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May 20, 2003

UNIVERSITY OF CALIFORNIA STUDENTS AND PARENTS

Dear Friends:

As you may know, California is confronting a major fiscal crisis in the form of a budget deficit estimated as high as \$38 billion. Like almost all State institutions, the University of California soon will be feeling some very painful effects from the State budget crunch. While the Governor and Legislature have not yet adopted a final 2003-04 budget, I want to take this opportunity to share the latest about what we are facing, in terms of both budget cuts and student fees.

UC's State-funded budget is approximately \$3 billion. The Governor's budget for 2003-04 includes \$300 million in base budget cuts at UC, and these are not the first budget cuts we have received. When one includes cuts of the prior two years and accounts for offsetting new revenue from student fees, UC by next year will have taken \$360 million in base budget reductions. Outside of student instruction, essentially all areas of University operations--administration, libraries, research, student services, public service, and many others--are taking major budget cuts. Some programs are slated for cuts in the range of 30 percent to 50 percent and have begun or are preparing for employee layoffs. Our faculty salaries are now trailing those of comparable public universities by a worrisome amount, as salaries are an important tool in recruiting the best and brightest scholars to our campuses.

As these issues have developed over the last several months, the University has placed one priority above all others: maintaining access and quality in the student instructional program. We have worked with the State to target cuts to non-instructional areas of the budget because we believe that students who have worked hard to gain admission to UC should receive the high-quality educational experience they expect at our campuses. We do not want to have to reduce enrollments of UC-eligible students, cut class offerings, or delay students' time to degree. It is true that some of the budget cuts we are taking will affect the overall quality of the institution and the services it provides--it cannot be helped in a budget crisis of this magnitude. But I believe we have done our best to protect the priorities of student access and academic quality that are so important to us all.

At this point, there is good news and bad news. The good news is that the Governor's May Revision to his 2003-04 budget proposal includes no further cuts for UC beyond those proposed in January. The bad news is that the Legislature, by contrast, is suggesting additional funding reductions for the University. Various proposals would cut UC's budget by an additional \$80 million to \$400 million beyond the Governor's proposals. We are working aggressively in Sacramento to fight these proposals, but we will not know the outcome for several weeks.

It is clear that as one part of the budget solution--and in order to protect access and quality at the University--a student fee increase will be necessary in 2003-04. We look to a student fee increase reluctantly, and only as part of a broader package that includes significant cuts in University spending and provides financial aid to offset the fee increase for financially needy undergraduates. The depth of the State's crisis leaves us with few options. In the current budget plan, increased fees represent only about 20 percent of our solution to the problem.

Under the Governor's budget, systemwide fees for resident undergraduates would increase \$795 during the 2003-04 year; this amount is on top of the \$405 annualized increase that took effect with the Spring 2003 term. This means that mandatory systemwide fees for resident undergraduates would rise to \$4,629 per year. For nonresident undergraduates, mandatory systemwide fees would increase \$925 and nonresident tuition would rise another \$500.

If the Legislature enacts additional budget cuts for the University beyond those proposed by the Governor, these fee figures are likely to be adjusted higher. The Board of Regents will be setting final fee levels in June or July, as soon as we have reliable information about the outcome of the State's budget deliberations.

I know that a fee increase is never welcome and that it is particularly unwelcome when families are facing many other financial pressures. For seven years beginning in the mid-1990s, we had no such fee increases; the strong California economy allowed the State to provide the funding to cover the inflationary cost increases we face every year. Right now, the State pays about three-quarters of the cost of educating each UC student. But it is clear that with the economic and budget downturn, the State's subsidy can no longer be quite so large.

One bright spot in this picture is the University's strong financial aid program, which has always been used to keep UC accessible to students of all financial backgrounds. When student fees rise, so does financial aid. As a result, we estimate that financial aid will completely cover any mandatory systemwide fee increase for approximately 40 percent of our undergraduates. In general terms, financially

University of California Students and Parents

May 20, 2003

Page 3

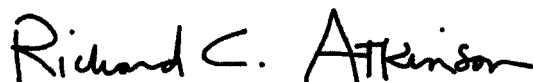
needy undergraduates from families with annual incomes of \$60,000 or less would not have to pay the fee increase; a UC grant or Cal Grant would offset it. Also, in general, other financially needy undergraduates from families with incomes up to \$90,000 would receive a UC grant covering at least a portion of the fee increase. Students from all income groups who encounter extraordinary financial difficulties would be considered on a case-by-case basis for a reassessment of their financial aid eligibility. Those who are determined to have sufficient need would receive a UC grant to offset a portion of the increase.

In addition, parents who already benefit from federal tax credits such as the Hope and Lifetime credits, which currently range in value from \$800 to \$3,000, may see them increase slightly to cover a portion of the increase. Scholarships and parent loans, of course, also are available to families in all income groups.

Again, no final decisions have yet been made, and fee levels for next Fall will be largely dependent on the outcome of the State budget. In the meantime, two Web sites may be helpful to you. One, called "You Can -- We Can Help," profiles UC students from various financial backgrounds and shows how they have made college affordable. It can be found at www.universityofcalifornia.edu/admissions/youcan/. The second, a summary of the current situation regarding UC student fees, can be found at www.universityofcalifornia.edu/admissions/feeupdate/.

Thank you for taking the time to consider these issues. I hope you will understand the magnitude of the challenge we are facing, and I hope you will support our efforts to maintain access and quality in the UC instructional program.

Sincerely,

A handwritten signature in black ink that reads "Richard C. Atkinson". The signature is written in a cursive style with a large, prominent "A".

Richard C. Atkinson
President