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Office of the President

TO MEMBERS OF THE ACADEMIC AND STUDENT AFFAIRS COMMITTEE AND FINANCE AND CAPITAL STRATEGIES COMMITTEE:

DISCUSSION ITEM

For Meeting of May 16, 2024

UPDATES ON FEDERAL FINANCIAL AID AND PATH TO DEBT-FREE UC

EXECUTIVE SUMMARY

Federal financial aid changed significantly in three ways that affect University of California students in 2024-25:

- The Free Application for Federal Student Aid (FAFSA) was revised for the first time in 40 years. The delivery of the FAFSA was delayed significantly, affecting students, parents, and campus operations.
- The FAFSA changes are being felt the greatest by students in "mixed status families," i.e., those in which the student is a citizen or permanent resident, but one or more parent is undocumented. Recently, the State opened the California Dream Act Application (CADAA) to these students as a short-term fix for them to meet the State and UC financial aid deadline, while continuing to recommend that they complete a FAFSA.
- There have been additional delays in the processing of records with miscalculations from the Department of Education which will require the Department to reprocess records and redeliver them to campuses for a more accurate financial aid package for students.
- The need analysis and Pell Grant formulas changed. Modeling suggests that this will result in $100 million more in federal Pell Grants for UC students, but also about the same amount of increased financial need.

Federal and State changes mean that the goal of a debt-free pathway for all students by 2030 may be delayed. Three factors affect this:

- Inflation has increased non-tuition educational costs for students.
- The Middle Class Scholarship will be $200 million less this year compared to last year.
- The changes in federal need analysis mean that the estimated amount that families can pay will decrease, creating more need for financial aid.

BACKGROUND

Federal Financial Aid Changes

The Free Application for Federal Student Aid (FAFSA) Simplification Act was signed into law in December 2020. As summarized by the federal Department of Education (ED), it does four things:

1. Replaces the Expected Family Contribution with the Student Aid Index,
2. Modifies the family definitions,
3. Expands eligibility for Pell Grants, and,
4. Streamlines the FAFSA form.

The streamlining of the FAFSA form primarily involves a closer tie with the Internal Revenue Service (IRS) data on income. In addition to the FAFSA Simplification Act, the Fostering Undergraduate Talent by Unlocking Resources for Education, or FUTURE Act, created new identity validation requirements for the access to IRS data.

FAFSA: Delayed Delivery, Including Data Errors

The 2024-25 FAFSA was released to students on January 1 of this year. While January 1 was the release date for decades, students were able to file the form starting in October for the past few years. More significantly, campus financial aid offices normally started receiving FAFSA data days after students submitted the forms; this year, campuses only started receiving FAFSA data in mid-March.

The delay in campuses receiving the FAFSA data means that they were unable to release financial aid offers until mid- to late-April. For this reason, UC moved its deadline for freshman applicants to accept an offer of admission (Statement of Intent to Register or SIR) from May 1 to May 15, along with the California State University.

Figure 1 below summarizes the financial aid timeline in normal years compared to this year.

Figure 1: Financial Aid Timeline in 2024-25 Compared to Prior Cycles

	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
Prior to 2018-19	-	-	-	FAFSA Opens; Schools Get Data	Admission Offers Begin	March 2 Priority Deadline; Financial Aid Offers	-	May 1: SIR for Freshmen	June 1: SIR for Transfers
2018-19 to 2023-24	FAFSA Opens; Schools Get Data	-	-	-	Admission Offers Begin	March 2 Priority Deadline; Financial Aid Offers	-	May 1: SIR for Freshmen	June 1: SIR for Transfers
2024-25	-	-	-	FAFSA Opens	Admission Offers Begin	Schools Get Data, which include some errors	Financial Aid Offers	May 2 Priority Deadline; May 15: SIR for Freshmen	June 1: SIR for Transfers

It is also worth noting that the priority filing deadline for State financial aid, which is normally March 2, was moved first to April 2 and then to May 2. UC followed suit with its own financial aid filing deadline.

As of early April 2024, financial aid applications from California freshman are 33 percent lower than submissions in 2023. However, since students tend to file just before the deadline, this percentage will hopefully improve as the FAFSA bugs are fixed and students approach the May 2 deadline.

FAFSA Delivery Problems

In addition to the delayed deployment, the new FAFSA had several problems at rollout that caused students and parents to have challenges submitting the form. Many of the problems have been resolved or work-around solutions have been identified, as tracked by the U.S. Department of Education (ED).[1]

The biggest challenge was for students whose parents or spouse do not have a Social Security Number. As a citizen or permanent resident, the student is entitled to receive federal financial aid. However, the identity verification processes required by the FUTURE Act preclude them from completing the FAFSA until mid-March. Starting on March 13, these students were instructed to email copies of documents to the ED to validate their parents' identities. There continues to be a backlog in identity verification as well.

[1] See https://fsapartners.ed.gov/knowledge-center/topics/fafsa-simplification-information/2024-25-fafsa-issue-alerts.

On April 9, the California Student Aid Commission, in collaboration with the public segments of higher education, opened the California Dream Act Application (CADAA)—normally only available to undocumented students—to mixed status families. This is a valuable stopgap measure to allow these students to meet the May 2 deadline for State and University financial aid. These students are encouraged to file a FAFSA in order to access the federal financial aid to which they are entitled.

Subsequently, the Department of Education made miscalculations on the Institutional Student Information Records (ISIRs) that schools use to develop financial aid packages for students. The Department of Education announced it will reprocess student aid applications that were affected by calculation errors and issues with incorrect tax data. This will affect roughly 20 percent of the 6.6 million applications processed thus far and could further delay when affected students receive information about their financial aid eligibility.

UC Federal Advocacy regarding FAFSA

In December, the Department of Education issued a notice for comment on the Federal Student Aid (FSA) ID and account creation process for individuals without a Social Security Number in connection with Person Authentication Service. UC Federal Governmental Relations (FGR), in partnership with the UC Office of the President, drafted a comment letter expressing concerns about students from mixed status families who are unable to create a FSA ID to file a FAFSA form. UC FGR filed the comment on February 6, 2024, on behalf of Provost Newman.

On March 1, 2024, UC FGR submitted a letter on behalf of President Drake expressing concerns about issues related to the 2024-25 FAFSA form rollout. The letter highlighted three key issues: accessibility, flexible student aid calculations, and administrative relief. Of note, while the letter expressed appreciation for the Department of Education's efforts to offer a temporary fix (in which FAFSA contributors without a Social Security Number receive an email confirmation), it called for the Department to prioritize the development of a permanent solution to ensure that all students from mixed status families can complete their FAFSA forms.

In April, Shawn Brick, Executive Director of Student Financial Support, and Han Mi Yoon-Wu, Associate Vice Provost, Systemwide Undergraduate Admissions, were in Washington, D.C. for meetings on Capitol Hill and with the Department of Education to continue positioning UC as a resource to the Department and offer assistance and ideas for potential solutions for some of the issues that continue to occur.

Federal Pell Grant Eligibility and Student Aid Index

In addition to changes to the FAFSA form, the federal government changed the formulas behind financial aid eligibility in several ways. For example, the formula used to produce an Expected Family Contribution (EFC) ranged from zero to $999,999; now it will produce a Student Aid Index that ranges from -$1,500 to $999,999. Furthermore, the treatment of the number of siblings in the family attending college has changed. The UC Office of the President partnered with

UCLA's Financial Aid and Scholarships data team and campus financial aid professionals across the system to estimate the effect of these changes.

The good news for UC students in the modeling includes:

- A 13 percent increase in the number of UC students receiving a federal Pell Grant,
- A 22 percent increase (over $100 million) in the dollars of federal Pell Grant awarded to UC students, and,
- More students will qualify for the Path to Debt-Free program.

The challenging news for UC and its students in the modeling includes:

- An increase of $100 million in additional financial need, which minimizes the effect of additional Pell Grant funding, and,
- A loss of Pell Grant eligibility for some students who have siblings in college, which no longer is taken into account.

Update on Path to Debt-Free UC

President Drake has established a University of California systemwide goal to provide debt-free paths to a degree, wherein students' contributions to covering their educational costs can be met though service learning or student work-learning opportunities. Furthermore, the Governor made providing debt-free pathways a goal for the University to achieve for all California undergraduates by 2030. Finally, the Legislature reformed and expanded the Middle Class Scholarship program with the intent of providing a debt-free education at both the California State University and UC.

The University will continue with its Path to Debt-Free UC started in fall 2024. More students will qualify this fall than last year as a result of the federal changes to financial aid described above.

The University's ability to achieve its debt-free goal under the Compact with Governor Newsom will have some significant challenges. Figure 2 below summarizes the factors working for and against UC's affordability goals.

Figure 2: Factors Working For and Against Debt-Free Goals

Factors Working Towards Debt-Free	Factors Working Against Debt-Free
+ $100 million in additional Pell Grant	- $100 million in additional financial need
+ $35 million in additional Cal Grant (tuition increase)	- $200 million in Middle Class Scholarship
+ $67 million in additional UC grant (return-to-aid on tuition increase and enrollment growth)	- $200 million in aggregate need due to inflation
SUM: + $202 million in additional aid	SUM: - $500 million in additional need

KEY TO ACRONYMS

CADAA	California Dream Act Application
ED	U.S. Department of Education
EFC	Expected Family Contribution
FAFSA	Free Application for Federal Student Aid
FGR	Federal Governmental Relations
FSA	Federal Student Aid
FUTURE Act	Fostering Undergraduate Talent by Unlocking Resources for Education Act
IRS	Internal Revenue Service
SIR	Statement of Intent to Register