UNIVERSITY OF CALIFORNIA

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April 29, 2013

The Honorable Carol Liu
Chair, Senate Education Committee
State Capitol, Room 5097
Sacramento, California 95814

Re: SB 58 (Cannella), as introduced January 7, 2013
Scheduled for Hearing in the Senate Education Committee on May 1, 2013
Position: OPPOSE

Dear Senator Liu:

Regretfully, I am writing to inform you that the University of California opposes SB 58. The University acknowledges the need to address the rising cost of education; however, it is our belief that SB 58 will not be in the best interest of students and their families. We applaud Senator Cannella for addressing this critical issue, and we share the strong desire to develop a multi-year approach to setting student charges. Unfortunately, the provisions of SB 58 will lead to a serious shortfall in funding that will impair the quality of a University of California education.

Pursuant to a request from the Governor, UC has indicated that it will not pursue a general tuition and fee increase in 2013-14, even though this decision will eliminate $125 million in revenue from our approved spending plan. While some planned expenditures can be deferred another year, others cannot. Our ability to avoid a general tuition increase is heavily reliant on the Governor's proposal to allow UC to restructure lease revenue bond debt, which would generate approximately $80 million in savings that UC could use to help meet some of the shortfall caused by no tuition increase in 2013-14.

Beyond next year, however, a tuition freeze would be highly problematic. State augmentations to UC's budget only cover the State's share of our budget needs – we would need another solution for each increment of foregone tuition and fee revenue. Notably, the tuition-funded portion of the University's core operating budget is now far more than the State's portion – tuition and fee revenue provides over $3 billion while the State provides $2.4 billion for basic operations. It is not reasonable to assume that more than half of the core operating budget can withstand several years without any source of cost adjustment revenue. This is particularly true as the University ramps up employer contributions, from all fund sources, to the University's retirement program, a cost that for all other State agencies is already being funded by the State.

Other solutions to foregone tuition revenue are not easy to come by. After five years of devastating cuts, the University is already turning to every option possible – actions that save money, generate new revenue, or avoid costs – to make up for past budget cuts and address unfunded mandatory cost increases (contrary to what some may think, tuition and fee increases only addressed approximately 38 percent of the University's shortfall over the last several years).

I receive many letters each week from students, families, and others interested in the University's rising costs, asking us to consider alternatives to tuition and fee increases. There is no single issue that has received as much attention in the University over the last several years as options for saving money, avoiding costs, or generating new revenue. The University is an enormous enterprise, so there are always options for efficiencies and new ideas that generate positive fiscal results – and believe me, we're leaving no stone unturned.

Some cost-saving measures are positive efficiencies that streamline the organization and create positive results. The University instituted its Working Smarter initiative two years ago, which has already produced a positive fiscal impact of $289 million, about two-thirds of which accrue to programs funded from State funds and tuition and fees. Our goal is to reach $500 million from all sources over a five-year period. Initiatives include reducing insurance and benefit costs, centralization of procurement, increasing private giving, and a wide variety of other measures too numerous to mention here. All campuses report moving aggressively toward implementing shared service centers to reduce duplication and streamline operations.

Unfortunately, many actions to reduce costs have had a negative impact. Academic and administrative units on the campuses have been assigned cuts ranging in general from zero percent to 35 percent. More than 4,200 staff have been laid off and more than 9,500 positions have been eliminated or remain unfilled since the most recent fiscal crisis began. Over 180 programs have been eliminated and others consolidated for an estimated savings of over $116 million. Against this backdrop it is important to note that the University currently enrolls close to 10,000 students for whom it has never received funding from the State; that number is considerably higher when budget cuts are taken into account. In addition, for the first time in its history UC lost more faculty to retirement and attrition than it hired last year; total hires were more than 200 faculty less than total separations, yet enrollment has grown by more than 10,000 students since the fiscal crisis began as UC has continued to meet its commitment under the Master Plan.

Such temporary negative impacts on the University's academic programs are to be expected during periods of fiscal crisis. Yet, they are not sustainable in the long term if the University is to remain a top tier research university, one that can continue to train the highly skilled workforce needed to support a thriving State economy, an economy propelled by discovery and innovation that have kept California at the forefront in so many knowledge-based industries, from cutting-edge agriculture to information technology, from medicine to media and entertainment.

UC estimates that without new resources, it faces a projected $2.9 billion budget gap by 2016-17, a gap created by recent State budget cuts and ever-increasing mandatory costs. While actions already underway to generate efficiencies and alternative revenue will help meet half of that gap, UC cannot in subsequent years cover the remaining gap without a combination of moderate increases in both State support and tuition and fees. Not incidentally, closing this gap would only address the recent reductions in State support and new mandatory costs; it would not, however, address the negative effects on UC's academic infrastructure of nearly two decades of State disinvestment that preceded the most recent State fiscal crisis.

If SB 58 were implemented, UC would not be able to raise mandatory systemwide charges from 2013-14 through 2018-19. The resulting loss in revenue would total $753 million.

Because tuition is an essential revenue source for the University of California, it benefits all students by helping to maintain the quality of a UC education – course availability, access to talented faculty, etc. Equally important, however, is the critical role it plays in UC's ability to remain accessible to financially needy students. Increases in systemwide tuition and fees generate funding for UC's own institutional aid program due to the University's practice of setting aside a portion of new revenue for need-based aid. This aid, roughly $630 million in 2012-13, helps UC undergraduates cover both tuition and other expenses, i.e., housing, books and supplies, etc.

Therefore, freezing tuition primarily benefits middle- and higher-income students who do not qualify for financial aid, but results in higher net costs for low-income students because it doesn't generate any additional financial aid to help cover increases in the cost of attendance. Alternatively, tuition increases result in a lower net cost for lower-income students because the increases generate enough financial aid to both cover the tuition and fee increase and help offset increases in other costs.

UC has a remarkable track record in providing financial access to students at all income levels and in mitigating the impact of fee increases. Nearly 40 percent of UC undergraduates are low-income Pell Grant recipients, far more than at any comparable university. In contrast, the estimated percentage at other AAU public institutions is less than 25 percent, and less than 20 percent at AAU private institutions. In addition, over the past decade, UC has seen an across-the-board decline in students' self reported work hours and almost half of the UC graduating class of 2012 graduated with no student loan debt. Among those with loans, average debt was $19,750, well below the average of $25,250 at other public AAU universities.

As noted, a modest and predictable fee program will help ensure a quality UC education, but it must be conducted with an eye toward affordability and access. To that end, we have implemented several financial aid policies and programs to minimize the effect of fee increases on students. These policies and programs include:

- **Expansion of the Blue and Gold Opportunity Plan**

  The Blue and Gold Opportunity Plan was expanded to include eligible resident undergraduates with family incomes up to $80,000 in 2011-12. Under the higher income ceiling, California residents with financial need and family incomes of $80,000 or below are assured that they will receive gift assistance that will, at a minimum, cover all their mandatory systemwide fees. Overall, Blue and Gold covered an estimated 75,000 UC students in 2011-12.

- **Project YouCan**

  Project YouCan is an ambitious effort in which all ten UC campuses have committed to raise $1 billion in the aggregate over a four-year period from private sources. This effort will double the amount of private support the system has raised for scholarships, fellowships and other gift aid.

- **Middle-Income Grants**

  UC also covered the 2011-12 fee increase for financially needy undergraduates whose family income is $80,000 to $120,000. The University estimated that about 14,700 undergraduates – about half of the total number in this income range – had their fee increase fully covered.

We appreciate and share the authors' interest in finding ways to provide predictability and stability with regard to fees. The University is committed to examining options for doing this while simultaneously continuing its longstanding commitment to provide students with the necessary financial aid to minimize the impact of fee increases, and preserving the quality of a UC education. Thank you for your consideration of the University's views. If you have any questions on the University's position on SB 58, please do not hesitate to be in touch with UC Legislative Director Adrian Diaz at (916) 327-3299.

With best wishes, I am,

Sincerely yours,

Mark G. Yudof
President

cc: Vice Chair and Members, Senate Education Committee
The Honorable Anthony Cannella