

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

**DISCUSSION ITEM**

*For Meeting of September 16, 2009*     **POWERPOINT PRESENTATION**

**UPDATE ON THE 2008-09 AND 2009-10 BUDGETS, PRELIMINARY DISCUSSION OF THE 2010-11 BUDGET, AND PROPOSED 2009-10 MID-YEAR AND 2010-11 STUDENT FEE INCREASES**

**Executive Summary**

Actions at the State level in July 2009 dramatically reduce the State subsidy for the University's core operations for 2008-09 and 2009-10. The Regents took initial steps in July 2009 to address the State reduction by implementing the temporary furlough/salary reductions plan to generate an estimated \$184 million in General Fund savings. The previously approved student fee increases for 2008-09 and 2009-10 and the two year savings projected to be realized by restructuring UC debt were also recognized as sources of funding to limit the cuts on the campuses.

However, it has become clear that the financial challenge facing the University is deeper than the previous actions address. The actions to date do not take into account the need to address the additional funding shortfall of \$368 million in mandatory costs faced by the campuses (e.g. unfunded enrollment, inflation, utility cost increases, health benefit increases), which when combined with the net reductions to the campuses totals \$535 million in 2009-10. These actions also do not take into account the expected increases in mandatory costs totaling at least \$218 million that campuses will face in the 2010-11 budget year, including funding of the 4% employer contribution to the UC Retirement Plan for the full year.

At the July Regents meeting, the Chancellors described the initial estimates of the impact that the funding shortfalls will have on their respective campuses, including extensive lay-offs, cancellation of classes, deferrals of faculty hiring, elimination of programs and curtailment of campus services. Over the last few months, it has become more apparent that the breadth and depth of these fiscal challenges are threatening the basic quality of the education being provided to our students. Notably, at the same time these reductions are taking place on campuses, the campuses have also been forced to rely extensively on their available cash balances as one-time measures to absorb the funding shortfall. Current estimates indicate that campuses available cash balances have been depleted by as much as \$300 million. Use of these one-time monies is clearly not sustainable and could threaten the University's bond credit rating. And, these problems are further exacerbated by the State's decision to defer regular payments of budgeted funding totaling approximately \$1 billion until later in 2009-10. While this action was consistent with

other cash deferrals in the state budget for CSU, K-12 and the community colleges, UC will incur costs to address the delayed State funding in order to cover its own monthly expenses.

In light of the above, the President and the Chancellors believe it will be extremely difficult to close the shortfall without severe damage to the University absent additional revenue. The reductions are simply too large to manage without a serious disruption of the University's ability to provide basic services and programs. Recognizing that the State's fiscal situation is severely constrained and could worsen, the President and the Chancellors also firmly believe that permanent measures must be taken during the course of the next twenty months (2009-10, 2010-11) to begin to stabilize the University's fiscal situation. Those measures include implementing a mid-year fee increase for 2009-10 and a fee increase for 2010-11. Revenues from these fee increases will allow fewer jobs to be eliminated, fewer classes to be cancelled than would otherwise be the case, and a lesser curtailment of campus services. It is critical that the University take steps to ensure that the quality of our programs and our ability to provide basic services do not decline beyond a point of recovery.

### **Background**

Vice President Lenz will make a presentation to the Board providing an update on the State budgets for 2008-09 and 2009-10, following the amendments to the Budget Act signed by the Governor in late July. The amendments had impacts on UC for both 2008-09 and 2009-10. In addition, his presentation will include a discussion of the 2010-11 Budget, currently under development. Finally, the presentation will provide information on a proposed mid-year 2009-10 student fee increase, currently under consideration for implementation in winter quarter/spring semester, and an additional proposed increase for the 2010-11 year.

### **Changes to the 2008-09 and 2009-10 Budgets**

On July 28, 2009, the State adopted a set of amendments to the 2008-09 and 2009-10 Budget Acts previously approved in February, 2009 as part of the Special Session of the Legislature on the budget crisis. These amendments make changes to the University's budget for both fiscal years. Permanent and one-time cuts to UC's budget for 2008-09 totaled \$814.1 million for 2008-09 and \$637.1 million for 2009-10. Due to the late action taken by the State, the University is essentially carrying a significant portion of the cuts into the 2009-10 fiscal year.

The reductions in 2008-09 are partially offset by \$716 million in one-time State Stabilization Funds authorized by the federal economic stimulus act.

In 2009-10, the University also must address an additional \$368 million in increased costs unfunded by the State. These unfunded costs include enrollment growth of nearly 14,000 students at UC campuses, higher utility and health care costs, collective bargaining agreements and faculty merit increases in the 2008-09 and 2009-10 fiscal years, and \$20 million associated with the re-start of retirement contributions scheduled for April 2010.

At their July meeting, the Regents approved a systemwide furlough/salary reduction plan to offset State funding reductions for fiscal years 2008-09 and 2009-10. The one-year plan covers

the period of September 1, 2009 through August 31, 2009. In addition to payroll savings achieved through the furloughs and previously enacted student fee increases, the University intends to help fill the overall budget gap through refinancing of debt that should save an additional \$75 million on a one-time basis in 2009-10 (as well as an additional \$75 million in 2010-11).

The 2008-09 and 2009-10 cuts and mitigating actions are outlined in Display 1. The net impact of the State budget reductions, the systemwide actions, and the additional cost pressures is a \$535 million shortfall for 2009-10.

**Display 1**  
**2008-09 and 2009-10 Budget Reductions and Recommendations**  
**(dollars in millions)**

**2008-09**

State Budget Reductions	\$814.1
Mandatory Cost Increases*	<u>227.5</u>
Budget Gap	1,041.6
ARRA Funding	716.0
2008-09 Fee Increases	84.9
Total UC Budget Reductions	\$240.7

**2009-10**

State Budget Reductions	\$637.1
Mandatory Cost Increases*	<u>368.0</u>
Budget Gap	1,005.1
Debt Restructuring	75.0
Salary Reduction Plan	184.0
Previously Approved 2008-09 and 2009-10 Fee Increases	210.8
Total UC Budget Reductions	\$535.3

\* Includes costs of enrollment above 2007-08 budgeted level and mandatory costs such as academic merit increases, health benefits cost increases, non-salary price increases, and collective bargaining agreements.

In addition to those actions itemized above, the following actions are occurring at the systemwide and campus level.

- Senior Management Group Compensation Actions: The President and other senior members

of the Office of the President and campus leadership agreed to reduce their salaries by five percent for one year, effective July 1, 2009. This was two months ahead of the implementation of the furlough program, which will impose in most cases 9 to 10 percent pay reductions for all Senior Management Group employees in 2009-10. In addition, systemwide salary freezes for Senior Management Group members have also been imposed.

- UCOP Restructuring: Over the last two years, the Office of the President has undergone a thorough restructuring and downsizing. A total of \$62.2 million in reductions from both unrestricted and restricted funds so far have been generated through a combination of program transfers and permanent budget reductions, with additional savings expected. Savings from unrestricted funds were redirected to support debt service, maintenance of new space on campuses, and enrollment growth at UC Merced. Savings from restricted sources must be used for the purposes for which they were funded, and may be used to offset future cost increases or address other funding shortfalls where appropriate.
- Strategic Sourcing: This initiative was designed as a comprehensive program focused on purchasing efficiencies that achieve significant cost savings and build and improve the internal infrastructure that supports the core procurement functions. Purchasing efficiencies include leveraging the University's buying power and negotiating systemwide agreements, changes in delivery and payment practices which result in additional cost savings, and improving agreement compliance of the Strategically Sourced Agreements to take advantage of tiered-volume discounts. From its inception in 2004-05 through 2007-08 the Strategic Sourcing Initiative achieved \$154 million in cumulative cost savings to the University. The 2008-09 savings results are estimated to be \$64 million.
- Energy Savings Program: Through an incentive program developed by the Public Utilities Commission, UC is pursuing \$247 million in energy conservation projects that are expected to generate \$36 million in annual energy savings at the end of three years (or about \$18 million after debt service is accounted for). Some of the energy projects will also help address UC's growing capital renewal and deferred maintenance needs.
- Other Actions:
  - Certain bonus and incentive programs were cancelled or deferred.
  - The staff merit program for 2008-09 was eliminated and will not be implemented in 2009-10.
  - Significant restrictions have been placed on travel and other purchasing.

As the Chancellors discussed at the July 2009 Board Meeting, all ten campuses have already undertaken and are continuing to undertake severe actions to cope with the funding shortfalls facing the University. These include layoffs, hiring freezes, increased class sizes (which varies by campus up to a reported high of 25 percent), elimination of programs, and other targeted cuts. No campus is applying across-the-board cuts, but rather each is using a consultative, deliberative process to determine how cuts should be allocated. All campuses report disproportionate cuts to administrative programs in order to reduce the impact on academic programs. The following display shows the most recent quantitative information on cuts to instruction budgets, layoffs, eliminated positions, and deferred hiring. While information for each block is not complete for each campus, the data show that campuses are taking significant actions to reduce costs.

**Display 2**  
**Cost-Cutting Actions Reported by UC Campuses**  
**(excludes medical centers and the Merced campus)**

	<b>2008-09</b> (Actual)	<b>2009-10</b> (Projected)
<b>Instructional Budget Reductions (1)</b>	\$54.3	\$139.7
<b>Employees Laid Off (2)</b>	Nine campuses report laying off a minimum of 884 people.	Five campuses anticipate laying off an additional 1,006 people.
<b>Positions Eliminated (2)</b>	Eight campuses report eliminating a minimum total of 1,951 positions.	Five campuses anticipate eliminating an additional 1,919 positions.
<b>Positions Subject to Deferred Hiring (2)</b>	Seven campuses report subjecting a total of 633 positions to deferred hiring.	Six campuses anticipate subjecting a minimum of 951 additional positions to deferred hiring.

(1) Per August 2009 campus reports to the Office of the President, nine of ten campuses reporting. Does not include savings from the systemwide furlough program.

(2) Per June 2009 campus reports to the Office of the President.

Campuses are using one-time actions to varying degrees, such as tapping temporary funds and reserves, deferring equipment purchases, etc., to address shortfalls in the short term while more permanent cuts can be implemented over the next year or two. These actions are helpful, but many are not sustainable over the long run.

The Board will continue to be updated as campuses provide further information on their actions to address the budget shortfall.

**Development of the 2010-11 Budget**

It is anticipated that 2010-11 will be as difficult or perhaps more difficult fiscally for the State than 2009-10. Therefore, the University is facing yet another year of constrained budgets while many costs continue to rise. During a period of unprecedented State funding reductions, the University's 2010-11 budget request should attempt to balance the need to provide access, maintain quality, and stabilize fiscal health.

The September meeting will include a discussion of the issues under consideration for the 2010-11 budget. A proposed budget plan will be brought before the Board for approval at the November meeting.

The key issues to be considered in development of the 2010-11 budget plan include:

- possible further curtailment of enrollment to more closely match resources through a

- reduction in the number of new California resident freshmen enrolled by another 2,300, (a total planned reduction in the entering class of 4,600 over two years);
- ending the furlough/salary reduction plan on August 31, 2010, at a cost of no less than \$184 million, but providing no general salary range increases for 2010-11;
  - continuing the academic merit program, a critical activity for retaining high-performing faculty;
  - maintaining four percent employer contributions and two percent employee contributions to the UC Retirement Plan for the duration of 2010-11;
  - preserving the variety of employee benefits programs while striving to contain cost increases;
  - keeping pace with inflationary costs for instructional equipment, technology, library materials, purchased utilities, and other non-salary items;
  - additional increases in mandatory systemwide student fees to help address State funding reductions and maintain quality;
  - raising professional school fees to promote quality; and
  - sustaining the University's commitment to affordability by setting aside a portion of new fee revenue for financial aid.

The development of the 2010-11 budget occurs in a context shaped by the State's current fiscal crisis and the University's efforts to respond to the resulting State funding reductions with both temporary and long-term solutions.

The provisions of the Compact called for the State to provide funding for 2008-09 and 2009-10 of at least \$223 million each year. However, the State's ongoing budget deficit led the Governor to first fund the Compact provisions in 2008-09, consistent with the Compact, and then propose a ten percent reduction from that higher budget. In this way, at least initially, the Compact protected UC from greater budget reductions in 2008-09.

As the State's latest fiscal crisis grew during fiscal year 2008-09, proposed budget cuts grew. Not only was the Compact not funded for 2009-10, but permanent and one-time cuts in State funding total \$637.1 million, essentially erasing the gains made over the earlier period of the Compact. These cuts, along with the \$450 million in funding promised by the Compact for 2008-09 and 2009-10, mean that during 2009-10, State funding is \$1.1 billion below the level called for in the Compact.

Fiscal year 2010-11 represents the final year of the Compact, and the University had hoped to use new State funding to continue enrollment growth, raise faculty and staff salaries closer to market levels, restore core academic support, and expand programs benefiting the State. However, given the ongoing fiscal crisis, it is unlikely that the State will be situated to restore earlier funding reductions, let alone provide the funding increases called for in the agreement.

The State continues to face a budget deficit of \$7-8 billion annually, with no obvious permanent solutions.

### **The 2010-11 Budget Request Will Be Constrained**

As mentioned earlier, the University's budget plan for 2010-11 is being developed in the context of the continuing inability of the State to fund basic costs and provide adequate support for the University. While most of the State budget reductions for UC during 2008-09 and 2009-10 were proposed and approved as temporary cuts, the continuing State budget deficit makes the restoration of these earlier reductions highly uncertain.

Nevertheless, it is important that the University continue to promote awareness on the part of the State and others regarding the University's need for adequate support. The University will at minimum request the following:

- restoration of \$305 million in one-time reductions included in the Governor's vetoes of the Special Session Budget package in February 2009; and
- funding for the State's share of the cost of re-starting contributions to the University's retirement system, totaling \$96 million.

### **Major Expenditure Challenges Facing the University in 2010-11**

The University faces a major challenge associated with the lack of funding for a large number of students enrolled during the fiscal crisis. Moreover, in addition to the continuation of mandatory cost increases occurring in 2008-09 and 2009-10, the University will face increases in mandatory costs in 2010-11 totaling at least \$218 million related to contributions to the UC Retirement Plan, merit increases for academic employees, health benefit cost increases for both employees and retirees, and other non-salary cost increases. This section describes major expenditure challenges facing the University in the coming budget year.

**Curtailing Enrollment to Reflect Available Financial Resources.** The current State fiscal crisis has dramatically altered the University's enrollment landscape. The State has been unable to provide funding for enrollment growth that occurred during 2008-09 and 2009-10. As a result, UC now enrolls nearly 14,000 FTE students for whom the State has not provided funding. Furthermore, the significant State budget reductions in the amendments to the 2009 Budget Act mean that funding for student enrollment has fallen far below the budgeted enrollment target for 2007-08, the last year the State provided enrollment funding.

In response to the State's inability to provide the resources necessary to support enrollment demand, the University has taken steps to curtail enrollment growth. Because of the unfairness of late notice to students and their parents, no action was taken to reduce the number of incoming students during 2008-09. For 2009-10, UC reduced the number of new California resident freshmen by 2,300 students as a means of slowing enrollment growth. Fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation at Riverside and Merced. As a result, students had fewer campus choices for accommodation at UC and, in some cases, chose to pursue their education elsewhere. This freshman reduction was offset by a planned increase of 500 California Community College (CCC) transfer students. The University took this action in order to preserve the transfer option in difficult economic times.

Accommodating enrollment without sufficient resources (except the student fee income

associated with enrollments) has meant that new and existing students alike would be affected by the lack of resources to support a high-quality academic experience. As mentioned earlier, campuses are employing a variety of measures to deal with the budget shortfall – halting the hiring of permanent faculty, narrowing course offerings, increasing class sizes, curtailing library hours, and reducing support services for students, all of which are negatively affecting what has historically been an educational program characterized by excellence and opportunity.

During a budget crisis, such steps are necessary. However, these actions are not sustainable over a long period of time, if the quality of the University is to be preserved. Revenue from student fees has helped, but it is insufficient to fully address the loss in State funding. While acknowledging that access is important, the University cannot indefinitely accommodate larger numbers of students without adequate resources needed to provide them a UC-caliber education.

If enrollments are to be brought more in line with the resources provided by the State in order to preserve quality, the University must consider further restrictions on the enrollment of new California resident freshmen in 2010-11 and later years. Options under consideration for 2010-11 include a further reduction in freshman enrollments of an additional 2,300 students, for a total decrease of 4,600 from the number of new freshmen enrolled in 2008-09. This reduction, if sustained over several years, will help bring enrollment more into line with resources. For CCC transfer students and graduate students, 2009-10 enrollment levels would be maintained or slightly increased.

**Compensation for Academic and Staff Employees.** Earlier cuts to the University's budget have resulted in significant disparities in faculty and staff salaries compared to the market. In 2008-09, UC faculty salaries lagged the market by 9.5 percent and there are similar or greater problems with respect to staff salaries in some employment categories. While the merit and promotion system for academic employees has been maintained, no general salary increases were provided for faculty or staff in 2008-09 and 2009-10.

Furthermore, as mentioned earlier, to provide immediate, temporary financial relief to the University amidst unprecedented reductions in State funding, the University implemented a one-year furlough/salary reduction plan from September 2009 through August 2010. Graduated salary reductions based on total salary levels will range from four percent to ten percent and furlough days will range from 10 to 26 days over the year. While the effect of the furlough plan on comparative salaries is not known at this time due to impacts of the national and State economic downturns on payroll practices at other institutions and in other sectors, the lack of general salary increases and temporary salary reductions resulting from the furlough plan will have debilitating consequences on UC faculty and staff and their families.

Looking ahead, compensation costs will remain a significant issue over the next several years. First, the cost to continue the academic merit and salary program, net of salary savings from retirements and separations, will grow at an annual rate of nearly \$30 million. Second, under the assumption that the furlough/salary reduction plan ends August 31, 2010, the savings generated (an estimated \$184 million in General Funds and \$515 million overall) will not be available to help address budget shortfalls in 2010-11 and beyond. The University will need to find permanent solutions to State budget reductions.

The University will face additional pressures to improve the competitiveness of faculty and staff salaries as employee contributions to the UC Retirement Plan resume, as the cost of the employee share of medical and dental benefits rises, and as a national economic recovery affects UC's efforts to recruit and retain the highest quality faculty and staff.

**Benefit Costs.** Employee health benefit costs are rising at a rapid rate (11 percent for calendar year 2009) and as previously noted, no State funds were provided for this purpose in 2008-09 or 2009-10, dramatically exacerbating an already difficult problem. Campuses have been forced to redirect funds from existing programs to address these cost increases – beyond the redirections necessary to absorb base budget cuts.

**Reinstatement of Contributions to the UC Retirement System.** In February 2009, the Regents approved a plan to restart contributions to UCRP on April 15, 2010, with an employer contribution of four percent through June 30, 2010 and of at least four percent for 2010-11. While UC's actuary will present final numbers in November, current estimates of UC's retirement covered compensation is projected to be \$2.7 billion from core funds, and at least \$7.7 billion overall. The estimated cost of a four percent employer contribution for 2010-11 will be \$109 million in core funds and \$308 million for all UC operations. The State's share of the contribution, associated with State- and student-fee-funded employees, is \$96 million.

**Retiree Health Benefits.** In 2009, 34,000 UC retirees receive health benefits at a cost to the University of \$225 million. Unless changes are proposed to the current program, this amount is projected to rise rapidly over the next ten years, to more than \$610 million by 2018, as both health benefit premiums and the number of annuitants rises quickly.

**Maintenance of New Space.** In recent years, the University has engaged in a significant capital program in order to accommodate enrollment growth, address seismic safety issues, and renew aging facilities. Each year new buildings are completed and brought into service that must be operated and maintained. With limited State support during this period of significant campus growth, UC has been forced to redirect other UC funds to provide campuses with occasional one-time maintenance funding.

**Keeping Pace with Inflation.** To maintain the quality of the instructional program and all support activities, the University must regularly replace, upgrade, or purchase new non-salary items such as instructional equipment and library materials. The University must also purchase utilities to provide energy to its facilities. Just as costs for salaries and benefits for employees rise, the University's non-salary spending is affected by inflation. Even with the efficiencies described earlier, to offset the impact of inflation and maintain the University's purchasing power, the University must identify funds to cover non-salary price increases.

**Maintaining Quality in Professional Schools.** The quality of the University's professional schools is critical to maintaining California's leadership role in fields as diverse as health sciences, business, and law. Increased funding is needed to offset rising salary and other professional school costs, as well as to maintain and enhance the schools' ability to compete for the best students and faculty.

**Proposals for a 2009-10 Mid-Year Student Fee Increase and  
an Additional Student Fee Increase in 2010-11**

**2009-10 Mid-Year Student Fee Increase**

**Why a Mid-Year Student Fee Increase is Needed.** As noted earlier, actions at the State level in July 2009 to dramatically reduce the State subsidy provided for the University's core operations have resulted in a funding shortfall of \$535 million during 2009-10. The Regents took initial steps in July 2009 to address the State reduction by implementing the temporary furlough/salary reductions plan. The previously approved student fee increases for 2008-09 and 2009-10 and the two year savings projected to be realized by restructuring UC debt were also recognized as sources of funding to limit the cuts on the campuses. At the July Regents meeting, the Chancellors described the initial estimates of the impact that the funding shortfalls will have on their respective campuses, including extensive lay-offs cancellation of classes, deferrals of faculty hiring, elimination of programs and curtailment of campus services. And, as noted previously, these actions do not take into account the \$368 million in mandatory costs that the campuses must address (e.g. unfunded enrollment, inflation, utility cost increases, health benefit increases).

Over the last few months, it has become more apparent that the breath and depth of these fiscal challenges are threatening the basic quality of the education being provided to our students. Notably, at the same time these reductions are taking place on campuses, the campuses have also been forced to rely extensively on their available base balances as one time measures to absorb the funding shortfall. Current estimates indicate that campuses available cash balances have been depleted by as much as \$300 million. Use of these one time monies is clearly not sustainable and could threaten the University's bond credit rating. And, these problems are further exacerbated by the State's decision to defer regular payments of budgeted funding totaling approximately \$1 billion until later in 2009-10. While this action was consistent with other cash deferrals in the state budget for CSU, K-12 and the community colleges, UC will incur costs to address the delayed State funding in order to cover its own monthly expenses.

In light of the above, the President and the Chancellors believe it will be extremely difficult to close the shortfall without severe damage to the University absent additional revenue. The reductions are simply too large to manage without a serious disruption of the University's ability to provide basic services and programs. Recognizing that the State's fiscal situation is severely constrained and could worsen, the President and the Chancellors also firmly believe that permanent measures must be taken during the course of the next twenty months (2009-2010, 2010-11) to begin to stabilize the University's fiscal situation. Those measures include implementing a mid-year fee increase for 2009-10 and a fee increase for 2010-11. Revenues from these fee increases will allow fewer jobs to be eliminated, fewer classes to be cancelled than would otherwise be the case, and a lesser curtailment of campus services. It is critical that the University take steps to ensure that the quality of our programs and our ability to provide basic services do not decline beyond a point of recovery.

**Proposal.** Within the current budget context, this Item proposes a mid-year fee increase for all students in 2009-10. Display 3 shows proposed increases by type of student. For example, the proposed increase for undergraduate resident students is \$585 and increases for resident graduate students range from \$579 to \$654. Because the fee increase would be effective for the spring semester, students at semester campuses would pay the entire increase when they pay for spring semester. For students at quarter campuses, the increase would be paid over the winter and spring quarters.

**Display 3**  
**2009-10 Mandatory Systemwide Fee Levels with Proposed Mid-year Fee Increase**

	Current 2009-10 Fees	Proposed Mid- Year Increase	Proposed 2009-10 Total
Undergraduate Resident	\$7,788	\$585	\$8,373
Undergraduate Nonresident	\$8,436	\$633	\$9,069
Graduate Academic Resident	\$8,736	\$654	\$9,390
Graduate Academic Nonresident	\$9,078	\$681	\$9,759
Graduate Professional (Resident and Nonresident)	\$7,722	\$579	\$8,301

Note: Students in professional programs in public health, public policy, Preventive Veterinary Medicine, and International Relations and Pacific Studies are charged the graduate academic Educational Fee level and, if applicable, the graduate professional nonresident tuition.

The UC fee levels shown above represent the value of the fee increase for only half the year. When annualized, the fee increase for resident undergraduate students would be \$1,170 and the increase for resident graduate students would range from \$1,158 to \$1,308.

Notably, the California State University Board of Trustees approved a \$306 increase in undergraduate student fees in May 2009. Two months later, in July 2009, the Trustees approved an additional \$672 increase in undergraduate student fees for 2009-10. The entire fee increase for 2009-10 is proposed to be covered by Cal Grant awards.

The proposed mid-year increase in total mandatory systemwide fees at UC would generate \$117.3 million during 2009-10 if implemented in time for spring semester and winter quarter. Consistent with current practice, an amount equivalent to 33 percent of the revenue generated from the increases for undergraduate students would be set aside to mitigate the impact of the fee increases on financially needy undergraduate students. Of the revenue generated from the graduate academic student increases, 50 percent would 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 would be set aside for financial aid. The total amount of new revenue from the mid-year increase set aside for financial aid would be \$42.2 million, providing \$75.1 million to the University to address State budget reductions, mandatory cost increases, and other pressing needs.

**Display 4**  
**Revenue Generated During 2009-10 from a Mid-year Fee Increase**  
**(dollars in millions)**

Total Revenue	Financial Aid	Net Revenue
\$117.3	\$42.2	\$75.1

This proposal is being presented to the Board for discussion at the September meeting. If there is sufficient support for the mid-year increase, an action item to approve the increases will be brought to the Board in November. The development of this proposal will include consideration of how a significant increase in student fees may affect graduate student recruitment, given the need to provide competitive support packages.

Regarding notice to students about mid-year fee increases, the University intends to widely publicize the proposed increases to students and applicants shortly after the September Regents' Meeting. To ensure successful implementation of mid-year fee increases, campuses will need to plan for changes to student billing systems and financial aid packages.

**2010-11 Student Fee Increase**

Recognizing the variety of factors that must be considered, the likelihood that State funds will not be available to fully support the University's core operating budget, and the uncertainty associated with the ability of the State to restore \$305 million in cuts from 2008-09 that are supposed to be one-time in nature, the budget plan proposed for 2010-11 should include an assumption of revenue associated with an additional mandatory student fee increase effective for 2010-11. The level of fee increase for 2010-11 will need to be weighed against the anticipated shortfalls in funding from State funds as well as the need to maintain quality as much as possible in this fiscal crisis.

An option for a further increase, equivalent to \$1,344 for resident undergraduate students (fee increases for others would vary by student level and program), is being analyzed. A proposal for a 2010-11 fee increase will be brought to the Board for approval as part of the action on the budget plan at the November meeting. The development of this proposal will include consideration of how a significant increase in student fees may affect graduate student recruitment, given the need to provide competitive support packages.

The proposed 2010-11 mandatory fee increases would generate \$291.7 million. Consistent with current practice, an amount equivalent to 33 percent of the revenue generated from the increases for undergraduate students would be set aside to mitigate the impact of the fee increases on financially needy undergraduate students. Of the revenue generated from the graduate academic student increases, 50 percent would 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 would be set aside for financial aid. The total amount of new revenue from the 2010-11 increase set aside for financial aid would be \$104.6 million, providing \$187.1 million to the University to address State budget reductions, mandatory cost increases, and other pressing needs.

**Display 5**  
**Proposed 2010-11 Mandatory Systemwide Fee Levels**

	2009-10 Fees*	Proposed Increase	Proposed 2010-11 Total
Undergraduate Resident	\$8,958	\$1,344	\$10,302
Undergraduate Nonresident	\$9,702	\$1,458	\$11,160
Graduate Academic Resident	\$10,044	\$1,506	\$11,550
Graduate Academic Nonresident	\$10,440	\$1,566	\$12,006
Graduate Professional (Resident and Nonresident)	\$8,880	\$1,332	\$10,212

\* 2009-10 fee levels assume approval of mid-year fee increases and represent the annualized fee amount.

Note: Students in professional programs in public health, public policy, Preventive Veterinary Medicine, and International Relations and Pacific Studies are charged the graduate academic Educational Fee level and, if applicable, the graduate professional nonresident tuition.

**Display 6**  
**Revenue Generated from Proposed 2010-11 Fee Increases (dollars in millions)**

Total Revenue	Financial Aid	Net Revenue
\$291.7	\$104.6	\$187.1

**Professional Degree Fees.** In addition, it is anticipated the budget plan will call for increases in professional degree fees for 2010-11 generally ranging from \$200 to \$5,200, depending on the campus and program. The proposed professional school increases are presented, along with preliminary information from the schools' three-year plans, for information at the September meeting in Item J1, *Professional Degree Programs and 2010-11 Fee Increases*.

**Differential Undergraduate Fees by Discipline.** The University also intends to ask the Regents to establish differential fees for undergraduates in certain disciplines, effective for 2010-11, similar to professional differential fees at the graduate level. The University is currently exploring implementing differential fees for students at the upper-division level (i.e., undergraduates in their junior and senior years) in business and engineering, in recognition of the higher costs associated with offering these programs. It is expected that differential fee levels in 2010-11 would be under \$1,000 annually. Various implementation issues will need to be addressed, including the return-to-aid component and impacts on access, affordability and diversity, in order to assess this fee in 2010-11.

Many other public institutions charge differential fees by discipline; in 2007-08, 46 percent of public research institutions and 53 percent of Association of American Universities (AAU) public institutions assessed differential charges by undergraduate field of study. More than half of those did so in multiple fields. Business and engineering are the most common fields for differential charges. In 2007-08, the average differential tuition charge across all disciplines was an 11 percent premium over the base tuition rate, and the incremental revenue generated by differential tuition for undergraduate programs averaged two percent of an institution's total tuition revenue in 2006-07.

*Nonresident Tuition.* For nonresident tuition revenue, it will be important to weigh the pros and cons associated with further increases in nonresident tuition. Because nonresident undergraduate students already pay much more in tuition and fees than the subsidy provided by the State for resident students and also because of concerns about the effect of tuition levels on the University's ability to attract nonresident undergraduate students, it is possible that no increase in undergraduate nonresident tuition will be proposed. Due to continuing concerns about the University's ability to recruit high-quality graduate students and the need to ensure that the University's graduate student support packages are competitive with those of other institutions seeking the same high-quality students, no increase in nonresident tuition for graduate students has been proposed for the last five years. It is anticipated that no proposal for nonresident tuition increases for graduate students will be made for 2010-11 as well. All nonresident students would experience increases in mandatory systemwide fees similar to those charged to resident students.

It would be the University's intention, as it has done in the past, to augment UC financial aid to mitigate the impact of cost increases, including fees, on needy students.

### **Fees at Public Comparison Institutions**

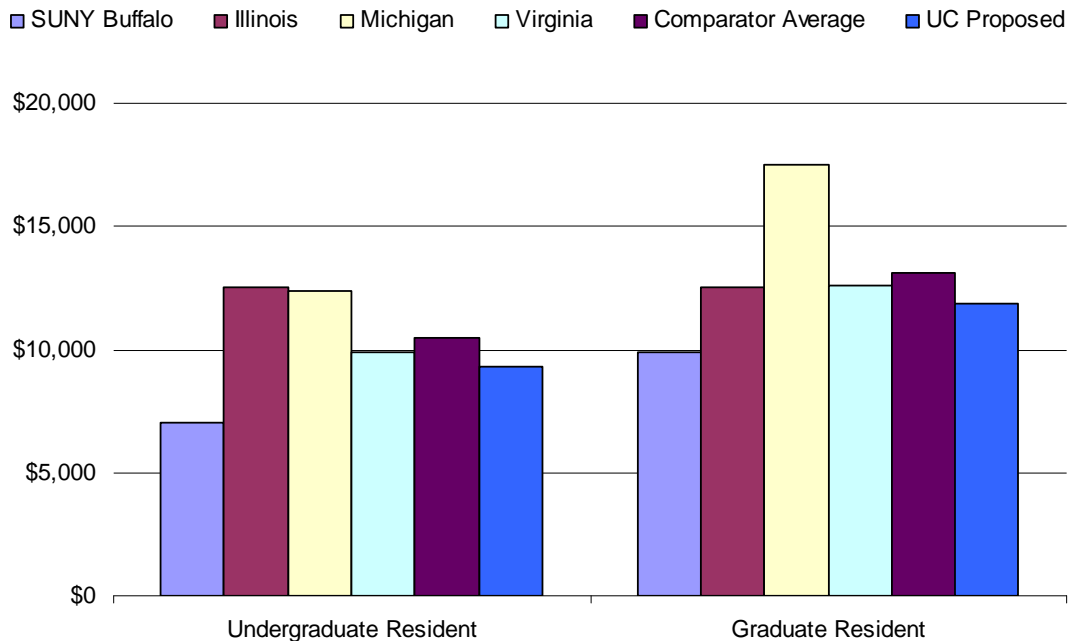
When comparing UC's fees to those at other institutions, total charges (including campus-based fees) must be used to reflect the comparison accurately.

- UC's average fees for resident undergraduate and graduate academic students are currently below total tuition and fees charged by three of its four comparison institutions in 2009-10.
- For nonresident undergraduates, UC's fees are below two of the four comparators (Michigan and Virginia). Notably, these appear to be the only public research institutions in the nation with undergraduate nonresident charges higher than UC's fee charges.
- For nonresident graduate students, UC's fees are below only one of the four comparators.

### ***Comparisons for 2009-10 Proposed Mid-Year Student Fee Increases***

Based on tuition and fee information from UC's public comparison institutions for 2009-10, a mid-year increase as proposed applied for half of 2009-10 would mean that UC's fees for resident undergraduate and graduate students would remain below three of the four comparators, as shown in Displays 7 and 8 on the following page. On an annualized basis, the proposed increase would push UC past one additional institution at both the undergraduate and graduate levels.

**Display 7**  
**2009-10 UC and Public Comparison Institution Fees**



**Display 8**  
**2009-10 UC and Public Comparison Institution Fees**

	Undergraduate Resident	Graduate Resident	Undergraduate Nonresident	Graduate Nonresident
SUNY Buffalo	\$7,013	\$9,883	\$14,913	\$14,763
Illinois	\$12,508	\$12,514	\$26,650	\$25,780
Michigan	\$12,400	\$17,475	\$36,163	\$35,133
Virginia	\$9,872	\$12,635	\$31,872	\$22,635
Comparator Average	\$10,448	\$13,127	\$27,400	\$24,578
UC	\$8,726	\$11,241	\$31,395	\$26,277
UC + Proposed Increases (half-year)	\$9,311	\$11,895	\$32,028	\$26,958

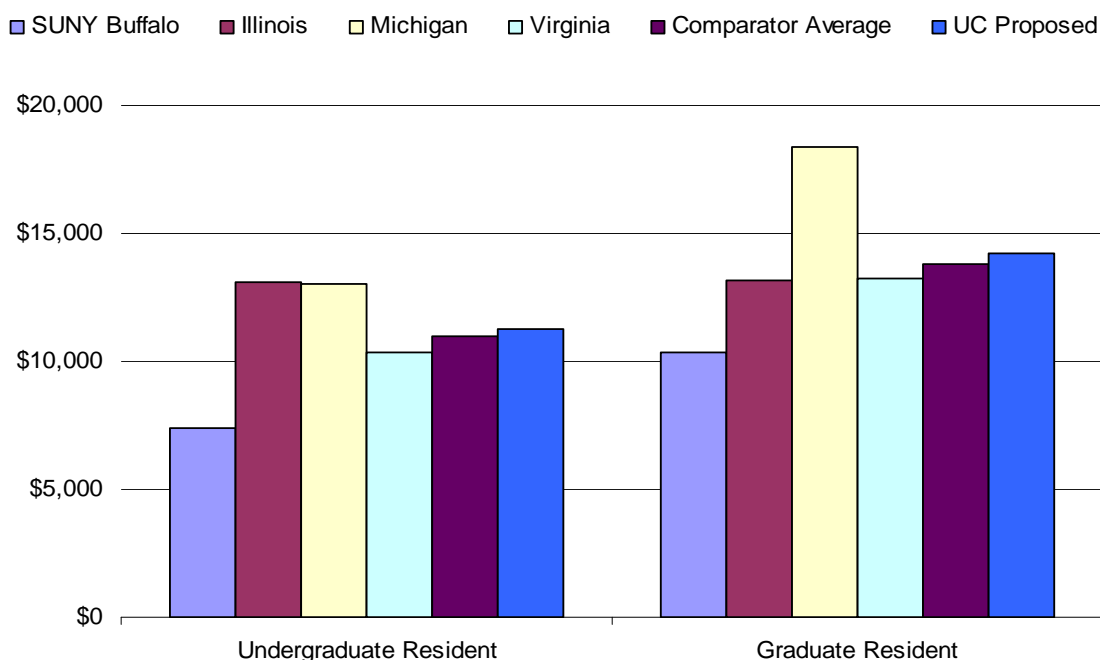
Note: Comparison institution figures include tuition and required fees as reported by the Association of American Universities Data Exchange (AAUDE). UC figures include mandatory systemwide fees and campus-based fees, nonresident tuition for nonresident students, and a waivable health insurance fee for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

***Comparisons for 2010-11 Proposed Student Fee Increases***

UC's fee increases as proposed for 2010-11 would mean that UC's fees for resident undergraduate students would remain below two of the four comparators, as shown in Displays 9 and 10. UC's fees for resident graduate students would remain below one of the four comparators. In addition, for the first time, UC fees would exceed the average of the four public

comparison institutions in 2010-11. (Displays 9 and 10 assume a 5 percent increase in comparison institutions' tuition and fee levels in 2010-11.)

**Display 9**  
**2010-11 UC and Public Comparison Institution Fees**



**Display 10**  
**2010-11 UC and Public Comparison Institution Fees**

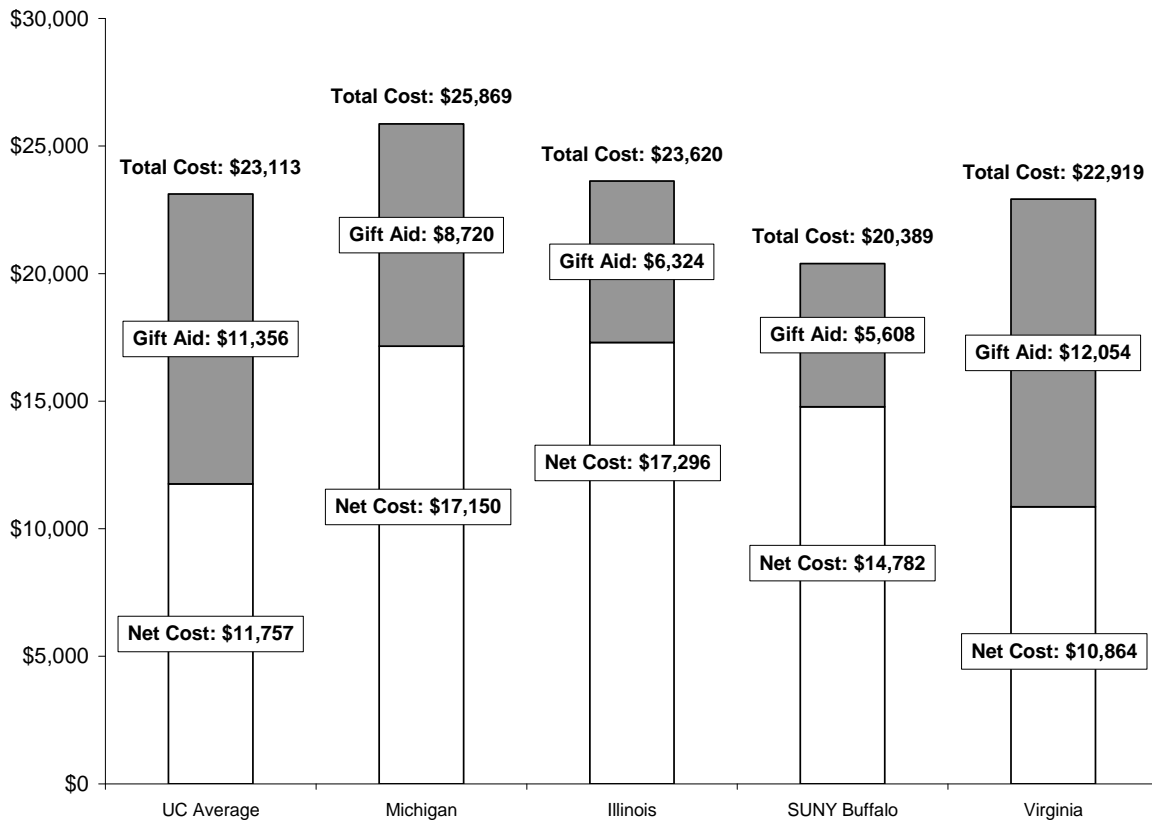
	Undergraduate Resident	Graduate Resident	Undergraduate Nonresident	Graduate Nonresident
SUNY Buffalo	\$7,316	\$10,377	\$15,659	\$14,763
Illinois	\$13,133	\$13,140	\$27,983	\$25,780
Michigan	\$13,020	\$18,349	\$37,971	\$35,133
Virginia	\$10,366	\$13,267	\$33,466	\$22,635
Comparator Average	\$10,971	\$13,783	\$28,769	\$24,578
UC + Proposed Increases	\$11,278	\$14,200	\$34,157	\$29,350

Notes: Comparison institution figures include a 5 percent increase over 2009-10 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. Mandatory systemwide fees, campus-based fees, and health insurance fees for UC include projected increases for 2010-11.

Fees represent only a portion of the total costs that students must cover, however. Display 11 depicts the average total cost of attendance – including fees, housing, books and supplies, health insurance, and other costs – for undergraduates at UC and its four 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 11, 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. Comparison institution figures for total cost of attendance or net cost for need-based aid recipients in 2009-10 and 2010-11 are unknown at this time.

**Display 11**  
**2008-09 Average Total Cost of Attendance for Undergraduate**  
**Need-Based Aid Recipients**



**Financial Aid**

UC intends to maintain its commitment to assisting financially needy low- and middle-income students through its strong institutional financial aid program including the Blue and Gold Opportunity Plan. Furthermore, UC will work with the State to ensure that the Cal Grant Program is funded at necessary levels. UC will advocate for increase in Cal Grants to cover both the proposed 2009-10 mid-year and 2010-11 fee increases.

UC's financial aid program was enhanced in several ways prior to July 2009, when the amendments to the 2009 Budget Act assigned new cuts to UC. These financial aid program enhancements – including the initiation of the Blue and Gold Opportunity Plan, augmentations to the State Cal Grant program, an influx of new resources for the Pell Grant program, and

expansion of the federal higher education tax credit – meant that each undergraduate student with family income below \$180,000 experienced an increase of \$1,200 - \$1,500 in financial aid resources. This increase was substantially higher than the \$693 fee increase that the Regents approved for resident undergraduate students in May 2009.

These enhancements and increased resources will assist undergraduate resident students if mandatory fee increases as proposed are implemented for the winter quarter/spring semester terms. In addition, the impact of the fee increases on needy students will be affected significantly by the State's actions related to Cal Grants. If the State moves to fund Cal Grant increases to cover the University's mid-year fee increase, this funding, combined with UC's own return-to-aid funding, would ensure that the fee increase would be covered for low-income students (generally those with parent income below \$60,000-\$70,000). If Cal Grants are fully-funded, UC projects that, on average, students with incomes below \$180,000 will experience financial aid increases, either through gift aid or expanded tax credits, to cover the full amount of fee increases already approved and now proposed for 2009-10.

However, if the State does not provide Cal Grant increases associated with 2009-10 mid-year fee increases by UC, the 33 percent return-to-aid on fee increases for undergraduate students will not fully cover the fee increase for UC grant recipients; on average, only about 70 percent of the fee increase would be covered for these students, increasing their net cost.

The University does plan to maintain UC's commitment, under the Blue and Gold Opportunity Plan, to ensuring that mandatory fees, including the mid-year fee increase, are covered by gift assistance. The University is currently examining options for funding the added costs. In addition, financially needy middle-income families will benefit from the University's practice of covering one-half of UC's fee increases; in fact, UC plans to increase eligibility for this coverage to now include students from families with incomes up to \$120,000 (previously capped at \$100,000).