THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

As you know, the State of California is facing a budgetary crisis that is clearly the worst in the state’s history. The 2003-04 fiscal year has begun without a state budget in place, and the lack of agreement means that the University continues to face the threat of deeper budget cuts than have already been proposed for this year.

I am writing to provide an update on the status of our budget and to describe a proposal I will be bringing to the July Regents’ meeting for your consideration. Further details will be provided in the written Regents’ item that will be mailed this Thursday, July 3, but because these are extraordinary times, I want to provide you with an overview of the issues in advance.

In order to cope with the worsening state budget situation without harming the quality of the student educational experience, I am recommending that the University borrow money for the 2003-04 year and raise student fees by a significant amount. In addition, I am increasingly concerned that if the University continues to take deeper budget cuts, we may be faced with no choice but to begin restricting student enrollments in 2004-05. While such constraints are not possible in 2003-04 because UC already has admitted all new students for the year, enrollment reductions may be unavoidable in 2004-05 if state budget cuts worsen.

Background

As you know, under the original Governor’s Budget for 2003-04, the University’s Partnership Agreement will be underfunded by $1 billion this year. About $360 million of this problem is being addressed through base budget cuts to existing programs in 2001-02, 2002-03, and those proposed for 2003-04; another $180 million in cuts targeted at instruction is expected to be offset by student fee increases; and the remaining $420 million represents funding we have not received for faculty and staff salaries, inflation, and other cost increases.

It is hard to overstate the impact of this underfunding. Over a three-year period, our student enrollments have grown 18 percent while our state-funded budget – under the Governor’s plan – has declined 6 percent. Faculty salaries this year will lag the average of our comparison institutions by 9 percent, and we have a similar problem with respect to staff salaries. All non-instructional programs are taking significant cuts, including administration, libraries, research, outreach, student services, and Cooperative Extension, and layoffs are being planned or implemented in many of these areas. Throughout the
University, people are working harder than ever to do more with less. And in addition to the state budget cuts we are absorbing, the University is contending with $100 million in other cost increases for which we are receiving no new funding – including faculty merit increases, employee health benefit costs, energy costs, and other inflationary increases.

Rising student fees, of course, are another unfortunate impact of this budget crisis. We had intended to bring The Regents an action item on final 2003-04 student fee levels at the May meeting, but we deferred the item due to the continuing uncertainty over the state budget outcome. The uncertainty has only continued to grow, however.

Current status

Deep differences over the resolution of the state budget crisis continue to divide Democrats and Republicans in the Legislature, and at this point, it is impossible to predict when a final budget will be adopted. There also are differences between the versions of the budget developed by Democrats in each of the houses. The major issues currently facing the University are:

- **Additional cuts**: In addition to the base budget reductions in the Governor’s Budget, it appears virtually certain that the University will take an additional $80.5 million reduction. This reduction has been opposed by the Governor but is currently proposed as a one-time cut in both the Assembly and Senate versions of the budget. The Governor’s Office has committed to restoring this funding in the 2004-05 year. But with an ongoing structural problem in the state budget of between $8 billion and $10 billion, the University may well face other budget cuts next year even if the $80.5 million is restored. **Furthermore, Assembly Democrats have made new budget proposals that would cut UC by an additional $45 million; Assembly Republicans have issued a plan that would mean at least $400 million in new cuts to the University; and Senate Republicans are considering significant additional cuts to UC.**

- **Outreach**: The Governor’s Budget called for a 50 percent reduction to outreach programs, a total cut of $37.7 million. The Assembly version of the budget would restore the entire budget for outreach, while the latest Senate version supports the Governor’s 50 percent reduction. We do not believe we can accept such a reduction to these critical programs, and we will need to consider our options if adequate state funding is not provided.

- **UC Merced**: The Assembly version of the budget supports the Governor’s proposal to provide $11.3 million in one-time funds to allow the campus to continue recruiting faculty and staff needed in order to open by 2004. The Senate version delays the opening of the campus for one year and removes from the Merced budget $4 million in associated savings.

Proposal for July Regents’ meeting

I am deeply concerned that further cuts to programs would harm the quality of the UC student educational experience. And because we have already admitted all students for the 2003-04 year, we cannot cope with the above reductions by reducing enrollments this academic year. Therefore, I am proposing that we address the current problem through the following means:
• **Borrowing:** We would seek one-time debt financing for approximately $40-50 million of the $80.5 million cut, to be paid off through an additional 6 percent increase in nonresident tuition.

• **Student fees:** We would raise mandatory systemwide student fees to address the remainder of the $80.5 million cut. More specifically, I intend to bring the following fee recommendation to The Regents at the July meeting:
  
  o **A minimum student fee increase of 25 percent** above the current fee level (which reflects the $405 annualized increase that was adopted for the spring 2003 term). For resident undergraduates, the additional 25 percent increase would raise fees $960, or $165 more than the $795 fee increase assumed in the Governor’s Budget. Graduate and professional school fees would be raised by a similar percentage, and nonresident tuition would be increased 10 percent, or 6 percent higher than was proposed in the Regents’ Budget last November.

  o **The granting of authority to the President by The Regents to raise mandatory systemwide fees up to 30 percent if necessary,** once we know the outcome of the state budget. Such authority would include a requirement that I consult with the Chairman of the Board as well as the Chairman of the Finance Committee before instituting a further increase. I would only increase the fee to address additional cuts facing the University when the budget is finalized. A 30 percent increase would mean a resident undergraduate would pay an additional $1,150 in 2003-04, rather than the additional $960 under the 25 percent scenario.

There is, as suggested above, the possibility that the Legislature will adopt even deeper budget cuts for the University in 2003-04. In that event, I would call a special meeting of the Board to consider additional budget cuts and fee increases above the 30 percent level. Such action would be deeply regrettable, but given the state of legislative deliberations on the budget at this time, we must consider it an open option.

Fee increases of any level are difficult, and I make this proposal with the greatest regret. But I believe the only alternative is to damage the core quality of the University, including the quality of the student instructional program, in such a way that it would take years if not decades to recover. I do not believe The Regents would support such a course of action, and I do not believe students and parents would be pleased with the results, either.

Under any fee scenario, UC will continue its commitment to financial aid. We expect that, in general, financially needy students with family incomes of $60,000 or less would have the fee increase fully covered by financial aid; and in the case of financially needy students with family incomes of between $60,000 and $90,000, a UC fee grant would cover approximately half of the increase. It also is worth recalling that mandatory systemwide student fees for resident undergraduates today are just $35 per year more than they were in 1994-95, and that we have made a number of communications efforts to warn students and parents of a fee increase. Even under the 30 percent scenario, our resident fees would remain more than $1,200 below the average of our comparison institutions.
Potential reductions in 2004-05 enrollments

While we are not able to consider enrollment reductions for 2003-04 because we have already admitted all new students, enrollments could be curtailed for 2004-05. **If the $80.5 million reduction is not restored in the 2004-05 budget or if we take other additional budget cuts, we may have no alternative but to, no later than January 2004, institute enrollment constraints for the fall 2004 entering class.** Enrolling 5,000 fewer freshmen and transfer students than we are planning in 2004-05 would save $45 million in state funds, and the remainder of the $80.5 million cut would be absorbed through the higher student fees that will already have been implemented. Specific 2004-05 fee levels will be set only after we have a full understanding of the 2004-05 state budget, of course.

Reducing enrollments clearly would be distressing. UC has a proud tradition of guaranteeing access to a high-quality education for the state’s very best students. But continuing state budget cuts could very well leave us with no choice, and I believe it is important to communicate that message very clearly in Sacramento.

I realize how difficult these issues are for us to face. I appreciate your consideration of the points above and look forward to our discussion at the July meeting.

Fiat Lux,

Richard C. Atkinson
President

cc: Chancellors