UNIVERSITY
OF
CALIFORNIA

Supplemental Information for the Proposed Tuition Stability Plan

Prepared pursuant to the budget consultation process established between the University of California and the University of California Student Association

Context

The information provided in this report is intended to provide helpful context for the multi-year tuition stability plan that will be presented to the University of California Board of Regents for action on July 22, 2021. The report addresses topics referenced in the University's memorandum of understanding (MOU) with the University of California Student Association (UCSA) on student consultation, which are analogous to provisions of the *Working Families Student Fee Transparency and Accountability Act* (Sections 66028 through 66028.6 of the California Education Code).

Why the University is Proposing Adjustments to Tuition and Fees

As described in items presented to the Regents in March 2019 (item B2, *Proposed Multi-Year Budget Plan*), September 2019 (item F11, *Preliminary Discussion of the University's 2021 Operating Budget*), November 2019 (item B4, *Approval of the University of California's 2020-21 Budget for Current Operations*), January 2020 (item B2, *Discussion of University of California Tuition and Fee Plan*), and November 2020 (item B4, *Approval of the University of California's 2021-22 Budget for Current Operations),* the University faces a combination of mandatory cost increases and high-priority investments each year that must be addressed in order for the University to ensure that current and future generations of UC students from all socioeconomic backgrounds have access to the same world-class educational opportunities enjoyed by past generations.

The University must address these needs within a fiscal environment that is already challenging following years of enrollment growth and other cost increases that have outpaced increases in State support, and having held tuition flat for 9 of the past 10 years. As detailed in the University's 2020-21 *Summary of the Budget Request*,

- Instructional expenditures per student are lower today than they were two or three decades ago.
- The student-to-faculty ratio has continued to worsen, resulting in larger class sizes and fewer opportunities for students to meaningfully engage with ladder-rank faculty.
- Staff support for students and faculty has not kept pace with enrollment growth.
- Salaries for ladder-rank faculty continue to lag the University's competitive benchmark.
- The University faces a growing backlog of deferred maintenance needs that cannot be addressed with current resources.
- A declining percentage of students are able to get into their first-choice major.
- Students report that they are less likely to know at least one professor well enough to ask for a letter of recommendation.

Moderate and predictable adjustments to student tuition and fees can play a critical role in addressing these needs. Moreover, increases to these charges would result in additional financial aid that would not only fully cover any increase for more than one-half of California undergraduates but would also provide students with additional resources to cover increases in living expenses, books and supplies, and other components of the total cost of attendance. (See "Mitigating the Impact of Proposed Adjustments on Students" below for additional information.)

For undergraduate students, the University proposes assessing adjustments to these charges on a cohort basis in which adjustments would apply only to incoming cohorts of students. For graduate students, adjustments would be generally pegged to the rate of inflation and would apply to both new and continuing students. See "Projected Changes to Tuition, the Student Services Fee, and Undergraduate Nonresident Supplemental Tuition" below for additional information.

How New Revenue from Tuition and Fees Would be Used

The single biggest commitment of new revenue from the proposed adjustments to tuition and the Student Services Fee would be for student financial aid. An amount equivalent to 40 percent of the undergraduate tuition and Student Services Fee increase, 20 percent of the undergraduate Nonresident Supplemental Tuition increase, 50 percent of the graduate academic student tuition and Student Services Fee increase, and 40 percent of the graduate professional student tuition and Student Services Fee increase will be set aside for financial aid.

The remaining net revenue from tuition and fees, together with additional State funds and the University's own resources, would be used to support the investments shown below. Although some of these investments would be supported exclusively by State funds (e.g., debt service for capital projects), tuition and fees are largely interchangeable with State funds and, hence, would help the University address many of these needs.

- *Providing Support for Current Enrollment.* Between 2014-15 and 2020-21, enrollment of California resident undergraduates grew by an estimated 26,400 students based on full-time-equivalent (FTE) enrollment. State Budget Acts during that period provided funding for only 14,360 additional FTE, resulting in unfunded growth of over 12,000 students. Without State funding to support this additional enrollment growth, campuses must rely more heavily on other sources, including tuition and fees, to address the need for additional faculty, academic advisors, and other staff to serve the students that they already enroll.
- *Faculty and Staff Support.* Faculty and staff salaries represent a significant portion of the University's expenditures from core funds, as they do at other colleges and universities. The University's budget must address projected salary increases for both represented and nonrepresented faculty and staff.
- *Employer Contributions to the University of California Retirement Plan (UCRP).* In September 2019, the Regents approved a plan to gradually increase employer contributions to UCRP based on updated actuarial projections that resulted in a larger unfunded liability.
- *Employee and Retiree Health Benefits.* Health benefit costs rise annually due to increases in the cost of health care and projected increases in the number of UC retirees.
- *Instructional Equipment, Supplies, and Other Non-Salary Price Increases.* Prices for items such as instructional equipment, laboratory supplies, computers, machinery, library materials, and purchased utilities tend to rise each year, requiring additional resources.
- *Debt Service for Capital Projects.* Absent the availability of new State bond proceeds, the University has relied increasingly on its own State General Fund appropriation to finance the design, construction, and equipment of academic facilities to address seismic and life safety needs, enrollment growth, and modernization of out-of-date facilities.
- *Enhancing Degree Attainment, Eliminating Opportunity Gaps, and Investing in Faculty.* Each UC campus has developed strategies for achieving ambitious goals for improving graduation rates and reducing opportunity gaps by 2029-30, as well as multi-year goals related to faculty hiring and development to enhance the quality of student instruction and engagement, increase faculty diversity, expand research opportunities and impact, and support California's health care needs. In November 2019, the Regents

approved additional investments specifically intended to support students with especially challenging circumstances, including undocumented students, foster youth, and formerly incarcerated students.

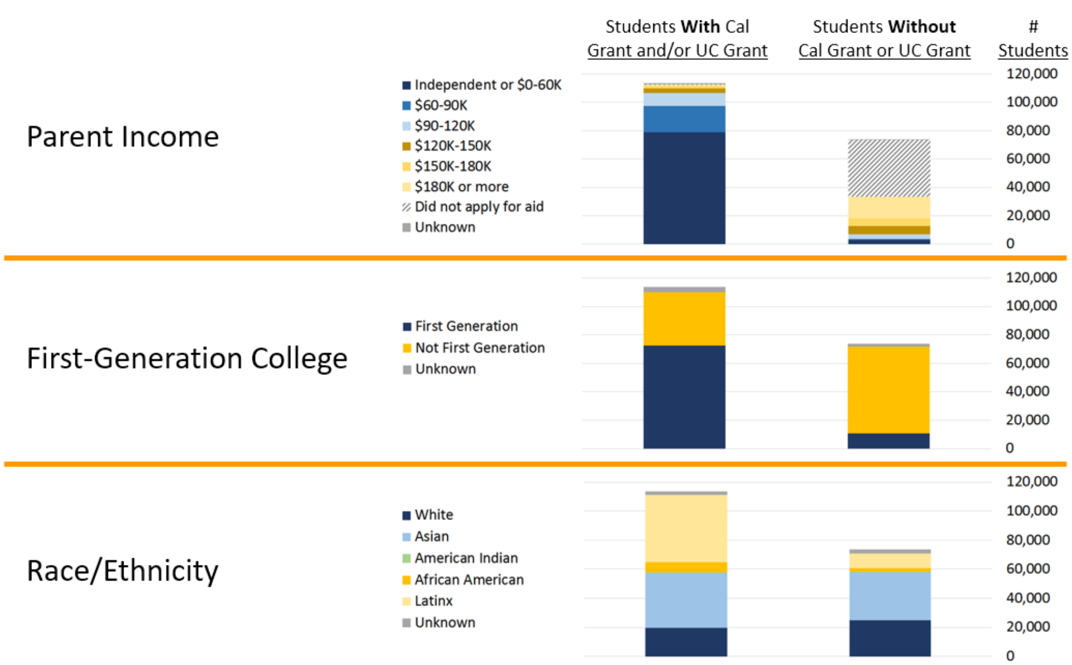
- *Student Academic Preparation and Educational Partnerships (SAPEP).* The SAPEP portfolio of programs prepares California students for postsecondary education and for graduate and professional school opportunities. State support for these programs has remained unchanged in recent years, limiting their potential to serve greater numbers of students.
- *Student Mental Health.* The University must continue to increase its investment in counselors and other student mental health professionals in order to improve student access to these critical resources.

Mitigating the Impact of Proposed Adjustments on Students

As noted above, enhanced student financial aid represents the single biggest use of the new revenue resulting from the proposed adjustments to tuition and fees.

- For more than half of UC *California resident undergraduates*, the adjustments will be fully covered by increases in University and State financial aid. Together, this aid will not only offset the adjustments for more than 100,000 students but also provide students with additional assistance to help students cover expenses such as housing, food, books, and supplies. For example, a total adjustment of $534 (4.2%) to tuition and the Student Services Fee for incoming undergraduates in fall 2022 would result in lower overall costs for UC undergraduates with the greatest financial need, whose financial awards would increase by more than their increase in tuition and fees. The estimated annual net benefit for these students is projected to increase to $1,000 annually by 2026-27 as the tuition stability plan is phased in.

  The display below presents demographic information about California resident undergraduates whose financial aid awards would be expected to increase in response to an increase in tuition and the Student Services Fee (i.e., students with UC grants and/or Cal Grants) and students without such awards, who would face a higher net cost as a result of an increase. *Students with UC grants and Cal Grants are far more likely to be from lower-income families; first-generation college students; and students from underrepresented minority groups compared to students who would actually pay the increase.*



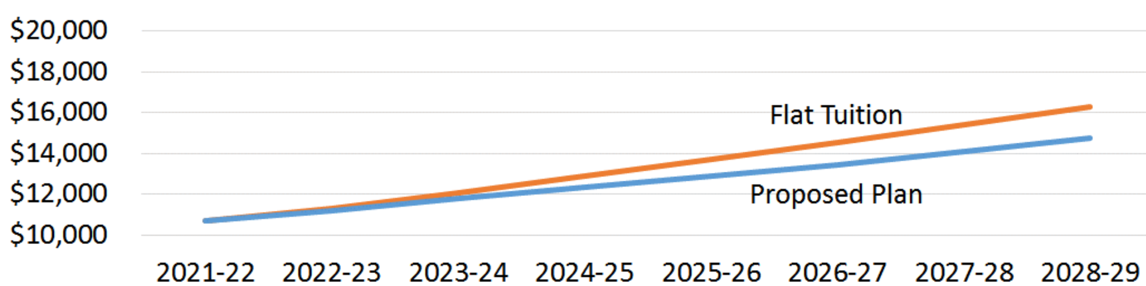
- For *nonresident undergraduate students*, an amount equivalent to 20 percent of the resulting increase to Nonresident Supplemental Tuition (NRST) would be set aside to provide financial aid to domestic nonresident and international undergraduate students with financial need. As a result, UC campuses will be better positioned to support nonresident undergraduates from lower- and middle-income families. For example, the new resources for financial aid would be enough to fully cover the proposed increase for 20 percent of all nonresident undergraduate students.
- *At the graduate level*, additional funding would be available to programs and departments to provide whatever forms of student financial support are most appropriate in light of their enrollment goals and the students that they serve. For example, fellowship and assistantship support is particularly important to academic doctoral programs that compete against the very best public and private institutions worldwide to enroll the most talented students. New funding provided under the plan would enhance these programs' ability to craft desirable multi-year offers of support.

  Graduate programs in professional disciplines provide fellowships and grants to assist students from all socioeconomic backgrounds to obtain professional degrees, thereby enabling these students to make significant contributions to their respective fields. Under the proposal, 40 percent of the revenue generated by increases to the base tuition and Student Services Fee paid by these students would be set aside for financial aid – an increase for the 33 percent set-aside that had applied to past increases. In addition to funding provided under the budget plan from mandatory systemwide charges, professional degree programs are also expected to supplement financial aid resources by an amount equivalent to at least 33 percent of new Professional Degree Supplemental Tuition revenue, or to maintain a base level of financial aid equivalent to at least 33 percent of the total Professional Degree Supplemental Tuition revenue.

Projected Impact on Student Self-Help (Work and Borrowing)

The display below shows projected undergraduate self-help levels under two scenarios: (a) holding tuition and the Student Services Fee flat over time and (b) adopting the proposed tuition stability plan.

Projected Impact on Student Self-Help from Adopting the Proposed Tuition Stability Plan



The highest self-help levels result when tuition and fees remain flat. With no additional tuition revenue to enhance financial aid packages, students must cover cost increases such as rent, food, and supplies themselves. In contrast, regular adjustments to student charges result in regular increases in financial aid, allowing for lower self-help levels and less need for students to work or borrow to cover the total cost of attendance.

The potential four-year impact of these differences on students' debt at graduation is significant. For example, if a student were to cover the expected increases in self-help by additional borrowing, **the tuition stability plan would reduce student debt at graduation by an estimated $1,746** compared to holding tuition flat.

Alternative Proposals that Can Be Considered and Efforts to Cut Costs and Explore Other Revenue Options

Under the tuition stability plan, increases in ongoing State support would continue to be an alternative to increases in student tuition and fees. Specifically, the plan would authorize the President to reduce the proposed tuition and fee adjustments if the State were to provide an annual increase of more than five percent to the University's permanent base budget to buy out some or all of the proposed adjustments.

The University has also considered maintaining a traditional, across-the-board approach to adjusting undergraduate student charges instead of the cohort-based approach reflected in the tuition stability plan. A cohort-based approach was deemed to be preferable because of the much greater predictability that it would provide to students and parents: once enrolled, students and their families would not need to factor in annual changes to systemwide charges when developing their college financing plans.

The University's multi-year budget projections include revenues and savings achieved from the University's own efforts to generate funds and reduce costs. The University has made great strides over the past decade in identifying alternative revenue sources, reducing elements of its cost structure, and optimizing the use of existing resources. The budget plan already expects further contributions from these efforts. Specifically:

- Further opportunities exist to shift a portion of the University's working capital into higher-yield investment vehicles. The University believes that such a strategy could generate year-over-year increases of up to $36 million in new, fungible resources to address a portion of the University's overall budget needs.
- The UC continues to expand efforts to leverage its purchasing power to negotiate discounts and rebates from vendors and service providers. The budget plan anticipates additional year-over-year savings equivalent to 25 percent of the University's projected increase in non-salary expenditures from core funds along with a permanent reduction in travel expenses compared to pre-pandemic levels.
- The plan includes growth in nonresident undergraduate enrollment at those campuses that remain below the nonresident enrollment cap previously approved by the Regents. Nonresident Supplemental Tuition has a positive impact on the net financial resources available to campus.

These expected contributions are already ambitious. The potential for sufficient *additional* revenues from these sources, or *additional* cost reductions, to avoid the need to adjust tuition and fees over time is not realistic.

Comparison of Tuition and Fee Levels to Peer Public Institutions for Resident and Nonresident Students

The display at right shows 2020-21 tuition and required fees for resident and nonresident students at the University of California and its public comparison institutions. Comparison institution figures include tuition and required fees. UC figures include campus-based fees, mandatory systemwide charges, and Nonresident Supplemental Tuition for nonresident students. Undergraduate figures for Illinois, Michigan, and Virginia represent the average of the highest and lowest rates at each school. Actual rates may vary by major and/or year in school.

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
Public Comparison Institutions				
SUNY Buffalo	$10,526	$28,196	$14,238	$26,028
Illinois				
Lowest	$15,198	$31,318	$16,338	$31,626
Highest	$20,510	$43,308		
Average	$17,854	$37,313		
Michigan				
Lowest	$15,948	$52,266	$24,772	$49,548
Highest	$21,960	$60,668		
Average	$18,954	$56,467		
Virginia				
Lowest	$16,590	$49,920	$19,486	$31,360
Highest	$26,906	$60,618		
Average	$21,748	$55,269		
UC	$14,077	$43,831	$13,533	$28,635

Projected Changes to Tuition, the Student Services Fee, and Undergraduate Nonresident Supplemental Tuition

Figures shown on the following page represent the charges that would result from the proposed tuition stability plan. Under the plan, the applicable rate of inflation for calculating adjustments to student charges would be the three-year average annual change in the California Consumer Price Index (CPI-U) based upon the latest available forecast published by the California Department of Finance as of July 1 prior to the year indicated (e.g., July 1, 2021 for 2022-23) and adjusted to reflect any differences between actual and forecasted levels in the prior year. Charges shown for 2023-24 and later year are estimates only and would be revised after July 1, 2022 using updated inflation figures.

For undergraduate students, figures represent the amount charged to students in their first year, which would then remain flat for up to six years. The charges are based upon the following schedule:

Year Student First Enrolls at UC (Entering Cohort)	Increase Over Amount Charged to Students Who Entered in Prior Year
2022-23	Inflation + 2%
2023-24	Inflation + 1.5%
2024-25	Inflation + 1.0%
2025-26	Inflation + 0.5%
2026-27	Inflation

Note that although the proposed <u>initial</u> adjustment for incoming California resident students in 2022-23 ($534 in combined tuition and the Student Services Fee) is greater than the proposed adjustment for graduate students that year ($282), the <u>average</u> tuition rate paid by undergraduate and graduate students over a four-year period would be similar, as shown in the table below. That is because a fall 2022 incoming freshman undergraduate student would pay the same amount ($13,104) over the course of four years, whereas charges for graduate students would be adjusted annually for inflation.

	2022-23	**2023-24**	**2024-25**	**2025-26**	**Four-year Total**	**Average**
Fall 2022 incoming undergraduate	$13,104	$13,104	$13,104	$13,104	$52,416	$13,104
Fall 2022 graduate student	$12,852	$13,176	$13,542	$13,944	$53,514	$13,379

Projected Adjustments to Student Charges
Under the Tuition Stability Plan[1]

Incoming Undergraduate Cohorts							
		Current	**Academic Year First Enrolled**				
		2021-22	**2022-23**	**2023-24***	**2024-25***	**2025-26***	**2026-27***
Tuition	Amount	$11,442	$11,928	$12,414	$12,888	$13,338	$13,734
(Incoming Undergraduates)	$ Change		$486	$486	$474	$450	$396
	% Change		4.2%	4.1%	3.8%	3.5%	3.0%
Student Services Fee	Amount	$1,128	$1,176	$1,224	$1,266	$1,308	$1,344
(Incoming Undergraduates)	$ Change		$48	$48	$42	$42	$36
	% Change		4.3%	4.1%	3.4%	3.3%	2.8%
Total: Tuition/Student Svcs Fee	Amount	$12,570	$13,104	$13,638	$14,154	$14,646	$15,078
(Incoming Undergraduates)	$ Change		$534	$534	$516	$492	$432
	% Change		4.2%	4.1%	3.8%	3.5%	2.9%
Nonresident Supplemental	Amount	$29,754	$31,026	$32,298	$33,528	$34,698	$35,736
Tuition (Incoming	$ Change		$1,272	$1,272	$1,230	$1,170	$1,038
Undergraduates)	% Change		4.3%	4.1%	3.8%	3.5%	3.0%
New and Continuing Graduate Students							
		Current	**Academic Year**				
		2021-22	**2022-23**	**2023-24***	**2024-25***	**2025-26***	**2026-27***
Tuition	Amount	$11,442	$11,700	$12,000	$12,336	$12,702	$13,080
(Graduate Students)	$ Change		$258	$300	$336	$366	$378
	% Change		2.3%	2.6%	2.8%	3.0%	3.0%
Student Services Fee	Amount	$1,128	$1,152	$1,176	$1,206	$1,242	$1,278
(Graduate Students)	$ Change		$24	$24	$30	$36	$36
	% Change		2.1%	2.1%	2.6%	3.0%	2.9%
Total: Tuition/Student Svcs Fee	Amount	$12,570	$12,852	$13,176	$13,542	$13,944	$14,358
(Graduate Students)	$ Change		$282	$324	$366	$402	$414
	% Change		2.2%	2.5%	2.8%	3.0%	3.0%

*Estimates based on latest available projections of the California Consumer Price Index (CPI-U)

[1] Slight differences in the percentage increase for charges in the same year are due to the University's practice of having each charge be divisible by $6 to facilitate campus billing processes which, depending on the campus, occur either two or three times per academic year.