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November 8, 2010

An Open Letter to California
From University of California President Mark G. Yudof

The University of California was conceived in the immediate aftermath of the Gold Rush, and ever since the fortunes of the state and those of the University have been entwined. One would not be the same without the other. The University is both a creation of and the catalyst for California's unique, forward-looking spirit.

Because of this symbiotic relationship, all Californians have a stake in making sure that this system of premier research campuses, medical centers, and national laboratories remains on course to serve coming generations of Californians as well as it has their predecessors.

In this vein, I am writing today to let Californians know about the fiscal realities that confront the University, and also about some recommendations I intend to bring next week to our governing Board of Regents. First, though, I would like to provide a bit of background.

As I arrived at the University two and a half years ago, a confluence of challenges was lurking just beyond the horizon. Some were immediate and unforeseeable, the most obvious being the sharp collapse in the fall of 2008 of an already wobbly national and state economy. Other challenges were hidden beneath the University's well-deserved reputation for excellence, a reputation varnished and protected by generations of dedicated faculty, staff, and alumni.

Our pension and retiree health programs were exposed to billions of dollars of unfunded liabilities. A 20-year cycle of underfunding by the State had weakened our financial underpinnings. The administrative culture was sorely in need of modernization and transparency, and the level of pay for faculty and staff had been allowed to fall behind that of their peers.

In short, there was much to do on several fronts, and in many cases with little time to waste. The first job was to close an immediate \$1 billion hole in our budget, created by cutbacks in State support. This led to fee increases, furloughs, layoffs, and program cuts. For the long term, we began to replace old ways of doing business with newer,

more efficient and more transparent methods. We began to move on pension reform. This was not and is not an agenda for anyone seeking to win a popularity contest, but so be it. My sole focus has been on protecting excellence.

Solid progress has been made; we are, for instance, embarked on a campaign to wring \$500 million out of administrative expenses by initiating a series of practical but long overdue efficiency measures. This is money that will be put toward our core mission of serving students. We also have been gaining political allies in Sacramento, where the latest State budget did not deliver all that we sought, but at least restored one-half of the cuts made in the prior year.

Still, the economy remains stalled and State funding lags behind our needs by at least \$1 billion. The reality is that much more must be done if the University is to keep its promise to California. In this context, I today am announcing separate proposals to reform our post-employment benefits program, to raise undergraduate student fees for fiscal 2011-12 and, at the same time, to expand the reach of our financial aid programs to a broader circle of eligible Californians.

Please allow me to provide a brief overview.

The University of California faces a \$21 billion unfunded liability for its retiree pension and health programs. For 20 years the University, its employees and the State enjoyed a "holiday" from contributions to what by any measure is a generous defined benefits program. This had to end. If current trends were allowed to continue, the University within years would be paying more to meet its benefits obligations than to educate students.

After extensive consultation with faculty and staff, I have decided on a two-pronged approach. Current employees and the University together have begun to contribute more into the retirement plan, but by doing so will receive no reduction in benefits. Employees hired after July 1, 2013, will be offered a plan with modestly reduced benefits, but one that will cost 20 percent less than the current pension program. I am confident that these reforms will leave the University with pension and health plans that are fair, economically sustainable and still attractive enough to recruit and retain the quality faculty and staff that are the beating heart of a great university system.

As for the fee increase, our proposal is to raise mandatory systemwide fees for all students by 8 percent, or \$822, in fiscal year 2011-12. A third of the money raised will be dedicated to financial aid, leaving an estimated net infusion of \$116 million. This added revenue will put the University on a footing that allows campuses to reinvest in faculty, expand course offerings, improve academic support, and generally begin to recover ground lost last year to crisis. It will ensure the resources needed to maintain excellence.

It must be noted that, in real dollars, State support for each full-time-equivalent student has declined by roughly half in the past two decades. In the current year, students through tuition and fees now cover 41 percent of the cost of their education.

If we maintain quality on our campuses, and we must, a \$12,150 annual charge for tuition and average campus fees will still compare favorably to that levied by other public universities. And across the entire spectrum of higher education, the University of California still will represent a considerable value. Consider: six of our campuses are included in an association of the nation's 60 leading research universities.

A public university should not be judged solely by its tuition level, but also by whom it teaches and serves. Providing opportunity to worthy students regardless of socioeconomic background and income level is a crucial piece of our mission as a public university, and we are keeping on course despite the fiscal climate. Four out of 10 of our students come from families with household incomes of less than \$50,000. Half come from homes in which English is not the primary language, and a third are the first in their families to go to college.

And so I am pleased also to announce a proposal to raise the ceiling of our Blue and Gold Opportunity Plan to include families with incomes of less than \$80,000. We are able to do this because, as I noted earlier, following our standard practice, a third of the revenue raised by the proposed fee increase will be put toward financial aid.

What this means is that going forward California students with family incomes below \$80,000--provided they qualify for financial aid--will pay not a dime of tuition. According to polling by the Public Policy Institute of California, more than two-thirds of all California families they survey report household incomes of less than \$80,000. With this new ceiling, more than a third of our 181,000 undergraduates are expected to have their tuition covered through Blue and Gold.

Moreover, I am proposing that we expand our middle-income grant program to cover the full amount of the fee increase for one year for financially needy California undergraduates with family household incomes of less than \$120,000. All told, as many as 55 percent of our undergraduates will not have to pay the fee increase.

The decision with all these proposals ultimately rests with the Board of Regents, but I believe that together they represent measures needed to keep the University of California on course, both in the near and long terms. Let's be clear. These won't be the last tough decisions the University will face. But they are essential steps upward out of a hole that was a long time in the digging. Californians should never accept the idea of their University of California tumbling toward mediocrity. And my job, my only job, is to make sure that it does not.

As I have said, all Californians have a stake in this effort. California is changing. A mounting collision of irreversible forces--demographic, economic, environmental, and

social--could lead to a new dawn of progress and prosperity, mirroring other fundamental transformations that have occurred across the state's history.

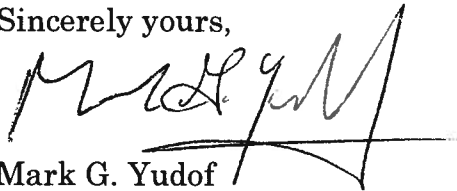
Or, misunderstood and mismanaged, this convergence of what are truly global forces could leave California a fractured state--unwilling to unite in common causes, unable to stir innovation, incapable of providing hope to those who seek a better life and powerless to protect the environment that has been essential to California's unique footing in the world.

In my admittedly biased view, the University of California represents the state's best shot at coming through this unavoidable passage a better place. The University's role as an agent of transformation in California has been demonstrated again and again across more than 140 years of shared history.

It is and always has been more than the University of California. It also is the University by and, most importantly, *for* California. And my sole focus today and every day that I serve this wonderful California institution is to make sure it stays that way.

Thank you.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Mark G. Yudof', with a stylized flourish at the end.

Mark G. Yudof
President