Senate Items for Review: Regents Item F1 – Differential Fees by Major

Due Date: Please respond by October 19, 2009

Return to: Jaime Balboa, CAO, jbalboa@senate.ucla.edu

Relevant Links: page 13 of the following link: http://www.universityofcalifornia.edu/regents/regmeet/sept09/f1.pdf

On behalf of the UCLA Academic Senate Chair Robin Garrell, review, including an endorsement of or opposition to the item (any recommendations made), is specifically requested of the following committees and councils:

Council on Planning and Budget
Undergraduate Council
School of Engineering FEC
College FEC
Executive Board

All other committees and councils are not required to opine, but they are welcome to.

Responses are most useful when they include one of the following statements:  1. The committee endorsed the proposal as written; 2. The committee endorsed the proposal, contingent upon the following revisions (please specify); 3. The committee cannot endorse the proposal until and unless the following revisions are made (please specify); and 4. The committee opposes this proposal.

Minority reports are welcome and should be submitted with the response of the committee.

Background Information:

Item F1 at the September Regents meeting included a proposal to charge differential fees for students majoring in business and engineering. The item, generally a review of 2009-10 and 2010-11 budgets, is at http://www.universityofcalifornia.edu/regents/regmeet/sept09/f1.pdf. The differential fee proposal is on p. 13.

We have recently learned that this item will go to the Regents for action in November; it has not been vetted by any Senate Divisions or systemwide Committees. Approval of this proposal would set a precedent for differential fees in general.

We are requesting expedited review so that the UCLA Academic Senate may convey its position to the Systemwide Academic Council at its Oct. 21, 2009 meeting. This will give the Systemwide Senate Leadership authority to advocate the position of the faculty to the Regents.

Jaime Ronaldo Balboa, Ph.D.
Chief Administrative Officer
UCLA Academic Senate

T. 310.825.3852
F. 310.206.5273
October 7, 2009

ACADEMIC COUNCIL CHAIR HENRY POWELL

Re: Differential Fee Proposal, Revised

Harry,

The President has proposed that the University establish a $900 annual fee for upper-division business and engineering students, effective 2010-11, with a 33% return-to-aid. As you are aware, this proposal was included in the September Regents discussion item on the UC budget and fee increases:


President Yudof would like to bring this proposal to the Regents for action in November. Enclosed please find two documents that summarize the proposal and provide background information on differential undergraduate fees at other universities around the country. The proposal had been discussed by the UC Advisory Group for Budget Strategies that met in the Spring of 2009 and included Academic Council Chair Mary Croughan, UCPB Chair Pat Conrad, UCAP Chair Steve Plaxe, and UCSB Division Chair Joel Michaelsen.

I am writing to formally request Academic Senate input on the proposal and details of its implementation prior to the November Regents meeting.

Please let me know if you need additional information.

Sincerely,

Lawrence H. Pitts
Interim Provost and Executive Vice President
Academic Affairs

Enclosures

cc: President Yudof
    Academic Council Vice Chair Simmons
    Interim Executive Vice President Brostrom
    Vice President Lenz
    Executive Director Winnacker
    Chief of Staff Corlett
Differential Charges by Undergraduate Program of Study
Issues Summary

Context

The relationship between declining state support for public higher education and rising undergraduate tuition has been well documented. Another emerging practice among public research universities is to charge differential tuition rates for students pursuing different majors. Long a practice among graduate programs, universities are increasingly seeking to refine their pricing of undergraduate programs in search of new revenue streams. Business and engineering programs have been the most common targets for differential charges since the early 1990’s. However, recent years have seen the practice expand to a wide range of professional fields such as architecture, journalism, and health sciences; and traditional liberal arts and science fields such as physics, chemistry, and life sciences.

While the practice of charging differential tuition by program has become more widespread, little research has investigated it. One study assesses the prevalence and magnitude of differential fees in 2007-08 through a survey of 162 public research institutions.1 All of the findings below, along with the figures in Attachment 1, come from this study unless otherwise indicated.

Prevalence

In 2007-08, 46 percent of public research institutions assessed differential charges by undergraduate field of study. More than half of those did so in multiple fields. About 53 percent of the AAU Public Institutions assessed differential charges in 2007-08. Business and Engineering are the most common fields for differential charges. Two-thirds of the surveyed public institutions that assessed differential undergraduate charges in 2007-08 did so with their business or engineering programs.

Magnitude

In 2007-08 the average differential tuition charge across all disciplines was an 11% premium over the base tuition rate. Engineering programs charged an average premium of 14 percent above undergraduate resident tuition, which ranged from $50 to $1,896.2

A targeted search of UC’s public four comparators and other public research institutions showed 9 out of 12 institutions assessing differential undergraduate charges in 2008-09, with all of them doing so in business and engineering. These differential charges range from $266 to $4,152.3 Attachment 2 at the end of this report summarizes these findings.

2 Nelson, 2008. Represents additional tuition only charge. Additional course fees not included.
3 Source: institutions websites. Differential charges reflect all additional tuition and fees charged.
Budgetary Impact

The incremental revenue generated by differential tuition for undergraduate programs averaged 2% of an institution's total tuition revenue in 2006-07. The majority of differential tuition revenue is returned to the programs charging it. Differential tuition revenue returned to the programs is commonly earmarked for specific purposes including teaching expenditures, equipment, technology needs, and financial aid.

Potential UC Budgetary Impact

Differential charges would have to be set at a fairly high level to generate a significant amount of additional revenue. Table 1 below displays estimates of the additional revenue that would have been gained in 2007-08 from various levels of differential charges for business and engineering majors. As it shows, assessing a differential fee of $500 would have generated between $8 million and $13 million depending on whether the charge was assessed on upper division business and engineering majors only or on all declared majors. This would have represented less than 1 percent of UC's core funds in 2007-08. Assessing a differential business and engineering fee of $2,500, which is on the higher end of the spectrum found in Nelson (2008) and other sources, would have generated up to $66 million in additional revenue, or just over 1 percent of UC's core 2007-08 funds. Additional factors, such as the undergraduate return-to-aid rate and whether the differential charge would apply to nonresident students, would likely further reduce this amount.
Table 1. Estimated Additional UC Revenue From Differential Charges for Undergraduate Business and Engineering Majors Based on 2007-2008 Academic Year Average Enrollment by Declared Major Field of Study

<table>
<thead>
<tr>
<th>Differential Charge Scenario</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$500 Differential For Upper Division Only</strong></td>
<td>7.5%</td>
</tr>
<tr>
<td>Percent Increase Over 2007-08 Systemwide Undergraduate Resident Fees</td>
<td></td>
</tr>
<tr>
<td>Affected Students in 2007-08</td>
<td>16,575</td>
</tr>
<tr>
<td>Estimated Additional Revenue ($ millions)</td>
<td>$8.3</td>
</tr>
<tr>
<td>Percent of 2007-08 UC Core Funds</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>$500 Differential For Upper and Lower Division</strong></td>
<td>7.5%</td>
</tr>
<tr>
<td>Percent Increase Over 2007-08 Systemwide Undergraduate Resident Fees</td>
<td></td>
</tr>
<tr>
<td>Affected Students in 2007-08</td>
<td>26,485</td>
</tr>
<tr>
<td>Estimated Additional Revenue ($ millions)</td>
<td>$13.2</td>
</tr>
<tr>
<td>Percent of 2007-08 UC Core Funds</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>$1,500 Differential For Upper Division Only</strong></td>
<td>22.6%</td>
</tr>
<tr>
<td>Percent Increase Over 2007-08 Systemwide Undergraduate Resident Fees</td>
<td></td>
</tr>
<tr>
<td>Affected Students in 2007-08</td>
<td>16,575</td>
</tr>
<tr>
<td>Estimated Additional Revenue ($ millions)</td>
<td>$24.9</td>
</tr>
<tr>
<td>Percent of 2007-08 UC Core Funds</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>$1,500 Differential For Upper and Lower Division</strong></td>
<td>22.6%</td>
</tr>
<tr>
<td>Percent Increase Over 2007-08 Systemwide Undergraduate Resident Fees</td>
<td></td>
</tr>
<tr>
<td>Affected Students in 2007-08</td>
<td>26,485</td>
</tr>
<tr>
<td>Estimated Additional Revenue ($ millions)</td>
<td>$39.7</td>
</tr>
<tr>
<td>Percent of 2007-08 UC Core Funds</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>$2,500 Differential For Upper Division Only</strong></td>
<td>37.7%</td>
</tr>
<tr>
<td>Percent Increase Over 2007-08 Systemwide Undergraduate Resident Fees</td>
<td></td>
</tr>
<tr>
<td>Affected Students in 2007-08</td>
<td>16,575</td>
</tr>
<tr>
<td>Estimated Additional Revenue ($ millions)</td>
<td>$41.4</td>
</tr>
<tr>
<td>Percent of 2007-08 UC Core Funds</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>$2,500 Differential For Upper and Lower Division</strong></td>
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<tr>
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<td></td>
</tr>
<tr>
<td>Affected Students in 2007-08</td>
<td>26,485</td>
</tr>
<tr>
<td>Estimated Additional Revenue ($ millions)</td>
<td>$66.2</td>
</tr>
<tr>
<td>Percent of 2007-08 UC Core Funds</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Differential charge amount is equal for business and engineering majors in all scenarios.

Business majors include business and management, but does not include economics majors.

Engineering majors include Computer Science.

1 The 2007-08 UC Core Funds is $5,213,436,000 and is comprised of revenue from:

- State General Funds
- Education Fee
- Nonresident tuition
- Registration Fee
- Application for Admission
- Selected Professional Fees
Motivations

Cost Recovery

Cost recovery has been a principal motivator of undergraduate tuition differentials. Program-specific revenue streams enable programs to make otherwise unaffordable improvements to their equipment and physical space that directly benefit students. This rationale often applies more to science and engineering programs, and tuition differential proponents argue that it reduces the need for other lower-cost programs (humanities) to cross-subsidize their operations. In some cases, student groups have voted in support of tuition differential to ensure quality improvements of their educational programs.

Remain Competitive for Faculty

Other programs cite the need to remain competitive for high quality faculty as a key reason for charging differential tuition. This includes covering costs to retain high-priced faculty and to meet their goals for faculty expansion. Business, computer science, and engineering programs often must compete with industry for faculty members, and the 1990’s booms in the financial and technology sectors made this more difficult. Whether the recent declines in the financial sector will relieve some of this pressure for business schools remains unclear.

Align With Graduates’ Earnings Potential

Another rationale offered for differential tuition is the belief that students in particular programs can bear higher costs due their likely post-graduate earnings potential and programs see it as an opportunity to capture otherwise foregone revenue for improving the quality of the program. While this is sometimes the case for students in business and engineering programs, many people also change career paths several times and undergraduate major remains a poor predictor of lifetime earnings.

Impacts on Student Choice

To date no research explores the impact of differential undergraduate tuition by program on student access or success. However, the Nelson (2008) study showed that concern over the potential impacts on student access was one of the most frequently cited reasons for institutions’ choosing not to adopt differential tuition by undergraduate program in 2007-08.

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4 A July 2007 New York Times article specifies “expenses of specialized equipment” as one of the main reasons for differential tuition gleaned from interviews with public university officials. A May 2008 article in the University of Wisconsin newspaper mentions the need for “frequent updates to lab equipment” as a reason for the college of engineering’s differential tuition. See http://www.news.wisc.edu/15284

5 Texas A & M Vice President G. Dan Parker III indicated that his institution was considering differential tuition in its business school due to the high starting salaries it needs to pay assistant professors.

6 University of Kansas Provost Richard Lariviere labels the student earnings rationale as the weakest and least widespread argument for undergraduate differential tuition.
Questions

Concerns about the effects of differential tuition seem to focus almost exclusively on the undergraduate experience including enrollment patterns, student learning experience, and financial aid policies. Questions for further investigation include:

- Would differential tuition discourage low-income students from choosing business and engineering majors? How would it affect diversity?

- Would students in higher-cost programs feel less inclined to take cross-disciplinary courses to ensure they get their money's worth in their home programs? How would this affect the breadth of students' education?

- Would the practice erode the university commitment to access, exploration, and the unfettered pursuit of knowledge?

- What are the financial aid policies at institutions that have implemented differential tuition by program at the undergraduate level and do they mitigate or exacerbate the impact of the differential on student choice of major?

- In California, would the state Cal Grants cover the additional charges associated with select undergraduate programs of study?

Sources


"Paying by the Program."*Inside Higher Education.* March 26, 2007


Attachment 1 – 2007-08 Differential Tuition by Discipline

% of Institutions with Differential Tuition by Undergraduate Program

- Public Research Institutions
- AAU Public Institutions
- Land Grant Institutions

Source: Nelson, 2008

Number of Institutions with Differentials by Discipline

Source: Nelson, 2008
Attachment 2. Summary of Differential Charges by Field of Study and/or Student Level Among Select Public Research Universities
Resident Undergraduates, 2008-09

<table>
<thead>
<tr>
<th>Institution</th>
<th>Lower Division</th>
<th></th>
<th></th>
<th></th>
<th>Upper Division</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Resident Base Fees</td>
<td>Liberal Arts</td>
<td>Business</td>
<td>Engineering</td>
<td>Other²</td>
<td>Liberal Arts</td>
<td>Business</td>
<td>Engineering</td>
<td>Other²</td>
<td></td>
</tr>
<tr>
<td>University of Colorado</td>
<td>$8,682</td>
<td>$0</td>
<td>$3,528</td>
<td>$2,290</td>
<td>$232</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>Students in dual degree programs charged higher rates</td>
</tr>
<tr>
<td>University of Illinois</td>
<td>$12,240</td>
<td>$4,152</td>
<td>$4,152</td>
<td>$4,152</td>
<td>$1,096</td>
<td>$4,152</td>
<td>$4,152</td>
<td>$4,152</td>
<td>$1,096</td>
<td>Began in 2004. Liberal Arts charges limited to Chemistry/Life Sciences</td>
</tr>
<tr>
<td>University of Kansas</td>
<td>$7,724</td>
<td>$0</td>
<td>$2,735</td>
<td>$1,095</td>
<td>$546</td>
<td>$546</td>
<td>$546</td>
<td>$546</td>
<td>$546</td>
<td>Course Fees. Do not apply to new freshman. Differentiate across 8 disciplines. Pharmacy has largest premium, and Education the smallest.</td>
</tr>
<tr>
<td>Rutgers University</td>
<td>$11,562</td>
<td>$0</td>
<td>$278</td>
<td>$1,024</td>
<td>$1,024</td>
<td>$1,024</td>
<td>$1,024</td>
<td>$1,024</td>
<td>$1,024</td>
<td>Differential is greater for nonresident students</td>
</tr>
<tr>
<td>University of Texas - Austin</td>
<td>$8,090</td>
<td>$0</td>
<td>$1,264</td>
<td>$840</td>
<td>$140</td>
<td>$140</td>
<td>$140</td>
<td>$140</td>
<td>$140</td>
<td>Engineering differential fees began in 2008. Engineering fees to be spent on expanding faculty, teaching more sections, and adding equipment.</td>
</tr>
<tr>
<td>University of Wisconsin</td>
<td>$7,569</td>
<td>$0</td>
<td>$999</td>
<td>$600</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>Eng</td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Differential Charges by Field of Study and/or Student Level</td>
</tr>
<tr>
<td></td>
<td>Differential Charges by Field of Study Only</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Same as Lower Division</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University of Arizona</td>
<td>$5,544</td>
<td>$0</td>
<td>$800</td>
<td>$600</td>
<td>$500 to $800</td>
<td>$0</td>
<td>$0</td>
<td>$800</td>
<td>$600</td>
<td>Began in 2007-08. Rationale for business/economics charges based on graduates' future earnings potential. Other departments on cost recovery.</td>
</tr>
<tr>
<td>Iowa State University</td>
<td>$6,636</td>
<td>$0</td>
<td>$266</td>
<td>$438</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$266</td>
<td>$1,160</td>
<td>Described in the brochure as a &quot;computer fee&quot; for each field</td>
</tr>
<tr>
<td>University of Michigan</td>
<td>$11,037</td>
<td>$0</td>
<td>$0</td>
<td>$770</td>
<td>$200</td>
<td>$1,402</td>
<td>$2,258</td>
<td>$3,448</td>
<td>$1,402</td>
<td>Liberal Arts charge for upper division applies to all majors</td>
</tr>
<tr>
<td>University of Virginia</td>
<td>$9,490</td>
<td>$190</td>
<td>$190</td>
<td>$190</td>
<td>$190</td>
<td>$190</td>
<td>$190</td>
<td>$190</td>
<td>$190</td>
<td>Entering Virginia residents pay a $190 premium. The additional charge is removed for continuing students.</td>
</tr>
</tbody>
</table>

No Differential Charges

<table>
<thead>
<tr>
<th>Institution</th>
<th>Uniform Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUNY - Buffalo</td>
<td>$6,285</td>
</tr>
<tr>
<td>University of California</td>
<td>$7,126</td>
</tr>
<tr>
<td>University of Washington</td>
<td>$6,802</td>
</tr>
</tbody>
</table>

Source: admissions and financial aid websites of each institution

¹ all figures reflect additional charges assessed on a full-time resident undergraduate over the 2008-09 academic year compared to the base rate
² disciplines vary by institution, and include some of the following:
  - Dental Hygiene
  - Pharmacy
  - Kinesiology
  - Environmental & Biological Sciences
  - Journalism
  - Agriculture, Consumer, and Environmental Sciences
  - Second-Career Nursing
  - Architecture
  - Music
  - Economics
  - Fine/Applied Arts
Differential Fees for Undergraduates by Discipline

Proposal: The President has proposed that the University establish a $900 annual fee for upper-division business and engineering students, effective 2010-11, with 33% return-to-aid.

Background: At the September Regents' Meeting the following text regarding differential fees appeared in Discussion Item F1, "Update on the 2008-09 and 2009-10 Budgets, Preliminary Discussion of the 2010-11 Budget, and Proposed 2009-10 Mid-Year and 2010-11 Student Fee Increases":

Differential Undergraduate Fees by Discipline. The University also intends to ask the Regents to establish differential fees for undergraduates in certain disciplines, effective for 2010-11, similar to professional differential fees at the graduate level. The University is currently exploring implementing differential fees for students at the upper-division level (i.e., undergraduates in their junior and senior years) in business and engineering, in recognition of the higher costs associated with offering these programs. It is expected that differential fee levels in 2010-11 would be under $1,000 annually. Various implementation issues will need to be addressed, including the return-to-aid component and impacts on access, affordability and diversity, in order to assess this fee in 2010-11.

Many other public institutions charge differential fees by discipline; in 2007-08, 46 percent of public research institutions and 53 percent of Association of American Universities (AAU) public institutions assessed differential charges by undergraduate field of study. More than half of those did so in multiple fields. Business and engineering are the most common fields for differential charges. In 2007-08, the average differential tuition charge across all disciplines was an 11 percent premium over the base tuition rate, and the incremental revenue generated by differential tuition for undergraduate programs averaged two percent of an institution’s total tuition revenue in 2006-07.

Process: The appropriate OP units will be consulting with the following groups:

- Executive Vice Chancellors
- Vice Chancellors for Planning and
- Vice Chancellors for Student Affairs
- Undergraduate Deans
- Engineering Deans
- Business School Deans
- Budget Directors
- Institutional Research
- Registrars
- Financial Aid Directors
- Academic Senate

1 The full text of the item is available at http://www.universityofcalifornia.edu/regents/regmeet/sept09.html; click on the September 16, 10:15a Finance Committee meeting and agenda.

10/5/2009
Campus representatives from each of these groups should also collaborate to develop recommendations.

**Current Recommendations:**

- **Fee Type:** Current proposal is to establish the differential fee as another level of the Educational Fee (vs. a campus-based fee) so that differential fees will qualify for Cal Grant coverage.
- **Campus Participation:** Once an agreement is reached defining the types of programs to be included, all campuses must charge the fee for programs fitting that definition. The fee would not vary by campus.
- **Financial Aid Policy:** Financial Aid Directors support treating the fee as part of the student budget in the EFM model; needy students would have the same loan/work expectation as students not subject to the fee.
- **Terms Charged:** Fee would be charged for all terms starting with the seventh quarter or the fifth semester of enrollment; equivalent to the fall term of the junior year for most students. The fee would not be charged to students enrolled during the summer term.
- **Use of Funds:** Because the fee is being implemented to address the University’s budget shortfalls, rather than engineering and business program quality issues, at the campus level, funds would be allocated at the discretion of the Chancellor.

**Additional Questions:**

**Programs:**

- What programs/majors would be covered? How should the category of “business” majors be defined? Would campuses without business schools be required to charge the fee to students majoring in “business economics”? Should social science economics majors be included? Would computer science majors be included in the engineering category?
- What guidelines should be used to determine which programs would charge the fee, now and going forward?
- How many of these programs have normative time-to-degree above four years?

**Applicability:**

- When are students required to declare a major?
- Would fifth-year students be charged the fee?

**Change of major:**

- If a student opts out of a major after paying the fee, will the student be eligible for a refund?
- If a student opts into a major after some period of not paying the fee, will the student be charged retroactively?
- How should double majors be treated? How should business/engineering double majors be treated?
Other:

- Educational Fee revenues are normally treated as equivalent to State funds and redistributed across campuses according to General Funds budgets, but other fee funds are generally retained by source campuses. Should the revenue generated by the differential fee be distributed among the campuses to address systemwide needs or retained by the source campus?
- Do students paying the differential fee also pay Course Materials Fees, or should only non-majors pay these?

Future Steps:

- OP to develop materials for Regental approval of differential fees.
- OP to convene a systemwide group with a representative from every campus to discuss implementation issues, develop recommendations, and develop a plan for monitoring the impact of the fee on students.