to help address ongoing concerns that UC fees may deter undergraduate students from lower-income families from considering UC as a financially viable education option. Under the Blue and Gold Opportunity Plan, families with incomes below \$60,000 and financial need do not have to worry about covering UC fees, even when they increase. These lower-income undergraduate students will have their full systemwide fees covered by scholarship or grant assistance regardless of the amount of the fees (see Display 6). Thus, for those whose fees are not already covered by Cal Grants, federal assistance, or other assistance, institutional grant aid will be provided.

**DISPLAY 6: Blue and Gold Opportunity Plan: Key Features**

- New for 2009-10
- Ensures UC systemwide fees are covered by scholarship or grant awards for eligible undergraduates meeting the following criteria:
  - California residents
  - Income up to \$60,000
  - Financially needy
  - Enrolled in first four years (two for transfer students)
- Covers an estimated 48,000 students in 2009-10

For 2009-10, UC undergraduates can expect an influx of \$190 million of new financial aid and benefits over last year's levels. This new assistance derives from the following:

- augmentations to the State Cal Grant to cover higher fees (\$27 million);
- return-to-aid from proposed 2009-10 fee increases of 33 percent (\$39 million);
- \$3 million of the \$268.5 million in federal economic stimulus funding expected for support of the University to fund the first year of the added cost associated with the Blue and Gold Opportunity Plan (in coming years, this cost will be funded from the higher return-to-aid of 36 percent approved by the Regents at the February meeting for purposes of funding this program);
- an unprecedented influx of new resources for the Pell Grant program (\$33 million); and
- expanded tax credit eligibility under the federal stimulus package (the American Recovery and Reinvestment Act of 2009).

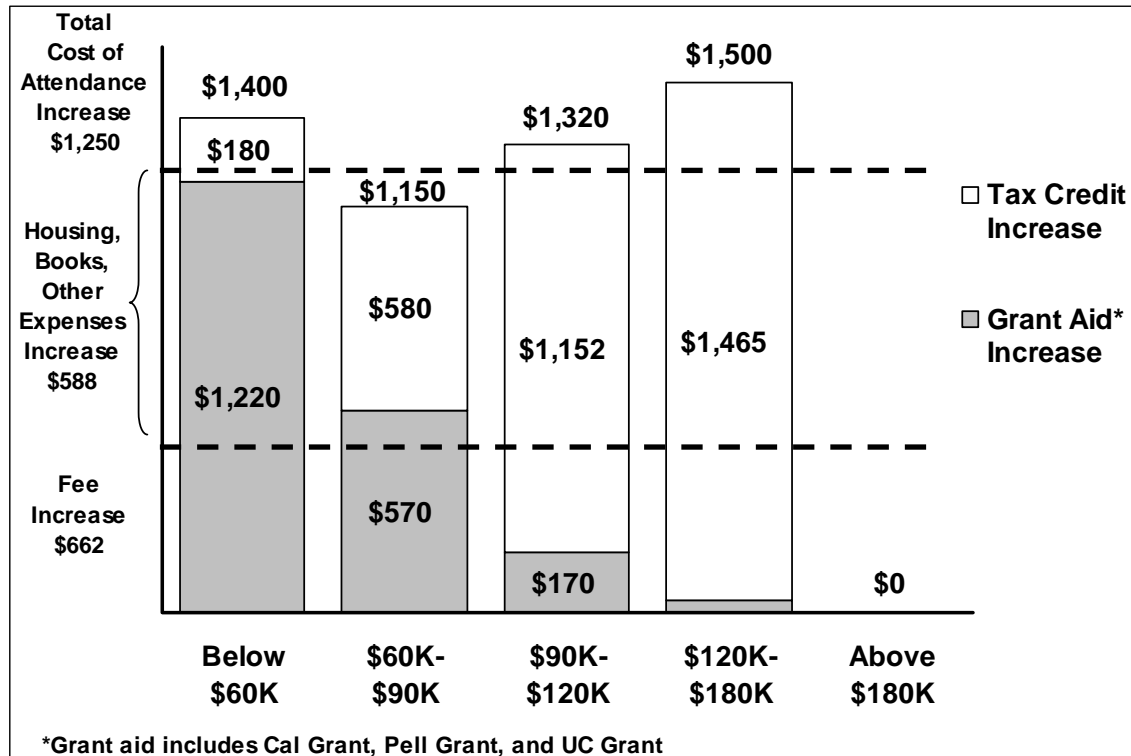
The tax credit expansion is especially notable because it benefits middle-income families with incomes up to \$180,000 who are not eligible for regular financial aid resources that increase with fee levels and who are not eligible for UC's Blue and Gold Opportunity Plan. The key enhancements provided by the new American Opportunity Tax Credit (AOTC – renamed from the previous Hope Tax Credit) included as part of ARRA will benefit UC families as follows:

- an increase in the maximum credit from \$1,800 to \$2,500;
- an increase in the income ceiling from \$116,000 to \$180,000 for married filers (\$58,000 to \$90,000 for single filers); and
- an increase in the length of eligibility from two to four years of education.

Taken together, on average, the new resources amount to \$1,200 - \$1,500 per student among all income groups with family income below \$180,000, which is substantially higher than the proposed \$693 increase in mandatory systemwide and campus-based fees. In fact, the new available resources generally meet or exceed the total cost increases (including expected increases of about \$600 in housing, food, books and supplies, transportation, health insurance, etc.) that students will face, on average, in 2009-10 (see Display 7), resulting in an actual reduction in net costs for many students. Although not all students will benefit equally from the infusion of new resources, 96 percent of undergraduates with financial need and 45 percent of

those without financial need can expect to have their full fee increase covered. Those with financial need will benefit primarily from the augmentations to the need-based grant programs, whereas those without financial need will benefit primarily from the expanded tax credit eligibility. (Financially needy middle-income families will benefit from a combination of the University's practice of covering one-half the fee increase and enhanced eligibility for federal tax credits.)

**DISPLAY 7: 2009-10 Increases in Grant Aid, Student Fees, and Cost of Attendance  
 (Average Per Student Increases for Undergraduates by Parent Income)**



**Conclusion**

While approving student fee increases is always difficult, it is critical to implement the proposed student fee increases at this time in order to address funding shortfalls associated with the current State fiscal crisis. The approval of this fee item at this time will also allow students and their families to understand the student fee costs for the 2009-10 academic year and plan accordingly for the financial aid or tax credit opportunities that will be available to mitigate the increase in student fees. The significant increases in financial aid expected through the State Cal Grant program, federal Pell Grant assistance and tax credits, and improvements in the University's own institutional aid program will continue to ensure access for those with financial need.