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Office of the President

TO MEMBERS OF THE BOARD OF REGENTS:

<u>DISCUSSION ITEM</u>

For Meeting of May 13, 2021

MULTI-YEAR TUITION AND FINANCIAL AID PLAN

EXECUTIVE SUMMARY

This item describes a proposed multi-year plan for three systemwide student charges—tuition, the Student Services Fee (SSF), and Nonresident Supplemental Tuition (NRST)—and the estimated increases in student financial aid and campus resources that the plan would generate. Under the plan, adjustments to these charges would be assessed on a cohort basis for incoming undergraduate students and on a uniform basis for graduate students, effective fall 2022. The features of the proposed cohort model for undergraduate students reflect the discussions of a systemwide working group on cohort-based tuition and were shared with the Regents at the November 14, 2019 and January 22, 2020 meetings of the Board. A similar plan was brought to the Board for action in March 2020, but consideration of the plan was deferred due to the onset of the COVID-19 pandemic.

The proposed policy would benefit current and prospective students in three important ways: providing unprecedented tuition stability and predictability for students and parents; supporting campus operations to maintain and improve the quality of a UC education for succeeding generations of increasingly diverse Californians; and enhancing financial aid and affordability for students with financial need. Moreover, proposals to reform the State's Cal Grant program and to increase the size of federal Pell Grants, if enacted, could provide additional new grant assistance for UC students. Together with new University aid generated from the proposed tuition adjustments, these new extramural funds would allow the University to reduce the expected "self-help" contribution for its neediest students even further, potentially enabling students to cover this contribution entirely from part-time work—thereby reducing or possibly eliminating the need to borrow.

BACKGROUND

At its meeting on January 22, 2020, the Regents engaged in a robust discussion of potential tuition models for the University of California. Those models included a cohort-based approach in which adjustments to selected charges for undergraduates apply only to incoming cohorts of students, while charges for graduate students would be assessed on a uniform basis. A proposal to implement cohort-based tuition for undergraduates and inflation-based adjustments for graduate students was brought to the Board for action in March 2020, but consideration of the proposal was deferred due to the onset of the COVID-19 pandemic.

Under a cohort-based tuition plan, an institution assigns a tuition and fee level to each incoming cohort of students and keeps that level flat for that student cohort for a specified number of years. The specific proposal for the University of California—which includes cohort-based charges for undergraduate students and uniform charges for graduate students—is described in Attachment 1, *Proposed Adjustments to Student Charges*.

The proposed plan would provide UC students and campuses with three important benefits: unprecedented tuition stability and predictability for students and families; much-needed revenue for campuses to maintain and improve the quality of a UC education for current and future generations of increasingly diverse Californians; and enhanced financial aid and affordability for students with financial need. Each benefit is discussed below.

Stable and Predictable Charges for Students and Families

The proposed plan would provide much greater predictability in student charges for both undergraduate and graduate students.

- At the *undergraduate* level, the University would hold tuition and fee levels constant for each continuing undergraduate student at the student's initial entering cohort rate for the duration of a student's enrollment, up to six years. By eliminating annual uncertainty about how a student's systemwide charges might change from one year to the next, the University would make it easier for students and families to develop a financing plan for the entirety of a student's enrollment at UC.

  This predictability would even benefit the over one-half of California resident undergraduates whose tuition and fees are fully covered by need-based grants. Increases in UC grants and Cal Grants resulting from a tuition adjustment would cover the adjustment for these students, but this fact is not well understood. As a result, the prospect of a tuition increase for continuing students creates unnecessary anxiety among financially needy students and their families. A cohort tuition model would eliminate this anxiety.

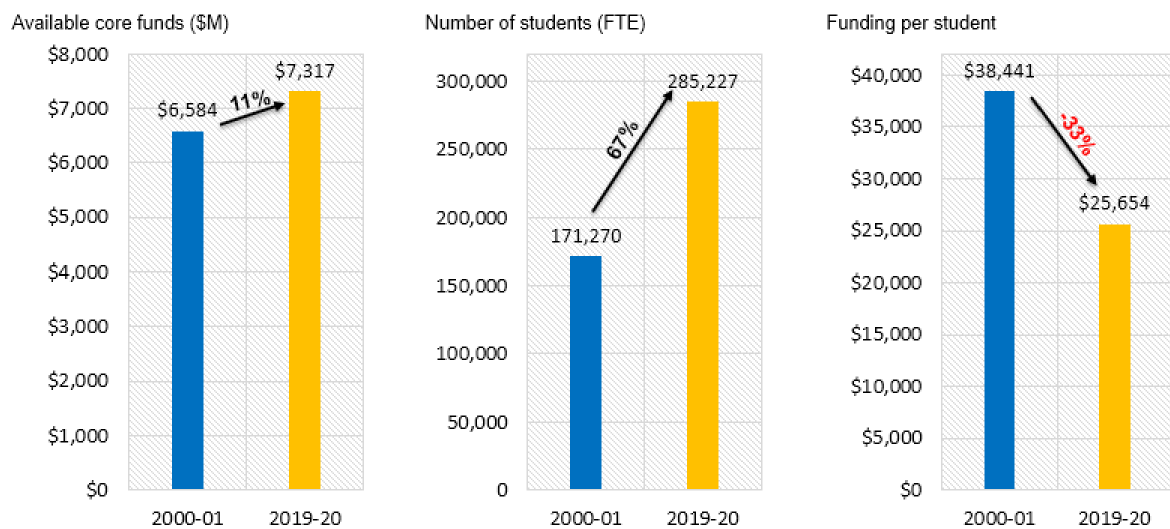
- Under the plan, systemwide charges for *graduate* students would continue to be assessed on a uniform basis. However, graduate students would also benefit from greater predictability because annual adjustments would be set at the annual rate of inflation—i.e., charges would remain flat in constant dollars. (Note that students in academic doctoral programs typically have their systemwide charges fully or partly covered through a combination of fellowships and qualifying appointments as teaching assistants or research assistants.)

Critical Support for Campus Operations

The University's "core funds," which include revenues from State General Funds, UC General Funds, and student tuition and fees, are the primary source of support for the University's core academic activities and the services needed to perform them.

Growth in available core funds has not kept pace with enrollment growth. As shown in Display 1 below, on a per student basis, core funding has declined by 33 percent since 2000-01.

DISPLAY 1: Available Core Funds*, Enrollment, and Core Funds per Student Over Time



*Core funds available after accounting for financial aid, debt service, retirement plan contributions, and inflation.

Campuses and the University as a whole have made extraordinary efforts to identify cost-saving opportunities in response to these funding constraints. Even with these efforts, however, the reduction in available resources has negatively affected campuses' academic infrastructure and learning environments.

- Across the system, campuses have shifted their instructional models toward using more lecturers instead of ladder-rank faculty, resulting in fewer opportunities for undergraduate students to interact with world-class researchers who can inspire and mentor the next generation of faculty, researchers, and innovators.

- Urgent deferred maintenance needs have caused campuses to redirect funds from other campus priorities, such as faculty hiring and student counseling.

- Campuses have delayed needed investments in their technology infrastructure and financial systems and, in some cases, are now using platforms that are no longer supported by the vendor, creating potential risks to data security and business processes.

- Although campuses have optimized the structure of IT services, they have been challenged to fund the required number of positions and to attract and retain the highly skilled staff needed to adequately support campus faculty, staff, and students.

- Campuses have been unable to make needed progress in replacing instructional equipment, classroom modernization, and other areas that directly affect student learning.

Undesirable consequences of this decline in resources can be seen in several metrics directly related to the student experience, including a deterioration in the student-faculty ratio, larger class sizes, a substantial backlog of campus deferred maintenance needs, and a decline in the percentage of students who would, knowing what they know today, choose to attend the UC campus at which they enrolled.

Contributing to the decline in the purchasing power of the University's core funds is the fact that in-state tuition at UC has remained flat for eight of the last nine years. Since 2011, UC tuition has increased by $282 and the Student Services Fee has increased by $156. Even when taking increases in campus-based fees into account, the recent history of UC in-state tuition and fees stands in stark contrast to that of the University's four comparison public universities, as shown in Display 2.

DISPLAY 2: Change in In-State Tuition and Fees at UC and Public Comparison Institutions

	Tuition and Campus Fees*		Increase from 2011-12 to 2019-20		
University	**2011-12**	**2019-20**	**Dollar**	**Percent**	**Avg. Annual Increase**
Virginia	$11,532	$17,972	$6,440	55.8%	5.7%
Illinois	$13,376	$17,363	$3,987	29.8%	3.3%
Michigan	$14,236	$17,594	$3,358	23.6%	2.7%
SUNY Buffalo	$7,482	$10,524	$3,042	40.7%	4.4%
UC	$13,181	$14,022	$841	6.4%	0.8%

*At institutions that charge differential tuition or fees by program or student level, figures are averages based upon the distribution of students across programs and levels.

Moving towards a policy of predictable cohort-based tuition increases in conjunction with regular increases in State support would provide much needed resources to UC campuses. Total projected new revenue generated under the plan—including the additional funding provided for the University's financial aid programs—is shown in Display 3 below on an annual basis and compared to estimated 2021-22 levels.

DISPLAY 3: Projected New Revenue from Proposed Tuition Plan

All figures in millions of dollars

	Increase from Prior Year					Increase from 21-22				
	22-23	23-24	24-25	25-26	26-27	22-23	23-24	24-25	25-26	26-27
Gross Revenue										
Tuition	60	97	121	138	131	60	158	278	416	547
Student Services Fee	5	9	11	13	12	5	14	25	38	50
Subtotal	66	106	132	151	143	66	172	303	454	597
Nonresident Supp. Tuition	20	34	44	51	47	20	55	99	150	197
Total	86	140	176	201	190	86	226	403	604	794
Return-to-Aid										
Tuition	23	35	43	48	46	23	58	101	149	195
Student Services Fee	2	3	4	5	4	2	5	9	14	18
Subtotal	25	38	47	53	50	25	63	110	163	213
Nonresident Supp. Tuition	2	3	4	5	5	2	5	10	15	20
Total	27	42	51	58	55	27	68	120	178	233
Revenue Net of Return-to-Aid										
Tuition	38	62	78	89	84	38	100	178	267	351
Student Services Fee	3	6	7	8	8	3	9	16	24	32
Subtotal	41	68	85	98	92	41	109	194	291	384
Nonresident Supp. Tuition	18	31	40	46	43	18	49	89	135	178
Total	59	99	125	143	135	59	158	283	427	561

Enhanced Financial Aid and Affordability

Financial aid helps students and their families cover the total cost of attending the University of California. That assistance extends beyond covering tuition and fees—it also helps with housing, food, books, and other educational expenses. UC undergraduates received nearly $890 million in UC, federal, and State grants in 2019-20 to help cover these other costs while attending the University *in addition to* $1.3 billion from these same sources to help cover tuition and fees.

Tuition is the single largest driver of the amount of need-based grant assistance available to California resident undergraduates at UC for two reasons:

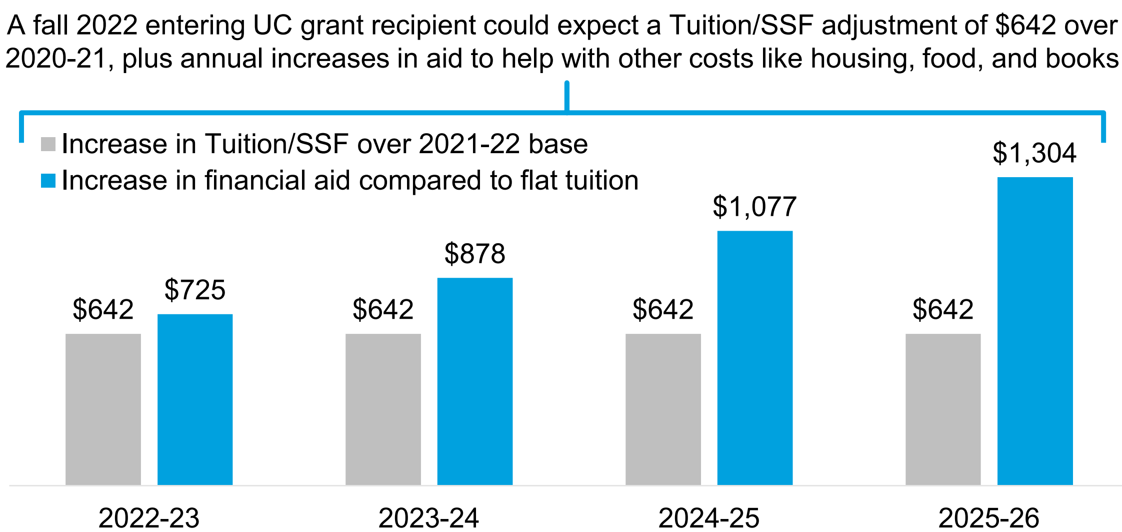
- One-third of all new undergraduate tuition and Student Services Fee revenue is set aside to fund UC's robust financial aid program. As a result, adjustments to tuition and the Student Services Fee also increase the pool of funds available for financial aid.

- One-third of UC undergraduates benefit from the State's Cal Grant program, which fully covers in-state tuition and the Student Services Fee. When these charges increase, so does the amount of students' Cal Grant awards.

The relationship between tuition and both UC and State financial aid programs has been key to the University's ability to sustain access, affordability, and excellence over time. In past years, when precipitous declines in State support resulted in higher tuition rates, additional financial aid from the University's own aid program and the State's Cal Grant program not only offset those increases for most California resident undergraduates but also provided additional assistance to help students cover expenses such as housing, food, books, and supplies that also rose during the same period. Under the proposed plan, more than 100,000 California undergraduates could expect their combined UC Grant and Cal Grant awards to increase by more than the proposed increase in student charges, resulting in additional support to help these students cover other cost increases.

As shown in Display 4, the increased financial aid generated from the proposed adjustments to tuition and the Student Services Fee would result in lower *overall* costs for UC grant recipients compared to a scenario in which these charges remained flat. In 2022-23, entering students could expect to receive grant assistance that would be $725 higher than the amount they would have received had tuition and the Student Services Fee remained flat—or $83 more than the $642 increase in those charges. Over time, the net benefit would grow: by 2025-26, these students would receive an estimated $1,304 more in financial aid, or $662 more than the $642 increase in tuition and fees. The net benefit each year—$83 in 2022-23 growing to $662 in 2025-26—translates directly into a reduction in the amount that students would need to work or borrow to finance their education and would benefit UC grant recipients in every cohort, not just the entering class.

DISPLAY 4: Projected Impact on Tuition/Fees and Financial Aid for California Resident Undergraduate UC Grant Recipients in Fall 2022 Entering Cohort



When moderate adjustments to tuition and the Student Services Fee occur annually, the cumulative impact of this additional financial aid can be significant. As shown in Display 5, the projected annual increases in student aid shown above would reduce a student's need to work and/or borrow to finance their education by a total of $1,416 over a four-year period.

DISPLAY 5: Cumulative Impact of Annual Increases to Financial Aid for Living Expenses for a California Resident Undergraduate Entering Fall 2022

	Year in School				Total 4-Year Impact
	Freshman	Sophomore	Junior	Senior	
Change in Tuition/SSF over 19-20	$642	$642	$642	$642	
Change in Financial Aid over 19-20	$725	$878	$1,077	$1,304	
Reduction in need to work or borrow in current year	($83)	($236)	($435)	($662)	($1,416)

In contrast, holding tuition and the Student Services Fee flat results in no new resources for financial aid. With no increase in financial aid, increases in other charges (housing, food, books and supplies, transportation, health insurance, etc.) are effectively passed along to students dollar-for-dollar, increasing their need to work and borrow. For 2021-22, these other charges are projected to increase by an average of $600 (combined) over current levels across the University.

The positive net impact of the proposal on UC affordability for California resident undergraduates applies to the roughly 106,000 resident undergraduates who currently receive need-based UC grants. The *additional* positive impact for UC students that could result from proposed changes to the Cal Grant program and from potential increases to the federal Pell Grant program is discussed below (see *Opportunities to Further Reduce Student Borrowing*).

For California undergraduates who do not qualify for need-based financial aid, the Middle Class Scholarship Program, as currently structured, would be expected to partly cover the adjustments for eligible families with incomes up to $184,000. Undergraduate students and families at all income levels, however, would benefit from the predictability of knowing that a student's mandatory systemwide charges would remain flat for the duration of the student's enrollment (up to six years) under the proposed cohort-based plan.

Under the proposal, an amount equivalent to ten percent of the resulting increase to Nonresident Supplemental Tuition (NRST) would be set aside to provide financial aid to domestic nonresident and international undergraduate students with financial need. Even nonresident students without financial need, however, would benefit from the much greater predictability in student charges that would result from a cohort-based plan.

At the graduate level, additional funding would be available to programs and departments to provide whatever forms of student financial support are most appropriate in light of their enrollment goals and the students that they serve. For example, fellowship and assistantship support is particularly important to academic doctoral programs that compete against top public and private institutions worldwide to enroll the most talented students; new funding provided under the plan would enhance these programs' ability to craft desirable multi-year offers of support. Graduate programs in professional disciplines provide fellowships and grants to assist students from all socioeconomic backgrounds to obtain professional degrees, thereby enabling these students to make significant contributions to their respective fields. In addition to funding provided under the budget plan from mandatory systemwide charges, professional degree programs are also expected to supplement financial aid resources from Professional Degree Supplemental Tuition revenue.

Opportunities to Further Reduce Student Borrowing

Regents Policy 3201, *The University of California Financial Aid Policy*, asks that students contribute towards covering the cost of their education through a manageable amount of part-time work and student borrowing, collectively referred to as “self-help.” The University’s strategy to implement this policy, called the Education Financing Model (EFM), assumes roughly an equal contribution from work and borrowing to achieve these ends and expects roughly the same amount of self-help from students across income groups.

Yet, as presented to the Regents in July 2019, some groups of students are, in practice, more likely to borrow than others. Specifically, low-income students and students from historically underrepresented groups are more likely to graduate with debt. Furthermore, underrepresented groups are more likely to carry higher debt than their peers, regardless of income.

Both the Regents and President Drake have signaled their interest in reducing students’ reliance on debt through targeted financial aid. Given the large numbers of low-income students that UC enrolls, this is difficult to do on a broad basis without negatively affecting middle-class students unless outside resources are available. (Middle-income students are much less likely to borrow than their low-income counterparts, although those that do have slightly higher average debt upon graduation.) The Regents Total Cost of Attendance Working Group encouraged campuses to adopt progressive self-help models for smaller, targeted groups of students and President Drake has called for exploring a debt-free path for broader groups.

Potential increases to outside financial aid resources create an opportunity in the next two years to enact financial aid reform at UC:

- Federal Pell Grants: The UC Student Association has led a very effective campaign to double the Federal Pell Grant, which currently has a maximum of $6,345 for the neediest students. The University could allow any increases to displace the need to borrow for the lowest-income.
- Cal Grant Modernization: The State is considering multiple Cal Grant reform proposals, including Assembly Bill 1456 (McCarty). As currently structured, AB 1456 would likely increase the total value of Cal Grant awards received by UC students.
- Middle Class Scholarship Program: The California Senate also announced a potential debt-free path utilizing a significantly modified version of the current Middle Class Scholarship Program referred to as Middle Class Scholarship 2.0.

As the amount of these additional resources become more concrete, the University can target and, eventually, expand a debt-reduction program. Potential ways to target the debt-reduction and/or debt-free financial aid packaging include:

- Students with no “expected parent contribution” (EFC): Independent students and students from the lowest-income groups whose parents are exempt from contributing to the cost of college.
- Future “negative EFC” students: Federal needs analysis is changing for 2023-24 to allow for greater differentiation in the resources of the current “zero EFC” population.
- Expand programs targeted by financial need and school of origin: Replicating the targeted programs at UC Santa Barbara cited by the Total Cost of Attendance Working Group.
- Foster Youth: Several programs specific to former foster youth already assist these students, but more can be done.
- Participants in Service Learning Opportunities: Some Americorp or California Volunteers programs already exist at UC campuses. These can be expanded to help provide a debt-free year during participation.

SUMMARY

Compared to continuing to hold tuition and fees flat, a cohort-based model for adjusting tuition and fees would give students and families much greater predictability, provide campuses with much-needed resources to sustain core operations and make the high-priority investments in student success, and enhance affordability for low- and middle-income families.

The University plans to bring a specific proposal to the Regents for possible approval later this year so that, as students begin to apply to the University for admission in fall 2022, prospective UC students can make informed enrollment decisions; continuing students can know what level of tuition and fees to expect; and campuses can prepare to provide the educational opportunities, academic support, financial aid, and student services needed to sustain the University’s unparalleled track record of access, affordability, and academic excellence.

Attachments:

1. Proposed Adjustments to Student Charges