

May 14, 2015

Dear Friends and Colleagues:

I am very pleased to share with you the good news that the University has reached an agreement with Governor Brown to increase State support for UC. The agreement is part of the Governor's revised State budget proposal known as the "May Revise." It provides UC with significant new revenue and stable funding that allows us to hold resident tuition at its current level for the next two years, with predictable tuition increases pegged generally to the rate of inflation beginning in 2017-18.

In exchange for State funding provided for the University's pension plan, UC would implement certain retirement benefit changes for future UC employees. These changes would be subject to consultation with UC Regents, faculty, staff, union leaders and other stakeholders. In addition, nonresident supplemental tuition and professional degree supplemental tuition would generally be increased in accord with the November budget resolution adopted by The Regents.

The Governor and I also agreed to expand a series of programmatic innovations already underway or under development on UC campuses to help campuses improve student success and use resources as efficiently as possible.

With this agreement, the Governor has recognized the need to reinvest in UC as well as the imperative to provide students, their families, and the University with a reliable way to budget for the cost of a UC education.

It is critical to note, though, that while this agreement provides the University fiscal stability and much-needed revenue, it does not fund California student enrollment growth – so our work is not done. The Governor's budget proposal now moves to the Legislature for consideration, and we will continue our discussions with legislators about ways to secure additional permanent funding to enroll more California students.

Below is a summary of the agreement, which I will be discussing with the full UC Board of Regents at their meeting next week.

I want to thank the thousands of UC students, faculty, staff, alumni and others who have joined our efforts in advocating for increased State funding for UC. Your voices have been instrumental in helping to bring about this historic agreement, and I sincerely appreciate your partnership. Please keep up your advocacy – we are not at the finish line!

We will keep you informed of the results of our upcoming discussions with the Legislature as we move toward a final State budget, which is expected next month.

Yours very truly,

Janet Napolitano
President

Summary of UC-Governor Brown long-term funding framework

New revenue

- Four percent annual base budget increases in each of the four upcoming fiscal years (\$119.5 million in 2015-16) and a total of \$507.3 million over the next four years. This extends the base budget increases planned for 2015-16 and 2016-17 by two additional years, through 2018-19.
- Nearly \$500 million in one-time funding to help pay down UC's pension liability, to pay for critical deferred maintenance projects, and to support long-term, capital-intensive energy efficiency projects planned as part of UC's sustainability initiative.

Tuition and fees

- No resident tuition increases for the next two years. UC's systemwide tuition would remain at \$12,192 through 2016-17, which would mean six consecutive years of no tuition increases.
- Beginning in 2017-18, resident tuition would gradually increase, pegged to the rate of inflation, which will allow UC to maintain its robust financial aid program, lower the student-faculty ratio, increase course offerings and student support services, lessen students' time-to-degree, and ensure that students and their parents are not subject to the tuition volatility of the past.
- UC's Student Services Fee will increase annually by 5 percent (\$48) starting in 2015-16 to pay for enhanced student mental health services and other critical student services.
- President Napolitano is requesting authorization from the Regents at their May 21 meeting to increase nonresident supplemental tuition by up to 8 percent annually.
- The Professional Degree Supplemental Tuition (PDST) approach adopted by the Regents in November would remain in effect, except that PDST for the University's four law schools would remain at 2014-15 levels through 2018-19.

Programmatic innovations to improve student success

- The agreement expands a number of programmatic innovations underway or under development at UC, such as adopting systemwide transfer pathways, using data to support student success by eliminating course bottlenecks and improving

academic advising, expanding three-year degree pathways, and better utilizing summer session and conducting a systemwide curriculum review to decrease students' time-to-degree. It also includes the university's plan to ensure that at least a third of its new students enter as transfers.

Pension changes

- The agreement's \$436 million in one-time funding over three years to help UC pay down its pension liability recognizes the State's obligation to help support UC's pension plan.
- In exchange for the pension funding, UC would adopt, upon approval by the Regents, a new pension tier by July 1, 2016. The new tier, which would affect only new employees hired after it is implemented, would provide, at the employee's election, *either*:
 - A defined benefit plan with a pensionable salary up to the California Public Employees' Pension Reform Act of 2013 (PEPRA) cap (currently \$117,020), plus a supplemental defined contribution plan for certain employees, *or*
 - A defined contribution plan.
- As with the pension reforms UC has already enacted, the additional pension reforms would be subject to consultation with Regents, faculty, staff, union leaders and other stakeholders.
- Currently, the vast majority of UC's comparator institutions offer employees only a defined contribution plan, rather than a defined benefit plan. A potential hybrid approach that combines a defined benefit and a defined contribution plan would offer future UC employees an attractive combination of security and portability.
- The \$436 million in one-time funding, combined with internal financial management strategies, will enable UC to buy down its pension liability, reducing employer contributions for State-funded positions on an ongoing basis.
- UC will continue to pursue pension funding from the State to mirror the support it provides for the retirement benefits of California State University employees.

For more information about the funding framework, go to budget.universityofcalifornia.edu