Memo

Budget Committee of the Academic Senate

To: Budget Committee

From: Michael J. McIntyre, Chair

Subject: Tuition recommendations

Date: July 19, 2007

The Administration is recommending a tuition increase of 19.5%. Of that amount, 12.8% is the "normal" increase, and 6.7% is a contingency surcharge that would be removed in the Winter term if the State provides support at the level promised. In arriving at the 12.8% tuition increase, the Administration assumes budget cuts (net of some reallocations) of $7.9 million. Much of this money comes from across-the-board (ATB) cuts on the budgets of the schools and colleges.

The "normal" tuition increase is high because the Administration wants to cover, in addition to increases in compensation and operating expenses, a projected drop of $6.3 million in indirect cost recovery (ICR) amounts and the loss of the carryforward of 2007 year-end balances, traditionally used to fund certain projects.

The contingency surcharge of $6.7% (representing additional gross tuition of $12.1 million and net tuition, after financial aid, of $10 million) is to protect the University against the risk of a cut in State funding for FY 2008 of $10 million. There has been no official indication that such a cut will be made in FY 2008, but it is understood that the State will be unable to balance its FY 2008 budget without new revenues or further budget cuts. If the State makes further cuts, it is likely that the universities will be hit. If the State budgets the full amount for FY 2008, which should be known in October, then the contingency surcharge will not be imposed for the Winter term. The Administration has not presented a plan for using the $6.05 million that will be collected in Fall 2007 if the State does not reduce funding.

I have some difficulties with the Administration proposal. I fear that the "normal" tuition increase is higher than necessary and will provoke some opposition. In particular, I am not happy to see tuition increased to generate year-end balance money or to fund shortfalls in ICR money. I recognize, as a temporary matter, that something must be done to replace the ICR money, but I am not prepared to support a permanent tuition increase for that purpose. In my view, if ICR money is not to be maintained in future years, then the Administration will have to find ways to cut the expenses related to the generation of ICR money. As for the loss of year-end balances for 2007, I can simply say that I am not prepared to try to fix 2007, given the chaotic budget plan that the Administration adopted for dealing with the State shortfall

for 2007. Moreover, projects funded by year-end money ought to bear the risk that year-end money will not be available. I see no good reason for picking this very difficult budget year as the time to provide permanent funding for projects previously funded by year-end money.

In light of the above, I am suggesting that the committee consider an alternative budget plan. Under this plan, "normal" tuition would be increased by 9.8%, with the same contingency surcharge proposed by the Administration. Spending previously funded by year-end balances would not be continued, allowing a tuition reduction, from the Administration proposal, of 2.5%. The remaining tuition reduction of 0.5% would come from making targeted spending cuts. I set forth in my memo of July 14 a list of possible cuts well in excess of that amount.

I also suggest a plan for using the amounts collected under the contingency surcharge during the Fall term ($6.05 million) if the State does not impose the threatened $10 million cut. My proposal is to use those funds first to eliminate the ATB cuts imposed on the schools and colleges, with any surplus used to offset other cuts or to provide funding for year-end projects.

In addition, there is some possibility that the State will return to the University some or all of the $20 million cut at the end of FY 2007. In that event, a portion of the recovered amount would be used to give students a credit against their Fall 2008 tuition.

I've attached a couple of tables that set forth in orderly fashion the numbers presented above. Note in the first table that the revenue amounts show to be generated by tuition increases are NET revenues, after reduction by the amount needed to fund financial aid. In the second table, the amounts shown are gross amounts. There are some small differences in my numbers and the Administration's numbers, due to rounding.

ADMINISTRATION'S PROPOSED BUDGET, FY 2008			
	Amount (millions)	% tuition increase	Status
Expense Increases, 2008			
Compensation	$13.4	9.1%	**Permanent**
Operating	$2.0	1.4%	**Permanent**
Year-end spending	$3.7	2.5%	**Unclear**
SUM Expense Increases	**$19.1**	**13.0%**	
Revenue Reductions, 2008			
Announced State base cut	$3.2	2.2%	**Permanent**
ICR (net of S/C cut)	$6.3	4.3%	**One-time**
Enrollment	$2.6	1.8%	**Permanent**
SUM Definite revenue cuts	**$12.1**	**8.2%**	
Possible State cut #1	$10.0	6.8%	**Unclear**
Possible State cut #2	$10.0	6.8%	**Unclear**
Revenue Increases, 2008			
Investment Income	$2.5	1.7%	**Permanent**
ICR Supplement from SOM	$2.0	1.4%	**Unclear**
SUM Definite revenue increases	$4.5	3.1%	
State payback of 2007			
Possible #1 ($12.1 tuition)	$10.0	6.8%	**One-time**
Possible #2 ($12.1 tuition)	$10.0	6.8%	**One-time**
Budget cuts, 2008			
Net cuts, after reallocation	$7.9	5.4%	**Permanent**
Assuming no new cuts			
Permanent budget shortfall	$8.8	6.0%	**Permanent**
One-time shortfall	$10.0	6.8%	**One-time**
Total shortfall	**$18.8**	**12.8%**	

Administration Plan		
	Amount (millions)	% tuition increase
Raise tuition permanently	$23.04	12.8%
Impose contingency fee	$12.10	6.7%
Total Tuition Increase	**$35.14**	**19.5%**
Contingency plan (no State cut)		
Eliminate contingency fee for winter term	-$6.05	-3.4%
Surplus revenue if full 2008 payment received from State	$6.05	
Surplus revenue if $20 million for 2007 repaid	$20.00	
Alternative Plan		
Raise tuition permanently	$17.64	9.8%
Impose contingency fee	$12.10	6.7%
Total tuition increase	**$29.74**	**16.5%**
No funding for year-end	$3.70	2.1%
Targeted cuts	$1.70	0.9%
RECONCILIATION	$35.14	19.5%
Contingency plan (no State cut)		
Eliminate contingency fee for winter term	-$6.05	-3.4%
Eliminate ATB cuts to S/C and use rest for one-time spending	$6.05	3.4%
Use some surplus revenue from any refund of FY 2007 reduction to fund students credits for Fall 2008, the rest to restore cuts, etc.	$20.00	