

**Office of the President**

**TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA:**

**DISCUSSION ITEM**

*For Meeting of November 17, 2016*

**ACCESS, AFFORDABILITY, AND EXCELLENCE: THE ROLE OF UNDERGRADUATE FINANCIAL AID AND TUITION**

**EXECUTIVE SUMMARY**

Grants and scholarships from a combination of University, State, federal, and private sources play an essential role in achieving the University's goals of access, affordability, and excellence. Over one-half of California resident undergraduates at UC effectively pay no tuition because it is fully covered by grants and scholarships; many UC undergraduates receive additional assistance to help cover living expenses, books and supplies, and other student expenses. Together, these programs allow UC to provide more aid and to achieve better outcomes related to socioeconomic diversity, student success, and student debt than comparable universities.

Because one-third of all new undergraduate tuition revenue goes directly to financial aid, tuition is the largest source of support for the University's primary undergraduate financial aid program and affects the awards that students receive from both the State's Cal Grant program and the Middle Class Scholarship program. It is also the single largest source of support for the University's core academic enterprise. Thus, at the University of California, tuition is critical to both maintaining the excellence of a UC education and keeping UC affordable and accessible. Predictable tuition levels, coupled with a sustained commitment to financial aid and adequate State support for the University's budget, make it easier for families and the University to plan accordingly so that future generations of UC students can continue to have access to an affordable and extraordinary UC education.

**BACKGROUND**

The University of California is widely acknowledged as providing its students with a combination of access, affordability, and excellence unparalleled among public research universities in the nation.

- The University of California ranks among the nation's best colleges in serving the public interest, with six campuses making the top twenty and all nine undergraduate campuses in the top 100, according to *Washington Monthly*. Colleges and universities were ranked

according to how well they improve social mobility, produce research, and promote public service.

- In March 2016, *Forbes Magazine* ranked four UC campuses among the top ten (and six in the top fifty) among all colleges nationally in its annual list of 300 “Best Value Colleges.” Rankings were based on a combination of quality, student retention, time to graduation, alumni salaries, and tuition and fees.
- The *New York Times* dubbed UC “California’s Upward Mobility Machine” based on the result of its College Access Index, a measure of economic diversity at top colleges. Six of the top seven institutions on the list were UC campuses. The index is based on the share of students receiving Pell Grants (which typically go to students whose families earn less than \$50,000); the graduation rate of Pell Grant recipients; and the net cost, after financial aid, that a college charges low- and middle-income students.

The University’s success is attributable in part to a unique combination of strong State financial aid programs coupled with a robust University student aid program. Together with federal Pell Grants and other sources of financial aid, these programs have enabled UC to steadily increase the financial aid available to UC students and thus to enroll a highly socioeconomically diverse student body. Today,

- Over one-half of UC’s California resident undergraduates pay no tuition – their tuition is fully covered by the State’s Cal Grant program, the University’s need-based grant program, the federal Pell Grant program, or other grant and scholarship programs.
- Over two-thirds of all UC undergraduates receive some form of gift or scholarship assistance to help offset their educational and living expenses. The *average* award among these students was over \$16,000 in 2014-15 and exceeded \$21,000 for students with particularly low family resources – enough to fully cover tuition and to help students cover other essential costs such as room and board, books and supplies, transportation, and health insurance.
- The State’s Middle Class Scholarship (MCS) program, which is still being implemented in phases, is expected to provide about \$18 million to UC students from middle-income families earning up to \$156,000 in 2016-17. In 2017-18, the continued expansion of the program will result in greater State support for students who would otherwise not qualify for need-based grant assistance under the Cal Grant program or the University’s institutional aid program. Many middle-class families at UC also benefit from federal income tax deductions and credits that reduce the cost of college.
- The University enrolls a higher percentage of low-income Pell Grant recipients, students from underrepresented minority backgrounds, and first-generation college students than comparable universities.
- UC’s student indebtedness and student loan default rates are well below average for four-year institutions. Nearly half (45 percent) of UC undergraduates have no student loan

debt at graduation. Among those who do borrow to attend UC, average debt at graduation is \$20,200, which is about \$9,200 less than the national average. This corresponds to average monthly student loan payments of \$200 based on a standard 10-year repayment plan, which is manageable given the typical earnings potential of UC graduates. Longer repayment plans, as well as income-based repayment plans and loan forgiveness for graduates in lower-paying public service careers, can reduce a student's loan repayment burden even further.

### **Tuition and Financial Aid**

Tuition at the University of California plays a critical role in both maintaining the excellence of a UC education and keeping UC affordable and accessible. Together with State General Fund support and other student charges (including the Student Services Fee, charges paid by nonresident students and students in professional degree programs, and campus-based fees), tuition provides resources that are essential to hiring and retaining talented faculty members, providing academic advising and other student services, acquiring and maintaining instructional equipment and technology, and funding all of the other goods and services required to provide a world-class education.

Since it was first established at UC, tuition has also been closely linked to the University's student financial aid program. The University's systemwide need-based undergraduate financial aid program is primarily funded from tuition revenue. In addition, awards provided by the State's Cal Grant program and the Middle Class Scholarship program are linked to UC mandatory systemwide charges (which include tuition and the Student Services Fee).

The relationship between UC tuition and both University 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 both the University's own aid program and the Cal Grant program not only offset those increases for most California resident students but also provided additional assistance to help the neediest students to cover expenses such as housing, food, and books and supplies that also rose during the same period. In this way, the Cal Grant program allows the state to provide targeted subsidies to low-income students even during periods of rising costs and flat or declining state support.

Across the nation, public opinion polls indicate widespread concern about rising college costs and student indebtedness. The concern is understandable in light of several trends, including the proliferation of costly for-profit universities that typically offer little or no institutional aid and have decidedly mixed student outcomes, historically high "sticker prices" at private not-for-profit institutions, and cost increases at public institutions in recent years in response to declining state support.

At UC, however, circumstances are much different.

- Tuition at UC has remained flat since 2011-12 and has declined in inflation-adjusted dollars. Tuition and fees at UC remain low compared to the amounts charged by its comparison institutions, particularly after financial aid is taken into account.
- As noted above, nearly half (45 percent) of UC undergraduates graduate with no student loan debt, and the average debt burden for those who do borrow is manageable in light of UC students' earning potential upon graduation.
- Applications to UC from California residents – including applications from low-income California residents – have remained strong over time. UC continuously refines and expands its outreach efforts related to UC affordability and the value of a UC education so that students are not deterred from applying to or enrolling at the University due to financial considerations.

Predictable tuition levels, coupled with a sustained commitment to financial aid and adequate State support for the University's budget, make it easier for families and the University to plan accordingly so that future generations of UC students can continue to have access to an affordable and extraordinary UC education.

**Key to Acronyms**

MCS program	Middle Class Scholarship program
PDST	Professional Degree Supplemental Tuition