

**FORMER UNIVERSITY OF CALIFORNIA CHANCELLORS URGE
NEW FUNDING MODELS FOR UC**

October 2011

ABSTRACT

In this era of massive budget cuts, the survival of the University of California as a great institution of learning has become the subject of increasingly urgent debate. Twenty-two of the twenty-nine living former UC chancellors met in San Francisco on June 26-28, 2011 to discuss the current threats facing the University and all of California public higher education. Although the chancellors were not unanimously agreed on every point, there was general consensus regarding the principal recommendations on funding the University and protecting its quality. On August 4, 2011 they sent UC President Mark Yudof this report on their discussions.

Dear President Yudof:

Thank you for joining us during our assembly of former UC chancellors in San Francisco on June 26-28. As you know, this meeting involved 22 of the 29 living former chancellors. Some of us served as long ago as the 1960s, and one of us was involved in drafting the 1960 California Master Plan for Higher Education; all of us share a deep concern for the University of California. Vice President Patrick Lenz's comprehensive presentation on the budget was immensely useful to our discussions, and we especially appreciate your taking the time to give us your perspective on UC as well as listening to our thoughts and suggestions. As we promised, we are writing now to share some of the ideas that came out of our two-day meeting.

Our first message is that we support the actions you and the Regents are taking to address the current fiscal crisis and want you to know of our desire to help in any way we can. There can be no doubt that the University faces the most far-reaching restructuring of public higher education in this state since the 1960 Master Plan. Today's California, however, is very different from the California of 1960. The Master Plan was the product of a disciplined and coordinated effort by the leaders of California's public and private colleges and universities to create a better and more stable future, grounded in the conviction that higher education is a public good. Today's restructuring is the sad outcome of decades of ballot-box budgeting, unfunded mandates, and other political restrictions on the rational use of the State's General Fund. The unintended consequence is that the University of California and the California State University have been relegated to struggling for essential support within the 15 percent of the State budget that remains discretionary and within the Legislature's control. Our two institutions are now the single easiest target for budget reductions. High levels of public approval and low levels of State funding have become a pattern in California. A UC or CSU education is, by default, increasingly treated as an exclusively private good, rather than as the benefit to society it was traditionally held to be.

This can have only one outcome for the University. The Regents and the UC community will ultimately be forced to decide whether the University will continue to be among the best universities—not just one of the better public universities—in the world. We consider it imperative that the choice be the more difficult path of remaining a great university. So it is critical to understand where the budget news leads and what can be done about it.

It goes without saying that the faculty are pivotal. They are the ones who will create new academic models and new and more efficient educational delivery systems. For this reason, we are especially worried about faculty recruitment and retention; a central mechanism for tracking both might be useful to you and the chancellors. We are just as concerned about maintaining the quality of graduate education and opportunities for research. The University must have an evolving intellectual agenda in key areas of research, scholarship, and education, developed by the faculty, articulated by the chancellors and the president, and supported by the Regents. This is what attracts faculty to the University and creates rallying points for the state's opinion leaders, the general public, and our students.

SURVIVAL SOLUTIONS

Public multicampus systems like UC have essentially two sets of solutions for survival in a deficit-ridden world. The first is non-controversial:

- effecting educational and administrative efficiencies;
- obtaining more research funding and higher indirect cost reimbursement through federal contracts and grants;
- expanding private fund-raising and additional sources of revenue, such as part-time professional degree programs and patent income from university-sponsored research.

A second and controversial set of options includes the following:

- raising out-of-state and international student enrollments as a greater source of revenue;
- increasing tuition levels uniformly throughout the system;
- imposing differential tuition—individual campuses set their own student fees so that more selective campuses can generate additional revenue to offset cuts in state funding;
- adopting a privatization model—through which all or parts of university operations become, in essence, financially self-sustaining.

The University of California is vigorously pursuing every one of the first set of solutions and beginning to explore the second. Our campuses are now admitting more out-of-state and international students. This is a reasonable if sometimes controversial policy, given the state of public funding for students who *are* California residents, and it offers potential educational advantages as well. We understand the Regents are also considering differential tuition. Several members of our group expressed concern about departing from the long-held principle that tuition levels should be uniform across the system. Others felt differential tuition is likely to help some campuses but harm others. And we note that there are already differences in what the various campuses charge in so-called campus fees; such fees, for example, are 10 percent higher at UC Davis than at UCLA. Our consensus was that differential tuition raises two broad issues: whether it is a more effective option than simply raising tuition on all campuses and whether it can be done in a way that protects the aspirations and effectiveness of the younger and smaller campuses.

Then there is the sensitive issue of privatization, also referred to as self-sufficiency. As you know, the University of Michigan and the University of Virginia chose this path some time ago; other public universities are considering, or have already adopted, a similar strategy. The University of Oregon, for example, has proposed that the state's current annual appropriation for its support be used instead to pay interest and amortization on an \$800 million bond. The university's matching contribution, raised through private gifts, would create a \$1.6 billion endowment to replace the state of Oregon's annual allocation. There may be aspects of the Oregon idea that would work in a California context—perhaps a portion of State general funds, with an equal contribution from UC through private fund-raising, could be set aside as seed money for such an endowment.

The fundamental question for the University of California is how far we can go in the direction of self-sufficiency and retain our public character. It appears that graduate professional schools are the most likely candidates for a move to financial independence, particularly if we are to maintain their current level of excellence. Still, this model has more than financial implications. In the context of UC's historical role as a public university, what does it mean for us and our faculty, for parents and students and citizens, if UC as a whole becomes less like a traditional public university and more like a private one? This question requires serious discussion within the University, in the legislative arena, and in the court of public opinion.

NEW MODEL FOR STATE FUNDING AND STUDENT SUPPORT

The willingness of some states to explore unconventional strategies signals a new era in public higher education. This era unmistakably arrived in California when, for the first time, student fee revenue surpassed UC's share of State General Funds earlier this year. The crossing of these two curves is a disturbing and seminal event.

At the moment, UC is raising tuition reluctantly and only in response to each new, damaging State budget cut. Two weeks after our meeting, the Regents approved a tuition increase of 9.6 percent and said they will increase tuition again in January if further cuts in State funding materialize (as many believe will happen). Because of chronic budget shortfalls, this approach has the unfortunate effect of asking students to pay more even as they are getting less—crowded classes, fewer courses, eroding student services. Right now, the additional revenue from tuition increases appears to be enough to keep the University afloat but not enough to sustain its excellence or stabilize its future.

How high should tuition be? High enough to ensure the quality, access, and affordability that have always been the hallmark of a UC education. There are those in our group who argued that—given the State's current level of support—tuition should not be at

the current \$12,000 a year but at about \$24,000 to preserve UC's academic excellence. Contrary to public perception, all the evidence suggests that that higher tuition is not a barrier for students—including low-income and minority students—as long as it is combined with adequate financial aid. In fact, annual tuition of approximately \$24,000 would make UC more competitive with the best universities for outstanding students. The key is sufficient student financial aid to ensure that only students and families at the highest income levels would pay the full price. Under the model we are suggesting, the State's current contribution of approximately \$12,000 per student, traditionally used by UC as general institutional support for its education programs, would henceforth be used solely for financial aid. In effect, these State funds would become a subsidy to students who are California residents. This would enable the University to reallocate much, if not all, of the tuition income it has perforce returned to financial aid to preserve the quality of the education we provide for residents and non-residents alike.

Because this new model would transform what has traditionally been general State support into a direct subsidy for low- and middle-income students, if adopted it could and probably should result in a change in the State's involvement in the operations of the University. However, this would require further study beyond what we were able to do in our brief session.

The strategy we propose means that *only* those who can afford it would pay full tuition—a fact that needs to be clearly explained to students and families. It continues to protect low-income students while making UC more affordable to middle-class students, who are most likely to be squeezed out by rising tuition. It is fairer to all students because they would no longer be asked to pay more for less. It is a flexible solution: whenever the State subsidy goes up, student tuition can go down. And even with significantly higher fees, UC would remain a bargain compared to the most distinguished private institutions, some of which charge undergraduate fees well over \$40,000 a year, and to the best public ones as well. If the University of California expects to continue as one of America's great universities—competing with such institutions as Harvard, Yale, MIT—it must have combined revenues from State, tuition, and other funds at least roughly comparable to theirs. This model will bring us closer to that goal.

THE LARGER CONTEXT

Whatever the University does, it is difficult to envision a long-term survival strategy for public higher education that does not address the massively dysfunctional web of political decisions that has crippled the governance of this state. California's entrenched use of the initiative process has changed the state's tax structure in ways that have had profoundly negative effects on public higher education. This trend began with 1978's Proposition 13, whose permanent lowering of the property tax has forced the State to depend on the notoriously unstable personal income tax as a major source of revenue. It is because of the unfunded mandate in 1994's Three Strikes initiative that the State now spends more on prisons than on all of public higher education. Ours is the only state in which ballot initiatives are frozen into the constitution and cannot be amended by the Legislature, however outdated or counterproductive they become as circumstances change.

It is past time to look at the discretionary parts of the State budget and remove some of the constraints that prevent the Legislature from making real choices about the expenditure of public funds. The University can and should contribute to an informed public discussion, through academic examination of the issues by its faculty, of the risks these political realities pose to the future of California's unparalleled system of public higher education.

We understand that some will regard higher tuition, a public/private endowment, or indeed any step away from State support as a step toward compromising the University's public character. That is not the intent of our recommendations. Our hope is that better economic times will bring adequate State funding for all public higher education, including the University, once again. But as California struggles through today's fiscal impasse, we cannot wait for better days. It is essential to protect the University's academic excellence now. This may be the only way to ensure UC can continue to be what it has always been, a strong and vital institution committed to meeting its public obligations for teaching, research, and public service of the highest order.

Please do not hesitate to call on us for any service that will be useful to you, the Regents, and the University of California.

Fiat lux,

Norman Abrams
Albert Carnesale
Martin Chemers
M.R.C. Greenwood
Philip R. Lee
Robert Sinsheimer
(names listed alphabetically)

Richard C. Atkinson
Marjorie Caserio
Ralph Cicerone
Robert D. Grey
Raymond L. Orbach
Larry Vanderhoef

Robert M. Berdahl
Barbara Charlton (formerly Uehling)
Haile Debas
I. Michael Heyman
Roderic B. Park
Charles E. Young

J. Michael Bishop
Robert Dynes
Theodore L. Hullar
Karl S. Pister